

# **Management Development in Central and South East Europe**

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# PLENARY SESSION

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# PLENARY SESSION



**PROF. DR. MILIJA ZECEVIC,**  
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- Rector, Owner and Founder of European University, Belgrade;
- Full-Time Professor at European University, Belgrade - Paris - New York;
- Commander of World Order of Science - Education - Culture, EAI, Brussels;
- Grand PhD of Western Philosophy, European Academy of Informatization;
- Honorary PhD, International University Albert Schweitzer, Geneva;
- Member of International Diplomatic Academy Senate;
- Full-time Professor at European Academy of Informatization, Brussels;
- President and Full Member of European Academy of Science, Vienna;
- Lifetime Achievement Award for Contribution to Science, Education, International Management and Diplomacy, The World;
- Congress of Arts, Sciences and Communications;
- President of UN Distance Education Board, Vienna;
- Holder of Medal of Honor for the contribution to humanity and personal achievements  
by United Cultural Convention, the US, November 16, 2007;
- 1. Sovereign Ambassador of the Order of American Ambassadors, American Biographical Institute, New York
- Academician of American Biographical Institute, New York

## **Management Development in Central and South-East Europe**

Vision and strategy of European University is linking universities, institutes and economies not only at global, world and European level, but also linking universities, institutes and economies of Central and South East Europe.

European University in corporation with Belgrade Chamber of Commerce, Scientific Society for Management, Belgrade, The College of Hotel Management, Belgrade, European Management Association, London, Faculty of Business and Tourism, Budva, Montenegro, University of Rijeka, Croatia, European Centre, Maribor, Greek Piraeus Bank, University of Krems, Austria and other partners organises International Scientific Conference on the topic of: Management Development in Central and South-East Europe

Objectives of the conference

- linking institutions and prominent personalities from the countries of Central and South-East Europe;
- the exchange of ideas and experiences in the development of European management, international management, international marketing, international tourism and hospitality, as well as the promotion of opportunities for further business cooperation;

The strategic goal of this International scientific conference is that, in Europe and in the world, and especially in Serbia and countries of Central and South-East Europe, economies are being developed, value systems are being promoted and the carriers of efficient, effective and profitable operations are the most capable operational managers, middle managers and top managers.



**UNIV. PROF. DR. VIDOJE VUJIĆ**

*University of Rijeka*

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*Opatija – Croatia*

Dr.sc. Vidoje Vujić, full-time professor and research fellow in tenure, University of Rijeka - Faculty of Tourism and Hospitality Management, Opatija

He graduated from the School of Pedagogy in Rijeka in 1981. He finished the postgraduate studies, scientific-research department, at University Centre for Economic and Organizational Sciences in Rijeka in 1985 and he was awarded academic title of Magister of Sciences in Economics, social – humanistic field.

At the Faculty of Economics in Rijeka in 1991 he defended his doctoral dissertation and acquired academic title of Doctor of Social Sciences in Economics.

He participated in the work of several scientific conferences in the field of entrepreneurship, business management, training and development of human resources. He is an expert in human resources. Quality manager and quality auditor with ÖVQ (EOQ) certificate. Trainer / teacher of entrepreneurs, managers and students. Consultant for investment studies and entrepreneurial planning.

In 2007 he was appointed full-time professor and research fellow in the fields of economics, organization and management at the Faculty of Tourism and Hospitality Management in Opatija. He is a full-time member of Croatia's network of consultants.

He wrote six books as a co-author and 94 scientific and professional papers from the fields of entrepreneurship, management, quality management systems, and development of human resources.

He was a co-author in several scientific projects, he wrote several studies and reports, he was a reviewer of two books and several professional papers, he delivered many lectures at various seminars and other forms of education in Croatia and abroad.

## Challenges to management of Knowledge in Central and South-East Europe

**Abstract:** *Knowledge, as the most generative developmental factor of contemporary society, production and international competition, constitutes an area of the broadest interest of every society since its innovation and implementation materializes strategic goals and accomplishes business excellence. Knowledge management not only pertains to institutions of education and science but permeates throughout society as a whole. Scientists must strive towards new scholarly cognitions and in a more emphasized manner than hitherto, select, create and convey to the economy and the general public the cognitions that they consider crucial for the progress of society.*

*In the 21st century, individuals and their knowledge are becoming the major bearers of ideas, information and new cognitions. They are the fundament and capital of contemporary society and its economy. Contrary to tangible assets that can be borrowed, the intangible assets perceived in human capital have to be built. Such building cannot happen quickly; overnight we could manage to raise a loan, within a term of 10 months to erect a building, but to obtain a facility for making experts, a minimum of 20 years is necessary. Therefore the system must duly discover capable and creative individuals and incite them in every way to fully develop and implement their knowledge and ability for the welfare of the community. To accomplish a systematic approach to this goal there have to be clearly defined standards of acknowledgment, evaluation, selection and promotion of staff.*

*The paper endeavors to describe the model that identifies the activities of knowledge management. Consideration is dedicated to the global challenges of society and answers to issues such as: What is the role of knowledge in Central and Southeastern Europe? What are the implications of the economy of knowledge and of administrative functions in general? How is knowledge created and innovated? How is knowledge organized, conveyed and shared? Social challenges are defined and European goals of social and economic development are designated.*

**Keywords:** *Management, Strategy, Economy of Knowledge, Social and Economic Development*



## **INTRODUCTION**

Knowledge as a core strategic resource of the 21st century is of crucial importance for any economy, especially for the countries of Central and Southeastern Europe, because countries which invest heavily in innovation of knowledge and which apply it have faster rates of growth and development. Knowledge has become the basic productive force of society and the main requirement for business success. Knowledge in the global economy is a crucial strategic factor of developments, so the states, business systems and individuals who apply it and invest heavily in it become global winners, and those who do not apply it are lagging behind. Globalization trends connect the whole world informationally, economically, technologically and commercially, in which the same criteria and value systems are applied. Differences in knowledge and its technological applications are the main factors that separate developed from underdeveloped countries, the rich from the poor, high standard of living from low. Human knowledge now becomes the key and the most important factor of all life and action. Land, labour and capital are no longer the dominant factors of production. The leading role is played by a man's knowledge, gained by studying what exists and devising what is coming.

### **1. EUROPEAN CHALLENGES AND OBJECTIVES OF MANAGEMENT AND KNOWLEDGE ECONOMY**

We are living in a time of great changes and we are entering a time of great challenges. The main challenges in the field of management and knowledge economy were announced by the European Commission on 6 October 2010 in the paper entitled Europe 2020<sup>1</sup>. The document points out that in the period of budget constraints, major demographic changes and global competition, European competitiveness and ability to create new jobs and rise living standards depends on innovative processes that will lead to new products and services, and business and social models of management as well. At the same time, innovation can most effectively resolve the current social challenges such as climate change, lack of raw materials and energy, and health problems of the population. Basic postulates of development strategy should be based on **smart development** - development of economy

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<sup>1</sup> [http://ec.europa.eu/europe2020/index\\_en.htm](http://ec.europa.eu/europe2020/index_en.htm)

based on knowledge and innovation; **sustainable development** - promotion of economy which rationally exploits natural resources and which is greener and more competitive; regional development - fostering the economy with a high rate of employment, which brings social and territorial cohesion. Progress towards the common objectives should be measured by the following indicators which should become strategic goals of some member states:

- 75% of the population aged between 20 and 64 should be employed,
- 3% of EU gross national income should be invested in research and development,
- supporting shift towards the economy with efficient expenditure of resources 20/20/20 until 2020 (20% reduction in greenhouse gas emissions, 20% reduction in energy consumption, 20% of energy should be drawn from renewable sources - water, sun, wind and biofuels),
- number of people who drop out of educational system must be lowered to below 10%,
- at least 40% of young people from the coming generations should acquire higher education,
- fast Internet must be accessible to all Europeans by 2013,
- creating conditions for student mobility and modernization of labour market by focusing on employment growth and sustainable social model;
- there should be less than 20 million people living in poverty

Besides these indicators, there are many articles available on the website of the European Commission which elaborate postulates of numerous initiatives and European challenges. The countries of Central and Southeastern Europe musn't ignore these goals. It is only appropriate education and planned development that will gradually provide their citizens with a quality of life based on the knowledge economy. In reality, there is no clear boundary that separates the two economies. It is a gradual, evolutionary process. Today, the knowledge economy is imposed by taking over the highest level of the industrial economy. But that doesn't mean that the industrial economy has suddenly ceased to exist. We're still a part of it and it is very likely that this economy will survive in the near future. But knowledge will begin to play a greater role, starting from the highest levels of the industrial economy until it affects all levels of society. The knowledge economy is already implying that

machines will take over the work of human mind. And new studies reveal new challenges of technology development and forthcoming quantum economy in which robots and computers take over the work of people<sup>2</sup>

### **1.1. Global trends and concepts of knowledge economy**

In order to understand the past and accept the future of the indicated characteristics and changes which are reflected in the social development, it is enough to emphasize global trends of the knowledge economy and its direction:

- from industrial society to knowledge society
- from past associations toward future orientation
- from labour and capital to information and scholarly communication
- from material production to human emancipation
- from social inequality to community of equals
- from separated nations to global community
- from competing countries to united mankind
- from versatile dichotomy to universal equality
- from division of labor to total entrepreneurial activity
- from proprietary control to entrepreneurial and professional management
- from standardization and process control to quality of satisfying customer demands
- from individual existence to individual development
- from professional to holistic education
- from student's education to knowledge innovations and lifelong learning
- from education because of title to education because of knowledge itself
- from material to development of human capital
- from heinous slave labour to pleasant free activities
- from possession of property to man's pleasure
- from domination of capital to concept of moral and human society of knowledge

Current relations between the countries of Central and Southeastern Europe are not up to the task. For this reason, political parties, social institutions and communities are not able to offer a coherent strategy of sustainable

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<sup>2</sup> Rene Tisen; Danijel Andriesen; Frank Lekan Depe: Knowledge dividend, Adizes, Novi Sad 2006, p. 84

development of their country. The result is visible in the competitiveness of transition countries, which is shown in the following table.

Country	Rang 2012.	Rang 2011.	Changes in competitiveness	
The Czech Republic	39.	38.	↘	-1
Poland	41.	41.	→	0
Slovenia	56.	57.	↗	+1
Hungary	60.	48.	↘	-12
Bulgaria	62.	74.	↗	+12
Slovakia	71.	69.	↘	-2
Montenegro	72.	60.	↘	-12
Romania	78.	77.	↘	-1
Macedonia	80.	79.	↘	-1
Croatia	81.	76.	↘	-5
Bosnia and Herzegovina	88.	100.	↗	+12
Albania	89.	78.	↘	-11
Serbia	95.	95.	→	0

Source: The Global Competitiveness Report 2012-2013, WEF, 2012

Indicators of changes in competitiveness show that Serbia and Poland have remained the same rank. Slovenia shows a slight increase, Bosnia and Bulgaria a relatively huge leap, while all other countries show a decline in competitiveness. At the European Council meeting, held in March 2000 in Lisbon, heads of state and government of the EU member states reached an agreement on a joint strategic target according to which EU countries should base their economic development and competitiveness on knowledge. In Lisbon strategy and action plans that are accepted in the European Union, there are three concepts of social and economic development<sup>3</sup>:

- **Economic concept**, which prepares the transition to a competitive, dynamic and knowledge-based economy. The emphasis is on need for constant adaptation to changes in information society, as well as on promotion of research and development.

<sup>3</sup> Marina Kesner-Skreb: *Financial theory and practice*, no. 31, Zagreb, 2007, p. 441

- **Social concept**, focused on the modernization of European social model. This is achieved by investing in human capital and combating social exclusion. Member states are expected to invest in education and training as well as to conduct an active policy of employment in order to ease the way towards knowledge-based society.
- **Ecological concept** that warns of the fact that economic growth should be aligned with the rational use of natural resources.

Based on that orientation, the time in which we live is called the "knowledge era", and accordingly, all current processes are described by the following expressions: knowledge economy, knowledge society, knowledge management, human capital, or by appropriate adjectives - intellectual capital, organization participation, intelligent systems and the like. Famous Japanese theorist Ikujiro Nonaka, wrote that "in an economy where the only certainty is uncertainty, the one sure source of lasting competitive advantage is - knowledge."<sup>4</sup> At the same time, he makes distinction between two forms of knowledge, tacit and explicit. **Tacit knowledge** can be stored "only within the brain" and can only be transmitted in human relationships such as swimming, driving, sales skills, communication and related skills that a person has acquired in its working practices. **Explicit knowledge** can be stored "outside the human brain," and transferred through documents - manuals, databases, procedures of developing new product or business plan, then collecting and analyzing data on competition and other activities that can be easily transferred and shared.

## 1.2. Knowledge as an economic resource

The slogan „knowledge as an economic resource" indicates the procedures and standards for establishing criteria for what knowledge is and what is not, how knowledge becomes effective, and how remains unusable. New modern technological capabilities ponder the power of knowledge that is relatively easily accessible and quickly shared among more and more people. Information communication globalization allows the flow of large amounts of information, but the question is how to achieve that every society is

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<sup>4</sup> Ikujiro Nonaka: The Knowledge – Creating Company, *Harvard Business Review*, Nov – Dec. 1991, p. 104

developed in a modern way, but at the same time traditionally and locally recognizable.

However, there is still an open question of scope, depth, mode, direction, intensity of state regulations that are so sensitive and vitally important area of work such as "production", transfer and use, but also misuse of knowledge. In this sense, it is necessary to draw attention to the existence of international (global) control procedures, not so much creation, because it is not entirely possible, as implementation of certain knowledge (control of nuclear weapon, sustainable development and environmental pollution, the use of toxic and radioactive materials, etc.), which, in fact, the way of defending humankind from itself and its irresponsible members.

A general opinion is that we live in an age when our reality is changing so rapidly that almost every term that we want to call our epoch soon becomes outdated and rarely remains popular longer than a decade. "Postindustrial society", "cybernetic society", "digital", "computer", "virtual", etc., are just some of the attempts to accentuate, in a symbolic way, what some of its authors believe is the most important or the most memorable character of the epoch. In doing so, it is less important whether an author is successful and original than the actual content behind each of the above terms. "However, regardless of etymological differences of these terms, behind all of them is clearly discernible common origin of all the content that they want to express, and that is knowledge."<sup>5</sup>

In each historical period –past, present or future, the systemic social changes have always been based on knowledge and various productive forces. Agrarian and feudal age based its development on the fertile earth, physical labour and manual production. Industrial age from the beginning of the 18 century is characterized by numerous scientific patents and inventions such as steam, electricity, machinery and line routine work. In this age, maximum profit is accepted as the main goal of personal and social activity, and the free market and capitalist social order as a pattern by which this goal can be achieved. Information age is based on optification, robotization, microelectronics and scientific global communication. The information age is characterised by a series of epochal and scientific achievements that have paved the way for the new era, the era of knowledge society.

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<sup>5</sup> Slobodan Pokrajac: "Transition and technology", Belgrade 2003, p.41

Francis Bacon had in mind the true genuine knowledge when he formed the maxim "tatum possumus quantum scimus" which means "so far as we know we can", in a recent and more popular form "better a gram of good practice than a ton of bad theory." Knowledge and power, knowledge and ability to successfully work in all areas is a fundamental criterion for judging scientific production, particularly in the theory and practice of economics. Knowledge hierarchy is shown in diagram 1.

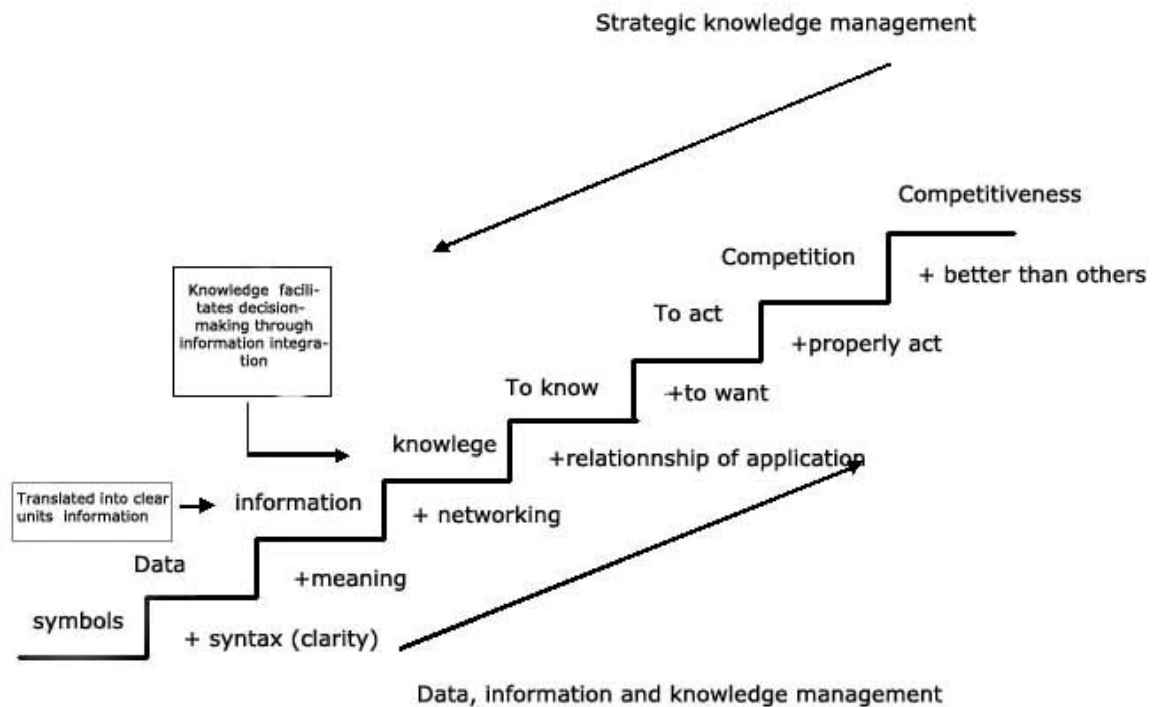


Diagram 1: Knowledge hierarchy

Source: Vidoje Vujić; Vidoje Stefanović; Matea Deranja: CONCEPT AND ROLE OF KNOWLEDGE MANAGEMENT OF THE TOURIST DESTINATION, 20th biennial International Congress on Tourism and Hotel Industry, 2010

The diagram shows the hierarchy of knowledge creation and management. The rise only applies to knowledge that is relevant and valuable, because only then it becomes capital. Knowledge is a process of meaningful networking of information. Knowledge is the result of data processing and

information awareness<sup>6</sup>. We may say that information is a material that generates knowledge in a form which communicates and stores the knowledge. Knowledge is the only category which develops due to its usage. It is intangibly good, immaterial product that is manifested in the form of information, scientific, literary, artistic and entertaining achievements. Knowledge is increasingly emerging as the most important new business resource and driving force of the new economy and it has to be carefully managed. As an intellectual property, according to current accounting standards and business practices, it doesn't have the same equal market value as material wealth.<sup>7</sup>

## **1.2. General approaches to knowledge creation**

Knowledge has definitely become not only a symbol of human achievement, but it daily gains a new dimension and meaning. Based on these findings, we will try to clarify the role of knowledge management as a fundamental resource of comprehensive development. There are two different approaches to knowledge creation.

- **The first approach** focuses on technological knowledge, which exponentially grows and continues to increase at the immense speed.
  
- **The second approach** suggests that mankind still lacks some important knowledge, especially knowledge about tolerance of diversity and common social life, as well as responsible attitude towards nature.

Therefore, we have to do our best that all all knowledge, not just some of its aspects, is far more developed, and that it affects our daily behavior. Our civilization is just now reaching the level of mass knowledge about the role of knowledge management in general. Almost all people on the planet are already convinced of the efficiency of technological knowledge. Unfortunately, many are very scared because of that efficiency. However, much remains to be done in terms of spreading knowledge on the need for

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<sup>6</sup> Jelena Djordjević Boljanovic: Knowledge Management, Datastatus, Novi Sad, 2009, p. 4

<sup>7</sup> L. Edvinsson, "Corporate longitude – Navigation of knowledge economy", Differo, Zagreb, 2003



harmonious and less conflicted life in the world community. No social community can survive without it. From the family to the state. All of this indicates the need for substantial shift in the structure of effort in the creation and application of knowledge aimed at comprehensive development of a man and his humanistic potentials, not only at satisfying pragmatic and utilitarian needs. What is necessary, therefore, is the transition from partial to universal man, to which the new knowledge and new knowledge management can most contribute.

Unfortunately, we have degraded knowledge in the last twenty years, and to a significant extent, our educational system, too. We've applied "Bologna la carte" and we've taken from it only what suits us currently, so it now generates semi-educated people. Bologna system of education and lifelong learning is neither perceived by employers nor even those who are educated and seek work. So, today we have a situation that students who graduated, instead of working, go to the Employment Bureau or abroad. I think the problem is that the academic institutions do not produce knowledge which results in skill and excellence. I am convinced that the countries of Central and Southeastern Europe can faster and better change the current situation and values. They should individually determine their national strategy and priorities and rationally use natural and human resources. In the near future, they could produce knowledge and share it with others, instead of importing and paying dearly for it. In today's knowledge society, when it comes to an enormous increase in new products and services, science is increasingly interdisciplinary and crosses the traditional boundaries of institutions, culture and language primarily due to the possibilities of access to information at any time and any place.<sup>8</sup> Strategic challenges involve integrated approach to simultaneous and often associated phenomena and processes that occur at different time and spatial scales<sup>9</sup>.

The first step is to design a new discipline, knowledge management, which includes the adoption of insights and experiences used in the organization, identification, creation, presentation, distribution and application of knowledge. Many views have been incorporated into development of the discipline by sociological analyses and methods, and critical philosophical

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<sup>8</sup>Marin Hraste: Knowledge and social challenges Collection of papers Knowledge-based competitiveness and development–Croatia Academy of Science and Arts in Zagreb, 2011, p.17

<sup>9</sup> ] Grossmann, I. E., Westerberg, A. W.: Research challenges in process systems engineering, *AIChE Journal* 46 (2000) 1700-1703

and psychological considerations, from ancient times to the present, are very important for the understanding of this aspect of science. The importance of artificial intelligence and expert systems has been stimulating recently.<sup>10</sup> A technological, or executive, or synthetic approach can solve the problem.. The technological approach assumes that knowledge management is the highest level of information management and that researchers rely primarily on computers and information science. The executive approach considers that human potential is the most significant, and it has support of philosophy, politics, psychology and sociology. The synthetic approach, however, integrates all existing theories and views, while management is seen as a system, and solved by the synthesis<sup>11</sup>. The value of knowledge as a basic resource of development in the knowledge economy depends on three driving forces that are shown in Diagram 2.

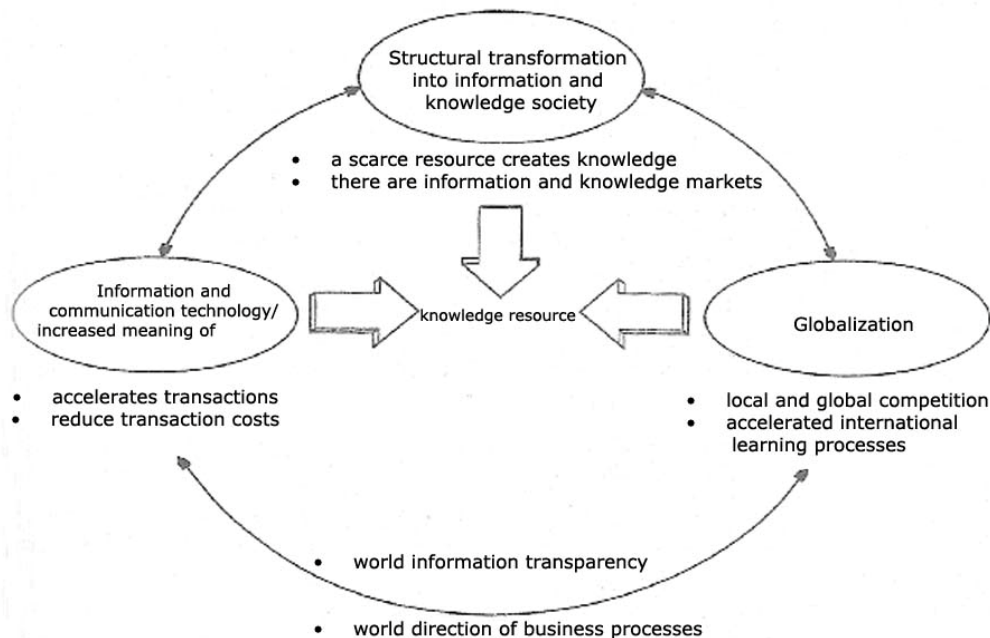


Diagram 2: Driving forces of knowledge development

Source: North, K.: "Knowledge Management, Managing Knowledge-Based Company", Naklada Slap, Jastrebarsko, (2008), p.15

<sup>10</sup> Schartz, D. G.: Encyclopedia of knowledge management, Idea Group Inc., London, 2006

<sup>11</sup> Prusak, L.: Where did knowledge management come from 7, IBM Systems Journal 140 (2001) 1002-1004

Diagram 2 shows the structural transformation from the information society to the knowledge society in which business systems are increasingly selling their information and knowledge. There is an exchange of knowledge on the knowledge markets. Labour and capital are replaced with knowledge as a fundamental resource of development and competitiveness. Information is the raw material from which knowledge is created, a valuable resource in the knowledge society. Initiating power of world markets and increasing links between companies and business systems lead to globalization. Expansion of globalization influences the development of knowledge because of rapid international learning processes, and this way of acquiring knowledge without geographical limitations realize the benefits of increasing the value of human capital.

The third driving force is the information and communication technology that enables rapid, low-cost transactions. Development of information and communication technology creates a global information transparency, which accelerates the process of knowledge creation. An increase of applying information technology was growing rapidly in the late 20th century. Back in the early 1980s, expenditures for information technology represented less than a third of total capital expenditure of all US companies<sup>12</sup>. The remaining expenditure represented an investment in fixed assets and production equipment. In 1991, expenditures for information technology exceeded those for manufacturing technology. Therefore, this year has been called "the first year" of the new economy or information era. This year has represented the end of former industrial era that began with the first industrial revolution and the invention of the steam engine.

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<sup>12</sup> Kolakovic M.: *Entrepreneurship in the knowledge economy*, Sinergy, Zagreb 2006, p. 205

## **2. NEW ROLE OF LEADERS AND MANAGERS IN COMPANY DEVELOPMENT**

In this paper, leadership is seen as a process in which an individual influences the behaviour and actions of people in order to achieve the planned target. In a competitive economy, a fundamental resource of any business system is a knowledge, or people who have leadership potential. It is considered that a key competitive advantage in the future will be the ability of leaders and managers to influence and create a social environment for the sustainable development of any business system. The emphasis is on the the process of influencing. There is no leadership without influencing. There is no leadership without followers. Leaders and followers need to understand and respect each other well. In every situation, leaders should behave in a way that there is consistency between what is intended and what followers actually can and know.

### **2.1. Management styles and roles of leaders and managers**

Leaders are preoccupied with vision, people and business excellence, which in itself includes satisfaction of customers, employees, managers, local government and society as a whole<sup>13</sup>. Managers are mostly preoccupied with efficiency, so that the existing job is done as well as possible. The task of a leader is to maintain the unity of a group of people while leading them in the right direction. Napoleon said that it was better to have the army of rabbits led by a lion than the army of lions led by a rabbit. Therefore, changes cause problems, problems impose leadership management, requirements management, the process of decision-making and its implementation<sup>14</sup>. In theory and practice, there are five leadership styles of management:<sup>15</sup>

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<sup>13</sup> Vujic, V.: Human capital management, University in Rijeka – Faculty of Tourism and Hospitality Management Opatija, Rijeka, 2005, p. 349

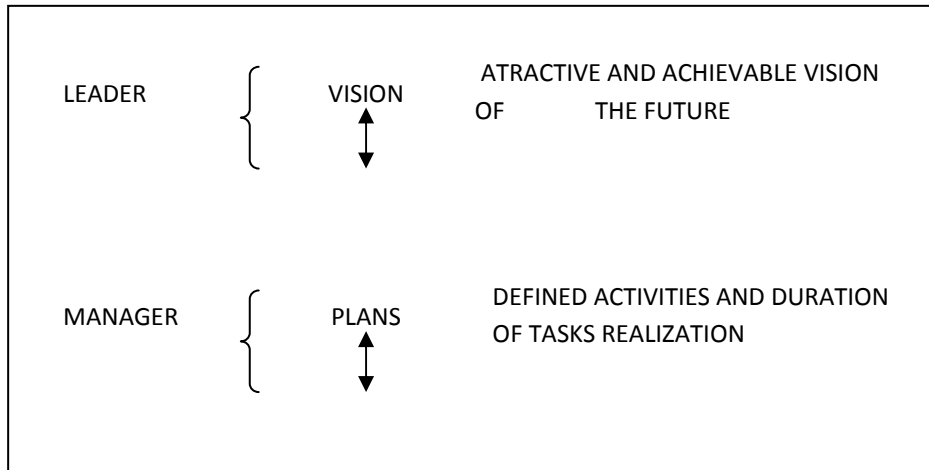
<sup>14</sup> Isak, A.: Managing changes, Adizes. Novi Sad, 2004, p. 52

<sup>15</sup> Milosavljevic, M.: Lidership in companies, Cigoja press, Belgrade, 1999, p. 42

- **The first style** is a strategic style that refers to the creation of long-term vision and strategy.
- **The second style** is created by fanatics or idealists. It features short interest and mixed motives. It usually occurs in the early stage of company development. Fanatics can become toxic (poisonous) leaders if their fanaticism pushes them into destructive behaviour.
- **The third style** is created by entrepreneurs, careerists who are preoccupied with power and prestige. They tend to have a personal and broader interest, do not accept the status quo and want to take the risk of change. Their goal is to employ, at all levels in the organizational structure of the company, people who make decisions in the same way as they would do it themselves.
- **The fourth style** is characterized by mentors who are loyal to the broader social goals; they have a wide interest and mixed motives. These are the leaders whom you can trust, because they have a strong sense of duty and the need for enhancing the mission of the company.
- **The fifth style** is characterized by conservators who strive to achieve comfort and safety. It features high-interest and personal motivation.

The differences between the styles and roles of managers and leaders are sometimes dramatized. Manager implements, and leader innovates. Manager is a copy, and leader is an original. Leader is focused on systems and structures, while manager is focused on people. Manager has a short-term, and leader a long-term perspective. Manager asks how and when, leader asks what and why. Manager accepts the status quo, while leader changes it. Generalized role of leaders and managers is shown in diagram 2.

**Diagram 2:** Role of managers and leaders in the process of society development management



Source: Vidoje Vujic: Management of changes, Faculty of Tourism and Hospitality Management in Opatija, Rijeka, 2008, p. 85

The manager is morally and legally responsible for achieving the maximum interest and satisfaction of the owner, customer, employee and the environment.<sup>16</sup> The satisfaction of all stakeholders and interested parties must be present in that correlation. Kotter, in his article titled "What leaders really do" comes with a claim that leadership and management are two different and complementary systems, and each has its own features and characteristics.<sup>17</sup> He claims that management refers to planning and organizing, and leadership to setting the vision and strategy. Manager creates the ability to establish a plan, leader brings people together and creates a coalition that vision realizes. Manager relies on control and problem solving, and leader on motivation, information and innovation of employees' knowledge.

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<sup>16</sup> Vujic, V.: Management of changes, Faculty of Tourism and Hospitality Management in Opatija, 2008, p. 85

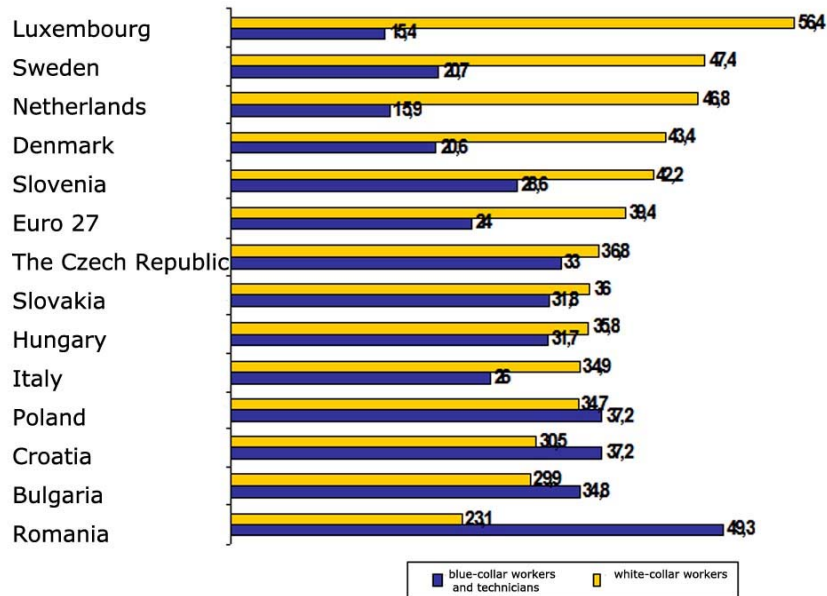
<sup>17</sup> Kotter, P.: *What Leaders Really Do*, Harvard Business Review, June, 1990, p. 103

## **2.2. Demographic and other limitations in development of human capital**

Depopulation and aging are two important processes that characterize demographics of most countries in the last two decades. The first process, the reduction of the total population, is caused by natural depopulation (more deaths than births) and negative net migration (more emigrants than immigrants). The second process, the aging of the population, is caused by a prolonged reduction in birth rate and extension of life expectancy. This process is reflected primarily in increasing the number and proportion of the elderly (people over the age of 65), while reducing the number and proportion of the young (0 - 14 years) and working age population (15 – 64 years). A contingent workforce is ageing, reducing its number in the younger part of population (15 - 44 years), and increasing in the older part of population (45 – 64 years).

Projections by 2050 warn of the demographic tendency of increasing the aging of total population, and working age population as well. Such changes in the natural dynamics, migration balance and the population age structure significantly affect the reproduction of workforce, not just aggregately (in total), but primarily structurally (by age and education), which affect the total work potential, productivity and overall economic development of most countries. The younger part of population is the carrier of new ideas and abilities to quickly acquire or change the knowledge. According to statistical data and demographic estimates in Croatia, but in Europe as well, that share is low with projected decline in the future. Therefore, our community must very carefully use all existing potential of younger generations and the total population, regardless of age, level of education or current unemployment. The following diagram shows the educational structure of the workforce in some countries in Europe.

Workforce education



Source: Eurostat

Every society has to be concentrated on the long-term top-quality education for missing skills and knowledge, or on the employment of already formed people from abroad. In addition to poor educational structure, there is a risk of brain drain in the near future, so community must systematically care about the most capable individuals to fulfill their capabilities for the benefit of society as a whole. This phenomenon is present for a long time in our society and can become fatal for the countries of Central and Southeastern Europe.<sup>18</sup>

State institutions must, in accordance with a predetermined priority for future development of the society, take care of the future of educational structure and capabilities of people who will inevitably migrate and work in our region. The strategic role of human capital function is determined by a number of internal and external factors.

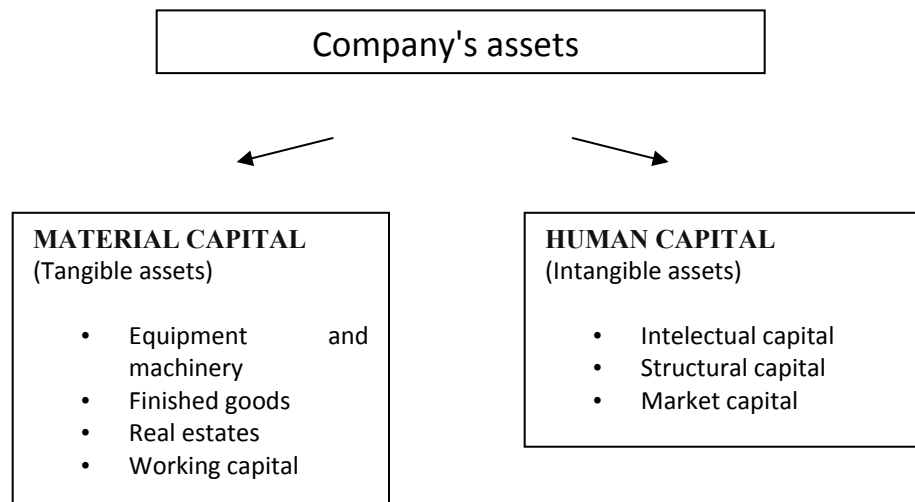
<sup>18</sup> Tomislav Filetin: Systematic approach to human potentials Collection of papers Knowledge-based competitiveness and development–Croatia Academy of Science and Arts in Zagreb, 2011, p. 53



It is a new challenge and scientific consideration of all business processes in the enterprise. Material forms of capital (money, machinery, equipment, buildings, land, raw materials) can be borrowed, bought on credit or held in reserve. That is not the case with human capital. It has a very different character, it is more difficult to identify and even harder to measure, control and ensure.

Many successful companies define knowledge and intellectual capital as their most important asset. Knowledge is stored in the heads of people or documented by a person, and thus is associated with a person. Exchange of knowledge leads to the development of knowledge, where knowledge is expanding into other areas. Measurement of knowledge leads to new problems because knowledge is intangible, as opposed to tangible assets that are easy to measure. The structure of elements of human capital, as intangible assets of the company, is shown in diagram 3.

**Diagram 3:** The structure of company's assets



**Material capital** is invested in the means of production, in the production process it (only) transfers its value to the new product. It consists of equipment and machinery, real estates (buildings ...), finished products, and working capital.

**Human capital** in the production process reproduces its own value and thus creates surplus value for the employer. It consists of three intangible assets: intellectual or human capital, structural or organizational capital, and market or consumer capital. Specific feature of human capital is that companies do not possess employees but only pay for their services. At the end of the working day human capital leaves the company. It is always free to sell its services to someone and somewhere else.

**Intellectual capital** is the product of systematic learning that encompasses abilities, skills, experience, creativity, innovation, culture and employee motivation; it is a driving force and a generator of human capital and other values in a business system. Intellectual capital is a "smart factory" that produces ideas, innovations, programs, projects, information, initiatives, strategies, knowledge, insights, theories, various laws and rules.

**Structural capital** is, in fact, logistic infrastructure of human capital, for example: processes, databases, information technology and equipment, work organization, the implementation of quality management systems, intellectual property, experience and tradition, business culture, patents, licenses and the like.

**Market capital** consists of buyers and suppliers (i.e. capital of a client or capital of interrelations), which includes all the relationships and connections with customers, suppliers and business partners outside the company.

Contemporary businesses have been changing its approach in the analysis of their operating expenses, the calculation of prices and general financial strategy, which is also a major step in the process of managing the development of society. This refers primarily to the use and application of knowledge, skills and culture of employees, then the company loyalty, discipline, teamwork, innovation, creativity, customer satisfaction, communication system, etc. While all of these factors of intellectual capital can not be balanced by conventional accounting methods, it is more than obvious that those are the factors that contribute the most not only to the increase of newly created value, but most of all, the increase of corporate value. Turning to human potentials, creative and entrepreneurial ideas and social responsibility is the first and most important step in the restructuring of business processes.

The time of transition in Central and Southeastern Europe is characterized by the simultaneous existence of individuality and collectivity. So, for example, the state loses its meaning in Europe, while the regional positions are enhancing. Simultaneous with this tendency is a new recognition of the individuality, while the European collectivity is becoming stronger in Europe. In such a system, managing knowledge and sustainable development becomes a new business philosophy and way of living. Universal standards, requirements and criteria are set almost at the level of international law for a different behaviour. The right to the development of those who are not even born yet is emphasized, and also the relation to natural resources to which they are entitled as well.

Experience of large and small countries shows that the desired success of science and knowledge is achieved only in an environment that is all subordinated to the development of high technology, information technology, computer-integrated production of goods and easily accessible digital communication. New materials, new sources of energy, microelectronics, nanotechnology etc. have appeared on the market. Research and innovation are the foundation of the overall progress that requires a high degree of flexibility, interdisciplinary approach, and readiness to constant and unpredictable changes and unknown challenges in the era of globalization and continual scientific - technological progress.

The most developed and effective countries of the world are moving in that direction. United Europe organizes multinational research programs for its members and the countries in the accession process. According to the proposal of the European Commission, keeping up with the development of the world can only be ensured by creating a single European research area, which is coordinated by the European Science Council. The countries of Central and Southeastern Europe must realize that only the production of high technology and high added value can save the country from its backwardness and obsolescence. If we want to avoid to be just a pendant of developed countries, and, as the matter of fact, to be independent and to participate in economic relations, we need to encourage such production. And that should be achieved in addition to the revival of new and maintenance of existing branches of the economy, i.e. those parts which are evaluated as promising.

Therefore, the task of arranging the society of the future becomes much more complex for each state and an individual as well. Not only do we need to keep up with the rapid expansion of knowledge and technology and incorporate them into the real foundation of our social existence, but at the same time we must find ways and means of continuous improvement and

balance of social relations and cooperation. The first thing we need to do is to find and refine those social institutions that are able to promote regional cooperation and resolve conflicts of every human interaction. At the same time, rapid technological advancement and the growing energy demand in the world are threatening with the new dangers and risks of environmental degradation, thus bringing into question, ultimately, the ability of the planet to be the basis of quality life.

## **CONCLUSION**

Assumptions and bases for systematic action in the field of knowledge management are: clearly defined criteria of recognition, evaluation and the ways of using it. There are new methods of acting, new economy, new planning, new methods of managing sustainable development, new strategy and policy of development, new organization and technology of working, new activities, new business philosophy, new system and the process of education and knowledge innovation. People, as the main carriers of ideas, information and new knowledge, become a strategic base and capital in the modern economy and highly developed societies. Energy or materials are not the only fundamental resources in many areas, but creative, capable and highly educated people. The most prominent examples are the information and communication industry, design activity and intellectual and other services.

The main task of any society is to timely notice and conform with the emerging global trends and needs of the population and the economy. In this interactive conjunction, the significance of the knowledge economy and holistic education is becoming more pronounced as knowledge determines the directions of development of social and economic structures. The way to (self) achievement of any of human potentials and personality must be supported by the processes of (self) upbringing, (self) education and (self) organization. Without systematic management of these processes, most of the people and communities can not reach this highest human need. The main components of the systematic detection, monitoring, evaluation and promotion of human abilities and potentials are: person, parents, friends and acquaintances, educational and business systems, employment services, clubs, organizations and employment agencies. These participants have to be intentionally linked at different levels - from kindergarten through formal education to the workplace and lifelong learning.

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Group Communication Director of 3i (investors in  
industry)*

Patrick has extensive experience of working with boards in Europe, Asia and North America. His executive experience includes 26 years in a variety of roles with 3i Group plc where until 2012 he was Communications Director and a member of its Operating committee. 3i has £10bn of Assets under management.

The author of three successful books on boards, he is also a member of the Financial Times NED club's advisory board and was a member of the UK Government's Higgs review of the role and effectiveness of non-executive directors.

Patrick is a Visiting Professor at Cranfield School of Management and from 2006 to 2012 he was a member of the General Council of the University of Warwick. He is Chairman of the UK's leading charity in the youth and conflict space, Leap Confronting Conflict, and the founder of Warwick in Africa a charity which has transformed the teaching of maths and English for over 120,000 young Africans.

## The Changing Art of the Board

### **Abstract:**

*In this short paper I will explore:*

- *The changing context in which boards operate in business, in the public sector and for social enterprises.*
- *The role of the board in practice.*
- *Some fundamental characteristics of high performing boards and directors.*
- *Board disharmony and the importance of conflict management skills in the boardroom*

*Then I will call for an increased focus on “board knowledge, skills and behaviour” training for managers before they arrive in the boardroom.*

### **The changing context in which boards operate.**

Firstly I should explain that my perspective on this topic is both as a practitioner and academic. From 1985 until 2012 I worked in a variety of roles at 3i Group plc from investing to being on the operating committee of this £10bn assets under management international investment business. During this time I built a resource of over 600 experienced directors who were appointed to over 2,000 boards for 3i across Europe, Asia and North America.

Over the last twenty years I have worked with a number of Chairman across a wide range of sectors to transform the effectiveness of their boards. These have included start-ups; buy out businesses, long established family companies as well as major public organisations. This experience led to membership of the UK government’s Higgs review of the role and effectiveness of Non-executive directors in 2003.

A continued interest in the practical application of good governance led to the research required to publish on the topic and to helping to establish a range of courses for the British Venture Capital and Private equity industry (BVCA), the European Venture capital and Private Equity association (EVCA), the Institute of Chartered Accountants in England and Wales (ICAEW) and the Financial Times (FT). Membership of the Financial Times NED club’s advisory board, tutoring on the FT NXD certificate and my role as a visiting professor at Cranfield School of management provide additional



windows onto what is going on inside the boards of a wide range of organisations.

Further practical experience has been gained from serving a full and active term as a board member of The University of Warwick and in Chairing social enterprises Leap Confronting Conflict and Warwick in Africa. Interestingly both the University board and Leap have a number of very young board members who are adding considerable value in each case.

Leap is the leading UK charity in the youth and conflict space. It has pioneered a number of innovative approaches to working with gangs and young offenders as well as helping thousands of young people to make more positive choices about their futures. Leap has also pioneered a model of deploying young trainers who have been through our programmes to train boards and management teams on conflict management.

The privilege of this access to boards and directors has enabled me to see how major global changes are affecting the composition and operation of boards across business, the state sector and in social enterprises. There have been major shifts, not least in the amount of discussion that takes place on the subject. It seems however that the scale and pace of change is increasing.

For a start, take population and demographic changes. If, as some predict, there might be 9 billion people on the planet by 2050 and if the dramatic demographic shifts that are already underway were to accelerate, then this will drive major change for organisations. Demand and resource constraints are likely to lead to global imbalances in poverty, migration, conflict, health and a wide variety of other things. This in turn will challenge political and business operating norms and lead to some critical decisions and choices for all boards.

Climate change combined what some project will be increased frequency and scale of natural disasters may also lead to additional transformational opportunities and threats. The tipping points for oil, water, our forests and oceans each have the potential to change the way society and business interact, the viability of business models and more fundamentally how we live.

The way that boards communicate has also been changing. The thud of a board pack arriving through the letter box has been replaced by an email or an alert that your papers are now available on the board portal. For some this has meant simply replacing the print cartridge but for many it has meant a much more interactive experience as a board member as well as more frequent contact. The conference call or video board is now much more

common place. However the ease and volume of communication has also led to a growing threat of sensory and information overload for the director. In addition, the immediacy and rapid spread of information that the internet and consequential developments such as twitter have brought about means that the degree of control a board has over information flow has been reduced.

Expectations of boards also seem to have increased in line with complexity. It feels that there is a lower tolerance to error and the threat of a more ferocious response from the press, investor and other stakeholder groups. This is sadly making many smart leaders to question whether it is worth taking on roles in organisations that need the best talent.

Another aspect of this is the amount and pace of change in regulation as governments and society's rightly seek to reduce the risk of negative incidents. Achieving the right balance seems hard to do. The interaction between national and international regulation, the challenge of managing many different cultures combined with the pace of change may make this as increasingly difficult balance to achieve.

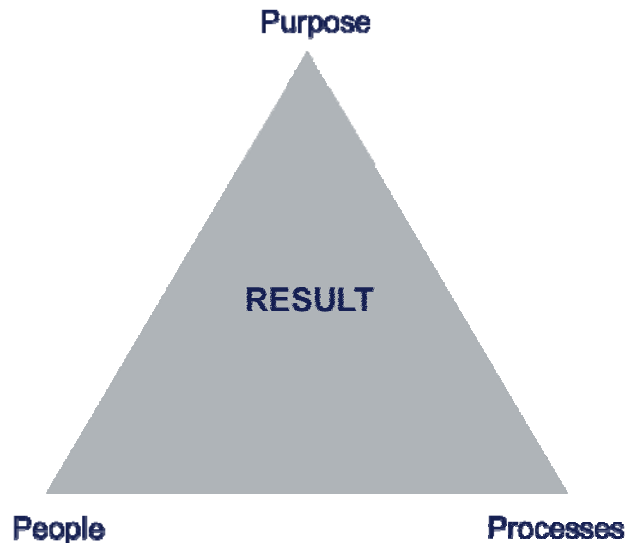
The overall challenge for boards is how to take account of these potential changes in the most effective way and to avoid being at either end of the "head in the sand to panic" spectrum. Smart boards will make the right judgement calls and respond in measured and considered ways and have the right resources in place not only survive these major challenges but to thrive.

### **The role of the board in practice.**

In most situations that I have experienced I have found that the following description of the role of the board has worked well:

- Right strategy  
Ensuring that there is the right strategy, that it is being implemented and monitored and that there is a good process for formulating and adapting it.
- Right resources  
Ensuring that the organization has the right resources in place to meet the agreed strategy. The most important of these resources being people and money.
- Right Governance  
ensuring that there is appropriate corporate governance.

In order to fulfil this role and achieve high performance the board must have clarity of purpose, the right people and effective processes.



The role of board should also be considered alongside the role of the executive management team who are often left out of the governance debate. Their role is fundamentally to

- Develop the business plan
- Deliver the business plan and;
- Maintain financial and operational integrity

The key players on the board will tend to be the Chairman, Chief Executive, Finance Director and Senior Independent Director. This is not to say other directors aren't important, more that if there are effective people in these four key roles then a board has a good chance of being effective. Good Chairmen tend to attract good non-executives in the way that talented chief executives find it easier to recruit.

The role of Chairman is typically to :

- To lead the board in the determination of its strategy
- Ensure that the board has clear visibility of results
- Ensure effective relationships are maintained with all major stakeholders
- Run the board allowing the Chief Executive to run the company

- Judge the executive team on operational/financial performance and;
- To be responsible for the boardroom team including changing it when required

The role of the Senior Independent Director (“SID”) is something which is well developed in major UK public companies but not always formalised in smaller businesses and non-commercial organisations.

The UK Financial Reporting Council defines this SID role in the following way

“In normal times the SID should act as a sounding board for the chairman, providing support for the chairman in the delivery of his or her objectives, and leading the evaluation of the chairman on behalf of the other directors, as set out in the Code. The SID might also take responsibility for an orderly succession process for the chairman.

When the board is undergoing a period of stress, however, the SID’s role becomes critically important. He or she is expected to work with the chairman and other directors, and/or shareholders, to resolve significant issues. Boards should ensure they have a clear understanding of when the SID might intervene in order to maintain board and company stability.

Examples might include where:

- there is a dispute between the chairman and CEO;
- shareholders or non-executive directors have expressed concerns that are not being addressed by the chairman or CEO;
- the strategy being followed by the chairman and CEO is not supported by the entire board;
- the relationship between the chairman and CEO is particularly close, and decisions are being made without the approval of the full board; or
- succession planning is being ignored.”

In smaller organisations there may be an obvious lead non-executive, even if it is not formalised, who will take on the role described above. In private

equity backed situations or venture syndicate investments this will often be the lead investor's board representative.

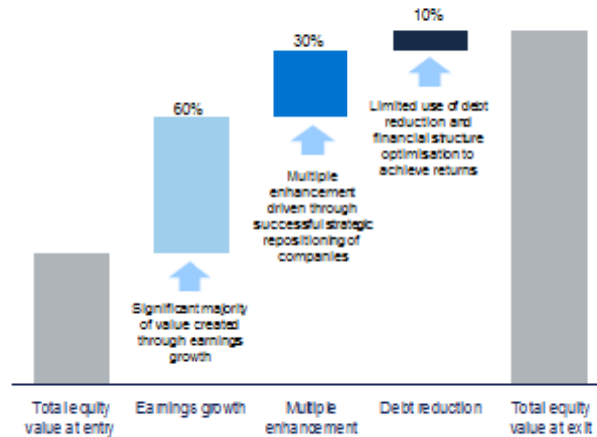
### **The fundamental characteristics of high performing boards and directors**

As Warren Bennis once said "Power is the ability to convert vision into reality." High performing boards have a clarity of purpose or vision and the ability to convert that vision into reality.

In relation to clarity of purpose the two charts below, one for a private equity business the other for a charity illustrate how it is straightforward to develop a clarity of purpose for the organisation which is practical and which provides a framework for decision making. Essentially every decision should be taken in relation to the opportunity to further the purpose of the organisation.

The first chart is a "Value Bridge" taken from 3i's 2012 annual report. It shows that the purpose of this business was to increase the value of the amount it invested in its portfolio. The portfolio concerned consisted of over 100 investments. The chart clearly shows that the two key most significant ways to achieve value enhancement in this business in the long term is by growing the earnings of the portfolio companies and by increasing the multiple of profits, usually EBITDA, that a buyer might pay on exit. Therefore the boards of the individual companies were focussed on this. Interestingly this focus meant that considerable emphasis was placed on corporate responsibility and good governance. In part because strong performance in these areas made companies easier to sell and more attractive purchases whereas weak performance could potentially undermine the price.

## Clarity of purpose - Business



31: 113 realised Private Equity Investments since 2001, exited prior to 31 March 2012

For Warwick in Africa, a social enterprise which was founded in 2006 with just £30,000 the purpose was clear from the start “to transform the teaching of maths for young african township learners”. We believed that maths and English are great liberators from poverty and that the teacher makes the biggest difference in the learning environment. By focussing on attendance and results and developing a model which was replicable, which we could scale and which we could sustain we have built a charity which has now helped over 120,000 young learners in some of the poorest schools in Africa in a highly cost effective way.

## Clarity of Purpose – Social enterprise

### Performance

- Attendance 50-75%
- Test results 30-40%
- Cost £11 per child per month



### Replicable

- Ghana, South Africa, Tanzania
- 22 urban and rural locations
- Maths and English

### Scalable

- 120,000 learners helped
- 700 teachers trained

### Sustainable

- 2008 £30k four donors
- Since >200 donors £1.3m
- Students raise £40k for next year
- Corporate/ University Partners

[www.warwick.ac.uk/go/warwickinafrica](http://www.warwick.ac.uk/go/warwickinafrica)

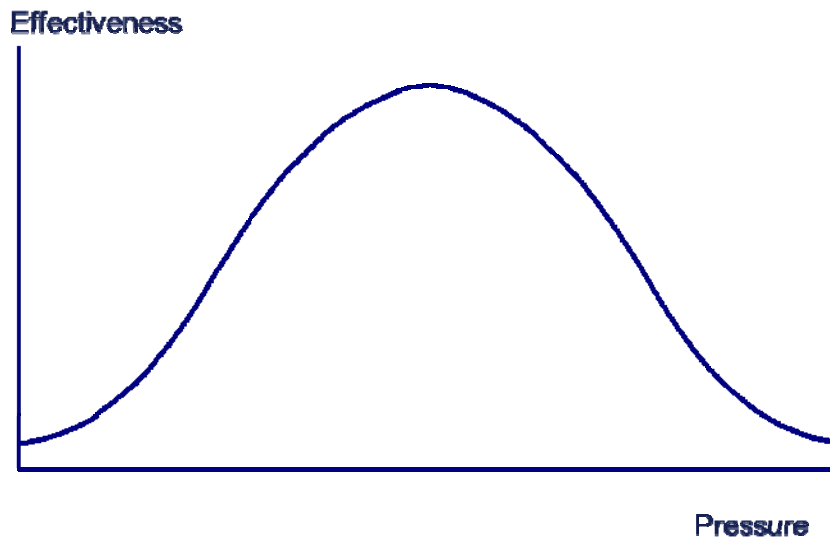
It is hard to have a high performing board without high performing individuals working effectively together. There are many characteristics of high performing directors but I have found these three to be the most important:

- Good judgement
- Superb interpersonal skills
- Excellent antennae

The most effective directors that I have encountered have a very good sense of judgement of people and situations. Through excellent interpersonal skills they also have the ability to bring those judgements to bear and to avoid being one of the “irritatingly right” that no-one listens to. Additionally they use their highly tuned antennae to ensure that their judgements are well informed. These are the people who pick up the things that others miss, have high empathy with people from a broad cross section of the organisation and society and understand what’s really going on.

For a board to be effective it also needs to have the right balance of pressure. The chart below is useful not just for boards but for a wide variety of coaching situations. I tend to use it to convey that a board that is at either

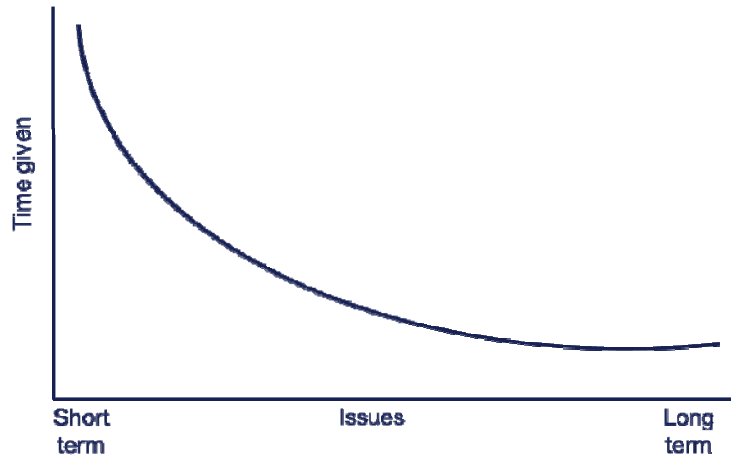
end of this spectrum is, or will be, in trouble. The low pressure, low effectiveness “fat cat” end of the spectrum board is likely to wake up and find that a competitor has eaten its lunch. The “headless chicken “ board at the other end of the spectrum will consume enormous amounts of energy of itself and others but achieve little before it collapses. The “paragon” board is pacey and high energy but also measured and in control to the extent that any board can be.



One way in which high performing boards are successful is by having a good approach to formulating the board’s agenda. Agendas are usually developed by the Chairman, Company secretary and the chief executive. By focussing the board’s time first on the five or six most important things that the board has to decide in the next year time can be planned more effectively. Simply having one meeting as a board as a whole to discuss what those five or six key things are is usually of considerable benefit.

The chart below for a dysfunctional board shows the amount of time over a year short and long term issues were given at the board. Note that this was far from the intention of the board and was a consequence of a weak chairman and a garrulous chief executive. The company concerned was obsessed with short term issues and past glories and failed to deal effectively with a new entrant into its market, The consequence was that the company was eventually sold for a fraction of its true potential had it been more alive to the strategic shifts in its marketplace.



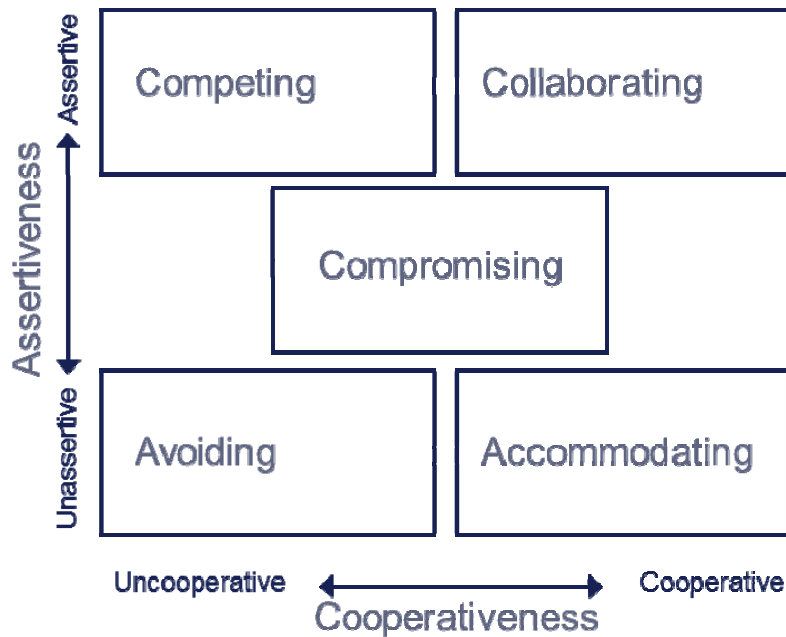


### **Board disharmony and the importance of conflict management skills in the boardroom.**

As boards are usually comprised of humans in any board there is the potential for board disharmony and conflict. The causes of disharmony can be varied from misalignment of objectives to poor personal chemistry or simply a result of excess pressure from an external source. A degree of creative tension and a constructively challenging atmosphere is of course healthy and to be encouraged. Yet, the line between such healthy differences of view and an all-out war can however be thin when personal relationships are not robust and underpinned by a high level of respect.

If potentially damaging disharmony exists, whatever the cause, a skilled Chairman, as leader of the boardroom team, will take overall responsibility for managing the conflict. However, there are situations where the source of the conflict is actually the Chairman and it requires someone else to resolve the situation. This is one reason for the Senior Independent Director role in large UK public companies and leading institutional shareholders expect them to fulfil it when necessary.

In terms of managing conflict some excellent work was done many years ago by Thomas and Kilmann who developed a “Conflict mode instrument” for testing people to see which were their preferred styles in approaching a conflict situation. Their work has been much written about but is summarised in the diagram below.



I have used this test on hundreds of directors on training courses over the years usually in conjunction with a case study of a board in considerable disarray. The major learning for many delegates is the resulting increase in self-awareness and a greater understanding of how others are really behaving. Armed with this self-awareness they often recognise that they need to utilise a broader range of approaches than they have been using before and spend more time understanding how the person they have the conflict with is motivated and likely to react.

In a more pressured environment with increased uncertainty it is more critical than ever that boards have a positive approach to managing conflict as it is likely to be inevitable. It is also important that each individual board member has the self-awareness and skills as well. Those that are less skilful in this area are likely to become the most frustrated either because they are in a high conflict situation or removed from the board.

**A call for an increased focus on board skills training for managers before they arrive in the boardroom**

Many directors receive excellent training on strategy, on organisational issues and on a wide range of other topics useful in their role as board members long before they join a board. Yet many others don't and the availability of high quality formal training for directors on the specific knowledge, skills and behaviours essential to being a good director remains somewhat patchy in many countries.

Much of the training currently available tends to be narrowly focussed on the basic knowledge required to be a director or confined simply to the legal responsibilities and risks associated with being a director. The tone of the training is often more geared to a minimum required level or downside protection rather than to achieving high performance. There are also very few training options for potential chairman.

The result is that training for aspects other than basic responsibilities for many directors is "on the job" with the fortunate learning from the "masters of the art" or instinctively dealing well with "boardroom devils" behaving badly.

Well-developed processes for feedback and review are sometimes a stimulant for training and director development on a group or individual basis.

It is my strong conviction that a greater emphasis on "Board knowledge, skills and behaviour" training over a longer period of time is required before managers become directors. This training should involve experienced practitioners, simulated situations and role play and be based on real situations.

Complementing this type of training with "apprenticeship board positions" under the tutelage of good chairman perhaps in some of an organisations more independent subsidiaries or joint venture companies can also be very useful. As can taking a trusteeship position in a charity. I know that I have learnt a considerable amount from the different environments of the social sector.

## **Conclusion**

The art of the boardroom is becoming much tougher and those who wish to be successful board members need to be well prepared, match fit and play in strong teams which are well led. I believe that more needs to be done to train and prepare directors for their ever more demanding roles.



**NEOCLIS NEOCLEUS**

*Executive Board Chairman and General Manager,  
Piraeus Bank AD*

Neoclis Neocleous is Chairman of Executive Board of Piraeus Bank AD Belgrade. Mr. Neocleous was born in Cyprus in 1959 and holds a B. Sc. (Honours) degree in Civil Engineering from University College London, as well as an M.Sc. post graduate degree in Management from Imperial College of Science and Technology London.

In October 2007 Mr. Neocleous joined Piraeus Bank Group as Head of Corporate and Commercial Banking in Piraeus Bank Cyprus. Before Piraeus Bank Group, Mr. Neocleous worked for 17 years in Bank of Cyprus, where he has assumed various positions ranging in the areas of Corporate Banking, Restructuring, Credit, Factoring and Branch Network, in both Cyprus and Greece.

## **The influence of Greek Banking System to Economic Development in South East Europe, With Special References on Serbia**

Thank you for inviting me to participate and to contribute to this conference.

I have a good understanding of Greek Banking for 20 years, since 1992 when I started to work with a Bank in Greece.

Back then, in 1992, Greek Banking was dominated by state-owned Banks that did not have any substantial presence abroad. Lending was a complicated business because of overregulation by The Bank of Greece. Treasury business was a very important source of income for Banks. Competition among commercial Banks and quality of service was very low.

However, this situation was about to change completely in the next decade because Greece had to harmonize its economy with that of the European Union. During this decade Greece enjoyed strong economic growth and entered the Euro zone on 01/01/2001. All these changes favored the growth of private-owned Banks as opposed to state-owned Banks which saw their market share reduced.

At the time of Greece entering the Euro zone on 01/01/2001, the big Greek Banks were National Bank of Greece, Eurobank, Alpha Bank and Piraeus Bank. Out of these 4 Banks only one, National Bank of Greece, was and still remains under state control, the other 3 Banks are private.

After the introduction of the Euro and the domination of Greek Banking scene by big private Banking Groups, it was obvious that these Banks had to look outside Greece, in the region of South Eastern Europe, for further expansion and further rapid growth.

What followed in the period from 2001 to 2008 when the global financial crisis started, was the acquisition of local Banks in Romania, Bulgaria, Serbia, FYROM, Albania and even Turkey, Ukraine and Cyprus by these 4 Greek Banking Groups. Greek subsidiary Banks in these countries, before the crisis arrived in 2008, followed a business strategy of rapid expansion and growth. This was the period when Banks placed paramount priority on profitability and volumes. Greek Banks benefited in all these countries from positive economic conditions because these countries were in an economic phase of reducing the economic activity of state Banks and also moving

closer to Europe, opening up their economies and creating conditions for economic growth.

Today, the presence of these big four Greek Banking Groups, National Bank of Greece, Eurobank, Alpha Bank and Piraeus Bank in Romania, Bulgaria, Serbia and Albania is substantial as they collectively have a market share in each country ranging from 15% to even 30%.

You can easily understand how beneficial it is to the host countries to have such participation in their Banking Sector.

The presence of Greek Banks in these countries enabled indirectly other Greek foreign investments from other sectors to come in. Greek investors in these countries were actively assisted, supported and financed by Greek Banks.

In Serbia the big four Greek Banking Groups are active through their local subsidiaries which are Vojvodjanska, EFG, Alpha and Piraeus. Together, these four Banks have a combined market share in Serbia of about 15%, they have invested directly and indirectly about Euro 2,5 bn and employ 5.750 personnel. This means a lot for a relatively small economy like Serbia.

And we now come to the present economic phase which started in 2008 with the onset of the global financial crisis and lasts up to today. The crisis as you know started with the subprime mortgage loan crisis in the US then developed into a Banking crisis at global level and at present we have the Euro zone crisis with Greece being the weakest link.

Following the haircut of the Greek Government bonds, formally known as PSI, the big four Greek Banking Groups lost their capital. However, all four Banks were assessed by European Regulators to be viable and were approved to be fully recapitalized. Their recapitalization will be completed in the next 3-4 months, with about Euro 30 bn. Through this, Greek Banks will become among the best capitalized European Banks. Terms of recapitalization will most probably allow existing top management to continue running these Banks since it was the Greek State through the PSI that caused the need for recapitalization.

The future role of Greek Banks in South Eastern Europe will primarily depend on the direction the Greek economic adjustment program takes. Let

us just say here that we have good reason to be more optimistic now, compared to 6 months ago. Greece is moving in the right direction and European partners recognize now that Greece is doing a lot and must be supported by giving more time so as to avoid a default on the massive Greek debt.

Provided that this is so, Greek Banks do not intend to sell their Balkan subsidiaries because size is paramount in Banking and a strong regional presence by any Banking Group is essential to be viable in the Europe of the future, when the crisis will end.

Greek Banks therefore intend to maintain and strengthen their presence in South Eastern Europe including Serbia and to participate actively in the critical role of banking which is to support and assist growth and economic development in the Region.





**UNIV. PROF. DR. IVO ARMENKO**

*President of Faculty of Business and Tourism,  
Budva, Montenegro*

*Ambassador of Montenegro in Athens*

Prof. Dr. Ivo Armenko was born on 22 May 1946 in Montenegro. He graduated from the Faculty of Economics in Belgrade in 1969, and he was awarded his Magister degree at the Faculty of Economics in Belgrade in 1984. He received his PhD from the Faculty of Economics in Banja Luka in 2004.

He began his career in HTP "Sveti Stefan" in 1968, where he worked until 1980 as a company director. From 1980 until 1986, he worked as a director of the branch of Yugoslav Tourist Association in London. From 1986 until 1990 he worked in HTP "Montenegro turist" Budva as a commercial director.

Between 1990 and 1992 he worked in Yugoturs - London as an assistant director. From 1992 until 1996 he worked as a commercial director of HTP "Budvanska Rivijera". From 1996 until 1998, he was the member of the Government of Montenegro holding the post of the Minister of Tourism. From 1998 until 2004 he served as the managing director of HTP "Budvanska Rivijera".

In 2004 he assumed the position of Ambassador of Serbia and Montenegro in Madrid.

In terms of academic experience, he worked as a lecturer and professor at several higher education institutions.

Since 2009 he has assumed the position of Ambassador of Montenegro in Athens and he has been hired as a professor at American University, "Indianapolis" in Athens as a lecturer in the Department "International Relations."

In 2011, Dr. Ivo Armenko, together with Prof. Dr. Rade Ratković, founded the Faculty of business and tourism in Budva and there he teaches the courses of Marketing in Tourism.

During the entire time of his involvement in the economy, Dr. Ivo Armenko was actively involved in many of the working bodies of the Government of Montenegro and professional associations. He was a longtime member and president of Tourism Board of Chamber of Economy of Montenegro, longtime member of the branch of the Tourist Association of Montenegro and the Tourism Organizations of Montenegro.

## The Position of Greece in Tourism Market of the European Union

**Abstract:** *According to the OECD criteria, the economy of Greece mainly revolves around the service sector (85%) and industry (12%), while agriculture makes up 3% of the national economic output. Tourism has been an important industry of the Greek economy with 16.4 million foreign tourists in 2012 which ranked it as the 7th most visited country in the European Union and 16th in the world by the United Nations World Tourism Organization.*

*The development of tourism in Modern Greek economy started during 1950s. In old times, Greece was an attractive tourist destination only for privileged social strata in Europe and the World, and travelling to this country was motivated mainly by religious or cultural reasons, or by sport events like the Olympic Games.*

*Greece was visited by around 33,000 tourists in 1950, and this number increased to 16.4 million in 2012. According to the OECD report, the share of tourism in the Greek GDP accounted for 18.2% in 2009. The same report claimed the average tourist spending for the same year reached \$1,073, which ranked Greece at the 10th place in the world. The number of people employed directly or indirectly in tourism has been approximately 800,000, and it makes 19% of the total number of employees.*

*The Greek government Ministry of Tourism and Culture is in charge of tourism with the National Tourist Organization within it dealing with the promotion of tourism in the country and worldwide.*

International tourist turnover in the world in 2011 increased by 4,4%, i.e. a number of 980 million passengers is accomplished, according to the WTO report. In 2012, an increase to a lesser extent is expected and achievement of turnover of one billion passengers. This turnover is achieved in the year which was characterized by heavy economic situation in the world, major political changes in the region of North Africa and the Middle East, and the natural disasters in Japan. Observed by regions, Europe with an increase of 6% compared to 2010, achieved a remarkable result. Despite economic problems and uncertainties that accompanied the Eurozone countries, tourist turnover in Europe in 2011, measured by the number of passenger, reached the figure of 503 million. Of the total increase in turnover in the world of 41 million passengers in 2011, the increase of 28 million refers to Europe. Observed by destinations, the largest increase of passengers in Europe of 8% in the year aforementioned achieved destinations of the Mediterranean and Central Europe. When it comes to the Mediterranean, this increase can be explained primarily through moving the turnover from the Middle East and North Africa to the destination of European part of the Mediterranean.

When it comes to tourist spending, we can say that it follows the trend of increase of tourist travellings in the world. According to the same source (WTO), income from tourism recorded an increase in 2011 mostly in the following countries: USA 12%, Spain 9%, Hong Cong 25% and Great Britain 7%. The biggest travel consumers in 2011, i.e. the countries with growth in tourist spending in comparison to the year of 2010, are countries such as China +38%, Russia +21%, Brasil 32%. Then follow the countries from traditional tourism markets with increased spending of their tourists such as Germany +4%, USA +5% compared to the last year.

According to the same source (WTO), tourism participates in the world economy, GDP, with about 5%. When it comes to countries with small economies, as some island countries, tourism in their GDP participates with a lot higher percentage (5-25%). The same quality and importance of tourism is reflected in the employment sphere. It is estimated that out of a total number of employees in the world every twelfth employee is hired in tourism.

Looking at the turnover generated by the countries in 2011, France continues to lead in the tourist turnover having generated 79 million tourists and is in the third place with 54 billion US \$ earned. USA is in the first place in generated revenue (116 billion \$) and in the second place in the number of tourists numbering 62 milion. Spain is in the second place in the world in generated income and in the first place in Europe (US \$ 60 billion), while in

the number of tourists it is in the fourth place (57 million). China is in the third place in turnover (58 million) and fourth in revenues (48 billion US \$), while Italy remains in the fifth place in tourist turnover (46 million) and in tourism revenue (43 billion US \$).

A significant increase in international tourist turnover in 2011 achieved the countries of European Mediterranean which takes part in world tourism with 19%, the countries such as: Greece +10%, Turkey +9%, Portugal +9%, Croatia +9%, Spain 8% and Italy with 6%. Smaller destinations even achieved two-digit growth of turnover, such as San Marino +30%, Macedonia +25%, Serbia +12%, Montenegro +10% and Cyprus +10%.

According to the projection of WTO for 2012, tourist turnover in the world will increase at a rate of 3-4%. By regions of the world projection indicates that the growth will be achieved in Europe at a rate of 2-4%, Asia and Pacific 4-6%, America 2-4%, Africa 4-6% and the Middle East 0-5%.

### **Greece in the tourist turnover of the EU countries**

#### a) economic conjuncture

According to statistics of the World Bank, Greek economy takes the 34<sup>th</sup> place in the world with 299 billion \$ of GDP in 2011. At the same time, Greece is in the 15<sup>th</sup> place in terms of size of economy among 27 member states of the EU. In terms of income per capita it occupies the 29<sup>th</sup> place in the world with 27.875 \$

Greece is treated as an economically developed country which depends mainly on the service sector which accounts for 85%, then industry 12% and agriculture 3%. A significant economic activity in Greece is tourism. In 2011, the turnover of 16.4 million foreign tourist is realized. This result puts it in the 7<sup>th</sup> place among the EU countries and in the 16<sup>th</sup> place in the world according to WTO data.

Apart from tourism, Greece is well developed in maritime transport, especially in merchant navy, which represents 16.2% of total capacity in the world. Greek merchant navy is the largest in the world.

As the largest economy in the Balkans, Greece is also the largest investor in the region. Greece is the EU member from 1982 and adopted the Euro as its national currency in 2001.

At the beginning of this millenium, Greece has recorded high growth rates of GDP, well above the EU average. In 2003, it recorded increase of 5.9% and 5.5% in 2006. During the last few years, Greece was taken by recession and debt crisis. In 2008, it decreased by - 0.2%, in 2009 +3.1%, in 2010 -4.9% and in 2011 7.1%. In 2011, public debt of the country recorded 355.658 billion euros, representing 170.6% of GDP. After the negotiation process which was led during the last months with creditors from Western Europe, Greece has reduced the debt to 280 billion euros, which is 136.9% of GDP.

Unemployment in 2012 is estimated to be 1.2 million, 25.4% of labour force, and unemployment in the yonger population is estimated to be as much as 50%.

b) tourist conjuncture

Tourism in the modern sense of the word, started to develop in Greece during the 50s of the last century. In the old days, Greece was an attractive tourist destination for privileged layer of society in Europe and in the world and travellings to this country were mainly motivated by religious tourism, cultural motifs and sport events such as the Olympic Games. In 1950, Greece recorded foreign tourist turnover of about 33 thousand tourists, and in 2011 16.4 million tourists. According to the OECD research, in 2009, tourism accounted for 18.2% of the national GDP. According to the same report, average spending of tourists in Greece was 1073\$, putting Greece in the 10<sup>th</sup> place in the world. Number of employed, directly or indirectly involved in tourism, was 19% of the total number of employed in Greece.

In the Greek Government tourism is taken care of by the Ministry of Tourism and Culture, which in its part has the National Tourism Organization that promotes tourism in the country and the world.

c) tourist turnover

In this section of the paper, we will focus on the tourist turnover in Greece in the period between 2008 and 2012. We do this because the length of this paper does not allow broader analysis of this subject and second, because we want to put focus of the analysis on the period of last few years, i.e. the period of economic recession in the world and Greece and to perceive the influence of such economic conjuncture on tourism. Here we will provide an overview of the structure of generated turnover in Greece, by countries, in the period between 2008 and 2012 (table No. 1), then the structure of arrivals according to the use of means of transport (table No. 2) and the structure of

arrivals according to the means of transport and borderline turn in Greece (table No. 3).

From the survey, one can see that in 2009 in Greece tourist turnover declined by 6.4% compared to the same period in 2008. When the EU countries are concerned, that decline was higher and it represents 7.9%.

In the structure of guests arrivals, one can see that most of the tourists come from Germany 15.9%, Great Britain 14.2%, France 6.5% and Italy 6.3%. This year the highest decline of turnover compared to the last year recorded Germany -4.2% , Great Britain -7.35 and Italy 15%. In the structure of tourist arrivals according to the means of transport and borderlines, the highest turnover was recorded at the airports in Athens 21.3%, Heraklion (Crete) 13.1%, Rhodes 8.9%, Thessaloniki 5.8% and Corfus 4.9% (table No. 3).

In 2010, Greece recorded growth in tourist turnover of 0.6% compared to 2009. When it comes to tourist turnover from Europe, we see that it has decreased by 2.4%, while turnover from the EU countries decreased by as much as 6.3%. The biggest drop in turnover was recorded by Germany with 13.8%, Great Britain 14.7%, France 9.8% and Italy 9.8%. Growth in turnover was recorded in Poland 97.6% and Russia 63.5%, as well as Cyprus 32.2%. Also, this year the largest share in generated turnover recorded Germany, 13.6%, Great Britain 12%, France 5.8% and Italy 5.6%. When it comes to other destinations, the largest growth in turnover is recorded from the countries of Asia (table No. 1).

In a view of turnover according to the means of transportation, one can see that Athens is still the leading air passage with a share of 20.6%, following Iraklio (Crete) 12.8% and Rhodes 9.4% (table No.3)

In 2011, Greece achieved an increase in turnover of foreign tourists by 9.5% compared with the previous year. From European countries, the growth is achieved by 10.4%, while the EU member states recorded an increase of 4.9%. The biggest increase in turnover recorded Portugal 77.7%, Albania 69.9%, Russia 63.8%, Luxembourg 53.1%, France 32.4% and Belgium 27.3%. The biggest drop in turnover was recorded by Cyprus with 23.5%. In the structure of turnover, this year also, the most important place occupies Germany 13.6%, Great Britain 10.7%, France 7.0% etc. (table No.1).

In a review on the use of the means of transportation and borderlines in Greece, airport in Athens still remains the leader with a share of 19%, followed Iraklio (Crete) with 13.0% and Rhodes sa 10.5% (table No.3).

According to some preliminary results of registered tourist turnover in Greece, in the first half of 2012, it is estimated by the NTO of Greece that there was a drop in turnover of about 9.0% compared to the same period in 2011. Predictions are that this drop in turnover will decrease significantly by the end of the year and that turnover will be gained in 2011.

From the above, one may conclude that in the observed period tourist turnover in the world, Europe and Greece achieved great results and that tourism remained one of the most significant industries in the countries of the world, and especially in Greece. As we stated, observed period of touristic turnover realization coincides with extremely unfavourable economic conjuncture in the world, marked by recession and many unfavourable political occasions and disasters, which certainly needed to have the negative influence on tourist turnover. Despite all this, tourism showed to be resistant to all negative occurrences and influences, as evidenced by the results achieved. As an obvious example for this statement we can take the example of Greece, which is in the focus of this paper, and state confirmation of mentioned resistance of this economic industry to threatening economic conditions in which economic life in the world unwinds.



**UNIV. PROF. DR. LUDVIK TOPLAK**

*President of ALMA MATER EUROPAEA*

*Europaen Centre Maribor, Slovenia*

Rector of the University of Maribor (1993-2002) Ambassador of the Republic of Slovenia to the Holy See (2002-2006) European Faculty of Law in Nova Gorica

Faculty of Postgraduate Governmental and European Studies, Brdo, Slovenia  
President, European Centre Maribor 2008  
Member of the European Academy of Science and Arts 2000  
Member of the Collegium Observatory Magna Charta Universitatum (2000-2004)  
Member of the Steering Committee of the I.C.H.E. (International Conference on Higher Education) 1999  
Member of Paneuropean Union

Member and President of the Danube Rectors' Conference (1996-1999)  
Member of the international committee European Forum Alpbach 1999  
Governor of the American Chamber of Commerce in Slovenia (1999-2001)  
Member of the board CRE-EUA (1998-2001)

President of the Conference of Independent Colleges in Slovenia 2009

Titles of Honor: STATE: Ambassador of the Republic of Slovenia in Science (2000); UNIVERSITY: Golden award of University of Maribor; MUNICIPALITY: Honorable member of Municipality



## Development of Management in Slovenia in the Perspective of European Leadership

**Abstract:** *Changes in the society are the driving force for changes in management that should encourage innovativeness, quality, creativity and last but not least, enthusiasm, endeavor and loyalty of the individual for a higher quality of working environment and personal life.*

*The role of the manager thus changes, too; from the absolute decision-maker, into a skillful, knowledgeable and professional coordinator, who is constantly working towards getting the best out of his/her staff, herewith becoming first among equal.*

*Europe is aware about this; the management processes therefore follow the principles of coaching and mentorship. New management in Europe is in correlation with the new Leadership, new Leadership in correlation with the vision of solving economic, social, political and technological trends.*

Changes in the society are the driving force for changes in management that should encourage innovativeness, quality, creativity and last but not least, enthusiasm, endeavor and loyalty of the individual for a higher quality of working environment and personal life.

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Europe is aware about this; the management processes therefore follow the principles of coaching and mentorship. New management in Europe is in correlation with the new Leadership, new Leadership in correlation with the vision of solving economic, social, political and technological trends.

Changes are the only constant in the time in which we live, which includes the management that is on the verge from classical management to Leadership. We can address these changes with creativity that encourages people to create new strategies and new communication, which in turn creates a new paradigm of modern organization.

Modern organization operates as a system that adjusts to the environment that preserves its own identity.

During the last decades if not centuries organizations operated as closed systems which limited human freedom, individuality and identity with their rigid rules. Organizations today are becoming flexible at all levels; individual, local, national and global; and in all aspects. We therefore speak about flexibility of the workplace, flexibility of socialism, flexibility of capitalism, market flexibility and flexibility of politics. Flexible are structures of order; furthermore, flexible are also structures of chaos. Flexible organizations maintain their operations in that they constantly and dynamically change contents and organization.

A modern organization of order and development can only survive if it actively opens towards the environment, if it operates as an open system, a system supported with rules that enable adjustment to the environment. Those rules must be flexible.

A flexible organization changes the management and leadership approach. Complexity of organization, social stratification and development of the career system encourage new leadership to knowledge approach. Knowledge approach uses organizational culture that either encourages or slows down potential for innovation. Also important is the collective memory as an invaluable source of learning for the company's operation. A classical organizational theory according to Weber's pyramid talks about the system being typically closed; a rigid internal structure and hierarchical way of organization that stops the flow of information which is crucial in the time of changes. A one-way hierarchy shows a structure of power, is in confrontation with the market that operates as a system of perfect information, it has died away as unsuitable, too slow and obsolete.

Controlling change is only possible with the change of organisational paradigm and herewith with change of leadership paradigm. Leadership paradigm appears in different forms, enabled with cultural environment and human capital. Paradigm, typical of the Western business world, encourages a structural approach to operations, while the paradigm, typical for the Eastern business approach and world encourages operations, tied to processes.

Usage of paradigms depends on the environment. Non-critical usage or copying of cultural patterns is destined to failure; devaluing the influence of national environment on company's management leads the company into crisis at national level.

Approaches, used by Leadership, are therefore more than necessary for long-term strategic survival. If management of hierarchical organisation is characterized by productivity; managing a learning organisation is characterized by competitive sharpness, progressive changes and an adjustable and thinking employee with development potential, based on leadership, required by knowledge, quality and excellence. Typical for such organisations is a virtual and creative relationship system.

Modern organisation introduces an authentic leader who believes in changes, challenges, into constant professional and personal growth of human resources, all in the sense of reaching excellence. A leader of a modern organisation influences its staff with a fine-tuned feeling for their abilities and development of their competences. Human capital in an organisation that is the driving force of development combines the following categories: power, feelings, behaviour, and atmosphere; human capital furthermore flourishes by using intuition, awareness and creational energy.

In a classical organisation, the autocratic leader was above all a planner, decision-maker and a person who gave orders, who distributed tasks, knew the best approach and raised his followers on the basis of his autocratic approach that did not allow participation of ideas, herewith strengthening his position by using others.

A modern and democratic leader wants to increase the efficiency of operations by including his co-workers into reaching goals, into decision-making, co-creation of vision and strategy, considering their ideas and thoughts. The problem of such leaders was usually insufficient information and insufficient knowledge.

A modern and authentic leader is the answer to call for a new leadership approach that is suitable for organisations and staff; one that builds on psychological capital, a positive moral aspect, self-awareness, development of staff, organisational context and constant success that normally succeeds expectations. A modern and authentic leader is conscious, cares for development of self-esteem and identity among employees, and encourages positive thinking, trust, optimism and identification with the organisation. He strives to constant adjustments to environment by improving behaviours, networking of target groups, joint efforts for cultural changes, innovativeness and learning together with the organisation.

Classical management maintained and preserved, it focused on structures and systems, built supervision and was only short-term oriented. Modern

leadership on the other hand improves organisation, it focuses on human resources, inspires with trust, and operates long-term.

Burns once said that Leaders talk employees into reaching goals that stand for values and motivation, needs and wishes, aspirations and expectations of both; the leaders and those who are lead.

Modern literature on organisation, management and leadership in Slovenia shows that Slovenia is a bad follower of these new approaches. The newest research on management in Slovenia (Jože in Marija Ovsenik, *V mraku preloma tisočletij*; Ljubljana 2012) shows that Slovenia follows these new guidelines only theoretically. It is still a common practice to apply the classical Weber pyramid in organisations; 86.3% of companies show that they have a pyramid hierarchical structure that shows no creativity. Lack of modern, authentic leadership creates new paradigms in the world and in Europe as well. New modern leadership in economy, country and Europe offers new expectations and new hope for sustainable development and peace, well-being and material welfare.



**MAG. DR. H.C. WALTER SEBÖCK,**  
*MAS, MSc, MBA, Danube University, Krems, Austria*  
*Honorary Doctor of European University*

Dr. Seböck completed his master's degree in 1992 and in 2005 his doctorate at the University of Vienna. The topic of his masters thesis was international policy and conflict research and dealt specifically with the Palestinian uprising; the topic of his doctors thesis was "E-Government".

Subsequently he worked as a PR consultant in a marketing agency and as a publishing director for continuing education literature. After a period of entrepreneurship in the field of new media / internet during the nineties, he overtook the responsibility for the consulting division of a company that dealt with the impact of new working practices on the job market. Afterwards then he was appointed as project manager for the restructuring of the Technical Museum and subsequently became head of marketing and PR. In 2001 he received an offer from Danube University Krems to restructure a center. Since then, Dr. Seböck deals with the topics of electronic government and related security issues. The findings of several research projects have led him to design an electronic management platform, integrating the municipal sector contrary to the prevailing approach. This implementation has required extensive studies and analysis of municipal sector and the technical possibilities. After a 3-year period of study and design work together with Dr. Parycek, he realized an electronic platform for local administration in cooperation with the Austrian Association of Municipalities at Danube University Krems in 2004. Therewith, Austria was the first and only country in the world to basically put an electronic network management at the local level for all municipalities.

This development released the establishment of a clear focus on "e-Government", dedicated exclusively to the field of public administration and thus distinguishes Danube University Krems unique in this area. In 2006 an independent center for e-government was founded. This center is concerned with all aspects of communication in e-government. Topics such as e-democracy, e-voting and eparticipation are central themes that are treated very successfully in research projects, publications and international conferences. One of the most prestigious international conferences on e-democracy is carried out since 7 years at Danube University Krems.

The expectant increase in traffic safety issues has been focused by Dr. Seböck in the area of information security. Within this area, parallel to the construction of the topic “E-Government”, he implemented research projects and academic conferences relating to the issue of infrastructural security, and thus positions the Danube University Krems accordingly. The merging of different areas of occupational safety led to the start of their own center for infrastructure security in 2011. The combination of these two issues, pointed out a clear profile of an university for further education as the orientation of cross-cutting issues in both teaching and research interests of the economy and the institutional equivalent is demanded. On 1st January 2011, Dr. Seböck was also appointed as Dean of the newly established Faculty of Business and Law. In this new area the target focus is on expanding international cooperation, development of independent research activities and profiling of the “Business and Law School” in an national and international context.

## **Concept for Scenario - Development for Foresight Security Scenarios: Mapping Research to a Comprehensive Approach to Exogenous EU Roles**

**Abstract.** *Europe still has to find its way to become a truly united state, overcoming diverse legal and political frameworks and moral understandings and ethical values. The FOCUS project, EU funded under the FP7 research program, has the goal to identify future EU roles in security research. One important aspect is an agreed and comprehensive set of security themes. This paper presents possible major security scenarios, their methodological finding and identified obstacles on the way to a more coordinated EU security strategy.*

**Keywords:** *European security research, comprehensive approach, scenario identification, security taxonomy, transversal security aspects*

### **1 Scope of Security Research**

Each EU Member State is an open system, influenced by internal and external threats and hazards. In the context of a comprehensive approach, the concept of internal security cannot exist without an external dimension, since internal security increasingly depends on external security.

Challenges in the coming decades will continue to be fraught with uncertainty, involving state and non-state actors combining conventional and asymmetric methods. They will go beyond traditional domains to encompass space and cyberspace, and strongly influence the conceptual and operational ingredients of the comprehensive approach. Problems related to the proliferation of weapons of mass destruction will persist. Cyber threats will also proliferate, with possible capabilities to organize a high-consequence attack against European critical infrastructures [1,2].

### **2 FOCUS Methodology Development**

The FOCUS project (Foresight Security Scenarios – Mapping Research to a Comprehensive Approach to Exogenous EU Roles, <http://www.focusproject.eu>) is co-funded under the Security Research theme of the EU's 7th EU Framework Programme, for the period of April 2011 to March 2013. FOCUS aims a wide coverage of research topics, with a high

level of practical utility in mind: to define the most plausible threat scenarios that affect the “borderline” between the EU’s external and internal dimensions to security; to derive guidance for possible future EU security roles and related security research – building on and reaching beyond conclusions from expert bodies and other projects [3]. The main contribution of the FOCUS project is the development of effective long-term prediction and assessment tool. Moreover, it will deliver tangible products (as an IT platform) and contents (as a roadmap) for planning of research and deciding on priorities. To realize this contribution, FOCUS will design and apply an “embedded scenario” method to develop scenarios for security research (methodologically speaking: alternative futures) [4].

## **2.1 Scenario perspective**

Based on extensive literature review of European Member States security frameworks and grounded work within the security research community [5,6], the FOCUS consortium developed the following vertical perspective of a security scenario taxonomy [4]: Global scenarios, Local scenarios, Drive/trend scenarios, Defence related scenarios (incl. situational scenarios), Threat scenarios. This taxonomy served as a building block for the scenario discovery process of the following project iteration.

## **2.2 Scenario finding process**

Scenario development was based on context scenarios of FOCUS deliverable 3.2 [7] and critical assessment. The weighing was done according to relevance from a dual perspective: (a) nation/member state vs. EU-level/international approach to civil security and security research; (b) position of the scenario on the continuum of internal/external security. The scenarios for alternative futures of security research in support of the “comprehensive approach 2035” represent the major outcome of deliverable 3.3 [8].

1. Generalised security research system: a common securitisation model and national security research programmes on the European level.
2. Nationalisation of security research: Member States consult each other on a regular basis and establish common security research initiatives.
3. Research system for European critical infrastructure protection (EUCIP): support of European critical infrastructure protection [8,9].
4. Security incident management research: includes research for monitoring instruments.
5. Security economics research system: to improve the protection of the European Union from within or outside the EU.



6. Public health research system: includes all health care systems of the respective Member States.

### **2.3 Guidance for possible future EU security roles**

The FOCUS project consortium identified a list of cross-cutting, or “transversal” aspects that generally all of the six scenarios for “security research 2035” have in common. Those transversal aspects relate to future fields of action and needed expertise in most of the six future scenarios [8]. The following research lines appear of particular future interest: Tools for policies and national views integration and Standards for national organisation for a comprehensive approach to security. Socio-demographic developments across the European Union have an impact on the development, as well as the capacity to act and on the effectiveness of the used instruments [10]. Government bodies hold an enormous amount of data which carries the potential to raise security, welfare, trust and create new economic opportunities[11]. Social media plays an increasingly important role in crisis communication. This has implications for the practical work of emergency services and media organisations, as well as for further scholarly research. Future security research will have to provide results for uptake also on the level of dedicated training material in the context of online education, or advanced distributed learning.

### **3 Transversal aspects of Scenarios in Relation to Alternative Futures**

Future EU security research should contribute to prepare rules for the processing and implementation of a suitable concept, leading to security of both the Member State and the Union as a whole. To overcome present and future weaknesses, as anticipated by FOCUS scenario foresight, any concept for a “comprehensive approach 2035” should address the following aspects: terms, human system /- assets are understood in different ways, safety and crisis management, EU basic legislation, security training for EU citizens. To overcome these problems, it would be necessary to elaborate the concept of sustainable development, a long-term plan of implementation of sustainable development concept into practice and the plan of enforcement of sustainable development principles into practice. Possible concrete measures include education and training of citizens, specific technical education and training, technical, medical, environmental, cyber and other standards, executive units to defeat emergency and critical situations, adapted security, emergency and crisis planning.

## 4 Conclusion and Outlook

For all thematic embedded scenarios an appropriate standardized terminology work as the root for the processing of every scenario has to be developed. A general thesaurus catalogue for scenario research will act as the basis and prerequisite for more fine grained thesauri which will follow. In order to meet these requirements, an efficient and strategic as well as operative documentation, information and knowledge management (system) has to be formulated with a view to a strategic Foresight-Risk Assessment. Further transversal aspects have to be identified. Multiple scenarios based on IT-supported foresight in the form of alternative futures for support of security research for exogenous EU security missions, will have to be developed. The increased complexity of security research will amplify the importance of identified transversal security aspects, rendering security research an even more interdisciplinary field of research.

*FOCUS is co-funded by the European Commission under the 7th Framework Program, theme "security", call FP7-SEC-2010-1, work program topic 6.3-2 "Fore sighting the contribution of security research to meet the future EU roles"*

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## Scenario Space for Alternative Futures of Security Research

**ABSTRACT:** *focus (“foresight security scenarios – mapping research to a comprehensive approach to exogenous eu roles”) aims namely to define the most plausible threat scenarios that affect the “borderline” between the eu’s external and internal dimensions to security. this article presents scenarios about alternative futures of security research to support a comprehensive approach of the “eu 2035” as a civil security provider. three scenarios were selected as context scenarios for alternative futures of security research afterwards they have been lined up with drivers identified in a matrix procedure. from these three context scenarios six alternative futures for security research were evaluated using the portfolio-cluster-method. the weighting was done from a dual and interdependent perspective: a) nation/member state vs. eu-level/international approach to civil security and b) security research; position of the scenario on the continuum of internal/external security. finally, the article introduces each scenario for alternative future of security research in detail.*

**KEYWORDS:** *comprehensive approach, scenario space, focus, security research 2035, generalised security research system, nationalisation of security research, research system for european critical infrastructure protection (eucip), security incident management research, security economics research system, public health research.*

## INTRODUCTION

FOCUS (*“Foresight Security Scenarios – Mapping Research to a Comprehensive Approach to Exogenous EU Roles”*) aims wide but with concrete policy guidance in mind: namely to define the most plausible threat scenarios that affect the “borderline” between the EU’s external and internal dimensions to security – and to derive guidance for the Union’s future possible security roles and decisions to plan research in support of those roles. FOCUS brings together 13 partners from 8 countries, including universities, industry, think tanks and security information providers.

Reflecting the cross-border and cross-sector nature of current security threats and challenges as well as the complexity of instruments and objectives in security policy along the internal-external continuum, the comprehensive approach focuses on the holistic nature and broad trade-offs involving societal goals in order to increase the security of the EU and its citizenry as a whole.

It aims to find and implement overarching solutions to problems, with broad effects and based on complementarity of actors, while considering all available options and capabilities, as well as the normative end-state of the security of society as a whole.

A comprehensive approach also entails the tackling of cross-cutting issues in home affairs.

In this article we present six future scenarios for “security research 2035” and explain the generation through a matrix. Afterwards the six future scenarios are put in a scenario space with the two independent dimension national/member state vs. EU-level/international approach and internal-external security continuum.

### **Development of future scenarios for “security research 2035”**

This article presents scenarios about alternative futures of security research to support a comprehensive approach of the “EU 2035” as a civil security provider. A list of cross-cutting or “transversal” aspects, which all of the developed six scenarios for “security research 2035” have generally in common, were identified. Those transversal aspects relate to future fields of action and needed expertise in most of the six future scenarios for “security research 2035”, including identification of tools and systems for comprehensive crisis management to overcome present and anticipated future weaknesses.

In relation to a report on alternative future models of comprehensiveness developed scenarios from FOCUS foresight processes include conceptual analysis and scholarly work as well as empirical work. Empirical work was based on quantitative conceptual analysis, expert questionnaires, and guided interviews. The level of analysis addressed were context scenarios (future

concepts of the comprehensive approach as main reference for exogenous EU roles).

From these scenarios, three were selected, based on results of internal project workshops and in accordance with their relevance to tangible future security research themes in the 2035 time frame of the project. Scenario selection also followed the principle of integration of expert and policy scenarios.

The scenarios for alternative futures of security research in support of the “comprehensive approach 2035” were developed with the use of the matrix shown in *Table 1*. This matrix provides a structure for the qualitative description of the combination of thematic tracks as drivers and context scenarios.

Table 1: Matrix for qualitative description of the combination of thematic tracks (as drivers) and context scenarios

Drivers identified	Context scenarios		
	Policy strategies consensus scenario	Policy strategy leftovers scenario	Materialism scenario
EU cohesion, decision-making and, more generally, governance	1	16	31
Regional / international / global distribution wealth	2	17	32
Climate change	3	18	33
Crisis resulting from scarcity of resources	4	19	34
Dependency on Supply chains and reliability on the stability of resource sources (stability of providing countries)	5	20	35
Dependency on information and communication technology, and technology in general (address cascading breakdown of systems)	6	21	36
Willingness to invest in preparedness	7	22	37
New methodologies for collecting and integration data from various different sources	8	23	38
Intelligent, knowledge-based focusing and filtering functions for new social media and other open information source monitoring	9	24	39
Integrated situational pictures as facilitation for networked operation command structures	10	25	40
Information exchange among civilian and military actors in orders to provide common, timely and relevant situational awareness	11	26	41
Decision-making tools based on joined-up situation analyses, including their use to secure public acceptance and support	12	27	42
Standardized skills development and integrated information systems for an effective coordination of resources as well as to cooperation between EU Member States	13	28	43
Training schemes for technology use, including new social network technologies	14	29	44
Advancement and integration of approaches to foresight, with special consideration of the following	15	30	45

During two internal team workshops of the FOCUS consortium, the context scenarios were analysed, assessed critically and weighted by FOCUS subject matter experts. The weighting was done according to a dual and interdependent perspective (two dimensions):

- nation/member state vs. EU-level/international approach to civil security and security research;
- position of the scenario on the continuum of internal/external security.

As a result, three scenarios were selected as context scenarios for alternative futures of security research. These three selected context scenarios were lined up with drivers identified in a matrix procedure. This was done based on interviews with internal as well as external experts. The resulting matrix was then compiled via question and feedback loops within the FOCUS consortium.

Six alternative futures of security research in support of an “EU comprehensive approach 2035” were derived from the resulting matrix in Table 1. The combination of cells led to key categories through the use of cluster methods. These methods were then combined with a portfolio-analysis resulting characteristics explained in the next section.

## **CHARACTERISTICS OF THE IDENTIFIED SECURITY SYSTEMS**

Based on the two dimensions and their uptake in this article, the six alternative futures for security research in support of an “EU comprehensive approach 2035” can be located in the scenario space shown in *Figure 1*.

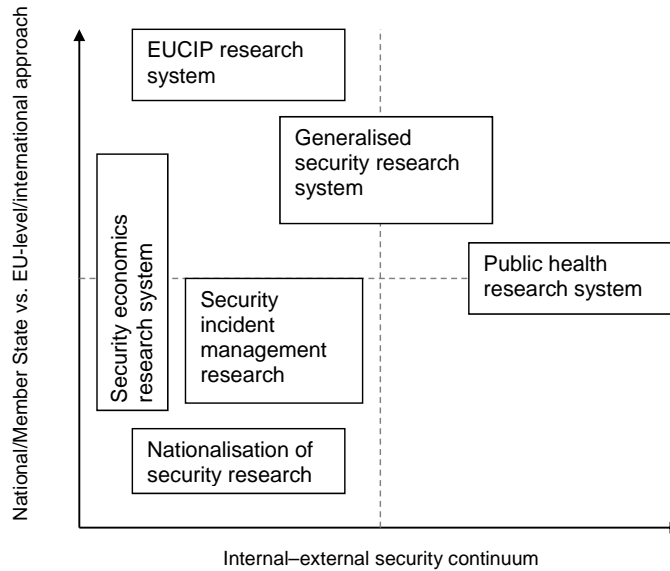


Figure 1: Scenario space for alternative futures of security research in support of an “EU comprehensive approach 2035”.

The generalised security research system is located on the internal and external security continuum, but definitely closer to an EU-level/international approach. The nationalization of security research is placed in the internal security and shows a national/member state approach. The EUCIP research system points out internal security in a high EU-level/international approach. The security incident management research is clearly located in the internal security continuum and reaches the border between national and international approach. The security economics research system is at the internal security and builds the connection between the nationalization of security research and the EUCIP research system. The public health research system is the only scenario that lies fully within the external security continuum and can be a national as well as an international approach.

The identified six scenarios, which are contextualised in the scenario space explained above, will be introduced in more detail.

- Generalised security research system

The EU 2035 has developed a common securitisation model on the basis of which it decides which topics fall under security research and which do not. National security research programmes were integrated on the European level. For agreed securitised issues, requirement profiles for politically agreed EU roles as a comprehensive security provider are stipulated. The identified gaps are then addressed by research. Research results form the



basis for the design of further capability development, skill development and training programmes for different types of strategic and operational missions (socio-economical, environmental, societal and political missions), covering the full crisis management cycle (from prevention to reconstruction/recovery). Those programmes also have led to the definition of systematic qualification profiles in terms of human resources, structural and technical advances. They have been as well embedded into academic curricula and the research of security policy. However, while the EU 2035 sees itself as an open system, its security research system is homeland-focused and practically based on a concept of management of integral risk in the EU territory, following an all-hazard approach. Research results are fed into a trans-disciplinary information architecture system for broad and sustainable accessibility.

- Nationalisation of security research

The EU Member States 2035 consider national security, security policy and security research as a matter of sole and exclusive national responsibility. The matching concept of the security of the Union as a whole has lost practical relevance. Nevertheless, Member States consult each other on a regular basis and, where appropriate, establish common security research initiatives, with focused scope. While consequently, the concept of comprehensiveness is not followed any more on the EU level, it has remained essential for security research as a multi-disciplinary task, including cross-national cooperation for efficient use of resources and collaboration in the anticipation and prevention of threats and risks. Apart from that, security research is planned and performed on national levels. They are based on respective national visions of how to overcome the compartmentalisation, duplication and overlapping of policies and institutional frameworks. The aim of security research 2035 in this scenario is to build a more integrated vision of the various factors affecting security and responses to threats, in order to ensure a more coordinated and effective *comprehensive approach* on the national level.

- Research system for European critical infrastructure protection (EUCIP)

Security research 2035 is a system on the EU level that focuses on supporting European critical infrastructure protection by technological innovation in order to guarantee interoperability between systems and data, including non-technological strategies to develop effective coordination of security related national bodies at the European level for managing and coordinating effective information exchange for issues like terrorism, financial and economic insecurity, cyber threats, uncontrolled migrations,

emergency and civil protection, organised crime, health (early detection of epidemics), intelligence, etc. A main security research issue 2035 is data integration: the extent to which standardisation is used across multiple organisations or sub-units of the same organisation. Data integration provides the benefits of improved managerial information for communication, improved operational coordination across sub-units or divisions, and improved strategic planning and decision making. However, data integration can also increase costs by increasing the size and complexity of the design problem or increasing the difficulty in getting and agreement. Therefore, choosing the appropriate level of data integration may require trading off coordination against decreased local flexibility and local effectiveness. Orthogonal disciplines, combining time series analyses, visualisation methodologies, and combined network and sensitivity analysis are required to prepare highly heterogeneous data sets for further use as integrated analysis. This task requires a combined bottom-up approach, connecting academic disciplines for broad inclusive foresight involving various stakeholders from within and outside the EU.

- Security incident management research

Security research 2035 is conducted at the European level and address security incident management, in homeland security, in disaster management, and in the European Security and Defence Policy (ESDP). Security research includes research for monitoring instruments as well as for lessons learnt which help to support critical “targets” on the EU and Member State levels, and it has overcome the security–safety divide. Security research directly contributes to resource allocation in the security sector, including budgeting and financial resources, information and communication resources, and infrastructural resources. Security research as well contributes to improving an EU-specific legal compliance framework to collectively support and protect the security/safety of EU citizens against external impacts.

- Security economics research system

Security research 2035 has been redesigned into a security economics research system that contributes to improving the protection of government and non-government organisations (NGOs), the citizens as well as the territory of the European Union from civil (including terrorism and organised crime, etc.), political, technical, environmental, socio-economical and legal risks/hazards, either man-made or non-man-made, either originating from within the EU or from outside. Research practice focuses on central and decentral economic and administrative systems to identify and avoid possible vulnerabilities; on technology assessment; and on supply chain networks

(including banking, financial and insurance networks). Security research 2035 essentially comprises scenario development and simulation. The main aim of the research is to develop marketable products, procedures and services for EU and state agencies as well as companies and businesses within the European Union.

- **Public health research system**

Security research 2035 is based on the conviction that health of the citizens of the European Union is the most valuable asset of the EU and its economy. This research system includes all existing and individual health care systems of the respective Member States. The main objective is to develop common standards in fields such as public health structures and processes, budgeting-infrastructure, facilities and capability development. Research in practice mainly works on mission scenarios that address biological, chemical, radiological, and nuclear threats. Moreover, research develops specific public health security and risk products, procedures and services within the scope of individual health care topics.

### **CONCLUSION**

Future EU security research should contribute to the preparation of rules for processing and implementing a suitable concept leading to security of both the Member State and the Union as a whole. Future security research should also propose ways to manage specific factors, vulnerabilities, risks and possibilities to common aims, which will contribute to the security and development of the EU as a Union. As a next step the following key uncertainties have to be analysed for a further evaluation of the six scenarios:

1. EU policies with regard to third countries: Will security be considered as a key factor and mechanisms for coordination between security and other related policies developed?
2. Development and management of operational instruments including, but not confined to, civil-military interaction;
3. Achievable goals and objectives in supporting non-member states;
4. Prevailing crisis management strategies;
5. Prevailing mission roles for the EU;
6. Geopolitical setting;
7. Development of structural preconditions (e.g. consensus, subsidiarity, etc.) for effective EU decision making on crisis management;
8. Coordination, standardisation, or integration of decision-making, efforts, and capabilities, including international combination of capabilities/pooling
9. Development of burden-sharing and division of labour between all actors involved.

*FOCUS is co-funded by the European Commission under the 7th Framework Program, theme “security”, call FP7-SEC-2010-1, work program topic 6.3-2 “Fore sighting the contribution of security research to meet the future EU roles”*

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Due to the nature of the job he was doing for 12 years (the president of the republic and the prime minister of the federal government) he was deprived the possibility of publishing his works both in local and foreign magazines. Bulatovic has been an active participant in a number of international meetings, conferences and interstate visits; he has held numerous lectures abroad, and his views have been quoted and communicated in all leading international media. As a part of his publishing activities, Bulatovic published five books that have come out in several editions and in large circulation.

## European Financial Institutions and Markets

**Abstract:** *European financial institutions and markets, as a part of global system, find themselves in serious temptation. For more than four years, the EU fails to find the solution for debt crisis and recession that strikes an increasing number of its member states. Serious efforts are being made for the preservation of the EU and the euro as its single currency. Results are much weaker than needed and expected. In the field of economic analysis, it is not emphasized enough the role of the European banking sector, which is operated under conditions of high demand for capital, small interest rates and credit expansion of the new currency – the euro. The banking sector (industry) operates with very little or, more precisely, no control so that market disruptions continue and deepen. Debt crisis, implacably shown by realistic economic parameters, entered the zone when the bankruptcy of certain member states of the EU seems inevitable*



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**The Influence of French Business and Management  
Development in South-East Europe**



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The most important books: Understanding and rationality (1988); Transition. Towards market democracy (Ed)(1996); Constitutional Economy (2000); European Union. Introduction (2005); European Monetary Union (2007); European Union Introduction. Second edition (2009); Freedom of choice (2010).

Works are indexed in Social Sciences Citation Index, Bibliographia Humboldtiana, Sociological Abstracts, Philosopher's Index, ECON RePec, SSRN, Thompson-Reuters.



## The End of Euro

“But I think within the next 10 to 15 years the eurozone will split apart.”

Milton Friedman, *Lunch with the FT*,  
**Financial Times**, June 06, 2003.

**Abstract:** *Euro, the common European Union’s currency, was launched in 1999 and left in circulation in 2002 in order to protect and to complete the European integrations. Another important objective was to serve as a counterpart to the U.S. dollar. In less than dozen years it became the main risk of the EU integrations threatening to blow them up and to leave behind economic and social ruins in Europe. A demise of the Euro for now looks imminent.*

*In order to get out of troubles, the Eurozone needs to address three problems. First, who is going to pay debts of countries in trouble? Second, how to keep fiscal discipline in the Eurozone in a credible way? Third, how to regain competitiveness in the troubled Eurozone countries? For now, the Eurozone buys time with temporary assistance to its troubled members, that addresses a part of the answer to the first question, but it stops short from a sustainable solution on the one side and it makes the problem worse in the long term. The burden of a postponed debt service becomes heavier over time for stagnant or declining Eurozone economies. Two other problems are not addressed at all. Second question would require a profound change in the EU treaties, that is subject of negotiations among all EU member states, that is unlikely to succeed under prevailing state of emergency. To address third question would require an abandonment of wasting welfare state and profound market reforms in the EU – even less likely to happen soon enough. This makes the Euro demise unavoidable. After a bankruptcy of several Eurozone member states, financial markets may turn down the Euro as a currency, possibly marking the beginning of Euro-disintegrations. So, what was introduced to enhance and preserve the Euro-integrations will in turn blow them up.*

**Key words:** *euro crisis, public debt, state expenditures, competitiveness, social welfare state.*

### Problems rooted in history

The euro was launched in 1999 in order to extend and strengthen the European integrations. To make the case, it is said that one market needs one currency. That is naturally not true, since common market may even better function with different currencies, allowing mutual adjustments, than with only one that excludes such option. To qualify for the eurozone countries needed to satisfy the five conditions, and these were related to the inflation rate, budgetary balance, public debt, currencies fluctuations and long term interest rates. The criteria were formulated in a way that would allow to both monetary stable and inflationary currencies to pass the test. Although three countries only (Finland, France and Luxembourg) have satisfied all five conditions during two years qualifications in 1997 and 1998, eleven out of 15 European Union's (EU) countries became members of the zone. Greece „qualified“<sup>19</sup> in 2001, while Sweden stayed out in the hope to formalize its status in a similar way like UK and Denmark that opted out. Euro came in circulation in 2002, and some of the EU newcomers became in the meantime new eurozone members – Slovenia 2007, Cyprus and Malta 2008, Slovakia 2009, and Estonia 2011. At the beginning of 2013 the zone encompasses 17 out of 27 EU member states.

The euro became the single largest monetary experiment in history. It never happened before that eleven countries with 330 million inhabitants covering a half of the continent abolished national currencies and accepted a single newly created currency. Experiments need to pass the test of time. Hopes among the European politicians were high, the public in the member countries was divided, and for example some 70% Germans preferred the *Deutschemark* to the euro.

Leading monetary economists of that time were split over the euro's chances. Robert Mundell strongly supported the monetary integration despite the fact that it did not represent „an optimal currency area“, as he has depicted it. It was expected that labor immobility on the EU market may cause socio-economic strains in the zone. Never minded, he wrote: „The more countries join the bloc the greater will be the chance of success. Failure to go forward would be an awesome disappointment to those who see European Monetary Unification as the best catalyst for a stable economic and political order on the continent“. (Mundell 1997, 17) Milton Friedman led the eurosceptics. He

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<sup>19</sup> The EU inspection found out in 2005 that Greek governments have cheated on figures related to budgetary balance 1998-2004.

repeatedly was saying and writing, that one currency for quite different economies is a bad solution, that it prevents necessary trade adjustments, that monetary union requires a fiscal equivalent, and that a first larger crisis would be a real test for the new currency.<sup>20</sup> European economists by large supported the birth of the new currency, with exception of the German, which were deeply divided.<sup>21</sup>

From the very beginning the euro was rather political than economic project, and this may be supported with several facts. Three countries only passed the required criteria, while eleven was allowed to join the currency union. Belgium and Italy have had public debts around 120% of their respective GDPs, exceeding double the allowed limit of 60%, and the European Monetary Institution, a predecessor of the European Central Bank (ECB), recommended that they need to stay out. However, the European Council, a body consisting in heads of states or governments of the EU member states, overturned that recommendation by saying that it would undermine the euro and the integrations, if the founders of the EC would be excluded from the eurozone. Under German pressure it was enacted a *Growth and Stability Pact* in 1997, that sanctioned the violation of the budgetary limit of 3% of GDP, but the violation of four other criteria was free of fines. Even the fine for the violation of the budgetary rule was rather symbolic – a maximum of up to 0,5% of the country's GDP. Does it make sense to punish a country with the amount of up of 0,5% of its GDP, if its deficit was 9% instead of allowed up to 3%? A weak punishment policy was also a matter of political decision. Even worse, there were 32 cases of violation of the budgetary rule in the eurozone 1999-2008, and none single government was punished. The countries exceeding the deficit rule got in 2005 additional time to settle the

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<sup>20</sup> Antonio Martino (2008) has collected a number of Friedman's elaborations on the euro.

<sup>21</sup> A group of 155 German economists wrote a petition against introduction of common currency, and later on brought the German government before the German Constitutional Court in Karlsruhe, but has lost the case. German economists point out that the euro comes prematurely, that a single currency requires a larger liberalization in the labor market (to offset inflexible exchange rates), structural reforms to enhance competitiveness and add: „In spite of an unusually low level of interest rates, hence reduced costs of debt service, and in spite of numerous examples of creative accounting, the core countries have not succeeded in reducing deficits markedly and sustainably below the 3 per cent reference value. Moreover, the average debt ratio of the member states has not come down since 1991 but has risen by 15 percentage points. As a result, it now exceeds the 60 per cent reference value of the Maastricht Treaty by a large margin. This is contrary to the spirit of the treaty.“ Peter Norman, Wolfgang Münchau, 1998. At the site: <http://www.international.se/9802brdpr.htm> (accessed on January 5, 2012).

matters, with deadlines projected up to 2013. Again, a clearly political decision. That something deeply wrong is with the eurozone rules and their enforcement, one may conclude from the fact that Germany, a clear example of the fiscal discipline during the *Deutschemark* era, appears as a violator of the budgetary rule in all four years 2002-2005.<sup>22</sup> These developments mark some cornerstones of internal euro drama 1999-2009. They were visible also from outside, although they did not provoked larger negative developments inside the eurozone, and because of that they have passed unnoticed by many economists, from media and citizens not to speak at all.

### **The beginning of visible problems**

After ten years of its relatively quiet existence, at least so for a foreign observer, the euro and eurozone experienced first larger troubles at the end of 2009. Financial crisis that arrived in Europe from the U.S. in August 2008 hit the banking and real sector in the European Union and undermined public finances of its member states. Public finances were squeezed between lower revenues caused by the crisis and higher expenditures for state aid to firms (merely banks) and social aid to citizens affected by the crisis. Budgetary debts in the EU countries rose in 2009 to record levels, exceeding in some cases single digits, and public debt arrived at the record level in a number of the zone's countries.

A very first country strained by these developments was Greece, when the financial markets at the end of 2009 pushed yields for its ten year bonds above 7%. The Greek debt moved that time at the level around 120% of its GDP. High yields cut off Greece from the financial markets and the politicians from the EU and eurozone member countries started to think how to help Greece. However, with the lapse of time it turned out that Greece is not the only problem in the eurozone. The two main financial indicators – yields on debt service and insurance for deposits in commercial banks – rose sharply also for some other eurozone countries like Portugal, Ireland, Italy and Spain. Press promptly launched the acronym PIIGS to designate the eurozone countries in troubles.

The eurozone political leaders denied that debt problems do have deeper cause by pointing out that they are temporary and merely liquidity problems.

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<sup>22</sup> Excessive German spending under the *Deutschemark* was borne by German population, while an excessive spending under euro would be borne by the population of the whole eurozone.

Consequently, they intended to cure troubles with liquidity injections. They initially rejected an IMF involvement into aid arrangements for countries in troubles with the justification that this would erode the reputation of the eurozone and EU, since this institution has to deal with troubled third-world countries. The eurozone leaders were not ignorant about the cause, but they also misperceived the size of the problem. In March 2010 they approved an € 110bn aid package to Greece, and later on to Ireland and Portugal. In July 2011 the eurozone leaders recognized that Greece needs more aid and have approved another aid package of up to € 130bn. The aid was granted to troubled countries in exchange for austerity measures and rather cosmetic reforms. In the meantime, besides countries in trouble, also some countries that have not got aid started to implement austerity measures too, like Italy, Spain and to a moderate degree Belgium and France, in an apparent preventive move.

In the meantime the eurozone and EU policy makers recognized that public finance problems are neither temporary nor small. In a response, the EU established the EFSM (European Financial Stabilisation Mechanism) with € 60bn, the eurozone created the EFSF (European Financial Stability Facility) with € 440bn lending capacity and the ESM (European Stability Mechanism). The ESM has replaced the EFSM and EFSF in July 2012. The IMF was called in to assist in supplying funds for troubled economies of up to € 250bn. All in all, that was some € 750bn on paper, but less in the reality. It is hardly to expect from countries in trouble to contribute their share to these funds because they are short of funds.

One of the problems of the European assistance was that it needed parliamentary approvals in member states, what implied that aid could not be right up to the time. On the other side, financial markets would not like to please bureaucrats by waiting on the procedures. In order to respond to swift changes on the debt markets the European politicians induced the European Central Bank (ECB) into the battle for eurozone and euro. The ECB provided excessive liquidity to weakened and shattered European banks. It is one thing when it does this in a routine way, and it is quite another when it supplies commercial banks in a country from which deposits and money systematically flee toward safer destinations. Even worse, the ECB was „encouraged“ from the European executives to buy bonds of the troubled countries. This is against the ECB Statute, according to which to the ECB is allowed to buy liquid bonds only. Greek, Portuguese and similar bonds hardly may be considered other than junk, and the ECB has accumulated more than € 200bn of such „papers“ at the end of 2011. If not re-paid by the emitent country, these bonds need to be paid back by the eurozone members,

according to the participation in the ECB reserves. At the end of 2011 and at the beginning of 2012 the ECB launched the “quantitative easing” of over € 1.000bn.

### **Background and causes**

At the first sight it seems that sources of troubles in the eurozone countries are very different. Greek state run excessive deficits over years that fed public debt and when debt again approached 120% of GDP at the end of 2009, financial markets shifted Greek yields above 7%, what is considered unsustainable for slow growing and stagnant economies.

Troubles in Ireland and Spain originated in the private sector. Heavy investments into real estate and construction have created the bubble. Financial crisis strongly reduced demand, real estate prices collapsed and credits were unrepairable, what created holes in the Irish and Spanish banks. Injections of public capital into banks, intended to recover deposits and facilitate credit activity, but they also have increased public debt and widened risk margin at the financial markets. The interesting question is, if lower interest rates created bubbles in real estate and construction in Spain and Ireland, why something similar did not happened in Greece or Italy, because they also enjoyed lower interest rates after entering the eurozone? The answer may lay in different local circumstances. The Irish bubble was induced by general economic growth for nearly two decades. Growth created an illusion that it will last for longer, and construction and real estate followed developments overoptimistically, until business stalled. The Spanish story was different. A larger decentralization in 1990s enabled provinces, cities and municipalities to compete with each other in offering subsidies in order to attract investors. This coincided with the lower interest rates due to the eurozone membership, what helped to create the construction bubble in Spain. Fiscally more centralized countries, like Greece or Portugal, fell short of local competition in subsidies, so that they avoided construction boom, while the Mediterranean coasts of Italy and France were already urbanized for decades.

The main problem in Italy and Portugal is different from the both other cases mentioned above. It is a combination of stagnant economies and higher public indebtedness. Portugal’s public debt moved around 80% when Portuguese yields reached 7% and forced government to ask for financial assistance. Italy’s debt was around 50% higher than Portuguese in relative terms, the yields moved 5,5-7,5% at the end of 2011, but the country still did not called for assistance. What the two countries do have in common are

very stagnant economies with the 15 years average growth rates bellow 0,5% of GDP.

Some among other eurozone countries are not far away from being dragged into debt crisis. Slovenia has a public debt of 46% of GDP at the end of 2011, but its yields exceeded 7% before 2012 begun. All six triple AAA eurozone countries in 2011 (i.e. Austria, Finland, France, Germany, Holland and Luxembourg) were under special monitoring that precedes downgrades by the credit rating agencies. Eventual downgrade of some or all of them would require a profound change both in the technique of collecting financial means for defense of the eurozone. This happened in January 2012, when *Standard and Poors* reduced the credit rating of nine EU countries, when Austria and France have lost their AAA status.<sup>23</sup>

### **Common denominator**

Euro acted as an internal price control allowing internal interest rates to fall in countries where previous expectations of inflation kept those rates high (Greece, Spain...). Governments in these countries increased their borrowing to finance growing budget deficits that came with larger social programs and more extensive regulation. An appropriate move would be to use lower borrowing costs to cut state expenditures and taxes, and to enact promarket reforms. But political priorities were different, and politicians used surpluses to please interest groups. Private sector also enjoyed lower interest rates, what led to high investment and bubbles in some countries. Financial markets did not raise immediately the interest rates the countries with rapidly increasing debt to GDP ratios despite the increased risk associated with this pattern of fiscal performance. Credit rating agencies are even slower and less useful. They capture fat fees from clients rather than closely follow market developments and provide reliable ratings. They are behind real developments and when they downgrade some country its a time for an obituary rather than an early warning.

Is there anything in common in the treatment of the ongoing crisis of the eurozone and euro? If there is anything that may be the willingness of the European political establishment to annul bad state and private investment.

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<sup>23</sup> Countries having an AAA rating “provide” funds by issuing guarantees, which – according to the Eurostat rules – do not burden their public debt, while countries with lower ratings need to collect funds on financial markets and to hand over them to the EFSF and ESF. The later burdens public debt.

They try to socialize losses both on state and private side, but just in cases when these may affect the system. And the system is anything that may trigger negative developments related to the finance of the European nanny state.

The outbreak of debt crisis faced the eurozone and EU with the question what to do with countries in trouble. Proposals circulating around already suggested the main options. Option one consisted in helping countries in trouble via different financial injections – either by the ECB „purchasing as much public debt as necessary“, or by debt issuance on behalf of the EU countries. (Jorge Uxo, Jesus Paul, Eladio Febrero 2011, 589) Second option consisted in a combination of financial assistance in exchange for austerity measures. Third option would consist in a combination of three types of measures: i) financial assistance, ii) austerity measures, and iii) structural reforms. Forth, let the countries bankrupt, force them to reform themselves, and help them during reforms.

The eurozone and its member countries selected the option two. Is this strategy promising to solve the problems? It is probably not the worst off but also not a best off. The worst off would be option one. Putting good money behind bad money never worked. It would not work now. After getting hundreds of billions of euro in different ways countries in trouble are faraway to recover and to return to financial markets. Quite on the contrary, they are now farer from this return since the interest rates on assistance rise ca. 3,5% per annum, while GDPs under austerity are either shrinking or stagnant. With these developments the debt burden becomes heavier over years. Greece debt at the end of 2009 moved around 120%, and at the beginning of 2012 it moves above 170% of GDP. Similar is with other countries in trouble.

Option two is superior to option one, because it requires cuts in expenditures in addition to financial assistance. Financial assistance helps countries in troubles to service their usual obligations and buys time for additional measures. The time bought this way needs to be used properly. Austerity measures reduce state expenditures and indirectly the budgetary deficit and public debt. But austerity does not suffice. Option three is promising, but one cannot force countries in trouble to conduct serious reforms. This is feasible if a country is formally bankrupt, especially if post-bankruptcy assistance is conditioned upon reforms. Having this in mind option four is superior to others three.



With the strategy adopted – “assistance in exchange for austerity” – the eurozone addresses partly two out of three questions necessary for a proper answer of the debt crisis. These three questions are.

First, who is going to cover debts of the countries in trouble?

Second, how to prevent in a credible way the outbreak of another similar crisis, i.e. how to keep the fiscal and monetary discipline in the eurozone?

Third, how to regain competitiveness in the troubled countries?

The adequate answers to all three questions represent an appropriate response to the eurozone debt crisis.

Europe’s political class offered two partial answers to the first two questions, while the third one remained unanswered. The response to the first question was the financial assistance to troubled countries from different sources. It includes the aid package to three troubled countries (Greece, Ireland and Portugal), an establishment of the EFSM, EFSF (ESF), and purchases of bonds of at least five countries (Greece, Ireland, Italy, Portugal and Spain) by the ECB, cash supplies from the ECB to commercial banks in troubled countries, the LTRO (Long Term Refinancing Operation). The result of all these interventions was that troubled countries were kept afloat, but without being able to appear on its own on the financial markets, and without settling their problems for longer if not indefinitely. Even more important, nobody is able to anticipate the answer of the EU and eurozone if Italy and Spain would ask for assistance. Current European funds are considered insufficient for helping to economies of that size.

The eurozone, EU and the IMF sold financial assistance in exchange for austerity measures and modest reforms. It is hardly to believe that this was a good move. The austerity measures shift an economy to decline, expected increases in state revenues never happen, quite on the contrary, lower economic activity further reduces public revenues, the country starts sinking deeper into debt rather than climbing out of it. That is a movie to be seen from Ireland via Portugal and from Spain and Italy to Greece.

Several things were worrying in the way on how European authorities have fought the debt crisis. French and German leaders usually convened the deal letting other eurozone members to follow their agreements. This does not strengthen democracy and does not fit to how a democratic club should work. The ECB was induced into fiscal issues what is against its role and Statute. The EU treaties prohibit financial assistance to member countries, with exception of national disasters and this also temporary. Systemic help to countries for mismanagement is excluded. For these reasons many analysts

were focused on the non-economic dimension of crisis. However, a real disaster happened in the economic realm.

### **Anti-market attitude**

In dealing with the eurozone crisis the EU bodies and politicians launched several measures whose main message was „kill the market“. Among these measures are to be found a ban on short selling, a proposal to establish an European rating agency, a proposal of paneuropean tax on stock transactions, financial assistance and the LTRO.

Short selling was perceived among the European politicians and regulators as a cause of fast decline in bank's share prices, and so they imposed a temporary ban in August 2011. In short sales, a trader sells borrowed shares in hopes that they will decline in value before he has to buy them back to close out his loan. The difference in price is his profit, or loss.

Critics say short-selling encourages speculation and pushes stock prices down, sometimes feeding on itself in a panicked market. Advocates say it provides important information about investor views on companies, and also maintains liquidity.

Financial historians warned that the bans in 2008 did not work in the U.S. and that such measures were often driven more by political concerns — the need to display some form of decisive action — than by proved market theories and evidences.

In another anti-market move, many EU politicians have proposed either to suspend country's ratings from the U.S. agencies in the case of the eurozone's countries facing problems or to establish an European rating authority. Such proposals are short sighted because they ignore that bad credit rating is a consequence rather than a cause of poor public finances. These proposals are based on a strategy „kill the messenger“. Credit rating agencies react after public finances have already deteriorated, and this is indicated by rising spreads for the debt service, increased debt and deficit. European politicians apparently believe that they could control an European credit rating agency, while this is not possible when agencies act under the U.S. authority. But the European politicians and experts proposing such a move do not explain who would trust to such an agency.

Another desperate move to fight the debt crisis was a proposal to introduce a paneuropean, and if possible, a worldwide tax on financial transactions. Some European governments, like UK, rejected the idea as soon as it has appeared. The reason for calling in this tax is a perception, that financial

markets are volatile, and that they enlarge problems of the troubled eurozone's countries. The tax is intended as a punishment. Revenues from this tax would be used to enlarge a firewall in defending the eurozone. Such a tax would simply shift financial transactions from the EU elsewhere, punishing rather than helping to those who have proposed it. It may be the key reason for why this tax was not introduced, despite many appeals from the European politicians to erect it.

In these moves from bad to worse, the ECB infused € 489bn in December 2011 and € 529,5bn in February 2012 into the eurozone banking system at the rate of 1% for three years. This is labeled the LTRO and it will provide a temporary relief for banks and country debts. However, it also questions the sustainability of the eurozone (and EU's) banking system. The normal role for banks is to lend depositors' money at a higher rate than it pays for deposits. The economy no longer dictates the extent of this spread and depositors are getting a lower return than the economy needs. As this lower return is not being offset by government inputs economies cannot grow at rates sufficient to maintain the system and the ECB comes to rescue. However, with this sort of support banks cannot act economically i.e. they no longer know what the market rate for money should be. Prior to this crisis they knew what to pay to attract money and how much to lend to sustain this. With government involvement for political reasons and ECB resources for practical functioning, the market has been shelved and printing presses resorted to.

Governments now are paying interest on their normal sovereign debt, interest on what their banks get from their Central banks, and interest on how much of the latter the bank uses to buy more sovereign debt. At the end, governments are subsidized by the ECB, what is contrary to the European treaties. This shifts costs to future generations and increases the burden that must be borne by economies unable to carry their present loads. Albeit indirectly, it defies economic reason and abandons prudence. It represents a transfer of wealth to those banks that are eligible for the cheap money from all other existing holders of the paper currency. It distorts competition in the banking sector on the global level. In a word, it is another anti-market move with disastrous consequences.

The above brief analysis of anti-market proposals in fighting the crisis provides a selection rather than full coverage of such official proposals. Others include forcing private creditors to accept the losses by restructuring Greek debts, forcing private creditors to buy dubious debt papers, etc. Even the main strategy of the EU and eurozone in dealing with debt crisis is

deeply anti-market. It consists in preventing markets to punish misallocation of private and state funds. The function of these considerations here is to show that the EU and eurozone look for solutions against the market rather than with the help of market. Socialism behaved the same way with the only difference that it was more radical in its anti-market stance. By inhibiting markets to punish misallocation of resources European governments shift away recovery. If markets cannot clear up, faster recovery is impossible, and all what may happen is a prolonged chain of weak, temporary recoveries and recessions, until one day economy implodes.

It is sometimes said, that the world moves in wrong direction, because it is ruled by large capital owners rather than elected politicians. The statement may have many connotations, but the comment is related to only one. Politicians in the EU, as our elected public managers, failed to be up to the job, and allowed debt crisis to emerge. If politicians as general managers fail, there is only one instance to regain the discipline in the field - financial markets. This clarifies the statement at the beginning of paragraph. Failed managers (politicians) use all means available in order to prevent markets to do the job. For as long as politicians find the means to avert or inhibit market forces from their operation, for so long it may last the hope that the European politicians are able to find the solution to the three above mentioned questions. But also, as long as the foreign assistance lasts, actors in troubled countries will miss incentives to do necessary changes and adjustments.

### **Likelihood of a solution**

It is already mentioned that the EU and eurozone need the answers to at least three questions in order to get out of debt crisis and to preserve current level of euro integrations. They are related to debts, fiscal discipline and competitiveness. Let us now consider them in order.

*i) Debts.* Assistance to countries in financial trouble is for now provided by the eurozone countries, EU, IMF and ECB. They merely provide *ad hoc* assistance rather than look for a comprehensive solution. Saviors have used some measures, like transfers to countries, formation of EFSF (EDF), cheap borrowing of ECB to commercial banks, buying bonds of countries in trouble. However, some measures are not used up to now, like emission of common, European bond, formation of fiscal union and direct transfers under eventual fiscal union, higher inflation. Even if used, the question is whether these measures may be effective. They can prolong the fight for euro for ten years or so, but at the end it is going to demise. Throwing away good money

behind bad money cannot undo previous misallocation, but it can enlarge the cost of crisis management.

The problem with the first question is that it is surrounded by uncertainties. It is not known what is amount needed for the assistance. If assistance to Greece, Ireland and Portugal – countries that represent some 8% of the EU economy – exceeded € 400bn, an assistance to larger countries like Italy and Spain – representing more than 20% of EU economy – would require around € 1.000bn. And if they are joined by Belgium, Cyprus, France and Slovenia, what is likely to happen over years, the sum is much higher. But for now, we do not know the answers to any among several important questions: the number of countries in need, the dynamics of aid needed and its total. The EU and eurozone can enlarge protective funds above € 1.000bn, but it cannot approach € 2.000bn, what is considered necessary if Italy and Spain together ask for assistance in addition to the three countries already under the program. With the number of countries in need rising, the number of countries able to provide aid is declining, and their burden becomes heavier. We also do not know how much interest on aid funds will burden public finances of troubled countries. With the interest rates on debt service of 3,5% (which double debt burden every 20 years) and stagnant economies the debt burden after decade of assistance may be even heavier than before. Finally, we do not know whether and when assisted countries are going to be back on the financial markets on their own, i.e. we do not know for how long the assistance will be needed. And, if needed, whether there will be those ready to provide it.

An additional problem consists in the fact that answers to the question one depend on what is related to two other questions. For example, if eurozone does not find a way to cope with excessive spending, there is no point to look upon solutions related to the first question. Default would create different solution and incentives than foreign assistance. It is also important to know how likely is that eurozone countries are going to enhance competitiveness via reforms. If they do, they would easier finance the inherited heap of debts. If they do not, then there is little sense to look for solutions concerning questions one and two, since the whole saving operation would collapse, squeezed between declining competitiveness (and consequently lower GDP and lower public revenues) and rising debt obligations.

*ii) Fiscal discipline.* When the debt crisis broke out the European politicians were obsessed with looking for a solution related to the question i). This is understandable, because if there is no at least temporary fix for i), there is no point in attempting to address two other questions. What in these early

attempts was related to the second question was a demand of creditors to troubled countries to cut spending and deficits, and to conduct some austerity measures. However, cuts are not enough to provide a workable fiscal discipline. Governments getting aid try to avoid painful cuts or they are rather symbolic. Even if they succeed in keeping fiscal discipline in one year, they may easily slip again into heavy breaks in another one. In order to provide financial discipline, some systemic and workable mechanism is needed.

Several proposals on how to keep financial discipline floated and one is officially accepted, and labeled the “fiscal pact”. According to its terms, structural deficit is allowed of up to 0,5% of GDP.<sup>24</sup> Automatic consequences for countries violating it are envisaged unless qualified majority (73% of votes in the Council plus 2/3 of countries) is opposed. The ceiling should be built in into the national legislation, preferably of constitutional nature. Automatic penalties will be imposed if general deficit exceeds 3% of GDP. National draft budgetary plans are to be sent to the European Commission (at the same time as to national parliaments) and independent fiscal councils monitoring implementation of the rule. In the case of violation of rules, there will be infringement proceedings through the Court of Justice of the European Union. Countries violating the budgetary rule need to pay 0,2% of GDP at the opening of excessive deficit procedure, fixed fine of 0,2% in the case of non-compliance with recommendation to correct, and variable fine 0,2% plus 1/10<sup>th</sup> of the distance between the actual balance and the required one. Debt needs to be below 60% of GDP or sufficiently diminishing towards 60% of GDP (= reduction of the distance to 60% by 1/20<sup>th</sup> on average over three years). Member states in excess of these limits are given strict deadlines to get into line. Elements of the “fiscal pact” are to be incorporated into EU treaties and national legislations in five years.

This may turn out to be too late, but there are several other questions overshadowing recent EU legislation. The first question is whether these rules suffice to keep discipline. It is difficult to answer the question. If a country exceeds the 3% limit substantially and pays a fine of less than 1% of GDP, this will worsen its budgetary position and will hardly suffice to keep the discipline. In order to be deteriorating enough, the financial fine needs to be automatic and much higher and the sanctions need to include the

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<sup>24</sup> The following conditions are cited according EC (2011) at the site:  
[http://ec.europa.eu/europe2020/priorities/economic-governance/graph/index\\_en.html](http://ec.europa.eu/europe2020/priorities/economic-governance/graph/index_en.html)  
(Accessed on February 15, 2012).

suspension of transfers from Brussels' funds and suspension of voting rights in the EU bodies. However, such rules would be difficult to legislate, because too many countries will perceive themselves in the role of the legislations' victim. What is proposed up to now seems to be too weak to avert offenders. Fines are low, Commission has to bring offenders to the Court, correction time is generous, and with sanction that could be abolished through the political process, as it happened before. This will encourage offenders rather than constrain them. The rule of 0,5% structural deficit may be built in national legislations, but its enforcement is another story. Even the knocked down Greek officials have rejected vehemently any foreign control over Greek public finances. The eurozone has had 3%/60% rules, but they were heavily violated in recent past and none state was fined. More important, how to believe that eurozone countries will respect deficit rules, when some of them in the last 40 years never get rid of deficit, as the table below shows. Even fiscally responsible countries, like Austria and Germany, spend 82% vs. 78% time while being in deficit? Countries like Austria, Greece and France got surpluses for the last time in 1970s – more than three decades ago. If deficit policy is so deeply rooted in eurozone countries, it is unfounded to expect that this is going to change overnight because it is legislated the limit of 0,5%.

Table 1: Percent years of deficit over 1962-2011.

Country	Percent	Last surplus
Austria	82	1974
Belgium	96	2006
Germany	78	2008
France	90	1974
Spain	78	2007
Greece	80	1972
Ireland	80	2007
Italy	100	-
Portugal	100	-

Source: Wyplosz Charles, 2012, p. 2.

The culture of indebtedness persists in the EU and eurozone countries, as the data for deficit and debt in 2011. indicate. The debt of the eurozone in 2011 was -4,1% in the EU -4,4%. The public debt of the eurozone in 2011 was 87,3%, in the EU 82,5% of GDP.

Table 2: Deficit and debt in the EU 2011, in % of GDP.

Country	Deficit	Debt	Country	Deficit	Debt	Country	Deficit	Debt
Belgium	-3,7	97,8	France	-5,2	86,0	Austria	-2,5	72,4
Bulgaria	-3,1	16,3	Italy	-3,9	120,7	Poland	-5,0	56,4
Czech Rep.	-3,3	40,8	Cyprus	-6,3	71,1	Portugal	-4,4	108,1
Denmark	-1,8	46,6	Latvia	-3,4	42,2	Romania	-5,5	33,4
Germany	-0,8	80,5	Lithuania	-5,5	38,5	Slovenia	-6,4	46,9
Estonia	+1,1	6,1	Luxembourg	-0,3	18,3	Slovakia	-4,9	43,3
Ireland	-13,4	106,4	Hungary	+4,3	81,4	Finland	-0,6	49,0
Greece	-9,4	170,6	Malta	-2,7	70,9	Sweden	+0,4	38,4
Spain	-9,4	69,3	Holland	-4,5	65,5	UK	-7,8	85,0

Source: Eurostat (2012) *News release* No. 149, October 22, pp. 4-8.

All eurozone countries with exception of Estonia booked budgetary deficit in 2011. Six out of 17 eurozone countries have had deficit below 3% (Finland, Austria, Estonia, Malta, Luxembourg and Germany), while eleven members violated the rule. Even worse with public debt – five out of 17 eurozone countries were in 2011 under 60% limit (Estonia, Luxembourg, Slovenia, Slovakia and Finland), while other 12 countries exceeded the limit.

How to believe that both the existing and the new rules are going to be enforced now, if their enforcement failed in periods of prosperity. There is no a guarantee showing that the rules 3/60%, if obeyed, are able to preserve the fiscal discipline. If a country keeps deficit slightly below 3% it will cumulate a debt in two dozen of years over 60% even if it has none before.

**iii) Competitiveness.** In dealing with the European debt crisis the question of competitiveness was nearly neglected. It is understandable that in logical order it comes last – if there is no answers to two previous questions, an answer to this one will not suffice. Some official proposals on how to regain it fall apparently short: “The restoration of confidence in the future of



eurozone will lead to economic growth and jobs.”<sup>25</sup> In order to enhance competitiveness in countries that have lost it, profound changes in several fields are needed. One is related to structural reforms, like removing rigidities on labor market, enhancing competition, opening the market,<sup>26</sup> etc. Another is a decomposition of social welfare state. Third would require lower state salaries and pensions in troubled economies because current state salaries are high (induces a rise of salaries in the private sector) and so averts private investment.<sup>27</sup> All these measures are easier to conduct after countries’ default than in a situation when a country enjoys generous foreign aid. In the later case it emerges the feeling that painful changes are not necessary, and if they are enacted at all, they will enjoy a lukewarm support and will be watered down.

How likely is that the European politicians will find workable solutions to all three questions in appropriate time? Such an outcome is in principle possible but it does not sound likely. For now, we even do not know how deep troubles are going to be and what would be the costs of the rescue operations. Instead of being defined they change with the situation. The scope of reforms also affects the costs of dealing with the situation.

One strategy may be to argue that the costs are enormous, wide beyond that what the EU and eurozone may afford. This may turn out to be true, but the argument is not conclusive. If we do not know the size of costs, one cannot argue that they cannot be covered. On the contrary, one may argue that the eurozone may cover high costs that emerge once by using different instruments (assistance, transfers, different ECB actions, fiscal union, inflation...).

More serious threat to eurozone poses fiscal discipline. If the club failed to enforce less tight fiscal rules in the period of prosperity, it is unlikely that it can enforce tighter rules during economic contraction. The EU already has

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<sup>25</sup> Herman Van Rompuy, President of the European Council, according to: Ben Rooney. 2012. “Europe strengthen fiscal ties”, March 2. [http://money.cnn.com/2012/03/02/markets/european\\_union\\_fiscal\\_pact/index.htm](http://money.cnn.com/2012/03/02/markets/european_union_fiscal_pact/index.htm) (Accessed on March 4, 2012).

<sup>26</sup> According to the rules, common market is open and free, but reality is different. Countries prevent access to foreign competitors in several sectors, like energy, banking, insurance, transportation, public procurement and services.

<sup>27</sup> This is explained in detail in: Prokopijević 2010.

deficit rule on paper – introduced by the *Growth and stability pact* from 1997 – that most countries have routinely flouted in the past.

Divisions among countries are visible, disputes about responsibility are more manifest, and proposals for change are diverging. Disputes resemble<sup>28</sup> to those preceding dissolution of Yugoslavia. It started with disputes over responsibility for economic downturn, continued with debt service, resulted in political divergence and ended in dissolution.

The situation with debt crisis, i.e. the crisis of the welfare state resembles to that of socialism. Some see, others feel that the eurozone and euro are not sustainable, but there is no conclusive way to prove it, in a very similar way as it was impossible to say for how long socialism will last. Mises argued in *Die Gemeinwirtschaft* 1922. that socialism is economically impossible, but the order lasted until 1980s. It is not much different with the eurozone and euro – some see their inevitable demise, but it may last for a decade or so, until this happens.

It is not per chance that the debt crisis and economic crisis emerged in the EU. For decades goes the story that the Anglo-American model of capitalism is too cruel, and that Europe has invented its own way and found a model of capitalism with human face. Europeans invented the welfare state but the economy suffered from high costs and expensive products. This explains why social welfare state, after collapse of communism, became a form of the main non-market order. And this explains why anti-market moves and strategy dominate in defending the eurozone. As in the case of communism, this fight is lost, and one may just wonder for how long it will last, what it will cost, and what additional troubles it will leave behind.

### **Troubles behind**

The eurozone collapse may follow different scenarios. For example, if Germany is fed up with providing aid, it may opt out what will force other governments to switch to national currencies. Another scenario would develop if Greece disorderly defaults, triggering sharp rise in debt service costs, a flight of deposits from troubled countries to safer destinations, bank runs, bank collapse, recession in some and depression in other eurozone countries. But even if eurozone manages to survive around Germany, with

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<sup>28</sup> Economist Jože Mencinger from Slovenia was first to draw analogy between EU and Yugoslavia in his articles and interviews.

countries like Austria, Finland, Holland and Luxembourg in, it may last for additional decade or so. Different economic dynamics will force some of these countries to get out one after another, as Milton Friedman has repeatedly pointed out.

If euro disappears or if it is reduced to a small number of countries it is difficult to imagine how eurointegration can survive. What was introduced to extend and strengthen eurointegration, paradoxically, may destroy them too. Countries will go back to national policies in dealing with their own problems. The demise of monetary and other unions often has left ruins behind. The main risk of the situation may consist in emergence of huge poor and desperate masses that have lost jobs, savings, pensions, shares. They will vote for political extremists rather than for moderate left or right. By being unable to solve economic problems extremists may easily create political conflicts on the Continent. This is not a scenario Europe will face for the first time. One may only hope that Europeans have learned something from similar situations in the past. If so, European nations will pass a painful transition period, partly similar to that of the East European countries after collapse of communism. One also may hope that the European states will not repeat mistakes of the past. If they start a cooperation again it should be limited to free trade area. A new EU is to be avoided as a costly mistake.

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HUMANISTIC SCIENCE

EUROPEAN BUSINESS  
AND MARKETING AND  
CULTURAL  
DIVERSITY



**UNIV. PROF. DR. LEPOSAVA ZEČEVIĆ,**  
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Prof. Dr Leposava Zečević was born April 24, 1970 in Belgrade. She completed elementary and secondary school in Belgrade. In 1992. she completed undergraduate studies in Belgrade at the Faculty of Economics, Department of Marketing, with thesis titled “The product and price promotions as elements of the marketing mix”. In 1994, Prof Dr Leposava Zecevic completed IFAM MBA University and acquired the title of BBA-IFAM - graduate manager of international business. In 1997, at the Faculty of International Management, she completed postgraduate Master’s studies, with Master’s theses on the topic: „International marketing and creative approach”, thus gaining the title of Master of Science International Management. In 1999, at the Faculty of International Management Prof. Dr Leposava Zečević defended her doctoral theses entitled: „International Marketing - a global management approach” and thus acquired the title Doctor of Science International Management. At the Faculty of International Management in the same year, Dr Zecevic gained the position of Assistant professor. In 2003 at the European University - Faculty of European Business and Marketing she gained the position of Associate professor for the courses: International Marketing and European Marketing, and in 2007, gained the position of Full Professor for the scientific field - management and business. Dr Leposava Zecevic is the Dean at the Faculty of European Business and Marketing and at the moment, she is full professor for the courses: Marketing Principles, International Marketing - global approach, Marketing Strategy and Management. Prof. Dr. Leposava Zečević is the author and co-author of numerous scientific and professional papers published in domestic and foreign magazines and monographs, of numerous books, and has participated in a number of scientific symposiums at home and abroad.

## Localized International Marketing of Global Companies

**Abstract:** *Marketing is, together with management functions, mostly prone to the influence of international operations. Whether it deals solely with the export from a domestic base or it is a full multinational company with well-integrated global operations, it will experience at least so many different marketing demands as there are foreign countries in which it operates. The complexity of the international marketing stems from the need to understand different environments which appear during the placement of company's services or goods on new markets. The function of the international marketing has to meet a certain number of demands. They include the following: the use of international marketing research in order to determine prospective end-users of services or products; classification of particular prospective consumers; modification of products (or creation of new ones) in order to satisfy consumers' needs; establishing a strategy of international pricing; development of promotional strategy in order to communicate with consumers in real time and properly; establishing a single international distribution system.*

*International marketing of now already global companies present in the regions of Europe, America and Asia can develop globally (standardized), locally in relations to the choice of locality – regions (geographical region), nations, cultures..., or most frequently globally, but locally adapted. There is an increasing tendency of a local challenge for the global international marketing.*

**Key words:** *Marketing, International Marketing, Globalisation, Localisation, Local adaptation, Markets, Strategy, Brand, Segmentation, Internationalisation, Communication, Consumer*

## **LOCALISATION OF GLOBAL COMPANIES**

International marketing is a science and a skill of doing business in a global world market arena.

International marketing is happening around us every day, it has much influence on our life and is of vital importance for the survival and business success of every company. Those who operate on the international market should adapt to foreign environments and skillfully deal with conflicts between political, cultural and legal forces in order to achieve success.

American companies which want to compete internationally face Japanese and European competition which is far more aggressive on the global market. There are always local problems which make doing business abroad difficult and more risky. Nevertheless, people and consumers have long wishlists for new products.

With the expansion of international business out of traditional foreign markets, the importance of international marketing is growing. International marketing is necessary because, from the national standpoint, economic isolation has become impossible. Not to participate on a global market means the decrease of economic influence of a country and the standard of living of its citizens. Successful international marketing promises better life quality, better society and, according to some, more peaceful world. Great opportunities and threats which derive from global market indicate the need for international marketing as a way of modern business.

International marketing involves planning and making of marketing functions transactions across national borders in order to meet company's goals. International marketing is an instrument for achieving the goal of improving someone's existing positions.

In order to achieve success in the international marketing, it is necessary to have a firm stronghold in the scientific aspect. Only in that case, an individual consumer, policy makers or business managers can include international marketing premises in their thinking and plans. Only then will they be able to consider international issues and make decisions based on answers to questions such as:



- How will my idea, product or service fit in the international market?
- What kind of adjustment is or will be necessary?
- What threats from global competition should I expect?
- What can I do to turn those threats into opportunities?
- What are my global strategic alternatives?

Globalisation is an initiative in business based on the belief that the world is getting increasingly homogenous and that the differences among national markets not only fade, but will also eventually disappear for some products. Therefore companies need to globalise in terms of globalising their international strategies by formulating themselves on every market and using the advantages of emphasising market, cost, environment and competitive factors. Globalisation can be viewed as a result of the process which leads to the top of a pyramid, i.e. global business strategy – the process of international market penetration and expansion. Before globalisation, marketing managers largely used a domestic strategy in countries where the organisation in every country operated as a profit center. Every national entity markets a series of different products and services aimed for different consumer segments using different marketing strategies with little or no coordination of their operations between the countries.<sup>29</sup>

Both external and internal factors create favourable conditions for strategy development and resource allocation on a global scale. These factors can be divided into:

1. market factors
2. cost factors
3. environment factors
4. competitive factors

### **Market factors**

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<sup>29</sup> Alan D.T., „The Development Internationalization of Retailing“, International Journal of Retail and Distribution Management 18 (1990): 4-11

Every consumer Ernest Dichter identified 30 years ago, gets a completely new meaning today. For example: Kenichi Ohmae has identified new consumer groups which appear in the North America, Europe and the Middle East, and which can be treated by marketers as a single market with the same consumer habits, they have similar educational background, income levels, life style, they use their free time in a similar way. One of the reasons for the similarity in their demand is the level of purchasing power which is ten times higher than in the developing or underdeveloped countries.

The other reason is that more developed infrastructures – phone ownership and plenty of paved roads – lead to attractive markets for other products. Products can be designed to meet similar demand conditions in the whole region. These similarities increase the transferability of other marketing elements. At the same time, distribution channels are getting more global, i.e. an increasing number of retailers now show greater flexibility in their strategies for entering new geographic markets. Some are already world powers (Benetton, McDonald's, Ikea, Coca-Cola) while others follow an aggressive growth.<sup>30</sup> The presence of global and regional channels makes a marketing manager rationalise marketing actions carefully.

### **Cost factors**

Avoiding cost expansion and doubling shares are two most powerful stimuli to globalisation. An approach to just one country does not have to be big enough for a local firm to achieve all possible economies of scale and volume as well as synergy, particularly because of the existing powerful changes on the market. Take for example a pharmaceutical industry. In the 70s the development of a new drug cost around \$16m and it took four years. Only a global product for a global market can take such a risk. The size has become the main feature, which partly explains many mergers and takeovers in the recent years. In the consumer goods sector where competition is fierce, launching a new brand can cost up to \$100m, which means that companies like Unilever or Procter&Gamble will not spend valuable resources on projects made for just one country.

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<sup>30</sup> "Multinationals Are Making Maximum Impact", Business Week, September 1993, 66-69

### **Environment factors**

In the recent years, the barriers have fallen dramatically and spurred the globalisation of the markets and marketing managers' activities on these markets. For example, the forces which push towards Pan-European market are very powerful. The increasing wealth and mobility of European consumers, fast information flow across borders, the introduction of new products where local preferences are not rooted and publicity surrounding the integration process itself represent the promotion of globalisation. Also, the resulting movement of physical, fiscal and technical barriers is indicative of changes which are largely happening around the world. Meanwhile, a fast technological evolution contributes to this process. A new group of global players uses the advantages of more open trade regions and new technology today.

### **Competitive factors**

Many industries are already under the domination of global competition which is trying to use the advantages of the three groups of factors I have mentioned. In order to remain competitive marketing manager has to be the first in something or to be able to respond to or to precede competitors' moves.<sup>31</sup> Today, products are introduced, raised to a higher level and distributed with the speed which was unthinkable a decade ago. Without a global network, marketing manager risks that his carefully researched ideas are taken by some other competitive player.

Decisions should be made about how to best use the conditions set with these four globalisation stimula. The decisions refer to the five fields:

1. market share
2. product range
3. marketing approach
4. location of value-adding activities
5. competition moves

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<sup>31</sup> W Chan K and R.A. Mauborgne, „Becoming and Effective Global Competitor“, Journal of Business Strategy 8m (January – February 1988): 33-37

### **Market share**

Conventional globalisation wisdom requires presence on all global markets of the triad in the world. In some cases, markets do not have to be attractive by themselves, but they can have some importance such as to be a domestic market of the most demanding consumers (thus they help product development) or a domestic market of an important competitor (prevention).

### **Product range**

Globalisation does not equal standardisation except in case of the basic product or technology used to produce a product. Components used for personal computer can be largely standardised with local needs only in terms of sophisticated things: e.g. IBM produces 20 different keyboards for Europe only. Production standardisation can result in significant cost efficiency. Local preferences can somewhat change a product.

### **Localised marketing approach**

Nowhere is the need for local shades so necessary as in conducting marketing programs. Uniformity is sought especially in elements which are strategic (e.g. positioning) by nature, while attention is paid to localising necessary tactic elements (e.g. distribution). This process is called localisation.

### **Location of value-adding activities**

Globalisation tends to reduce costs by merging products or other activities or exploiting cost factors or possibility within a system. In stead of duplicating activities in several or even all organisations in all the countries, a company focuses its activities in one way or at one place. For example, Texas Instruments has formed a single design center and production organisation for every type of memory chip. In order to reduce high costs and to be close to the market, it set up two of its four new memory chips plants, worth 250m, in Taiwan and Japan. In order to reduce high costs of research and development, it formed a strategic alliance with Hitachi. Cost and saving demands and better transportation methods have enabled some

marketeers to concentrate their activities connected to consumer service, instead of presenting them on the markets of all countries.

### **Competitors' moves**

A company with regional or global presence has to respond to competitors' moves only in the market where it is attacked. A competitor can be attacked regarding its profile or a position on its domestic market. When Fuji started entering Kodak's market in the mid 1980s in the USA, Kodak responded with a dramatic increase of its propaganda in Japan and founded a new subsidiary which dealt strictly with that market. Cross subventions or usage of resources accumulated in one part of the world in order to wage a competitive battle in the other, can be a long-term competitive advantage. The loss of one main market can mean the loss of other as well, so called domino effect. Competition for a total global leadership can result in competitive action in any part of the world<sup>32</sup>. Because of its multiple packaging bases, global marketing managers can defend themselves from competitive attacks in one country by responding in other country or if competitors operate in several product categories, they will respond in a different product category<sup>33</sup>. Global product range with tailor-made changes for different distribution channels ensures local acceptance.

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<sup>32</sup> W. Chan K. and R.A. Mauborgne, "Becoming an Effective Global Competitor", *Journal of Business Strategy* 8, (Jan-Feb 1988), 33-37

<sup>33</sup> Gary H. and C.K. Prahalad, "Do You Really Have a Global Strategy", *Harvard Business Review* 63 (July-August 1985), 75-82.

## GLOBALISATION AND LOCALISATION

LOCAL MARKETING	GLOBAL MARKETING	LOCAL ADAPTATION OF GLOBAL MARKETING
BY 2000.	FROM 2000. TO 2005.	YEAR OF 2012.

*Picture 2. The division of International Marketing*

**Local marketing** is a marketing based on a special strategy for a particular nation or a region 'by flattering its culture, language, symbols, politics.' Local marketing was most present in the period before 2000, but it seems that many companies are returning to local marketing.

### **Advantages of localisation, i.e. local marketing:**

1. good knowledge of the market
2. good knowledge of the cultural symbols of that market
3. direction towards promotion by using local people from that market
4. well-organized management structure

### **Disadvantages of localisation, i.e. local marketing :**

1. higher costs
2. internationally uncoordinated media advertisement
3. reduced information speed on a central level

Global marketing – this term was first coined by Theodore Levit, famous for his sentence: 'Why would we constantly insist on differences among people, when we should see the similarities among them (people with the same needs, desires, motives, wants). Global marketing strategy was built on this after 2000.

**Advantages of globalisation, i.e. global marketing:**

1. reduced costs
2. savings are transferred to marketing
3. products are arranged according to a distribution plan
4. a single product appears in every country, at the same time

**Disadvantages of globalisation, i.e. global marketing:**

1. plagiarism
2. insufficient communication between management structure
3. poor response speed in case of a mistake

**GLOBALISATION IN REGARD TO LOCALISATION**

The first question raised once the decision on internationalisation has been made is necessary or valid product modifications. A company has four main alternatives in its approach to international markets:

1. to sell a product as it is at international level
2. to modify products for different countries and/or regions
3. to make new products for foreign markets
4. to put all the differences in a single product design and introduce a global product

The benefit of globalisation, i.e. sale of a single product all over the world is production and marketing cost efficiency. Together with the economy of scale, many point out economic integration as a driving force for marketers to unite more. As a response to worldwide integration particularly in Europe, many international marketers really globalise (standardise) their marketing approaches, for example brands and packagings. Also, there is an increasing pressure to create a worldwide approach to international marketing because competitors are the same on all main world markets.

**Factors that encourage globalisation are:**

- economies of scale in production
- economy in research and product development
- economy in marketing
- world market shrinkage / economic integration
- global competition

**Factors that encourage localisation are:**

- different terms of use
- influence of government and regulations
- different models of customer behaviour
- veracity for marketing concept
- local competition

**LOCALISATION OF GLOBAL COMPANIES**

Critics of globalisation claim that it cannot be applied to all products, even under the best circumstances. Even if it could be, its over-standardised products and promotions open the door to competition which offers something better adapted to local markets. Philip Kotler, a well-known marketing professor, considers globalisation a step back in a so-called production business era, when companies are much more concerned about launching as many standardised products as possible in stead of satisfying their customers.

For that reason, as I have already mentioned, more and more companies are returning to the local marketing strategy, i.e. they want to localise their products and marketing campaigns.



The reasons for this are as follows:

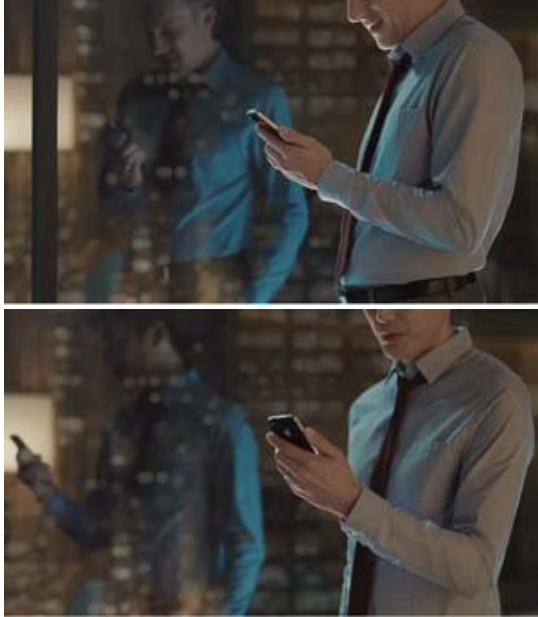
- Better adaptation to local markets. With a global approach, an advertiser can predict local variations which influence consumer behaviour. For example, at the beginning of its international expansion, Apple Computers decided to define its advertising strategies at the local level because the level of demand for personal computer differs from country to country. Furthermore, although consumers in the world are becoming increasingly similar in many aspects, consumers in different countries change their habits at a different pace.
- Shorter response time. It is a general rule that the less people there are who are to make a decision, the faster it can be made. Some situations in advertising require a response in a few days or even hours. If local managers are required to ask for approval from regional or international managers from other countries, it can slow down decisions so much that the delay can influence company's competitiveness.
- Engagement and motivation of local management. Both for multinational companies and for their networks of international agencies, it is far more easy to engage and motivate local managers if they have an influence on advertising decisions. People are more likely to support a decision or a plan if their opinions or remarks are included in the decision-making process.
- Chances of cultural misunderstandings are diminished. Sometimes even the best advertising plan can stumble across a seemingly irrelevant cultural misunderstanding. Even the basic things, such as language, used to lead to a failure of otherwise well designed marketing campaign.
- Increased competitiveness. It is a fact that critics of globalisation believe that all the factors mentioned culminate in an increased competitiveness. If you can respond faster and more accurately to local conditions, motivate people responsible for conducting marketing and advertising on a local level and avoid local misunderstandings, your local advertising will certainly be successful.

### **Localised advertisement: Apple Company**

Apple has mostly the same advertisements all over the world. The content on the screen is obviously carefully localised, but look at the actors. These photos are from iPhone 4S advertisement run in France and Japan. They seem identical, the clothes, the environment, even jewelry: only the actors are adapted for each country.

Localised campaigns follow and listen carefully to the needs of a modern consumer. It is a person that meets his needs through the supply and demand relation on the market, while wanting to enjoy it and be happy after purchase, wanting this happiness to last long because he will then certainly want to repeat purchase. Locally adapted campaigns contribute to the understanding during the selection and purchase and make consumers connect emotionally with the company, whether local or global.





Companies should prepare and work on active responses in order to prosper in the world of sudden changes and discontinuities, new forces and threats and unpredictable influences from abroad.

It is necessary to constantly create strategies in accordance to the current tendencies, make new plans and adapt the method of operation. It is not possible to achieve and keep the leadership in economic, political and moral sense passively, but only through innovation and constant ready adaptation to a chaengable world environment. In order to remain at the top, companies should participiate aggressively in the changes that are happening and respond to them by innovation and creativity.

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## **Leadership in Dynamic Condition**



**UNIV. PROF. DR. OLGICA ZEČEVIĆ-STANOJEVIĆ**

Prof. dr Olgica Zečević Stanojević was born on 28 December, 1967 in Belgrade. She finished the primary and secondary school and the Faculty of Philology (1992) in Belgrade where she also gained her MA degree (1997) and PhD degree (1999) at the Faculty of International Management. She started her professional career at the Academy of Pedagogy (1992) and the Faculty of Teacher-training in Belgrade. She continued her academic teaching career at the Faculty of International Management and IFAM (1995), European University where she is still a full professor at the Bachelor and Master studies in the field of Management and Business for the courses European Cultural Environment, Cultural Diversity, Cultural Relations and International Cultural Communications at the Faculty of European Business and Marketing in Belgrade.

She has been continuously working on cultural diversity and intercultural communication in the field of management and business since the beginning of her academic and teaching career at the Eutopean University. She is the author and co-author of numerous academic works and a participant in scientific research projects and at national and international academic and professional conferences in the field of management and business, and she published several editions of the book 'European Cultural Environment', then 'Cultural Relations' and 'International Cultural Communications'.

## **Cultural Diversity of Central and South-East Europe Through Cultural Dimension of Interpersonal Relationship in Management and Business**

**Abstract:** *In relations with Serbia and Central and South-East European countries, the European Union has placed a special accent on the strengthening of intercultural dialogue and promotion of cultural diversity aiming at peace, cooperation and progress of this region. In this respect, Serbia, as a country with a rich cultural heritage and tradition, has a special role and responsibility in promoting and preservation of Serbian, as well as cultural diversity of the whole South-East European region. These efforts are necessary not only in order to preserve cultural and historic identity, but also because of economic prosperity and successful business cooperation in the whole region.*

*Cultural values are deeply rooted in our conscience and we are not aware of them most of the time and consider them generally accepted, until we meet different cultural value systems in intercultural encounters. Therefore, today, it is necessary to be aware of and be familiar with the existence of value systems of different cultures as a necessary precondition for a successful business cooperation.*

*The awareness of cultural values arises mostly from interpersonal relations. In this paper, we paid special attention to the research of that very cultural dimension and its influence on management and business in the region of Central and South-East Europe.*

**Key words:** *culture, cultural diversity, intercultural communication, cultural values, cultural dimensions, interpersonal relations, Serbian culture, Central and South-East European culture, management, business*

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The intangible cultural heritage, transmitted from generation to generation is constantly recreated by communities and groups in response to their environment, their interaction with nature and their history, and gives them a sense of identity and continuity, thus promoting respect for cultural diversity and human creativity.<sup>34</sup>

Cultural diversity is a driving force of development, not only regarding the economic growth, but also as a means to achieve a better intellectual, emotional and moral climate in the world. The acceptance and respect for cultural diversity, especially with the help of innovative use of information technology, media, educational systems, management, business and marketing, encourages the dialogue among civilisations and cultures and their mutual respect and understanding.

Cultural diversity is of vital importance for the long-term survival of the mankind. Besides the obvious cultural differences that exist among people such as language, the way they dress and traditions, there are significant differences in the way certain societies organize themselves, in their common morale and their relationship to the environment. UNESCO in its *Universal declaration on cultural diversity*<sup>35</sup> says: '...cultural diversity is as necessary to the mankind as biodiversity is necessary to the nature.' This declaration is considered to be a legal instrument which recognises cultural diversity as 'a common human heritage' for the first time and considers its preservation as a clear, concrete and ethical imperative.

## 1. CULTURE AND ITS INFLUENCE ON MANAGEMENT AND BUSINESS

Culture is a system of acquired knowledge and beliefs of a certain group of people which influences the creation of their attitudes, behaviour, feelings and thoughts of the group members.<sup>36</sup>

Cultures have always represented the reflection of the world in the eyes of their members. The world around us, our environment, poses identical questions before all the cultures and offers different options of response. Different cultures have simply made different choices at the very beginning. Some cultures read from left to right, and some from right to left. In most

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<sup>34</sup>

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<sup>36</sup> Olgica Zečević Stanojević, *Evropsko kulturno okruženje*, Evropski Univerzitet, Beograd, 2007

Western cultures surname comes second, after the first name. In Japan it is reverse, probably because it is considered that a family is more important than an individual. We can view these opposites as reverse mirror reflections<sup>37</sup>. They do not exclude each other but are complementary and offer a new perspective.

Hofstede defines culture as *collectively programmed mind which distinguishes members of a group or a category of people from others*<sup>38</sup>. The core of culture is the cultural value system. Cultural values are our basic assumptions about what is good, and what is evil, clean or dirty, honest or dishonest, beautiful or ugly, moral or immoral, normal or abnormal... Hofstede calls them our *'mental software'*<sup>39</sup>.

Cultural values are deeply rooted in our mind and are acquired early in our childhood, first in the family, and then at school, and later on in the wider social environment. This is the reason that we are not usually aware of our own cultural values and consider them universal until we meet with different cultural value systems. This is precisely why the awareness of the existence and the knowledge of different cultural value systems is today a necessary prerequisite for a successful business cooperation between Central and South East European countries, as well as globally, but at the same time in all spheres of business. Efficient and effective European managers are aware of cultural dimensions and their influence on planning, organisation, staff selection, management and control<sup>40</sup> precisely because of the fact that they constantly work with people, and people in Europe belong to a diverse cultural environment. Cultural diversity should especially be taken into consideration during the segmentation of European market into clusters in marketing cycles<sup>41</sup>.

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<sup>37</sup> Hofstede, G., G. J. Hofstede and M. Minkov, *Cultures and Organizations*, McGraw Hill, 2010

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

<sup>40</sup> Prof. dr Milija Zečević, *Moderni menadžment*, Naučno društvo za menadžment, Beograd, 2010

<sup>41</sup> Prof. dr Leposava Zečević, *Marketing – Principi marketinga*, Evropski univerzitet, Beograd, 2011



## 2. CULTURAL DIMENSION OF INTERPERSONAL RELATIONS

Man is a social being. This statement is valid in all cultures. However, the level to which, as well as the way in which an individual is integrated in the social community differs significantly in different cultures and perhaps has the greatest influence on the formation of the mindset and value system of members of a certain culture.

### 2.1. Horizontal relations (individual – group)

The researchers of cultural diversity agree that there are two basic models of horizontal interpersonal relations in cultures according to which we can divide cultures into individualistic<sup>42</sup> and collectivistic<sup>43</sup> (communitarian<sup>44</sup>) depending on whether the identity of an individual is based on individuality or depends on the social group to which he or she belongs.

Individualism has been described as a 'primary orientation towards oneself', and collectivism as 'primary orientation towards common goals'. Cultures usually differ in which of the two processes they place first in the way they think, although both can be contained in the same culture. Do we attach to others by discovering what every one of us wants, and then try to smooth our differences, or we put a common concept of public and collective benefit before that? Do parents teach their children to think in the first person singular I and to be independent, or they teach them to think in the first person plural WE and take care of them when they grow up, and respect loyalty in return?

In Hofstede's studies Serbian culture is traditionally collectivistic, but the latest Trompenaar research places Serbia among individualistic cultures which is in line with the new trend of changes in Serbia and the neighbouring countries under an increasing influence of the Western cultures. We find the same situation in Hungary, Romania and Bulgaria, and we can assume in Slovenia and Croatia,<sup>45</sup> while Greece is in both cases collectivistic culture.

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<sup>42</sup> Hofstede, G., G. J. Hofstede and M. Minkov, *Cultures and Organizations*, McGraw Hill, 2010; Fons Trompenaar, C. Hampden-Turner, *Riding the Waves of Culture*, McGraw Hill, New York, 1998

<sup>43</sup> Hofstede, G., G. J. Hofstede and M. Minkov, *Cultures and Organizations*, McGraw Hill, 2010

<sup>44</sup> Fons Trompenaar, C. Hampden-Turner, *Riding the Waves of Culture*, McGraw Hill, New York, 1998

<sup>45</sup> Trompenaar did not include these countries into his study.

Individualistic cultures believe that a person should take care of himself and the closest family only. Even that changes when children come of age. Parents whose twenty year old children still live with them are considered to have failed to develop a 'strong individuality'. The word I is the most used word in the English speaking cultures, for instance. In these cultures, individualism is considered a blessing and source of benefit for a man, in different cultures, individualism is considered alienation. In collectivistic cultures devotion and loyalty is attached to a wider family or a group to which one belongs throughout one's life. All individual efforts are aimed at accomplishing the group interests and goals, and in return the group gives an individual support and protection. Collectivistic thinking is deeply rooted, for example, in Chinese culture where it is believed that putting one's own interest above those of a group, or even paying too much attention to one's own needs, is a sign of selfishness. According to this belief, collectivism does not mean negation of individual benefits and interests. On the contrary, these cultures imply that the preservation of common good is the best guarantee for an individual

The relationship between an individual and the community in cultures is not only about co-existence but is also closely connected to the society norms. This relationship influences the mind of the people and also the structure and functioning of many other institutions besides family; education system, religion, political and economic systems. Individualism is usually considered a feature of a modern society, while collectivism reminds us of traditional societies. Geert Hofstede's research<sup>46</sup> really showed that individualism is present in rich countries, while collectivism is usually a dominant cultural dimension in poorer countries. We are the witnesses, however, that the success of the 'Five Dragons' (Japan, Hong Kong, Singapore, South Korea, Taiwan), but also the sixth – China, triggered serious issues about the success and the inevitability of individualism.

International management is under significant influence of individualism and collectivism in different countries. Negotiations, decision-making process and motivation are the most important fields where the influence of cultural values is evident.

Practices such as 'performance-based pay', for instance, imply that an individual strives to distinguish themselves from a group and that their colleagues support this. They also rest on the assumption that the contribution of every member in a common endeavour is easily noticeable and that there is nothing wrong in praising that individual. Nothing of the just

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<sup>46</sup> Hofstede, G., G. J. Hofstede and M. Minkov, *Cultures and Organizations*, McGraw Hill, 2010

mentioned has to be true in collectivist cultures. Therefore the idea that the rise of individualism is a part of the rise of civilisation should be treated as a cultural assumption, and not as a bare fact.

In international management and business, the differences between cultural dimensions of individualism and collectivism are particularly evident.

The decision-making usually takes longer in collectivistic cultures because of the constant efforts to reach a consensus. It is not acceptable to outvote those who are against, which often happens in individualistic cultures. Discussions are also undesirable because the main goal is to maintain harmony and thus avoid confrontations. Individualistic cultures, with their respect for individual opinion, will fiercely discuss every issue. Giving one's own opinion is considered a sign of honesty. These cultures often ask for voting in order to point all the members in the same direction. Collectivistic cultures intuitively refrain from voting because it does not respect those who are against such a decision. There will usually be detailed consultations with everyone, and because of the pressure to achieve collective goals, consensus will be reached. If the whole group or the company's headquarters is not consulted first, the former 'yes' can easily become 'no' later. Since those consulted usually need to implement the decisions, this latter phase of implementation usually runs smoothly and simply. The time 'wasted' (from individualistic perspective) is compensated when new procedures start working as envisioned. The final result demands much more time, but it will be more stable. In individualistic cultures the decision-making process is usually very short, and a 'lonely individualist' makes decisions in just a few seconds. However, after saving time on making a decision, considerable delays due to implementation problems usually follow.

The relationship between individual and a group also plays a major role in the way people are motivated to do something. There are at least two sources of motivation. People work for financial reward and for positive opinion and support of their colleagues. In collectivistic cultures this second reason is more prominent, often to the extent that those who are more successful rather share the credit with their colleagues than get more money themselves.

Western motivation theories believe that individuals arise from early, and therefore primitive, social needs for individual self-realisation at the top of hierarchy. It is needless to say that this is not true in all cultures no matter how much this theory may be true for USA and North-West Europe. Japanese perception of the greatest good are harmonious relationships in the nature and in accordance to the nature, primary orientation is towards others and towards natural environment.

The relationship between an individual and an organisation is under a great influence of cultural dimension of individualism – collectivism. In individualistic cultures, organisations are basically instruments. They are created to serve individual owners, employees and clients. Members enter an organisation because it is in their personal interest. Their relationships are abstract, legal, regulated by contract. They cooperate because they have their individual interests. Everyone does a different highly specialized task and is rewarded for that. Authority comes from individual's skill to do the tasks, and everyone's knowledge is used so that an organisation can operate effectively.

In collectivistic cultures organisation represents a social context shared by all members and which gives them meaning and purpose. Employees are expected to be emotionally loyal, and in return the organisation takes care and responsibility for the wellbeing of its members in a wide context, from their status in the society to providing education for their children. Organisations often resemble a big family, community or a clan which develops and takes care of its members. The growth and prosperity of an organisation are not considered 'a goldmine' for individual shareholders or top managers, but are in itself a valuable goal.

## **2.2. Vertical relations (hierarchy)**

One of the main issues of human existence, which different cultures found different answers to, is about inequality among people. Inequality among people is multidimensional and can be expressed in prestige, wealth or power; different cultures place different importance to a status in these three fields. Successful sportsmen, artists and/or scientists have a special status in all cultures, but only in some of them do they have wealth, and rarely power. In some cultures politicians enjoy status and power without wealth, and businessmen wealth and power without status. In general, there are two opposite forces in every culture. One is trying to differentiate status in all fields, while other is trying to maintain equality among people by denying status in one field.<sup>47</sup> The battle between these two forces – status consistency and general equality – makes one of the main dilemmas in every culture.

According to Trompenaar and Turner, all cultures give certain members a higher status than others, thus showing that we should pay special attention to these people and their activities. While some cultures give status to these members based on their achievements, other cultures give it based on their age, social class, gender, education, etc. We can thus divide cultures

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<sup>47</sup> Hofstede, G., G. J. Hofstede and M. Minkov, *Cultures and Organizations*, McGraw Hill, 2010

into those where a status is achieved by one's own activities, and those where the status is ascribed based on already existing attributes.

When we observe a person, we are partly influenced by his or track record (the best salesperson in the last five years), but also other factors can have an influence, such as: age (more experienced salesperson), gender (male and aggressive), social connections (acquaintances at high places), education (best student at Sorbonne) or profession (marketing is the profession of the future).

While some factors are not logically connected with business, such as gender or race, it is possible to predict success in career pretty logically based on some other factors such as age and experience, education and professional qualifications. For example, a culture can ascribe higher status to better educated employees believing that the success they showed during their studies lead to a better business success. These employees can be included in the management training programs right away and thus direct them towards the top of and organisation.

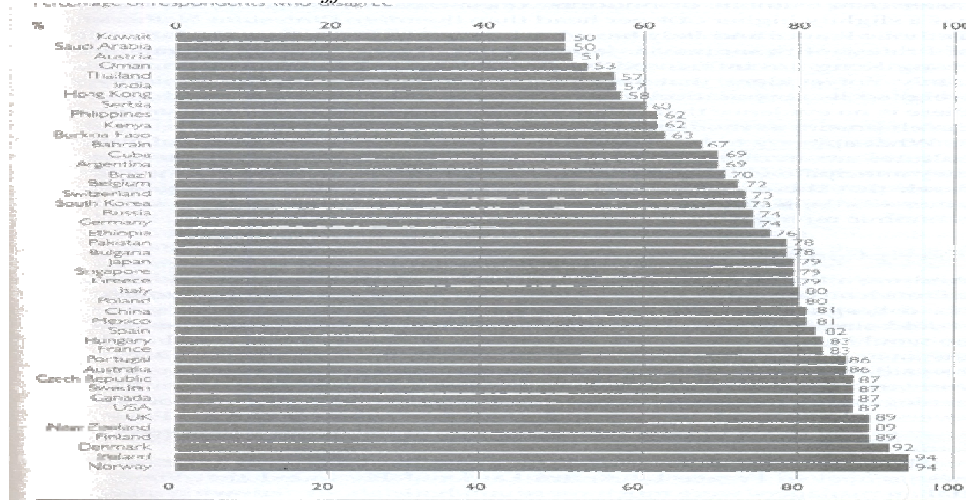
Table 1.<sup>48</sup> shows to which extent status is ascribed, or achieved in different cultures. Serbian culture shows similarities with cultures that ascribe status based on background, education or tenure. It is interesting that according to Trompenaar's research we find the same situation in Austria, while Bulgaria, Greece and Hungary with median values.

Most of the scientific literature in the field of management believes that the orientation towards achievement is part of 'modernisation' and a key to economic and business success. According to this theory once you start rewarding success at work, the whole process begins to uphold itself. People work hard to achieve esteem in their cultures. This is the core of the Protestant work ethics: self-realisation through work. According to this view, cultures which ascribe status are economically underdeveloped because the reason for ascribing a status does not hasten commercial success.

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<sup>48</sup> Source: Fons Trompenaar, C.Hampden-Turner, *Riding the Waves of Culture*, McGraw Hill, New York, 1998

Table 1. Status in different cultures..



The thesis that the orientation towards achievement is a key to economic success is disputable. It is obvious that Japanese custom of promotion based on tenure did not slow economic growth of corporations. In short there is no evidence that any orientation at a 'higher' level of development, as theorists of modernisation once claimed.

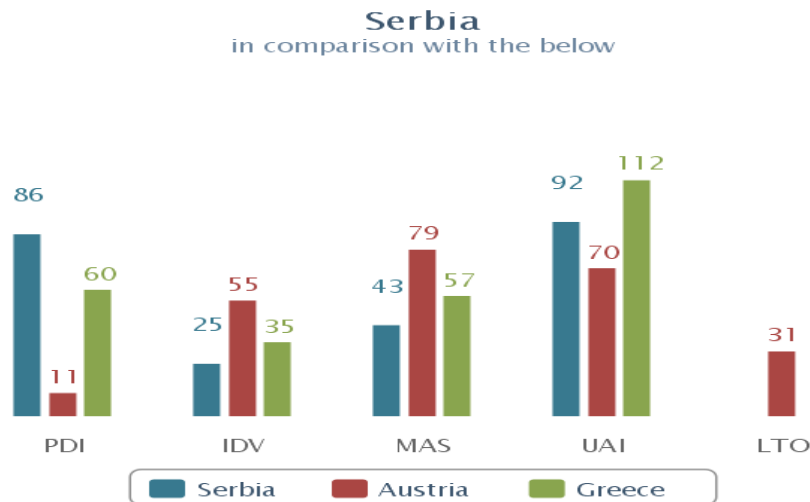
Members of cultures where status is achieved can be bothered because negotiators from culture where status is ascribed have a *grey eminence* in the background to whom they have to submit all the proposals and changes. It is often not even clear what that person exactly does or wants, but he simply expects respect from you and his team which constantly seeks even smallest signs of approval or disapproval. Contrary to this, members of a culture where status is ascribed are also bothered when they find themselves in front of young men and women from cultures where status is achieved who provide information on them as if it was ammunition that will force the opposite team to surrender. Negotiations with young people who achieve status without much experience often insults members of cultures where status is ascribed after many years of tenure. These cultures usually spend much time training and educating their employees in order to ensure that the older ones are actually smarter and more educated the more years they spend in a corporation and the more subordinates they have who regularly report to them.

In his research of cultural diversity, Geert Hofstede also dealt with the issue of unequal distribution of power in a society. He named this cultural dimension power distance, and it describes the level to which members of an organisation or institution who have less power accept the fact that the distribution of power is unequal. Power distance is high in countries like

China and Turkey where subordinates, even at higher levels of an organisation, follow the orders from superiors without questions, and organisations and institutions are typically centralised and with a tall hierarchical structure which reflects existing inequality between those at the top and those at the bottom of the ladder. In these cultures inequality among people is expected even desirable because it is believed that a hierarchy in which everyone has a role is necessary for the society to function well. These cultures are usually collectivistic, parents teach children to obey, and people who have less power depend on those who have more power, while privileges and status symbols are expected and are popular. Hofstede's research, conducted more than a decade ago, places Serbia in a high power distance group, although it is obvious today, both in family and in educational and business institutions, that it is decreasing. Romania, Croatia, Slovenia and Bulgaria belong to the same group, while Greece and Hungary have median values. Austria with a very low power distance differs from this group, as can be seen in Table 2.

In low power distance cultures, such as USA, but also Holland and Denmark, people believe in equality and equal opportunities, and social and organisational hierarchy exists mainly for practical reasons. These cultures are more often individualistic and parents encourage children's equality, and there is an interdependence between those with more and those with less power in a society, while people disapprove of status symbols and privileges. Organisations and institutions in these cultures are decentralised and have a flat hierarchical structure with less management levels.

Table 2. Comparison of Hofstede's cultural dimension for Serbia, Austria and Greece<sup>49</sup>



### 2.3. Essence of relations

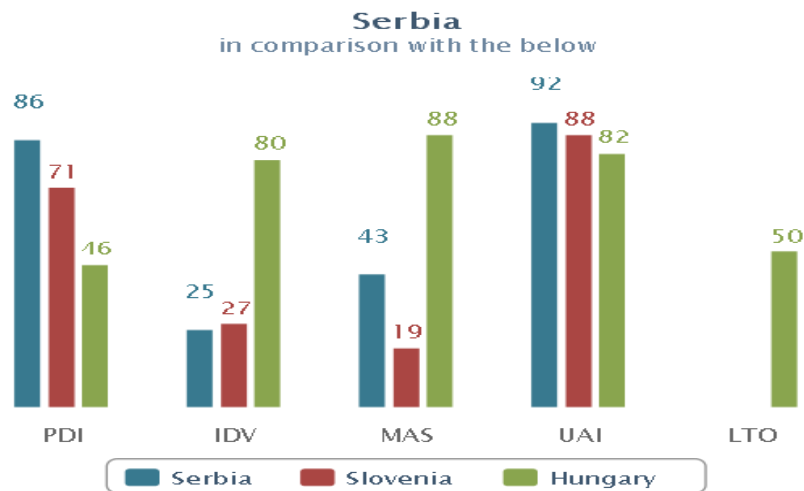
We can observe the essence of interpersonal relations from different aspects but fundamentally there is a difference between cultures which place most importance on interpersonal relations themselves which spread to spheres of life, they are long-lasting and lead to mutual intimacy and deep understanding, such as in , for example Serbian culture, but also Mediterranean and Balkan culture in general, and those cultures which separate personal and professional spheres of life, such as Central, Western and North European cultures, where interpersonal relations are instrumental and focused on task performance. This difference is particularly evident in international communication.

Geert Hofstede makes a difference between cultural dimensions of masculinity and femininity, meaning their typical characteristics not their gender. In cultures such as Japan and USA, and according to Hofstede Austria and Hungary belong to this group as well, with a prominent masculine dimension, dominant social values are success, money and material goods. Income, promotion at work and social acknowledgement is of big importance which results in fierce competition in interpersonal relations and high level of stress at work which takes a central place in a person's life. People live to work and young people are expected to succeed in their careers. Education system is aimed at favouring high productivity, and economic growth is more important than preservation of the environment.

<sup>49</sup> Source: [www.geert-hofstede.com](http://www.geert-hofstede.com)



On the other hand, in Scandinavian cultures and in cultures such as Serbia, but also Romania, Bulgaria, Croatia and particularly Slovenia, which have feminine cultural dimension, dominant social values are care for people and preservation of the environment, as well as quality of life in general. These cultures place great importance to interpersonal contact and friendly atmosphere. People work to live and interpersonal relations have priority over work. Education system is aimed at enabling young people to adjust to the society and for cooperation and great importance is placed on job security. *Table 3. Comparison of Hofstede's cultural dimension for Serbia, Slovenia and Hungary*<sup>50</sup>



According to the extent to which they display emotions we can divide cultures into affective and neutral<sup>51</sup>. The amount of emotions that we display is often a result of a social convention. Serbian culture, which belongs to affective cultures together with Mediterranean and Balkan cultures, is characterized by display of emotions and gesticulation as an expression of engagement and interest for interlocutors and assignments. Members of neutral cultures do not display emotions to the same extent. In British and North American cultures as well as in North West Europe control of emotion is a sign of civilized behaviour. Norms of emotional neutrality disregard anger, excitement or intense feelings as unprofessional.

<sup>50</sup> Source: [www.geert-hofstede.com](http://www.geert-hofstede.com)

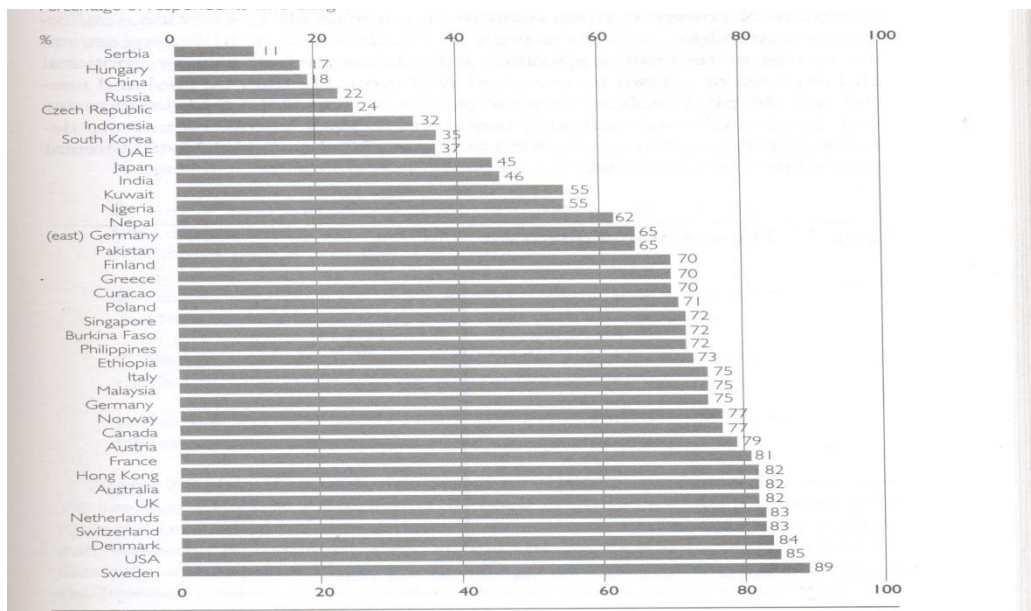
<sup>51</sup> Fons Trompenaar, C.Hampden-Turner, *Riding the Waves of Culture*, McGraw Hill, New York, 1998

Extremely neutral or extremely affective cultures could have problems in doing business. Neutral person can easily be characterised as cold-blooded, while affective person would seem inconsistent and irresponsible. When these cultures meet, it is most important to recognize the differences and refrain from making conclusions based solely on the presence or absence of emotions. It is necessary to include rational, moderate parameters as well.

Closely related to the issue of emotion display in relations with others is a way in which and an extent to which we engage others in our areas of life and individual levels of personality, and whether it is present in some or in all life situations. According to this difference, Trompenaar and Turner divide cultures into specific and diffuse<sup>52</sup>, i.e. low context and high context cultures<sup>53</sup>, as Edward T. Hall named them.

Table 4<sup>54</sup> shows the division of cultures to specific and diffuse in the world. We can see that according to this research, Serbia, as well as Hungary, are at the very top among diffuse cultures, as well as Greece with somewhat lower score, while on the other axis, among specific cultures, we find Austria.

Table 4. Diffuse and specific cultures



<sup>53</sup> Edward T. Hall, *The Silent Language*, Anchor Books, New York, 1990

<sup>54</sup> Source: Fons Trompenaar, C.Hampden-Turner, *Riding the Waves of Culture*, McGraw Hill, New York, 1998

This is the dimension where the balance between private and professional is of most importance. The intervening of specific and diffuse leads to greatest success, if we realize that privacy is necessary, but a complete separation of private life leads to alienation and superficiality.

In specific culture, i.e. low-context cultures, a manager differentiates the relationship with the subordinates at a specific task from other situations. If you meet some of them in a cafe, at the golf course or on vacation his authority does not transfer to this new situation. Every area where they meet is considered separate, specific case, and private life is strictly separated from the professional one.

In diffuse cultures, i.e. high-context cultures, every part of our life and every level of our personality intervene. A director has great authority wherever you meet him. If he runs a company, it is widely accepted that his opinion about cuisine is better than the opinion of the rest of the employees. His taste in clothes and his value as a citizen are permeated by his director title and he himself expects to be treated so whether at work, in the street, club or at a shop. Here private and professional, i.e. public space overlap and permeate. One of the problems in the encounters between specific and diffuse cultures is that one culture sees as private what other sees as public space.

Edward T. Hall<sup>55</sup> calls specific and diffuse cultures as low-context and high-context cultures. A context determines how much information we need for effective communication and how much common knowledge is implied between those who communicate. High-context culture, such as Serbia, Greece, Bulgaria, Romania but also France and Italy, believe that strangers need to be informed about all the circumstances before we can move to business successfully because in these cultures most information is contained in the person and only a small part is in the coded, explicit part of the message. Coded, verbal message is adjusted to and interpreted by the context, therefore it is necessary to be informed in advance and follow nonverbal signs during communication. Low-context cultures, such as Austria, USA and Holland, believe that communication about a particular business contains all necessary information in a coded message, whose meaning is often literal and does not require further interpretation. These cultures are very flexible and adaptable because they adjust to current conditions. High-context cultures are rich and subtle, but they carry a lot of 'baggage' and it is very difficult for members of different cultures to adjust.

Specific low-context cultures, especially American and Dutch, with their strictly separate private areas, have a great freedom of direct speech. A

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<sup>55</sup> Edward T. Hall, *Beyond Culture*, Anchor Books, New York, 1981

phrase 'Nothing personal' can often be heard in these cultures. In relations with diffuse high-context cultures this approach can be offensive. Specific cultures do not understand the concept of 'saving face', which happens when something which is considered private in diffuse cultures is announced publicly. It is precisely in order to save face that diffuse cultures beat around the bush before getting down to real business. It is important to avoid confrontation, precisely because it is impossible for the participants not to take it personally. South-East European cultures, then Latin American, Asian (Japanese, Chinese, Arabic) and Mediterranean culture, where there are intense information contacts with a family, friends, colleagues, and clients and where people are very much engaged in close personal relationships, when communicating above all take care to maintain that relationship. Members of low-context cultures, such as American, Austria, German, Swiss and Scandinavian strictly separate personal and business relationships and for that reason they always need detailed and explicit information.

People from high-context cultures are impatient and irritated when people from low-context cultures insist on information they do not need. And vice versa, people from low-context cultures are confused when high-context cultures do not offer enough information.

One of the greatest challenges in intercultural business communication is to find appropriate level of context in a particular situation. This is usually done automatically in one's own culture, but in different cultures their messages are often misinterpreted and miss the target. Therefore it is vital to raise awareness about culture and cultural diversity in international business.

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European Union, as a composer of the music of European cultural diversity, in its relations with Serbia and Central and South-East European countries, has placed a special accent on fostering intercultural dialogue and promoting cultural diversity in order to bring peace, cooperation and progress to this region. Serbia, with its rich cultural heritage and tradition, in this respect, has a special role and responsibility in promoting and preserving Serbian culture, as well as cultural diversity of Central and South-East Europe. These efforts are necessary not only to preserve cultural-history identity, but also to foster economic prosperity and successful business cooperation in the whole region.

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## **Effective Management Communication in Diverse Business Organisation**

Co-author: Univ. Prof. Dr. Milija Zečević

Strong and widespread technological, economic and business changes currently present in industrialised countries around the world, are radically changing organisational environment. But they don't change the need to maintain superior communication skills. Communication is a process by which managers coordinate, manage and influence their subordinates. Effective communication skill is a characteristic which managers consider crucial in evaluating manager's success. This ability covers a wide range of activities including speaking, writing, reading, listening, interpreting and managing information, giving presentations and speeches (verbal communication) and using symbolic movements or behaviour (non-verbal communication).

Effective managers should be aware of the importance of building and maintaining human relations through interpersonal communication. Since managers spend a large amount of their time on information spreading, persuading, listening and motivation, communication skills will probably be the most important valuable or the greatest obligation of every manager. Latest studies have shown that managers spend almost two thirds of their total working hours communicating with colleagues, superiors, subordinates and all other business factors. If they understand the processes which are included in good and quality communication, their best defined plans can be realised successfully.

Communication is of essential importance both for internal and for external functioning of business organisations, because it connects all management functions. Its role is particularly evident in determining and sorting enterprises's objectives, then in realising plans, organising human and other resources, in the most efficient and the most effective way, in selecting, training, controlling and rewarding all staff, and the most evident role of communication is in creating a overall climate in an enterprise or organisation or a project, in order to contribute to the achievement of business goals.

The more international organisations and their employees become, the bigger the challenge of managerial communication is, so that intercultural communication is an every day activity for today's managers, and premises of a successful intercultural business communication, as well as communication in general, are knowledge and respect.

In the past it was probably easier to study companies and business communication, than it is today. The workforce used to be less racially,

ethnically and culturally diverse. With less cultural diversity, the expectations of members of any organisation were similar. Communication, authority and hierarchical structure were led by less awareness of the differences among people. The members of an organisation had implicit knowledge because they all had rather similar cultural background. A large number of companies used to be completely or mostly domestic. A large number of jobs companies did was restricted to their own culture. Also, a large number of companies which were competing or cooperating came from the same country or culture.

Today the workforce is culturally diverse, and many companies cooperate internationally. Business sphere includes a large number of multinational and international corporations, business organisations with subsidiaries, branch offices and business units in many countries. Increasingly, these companies need to cooperate with people from different cultural environments. Today, moving from one post to another within the same company may mean moving from one country to another. Even domestic companies which are not multinational in their structure have to face the challenge of internationalisation, as well as intercultural issues, in their work environment.<sup>56</sup>

Cultural values represent a framework for quality communication. The knowledge of cultural values, ethics and principles of different cultures enables successful international communication at all levels.

The development of the ability to think in a new way, as well as the understanding of every process of communication and all its models, forms and environment factors which influence the course of communication. A flexible manager is turned towards future, he or she understands current business environment as well as how his company's position on the local and international market should look like.

We are changing faster than we can notice. The changes are deep and wide. Technology directs the speed of these changes, economy gives width, and cultural changes provide depth. Every one of us will be required to think, work and feel in a new way. Nevertheless, mind and body automatically resist significant changes. We are facing strong cultural changes and sudden workforce and client base shifts. On the global market, the determining factor for the future success of companies are competent, innovative and diverse people.

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<sup>56</sup> David Matsumoto & Linda Juang, *Culture and Psychology*, Thomson and Wadsworth, 2004.

The best place to seek advice for managerial diversity is in ourselves, and within the history of our community. The knowledge of different cultures gives anthropological perspective of changes and a framework for our own processes, motivation and education with the aim of profiting from creativity and intelligence of our multicultural society.

Intercultural communication process implies the exchange of thoughts, values, beliefs and feelings through verbal (words) and non-verbal messages (attitude, tone, gesture, appearance...) among the members of different cultures.

Communication is a part of every culture. Most of our needs, as well as everything that makes us human, has communication in its roots. Human need for love and closeness results from communication; our whole existence represents a part of communication, and as such it forms a permanent part of ourselves. The art of successful and valid communication is learnt, and thus we can get a relief if our communication in different aspects of our lives has not been successful so far; it does not mean it will remain so in the future.

Only by studying different ways of communication, and by getting into the core of it, can we improve different aspects of our life, and thus facilitate further exchange of information, both in the private and professional field.

Successful communication makes us feel fulfilled and satisfied, and so the atmosphere around us is much more pleasant. Clear, direct transfer of a message, from one source to another gives us a real picture which enables further communication according to the current situation.

Managerial communication skills can create or destroy a business career or an organisation. Communication is the basis for management because it covers all the aspects of an organisation and permeates all its activities; it is a process through which tasks are performed in an organisation.

Communication is a complex and dynamic process with many factors which influence efficiency and effectiveness. *Firstly*, according to the definition, communication is a process where communication factors, sender, message, channels and receivers are never constant or static. *Secondly*, communication is complex. A number of communication theorists states that even simple action between two people includes many changeable elements, such as individuals, environment, every person's experience and the nature of the task; and all this influences efficiency and effectiveness of a process. *Thirdly*, communication is symbolic. In order to convey the meaning, we use many words and signs. Although there is a sort of understanding about the meaning of majority of our words and signs we use every day, we still need to bear in mind that these are changeable categories, so their meaning



changes during time, since time – present moment can actually ascribe new meanings to the already existing words (concepts) and signs.

The subject of communication is the achievement of a certain level of exact understanding among participants. Therefore communication skills are the basis for manager's success.

Communication is most frequently defined as **a process where the exchange of messages – data takes place among the participants in communication – interlocutors and they become common.** The expression communication derives from a latin word *communicare*, which means make common, mutual. Only this is often the case, i.e. communication is considered a one-way process of message transfer from a sender to a receiver. The one-way communication happens when a manager at the top of an organisation sends directives to subordinates. He often does not expect any feedback information, at least not immediately. However, in most cases. The communication process involves another aspect – possibility for a receiver to respond in some way. For example, a person or a group which receives the initial message, replies with a message to a person or a group who initiated communication. The receiver provides feedback information to the sender. In this case, we have two-way communication, a reciprocal event where mutual exchange of information takes place between two or more sides. So the receiver responds and sends a feedback to the sender. One more, third communication model is a transactional model, the only communication model which is not linear regarding the sequence of the communication phases. In this model the phases of sending and receiving a message can alternate – take place simultaneously.

It is relatively easy to define communication, but accomplishing quality communication is complicated and difficult. Successful and high quality communication occurs when the received message conveys the exact meaning the sender had in mind.

Language is the main means of communication with others. Also, language has a very important role in culture transfer and expression. On the other hand, culture has a predominant influence on language and language symbols which are accepted and considered important in the world of communication. Both language and culture influence the structure of the stream of our thoughts. Therefore the understanding of the relationship between language and culture and management is an important step in creating intercultural business interlocutors.

In the culture of every individual and a society as a whole, there is the relationship towards a mother tongue. Respecting grammatical rules of a language and their particularities is the main rule in intercultural business communication. Respecting linguistic rules means:

The proper use of address and second person; the proper use of grammar in general; omitting jargon and slang; respecting novelties and changes brought by changes in a language, since *the only permanence in language is – its change*.<sup>57</sup>

Language is only a part of communication - perhaps it is not the most important part. People use different means of expression in order to convey their thoughts, wishes, feelings to others. These forms of communication are not only verbal but also non-verbal.

In some contemporary researches, new results have been found in understanding the process of communication by discovering new ways of communication, but we shall say more about it in our next works.

The very nature of our language can also represent the source of obstacles in communication. Many words often do not have precise meaning. Interlocutors use different meanings or interpretations of the same word without being aware of it and thus the obstacles in communication occur. For example, some words sound the same, but have different meanings. We should not always assume that the meaning that one person gives to a word is necessarily the same meaning for the one who receives the message. A word can, also, be interpreted differently depending on facial expressions, hand gestures or the tone of voice following it.

Language characteristics, including ambiguities and multiple meanings, represent an even greater threat for successful communication because the society is becoming increasingly interweaved and mobile. In the contemporary world, there is an increasing possibility to contact people from different cultures and backgrounds, even within the same language frame, and particularly between different languages.

In their job, managers communicate for different reasons – to motivate, inform, control and meet social needs and thus achieve a pleasant business organisational climate and achieve successful business goals.

*Motivational communication* is in the function of influencing the behaviour of organisation members. Communication which aims to motivate should influence employees to work on achieving organisational goals.

Communication has an *informative character* when it gives facts and data which are used in the decision-making process. Managers also give to their employees the information necessary to perform tasks, and employees inform managers on their progress in achieving goals.

Communication also serves as a *control function*. Due to communication the work is being coordinated and intergrated, tasks and

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<sup>57</sup> Aleksandar Belić, O jezičkoj prirodi i jezičkom razvitku, Beograd, 1941.

responsibilities clarified and evidence stored. Communication which controls serves to create order in an organisation so as to perform tasks and achieve multiple business goals.

Managers also communicate to *meet social needs*. Communication fulfills social need related to emotional relations and contacts which are not directed just at a particular task, and which are found in every organisation. For example, it is necessary that employees talk about a football match, weather, politics, fashion, music, etc. This communication does not have to influence organisational task performance directly, but indirectly, because it fulfills important human needs and interests and can have an impact on how people feel regarding their working conditions and how they relate to each other at the workplace.

### **1. Communication Process**

In order to improve the quality of communication, managers need to understand how the communication process works. The communication process is dynamic and perpetual course and it starts when an individual or a group have an idea or a concept and want to convey that information to someone else.

There are six primary elements in the communication process. They include social context, sender who codes a message, media, receiver who decodes the message, feedback response and noise.

*Social context* is the environment where communication takes place. The environment influences other components of communication process. For example, communication between a manager and a subordinate – will probably be more formal and reserved if it takes place in a manager's office than during a football match. However, a subordinate can be less inclined to give sincere feedback to a manager. It is important to consider a social context in the light of global nature of business and diversity of cultural heritage of employees or consumers. Running business on such a scene offers a manager many challenges.

Technology significantly influences social context. On the positive side, electronic communication encourages more involvement of low status employees and increases the idea production. It decreases inhibitions which result from a hierarchy. However, everything looks the same on a monitor and important business messages can be lost in a myriad of routine messages. Even legitimate jobs can block the system, so it is necessary to take certain measures to solve this overload, for instance through a manual on what should be done by e-mail and charging departments that cost, as well as telephone calls, which reduces the number of unnecessary emails and calls.

*The sender* of a message first codes – formulates the message. *Coding* represents translating the sender's idea into a system sequence of symbols or linguistic expressions which retain communicator's intentions. The sender initiates the communication process by coding meaning and sending a message through channels. The coding process translates sender's ideas and a system sequence of symbols or linguistic expressions which reflect communicator's intention. The purpose of coding is to provide a form where ideas and intentions can be expressed as messages.

Vocabulary, language and knowledge play an important role in the sender's ability to code. However, human ability to code ideas, thoughts and feelings is far from perfect. Some experts have difficulties communicating with common people because they tend to code the meanings in a form which can be understood only by other experts in that field. For example, legal contracts which have direct influence on consumers are often written under assumption that only lawyers will decode them. Consumer groups are putting pressure that they should be written in the language everyone can understand.

*Messages* are tangible forms of coding symbols which intend to give a certain meaning to a data. These are thoughts and feeling that communicator is trying to get from a receiver. Words and symbols have no meaning in themselves nor by themselves. Their meaning is created by a sender and a receiver and to some extent situation or context. Sometimes, the message is transferred in such a way that it can be interpreted differently.

Once coding is completed, a new issue occurs. How to convey that information to a receiver? A response depends partly on the way the message is coded. If the message is in the form of a written report it can be conveyed by mail, fax machine or electronically. If it is saved in a computer memory it can be sent directly to another computer by telephone lines or even satellite. The main question in choosing the method of message transfer is to ensure that the receiver can understand it.

*Media* are carriers of a message or means by which a message is sent. Organisations offer their members messages through various media: there is a fac-to-face communication, telephone calls, group meetings, fax machines, memos, reward system rules, production schedules and technologies. su nosioci poruke ili sredstava kojim se poruka šalje. The technological progress which enables sending and receiving written messages up to a thousand times faster than just a few years ago is incredible.

Sometimes managers do not understand how a choice of media can influence effectiveness of communication. The results of a three-year study on managerial communication indicate that the choice of proper media can have a crucial impact on effectiveness in communication, even in manager's performance.

A person or a group that receives a message – *a receiver* – should understand the meaning of the received information. **Decoding** includes the translation of the received messages into interpreted meaning. Human abilities to perform this task are limited. Since workforce is getting more and more diverse, managers are facing the challenge of precise message decoding. Since receivers interpret a message based on previous experience, references, vocabulary and culture, this process is not always successful.

**The feedback response** represents information about the status and work of a given endeavour or system. It refers to the process of verifying messages and the receiver tries to be sure that the message he decodes is really what the sender wanted to convey. The feedback response is a way to avoid communication failure, because it gives the sender preliminary information. Through a feedback response, communication becomes dynamic, two-way process, and not just an event.

Many companies are beginning to realise the value of a feedback response from their clients. For example, an increasing number of companies give free numbers and website addresses to measure activities of their consumers. These activities offer organisations a valuable feedback response used to improve products and strengthen the customer service quality.

**Noise** represents any internal or external disturbance or distraction from the intended message which can cause distortion in message sending and receiving. Noise can also be created by emotional conditions. For example, radio broadcasting loud music while someone is trying to speak, static effects on line during telephone conversation or stressful working conditions. Noise can appear in any phase of communication process and it reduces a probability of accomplishing a common meaning between a sender and a receiver. Messages which are poorly coded (e.g. illegibly written), inadequately decoded (e.g. misunderstood) or transferred through inappropriate media, can have an impact on reduced communication effectiveness.

## **2. Forms of Communication**

In their work, managers use several different forms of communication. Every form plays an important role in manager's effectiveness. Forms of communication are oral verbal, written verbal and nonverbal communication.

### **2.1. Verbal communication**

Oral communication consists of all speech forms and it is the most commonly used sort of communication managers use. Direct face-to-face or over the phone communication is more efficient for managers than written communication because it allows instant feedback response, interlocutors can comment or ask questions and dilemmas can quickly be resolved.

Managers use oral verbal communication in informal conversations but also in formal presentations before an individual or audience, team, clients or consumers. Oral communication skills are therefore of utmost importance for a manager. During this type of communication, it is necessary to have a good preparation and knowledge about all the elements of the course of effective oral communication.

First it is necessary to set clear goals and purpose of communication, then analysis and information about the audience. A manager should know his audience in order to select a proper content, vocabulary and visual aids effectively. When audience members come from different professions or backgrounds, one should find a common trait and emphasize it in order to create a mutual interest in the topic or message of communication. It is necessary to establish all environmental factors, such as time and space available, but also the layout of the room and number of the audience. At the same time, one should organise and sort the material – what is being conveyed as a message – well, so that the audience can better understand and follow it. Logical stream of thoughts will usually help the audience follow the message easily and adopt its content. Visual aids can help clarify the material and maintain the attention of the audience. Visual aids should be simple and they should emphasize, clarify and group important information.

Written communication includes letters, memos, manuals, reports, forms and other documents used to inform in an organisation. Managers use written communication less often than oral, but there are situations when written communication is very important. Writing down a message and sending it in the form of a letter or a memo enables making a precise statement, gives reference for further use, helps in systematic thinking and represents an official document for an organisation. Besides, written messages can be distributed simultaneously to many members of an organisation.

## **2.2. Nonverbal Communication**

Nonverbal communication includes all the messages which do not belong directly to linguistic framework of a language, but which also have a meaning and convey a message. Although managers realise that communication has a nonverbal side, they often underestimate its importance. Nonverbal communication can include hidden messages and can influence the process and outcome of face-to-face communication. Even a person who is silent or inactive in the presence of others can send a message which can, but does not have to be intentional.

For example, job interviewers respond better to job applicants whose nonverbal signs are positive – straight posture, direct eye contact, than to

applicants who send negative nonverbal signs – lack of interest, avoiding eye contact, negligence...

Nonverbal communication can also take place through different types of organisation of office layout. For example, visitors do not feel comfortable in offices where a desk is used to enhance communication – with working material and/or snacks on it, it is used in the communication process and it is not a barrier. Nonverbal messages about some person are also conveyed by appearance of his working space, overall atmosphere, furniture layout, selection of paintings on the walls, order, tidiness, music, tone and style of the interlocutor.

There are six main types of nonverbal communication:

- **Kinetic behaviour**, or body language, such as gestures, facial expressions, eye contact, touching and all other body movements;
- **Physical characteristics**, such as shape of the body, posture, height, weight, hair and skin colour;
- **Para language** such as voice colour, tone, volume, speed, laughter; **Način** na koji ljudi vide i koriste prostor, način sedenja i udaljenost u razgovoru;
- **Environment**, such as design and layout of space, furniture and interior design, light, noise and cleanliness;
- **Time** – meaning be late or arrive early, let others wait and other relations between status and time.

### **3. Environment factors in communication**

Despite the obvious simplicity, the communication process rarely works without a mistake. Environment factors in communication can hinder a course of communication, and thus information being conveyed from one side to another can be distorted and communication problems can occur, often completely unintentionally.

Some environment factors which can be 'invisible' at first glance, have an important even crucial role in the communication process. We shall particularly point out the following factors:

- Cultural diversity – communication problems often occur when senders and receivers come from different cultural backgrounds. Cultural differences can occur between people from different geographical or ethnical groups in one country, as well as between people from different national cultures.
- Trust and credibility – between a sender and a receiver should be established. Without trust, communicating parties concentrate their energy on defensive techniques instead of focusing on message transfer and understanding of the meaning.
- Information overload – people can be overloaded with information when they are asked to simultaneously receive or send too much.

- Perception – different factors such as experience, needs, personalities and education can influence our perception. Two people can see the same thing differently.
- Linguistic characteristics – the nature of language implies that many words and expressions are not precise. Individuals often use different meanings and interpretations of the same word without being aware of it.
- Gender differences – can result in distortion and lead to breakdown in communication and misunderstandings between men and women. Because men and women are often treated differently since childhood, they usually develop different perspectives, life attitudes and communication styles.
- Other factors – deadlines can make us focus on information which help us make quick decisions, due to which a feedback response can deteriorate or be completely omitted.

### 3.1.Cultural Diversity

Communication as an exchange of information is conditioned by culture. During coding, ideas are transferred into a message represented by symbols and language; then, during decoding, the message is transferred into interpreted meaning. This means that the message should be coded in a form easily recognised and understood by a receiver; but symbols and language used for coding depend on cultural background which differs from person to person.

Managers should realise that senders and receivers from different cultures can code and decode their messages differently; they have different behaviour, style and ways of looking at things. All this can lead to distortion in the communication process. These difficulties can occur among people from different geographical or ethnic groups in the same country as well as among people from different national cultures.

A common problem in intercultural communication is **ethnocentrism** or a tendency to view one's own culture and its values as superior to others. These tendencies are often accompanied by unwillingness to try to understand alternative points of view and to take seriously the values they represent. This attitude contributes to many failures in doing business and maintaining effective working relationships with people from different cultures.

Among cultural elements that influence multicultural communication, there are also language and symbols, time orientation, personal realisation, personal space, social behaviour and intercultural socialisation.

In organisations around the world, people use time to communicate. But **language of time** varies from culture to culture. There are different languages of time, just as there are different spoken languages. Deadlines can indicate a level of urgency or relative importance in the USA, but in the



Middle East, time needed to do something depends on interpersonal relationships.

*Language of space* refers to the perception of interaction and status. An American businessman, who is familiar with the American model of corporate life, has no difficulties in establishing relative importance of an individual just by seeing the size of his/her office in relation to other offices. In the American model, a president or a chairperson of the Board has the biggest office, and important offices are usually on the top floor in the corners of the building. The French, on the other hand, plan space as a network of mutually connected points of influence, activities or interests. You will normally find a French manager in the middle of his subordinates so that he can supervise them more easily.

*Language of objects* refers to a status connected to material possessions. Because of the lack of fixed class system and the existence of an extremely mobile population, Americans have become particularly sensitive to how others use material goods. The French, English and Germans, however, have different ways of using material possessions. Things that the English consider the culmination of reliability and reputation, most Americans would consider old-fashioned and dated. People from the Middle East consider family, connections and friendship important, and not material things. Japanese are proud of tasteful, but inexpensive possessions which are used to create appropriate emotional environment.

*Language of friendship* refers to the depth, duration and type of relationship developed between individuals. Americans consider friendship a series of favours which should be returned by, at least, gratefulness. In India, however, friendship means feeling human needs and satisfying them without expecting any gratitude.

Finally, *language of agreement* refers to the importance of knowing the rules of negotiating in different organisations and various countries. It is not important to know the details of legal practice, but only to know that there are differences. Sensitivity to these differences is of extreme importance.

### **3.2. Trust and Credibility**

An important factor in effective communication is a lack of trust between a sender and a receiver. This lack of trust can cause the receiver to look for hidden meanings in a sender's message. Confidential relationship is almost a prerequisite for good communication. With a lack of trust and sincerity, communicating parties direct their energy to defensive tactics, instead of trying to convey and understand the meaning.

Working environment characterised by trust does not just happen. It takes time and effort to develop it. It should be cherished and strengthened

by sincerity and exactness in communication and mutual respect of corporate aspirations. Management should be clear about the company goals and work, departments and individuals. People should know what is expected from them and get feedback information on time, as well as opportunity to work in an environment that instils confidence.

Some organisations have created and adopted programs which hinder hostile relationships between management and workers, with the help of communication training model. Based on a series of developed ethical principles of a corporation and built to encourage employees participation, these programs seek ways in which a company can gain trust and loyalty of its employees.

Managers should develop trust in their work relationships with subordinates and use advantages of face-to-face communication. MBWA – Management by walking around – a phrase popularly considered an excellent approach, simply means that managers should get out of their offices and communicate regularly with people during work. Managers who spend time 'walking around' can significantly diminish the distance between themselves and their subordinates. Also, they can create an atmosphere of open and free communication which provides more available information and better quality and makes decisions closer to people employed at lower levels.

Trust plays a major role in creating a positive working environment.

Five key elements for gaining and maintaining trust between a manager and other employees are: better employee participation; more sensibility for the issues of work and family; more two-way communication; more fun and therefore more trust – at the best workplaces employees trust their managers and managers trust their employees. Trust can be maintained in numerous ways, for example – holding meetings where employees can express their concerns, change of workplace in order to gain new skills, organisation and engagement of employees in management – an opportunity to recommend new members or allocate corporate financial aid. Trust at a workplace simply means that employees are treated as partners and it is admitted that they can also make a contribution.

### **3.3. Information overload**

Although information is the core of an organisation, it can happen that managers and organisations have too much information. And an increasing use of technology in organisations often leads to **information overload**, which happens when the amount of information we can take is too big, i.e. our communication media capacity for information processing has been exceeded. It is a responsibility of a manager to filter a large amount of information during transfer and distribute it appropriately.

With ever wider use of communication technologies, we find ourselves in the information era. With so much information, managers are

often confused and do not know what to do with it. For example, firms have adapted very quickly to what was considered a time-saving technology – the use of emails. In 1994, 764 billion e-mails was sent. In 2000, there were around 4 trillion, and today no one counts them any more. E-mail has, whether we like it or not, changed communication and the way we work, accelerating business cycle from days to hours, even minutes and made an organisation flatter.

Information overload can lead to : failure in processing or neglect of some information; inaccurately processed information; delays in information processing until the overload has been reduced; seeking help in processing some information; reduced quality of information processing; withdrawal from the information flow.

All these factors should be considered and kept in mind in every day communication.

### **3.3. Perception**

Perception is the process of selecting, organising and interpreting incentives from the environment in order to gain experience which has a meaning. It includes both mental and sensory processes an individual uses to interpret information. Various factors, such as experience, needs, personality and education can influence one's perceptions. Therefore it happens that two people can view the same thing differently and thus have a poor communication, since it is perception that determines the way in which we take in complete information.

### **3.4.Linguistic characteristics**

The very nature of our language represents the source of communication breakdown. Many words are not precise. For example, let's assume that a manager tells his subordinate to perform a task 'immediately', does a manager think that the subordinate should leave what he has been doing and start working on a new task right away, or should he finish his present task and then start a new one – this dilemma happens all the time in every day communication.

When two people use different meanings or interpretations of the same word without realising it, a breakdown in communication occurs. For example, some words sound the same, but have different meanings. We should not always assume that the meaning one person ascribes to a word is necessarily the same meaning for the receiver of a message. Linguistic characteristics can lead to mistakes in coding and decoding, ambiguous messages which create semantic – word sense barriers in communication. For example, a word can be interpreted differently not only in its verbal meaning, but also depending on facial expressions, hand gestures and voice accompanying it, i. e. nonverbal signs and meanings conveyed in that way.

Imprecision and multiple meanings of a word is one of the reasons jargons are created. **Jargon** represents terminology or language specific for a certain profession or a group of people. For example, in *Microsoft* corporation, learning company jargon is an important aspect of acceptance into the organisation membership. Although jargon has been created to avoid communication breakdown, in some cases it leads to inefficiency because not every staff member understands what is being said, especially when they are new members of an organisation or a group.

Linguistic characteristics, including imprecision and multiple meanings, represent a threat for communication because society is becoming increasingly intertwined and mobile, There are more and more opportunities to come in contact with people from different cultural groups and backgrounds.

### **3.5. Gender differences**

Gender differences can result in breakdowns and cause misunderstanding in communication between men and women. Considering that men and women are treated differently since childhood, they develop different perspectives, life attitudes and communication styles. Stereotype assumptions about different communication styles between men and women often encourage discrimination of female managers. However, old stereotypes have been replaced much more realistic opinions about behaviour and communication of men and women in business environment of a modern society.

Communication barriers can partly be explained by differences in conversation style. The research shows that men and women listen differently. Women tend to speak and hear a language of trust and intimacy, while men speak and hear a language of status and independence. Women hear emotions better and tend to sympathize and conspire.

Female oral communication differs considerably from male oral communication. Women use **qualifiers**, expressions like – 'I think' or 'It seems to me' – more often. In general, women usually finish statements by modulating their voices upwards, which makes statements sound like questions. Female voices are generally higher and softer than male voices. This makes it easier for a man to overpower female voices and they often interrupt women or overlap their conversation. Of course, there are exceptions, reverse cases, which, as an unwritten rule, confirm the importance of the tone and style in oral communication.

Although there are many differences in gender and oral communication, nonverbal differences are even more apparent. Men lay back and sit with legs apart which takes up a lot of space, and thus they convey higher status and more sense of control of their environment. Women use eye

contact more often, but they hide their eyes more often too, especially when communicating with a man or someone in higher position. Women laugh more often and in general, they are better at conveying and interpreting emotions. It is important not to overlook the meaning of the gender realtions in diverse cultures in business environment conditioned by tradition.

Both women and men can work on changing their perception of each others. They should take more care of their behaviour in communication and its impact on their colleagues and choose responses and reactions which will facilitate an open exchange of ideas.

### **3.6. Other factors**

Communication is a continuous and dynamic course in which, besides interlocutors, many accompanying factors also participate. Particular attention should be paid to time. Deadlines can make us focus on information which helps faster decision-making, even though that information is not valid – of quality. Feedback response can thus be inadequate or can be completely omitted, even though it was necessary, since it was not taken into consideration due to time factors. The choice of the right communication model, one-way, two-way or transactional<sup>58</sup> is an important communication factor.

With a one-way communication, for instance memos, a sender does not receive any direct or instant feedback response from a receiver. The research shows that a two-way communication is much more accurate and effective than one-way communication, but it is also more expensive and time-consuming. Transactional model of constant information exchange is today the most widespread and accepted in a successful business communication.

Effective managerial communication in diverse business organisations today implies total consideration of traditional and contemporary ways of communication with the use of all its forms and always bearing in mind the main premise of communication – the willingness to communicate with the aim of doing business successfully.

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<sup>58</sup> Olgica Zečević Stanojević – *Evropsko kulturno okruženje*, Evropski univerzitet, 2007, Beograd.



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## The Role of Managerial Accounting in International Companies

**Abstract:** *Management of multinational companies, in order to gain profit, needs to make effective decisions regarding the choice of business practices and strategies to be followed or in which countries should business operations be located.*

*With the help of information obtained by management accounting, managers can appraise business outcomes to determine if operations are going according to the previously set plans or whether the achieved results differ greatly from the expectations. If it latter is the case, that may require some adjustment and revision of the plans in accordance with operational activities.*

*The development accounting is inextricably linked with the development of the management information system. In the early days of the development of the management information system it was predicted that the overall system approach would lead to the design of a highly integrated management information system.*

*Accounting has also been frequently defined as "the language of business" because it is the basic tool for recording, reporting, and evaluating economic events and transactions that affect business enterprises. Accounting processes document all aspects of a business's financial performance, from payroll costs, capital expenditures, and other obligations to sales revenue and owners' equity.*

*Managerial support is considered the most important condition for adopting new initiatives. Adequate technology and expertise are crucial. Decision makers require a clear, quantified proposals for the application of new techniques to comprehend the amount of costs required for their application.*

Management of multinational companies, in order to gain profit, needs to make effective decisions regarding the choice of business practices and strategies to be followed or in which countries should business operations be located. This requires accurate and timely information. Top managers of

multinational companies devote much time, talent and resources to collecting, reporting and interpretation of data related to various factors.

Only after such information is collected, analysed and ready for use, the management can develop different options for making decisions. As a result, managers of multinational companies can formulate a number of sets of options for their future business activities.

Preservation and use of information are vital for decision making, particularly in the areas of planning and forecasting the future business policy and strategy. In this process managerial accounting plays an important role. What led to the final changes in understanding the importance of management accounting is the notion that the company's strategy influences its need for information. Globalization, which began in the 1970s, led to the expansion of existing strategies, along with the internationalization of business and creation of the global market. Therefore, managerial accounting gained importance, as a system that provides relevant information for decision making and strategy formation.

With the help of information obtained by management accounting, managers can appraise business outcomes to determine if operations are going according to the previously set plans or whether the achieved results that differ greatly from the expectations. If the latter is the case, that may require some adjustment and revision of the plans in accordance with operational activities. Managerial assessment of business outcomes takes into account the effectiveness and efficiency. Successful execution of the task is called effectiveness, while efficiency includes the fulfilling of the tasks, with the means employed to reach the best possible results at the lowest possible price. Best possible performance of the business entails maximum effectiveness and efficiency.

Technology has advanced so much that the company can afford to have different accounting systems for different purposes. Nevertheless, the majority of systems still rely on a unique system of basic information in the field of accounting. This unique system focuses on information needed for financial accounting, but it can be customized to suit most needs of internal management.

A business's accounting system contains information potentially relevant to a wide range of people. In addition to business owners, who rely on accounting data to gauge their enterprise's financial progress, accounting data can communicate relevant information to investors, creditors, managers, and others who interact with the business in question. As a result, accounting is



sometimes divided into two distinct subsets—financial accounting and management accounting—that reflect the different information needs of end users. Financial accounting is a branch of accounting that provides people outside the business—such as investors or loan officers—with qualitative information regarding an enterprise's economic resources, obligations, financial performance, and cash flow. Management accounting, on the other hand, refers to accounting data used by business owners, supervisors, and other employees of a business to gauge their enterprise's health and operating trends.

Accounting's importance as a barometer of business health—past, present, and future—and tool of business navigation is reflected in the words of the American Institute of Certified Public Accountants (AICPA), which defined accounting as a "service activity." Accounting, said the AICPA, is intended "to provide quantitative information, primarily financial in nature, about economic activities that is intended to be useful in making economic decisions—making reasoned choices among alternative courses of action."

This led to the development of international accounting standards and principles. They provide a unification in the presentation of business results of companies and managers.

In each country, local law prescribes the obligation to draw up financial statements. These laws include the accounting standards that are published by legal and professional accounting organizations in the respective country. Before the formation of International Accounting Standards Committee (IAS), there were frequent differences in form and content of the published accounting standards in most countries.

Working on the adoption of existing standards and the formulation of new international accounting standards, IAS is making them less complex also that they can be effectively applied all over the world. International accounting standards published by the IAS are constantly reviewed to take into account the current position and the need to update.

The International Accounting Standards Board (IASB) has developed and published the framework for international accounting standards. This framework allows the harmonization of regulations, accounting standards and procedures for presentation of financial statements, thus reducing the number of alternative accounting treatments permitted by International Accounting Standards. Generally accepted accounting principles (GAAP) are the guidelines, rules, and procedures used in recording and reporting accounting information in audited financial statements. Various

organizations have influenced the development of modern-day accounting principles.

The development accounting is inextricably linked with the development of the management information system. In the early days of the development of the management information system it was predicted that the overall system approach would lead to the design of a highly integrated management information system. Therefore, the management information system should be considered as a set of information subsystems that use a common database. The common denominator of all subsystems is an objective system as a whole - providing management with the right information, in the right quantities, at the right time and at minimal cost.

According to the system theory approach, an accounting system is a management information system that is responsible for the collection and processing of data useful to decision-makers in planning and controlling the activities of a business organization. The data processing cycle of an accounting system encompasses the total structure of five activities associated with tracking financial information: collection or recording of data; classification of data; processing (including calculating and summarizing) of data; maintenance or storage of results; and reporting of results. The primary—but not sole—means by which these final results are disseminated to both internal and external users (such as creditors and investors) is the financial statement.

Accounting is, therefore, to be considered as a subsystem of the management information system, because it deals with the process of determining, and communicating economic information about the affairs of a particular business entity, so that information users can make decisions concerning the financial affairs of a given subject. In other words, the accounting can be defined as a financial information system, designed to provide financial information needed by the different range of users.

This analysis of accounting as an information system leads to several important conclusions. First, the principal aim of the system is to provide information that meets the needs of its users. If we can accurately and clearly determine these needs, then we can determine the nature and characteristics of the output of the system.

In recent decades there has been a reduction in trade tariffs, quotas and other barriers to free trade, improving the global transport system and increasing the level of sophistication of products on international markets. These factors together have led to reduced costs of international trade and to further

expansion of multinational companies on the potential markets. Cost reductions have been caused by the competitors and in relation to local companies in countries where they operate. What was the relevance of managerial accounting in those circumstances? The answer lies in constant need of multinational companies to reduce costs and thus become competitive on both the international and the world market.

Accounting has also been frequently defined as "the language of business" because it is the basic tool for recording, reporting, and evaluating economic events and transactions that affect business enterprises. Accounting processes document all aspects of a business's financial performance, from payroll costs, capital expenditures, and other obligations to sales revenue and owners' equity.

Accountants select raw data, relevant to its target. Filtering process plays a key role in defining accounting information. This filtering process can be understood as a boundary between the accounting system and its environment: it is a point or a moment when the raw data becomes the input data. The selected data represents the input for a system that creates accounting information. The output data is used by a group of managers in order to facilitate the process of decision making.

The output or financial statements are the most comprehensive way of communicating financial information about a business enterprise, and a wide array of users—from investors and creditors to budget directors—use the data it contains to guide their actions and business decisions.

It is because of an extensive group of users, and the relevance accounting information has in the developed world, that accounting profession today has reached a status that is comparable to the law or medicine.

In an increasing level of competitiveness, there is an increasing pressure on managers in the decision process in order to maximize the financial performance of the company where they work. In response to these needs, the series of new methods and techniques of management accounting has emerged. For this reason, there was a need to conduct research on the importance of management accounting at U.S. companies.

Such research was conducted in 2003 by The Agency Ernst & Young in collaboration with the Institute of Managerial Accounting (IMA). The main aim is to provide answers to the following questions:

1. Has there been a fundamental change in the role of management accounting?

2. Does the existing methods meet the new needs?
3. If not, what techniques and methods (new or traditional) are deemed necessary to apply?
4. What role do new technologies play in changing the common methodology of managerial accounting?
5. What factors are currently speeding up or slowing down the application of these techniques and methods in organizations?

The study lasted 5 weeks, starting January 2003, and was conducted by electronic means (e-mail), and included 2,000 respondents - members of the Institute of Managerial Accounting, approximately 23,000 respondents. They were divided into two groups. First group consists of: decision makers (31%) - executive directors, financial managers, operations managers and people related financial and accounting departments, and the second group consists of lower levels of management.

Findings:

- 1) Cost management is crucial for achieving strategic goals. Of the total respondents: 80% said that cost control is of great importance for the overall strategic goals of their companies, while 75% believe that the state of the economy led to an increased need for cost control and transparency of costs;
- 2) Decision makers and executors of decisions cited the need for "usable" information on costs, as the main priority. Both groups believe that the two main priorities are: to create "usable" information and reduce costs and their causes. There is, however, a difference of opinion among decision-makers and executors. Decision makers believe that the next highest priority is contribution to a basic strategy, and executors believe that the next highest priority is improving the reporting process setting standards of performance for the organization.
- 3) The majority of respondents do not consider the application of new techniques and methods of managerial accounting in the current economic conditions. In the current environment, new initiatives are not high priority of a company. Major initiatives that companies do apply are new procedures of budget preparation and implementation of ERP (enterprise resource planning with a common information base). The initiatives that were once popular such as reporting on financial consolidation and application of new analytical procedures, are found at the bottom of the list. Nearly 80% of all respondents agreed that the application of new methods and techniques of

management accounting is not a priority, 72% of respondents use traditional techniques, 14% of respondents use the best known and the remaining 14% use ERP models.

4) Despite the emergence of newspapers, traditional management accounting methods are still widely used. Examples include: quantitative techniques (76%), traditional cost system (76%), the technique of making the operating budget (75%). Modern, non-traditional management accounting techniques are not widely represented, as evidenced by the following research results: the system of target cost (25%), Value Management (25%) and the theory of limit analysis (22%).

6) Managerial support is considered the most important condition for adopting new initiatives. Adequate technology and expertise are crucial. Decision makers require a clear, quantified proposals for the application of new techniques to comprehend the amount of costs required for their application.

A common characteristic of all forms of accounting is their function, which has not changed since the beginning of accounting-collection and organization of the business operations, and their processing into useful information. Such information becomes the basis of the decision making process of managers. However, two processes have largely influenced the further development of accounting as part of an information system.

The increasing use of computers for business purposes have shortened the processing of information and made them accessible to different management levels. Another process that led to the questioning of the relevance of information in decision-making process is the internationalization of business. For a multinational company, with branches all over the world, it is no longer enough to have timely and accurate information at its disposal. For this reason there was a need for information to be presented in a uniform manner so that management of multinational companies could compare the profitability of different markets.

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Career: worked as an assistant on the subject International Accounting, Faculty of International Management, 2005-2008; Assistant Professor on the subjects: Business Forecasting, Business Planning, Management of Business Projects, Business Control, Faculty of European Business and Marketing, from 2009 to present day. Publications: over fifteen scientific works and books, among which are: author:

Business Forecasting (English edition), Business Planning, Management of Business Projects, Business Control; co-author: International Accounting, Management Accounting.

Other works include: Interdependence between Business Forecasting, Planning and Decision making, the Collection of Published Works: Science, Education and Diplomacy as a function of Euro-Atlantic Integrations, European Academy of Science, Vienna, 2006., Application of different types of decision-making in preparation of the Master budget, the Collection of Published Works: Science, Education and Diplomacy as a function of Euro-Atlantic Integrations, European Academy of Science, Vienna, 2007.

## Interdependance of Accounting and its Usefulness

**Abstract:** *In the contemporary business surroundings, the decision maker finds himself inundated with the multitude of information. The filtering of information plays an important role in the process of making effective decisions. The management information system, based on the accounting system, stemmed from the need to make a distinction between relevant and irrelevant data in the shortest possible period of time.*

*The history of accounting is a story about the activity based on the need of an owner of a business to know the financial aspects of it. The question that poses itself is why it is necessary to study the history of accounting, which is further developing into new form and subtypes nowadays, with its essence remaining the same for the last five hundred years.*

*The answer to this question is fairly simple- something that remained unchanged for such a long period of time, taking into account the never-ending need for it in the business world, itself represents a fascinating phenomenon. The principle of usefulness that guides human behavior from the times immemorial is at the base of accounting and as such represents a complex subject of study.*

*Every asset has its sources:  $A = P$ . This formula has been perfected for years but remained basically unchanged for half a century. The balance has to exist at every moment and that is how the accounting system controls itself. There lies the true origin of the profession, arising from the need to know, control and change financial aspects of the business.*



In the contemporary business world, managers as decision makers are inundated with myriads of information on daily basis. The filtering of information is crucial for making effective decisions. The management information system has stemmed out of the need to shorten the process of differentiating between relevant and irrelevant data. The theory of accounting sees it as instrumental in the process of decision making. According to some authors it has appeared in answer to complex financial system that followed the development of business through centuries. Others claim that accounting itself has improved the revolution of business systems from middle ages onward. The history of accounting is a story about the trade originating from the realistic need of the owner to know the financial aspect of his business. The question that poses itself is why is it necessary to study the history of accounting. The answer to this question is simple-something that stays unchanged for such a long time presents a fascinating phenomenon.

The principle of usefulness drives human behaviour and lies at the core of accounting. In order to understand its significance in the development of accounting it is necessary to travel back in time. Five thousand years before the appearance of double entry, Babylonian and Sumerian civilizations were prospering in the Mesopotamian Valley, creating some of the oldest known records of commerce. As agriculture thrived, service businesses and small industries developed in the communities. The legal codes penalized the failure to memorialize transactions. The Mesopotamian equivalent of today's accountant was the scribe. If he made a mistake in writing down business transaction, he would be beheaded. At that time money was not used on the market and the goods were exchanged for different goods. The need for recording of that trade arose. The scribe's duties included writing up the transaction and ensuring that the agreements complied with the detailed code requirements for commercial transactions. It was considered a prestigious profession.

The interested parties would seek out the scribe at the gates to the city. They would describe their agreement to the scribe, who would take from his supply a small quantity of specially prepared clay on which to record the transaction. The moist clay was molded into a size and shape adequate to contain the terms of the agreement. The parties then signed their names to the tablet by impressing their respective seals. After these impressions from the amulets were made, the scribe would dry the tablet in the sun.

Noting down data was the first form of bookkeeping. In Ancient Egypt, accounts were kept on papyrus. In ancient Egypt, as elsewhere in early times, the use of money was unknown, and the fiscal receipts and payments of

Pharaoh were in kind. Egypt, as a highly developed civilization, displayed a high level of organization in doing public jobs and division of labour. This was put into practice in the process of building pyramids. It took them two hundreds years to improve this process, and they learned by trial and error. The system of recording data developed at the same time. The scribe was highly represented profession which can be seen in the pictures and drawings from that period. He was usually represented sitting, holding papyrus in his lap, his facial expression calm and composed. Recording the state of propriety made their owners realize the ways in which they could multiply it. There are writings about detailed recordings on Egyptian farms. They belonged to the Pharaoh and they served as the source of foods for the army and workers. That is why they were strategically important. The scribe was not allowed to make a mistake, as the fine would be beheading or mutilation. The recording of data served one more purpose- it prevented any kind of theft on the farms.

As the years went by, the business system became more complex. The question that often poses itself is why the accounting did not originate in Ancient Greece, as the cradle of civilization. We cannot say that it did not existed there, as the system of recording assets existed in Greek cities. Every citizen was responsible for tracking down everything he possessed and he had to give the lists he compiled to the authorities. In that way, the control of propriety took place. The old system of barter was gradually being replaced by exchange based on currency. However, the answer to the before mentioned question lies in the fact that the first bank did not originate in Greece, but later, when businesses were in such expansion that the owners lacking enough money had to take loans from banks. Those new conditions required a new and improved way of recording. In other words, simple recording was not enough as the greater number of business partners became involved, making the changes in assets more complicated. The system of usefulness enhanced the further development of accounting, making it one of the most significant tools of trade.

The Middle Ages bring about the flourishing of Italian cities and the trade among them. The Renaissance meant the rebirth of human spirit and the soaring of human thought. It was the period when the double- entry bookkeeping as we know it today got its form. Pacioli was born into a poor family of craftsmen and in his early years he started working for a merchant. Trade helped him to apply mathematics, his greatest love, to solving practical problems. In search of enhancing mathematics as a science, Pacioli wrote his famous book “*Summa de arithmetica, geometria, proportioni et proportionalità*”.

In it, he described the system of double-entry bookkeeping as we know it today. It is interesting that the book was written in Italian instead of Latin language. Pacioli's aim was to bring this system closer to merchants by writing in the language they understand. He stated that for running a successful business one needs three things: owner capital, good accountant, and that the owner understands the state of his finances at every moment.

The third condition caught the attention of his contemporaries. They wanted to know what exactly their accountants were doing, and Pacioli provided them with the insight into financial statements. The solution he proposed, however, was not invented by him. Pacioli did not call himself a father of accounting, although modern history sees him as such. He merely noted the method used by Venetian merchants in practice. His book gained great popularity and was one of the first books to be printed on Gutenberg press. Pacioli later in life became a university professor, the best friend of Leonardo da Vinci and a monk. However, he was not fully aware of the importance of his book and its impact in the years to come.

The method he described in his book earned him a place in history. Where exactly the method was first used? The answer is the shipbuilding in Venice. In that period the spice trade was equivalent to the American dream today. It could make a person go from rags to riches for a short period of time. To reach the exotic far-away lands where spice grew was possible only by ships. That is the reason why shipyards were something like modern space stations, small in numbers and located in the richest part of the world. In order to build a ship, one had to take credit from a bank, or join capital with somebody else. The ship had to sail at the right time, because delay would mean loss. All this required complete control of assets and its sources. And again the usefulness of accounting plays its part. Every has its source:  $A=P$ . Until today, this equation remained unchanged. That is, in fact, the true beginning of the profession, originating out of the need for insight, control and change, and all of them combined caused the development of business systems.

The next important event in the history of accounting took place in Scotland. The Association of Accountants pleaded with the queen to get the royal seal. The royal seal was only given to the institutions of high importance to the United Kingdom. This plea was sent in 1854. At that time there were not many accountants in Scotland but nevertheless they acknowledged the importance of the profession. It seems the queen Victoria herself saw the importance for she gave her approval. They became the Association of Chartered Accountants. Many of those professionals immigrated to America where accounting gets a new role. The state, following the cases of financial

malversations, became interested in financial statements. They were mandatory for all the companies. In the years to come, accounting as a profession continued its development, branching into many subtypes but with its essence remaining the same.

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**UNIV. PROF. DR. DRAGAN NEDELJKOVIĆ,**  
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Prof. Dr. Dragan Nedeljković was born on February 19, 1962, in Belgrade. He completed his primary and secondary education in Belgrade, and graduated from the Faculty of Sciences - the Department for the Tourism studies, in Belgrade, in 1986. At the Faculty of International Management, Belgrade, Prof. Dr. Nedeljkovic successfully defended his master thesis entitled „The roles and functions of managers, with a special emphasis on the decision-making process” and was awarded the master degree in International Management, in 1997. In 1999 he successfully defended his doctoral thesis at the Faculty of International Management, entitled „The Process of Making and Implementing Decisions - a Comparative Approach” and was awarded the PhD degree in International Management.

From 1986, Prof. Dr. Dragan Nedeljković worked at the Institute for International Management, as a researcher, and as a member of the team he participated in a number of scientific and professional projects. From 1993, Prof. Dr. Nedeljković was employed at the Faculty for International Management, as an assistant for the subject The Introduction to the International Management and Business. After receiving the doctoral degree in 1999, he was awarded the title of an assistant professor for the subjects: Management and Managerial Decision Making, and in 2001, the title of an associate professor at the European University - Faculty of European Business and Management. In 2006, he received the title of a full professor in the field of management and business, for the subjects: Management, Managerial Decision Making, International Business and Management, and European Business.

Prof. Dr. Dragan Nedeljković is the author and co-author of numerous scientific and professional papers published in domestic and foreign magazines and monographs, of numerous books, and has participated in a number of scientific symposiums at home and abroad.

## Decision-Making in American, Japanese and European Management and Business

**Abstract:** *The research in the field of business-specific and company-specific management practice in the process of making and implementing decisions raises the question of the efficiency of the decision-making model 'rooted in the local management culture'. The comparative approach and analysis of the hierarchical field of a target influence on the process of making and implementing decisions and change management of the organizational design show particularities of the management practice in European companies in comparison to American and Japanese companies. However, European management model does not represent a 'substitute' for individual national models. Despite the fact that diversity is a major European feature, it is also its major originality. European integration and European management model shall significantly strengthen competitiveness of European business. In this context, a decision-making process is of crucial importance for management development. Since a manager represents a dynamic element that gives life to every job with its decisions, the decision-making process represents a critical point in management where science and art in management overlap, where managers by combining scientific methods with their rational and intuitive steps make a decision that decides further survival and development of an organization.*

*European market is one of the most attractive markets for foreign investment. The presence of American and Japanese direct investments, together with a large number of American and Japanese companies which coexist with European companies show mutual influence of different management philosophies on European business scene. Respecting the differences between American, Japanese and European management style, as well as a comparative analysis of the influence of American and Japanese management philosophy on European business environment will show future perspectives of the development of European management.*

### **Decision Making Process in Various Management Systems in European Business**

The most frequent question one can find in the present materials and practice, connected to the European business and management problems and research is: Is there a European management model? Posed in this way, the question sounds simple and biased. However, the answers could be more complex than simple “yes” or “no”. Positive answer would oppose the attitude that management philosophy and practice are different, both in the world and Europe. Such an attitude on management, however, is relatively new: during 1950s and 1960s, universal approach dominated. Situational approach and the emergence of comparative management (e.g. Weinshall), the concept of national culture in the workplace (e.g. Hofstede) and business system historical analysis (Chandler) have emerged with L business multinationalization.<sup>59</sup>

Faced with “cultural stress”, managers must adapt their “domestic” behavior to foreign contexts. Japanese company success in Western markets during 1980s raised the interest for researches in comparative management and important researches in management have emerged in Europe when it was clear that European single market is visible.

The contemporary literature has suggested a number of management system typologies in Europe. However, the essential problem is in their mutual overlapping.

Laurent believes that there are two opposing groups of countries that represent two different models of management in Europe: the first, consisting of France, Belgium and Italy where managers see the organization as a political system led by the hierarchy of authority, and the second group consisting of north-European countries, in which managers see the

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<sup>59</sup> Weinshall T.D., *Culture and Management*, Penguin, 1977.

Hofstede G.H., *Culture's Consequences: International Differences in Work Related Values*, Beverly Hills: Sage Publications, 1980. Chandler, A.D., *The evolution of modern global competition*, in “Competition in Global Industries”, Poreer, M.E., Harvard Business School Press, Boston, 1986, pp. 405-408.

organization as a network<sup>60</sup>. Schneider and de Meyer also emphasize the difference between Latin Europe and Northern Europe<sup>61</sup>.

Albert compares Anglo Saxon model (United Kingdom) with a model "models Rhenan" (developed by the Germans), but does not provide management features most other European countries<sup>62</sup>. Simonet establish the existence of four models of management within Europe: German, Latin (excluding France), French and Anglo-Saxon (including the Scandinavian countries). He points out the differences between the models, taking into account only two dimensions: the degree of formalization and degree of centralization.

Other research conducted by Hofstede in fifty branches IBM based on four dimensions on which to analyze the differences between national cultures in the workplace: power distance, uncertainty avoidance, individualism / collectivism, masculinity of society,

- 1 *German model.*
- 2 *Scandinavian model*
- 3 *Anglo-Saxon model*
- 4 relatively homogeneous *Latin model*

In the following section we analyze the process of decision-making and implementation in dominant management systems in Europe, which were presented at the first two levels of segmentation: Anglo-Saxon, Latin, North Europe, using the German model as an example.

### ***Decision Making in British Management Model***

The analysis of British Management Model can begin with the following sentence: „When you say Europeans, you mean those who are not English." The sentence summarizes the general opinion about management specifics in Great Britain which are closer to management characteristics in the US, i.e. management characteristics in Great Britain are „somewhere in between" the US and European continents<sup>63</sup>.

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<sup>60</sup> Laurent A. *The Cultural Diversity of Western Conceptions of Management*, International Studies of Management and Organisation, 1983, str. 75-96

<sup>61</sup> Schneider S.C., A. de Meyer, *Interpreting and Responsonding to Strategic Issues: the impact of national culture*, Strategic Management Journal, No 12, 1991, str. 307-320.

<sup>62</sup> Albert M., *Capitalme contre Capitalisme*, Seuil, Paris, 1991.

<sup>63</sup> Alain Minc, *La Grande Illusion*, Grasset, Paris, 1989.



Decision making and leadership in British management model have the following characteristics that are identical with American management model characteristics:

- *Short-term orientation in decision making, far more distinctive than in management systems in the rest of continental Europe.*
- *Decision making and leadership oriented towards shareholder interests, unlike other management systems in Europe where decision making and leadership are more oriented towards other business agent interests (industrial groups, workers, trade unions).*
- *Larger freedom in top management decision making vis-a-vis government and workers. British management model is characterized by less influence of state and trade unions on decision making and implementation process, as top manager decisions and their implementation are primarily directed towards company owner interests.*
- *British management characteristics are to involve a few people in preparation and decision making and vertical communication flow: from higher to lower hierarchy levels.*
- *British management model is characterized by greater manager mobility within a company or between companies: distinctive loyalty towards profession rather than the company, career promotion is based on individual characteristics and manager conceptual abilities, result evaluation is based on the effects achieved in shorter time periods; therefore, British manager decision making is primarily oriented to short-term financial result achievement.*

British management differs from other management system in Europe in the following:

- *More distinctive orientation towards finances and trade (the importance of securities is more developed in Britain than in other continental Europe).*
- *Far more distinctive liberalism towards foreign companies (for example Japanese ones, comparing to protectionism in management systems of continental Europe).*
- *The influence of class differences in companies.*

However, in spite of these differences, British management model „shares" mutual, general characteristics of decision making and leadership process with other European country management systems.

### ***Decision Making in German Management Model***

In the wider zone of management analysis in Europe which we define as „North continental Europe" (German, Scandinavian and Benelux countries), German management is by far the most noticeable style. When we analyze management in German countries, some authors use the notion „model", probably considering German management co-existent that proved itself in practice as sufficiently homogenous and successful. Michel Albert uses the

term *la model Rhenan*<sup>64</sup>.

German management model is based on three cultural and structural characteristics influencing decision making process and leadership in German companies:

1. Strong ties between banks and industry.
2. Balance between „the feeling of national collectivity" and „Lander system".
3. Managerial career training and building system.

The following five components of this management models could be emphasized:

1. Decision making through the system of *co-determination* with worker representatives in the boards.
2. Manager distinctive *loyalty* (and all the employees generally) towards the company rather than the profession. Career progress is achieved only in one company; that is why priority is given to leadership and training.
3. *Collective and team orientation including distinctive commitment to company, team spirit development and sense of discipline.*
4. *Long-term decision making orientation expressed in planning process, in industrial objective priority over short-term financial goals and stability of supplier and client relation.*
5. Shareholders and capital sources reliability and stability as the result of strong ties between banks and industry.

Co-determination system that has been built in German steel industry by Allies, after World War Two, is the source of social cohesion and effectiveness in German management and business and has the impact on the specific decision making and implementation way.

Supervisory Council (Aufsichtsrat) consists of fifty percent of worker representatives and fifty percent of shareholder representatives. Decision making and implementation process cannot be blocked because the president, appointed by shareholder representatives has the right to vote. Before the Council meeting, worker representatives prepare decisions. President checks whether there is an agreement or not. If the agreement exists decision is reached. Otherwise, decision making is performed through «internal bargaining»). Such decision making system is characterized by extremely developed internal communication structure. Employees are well informed about company goals and they disseminate information downward and upward. They defend their interests but understand company problems and its collective interests. In other management systems where there is no co-determination system, top management makes decisions that are far

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<sup>64</sup> Michel Albert, *Capitalisme contre Capitalisme*, Seuil, Paris, 1991

from meeting employee interests and consequently they produce certain labor reaction. Co-determination in decision making has strengthened German united union system enabling easier "internal bargaining". Co-determination in decision making creates more developed communication flows within organization, more than "the power division" method. There is a similar decision making system in Dutch and Scandinavian management systems.

Another German management system characteristic, loyalty to company, can be linked to participation process with priority given to leadership, in-house training and building of team spirit in German companies. One of the distinctions in German management system is that career advancement is achieved within a firm, as a result of distinct loyalty towards the company, unlike loyalty towards profession. The link between a firm and its employees is very strong in German management system. The trend is to retain human resources as long as possible, sometimes for the whole working life. A prerequisite for "life-time employment" is strong and effective training and company attempt to provide personnel development both through basic and complementary training. However, geographic and human resource mobility is rare: for example, Germans would rarely leave Bavaria to move to another company subsidiary in North Germany.

Unlike some researches that compare British model to American management, some analysis and researches show similar characteristics in decision making process and leadership between German and Japanese management models<sup>65</sup>.

There are some similarities in German and Japanese management models regarding decision making and leadership. There are, however, some differences in their implementation mode. (Picture below)

Similarities	Differences in Implementation	
	<i>Germany</i>	<i>Japan</i>
DECISION MAKING	<i>Co-determination system «Internal bargaining»</i>	<i>«Keiretsu» System «Neutral Consensus»</i>
COLLECTIVISM, TEAM SPIRIT, DISCIPLINE	Individual protects his interest and originality Responsibility directed towards individuals	Individual is in the group shade Responsibility directed towards group
MANAGEMENT CAREER	«Manager - Specialist») (within the function)	«Manager - Generalize (advancement through internal job rotation)

**Figure.** *Similarities and differences between German and Japanese management*

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<sup>65</sup> Georges C. Lodge, *Perestroika for America*, Harvard Business School Press, Boston, 1991. The author compares «Anglo-Saxon individualistic form of capitalism" (represented by UK and the US) with «group form of capitalism» (represented by Germany and Japan).

Thus, for example, financial resource stability is a common characteristic of both models but it is based on the following different structures:

- Bank influence in industry (and vice versa) in Germany
- Keiretsu" structure in Japan<sup>66</sup>.

Workers' participation in decision making is a common characteristic of both management systems, however:

- In Germany, decision making process is based on "internal bargaining"
- In Japanese management model, decision making process is based on neutral consensus.

Collectivism versus individualism, team spirit and feeling for discipline are common characteristics of both management systems, but:

- In Japan, an individual is in the group "shadow" (group decision making, responsibility is directed towards group and not individual).
- In German management system, an individual protects his interest and originality.

Finally, German managers are "specialists" (for the given function), while Japanese ones are "generalists" advancing in their career through internal job rotations.

This is why we cannot agree in full with Albert or Lodge claim that "Rhenan model" is very similar to Japanese management model<sup>67</sup>. This is also asserted by the fact that decision making and leadership in German management model have some common "European" general characteristics.

### ***Decision Making in Latin-European Management Model***

Compared to common management characteristics in Europe, Latin management model has the following specific features:

- Decision making process in companies is under larger influence of government and its interests. State interest is above the interest of a company and it is demonstrated through strong government intervention in almost all business operations.
- Latin management model is characterized by the higher degree of protectionism emerging through government protection regulations for home companies and markets relative to foreign competition.
- Distinctly larger hierarchy structure in companies.
- Greater influence of «intuitive management»
- So-called «family businesses» (specially in Italy) dominates company structure.

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<sup>66</sup> "Keiretsu" - special model of decision making in Japanese management (decision flows from the bottom to the top).

<sup>67</sup> Albert M., *Capitalism contre Capitalism*, Seuil, Paris, 1991. Lodge C.G., *Perestroika for America*, Harvard Business School Press, Boston, 1991

- Human resource management is based on «business elite») education (especially in French management system).

Government intervention in business in Latin management system appears in several forms. First, state owns and runs strong industrial companies and financial institutions. For example, in Italy, companies owned by the state were mostly created before the War, during the large economic crisis in 1930s. Many businesses were on the verge of bankruptcy and the state founded a special institute to control accurate decision making and implementation in order to avoid factory shut-downs. In other countries, government intervention in business was carried out through nationalization<sup>68</sup>. In Italy, the government, operates as «an industrial actor») with tendency towards administrative (opposite from entrepreneurial) management forms.

In France, the government also has a strong influence on business and it has created and implemented industrial policy through a number of «large projects»), such as Minitel and train a Grand Vitesse - TGV. State ownership of the leading French financial institutions is another way to influence decision making and implementation as well as company goals and business policy in general.

Another state intervention form is reflected in the combination of regulations and government attitudes towards international competition resulting in the higher degree of protectionism. In this area, French, Spanish and Italian management systems can be marked as systems with the highest degree of protectionism in the whole Europe.

In Latin European companies decision making process is characterized by a stronger presence of hierarchy, larger number of hierarchical organization levels and less participation of lower hierarchical levels (compared to German model).

Management in Latin Europe is far more personalized. In this management style, decision making process and leadership are based largely on "intuition" and so-called "leadership through chaos". As D'iribarne points out, "especially in Southern Europe including France, company executives are very suspicious when it comes to structures and procedures. They lead under the pressure, intuitively and in "chaos". They do not pay much attention to organizational maps<sup>69</sup>. Connecting this attitude to the aforementioned administrative management style in state owned companies, one can get a double picture of management in Southern Europe.

Some Latin management model features are demonstrated more specifically in some Southern countries. In Italy, "family management" based on family ownership has been developed.

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<sup>68</sup> Editors, Business International, Management Europe: How Companies are dealing with critical management Issues", London, 1992. <sup>55</sup> Albert M., Capitalisme contre Capitalisme, Seuil, Paris, 1991. Lodge C.G., Perestroika for America, Harvard Business School Press, Boston, 1991

<sup>69</sup> Fiedler definite situational model of decision making through managerial orientation to interpersonal relationships or tasks. Fiedler F., Improving Leadership Effectiveness, Wiley and Sons Inc, New York.

Consequently, business executives personalize their companies and management can be characterized by larger paternalistic attitude in decision making process and leadership.

In Latin management model less importance is attached to personnel training within a company. It is particularly present in French management system through the importance attached to "business elite" and "Grandes Ecoles" educating the elite. DTriarne best explained the characteristic comparing it to German model: "French managers think they can make decisions and lead any company after completing Politechniques or L'Ena. In Germany, it is completely different: an individual must build his career in the company. Whether he will reach the top depends on his abilities and company success."<sup>70</sup>

In addition to specific management practice, Latin management model has common specific European management characteristics.

### **Integrative Elements of Decision Making in European Management**

If we analyze management systems within internal European environment we can see differences in decision making and implementation process among countries, regions and companies. But, if we observe Europe as a whole, taking into consideration its external environment, and when we compare it with management practice in Japan or the US, we notice homogeneity and common characteristics that make European management model specific relative to American or Japanese model.

There are four common characteristics of decision making and implementation process that can be identified within European management model:

- Orientation towards interpersonal relations in decision making and implementation process
- *Internal bargaining as a decision making and implementation model*
- Leadership oriented towards intercultural international diversity
- Leadership between extreme

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<sup>70</sup> Albert M., *Capitalisme contre Capitalisme*, Seuil, Paris, 1991. Lodge C.G., *Perestroika for America*, Harvard Business School Press, Boston, 1991.

## DECISION-MAKING IN AMERICAN AND JAPANESE MANAGEMENT MODELS

The European market is one of the most attractive markets for foreign investments. The presence of U.S. and Japanese direct investment, as well as a large number of U.S. and Japanese companies coexisting with European companies, indicates the interaction between the different management philosophies on the European business scene. Recognizing the differences between U.S., Japanese and European-style management, and comparative analysis of the influence of American and Japanese management philosophy in the European business environment will indicate the prospects for the development of the European model of management.

Research by T. Pascal and A. Athos, along with those whose authors Ohmae and Ouchi, represent one of the most comprehensive studies that have analyzed the characteristics and effects of the Japanese model of management as an alternative to the dominant American model<sup>71</sup>. According to them, the best firms are characterized by harmony between elements of Model "7S". Japanese Americans are similar in the way they manage components: strategy, structure and systems, but differ in the way they are managing the remaining components: skills, style, staff and professional goals subordinates. Their culture has influenced the Japanese valued interdependence as a modality of relations, while the American model evaluates independence. In Japan, the "individuals" as an obstacle to development, individuals define their identity in the group to which they belong. American society is built on the fact that the importance given to "an individual". These authors quote T. Fujisawa (co-founders of Honda), who says: "Management in Japan and management in the United States are 95 percent similar, but completely different in the remaining 5%, 5% essential"<sup>72</sup>.

These differences were discussed and further research. American management is based on strategic planning and rational means looking for coherence and management of Japanese companies (such as Canon, Komatsu, Honda ...) defines the term "strategic goal", and focuses on the implementation of the strategy carefully. The American model is identified with "professional management" who immortalized the idea that a manager with a percentage of the net calculations on the one hand and portfolio planning, on the other hand, can

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<sup>71</sup> Omaha K., *The Mind of The Strategist: The Art of Japanese Business*, McGraw Hill, New York, 1976.

<sup>72</sup> Pascale R.T., Athos A.G., *The Art of Japanese Management*, Warner Book, New York, 1981.

manage any company in any place. In contrast, Japan has given priority to training programs and job training in the company<sup>73</sup>.

Individualistic orientation of the Americans and the Japanese group orientation has several managerial consequences: e.g. Loyalty of companies in Japan is extremely high (lifetime employment). Similarly, strong ties within the group when it comes to values, to enable decision-making in Japan, follows the course of "bottom-up" compared to U.S. companies where the process is "top down"<sup>74</sup>.

Chandler has these characteristics put in historical perspective<sup>75</sup>. In corporate America, has developed a new class of merit and professional managers. Chandler described the culture of management as "managerial capitalism". Delegating responsibility can only follow if the top management of retained access to information as a means of control. In such a way Divisional structure and sophisticated management systems. Japanese cultural heritage prompted the formation of a management Chandler is called a "group" capitalism. Social and cultural barriers have made it difficult to integrate those who are not Japanese. It has influenced the Japanese companies keep making and control in the center, where they can manage those who understand the subtleties of the system.

James C. Abbleglen and George Stalk used a radically different perspective to the study of Japanese corporations, and compared it with the American model. They maintain the view that the marketing strategy and the "strategy of human power," not the style of management, Japanese management are the one who determines the pace. Japanese companies tend to develop "management with a tendency towards the development of a different mind set that includes an expectation of continued development and planning decisions are formulated to lead to development"<sup>76</sup>.

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<sup>73</sup> Hamel G., Parhalad C.K., Strategic Intent, Harvard Business Review, 1989, str. 63-76.

<sup>74</sup> Thurow L., Head, Mit Press, Cambridge, 1991.

<sup>75</sup> Chandler A.D., "The Evolution of Modern Global Competition", Competition in Global Industries, Harvard Business School Press.

<sup>76</sup> Abbleglen James, Stalk George, Kaisha, *The Japanese Corporation*, Basic Book, New York, 1985.



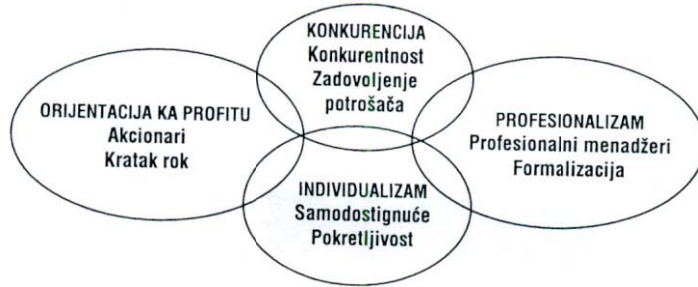
Lester Thurow acknowledges this key distinction in the logic of business: Americans for the ultimate goal is profit, and profit for the Japanese empire means creating and strengthening their company. According to him, the two systems are fundamentally different: American society is oriented towards consumption and welfare of the owners and shareholders, while Japanese society-oriented savings and investments. Thurow also showed significant differences in the roles played by the government in the two systems. In addition to stimulating influence defense policy of the American government, the American system is characterized by pure liberalism, the Japanese government has always been involved in the development of national industrial strategy of indirectly protecting a domestic industry, performing a selection of priority sectors to be developed in the long term financing and research and development related to the given domain. Thus, for example, the U.S. government initiated anti-trust legislation to provide free competing with the domestic market. In contrast, Japan's government has never fully "dissolved" "Zaibatsu" so that the conglomerates survived, developed in the form of "a Keiretsu." Mitsui, Mitsubishi, Sumitomo, Fuji, Dai-ichi and Hitachi together represent an organized economic structure. Trump's actions in a member of the Keiretsu guarantees involves inexpensive and stable capital, which is necessary in order to develop long-term industrial strategy<sup>77</sup>.

When we take into account such contrasts between the two systems of management, it is clear that a five percent difference you mentioned Fujisava T. essential.

Figures 8.2, 8.3. and 8.4. summarize the main characteristics of American, Japanese and European model of management, which will further part of the paper serve as the basis of analysis of the influence of American and Japanese management philosophy of the European management.

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<sup>77</sup> Thurow Lester, *Head to Head*, Mit Press, Cambridge, 1991.

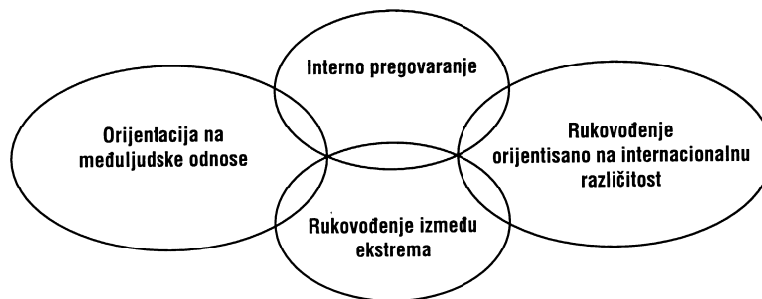


*Figure 8.2. Characteristics of the American system of management*

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*Figure 8.3. Characteristics of Japanese management systems*



*Figure 8.4. Characteristics of European management systems*

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Surveys conducted in European companies shows that European managers analyze the impact of American management much "positive" the researchers: obviously because they are in Europe still appreciate some of the key values of American society, such as entrepreneurship, the concept of individualism, and the profit-oriented competition. Competition is identified as an essential characteristic of American management, primarily due to the contrast with Europe, where the company and the market is far more reserved. Analyzing Japanese firms and their

impact on the European stage, this research has shown that "the pursuit of quality" is the main characteristic of the Japanese model<sup>78</sup>.

Comparative Analysis of American and Japanese management model has enabled a broader comparison of Anglo-Saxon "individualistic forms of capitalism" (representing the United States and the United Kingdom) with "group form of capitalism" (representing Germany and Japan), the term used by Georges C. Lodge<sup>79</sup>.

In this sense, Michel Albert makes a distinction between "Capitalism Anglo-Saxon" and "Capitalism Rhenan". This extended segmentation based on syntheses that are similar in comparison with the U.S. and Japan. According to these authors, the United Kingdom and the United States share a common paradigm of liberalism, profit orientation, dominance of finance over industry, a commitment to shareholders in the decision-making process, individualism, and the great mobility of personnel. Germany and Japan have similar paradigm: the competitive advantage of an organized, long-term orientation, a great investment, stable capital structure, company loyalty<sup>80</sup>. However, despite the similarities, there is also some inconsistency. German company definitely belongs to the "western circuit in which one dominates in labor relations", the German manager of the specialist, while the Japanese manager "generalists". Germany market economy and the relationship between top management and the labor unions are essentially different from the Japanese model. Peter Lawrence found some substantial differences between British and American systems of management: Management in the UK is intuitive: systems, standards, operating procedures and strategic planning are far less developed than in the U.S... British management is paradigmatic and discretionary while American management more rational. Conflicts in the United States are considered normal and desirable, while Britons see conflict as something that disturbs order and as a sign of failure<sup>81</sup>.

However, these findings indirectly suggest that within Europe there are features of the European model of management are specific to the U.S. and Japan, but also point to the mutual interaction and influence of these three models of management.

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<sup>78</sup> Roland Calory, *Contrasting the US and Japanese System of Management, European Management Model*, Prentice Hall, 1994

<sup>79</sup> Lodge C. George, *Perestroika For America*, Harvard Business School, Boston, 1991.

<sup>80</sup> Albert Michel, *Capitalisme Contre Capitalisme*, Seuil, Paris, 1991

<sup>81</sup> Lawrence Peter, *Through A Glass Darkly: Towards A Characterization of British Management in Britain*, University of Stirling, Scotland, August, 1993



**DOCENT DR. ANA MILENKOVIĆ**

Doc. Dr Ana Milenković was born on April 10, 1978 in Belgrade. She completed elementary school and secondary school in Belgrade. In 2002 she completed undergraduate studies in Budapest at the Manhattan Institute of Management and obtained Diploma: Bachelor of Business Administration. In 2002 she also graduated at the Faculty of International Management in Belgrade and acquired title: Graduate Manager of International business. At the same time she worked at Junex Company which provides consulting services in the construction field as assistant to Project Manager.

Specialization thesis is defended at European University in 2005 and acquired title: Specialist in the field of Marketing. In 2006 started to work as an Assistant at the Faculty of European Business and Marketing. Master studies with Master's theses entitled „Marketing with emphasis on promotion and creation of new media” is defended on 2006 at European University with acquired title: Master of Science Marketing.

Doctoral theses entitled: “Marketing Management - analyze, planning, implementation and control” is defended on 2008 at European University and acquired the title: Doctor of Science of European Business and Marketing. Doc. Dr Ana Milenković is Docent at the Faculty European Business and Marketing for the courses Marketing Management and Marketing Communications. Doc. Dr Ana Milenković uses Windows operating system, Microsoft Office, CorelDraw and Adobe Photoshop. Fluently speaks English and French languages.

## **New Tendencies in Marketing – Online Marketing Versus Traditional Marketing**

**Abstract:** *New technologies have encouraged a large number of companies to redirect from mass communication towards a more targeted communication and a direct dialogue. Companies used to routinely allocate large budgets for advertising through mass media in order to reach dozens of millions of consumers with just one advertisement. However, in the 21st century, marketing managers are faced with some new communication facts. Firstly, focused marketing programmes designed to build closer relations with buyers on more closely defined micromarkets are increasingly being developed. Secondly, a huge progress in information technologies accelerates the movement towards segmented marketing. There is more available information about consumers on an individual level so that narrowly specialized and strictly targeted communication efforts are made in order to reach smaller consumer segments with adapted messages. So, companies are less broadcasting, and more narrowcasting.*

*Key words: marketing, communication, innovation, technology, social media, online marketing, traditional marketing, creativity, idea, attention, perception*

Modern marketing means more than simple product development. Product needs to be made available with a price which is attractive to target consumers. At the same time, companies need to communicate with the current and prospective buyers, and what they communicate about should not be left to chance. As much as good communication is important for development and maintenance of any kind of relationship, it is also a key element in a company's efforts to build strong relationships with buyers.

In order to have good communication, companies often hire advertising agencies which create advertising campaigns, then experts for sales improvement who build programs to encourage sales, experts for direct marketing who develop databases and achieve interaction with the existing and prospective buyers by mail or phone, as well as public relations agencies which build corporate image of a company. Companies train their staff to be polite, helpful and convincing. For majority of companies it is not the question of whether they should communicate but how much to spend and in what ways. All the efforts should be blended into a consistent and coordinated communication program.

New technologies have encouraged a number of companies to direct from mass communication towards targeted communication and direct dialogue.

Companies routinely invested huge amounts of money into advertising through mass media in order to reach dozens of millions of consumers with just one advertisement. However, in the 21st century marketing managers are faced with some new communication facts.

Firstly, focused marketing programs are developing more and more, designed in order to build closer relationships with buyers on narrowly defined micromarkets.

Secondly, huge progress in information technologies accelerates movement towards segmented marketing. There is more available information about consumers at individual level so that narrowly specialized and strictly targeted communication efforts occur in order to reach smaller consumer segments with adapted messages.

Therefore although television, magazines and other mass advertising media are still very important, their dominance is declining. The way to get better value for money is being sought. So, companies are less broadcasting, and more narrowcasting.

The transition from mass marketing to targeted marketing and the appropriate use of richer mix of communication channels and promotional tools represents a challenge for marketing experts. In consumers' mind, advertising messages from different media such as television, magazines or internet merge into one. The messages which arrive through different promotional channels become part of a one whole message about a company.

Messages from different sources which do not match each other can result in confusing company image and brand position.

Challenge and success of marketing communications is to convey a true and understandable message in the right way, to the selected target group, at the right place and the right time. If the message happens to reach consumers who are not target group then there is no feedback i.e. purchase of a product or demand for services the company offers nor word-of-mouth advertising. Word of mouth advertising is a usual part of the complete process of marketing communications and represents verbal communication between individuals.

Also, so called *Buzz marketing* is also used as part of marketing communications. Companies can train and educate 'opinion leaders', influential people i.e. group leaders who disseminate information about a product or a service to other people in their community. They can have a strong influence on effectiveness of the originally conveyed message. Marketing buzz or just a buzz is a term used during the interaction of consumers or users of a product or services which serve to enhance original marketing communication, positive association, thrill or anticipation connected with a product or service. Positive Buzz marketing is usually used as part of PR activities. The examples are Harry Potter, Mercedes Benz, Ikea...

This way of communications is becoming very popular and represents a strategic insight into a product development. Buzz marketing is originally used in oral communication, but with the advent of social media such as Facebook, Twitter, LinkedIn, YouTube, it also finds good use on the mentioned networks. Buzz marketing has good response and success since it is sometimes easier to believe an individual than companies which of course have it in their best interest to promote their products and services. Companies are able to follow the marketing buzz of their products online by using buzz monitoring. Buzz marketers create sophisticated campaign through recommendation where consumers are flattered by being included in an elite group of these 'professionals' and voluntarily spread positive story to their friends and colleagues.

When choosing media we take into account two wider types of communication channels:

1. Personal communication channels – channels through which two or more people communicate directly to each other face to face, one person with the public, by phone or mail. Personal influence has a big weight when it is about products that are luxury, risky or very visible. For example, car and house appliances buyers often ask for second opinion outside of mass media source.
2. Non-personal communication channels – where the following media belong to: press media (newspapers, magazines, direct mail); broadcasting media (radio, TV); display media (Billboards, posters) network and electronic media (Internet, CD, DVD) as well as Atmospheres – designed environment which encourages consumer response toward buying (banks, law offices) and of course Events - occasional happenings organized in order to convey certain messages to the target market (press conferences, exhibitions, fairs).

## Promotion

*Promotion* is a process of communication between an enterprise and a buyer with the aim of creating a positive attitude about products and services which will lead to them being favoured in the process of purchase on the market.



Slika1. Integrated Marketing Communications, David Pickton, Amanda Broderick, Pearson Education, 2005.

Promotional marketing functions vary in their cost efficiency (importance) in different customer readiness studies. Advertising plays a major role in the level of awareness, much more important than contacts taken by sales representatives or sales promotion. Advertising and personal sale mainly influence buyers' apprehension. Repeat order is also influenced by personal sale and sales promotion, and sometimes type of advertising which serves to remind.

Main characteristic of advertising: It can reach numerous geographically spread buyers; Buyers have in mind that purchasing that product will be publicly accepted and understood; Possibility of repeating; Visual, sound and colour aid; Building a long-term product image; Nonpersonal and cannot be



convincing enough; one-way communication with the public; requires large budget.

Main characteristics of sale promotion: Attract buyers' attention and give information which lead a customer to the purchase; offer notable purchase incentives with various reductions or contributions which offer a customer added value; invite quick response which is rewarded; Offers incentive to the customers to buy a product now; Creates stronger and faster response; It is used to dramatise product offers and enhance diminishing sales; usually works short-term and does not build long-term brand preferences.

Main characteristics of personal sale: Suitable when building buyer preferences, beliefs and actions; possibility of direct concrete adaptation; Sales staff trained to take notice of buyers' interests in order to build a long-term relationship; sales power represents a long-term sales commitment. The number of advertisements can be changed but it is more difficult to change the number of sales staff.

Main characteristic of public relations: High credibility; Newspaper stories, sponsorships, events seem more authentic; message reaches the buyers as news, and not sales oriented communication; Well done public relations campaign in combination with other promotional mix elements can be very successful and economical

Main characteristics of direct marketing: non-public way of address considering that the message is usually conveyed to one particular person; Messages can be prepared very quickly so that is without delays; A message can be adjusted to individual needs; Direct marketing is interactive.

Strategic approach to marketing communications through ATL and BTL techniques

Above The Line promotional activities are used to promote a brand or a certain message and are conducted through mass media:

- ✓ TV
- ✓ Cinema projections
- ✓ Press
- ✓ Radio
- ✓ OOH – Out of home (all types of advertising that one can encounter outside one's home)

ATL communication is conventional and impersonal from the buyer's point of view and it is mainly used when the target group is very big and difficult to determine.

Below The Line BTL promotions refer to the aspects of advertising and communication which do not include media. These promotions are becoming increasingly important in a communication mix of many companies, not only those which sell fast moving consumer goods, but also those which sell industrial goods.

- ✓ POS – Point of sale (placing promotional offers near cash counters or at the point of sale)
- ✓ Sponsorships
- ✓ Events

BTL sales promotions represent instant or delayed incentives for a buyer and are short-lasting. They are efficient and cost-efficient in cases where a limited or specific group of customers is being targeted. They are usually focused on direct ways of communication.

BTL is a common technique of the promotion of products that customers need to touch and feel. These are the products a customer decided to buy based on instant information rather than previously gathered information.

BTL techniques ensure that a customer refreshes his impressions about a brand and at the same time product characteristics are emphasized.

One of the BTL techniques involves sales staff placed in retail outlets near the targeted product (promoters). This technique can be used, for example to taste new products. It helps marketeers to make a direct relationship with customers during masspromotions. These techniques are based on the fact that it is difficult to determine customers response to a product apart at the time of purchase. The examples of BTL techniques are telemarketing, travelling advertisements, promotions, activities in and in front of shops, exhibitions.

Above The Line (ATL), Below The Line (BTL) in business organisations and marketing communications represent different ways in which companies are trying to place their products.

In short, ATL uses media which place information to a vast population, BTL uses media which focus on specific market niches. Both communication approaches (ATL and BTL) can be used to raise brand awareness or

encourage sales through special offer (promotion). Nevertheless, BTL communication is the one which gives an opportunity to a marketing manager to create information more appropriately for the target audience. Also, ATL promotion is difficult to measure, unlike BTL promotions which are highly measurable, which gives marketers a chance to measure return on their own investment. Based on this feedback information BTL communication can adjust further to the target audience.

"Through the line" This term refers to an advertising strategy used by ATL and BTL communications. This strategic approach allows brands to impose on customers in many ways (e.g. a customer sees a TV commercial, hear the same one on the radio and get a flyer on the street) as well as by using social media. This way enables integrated approach to communication where a single message is conveyed through different media and product perception is created for the customer.

Without larger investment, a campaign of a certain SOHO and SME company will refer to a geographically limited region.

If we start using online marketing, we will see that the probability of reaching a target consumer group becomes higher, and campaign costs considerably lower while geography makes no sense at all.

## **ONLINE MARKETING**

Online marketing, also called web marketing, Internet marketing, or eMarketing, is a marketing of products and services advertised on the Internet. Online marketing and presence on the Internet through social networks have become a big trend in the last couple of years. The explosion of the Facebook popularity has had a big impact. Social networks such as Facebook, Twitter, YouTube, LinkedIn, besides opportunity to place traditional advertisements also represent a huge potential in creating fresh and new content of a particular company. Social Media Marketing (SMM) is an excellent way to expand and build long-term communication channels with the target consumer group.

The Internet has brought many unique conveniences for marketing, less costs and bigger opportunity for information distribution and represents communication channel for the global audience. Internet marketing binds together creative and technical aspects of the Internet, including design, development, advertising and sales.

Online marketing refers also to SEO - search engine optimisation, SEM - Search Engine Marketing, banner advertisements for certain web pages, e-mail marketing, as well as already mentioned web2.0 strategies.

Search engine optimisation is a process of website content adaptation developed in the recent years because of the need for better quality in searching the internet content. This discipline is based on many factors and most often on: regular and well-prepared site content in the manner which suits main search engines Google, Yahoo, MSN and others, in a good and properly written web page code, signing in sites at search engines as well as following the directions and recommendations which come from expert teams of the above mentioned search engines. By optimising a site, you get more visits, raise awareness of prospective clients about your company, strengthen the brand, company image, contribute to price reduction at certain advertising networks.

Search engine marketing, marketing through internet search engines is a form of internet marketing which promotes web sites by increasing their visibility in search engines. According to SEMPO (Search Engine Marketing Professional Organization), SEM uses the following methods: SEO (search engine optimisation), paid positioning in searches, contextual advertising and paid inclusion in search results.

Consumers perceive online marketing opportunities regarding a brand as something that supports their decision to purchase a product by giving them needed information before the purchase in an easy and fast way, and after purchase they have a support in case they have further questions.

Companies that include social networks into their marketing communication plan do that with a strategic plan and aim to place a precise marketing message. Sometimes it is necessary to invite action from consumers and give them a convincing reason to click or buy a certain product.

In most cases social media content analyses refer to customer opinion research in order to improve marketing activities and customer support. Also, the expansion of the use of social networks and microblogs has spread the phenomenon of influence to the users of these platforms. One of the key factors in this field is reflected in identifying influential users whose targeting can ensure a safe marketing outcome for a company.

Basically, the idea is as follows: targeting these users on the net can create chain reaction led by word-of-mouth marketing in such a way that a

company can reach a huge number of network users at extremely low marketing cost. The analysis of the influence spread on social networks contributes to better understanding of the way in which information is promoted, as well as innovation adoption.

Research shows that 46% of the social networks users expects to exchange their ideas about a product they use through the Facebook, while on the other hand just 22% of companies asks their users for help in innovating. Human resources and management can inform themselves about employees' attitudes and worries through social media. Satisfied employees can transform into satisfied buyers, and vice versa. It is interesting that no less than 53% employers search prospective candidates through social media.

### ***Primer YouTube***

More than eight million people around the world enjoyed watching Felix Baumgartners freefall on YouTube. According to ABC News, besides YouTube, the freefall was broadcast by more than 40 TV stations and 130 digital devices. After that, his freefall had more than 216,000 likes, 10,000 comments and more than 29,000 shares within 40 minutes, and 50% trending topics on Twitter were related to the mentioned topic.

The data given is an excellent indicator of how a well-thought story for a certain event and a company can have a positive effect and really fascinating results.

### ***Primer Pinterest***



Besides Facebook, Twitter and Google+... one more important marketing support to business occurred on social networks, and that is Pinterest. It is an online noticeboard for your favourite photos. Pinterest was launched in 2010 and its great

popularity is already evident. Pinterest enables to organize photos on boards for certain categories. When you 'pin' something new, your followers will see that. They can like, comment or pin it again on their boards.

Brides-to-be can pin photos of wedding dresses they want to look at again, and people who are buying a new car can pin photos of their options. Possibilities are limitless. Pinterest is perhaps the most powerful business application because it gives a company an opportunity to post its products' photos on Pinterest board and connect it to its website which works like some kind of a virtual company catalogue. This is exactly the reason why retail owners are seriously thinking about opening a business profile on Pinterest.

Pinterest is already bringing buyers to some websites. In the last six months a retail site ideeli.com has experienced 466 per cent increase in web traffic due to this application, and the sales resulted from these visits on Pinterest has increased fivefold.

***Conclusion:***

In order to draw consumers' attention to social networks such as Facebook, Google+, LinkedIn, YouTube, Twitter, Pinterest and others, it is necessary that companies raise their interest by promotions and interesting content related to their products or services. When the first step has been successfully made and consumers' attention has reached a certain level, it is necessary to give them a reason and opportunities to be loyal to a company. If the right audience, i.e. target consumer group, has been attracted with the right message at the right place at the well-defined time, the company will have a competitive advantage and besides keeping existing buyers, it will be able to attract new, prospective and valuable consumers.

The amount of data exchanged through these social networks represents a perspective source of data whose quality analysis can improve companies' business. By analyzing social media content, companies can use new data sources and get closer to their consumers, and thus develop competitive advantage.

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**DOCENT DR. SRĐAN TOMIĆ**

Srdjan Tomić PhD was born on June 17th, 1976 in Vršac, Serbia. He graduated from the European University Faculty of International Management, Belgrade, in 1999. He gained Master of Science degree in International Management at the same Faculty in 2004. In September 2010, he received the doctorate in Quality Management with Particular Reference to International Standards and ISO Standards.

After finishing his studies, he was employed by the Vršac Brewery, as a marketing manager, and later as a marketing director. He spent more than five years in this organization (working from June 2000 until September 2005). In September 2005, he took a position of a business administrator at the MMT Ltd. Company in Vrsac, where he stayed until December 2006. In December 2006 he became the manager of the “Steria” National Theatre in Vrsac. He remained in this position until October 2008, when he got a job as a teaching assistant at the European University, Belgrade.

Srdjan Tomić PhD, who gained a lot of experience in management and business, has started to apply science approach to his working knowledge, especially in the field of quality management. His accomplishments while working with the Serbian Chamber of Commerce in the assessment and the collecting documentation for the Vrsac Brewery privatization are evident.



## Quality in Function of Competitiveness of International Companies

**Abstrakt:** *Under present conditions of international business as an important quality factor of competitiveness. Moreover, the quality is established as the main source of competitive advantage (which is the result of organizational learning process connections, knowledge and innovation). Given position supports the finding that strategic decision international company, the nature of its business activities and the types of products included in its offer, retain their vitality only qualitative value of the energy they possess. International business is, by force of his expression turbulence, allocates space for strong, reduces or eliminates space for the weak. It is a test of sustainability or unsustainability vision of international companies. Moreover, internationally products business challenges quality revolution. The and proactive performance in the area–company that survives the challenges of development, facilitating their survival, creates progress. For these reasons, the quality is one of the determining factors of success of companies in the international business field, reaching competitiveness factor. Prerequisite international competitiveness of the company is, therefore, high quality of all business activities (the creative and management). Management of international companies has its intellectual capacity to ensure quality system to define international product market: the value of international company performance, expressed through their ability to meet the needs (and the needs implied) of finished consumer and industrial customers, a crucial measure of international design competition markets in time and space. Conceptual thread of scientific work is the premise that achieving and developing the quality of work processes and operations, international company achieves competitive advantage and ensures long-term competitiveness based on better market positions, lower operating costs and increased profitability.*

*Key words: Quality, Competitiveness, Internacional companies*

### INTRODUCTION

For an international company, quality management is not (and should never be) separate activity that builds on its production – transport activity, but an effective way to implement these activities, which, at the same time, and maintain the existing level of its competitiveness. Management of international companies needs to continuously develop the quality system

and to explore and implement new methods of quality in order to increase market competitiveness and achieve sustainable business excellence. In this context, his actions should be directed to: a systemic and systematic development of management teams that will generate a qualitative change in terms of all key business activities in accordance with the imperatives of the market, faster introduction of alternative and flexible programs based on basic principal international quality standards; greater cooperation with scientific research organizations – and development centers, and so on. Meaningful definition of scientific work in the presentation of the concept of total quality management as a dynamic quality system prone to constant changes and development, because it is competitive, in the full sense of the word, a "moving target", i.e. targets that do not support the immobility of market participants, but also supports their power to always have in your line of sight. Not long ago, a famous writer of "looking for the perfect" Tom Peters once said: "A lot of the quality system created fail to contribute to the achievement of international competitiveness due to one company, out of two reasons: there are systems of quality companies that do not have the passion, that there is passion, but there are quality systems. "

Quality should be aimed at the needs of the customer, present and future  
Deming

Table 1 A continuous approach for the business and life philosophy of continuous improvement in everything we do.

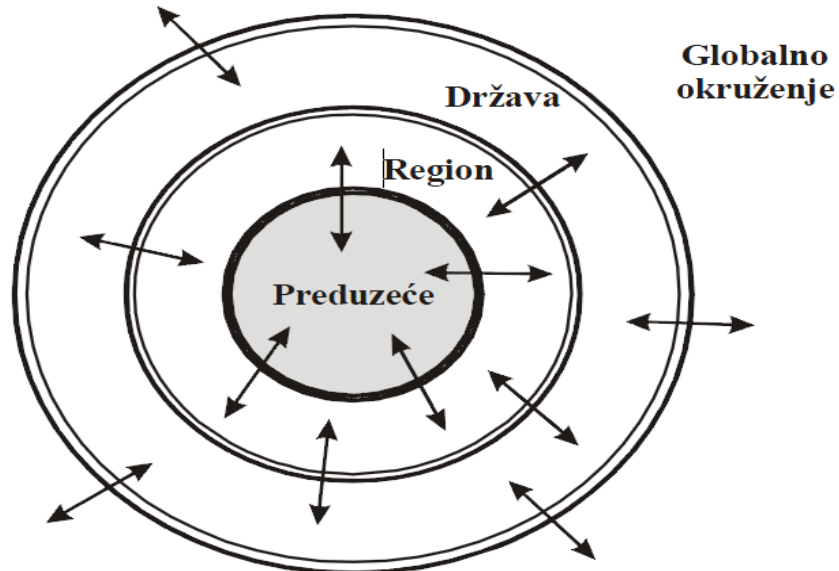
PAST	PRESENT AND FUTURE
The detection of defects	Preventing errors
Searching for personal guilt	Debugging processes in
charges	It helps alleviate, to
It punishes	motivate
micro management	Systematic and systemic management

### **Aspects of quality**

Manage continuous improvement should be a permanent objective of the management of industrial size. The main purpose of this management process to increase the likelihood of improving customer satisfaction. Improvement actions should include: analysis and evaluation of existing business communications delivery products, in order to identify areas for improvement, establishing goals for improvement; finding possible solutions to achieve the goals, their evaluation and selection, implementation of the selected solution, the control algorithm to improve the results and review in order to identify opportunities for further improvement. TQM concept pays special attention to the process approach. To format industry to function effectively, it has to any activity or group of activities that takes inputs and transforms them into outputs that as a process. In the industrial business of the utmost importance is the identification of numerous interrelated and interacting processes. Often the output from one process will directly from the input into the next process. Hence arises as a rule that only procedural activity can provide business excellence in the operation of all segments of industry formats. Only process approach industrial jobs can be done by people with them, in formally organized groups. Acceptance of TQM must be a strategic decision of the management of industrial size. Management commitment to design quality industrial product (and the quality of communication with our partners in the immediate and wider environment) is a prerequisite for creation of business excellence.

Table 2

Every organization needs to improve and maintain the level of quality to be competitive.



In this model, quality of super imposed quality of all entities. Depending on the case studies are discussed to do with the higher system, which is always two-way. This means that the observed entity (eg organization / company) affects the higher the system (eg, region / state) and vice versa, the region affected by the company

### **Menadžment planiranja, kontrole i unapređenja kvaliteta**

Menadžment kvaliteta ukupnog industrijskog proizvoda moguće je ostvariti lociranjem u poslovni fokus tri upravljačka procesa: planiranja, kontrole i unapređenja.<sup>82</sup>

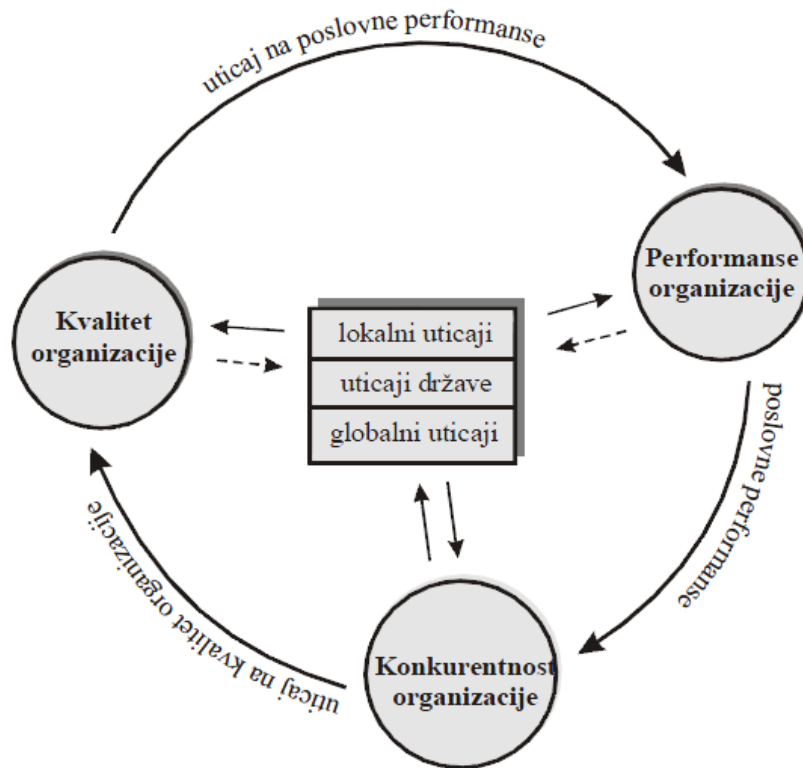
Table 3 - The three universal processes of quality management of industrial products

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<sup>82</sup> J. Juran M., shaping the quality Grmeč Business System - Economic Survey, Belgrade, 1997, page: 22, adapted to the context

Management quality		
INDUSTRIAL PRODUCT QUALITY PLANNING	QUALITY CONTROL OF INDUSTRIAL PRODUCTS	Improving the quality of industrial products
establishing strategic goals and tactical quality industrial products	assessment of current performance	presenting arguments that cover the need to improve the quality of industrial products
identifying industrial consumers	comparison of current performance with the goals of quality industrial products	creating infrastructure identify projects to improve
determine the type and extent of the need for industrial consumers of industrial products	focus on differentiation (work on the differences)	formation of project teams
development of functional and emotional characteristics of industrial products, which meet the needs of hotel customers		support teams in resources, training, and motivation (purpose: to diagnose the causes, treatment to stimulate)
implementation of controlling the process of transfer of power to the operational plans		Controlling the introduction (purpose: maintenance of achieved performance)

Table 4  
Relationship between the quality and competitiveness of the organization



## Conclusion

It is possible to put forward the following conclusions:

- Quality and competitiveness are coupled,
- The quality must be continuously improved in order to maintain competitiveness
- Regional and international aspects play an important role in economic development

***"Quality is never an accident: it is always the result of intelligent effort"***

John Ruskin (1819-1900)

Industrial products market is diverse, both in terms of supply and demand from the point. Variety of industrial products derived from the differences in what is offered (their specific industrial products) and differences in the way the products offered (promotion, sales channels). Diversity of demand of industrial products derived from the existence of differences in the needs, attitudes and ways of reacting industrial customers, component supply. This reaction imperatively requires management to industrial size of their assets,

their material and human resources, focus on the implementation of transformational change that enable improved effectiveness. This guidance is advisable to initiate a situation where the market position of the industrial good format. Barriers to initiating development time at least. Management of industrial format should perform continuous differentiation of industrial products, no matter how mature they are. Significant small beginnings, launching desire to make some minor improvements, but such notice to industrial consumers. Industrial Personnel format becomes, in this sense, the real and most important source of additional quality. It's never too much training. Elements of high-quality industrial products, in this constellation, generally do not change: the right attitude, knowledge and commitment to industrial work. In order to achieve high standards in the training of staff, management of industrial format must create an innovation program, as well as operational design strategies assumption of industrial products. Management Policy and Strategy (vertical base TQM process) is assumed to take actions to strategic objectives achieve industrial formats in real time (real time). In designing policies and strategies that bring success to all employees participate, because they at all organizational levels as driving force of industry formats, and allows the use of their share of their ability to achieve maximum profit. Just in the way of their full commitment to the creation and delivery of adequate industrial products, it is possible to achieve a new value, new quality. Business Process Management (TQM process base horizontal) orientation is assumed to consumers of industrial products in achieving that product to meet their needs, meet their expectations, and most importantly - retain customers, as part of business assets.

This process is carried through: process organization, which has the consumer at the beginning and at the end in which the predicted results efficient realized when adequate resources and activities are managed as a process re-engineering, as well as the adoption of best practices to reach the highest level of quality in the creation and supply of industrial products, and ISO 9000 standards, which specify requirements relating to quality management systems, to demonstrate the capacity of the industrial formats to create and deliver products that meet consumer demands and meet the relevant regulations, and aim to increase (over-shoot) satisfaction of industrial customers.

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MANAGEMENT ,  
ENGINEERING  
MANAGEMENT ,  
EUROPEAN  
INTEGRATION  
PROCESSES



**UNIV. PROF. DR. SLOBODAN ZEČEVIĆ**  
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Slobodan Zečević was born in Belgrade on April 3, 1966. He completed four grades of elementary school in Paris, and the other four, as well as the high school, in Belgrade. After graduating from the high school in 1984, he enrolled to the Belgrade University Law School by passing the entrance examination, and after that, he went to serve in the army. In 1985, he enrolled to the Paris University Law School (Universite Paris I, Pantheon-Sorbonne) where he graduated in 1989 from the Department of International Law, section - the European Union Law. The Belgrade University Law School validated his diploma from the Sorbonne Law School in a decree on July 13, 1990.

Zečević enrolled to postgraduate-master studies at the Faculty of International Management in Belgrade in 1994. He completed his studies and passed all exams in due time with an average grade close to ten (9.87). In 1995, he served as a trainee assistant professor with the Faculty of International Management. He defended his master thesis *Banning Agreements and Abusing Dominant Positions Aimed at Policy of Free Competition in the EU Market* in 1995. Later on, in 1997, he became an Assistant for the subject of European Union at the Faculty of International Management in Belgrade.

Slobodan Zečević defended his doctoral thesis titled *European Union Competition Law* in 1998. The same year he became an Assistant Professor for the subjects of European Law and Business Law at the Faculty of International Management. He transferred to the Faculty of European Business in 2000, where he became an Associate Professor for the same subjects. The same year, Professor Zečević was appointed the first dean to the Faculty of European Business. In 2005, he gained his title of Full Time Professor at the Faculty of International Management for the subjects EU Law, EU Business Law I, and EU Business Law II, where he still teaches as a full time professor. Professor Slobodan Zečević gained his second doctoral degree at the Belgrade University Faculty of Political Sciences on Sept. 21, 2010. The title of his doctoral thesis is *The Evolution of the European Union Institutional System*.

Dr. Zečević authored several books and scientific articles in the area of European Law and European Union Business Law. Professor Zečević is a

member of the International Public Law Association, Association of French Students in Serbia, and the founder and director of the Center for European Union.

## Agreement of Stabilization, Alignment union Response to the European Crisis

**Abstract:** *After the emergence of the world financial crisis in 2008, there were speculations in the world market about the credit ability of some of the state members of the euro area (Portugal, Ireland, Spain, and Greece in particular). US rating agencies (Fitch, Moody' s and Standard & Poors) reduced the credit rating of these states and thus increased their interests rates on new borrowings. At the same time, there was the atmosphere that the member states of the euro-zone were likely to go bankrupt, i.e. that the European Monetary Union, and the European Union as well as, could become insolvent. The European Union responded to the attempts to destabilize its monetary system by the following measures. The intergovernmental agreement on the establishment of the European Stability Mechanism (EMS) was signed in July 2011. Another measure was the signing of the Treaty on stability, coordination and governance on 2 March, 2012 by 25 member states, with the exception of Great Britain and the Czech Republic. By this international agreement, which was associated with the EU law and institutions, the members of the euro area and the other contracting parties were obliged to have their budgets of public administration in balance or surplus. Based on the Commission's proposal, member states have to establish a national "correction mechanism" to be applied automatically in case of the deviation of already set goals related to the deficit in public administration. The contract in question provides for joint establishment and coordination of economic policies of the contracting parties. Treaty on stability, coordination and governance has introduced an institutional novelty in terms of euro-zone leadership. It is about Summits of Heads of State or Government of the euro-zone countries attended by the President of the Commission and the European Central Bank, which should be held twice a year. In this context, however, the question is whether the treaty on stability, coordination and governance is sufficient or whether the single European currency is viable without the institutions of federal government? Therefore, there is a view that the only appropriate solution*

*would be that the institutional system of the European Union should be reformed towards establishing the federation of nation states.*

## **Introduction**

Historically seen, the economic system of the European communities and the European Union was marked by interstate and federal solutions as well. In this regard, after the establishment of the European internal market on the basis of application of the Single European Act of 1987, the Maastricht Treaty on European Union from 1993 envisaged another step toward federalization of the European Union in the monetary sphere.<sup>83</sup> It is about the establishment of a single European currency which has replaced the national currencies of member states participating in the European Economic and Monetary Union. On the same basis, the European Central Bank has been established, i.e. European federal institution that makes decisions on the issuance and exchange rate of European currency. However, the introduction of the internal market and European currency wasn't accompanied by greater federalization in the institutional sphere. Thus, the European Union didn't receive a federal government that could run the economic policy of the Union, make decisions about investments to boost economic growth and the Union's borrowing on international financial markets as well. In addition, the European Union didn't have adequate federal taxes to fill its budget and enable the European federal government to act to revive economic activity, but also to resolve the financial problems in some member states. Although some analysts believe that it is a constructional error in creating the euro, because they think that the single currency cannot survive without the federal government, a different interpretation is also possible. The Union actually envisaged solution based on the respect for state sovereignty in the budget sphere, but the euro-zone member states committed themselves to taking care of financial discipline. Thus, the budget deficit shouldn't have exceeded 3 percent, while public debt shouldn't have been less than 60 percent compared to the gross national product of a member state.

Destabilization of the euro-zone came as a result of the global economic crisis, originally settled in the United States in 2008, and was caused by giving loans to insolvent U.S. citizens by U.S. banks. The member states were forced to borrow in order to alleviate losses of their banks. At that

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<sup>83</sup> Slobodan Zecevic, *European Union – Law and Institutional System*, European University, Belgrade, 2011, p. 278

moment, it became clear that most member states didn't respect recommendations on budgetary discipline, and that it was harder for them to provide funding for financing national debt. Euro-zone was finally shaken in 2009 by confession of the newly elected socialist government in Greece that budget deficit was 12.5 percent of the national GDP and that Greece could no longer meet its financial obligations.

The European Union responded to the attempts to destabilize its monetary system by the following measures. The intergovernmental agreement on the establishment of the European Stability Mechanism (ESM) was signed in July 2011. It is a fund of 500 billion euros, which is filled with contributions from member states, and whose funds should be used to help those euro-zone member states that are faced with economic difficulties.<sup>84</sup> This Agreement should enter into force in July 2012. Another measure is the signing of the Treaty on stability, coordination and governance on 2 March 2012 by 25 member states, with the exception of Great Britain and the Czech Republic. By this international agreement, which is associated with the EU law and institutions, the members of the euro area and the other contracting parties are obliged to have their budgets of public administration in balance or surplus, to jointly coordinate their economic policies and improve the governance of euro area as well.

It is an international agreement concluded between the member states in accordance with international public law, ie. the legal document that is formally out of law of the European Union. However, its provisions should be incorporated into EU law in the future. Therefore, the Treaty on stability, coordination and governance stipulates that, within five years of its entry into force, and on the basis of experience gained in its implementation, the Union will pass measures to integrate its content into the "European legal framework."<sup>85</sup> In this sense, it is decided that the provisions of the treaty should apply only if they are in accordance with the provisions of the Memorandum of Association and Union's law. This emphasizes that the provisions of the Treaty on stability, coordination and governance must be such that they fit into the hierarchy of the norms of the EU law. The mechanism in question resembles the one used in connection with the Schengen agreements. Namely, the crossing of state borders within the Community or the Union was regulated by the Schengen Agreements in

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<sup>84</sup> Bertrand Nouel, Pourquoi le traité de stabilité européenne sera ratifié par la France, <http://www.ifrap.org>, 21.05.2012.

<sup>85</sup> Article 16 of the Treaty on Stability, Coordination and Governance

1985 and 1990, i.e. classical international agreements concluded between individual member states. Then the Schengen Agreements, through the community *acquis* derived from their implementation, were entered by the Amsterdam Treaty from 1999 in the Treaty on European Union, and thus became an integral part of the EU legal order.<sup>86</sup>

## **I**

### **The original problem of Greece as a member of the euro-zone**

At the request of Germany, the Maastricht Treaty on European Union from 1993 established strict criteria for participation in the third phase of the Monetary Union realization. So, among other things, the Memorandums of Association stipulated that the budget deficit of a member state which wished to join the euro-zone was not allowed to exceed 3 percent, while public debt must have been less than 60 percent of the national GDP.<sup>87</sup> Germany, in fact, demanded that the euro, like German mark, should be extremely stable and healthy currency, but also wanted to avoid paying excessive consumption and to stabilize economic problems of less developed member states. Despite the fact that the Treaty of Maastricht stipulated strict convergence conditions, Germany feared that some members of the Union, because of losing the ability to manipulate the exchange rate of the local currency, would resort to borrowing on financial markets and issue securities. What would happen if these countries were unable to pay off the the debt? Whether in that case, other states would have to pay for them? Germany wasn't fully satisfied with the measures stipulated by the Memorandum of Association to combat excessive deficit, and asked that the euro-zone member states commit themselves, by signing "Stability Pact", to the automatic sanction of high budget deficit.<sup>88</sup> The mentioned pact was adopted in June 1997 at the European Council meeting in Amsterdam after difficult negotiations between the German and French governments, and at the request of the latter was named the "Stability and Growth Pact." In accordance with the provisions of the the pact, the states were required to submit their "stability program" to the Council and the Commission annually. The Council was authorized to

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<sup>86</sup> Slobodan Zecevic, *EU Business Law I*, Centre for the European Union, Belgrade, 2008

<sup>87</sup> Slobodan Zecevic, *European Union – Law and Institutional System*, European University, Belgrade, 2011, p. 281

<sup>88</sup> Philippe Moreau Defarges, *Les intitutions europeennes*, Armand Colin, Paris, 3rd edition, p. 125; Philippe Manin, *Les Communautés européennes, L' Union européenne*, Pedone, Paris, édition 1998, p. 124 and 125

invite some states to change submitted program if it considered inadequate. In case of budget deficit (more than 3 percent compared to the gross national product), the Council was required to determine the state in a specified period, to make recommendations to a state violator, to invite it to fulfill its obligations and eventually to take sanctions if the state disregarded its demands. Sanctions could arise in a form of order to a member state violator to put down interest-free deposits at the European Central Bank, which could be converted into a fine if it didn't reduce the deficit. Apparently, adopted measures remained just a dead letter. The assumption was that member states considered that they could still be sovereign in governing their economic and budgetary policy, i.e. that the national parliaments were in charge of making decisions on revenues and expenditures.

In this context it should be borne in mind that in 1998 Greece failed to meet the required convergence criteria for participation in the third phase of realization of the common European currency, and did not enter the euro-zone. However, in late 1999, the institutions of the European Union changed their opinion regarding the economic situation in Greece. Namely, based on the Commission's proposal which was substantiated by Eurostat data, the European Council welcomed the efforts of Greece to reduce its deficit. Apparently, Greece's budget deficit which amounted to 4 percent in 1997 was reduced to 2.4 percent in 1998. The same thing happened with the public debt of 112.3 percent in 1996 which went down to 106.3 percent in 1998. In 2000, the Commission concluded that Greece made a lasting convergence and that it could access the euro-zone from 1 January 2001. This decision was made despite the fact that the governors of the European Central Bank and the German Bundesbank expressed reservations about the economic situation in Greece. Having in mind the above observation, it was assumed that the entry of Greece into euro-zone was motivated by geostrategic and economic reasons. In fact, Greece has been located in a sensitive area of the Mediterranean and it borders Turkey, so it was important to the EU to integrate this country more tightly into its aegis. On the other hand, Greece was, due to disagreements with Turkey, a significant buyer of weapons and other goods from the developed member states, and the interests of the latter was a collection of goods in stable currency. Problems arose, however, in 2004 when the European statistical office Eurostat revealed that not only Greece, but also Italy, "were feigning" their financial statements relating to fiscal deficit and public debt.<sup>89</sup> For example, the Italians claimed that they didn't exceed

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<sup>89</sup> Reuters, *Le Monde*, *Eurostat rejette le chiffres italiens et grecs*, <http://www.lemonde.fr.25.05.2012>.

3 percent budget deficit, even though, in the same year, deficit of Germany and France was 3.7 percent, while Greece reported a budget deficit of 6 percent.<sup>90</sup> The Eurostat estimate for Greece came after the Olympic Games in Athens, which cost 7 billion euros.<sup>91</sup> In 2005, the Commission proposed to the Council strengthening the supervision of Eurostat jurisdiction over the public finances of member states, but the ministers opposed it, especially those from the United Kingdom and Greece. Eurostat's powers would be strengthened only after the outbreak of the global financial crisis in 2010.<sup>92</sup>

With the outbreak of the global financial crisis, already indebted member states had to borrow excessively to overhaul the state of the financial sector and rescue their citizens' savings in banks. Since 2009, Greece has been the victim of speculative attacks of stakeholders in the global financial markets.<sup>93</sup> The latter saw a crack in the euro-zone, in terms of the Maastricht Treaty which didn't allow that euro-zone member states borrow from the European Central Bank. Therefore, the euro-zone member states fully depended on borrowing in the global financial markets, which was usually uncommon for developed countries. Due to the global financial crisis, there were speculations on the global markets regarding credit ability of the weakest countries of the euro-zone, i.e. Portugal, Ireland, Spain and Greece in particular. U.S. rating agencies (Fitch, Moody's and Standard & Poors) reduced the credit rating of these countries and thus increased their interest rates on new borrowings. At the same time, there was the atmosphere that the member states of the euro-zone were likely to go bankrupt, i.e. that the European Monetary Union, and the European Union as well as, could become insolvent. Greece's newly elected socialist government of George Papandreou recognized in November 2009 that the budget deficit in Greece was 12.7 percent of GDP, and that it wouldn't be able to meet its financial obligations. Eurostat, in turn, established in 2010 that Greece cosmetically provided accounting optimization of finances, also regarding the amount of

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<sup>90</sup> Reuters, Le Monde, *Eurostat rejette le chiffres italiens et grecs*, <http://www.lemonde.fr/25.05.2012>.

<sup>91</sup> Christophe Lamfalussy, *Comment la Grece a roule l' Europe*, [www.lalibre.be](http://www.lalibre.be), 25.05.2012.

<sup>92</sup> Council Regulation no. 679/2010 of 26 July 2010

<sup>93</sup> Crise Grecque, plan d' austerite et agences de notation, les dessous d' un scandale europeen, [www.pandoravox.com](http://www.pandoravox.com), 14.06.2011.



budget deficit with the help of U.S. bank "Goldman Sach, which was indirectly involved in causing the global economic crisis."<sup>94</sup>

However, in this context, the question is whether Greece is the only one to blame for the crisis in the Union? Greece is, indeed, responsible for excessive spending in public sector (numerous state administration), inadequate tax system as the whole industries such as shipbuilding and tourism are not taxed, or the absence of cadastre and not paying taxes when transferring property.<sup>95</sup> However, one should bear in mind that the Greeks borrowed in order to buy goods from developed member states. France and Germany, for example, condition their aid to Greece by rigorous austerity measures, but the latter cannot reduce the military budget and cancel the contracts on supply of Franco-German weapons worth nearly 3 billion euros, otherwise it will not get financial aid.<sup>96</sup>

## **II**

### **Provisions on financial stability**

#### *Structural deficit of public administration*

By this international agreement, which was associated with the EU law and institutions, the members of the euro area and the other contracting parties were obliged to have their budgets of public administration in balance or surplus. This would relieve the states' obligation to repay the debts, but the speculations of stakeholders in the financial markets would be made irrelevant, too. In this sense, the states are obliged that their annual structural deficit in public administration must be less than 0.5 percent, except in exceptional circumstances of the contract.<sup>97</sup> Those are, in fact, the "circumstances" on which the signatory governments cannot influence and which have considerable effect on the public finances or periods of extreme

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<sup>94</sup> Christophe Lamfalussy, *Comment la Grece a roulé l' Europe*, [www.lalibre.be](http://www.lalibre.be), 25.05.2012.

<sup>95</sup> Crise Grecque, plan d' austerite et agences de notation, les desous d' un scandale europeen, [www.pandoravox.com](http://www.pandoravox.com), 14.06.2011.

<sup>96</sup> Crise Grecque, plan d' austerite et agences de notation, les desous d' un scandale europeen, [www.pandoravox.com](http://www.pandoravox.com), 14.06.2011

<sup>97</sup> Article 3 of the Treaty on Stability, Coordination and Governance

economic recession as they are determined by modified Pact on Stability and Growth. In addition, member states whose debt is less than 60 percent of the gross national product are allowed to have a structural deficit up to 1 percent.<sup>98</sup>

Based on the Commission's proposal, member states have to establish a national "correction mechanism" to be applied automatically in case of the deviation of already set goals related to the deficit in public administration. The mechanism should be based on permanent and compulsory rules, preferably constitutional nature or the rules whose full respect is provided the budget provided during the progress of budget procedure in any other way. Parties establish "correction mechanism" at the national level, based on mutual principles proposed by the Commission. In "common principles", the Commission determines the nature, scope and timelines of corrective measures that member states should implement (including those used in special circumstances), and the role and independent status of national institutions in charge of supervising the respect of the norms on structural deficit. If, having listened to one of the contracting parties, the Commission conclude that it haven't respected the obligations related to the establishment of a national "correction mechanism", the other contracting party has the right to report to the Court. Also, if one of the contracting parties, regardless of the Commission's report, considers that the other contracting party does not comply with the obligations in question, it is the first one that has the right to apply to the Court of Justice. The contracting parties are obliged to respect the judgment of the Court of Justice. If contracting party, according to the Commission or the counterparty, didn't enforce the judgment of the Court of Justice, the latter might address the Court with a request that the fines or default penalties, that do not exceed 0.1 percent of GDP of contracting party of the offender, should be imposed on the offender.

### *Public debt of signatory parties*

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<sup>98</sup> Bertrand Nouel, Poruquoi le Traite de tabilite europeen sera ratifie par la France, [www.ifrap.org](http://www.ifrap.org), 21.05.2012.

No signatory country is permitted to have a public debt exceeding 60 percent of GDP.<sup>99</sup>

If that happens, a signatory country is obliged to establish a program of budgetary and economic partnership with the EU and a detailed description of the reforms that should be carried out in order to curb excessive deficit in effective and lasting way. The content and format of this program should be defined in the law of the European Union. Program to reduce the deficit need to be approved by the Council and the Commission, and they have to monitor its implementation by applying the "Pact on Stability and Growth." Therefore, a member state with excessive deficit is placed under "intensive supervision" of the EU bodies.

The Member States whose currency is euro are obliged to support proposals and recommendations of the Commission if it believes that one of the euro-zone member states does not meet the criteria of a deficit within the procedure of high level deficit. This obligation does not apply only if the euro-zone member states oppose by the qualified majority in the Council.<sup>100</sup> We are talking about the so-called "reverse application of qualified majority", because there is no need to vote in the Council with qualified majority in order to initiate the procedure concerning the excessive deficit, but to block it.

## **II**

### **Coordination of economic policies of signatory parties**

#### *Coordination measures*

The contract in question provides for joint establishment and coordination of economic policies of the contracting parties.<sup>101</sup> In this sense, the signatories are obliged, based on the Treaty on the Functioning of the European Union, to coordinate their economic policies, to jointly implement economic policies that promote economic growth and to take measures which ensure good functioning of the euro-zone.<sup>102</sup> In addition, the euro-zone member states

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<sup>99</sup> Article 4 of the Treaty on Stability, Coordination and Governance

<sup>100</sup> Article 7 of the Treaty on Stability, Coordination and Governance

<sup>101</sup> Article 9 of the Treaty on Stability, Coordination and Governance

<sup>102</sup> Article 9 of the Treaty on Stability, Coordination and Governance

accept to resort to measures stipulated by the Treaty on the Functioning of the European Union<sup>103</sup> in terms of strengthening the monitoring of budgetary discipline and determining directions of economic policy. Before taking serious economic reforms, the member states are obliged to talk with other contracting parties in order to open the possibility to mutually reconcile the reform measures.<sup>104</sup>

*Registration of flotation of public debt bonds*

Contracting parties are obliged to register in advance the flotation of public debt to the Council and the Commission.<sup>105</sup>

*Are the measures of coordination sufficient response in present circumstances?*

Measures to strengthen the coordination of economic policies of the member states set by the Treaty on stability, coordination and governance are useful, but they are still mostly based on the majority decision of member state representatives in the Council, by which is national sovereignty still respected to some extent. At this point, however, considering the global financial crisis and the circumstances in which stakeholders on the financial markets react very quickly and destabilize countries with their speculations, fast reactions of political factor are needed as well. In this context, the question is whether the single European currency is viable without institutions of federal state, or whether the absence of the above mentioned currency is the basic constructional fault of the EU Treaty of Maastricht from 1993. In fact, it is increasingly clear that, in critical circumstances, it isn't sufficient to reach an agreement among EU member states, or even to adopt a measure by a qualified majority in the Council, as the measure or agreement come too late anyway, after several months spent in negotiations. Meanwhile, the financial rating agencies can cause serious impacts for some member states and the EU as a whole. Therefore, there is a view that the only appropriate solution would be to radically reform the institutional system of

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<sup>103</sup> These are the measures specified in Article 136 of the Treaty on the Functioning of the European Union

<sup>104</sup> Article 11 of the Treaty on Stability, Coordination and Governance

<sup>105</sup> Article 6 of the Treaty on Stability, Coordination and Governance

the European Union. One possible solution is to establish a government of the European Union, or at least the government of the Union, which would manage the euro-zone, dependent on the majority in the European Parliament that would have the authority to make decisions, which is of great importance in times of crisis. In addition, it would be necessary to adequately fill the federal budget of the Union with federal taxes, as well as to carry out the harmonization of national taxes on companies at Union's level, at least for the euro-zone member states in order to avoid the tax transfer and tax evasion. In this way, the federal government of the Union would have the means to rehabilitate the financial centres and thus prevent speculations of global financial actors, but European economic area would be even more united. Finally, the European Central Bank should be empowered to make loans to member states under more favorable interest rates than those in force on the global financial markets. Federal mechanism in question, however, inevitably diminishes the sovereignty of member states that would acquire the status of a member of the American federation. The mechanism leads to the overflowing of funds from rich to poorer member states, which has been opposed by Germany the most.

Therefore, the European Union is faced with the new big political and institutional challenge. It is a reflection on the transformation of the institutional system of the European Union with a federal characteristics into constitutional system of the European federal state, at least for the euro-zone member states. Otherwise, if the current institutional system of the Union would not be able to completely meet the current challenges, the European Union would constantly be threatened by the process of "disintegration," or cancellation of the integration processes completed in 1951. Return to the concept of state sovereignty of national state on the European continent could potentially lead to a new war among European nations.

### **III**

#### **Governance in the euro area**

Treaty on stability, coordination and governance has introduced an institutional novelty in terms of euro-zone governance. It is about Summits of Heads of State or Government of the euro-zone countries attended by the President of the Commission and the European Central Bank, which should be held twice a year.<sup>106</sup> The president of euro-zone summit is chosen by simple majority by the Heads of State or Government of the euro area during

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<sup>106</sup> Article 12 of the Treaty on Stability, Coordination and Governance

the appointment of the President of the European Council for a renewable period of two years and a half. The meetings of Heads of State or Government of the euro area should be devoted to the discussion about issues related to the euro-zone, zone governance and strategic decision making. Thus, the Heads of State or Government of the euro area are participating in discussions about increasing competence, the change of global structure of the euro-zone and the substantive rules that are applied there. Summits in question are prepared by the Council in the formation of the Euro-group, which consists of the Ministers of Economy and Finance of the euro-zone member states. The President of the euro-zone reports to the European Parliament after each meeting.

The introduction of the summit at the top of the euro-zone is a reflection of the desire to regularly exchange opinions and make key and strategic decisions at the level of senior officials of zone members. As the formation of the Council consisting of the Ministers of Economy and Finance of the Eurogroup has its permanent chairman, who is elected by a simple majority,<sup>107</sup> the same solution is provided for the Summit of Heads of State or Government of the euro area. Permanent president should contribute to the continuity and preparation in decision-making. Election of the President of the euro-zone summit by a simple majority is an exception, because it deviates from the usual unanimity or a decision-making by a qualified majority in the European Council. However, this isn't essentially out of the traditional institutional scheme applicable in the Community and the Union since 1957, so the question is whether it is necessary that the euro-zone has a classic prime minister who would have the power to independently and quickly make the necessary decisions in critical situations.

The answer to these institutional dilemmas tried to give the President of the Commission, Mr. Manuel Barroso, addressing the European parliament on 12 September 2012.<sup>108</sup> The current president of the Commission believes that in order to achieve a deeper economic and monetary union, or to reach a harmonious European foreign and defense policy, it is necessary that the EU move towards becoming a "federation of nation states." Converting the Union to "federation of nation states" implies the adoption of a new international treaty that would reform the current system. Proposals for the new institutional arrangements would be prepared by the European

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<sup>107</sup> Article 2 of the Protocol on the "Eurogroup" annexed to the Lisbon Treaties

<sup>108</sup> Jose Manuel Durao Barroso, President de la Commission europeenne, Discours sur l'etat de l' Union, session pleniere du Parlement europeen du 12.09.2012., <http://www.europa.eu>

Convention. The text of the founding treaty would be definitely established by intergovernmental conference of member states. Barroso believes that the Union can no longer survive as a technocratic and diplomatic, but must become fully democratic formation, which includes strengthening the role of the European Parliament in the framework of its institutional system. In this sense, the president of the Commission proposes to establish or federalize political parties at European level, which would in advance mark their candidates for the President of the Commission and as such come before the citizens of the European Union to the European parliamentary elections. In this way, the elected president of the Commission would gain even more credibility of the EU Prime Minister. The Commission intends to develop more specific proposals of institutional reform before the elections to the European Parliament which will be held in 2014. However, it is clear that the President of the Commission doesn't want to completely abandon the existing institutional arrangements based on the Treaty on the European Economic Community of 1957, but to use them as a base for further improvement.

## **Conclusion**

Treaty on stability, coordination and governance is an international treaty which was signed by the 25 member states of the European Union, with the exception of Great Britain and the Czech Republic which failed to do so, because they didn't want to give up the part of sovereignty in the budget sphere. Although it is about the international treaty concluded in accordance with the rules of international law, it is in fact in a close relation with Union law, so its application and interpretation cannot be contrary to the provisions of the Memorandum of Association. In this sense, the treaty itself stipulates that this content should be integrated into the legal order of the European Union in maximum five years from its entry into force.<sup>109</sup>

The treaty in question will enter into force on 1 January 2013 if it is ratified by at least 12 member states whose currency is the euro. Otherwise, the treaty may enter into force on the first day of the following month upon the submission of the twelfth instrument of ratification by the contracting party whose currency is the euro.<sup>110</sup> In this regard, it should be noted that the Treaty on stability, coordination and governance hasn't been ratified yet in

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<sup>109</sup> Article 16 of the Treaty on Stability, Coordination and Governance

<sup>110</sup> Article 14 of the Treaty on Stability, Coordination and Governance

France. French President Francois Hollande, who was elected to the post in May 2012, predicted in his election program that he will require, above all from Germany, to amend the same. Later, it has become more or less clear that Hollande accepts the political reality, i.e. that he won't be able to ask to go through the complicated process of amendments to this treaty, but it is likely that he will try to expand it by the chapter or annex dedicated to the promotion of economic growth.<sup>111</sup> Namely, French president believes that, without the revival of economic growth, austerity measures would push the member states of Southern Europe, and France as well, in even greater economic crisis. It remains to be seen whether the member states will agree on the measures and means which would encourage economic growth in the European Union.

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<sup>111</sup> Bertrand Nouel, Poruquoi le Traite de tabilite europeen sera ratifie par la France, [www.ifrap.org](http://www.ifrap.org), 21.05.2012.



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**UNIV. PROF. DR. MAJA ĐUROVIĆ-PETROVIĆ,**

Professor Maja Djurović Petrović graduated from Belgrade University Faculty of Technology in 1987, with the average grade 9.07. During her graduate studies, she earned recognition of the best student of the year in two consecutive years, and the best student at the University; and also was one of 30 students who won scholarship from the Serbian Academy of Sciences and Arts. During that period, she received a diploma from the Serbian Chemical Society No. 021/86; the awards “The Best University Student” in 1986, 1987; and recognitions “The Best Student of the Year” in 1984, 1985, and 1986; as well as the scholarship awarded by the Serbian Academy of Sciences and Arts. She defended her Master of Sciences thesis at the Belgrade University Faculty of Technology in 1992, and achieved her doctoral degree at the Faculty of Mechanical Engineering in 1998.

Dr. Djurović Petrović chairs the Renewable Energy Sources Board, which is a part of the Serbia Society of Energy Experts. She is a general secretary of The Thermal Engineer of Serbia Society; also, she is a member of the working group for Energy Safety, which is a part of the OSCE; and a member of the Energy Society Board of the Serbian Chamber of Commerce. Moreover, she tutored the development of the doctoral thesis titled A Comparative Performance Analysis of Belgrade Housing Stock: Determinants of the Carbon Reduction Strategy at UCL – the Faculty of the Built Environment in London.

## Development of Engineering Management and role of Engineering Managers in the Republic of Serbia

**Apstrakt:** *U radu su dati osnovni postulati energetskeg menadžmenta sa naglaskom na njihovoj primeni na državnom i lokalnim nivoima u Republici Srbiji. Dat je presek stanja srpskog energetskeg sektora kroz podatke o energetskeg potrošnji i stanju energetske efikasnosti. Detaljno su razmotrene mogućnosti, kao i prepreke za dalji razvoj organizacione strukture u ovoj oblasti na svim nivoima, počevši od javnog menadžmenta do uloge, razvoja i afirmacije lokalnih energetskeg menadžera, kroz formiranje novih menadžerskeg kvaliteta neophodnih za obavljanje sve složenijih uloga u energetici i reformi energetskeg sektora. Prikazane su i smernice za dalji razvoj sistema srpskog energetskeg menadžmenta, kroz stvaranje novog ambijenta koji daje šansu novoj menadžerskeg strukturi u energetskeg sektoru u cilju jačanja ekonomske efikasnosti i iznalaženja prave strategije rasta i razvoja sistema energetskeg menadžmenta u Srbiji.*

*Ključne reči: Energetika, Energetska efikasnost, Menadžment, Energetskeg menadžment, Energetskeg menadžer, Javni menadžment, Reforma energetskeg sektora.*

After democratic changes occurred, it was necessary for the new democratic government quickly to solve existing problems, so that Serbian economy could set its geo-strategical position in relation to other countries in Central and East Europe, which have made substantial progress in their reforms towards market economy.

It is evident that science must be connected with the economy, especially regarding products, processes and services that will provide export income with a higher added value and employ talents in enterprises. The only sustainable position of Serbia is the one that involves participation in industries with a high level of added value, i.e. knowledge, since Serbia does not play a significant role in any scientific discipline in Europe and worldwide. It is undeniable that the individual talent cannot compensate for the fact that none of our universities is put on the Shanghai list of 500 best in the world. None of our institutes could qualify for the leading EU Centre of Excellence. Globalization has led to the multiplication of centers of

technology and science. With the recovery of Russia, countries such as India, China and even the Middle East countries have appeared on the market in the last twenty years, along with traditionally present countries of West Europe, the United States, Japan and Canada. All of them invest significantly in science [1].

The global economic crisis has questioned the further development not only of Serbia but the majority of other countries, especially those of South East Europe, that do not have access to the EU funds, so it is quite certain that it will slow down the GDP growth, which in a sense, points to the restrictive policy of public spending in these countries, but also to the need to strengthen the support provided for scientific research in order to ensure future development.

Until 2000, a little had been done in this area in terms of legislation and in any other related activities as well, so it was an uneasy task to make up more than a decade of what was missed. Along with initiating the procedures for creating a legal framework, the significant actions have been started to promote and emphasize the importance of this activity for growth and development of the economy and thus the general society of Serbia.

Activities that had been carried out in the period after 2000 and until the Law on Innovation Projects was passed, were related to the development of innovation, and for their most part referred to the development of adequate legal framework that would regulate this matter in accordance with international standards and practices.

Being a country located in South East Europe, the economy of Serbia failed to reach the development level it had late in 1980s, both in terms of the achieved GDP level, which currently is about 62%, and in terms of the structure and the industry share in generating it, where the share of medium and medium-low technologies shows a declining trend. Since it is a small country, Serbia used to have relatively moderately developed scientific and research potential until early 1990s... along with very low scientific production, the autonomous and indigenous development of R & D systems, low and delayed commercialization of research results, the inconsistency of measures and instruments of public support to a successful R & D, which is still in general followed by a technological lagging, not only in the so-called medium and low technologies, but also in traditional sectors of economy [2].

The export of Serbia has been characterized by unfavorable structure of sectors. This structure is dominated by products of lower product phase of completion, mainly raw materials, and semi-finished products. Intermediate products make more than 50% of total export, and if we add to it the export of energy and other goods (mainly agricultural products), it can be claimed that the sector structure of Serbian export is unfavorable. The unfavorable

export structure poses a risk to the achievement of future export trends due to the potential deterioration of the exchange proportions.

The cause of unfavorable export structure is primarily due to the poor sectorial structure of the manufacturing industry, dominated by sectors with lower added value (intermediate products which make around 70% of manufacturing industry). Therefore, along with the changes in the export structure, it is necessary to raise the export potential of manufacturing industry and to increase product finalization.

However, allocations for the science and technology have not been significantly improved, and remained at about 0.3% of Gross Domestic Product. There have been no larger investments into the infrastructure. A significant number of young scientists and highly qualified engineers are continually leaving the country. Students are less interested in natural sciences and mathematics. The economy fails to invest significantly into the technology. It is quite evident when observing what Serbia is launching on the world market. When analyzing export trends, there is hardly any difference between the contemporary and medieval Serbia.

Investing in science and technology is the only way to create a sustainable economy, because medium and highly developed countries invest more than 1% of their GDP in science and technology. There is a large number of papers, both theoretical and empirical, demonstrating the key role of Scientific Research (SR) and Research and Development (R & D) and the innovation activities in general, depicting them as a cause of employment and competitiveness growth, and the results gained from Scientific Research, Research and Development, and innovations create a foundation for the economy and society development.

The marginal value that has to be achieved, and that provides a faster support to SR, RD and innovative activities in the state, is 1% of GDP.

Only a small number of the EU countries-15 fails to reach the limit of 1% of costs for SR and R & D in GDP, and among 12 EU countries which joined the EU in 2003, just Romania, Bulgaria, and Malta failed to reach 0.5% by 2005. On average, the EU countries spent 1.84% of GDP for SR and RD activities, i.e. about €412 per capita of the EU, which reached almost € 22.400 per capita in 2005.

Croatia stands out from the SE Europe countries with 1.22% of GDP. Serbia with 0.3% and Macedonia with 0.24% are even far from the half of 1% limit.

Although the reports by the state authorities in charge of Science and Technology Development, that were being submitted to the Government of the Republic of Serbia (between 1991 and 2000), indicated that the policy of scientific technological development was successfully accomplished, the data showed that the situation in Serbia science in 2001 was chaotic, that the

projected revenues for scientific research declined, the level of investment decreased, the staff turnover was becoming more frequent [3].

The negative trends of reducing scientific research potential in Serbia were mitigated early in 2001, and already in 2003, there has been a trend of growth until now, which was certainly the result of reforms made by the Public Management in this area. Institutional reforms in science, research and development were carried out in Serbia between 2001 and 2008, in order to make the research system more efficient and more economical [4].

The results of the achieved reforms are demonstrated in significantly increased number of scientific papers compared to 1990s, but not in the competitiveness of national economy when compared to the neighborhood, which indicates a lack of focus of research programs aimed at solving economic problems and the competitiveness of national economy, although the ministries in charge have particularly insisted on them.

## **2. POSITION OF INNOVATION SECTOR IN SERBIA IN RELATION TO NEIGHBOURS**

Theory and practice of the most developed countries, not only of those as big as the USA and Japan, but also of the smaller ones, such as Finland, Slovenia and others, show that one of the prerequisites for the accelerated development of economy and society is an adequate financial support to science, research and development (SRD). The data also show that a high level of investment in the SRD has resulted in high scientific production, patent activity, accelerated technological development, and finally a high standard of living.

The OECD available data for 2005 indicate that most developed and the fastest growing countries allocated between 2 and 3.7% of GDP, out of which between 0.6 and 1.0% from the public resources, or €180 to €350 per capita per year. The fifteen EU countries (which are lagging behind the USA and Japan), invested over 1.5% and 2.0% of their GDP in R & D before the latest EU enlargement in 2004, and had an annual scientific production of more than 700 scientific papers, and 126 euro patents per million inhabitants, while the exports of high technology products amounted to 19.7% of total exports.

The new EU member states (Slovenia, the Czech Republic, Hungary and Estonia) allocated between 0.4% and 0.8% of GDP, so the R & D costs amounted to between €40 and €150 per capita and the actual scientific publications between 1,334 (in Slovenia) and 661 (in Estonia), and more than 28 patents per million inhabitants per year. Slovenia certainly leads in terms of most R & D parameters. The investment level has increased to 1.57% of the GDP which is equal to €188 per capita, so the scientific and

technological output of more than 1,334 scientific publications and 35 euro patents per million inhabitants is quite understandable. The second group of new EU member countries: Poland, Slovakia, Lithuania, Cyprus and Latvia, have allocated between €30 and €50 per capita for research and development and achieved the result of 383 to 429 scientific publications being published, but the number of their euro patents is symbolic. Countries that joined the EU on January 1, 2006 (Romania and Bulgaria) allocated less than €20 per capita, and invested between 0.45% and 0.60% of their GDP. According to the latest figures, total investments in research at the EU level make up 1.96% of GDP, compared to the USA that allocate 2.59%, Japan 3.12% and South Korea 2.91%, it presents considerable lagging behind. Statistical data also show that there are 5.3 researchers in Europe per 1,000 of the labor, compared to 9 in the USA and 9.7 in Japan, because it is estimated that the number of scientists and researchers in Europe is significantly lower than in the USA and Japan.

The level of investment in science, research and development in Serbia in 1990's was about 1.0% (GDP), in nominal value it was between \$40 and \$60 million, of which about 50% came from the budget and the remaining 50 % from the revenues of business enterprises, including the revenues from the sale of patents and licenses, foreign and other resources. The level of investment in R & D in the period between 2000 and 2007, ranking from 0.30% to 0.60% of GDP, indicates a lag in comparison to the most EU member states, some of them former Yugoslav republics (Slovenia and Croatia), but even more in comparison to Macedonia, Montenegro, Bosnia and Herzegovina. [5].

During the past five years, the GDP growth rate in Serbia was about 5.6%. If this rate continues by 2012, we will be a country with about \$6,000 per capita, which is less than it currently is in Croatia, Hungary, and the Czech Republic.

That is why Serbia needs a growth rate between 8% and 10%. That is the only way to anticipate \$14,000 per capita by 2020, and it takes about \$4 billion of foreign direct investments per year [1].

### 3. PUBLIC MANAGEMENT ACTIVITIES IN INNOVATION SECTOR AFTER 2000

After escaping the difficult period of 1990s, the budgetary allocations for science in Serbia significantly increased in gross amount, from modest €27 million in 2001, to €100 million in 2008, as shown in Figure 1.

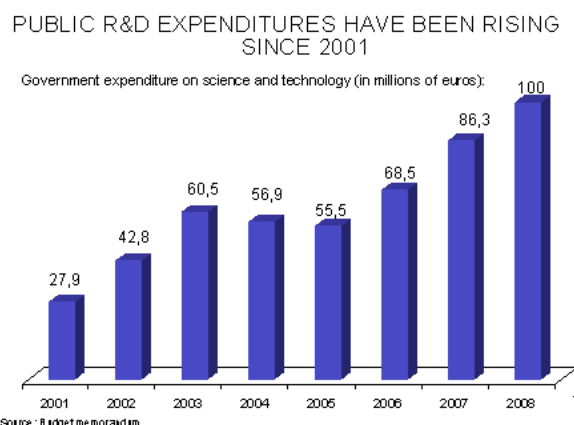


Figure 1. Investments in SRD from 2001 to 2008

Table 1 provides an overview of investments in science, research and development from public resources over the past eight years, noting that these investments amounted to between \$40 million and \$60 million in the 1990s, and that the level of investment amounted to about 1% of GDP, which indicates that the financial support to the SRD in Serbia increased several times.

Table1 The SRD costs from the public resources

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009
Billions of dinars	1.142	1.853	3.132	3.545	4.643	6.258	8.314	9.051	8.233
Millions of euros	19.12	30.13	45.85	44.94	56.0	74.9	101.40	105.04	

Source: Law on Budget of the Republic of Serbia, author's treatment





**UNIV. PROF. DR. VESELIN DICKOV**

Veselin Dickov was born in Novi Sad on May 8, 1963. He is married with a child.

Dr. Dickov graduated from the Medical School of the Novi Sad University and passed professional exam as a doctor of medicine before the committee appointed by the Serbian Ministry of Health in Belgrade. He also completed his studies at the IBC-Collage in Management and Marketing in Health Care System. Dickov also completed a specialist training in European Economic Integration, under the auspices of the Foundation Conrad Adenauer, organized by the Embassy of France, and Universities Nancy 2, as well as the another training on the Serbia Accession to the EU. Professor Dickov completed his specialization in Investment Management and Stock Market, and won his MBA degree in management studies at FTN - IEM / EURO-MBA, University of Novi Sad.

Prof. Dickov defended his doctoral dissertation *The Healthcare System of European Countries - Management Approach* at the European University Faculty of International Management in Belgrade, and gained a doctoral degree for narrower scientific field - Management, the International Management – the Health Care Management.

Since 2008, Dr. Dickov has served as an Assistant Professor with the European University Faculty of International Engineering Management in Belgrade, lecturing subjects related to Health Care Management.

Professor Dickov is a member of international scientific organizations and associations dealing with public health, international management, and health care economy.

Veselin Dickov is the author of a number of articles published in national, international and professional SCI journals, and the author of the specialized course book “Economy Modern”.

## **Modern Tendencies in Health Tourism Development in Function of European Integration Processes**

**Summary :** *The basic characteristics of contemporary health tourism are alternation in quantity and quality of tourism supply and demand with differentiation of three basic types: health tourism based on traditional using of natural factors, wellness treatment, and complex medical operation. In Serbia, objects of possible tourism supply in health and medical tourism are located in large cities, spa destinations and some mountains. Tourism supply development could be fostered by medical cluster forming, which is now in progress.*

**Key Words:** *Health Tourism, Wellness, Medical Tourism, Rehabilitation Centers, Medical Kllaste*

## **INTRODUCTION**

First Defining the research problem

Health tourism is a special branch of tourism that expertly controlled and used Natural healing and physical therapy procedures to maintain and improve the health, and consequently improve the quality of life. Health tourism is the basis of the use of natural therapeutic factors which may be a marine, heat and AC. In our case, ie. region is present only climate factor [1]. Natural Resources major, but capacity utilization is still insufficient. Serbia is a country in health tourism has existed for over 160 years. Start of spa treatment in Serbia dates back as far back as the 1834th That year the Prince Miloš made a decree that six water sent to Vienna for analysis and determine their composition for the treatment. Vienna was chosen as the first in Europe to Austria-Hungary began to deal with balneo-climatology, followed by other European countries that have owned this gem. It is interesting that the then-current sources and spa resorts today - Fishermen Spa, Palanacki Kiseljak in Smederevska, Brestovačka Spa in Bora Višnjička Spa, United Banjska in Kosovo and Spa Jošanica between Sokobanje and Nis. Later they opened another spa and climatic health resorts, and has experienced a boom since the early 20th century up to the Second World War. The law passed on spas in 1914. The King Peter. Health spa tourism in the past included the borderland of medicine and tourism, in which the various travel, healthcare and other institutions engaged in organized residents and tourists in the climatic spas primarily for disease prevention, rehabilitation and treatment using natural factors. Resource base of such medical tourism accounted for by natural factors: therapeutic thermal, mineral and mineral vde, medicinal mud-peloids, medicinal oil, healing climate (climate therapy), sea water (hydrotherapy), sand (psamoterapija) and others. The rapid development of tourism in the second half of the 20th and early 21st century, followed by changes in the quality and quantity of tourism supply and demand have contributed to medical tourism out of the box and starting all over themselves include a variety of other services, such as massage centers, beauty care, fitness, diet therapy, psychotherapy, anti-stress therapy, relaxation, and complex medical services, such as various surgeries and dental institutions . Tourism development that is tied to the health of people today ranging from classic natural healing factor to improve health, to other components (wellness, sport, recreation, healthy eating, entertainment, etc.). Needed a man to protect their health and fitness, and and also to specialized health care facilities that have quality personnel and medical equipment for the most complex medical procedures [2] [3] [4].

## Second Health Tourism

The concept of health insurance, the objectives of movement that is organizing the trip for health reasons, and that when it does not exclude the effects of spending related to tourism meet secondary needs. Health insurance a movement for health reasons, and include:

- persons traveling for medical examination and diagnosis
- persons traveling for a shorter or longer treatment,
- persons who accompanied the patient,
- persons traveling up exam
- persons traveling for medical rehabilitation.

Under the health tourism involves the temporary change of residence for health prevention, rehabilitation, using various wellness treatments, as well as complex medical zahavata. On this basis, the time, relatively speaking, have formed three groups of service users most frequently in different ways meet their health care needs. The first group consists of traditional consumers of health tourism-related environmental factors (the healing properties of water, mud, wave climate, etc.). [5]. The second group consists of clients wellness tourism, which is a set of procedures to achieve physical and mental well-being with the use of natural factors and other activities. The third group consists of patients with serious health problems which are necessary to improve the health of complex medical treatments that require the services of specialized health facilities and top medical staff.

According to the level of health services that clients use, conditionally as special forms of health tourism, medical treatment separated by natural factors (balnotherapy, kimatotherapy, thalassotherapy, etc.), Wellness (wellness) and medical tourism. Our people have always been visiting the spa, you can go to them when they finish treatment with a doctor, but when the doctor has the right solution for them. Simply, spas are a part of traditional lečilišnog milieu, and how this attitude toward spa centers is justified. In therapeutic terms, balneoklimatska, not spa resorts, as adopted extensively in the name of the people, can help in the whole range of diseases. By definition, Balneoklimatologija is a medical discipline that involves the application of natural therapeutic factors in the prevention, treatment and rehabilitation of diseases. The natural healing factors include medicinal water and mud, healing gases and healing wobble. „ Weather,, relating to certain climates that extremely beneficial effect on the body, known as air spa. On the other hand, wherever there are certain mineral springs, there are specific nod to act in concert positively to human health. The oldest form of medical tourism space was tied to the spa and the favorable climate of the area in which they are raised resorts. Because this type of tourism identified with spa tourism and how today the happiness literature Spa tourism (lat. Sanus per aquam - Water to Health). In this form of tourism visitor usually goes to the spa or a climatic place for health

prevention, curative or rehabilitation . Unlike the spa tourism, wellness tourism is linked to customers in good health, a variety of treatments that are trying to maintain existing health status. Wellness is a state of the art and the concept of tourism trend that the 90-'s 20th century began to develop in Europe, especially in those who have already had a wide selection of spa centers, such as the NP. Germany, Italy, Austria, Switzerland, Hungary and others. Therefore, the concept of wellness is often equated or used together with spa treatments. Wellness appeared to satisfy some human need for active rest and relaxation imposed manner and pace of life in modern society. It combines a number of different components (mental, social, emotional, physical, spiritual, etc..) Which have different influence on the quality of life. It can be said that wellness is the opposite of disease, or a positive component of good health. Based on a number of programs and wellness facilities, tourism creates a new form of tourism addressed to customers of payment of larger capacity. Under wellness tourism podrazumevju to travel with the primary objective of achieving balance and harmony, mental, emotional, physical, and spiritual values of man. "The broadest scope for the development of wellness tourism provides health-per-nuda because they already possess certain objects, facilities and trained personnel to provide wellness services. In addition to spas and other natural spas, wellness facilities can develop and tourist centers and other facilities serving the health, entertainment, relaxation, and other similar activities. The largest number of wellness and spa programs is based on a natural potential, given that the very natural environment reduces stress and helps relax man. In addition to the attractive natural scenery (mountains, spas, river, sea, etc..), For the development of wellness tourism facilities are used in indoor and outdoor sports and recreational use, landscaped areas for prophylactic activities (massage, whirlpool, sauna, etc.). , landscaped areas for medical services (diagnosis, therapy, etc.). [6] [7] [8].

The International SPA Association has defined seven different types of spa and wellness facilities, including:

First Club Spa - The primary purpose is fitness, but has offered a wide range of professionally managed spa services on a daily basis;

Second Cruise Ship Spa - spa on cruises that has to offer professionally managed spa services, fitness and wellness components and spa diet menu;

3rd Day Spa - Spa center with a spa in the provision of professional services on a daily basis. This type of offering many of the services that are in the portfolio of cosmetic services;

4th Destination Spa - Spa whose main role is to provide customers a choice in stvarnju healthy habits. Sometimes it involves a week-long stay in the destinations, which includes comprehensive professional spa services, fitness, educational programs, health food and special interests;

5th Medical Spa - The primary role is to provide complete health and wellness services under the supervision of professional staff in an environment that integrates spa services with conventional and special treatments and therapies;

6th Mineral Springs Spa - Spa that offers a natural mineral, thermal or other sources that are used for hydrotherapy treatments. This type of spa is the most typical for a European spa and wellness sector

7th Hotel Resort Spa - Spa in the hotel or resort that offers professional spa services, fitness and wellness components with spa menu. It is primarily intended for visitors who are traveling for business, as well as local residents in the form of day spa treatments [10] [11]. In relation to the location we can talk about two concepts of wellness tourism - at destinations that are commonly known watering places (destination spa and medical spa) and the wellness concept at the level of individual buildings / hotel (resort hotel spa). Can distinguish two types of hotels-hotels. First, the hotels that are solely committed to this segment of tourists and others are wellness hotels that have spa facilities as well as ancillary facilities to meet the demand of tourists that segment. Unlike the spa tourism, wellness tourism is seasonal and its offer does not apply only to tourists but also to the needs of the local population. Health tourism has a clientele that includes health problems and traveling for various therapies and treatments that will help them to radically improve your health. From a compound of modern medicine and Tourism has developed a relatively new form of tourism called. medical tourism, which many authors today see it as a separate niche of medical tourism. These are the voyages aimed connected with the provision of different, often more serious medical services, such as surgery, organ transplants, plastic surgery, dental procedures, etc.. This type of health tourism often involves travel across national borders, with medical services only or primary motivation for travel. For a comparison of medical tourism in the health tourism is important to emphasize that the purpose of other forms of medical tourism treatment to improve or maintain the current state of health, as rather a hedonistic relaxation in spas and alternative treatments, and medical tourism involves diagnosis, hospitalization and surgical interventions, the What are improving the health and recovery in the longer term. Thus, the difference between health and medical tourism is on the level of intervention on the body of visitors. It used to offer medical tourism offered to foreign visitors were spatially related to clinics and universities in developed countries. For example, London's

famous Harley Street, in which the 20th century a medical cluster, in which a small area is more than 1,500 health care institutions that provide services to plastic surgery, oncology, and to attract patients from around the world. However, today in the international medical tourism market, also strongly present poor and medium rich countries such as India, Thailand, the Philippines, Singapore, Malaysia, Cuba, Mexico, Hungary, Poland and other countries. They actively promoted as a medical tourism destination with top quality medical services are available without waiting and at extremely low prices. A key factor in these destinations offers, in addition to the price of the standard of medical services, the expertise of the medical staff and hospital technological equipment involved in these services and the very attractive location in terms of tourism. To meet the demand for low-cost high-quality medical services, entrepreneurs are invest in modern hospitals outside of developed countries, using domestic and foreign capital. They hired a staff that is educated by European and American standards, and if there were adequate staff in local communities, engaged specialists from their diaspora in developed countries. The structure of medical services in the form of tourism accounted for 41% of dental services, 40% in orthopedics, cardiology, cardiac surgery and neurosurgery, and about 19% on cosmetic surgery. The total value of medical tourism market is estimated at about \$ 60 billion, where as most consumers appear Americans who 2011th year for medical services outside the country spent over \$ 19 billion. Due to major changes in the requirements of potential visitors in the last about 20 years, a large number of spas in the Danube countries switched to the classic spa resorts in tourist facilities and preventive rekretivne forms of medicine. This realignment was necessary in order to survive on the market. However, the transition from classical to modern spas thermal spas require considerable investments The financial. A number of spa resorts remained the classic tourist industry, where curative treatment and rehabilitation of key segments of the deals, but they are adapted to their new requirements offer visitors, and they are modernizing their capacity [12].

3rd Spas of Serbia as centers of development of health tourism - History of spas in Serbia Serbia with more than 300 sources of mineral and thermo-mineral water belongs to one of the richest areas in Europe. Even the ancient Romans from the second to the fourth century AD built bathrooms, swimming pools and villas on the sources of thermo-mineral water, so that these remains were found today in low, Vrnjačkoj, Sokobanja, Jošanička, Kuršumlijska and spa. Also, recent archaeological excavations indicate the existence of today's architectural remains and Shepherd spa, but in Vranje and fishing. At the time of the Byzantine Empire was known for healing properties of some today, the most famous spas in Serbia. Used by the nobility and the people of medieval Serbia, while some like Trepča Shepherd and spas were Methods Serbian monasteries. Having won this part of the Balkans, the Turks leave traces of their presence in Koviljaca Ribarska, Sijerinska spa and Turkish baths "amami" still used in Soko Banja, Novopazarskoj and Brestovac Spa. At the end of the nineteenth and early twentieth century spas are

becoming increasingly popular among Serbian industrialists, merchants, and writers, painters and other artists, contributing to our spas are becoming increasingly popular and more interesting for tourists from Europe, so Koviljača, Niska Banja become Vrnjačka favorite place of tourists from Austria, Greece, Hungary. This tradition continued after the First World War, when the baths built magnificent villas, summer houses, saloons. Regulates the spa parks modeled on French and Italian. With the development of the hospitality industry, more and more attention is paid to the sanatoriums. So, in the period between the two world wars, spas are becoming middle class venue of Serbia, which we often visited by members of the royal family Karadjordjevic, which builds villas and resorts in most spas, Koviljaca Vrnjačkoj ... After World War II, the spa is being rapidly developed, built more accommodation facilities and health resorts, spas and more oriented as a place to recover, but that does not diminish their attractiveness as a place for fun and entertainment. [13]

How many bathrooms can be really healing?

In tourism, health tourism is Serbia's significant segment, primarily due to the large number of mineral springs with a wide range of medicinal properties terapeustskih water. Despite the significant number of landscaped spa complex, the tourism product is still oriented almost exclusively on domestic demand. In this history of medicine is the oldest form of treatment. Until the Second World War was the dominant Balneoklimatologist curative discipline, for the simple reason that there were no drugs to treat. In the last century they entered with two official drug, quinine and aspirin, while streptomycin and other antibiotics, as well as many other drugs, saw the light of day until after the Second World War. In such circumstances, it was quite natural that the treatment done in the spa and health resorts that are empirically confirmed for healing various diseases. Unfortunately, the middle of the last century with the development of the pharmaceutical industry this treatment is fully officially suppressed. However, people never stopped going and was treated to this način. Ponoovo arose great interest, which is why many spas modernize in order to provide better services for treatment and maintenance of health. Personally, I think that where there is a long positive experience no contraindications, such as in the case of spas, nothing should not touch. Such places should only enrich the facilities necessary modern man. Especially if you know that Serbia has more than 300 different types of medical treatment. How is wealth, is the fact that Germany has a big 450, France 74, Turkey and only 80 healing springs. In fact, Serbia is one of the richest sources of the world. In the literature, there is no water and you described is not in our country. Certain groups operating in certain water conditions. In this sense, there are indications of the first, second and third order. The mechanism of action is such that the water they stimulate physiological processes, affect homeostasis, and promote internal balance of the body. In any case, most are used in a variety of rheumatic diseases, as well as post



traumatic conditions after injuries and operations. They are used in neurological disorders occurring after stroke or brain attack. Spa resorts are especially recommended for infertility and other gynecological complex situation, and in treatment of peptic ulcer and kidney disease. For the treatment of biliary tract also confer certain spa resorts, as well as eye disease, non-specific conditions such as asthma, bronchitis and emphysema. All waters have nonspecific effects on the whole body. Improving immunity, physical strength, relaxes muscles, acting pain affecting the overall feeling of well being better. At the same time, certain water act specifically on certain organs that are affected by the disease. However, a strict dichotomy in terms of action does not exist, because all waters contain similar ingredients, but the question of what that dominates. So, for example, the osteomuskularni appliance that is affected by rheumatic diseases affect sulfur, radon and salt water. This means that a person can go to the spa or Fisherman MELENCI if you want sulphurous water. May be in the low radon spa where water is also good for cardiac patients. Of course, you can also leave the salt or the Mladenovačka Selters. Special group ugljenokisele water, called kiseljaci, containing dissolved carbon dioxide. These waters are good for drinking with peptic ulcer disease, regulation of bowel motility, treatment of peripheral circulation. Are recommended for diabetic complications such as neuropathy, or disease of the peripheral nerves and Birger disease or chronic inflammatory disease of the small arteries and veins in the legs. The most famous are kiseljaci Vrnjačka, Bukovička Gamzigradska and spas, as well as Palanački sorrel. For kidney patients are recommended oligomineral slightly alkaline water, such as Prolom. For non-specific lung diseases such as asthma, bronchitis and emphysema, are recommended iodine water that act as bronchodilators. Such is the example, Soko Banja, and all Bečej full of iodine water. Also appear on the skin of sulphurous water. And for gynecological recommended sulfur and radon water, but generally thermal or hot water with a temperature between 30 and 40 degrees Celsius. Such spas Junaković, Vrnjačka, fishing, Mataruška. As for Mataruska, it is considered especially healing for rheumatic diseases. And when it comes to gynecological spas are most effective in the treatment of infertility. It has been shown that sulfur and radon hot water stimulate ovulation, when performed in a professional manner and with the supervision of trained staff. The Regulation clearly specifies what the spa which is to be expected in a therapeutic sense. Buildings of health institutions in Serbia, which are potentially objects can supply the domestic health and medical tourism, are located mainly in the larger cities, our spas and some mountains. They primarily attract local customers who travel to them for appropriate medical treatment. In relation to the development of tourism in general, medical facilities and spas located in the mountains, has always been treated as a key segment of the tourist destinations. However, the spa, despite relatively modest tourism and low quality of services and most significant tourist destinations. The total number of domestic tourists in Serbia, spas account for 12-15%, and the total number of overnights with 35 - 40%. The average length of stay of guests in spas is 2-5 times

higher than in other tourist centers of Serbia, which points to the prospect of spa tourism and the possibility of achieving better economic effects. Over 50 spas in Serbia and water quality on which they based their tourist activity are undoubtedly great potential for development and for the future capital of Serbia. However, it has so far focused mainly on domestic demand, and their offer is based primarily on the components of health, while less attention is paid to improving the quality of accommodation, catering and entertainment offerings. According to the authors of the Tourism Development Strategy, it is necessary to reposition the current product market spas and health resorts in Serbia. It will not be possible without a lot of high investments in infrastructure and the whole superstructure of those places, except the medical specialization, and it should be a couple of spa resorts and preserved them completely repositioned in a luxurious spa business. Serbia is currently in spa tourism has relatively limited growth potential in the global market and that this product is not yet ready for international commercialization, but also that in the upcoming period for development of spa tourism still rely on local visitors. Bearing in mind that in some of our spas are introducing more and more wellness services and anti-stress programs, massage, aromatherapy, fitness facilities and similar practices, the authors of the Strategy initiatives like this be a good foundation for the development of products, "Medical Spa" and "Mineral Springs Spa." Under Development Strategy Tourism Serbia, this product represents the future of our tourism [14] [15].

- Medical Spa

category that is projected to have the greatest potential for growth in the next decade, mainly due to the growing demand for holistic medical treatments and therapies. The service is based at all, known in the world, health and wellness components, in an environment that integrates conventional and special treatments and therapies. This segment turističkog product requires some improvements, additions and adjustments.

- Mineral Springs Spa

as a kind of typical products in the European spa and wellness sector, based on supply of natural, mineral and thermal springs, and offer different hidroterapeutskih treatment. This segment of the product in relation to the product Serbian spas, requires a relatively small volume of investment and has the potential of relatively rapid international positioning. So, in the short term, Serbia must focus on rapid development and commercialization of Medical Spa Mineral Springs Spa and Health Tourism segmenataproizvoda, based on the strategy of moderate price, but with high quality services. Develop and offer health tourism products should be based on the ratio of 70%, with a focus on the health segment and 30% with a focus on wellness segment [16].

#### 4th The development of medical tourism in Serbia

Serbian Health has a great medical staff, potentially the foundation of competitive advantage in the provision of Serbia in medical tourism. While in Serbia has organized medical tourism for many years, our experts provide a variety of health services to foreigners. They come individually, without agencies. The greatest interest was for dental services in the field of laparoscopic surgery, plastic surgery, artificial insemination, but also for the rehabilitation of the spas. Most foreign patients were from former Yugoslavia, Russia and Albania. Potential offers medical tourism in Serbia were undoubtedly great, and it is primarily on the side of human potential and the cost of services, but with many limitations in the promotion and presentation capabilities to provide health services. That is why the number of foreign visitors and the effects of these visits significantly below the expected level. On the other hand, Serbia is seen as an area in which to generate demand for the services of medical tourism.

#### Special hospital

On numerous movement of tourists and overnight stays, as well as length of stay, have a significant impact medical institution known as the special hospitals, institutes, special institutes, institutes for rehabilitation, prevention and treatment, and, as rehabilitation centers. These hospitals have accommodation facilities, qualified medical personnel, and to receive therapy and visitors staying in other accommodation facilities. Special hospitals, such facilities can offer national health and medical tourism, are located mainly in the larger spas, mountain resorts, and less frequently in larger urban areas. Maximum rely on the curative function spas and mountain resorts where they are, and they are characterized by a high degree of utilization of the entire capacity. These rehabilitation centers primarily attract domestic tourists who visit them for appropriate medical treatment. In relation to the development of tourism in general, medical facilities and spas located in the mountains, has always been treated as a key segment of the tourist destinations. The spa and health resort situated 21 Serbian institutions for prevention, treatment and rehabilitation, which have over 7000 beds, of which the network of Health of the Health Insurance 50% (3527 beds). Other available resources are used commercially and are provided to domestic and foreign guests rarely. In addition, medical services, special hospitals, other visitors to the spa and climatic health resorts, which are located in drugimugostiteljsko tourist facilities (hotel rooms and private accommodation). Because of unresolved legal and property relations and restitution, in particular, interest Pension and Disability Insurance Fund from which funds are built rehabilitation centers, stopped the privatization and sale of rehabilitation centers. The problem of privatization of health facilities in Banja is still open. In the first phase of privatization, the state was identified as the titular ownership of health and medical tourism in Serbia. In the process, appeared

Pension and Disability Insurance, which is over 70-years they invested a significant amount of resources to build capacity in health spas and climatic areas, and based on that finding his stake I usually get one disputes in court. Republican Fund for Pension and Disability Insurance, in whole or in part, funded the construction of rehabilitation institutes Old Slankamen Melenci, The Abyss, Kanjiza, Fruska Gora-Vrdnik Mladenovac Jošanička spa, Gamzigradska njiva, njiva fishing, Goldsmith, Koviljača, Sijerinska spas, spas Kuršumlijska, the Institute "Dr Miroslav Zotović" Bujanovačka spa, Zlatibor, Bukovička spa, spa Vrnjačka, Niska Banja, Novopazarska spas, Soko, Soko-Ozren, FC, Mataruška spas, spas and Vranjska Pribojska spa. considered Pension Fund that in about 30 spas invested around 450 million euros. Fund only in Niska Banja, the present value, has invested 20 million euros in the spa Vrnjacka 12 million, to a special hospital in Banja Koviljaca 7.3 million, a specialized hospital "murmur of "Kursumlija 12.4 million. privatization They were halted, but in another 14 spas in Serbia of contention. Among them are special hospital in Sokobanja in which the Fund has invested 17.4 million euros, then" Goldsmith " where he invested 26.4 million and "Čigota" in which he had invested 21.3 million euros.

#### 5th Medical Tourism Cluster in Serbia

The formation of clusters of medical tourism would lead to the improvement and development of medical tourism offers Serbia. Medical Tourism Cluster, which is currently forming in trying to bring together all public and private actors in the field of medical and tourist services, ie. spas, hospitals, clinics, institutes, offices, hotels, travel agencies, restaurants, transportation companies and other entities, especially those whose services are tailored to the expectations and requirements of foreign visitors. The idea is that, in cooperation with relevant ministries and other relevant institutions, marketing Serbian position as a destination of medical tourism. The cluster is still called. zero-phase formation.

The specific objectives of medical tourism cluster are:

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- Media and other joint marketing and PR activities to promote and develop tourism offers Serbia,
- Training of target groups and end users during a seminar on standards and trends in medical tourism, as well as seminars on existing domestic legislation,

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Dr. Tatjana Šibaliija, graduated from the Belgrade University Faculty of Mechanical Engineering department of Production Engineering and won a master degree in 2005. In 2009, she was awarded a PhD degree with honors after defending the thesis Development of Intelligent Designer Experiment Model for Applying Taguchi Model. Early in 2007 she spent three months on professional training in Politecnico di Milano, Department: Manufacturing and Production Systems, Milan, Italy. Her professional experience also includes holding engineering and managerial posts at the STMicroelectronics international corporation, Malta, - the European leader in micro-electronics industry, and the positions of Statistical Process Control Champion and Total Productive Maintenance Coordinator. She received the L. Romano Best Inventor Award (ST Worldwide Manufacturing Excellence) and ST Microelectronics - Technological Award in 2003. Upon her return to Serbia she employed as a professional coordinator at the Petroleum Industry of Serbia (NIS) in Belgrade. As of 2009, Dr. Sibalija has been teaching as a professor at the European University Faculty of International Engineering Management, Belgrade.

She participated in several international and national scientific-research projects in the area of managing and quality promotion. She is the author of three books, 10 guides in the field of management and quality engineering, and published more than 50 articles in the international professional journals, i.e. presented at international professional conferences. The European Commission has recruited her as an expert for research projects within FP7 including the Information and Communication Technologies and the Nanosciences, Nanotechnologies, Materials & New Production Technologies. Dr. Sibalija has served as a reviewer in several leading international professional journals, and also of a series of paper collections from international conferences. She is a member of the United Association of Serbia for Quality and Standards (UASQS) main board, and the chairperson of the Scientific-Technical Committee on Quality Improvement Six Sigma, and also a member of the international program committee of the International Working Conference–Total Quality Management – Advanced and Intelligent Approaches. She is also a member of the national team of the European Technology Platform Manufacture - EU Program.

## Quality Management in High – Tech Industry: STMicroelectronics study case

**Abstract:** *The paper presents the quality management principles in high-tech industry, taking into account the specifics of the high-tech sector. The example of the company STMicroelectronics, which is the European leader in semiconductor industry, was studied in details, presenting the company's strategic quality management programs as well as the tools used to accomplish the strategic objectives.*

*Key words: Quality Management; High-Tech Industry; Total Quality Management*

### 1. INTRODUCTION

The term high-tech refers to technology that is at the cutting edge: the most advanced technology currently available. It is often used in reference to micro-electronics, hence semiconductor industrial sector is one of the best representatives of high-tech industry in general.

According to the Krugman's definition "high-tech equals knowledge". It is explicit that the high-tech industry is the sector in which high investment in knowledge is of the essential importance. Hence, high-tech companies depend on the intensive research and development (R&D) activities, which are usually followed by initial losses to gain experience. One of the definitions of high-tech says that R&D expenditure must be over 10% of revenues of a company, where engineers and scientists present over 15% of work force [1].

Specific characteristics of a high-tech industry could be summarised as follows [1, 2]:

- Drastic growth;
- High added-value;
- Formation of technology clusters (co-operation and co-opetition);
- Products and processes are often developed together (since high-tech products are new/innovative, their development is followed by the development of new processes that generate these products);
- High R&D expenditure;
- Risk (either at the forefront or "out");
- Fast diffusion.

In today's economy, rapid globalisation and increased competitiveness has firmly put the focus on efficiency, faster time-to-market, and product and/or processes quality improvement, especially for high-tech companies. High-tech companies are facing a growing mix of complex products and products-services, shorter product lifecycles, and an increasingly competitive environment. Effective quality



management programs should offer the solution for boosting manufacturing quality, while also improving operational efficiencies and lowering production costs, including supplier chain management as a top priority in the business strategy. Considering the specific characteristics of a high-tech industry, quality management programs should also focus on complex decision making to meet the specific challenges that the high-tech sector is facing, enable high-tech companies to deliver differentiated products and build a sustainable business, and add value across business processes in the value chain.

Therefore, it could be said that the quality has become a strategic priority for companies hoping to thrive in the new, globalised market. Organizations that clearly define their quality approach and adhere to the management principle of highest products and/or processes quality combined with the best customer service are the ones that will capitalise on markets, competition and customers [3].

The quality managements in high-tech industry emphasise a number of management concepts, all of which are centred on philosophies of customer focus, continuous improvements, defects/losses/waste prevention and/or elimination, recognition that responsibility for quality is shared by all, process management, leadership and strategy, supply chain management and partnership, and, business results. Therefore, it could be concluded that the basic elements required for quality management in high-tech manufacturing industry includes [3, 4]:

- Continuous improvement;
- Customer focus;
- Quality measurement;
- Root cause corrective action;
- Employee involvement and empowerment;
- Statistical thinking;
- Inventory management;
- Value improvement;
- Supplies teaming;
- On-time delivery performance.

The rest of the paper is organised as follows. The second section presents general characteristics of semiconductor industry, as well as of a company STMicroelectronics. The third section gives an insight in quality management strategy used in STMicroelectronics, their total quality management principles and strategic initiatives and programs. Concluding remarks are given in the last section.

## 2. SEMICONDUCTOR INDUSTRY

The semiconductor industry is the aggregate collection of companies engaged in the design and fabrication of semiconductor devices. It formed around 1960; it has since grown to be the over \$300 billion dollar industry it is today. Based on KPMG report it was a \$304 billion market in 2010 [5].

The global semiconductor industry is dominated by USA, South Korea, Japan, Taiwan, Singapore, and European Union. Table 1 shows data about top 8 semiconductor companies, for the period 2009 – 2011.

Rank 2009	Rank 2010	Rank 2011	Company	Country of origin	Revenue (million \$)	2010/2009 change	Market share
1	1	1	Intel Corporation	USA	40 020	+24.3%	13.2%
2	2	2	Samsung Electronics	South Korea	28 137	+60.8%	9.3%
3	3	4	Toshiba Semiconductors	Japan	13 081	+26.8%	4.3%
4	4	3	Texas Instruments	USA	12 966	+34.1%	4.3%
5	7	7	STMicroelectronics	France-Italy	10 290	+20.9%	3.4%
6	9	6	Qualcomm	USA	7 200	+12.3%	2.4%
7	6	8	Hynix	South Korea	10 577	+69.3%	3.5%
9	5	5	Renesas Electronics	Japan	11 840	+129.8%	3.9%

Table 1: Leading semiconductor companies world-wide [6]

The distinct characteristics of semiconductor industry that assure its unique position in the global competitive market includes following [7]:

1. The role of the industry as technology enabler. The semiconductor industry is widely recognized as a key driver for economic growth in its role as a multiple lever and technology enabler for the whole electronics value chain. In other words, the industry enables the generation of some \$1,200 billion in electronic systems business and \$5,000 billion in services, representing close to 10% of world gross domestic product (GDP).
2. Continuous growth but in a cyclical pattern with high volatility. While the current 20 year annual average growth of the semiconductor industry is on the order of 13%, this has been accompanied by equally above-average market volatility, which can lead to significant if not dramatic cyclical swings.
3. The need for high degrees of flexibility and innovation in order to constantly adjust to the rapid pace of change in the market. Many products embedding semiconductor devices often have a very short life cycle. At the same time, the rate of constant price-performance improvement in the semiconductor industry is staggering. As a consequence, changes in the semiconductor market not only occur extremely rapidly but also anticipate changes in industries evolving at a slower pace. Yet another consequence of this rapid pace is that established market strongholds can be displaced very quickly.

For the most part, the semiconductor industry has completed its ISO/TS 16949 and ISO 9001 implementations. Many large semiconductor organizations, contract fabs and assembly subcontractors that were registered to QS-9000 have successfully transitioned to ISO/TS 16949 despite the scope restrictions of this technical specification. These were necessary since the most demanding customers and the highest expectations for quality are found in the semiconductor sector.

The European semiconductor industry was ranked as the most R&D intensive sector by the European Commission in 2011. In Europe, this sector directly employs 110,000 people and indirectly supports up to 500,000 jobs, operating in a worldwide market valued at over € 215 billion in 2011. It is explicit that this sector is one of the most profitable industrial sectors. In such high value business, where product yield directly affect the profitability of the industry, even a small change in the yield can lead to savings/profits of hundreds of millions of euros [8].

#### 2.1. STMicroelectronics: basic facts

STMicroelectronics is one of the global semiconductor leaders and the largest European semiconductor company having a rich, balanced portfolio. It was established as SGS-THOMSON Microelectronics in 1987, from merger of SGS Microelettronica (Italy) and Thomson Semiconducteurs (France), and renamed STMicroelectronics in 1998. The company employs approximately 50 000 employees worldwide; it has 12 main manufacturing sites that operate as a network of front-end (wafer fabrication) and back-end (assembly and test and packaging) plants. The major manufacturing sites are: 1.) front end fabs are located in Agrate Brianza and Catania (Italy), Crolles, Rousset and Tours (France), and in Singapore; 2.) back end fabs are located in China, Malaysia, Malta, Morocco, the Philippines and Singapore. The company's revenue in 2011 was \$9.73 billion [9].

The intensive R&D activities are performed in advanced R&D centres in 10 countries. STMicroelectronics is considered as a leading technology innovator. Almost one quarter of its employees (around 12 000 researches and engineers) work in R&D and product design. In 2011 the company spent about 24% of its revenue in R&D. The company registered over 21 000 patents, which positions it among the industry's most innovative companies.

Formation of technology clusters and alliances is typical for high-tech sector. Hence, STMicroelectronics established a strong culture of partnership and through the years has created a worldwide network of strategic alliances with key customers, suppliers, competitors, and leading universities and research institutes around the world. The unique joint-venture company was formed with companies Sharp and Enel, embracing technological, manufacturing and marketing aspects.

Corporate responsibility is an important aspect of the overall business strategy. The company's sites have received more than 100 awards for excellence in all areas of corporate responsibility, from quality and product responsibility to corporate governance, social issues, employee health and safety, and environmental protection [9].

### 3. QUALITY MANAGEMENT IN HIGHT-TECH INDUSTRY: STMICROELECTRONICS STUDY EXAMPLE

Management of process and/or products quality is a primary preoccupation of all STMicroelectronics employees. It implies proactive approach, in terms of management of a quality through the whole organization with the ultimate goal to achieve business excellence. The company's approach to total quality is presented via 7 Quality Pillars (Figure 1) [9].

The following general guiding principles for total quality management (TQM) were recognised:

- customer satisfaction,
- business integrity,
- people,
- excellence,
- profitability,
- manufacturing,
- globalisation,
- innovation,
- strategic alliances,
- product portfolio,
- application focus.

Precisely, company's TQM principles could be summarized into five following categories [10]:

1. Management commitment, that comprehend leadership, teamwork, discipline, trust, communication, continuous improvement, recognition;
2. People empowerment – the final goal is to have all employees contribute the maximum of their discretionary capability, using the following means: understanding what is expected from them; consistent goals and measurements; recognition for contributions; positive interactive communication; discipline;
3. Fact-based decision making;
4. Continuous improvement (CI), with the motto “If it is not perfect, make it better!”. Here the emphasis is on the improvement of the overall capabilities to produce better results rather than improving the results. In operations, there are five areas where CI should apply permanently:
  - a. defect prevention – the target for every department is at least 50% of defect reduction every year;
  - b. variability reduction – variability performance is measured and control using SPC;
  - c. non value-added (NVA) elimination – diversionary work results from doing work the customer does not require, bureaucracy, correction of errors, rework, resend, etc. NVA is measured as waste or cost of non-quality;
  - d. cycle time control;

5. Customer focus – the ultimate objective is to exceed customers' expectations at the lowest possible cost;  
and the four TQM imperatives are:
1. never compromise quality;
  2. institutionalize prevention;
  3. practice continuous improvement;
  4. develop cross fertilization.



Figure 1: STMicroelectronics quality pillars [9]

Strategic initiatives implemented in order to achieve the afore-mentioned goals are [10]:

1. Kaizen;
2. Policy deployment;
3. Teamwork;
4. Total productive maintenance (TPM);
5. 5-S;
6. Corporate recognition program;
7. CEO TQM audit;
8. Project management;
9. Knowledge sharing;
10. Learning organization;
11. Employee suggestion system.

Kaizen is a process-oriented continuous improvement approach that involves everyone – from top management to shop floor workers. The company's management is in charge of maintenance and improvement. Management

performance is no more focused on profits only, but it comprehends the whole TQM culture.

Policy deployment is corporate mechanism for cascading goals and improvement plans down through the organization, from the corporate mission and long-term objectives to the shop floor and daily improvement actions. It comprises two levels. Level 1 deals with large number of goals covering each group's contribution. Level 2 provides detailed, visible and frequent management methods to drive breakthrough improvements for a few high-priority objectives selected from the level 1 goals.

Regarding teamwork, the company focus is cantered in two initiatives: (i) promote three types of teams – the excellence teams that drive CI, the project teams whose efficiency directly impact the key processes (i.e. production introduction, software implementation, etc.), and the empowered/self-managed teams that focus on building ownership; and (ii) increase the effectiveness of all teams in operation regardless of their characteristics.

TPM program takes productive maintenance wide with the commitment and support of managers and employees at all levels. TPM is characterized by production department workers participating in equipment maintenance activities (autonomous maintenance), a continuous process to increase equipment effectiveness, an efficient planned maintenance system and system for maintenance prevention design and early equipment management. Bridging the whole company together behind TPM enables it to achieve goals such as zero breakdowns, zero losses and zero defects.

The 5-S practice is a well-recognized Japanese method for work improvement, that comprises the following steps: 'Seiri' (structure - organization), 'Seiton' (systematize - neatness), 'Seiso' (sanitize – cleaning), 'Seiketsu' (standardize – standardization), and 'Shitsuke' (self-discipline – discipline). Top management is dedicated to the promotion of 5-S, training for 5-S, and measurement of implementation results and their analysis.

Corporate recognition program was designed to encourage individuals and teamwork, to leverage the human capital. There are three types of awards given within this program: (i) best excellence teams and best suggestion awarded, rated by CEO' staff; (ii) best suggestor, and (iii) the special award (i.e. best service, knowledge sharing, etc.). Three levels of award are given for all three types: gold, silver, and bronze.

CEO TQM audit has proven to be the very powerful mechanism to support CI. The CEO visits every major site about once every two years to perform the audit. The audit is performed in accordance with EFQM (European Foundation for Quality Management) Excellence model. Prior to the CEO TQM audit, the self-audit was performed by the local TQM committee. Then, CEO performs TQM audit, and deliver a report that serves for internal benchmarking among various sites within the company.

Project management is one of the key success factors for the introduction of new products, that can present up to 80% of a given year revenues. It is the essential tool to ensure successful project completion, ensuring optimal usage of resources to develop products on time, compliant with specifications and within the budget. The following phases are involved: establishing the project objectives; planning the activities; organizing and implementing; and, controlling and communicating.

Key concepts within knowledge exchange are: intellectual capital; knowledge; and, knowledge management. The main goals are to link the people and knowledge and people and people. Informational technology (IT) infrastructure is an important tool for the training, promotion, recognition and measurement of the gained knowledge. The concept of learning organization and the establishment of ST University as one of the TQM initiatives give STMicroelectronics a real strategic advantage. Its main objectives are to create, collect and transfer knowledge. The key activities, which embed this frame into a daily practice are: systematic problem solving, experimentation and learning; sharing best practice; and, transferring and reusing knowledge.

Employee Suggestion System (ESS) implies the suggestions submitted by employees, their evaluation and acceptance, hence favouring the people creativity. Their suggestions may help working more efficiently and safer, reduce errors and costs, and contribute to increase the satisfaction of customers and other stakeholders. Recognition and rewarding personal contribution are key factors for the success of EES. Therefore, it is explicit that EES is in a close relationship with the above mentioned five TQM principles: management commitment, people empowerment, fact-based decision making, continuous improvement, and, customer focus [10, 11].

### 3.1. Quality awards

Among several obtained quality awards, it is important to highlight the fact that STMicroelectronics was awarded with two most prestigious quality awards: Malcom Baldrige Award at 1999, which is American award for TQM (for the company's operations in USA), and European Quality Award at 1997 – European award for TQM (for operations in Europe).

The European Quality Award is presented to organizations that demonstrated excellence in the quality management as their fundamental process for CI. The European Quality Award is now referred to as the EFQM Excellence Award. This distinction is awarded annually by the European Foundation for Quality Management (EFQM) to the organisation that is the best proponent in Europe of TQM. It is designed to recognize organizations that have achieved an outstanding level of sustainable excellence, based on assessment against the EFQM Excellence model. Companies are evaluated according to the following 9 EFQM Excellence model criteria [11]:

I Enablers:

1. Leadership;
2. Strategy;
3. People;
4. Partnerships & Resources;
5. Processes, Products and Services;

II Results:

6. Customer Results;
7. People Results;
8. Society Results;
9. Key Results.

Candidate companies are selected after a lengthy and rigorous assessment procedure conducted by team of experts, administered by the EFQM, and a selection procedure by a team of Jurors. The selection of the finalist is based on the highest standards and practice of quality management and business excellence. After the evaluations, among the best reports the Jurors nominates the prize winners and the award winner, being the best of the prize winners. There is considerable status attached to winning the European Quality Award. It clearly establishes the winner as a member of the most successful group of organisations in Europe.

The Malcom Baldrige National Quality Award (MBNQA) was established by American Congress to recognize US companies for their achievements in quality and business performance and to raise awareness about importance of quality and performance excellence as a competitive edge. Three awards may be given annually in each of these categories: manufacturing, services, small business, education, and health care. This award was envisioned as a standard of excellence that would help American organization achieve world-class quality. The Baldrige award serve two main purposes: (i) to identify Baldrige Award recipients that will serve as role models for other organizations, and (ii) to help organizations assess their improvement efforts, diagnose their overall performance management system, and identify their strengths and opportunities for improvement. In addition, it help strengthen companies that operate in USA to improve organizational performance practices, capabilities, and results; facilitate communication and sharing of information on best practices among USA organizations of all types; to serve as a tool for understanding and managing performance and for guiding planning and opportunities for learning. The MBNQA criteria are [11]:



1. Leadership;
2. Strategic planning;
3. Customer and market focus;
4. Information and analysis;
5. Human resource focus;
6. Process management;
7. Business results.

The applications for the award are evaluated by an independent Board of examiners composed of primarily private-sector experts in quality and business. Examiners look for achievements and improvements in all the above seven categories. Organisations that pass an initial screening are visited by teams of examiners to verify information in the application and to clarify issues, if any. Each applicant receives a written summary of strengths and areas for improvement in each area addressed by the criteria.

#### 4. CONCLUDING REMARKS

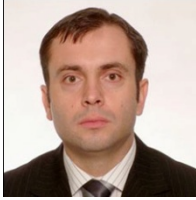
In response to the trend of globalization and the continuing advancement of technology, traditional industries are increasingly replaced by high-tech industries. In the age of knowledge economy, the technology- and cost-intensive high-tech industries have offered an adequate response to the global business challenges, relying on the successful research and development of innovative products or services [12].

To keep up their competitive advantages, many companies have adopted TQM model. As a result, in aid of organizations in TQM implementation to improve products and service quality, several national quality awards, including EFQM and MBNQA, developed in many quality-promoting countries have been increasingly adopted as foremost self-assessment models for better performance by numerous organizations. Previous studies showed that the elements of TQM program (e.g. organization culture change, the involvement of all employees, commitment of high level managers, continuous improvement, training, etc.) significantly affect the competitiveness of high-tech industrial sectors. Also, it is explicit that R&D and innovation capability plays a crucial role to help high-tech companies enhance core competitiveness [12, 13].

Therefore, it could be said that TQM presents a blueprint for companies striving to achieve and sustain business excellence, which is of particular importance for high-tech industry due to its distinguish characteristics and operations in highly competitive global industrial circumstances. Therefore, TQM offers a way to gain competitive advantage in the 21st century – in the, so-called, knowledge economy. Furthermore, it could be said that TQM supports R&D in generating innovative products, processes and business, which is of paramount importance for high-tech industry.

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**Docent Dr. Tomislav Todorović**

Tomislav M. Todorović was born in Sombor, the Serbian Autonomous Province of Vojvodina, on Dec. 18, 1970. He completed the elementary and high school of economics in Sombor.

He started his graduate studies at the Novi Sad University School of Economics department in Subotica in 1990. He graduated with the highest grade in 1994.

Todorović enrolled to Master of Science postgraduate studies in 1996, at the School of Economics in Subotica – Department of Banking and Finances. He defended his master thesis Banks in the Functioning of Capital Markets on Jan. 27, 2000. He defended his doctoral thesis Role of Banks in Creating a Functional Financial Market at the Alfa University Faculty for Trade and Banking in Belgrade, on March 31, 2011.

Dr. Todorović started his professional career at the main office of Vojvodjanska Banka in Sombor in 1996, 1997; in its Planning and Analysis division until 1998; later on he served as Credit Analyst, and finally as Director of Corporate Loans.

Tomislav M. Todorović worked as Branch Manager of Novosadska Banka Stock Company office in Sombor between 2001 and 2003. He was Expert Adviser to General Manager of Panonska Banka Stock Company in Novi Sad, in 2004. Between 2005 and 2008, Todorovic served as Executive Director of Panonska Banka Stock Company in Novi Sad. Thereafter, he worked with the Banca Intesa Company in Malta at the post of deputy Risk Manager, in 2008.

Dr. Todorovic worked as Chief Financial Officer at the Erakovic Group of Metalopromet Ltd., Erakovic Ltd. and Becejka Ltd., between Kula and Becej, in 2011.

He was awarded the rank of Broker for trading securities in financial markets in 2001.

In his current scientific and research work, Tomislav M. Todorovic has analyzed banking and financial markets, the role of banks in capital markets, and issuing and trading with securities at capital markets. He has carried out research in modern tendencies of regulating banking business, bank risks and managing risks, the world economic crisis and its consequences to the position of banks, economies and broad public, and also the role and importance of banks in financial markets. He published a substantial number of papers dealing with these areas, as well as scientific papers that he presented to scientific gatherings and symposia in the country and abroad.

Todorovic is fluent in English, and has working knowledge of German and Italian.

## Development Of Banking System In Serbia With Special References On Srpska Banka A.D.

**Abstract:** *A current organizational and basic structure of banking institutions has grown out of legislation which is designed according to the constitutional concept of functioning of economic system of the country. Adequate development strategy of the national banking hasn't existed, the banks which haven't been privatized but remained state-owned have been left to stagnate, with poor resources to fight on a competitive market.*

*It is necessary that financial assets and capital, which are functioning in the banking system, are aimed at economic growth and development of the Republic of Serbia. This goal can be achieved only through the concept of development of national domestic banking. One of the leading roles in the development of domestic commercial banking should be given to Srpska banka ad Belgrade, which is majority-owned by the Republic of Serbia, 98.14% precisely.*

*The synergy of all developing planning and program activities should enable rapid and successful development of Srpska banka ad on the financial market of the Republic of Serbia.*

**Key words:** *Bank, Serbian Bank, Financial Market, National Banking, the Republic of Serbia*

## **Introduction**

Genesis, design and structure of banking institutions in Serbia are in direct correlation with the changes that have emerged in the economic system. It may be noted that Serbian banking has some characteristics and specifics of banking in the countries of market economy, and some of banking of countries with emerging market economies. Historically seen, banking industry in Serbia, through the development and social economic trends, has been changing and adapting to systemic legal frameworks.

In banking system of the Federal Republic of Yugoslavia dominant position belonged to the "old" or "transformed" banks. The number of banks by years was: 1992-103, 1993-106, 1994-107, 1995-104, 1996-113, 1997-105, 1998-106, 1999-80. All "old" banks were in public ownership. State and social enterprises were the influential owners of banks and had a triple role: as owners, as the most important loan users and depositors as well. Stemmed from these roles is a big influence of debtors on the management of banks, which led to a privileged borrowing of money and concentration of credit risk. At the same time, there was a weak legal protection of creditors, because there were no effective instruments of insurance against the risk of default or refusal to pay due debts.

The above reasons influenced the formation of the high proportion of uncollectible receivables of banks by the government and the economy. On the liabilities side, there were frozen foreign sources, foreign debt and frozen savings. Banks were separated from the international capital markets, and the sources of funds were short-term and unstable. Most of the old banks were undercapitalized and had high immobilization of capital in their assets. According to risks, reclassified balance sheet items indicated a large number of insolvent banks. Risk of liquidity and solvency was a constant companion, especially to big banks. The division of the banks' balance sheets into domestic and foreign currency showed that three-quarters of total balance was at the disposal of foreign currency, which meant extreme exposure to foreign exchange rate risk, which was exacerbated by the devaluation of March 1998. Reduction of interest rates below the rate of inflation injured the depositors. Interest rates couldn't compensate the inflationary loss of banks, which was an attack on the already weak deposit base. The savings of the population weren't even considered. Size of GDP placed Yugoslavia in the lower group of middle-income countries. The message was very simple. There was no available budget for the rehabilitation of the banking sector. Available funds could be used only for the recapitalization of solvent banks. Independent of external circumstances in which the Yugoslav economy operated and independent of its

membership in international financial institutions, bank restructuring was a job that couldn't be postponed, because there has been no real economic recovery without healthy finances.

Country's comeback into the international financial community began by renewing cooperation with international financial organizations. The requirement for membership was regulation of immediate liabilities to foreign creditors. According to data from 2000-2001, the debts of the Federal Republic of Yugoslavia to the largest foreign creditors were as follows: \$4,610 million to bilateral foreign creditors, \$4,349 million to the Paris Club, \$2,299 million to the London Club, \$1,840 million to the European Bank for Reconstruction and Development. 2001 was marked by preparations for the beginning of structural reforms in the banking sector, which took place simultaneously in two levels: through a process of mergers and acquisitions of domestic banks, and the choice of strategic investors to recapitalize. The above preparations were carried out in the context of a clear attitude of the National Bank of Yugoslavia that all banks had to reach the legally prescribed level of the initial part of the share capital in the amount of €10 million by 30 June 2001. There were 81 banks on the territory of the country.<sup>112</sup> A detailed analysis of the situation in the banks was performed by reputable audit firm, and banks were classified in terms of separating "healthy" from "weak" banks, as well as identifying those banks that had serious disruptions in their operations. During this phase, 18 banks lost their license to operate, while the two banks were placed under the permanent supervision of the National Bank of Yugoslavia. Federal Agency for Rehabilitation took over nine banks for their rehabilitation or liquidation. Feasibility study on the implementation of rehabilitation showed that in four of nine banks the total costs of liquidation were lower than the total costs of rehabilitation, which resulted in the bankruptcy of the banks in early 2002. This meant that out of 81 banks at the beginning of 2001, there were just 55 banks at the end of the year. Out of this number of banks, 34 banks were classified as healthy financial institutions, six banks as healthy with the obligation to carry out recapitalization, one bank was rated as problematic, nine banks were administered by the Federal Agency for Rehabilitation. 19 banks underwent bankruptcy or liquidation, 12 banks were merged with stronger banks.

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<sup>112</sup> [www.HfC.pc](http://www.HfC.pc)

One bank was established with domestic capital and four banks with mixed capital, while 16 foreign banks opened its branches.

In 2003, a further reform of the banking sector was continued. Banks took over the payment transactions of the Social Accounting Service, which was phasing out. The process of bank privatization began by selling 88% of the state capital of Jubanka to Greek Alpha Bank. The entry of foreign banks on the Yugoslav market intensified competition in the banking sector, as well as citizens' increased savings and restored confidence in the banking sector. In order to encourage the privatization of enterprises and improve their position in the search for strategic partners, the Government of Serbia's Law on privatization created the conditions for writing off debts of some enterprises to foreign creditors. It was about the credits that the enterprises got from the creditors of the Paris Club and the London Club. From the creditors of the Paris Club, the state received 51% debt write-off from European governments, and after the successful completion of negotiations with the International Monetary Fund another 15%. Commercial banks wrote off 62% of the debt from the London Club of creditors, and the debtors should repay the outstanding debt within 20 years with a grace period of 5 years. With the adoption of the Law on Paris and London Club of creditors, the state entered directly into the ownership of banks, there was no debt write-off for the domestic banks, the country turned the debt into ownership of capital in them.

The current organizational and core structure of banking institutions grew out of legislation that was designed according to the constitutional concept of functioning of the economic system of the country. In terms of ownership structure, it can be said that there have been several aspects of investment in banks' shares, but the most common share in capital have been foreign legal entities and the state.

In the last ten years, through the reform-privatization process, the state has opened the banking market for foreign investment in Serbia. The result of this process has been that the major banking institutions from the countries of market economies took the biggest share of the market. In the process of bank privatization by 2005, on the banking market in Serbia were present Italian, Austrian and Greek banks such as Intesa Sanpaolo Bank, Credit Agricol Bank, Unicredit Bank, EFG Eurobank, Piraeus Bank, Erste Bank, Marfin Bank, Findomestic bank, Hypo Alpe Adria Bank, ProCredit Bank, NLB Group, Raiffeisen Bank, Societe Generale Bank, OTP Bank. The following branches of foreign banks were opened: AKB "EUROAXIS BANK", Moscow; ATLASMONT Bank AD Podgorica, Citibank NA, Las Vegas, COMMERZBANK AG., Frankfurt /Main, DEUTSCHE BANK

AG, Frankfurt/Main; LHB INTERNATIONALE HANDELSBANK A.G., Frankfurt/Main and NOVA KREDITNA BANKA MARIBOR DD Maribor.

There have been 33 banks in Serbia today, 21 in foreign ownership and 12 with state and private domestic capital. On 30 September 2012, total balance sheet amounted to 2,843,607,310 thousand dinars, of which foreign-owned banks had about 74%.<sup>113</sup>

Adequate development strategy of the national banking didn't exist, the banks, which weren't privatized but remained state-owned, were left to stagnate, with poor resources to fight on a competitive market.

Banks in mixed ownership with the state and local legal entities weren't adequately restructured and reorganized in order to be able to successfully compete in the market with banks owned by foreign legal entities.

Possible proposal of grouping of banks in Serbia by ownership structure:

- a. Banks in which the majority shareholders are foreign legal entities: those are the banks which in the total balance of Serbian banks make up about 74%.<sup>114</sup>
- b. Banks in which the majority shareholders are private individuals, with the state capital share;
- c. Banks with majority state capital.

According to the systemic requirements of establishment, organization and functioning of the banking system in Serbia, there are the following types of organizations of banks:

1. The National Bank of Serbia, which represents the central monetary authority;
2. Universal (business) banks, specialized and mixed banks

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<sup>113</sup> [www.hbc.pc](http://www.hbc.pc)

<sup>114</sup> [www.hbc.pc](http://www.hbc.pc)



National Bank of Serbia is the central bank and its main task is to achieve price and financial stability in the country. It determines and implements monetary policy, leads dinar exchange rate policy, holds and manages foreign reserves, issues banknotes and coins, ensures the functioning of the payment operations and financial systems, supervises the conduct of insurance business, exercises supervision of creditworthiness and legal operations of banks and other financial organizations. The National Bank of Serbia, as the central monetary institution, by measures of monetary and credit policy in the country, determines operating conditions and functioning of banks in Serbia. With its monetary position as a lender, it has extensive capabilities to manage the liquidity of the banking sector in Serbia. The complexity of Serbian banking operation is expressed in the realization of basic principles of banking: liquidity principle, the principle of safety and efficiency and the principle of profitability in the business. The principle of liquidity causes the achievement of the other two principles.

By monitoring and analyzing the financial market in Serbia through the prism of refraction of global financial crisis, it can be noted that there is a great impact in the field of flow and price of money and capital. It is a bad system framework of today's financial market in Serbia that is suitable for shifting the risk of changes of macroeconomic conditions onto the economy and citizens, while the speculative capital without risk is transferred back to the owners through the banking system which is increased by profit.

It is necessary that financial assets and capital, which are functioning in the banking system, are aimed at economic growth and development of the Republic of Serbia. This goal can be achieved only through the concept of development of national domestic banking. So, the emphasis should be placed on the development of investment development banking through the Development Bank of the Republic of Serbia and the national commercial banking through domestic banks in state and private ownership of the citizens of the Republic of Serbia.

One of the leading roles in the development of domestic commercial banking should be given to Srpska banka ad Belgrade, which is majority-owned by the Republic of Serbia, 98.14% precisely.

By operating in the existing conditions on the financial market of Serbia, Srpska banka AD Belgrade should give a concrete contribution to the new trends and developments, while building and developing its market position.

For this purpose, it is necessary to do an accurate and selective analysis of current position of the bank in the banking sector of the Republic of Serbia.

It is also necessary to define and determine strategic direction of the bank's performance on financial market in Serbia.

The synergy of all developing planning and program activities should enable rapid and successful development of Srpska banka ad on the financial market of the Republic of Serbia.

The aim of all these activities of development of Srpska banka ad is that Serbia, as soon as possible, should get a quality national commercial banking institution that will enable stable conditions of providing the financial resources to all users of banking services and products on the financial market.

It is necessary to reinvest the profits in growth and development of the bank, which will contribute to the successful inclusion of Srpska banka ad in economic recovery and growth and development of the Republic of Serbia.

Strong Srpska banka ad and its good market position will contribute to reducing the cost of obtaining financial resources and capital on the financial market of the Republic of Serbia and it will be its key contribution to the acceleration of the economic recovery, industrial growth and development of the Republic of Serbia.

The ultimate goal of development of national commercial banking is moving banking market in the Republic of Serbia from foreign-owned banks that now control over 80% of the market to the national commercial banks owned by citizens of the Republic of Serbia, with over 50% of market control.

Under current conditions of doing business, which are determined by the global economic financial crisis, and because of the loss of national banking, Serbia and its economy are directly exposed to the consequences of the global financial crisis, which relate primarily to price increases and reduced mobility of capital and money in the world. National Bank of Serbia has managed to preserve the stability of the banking sector, thanks to strict measures of monetary and credit policy and conditions of banks' operations on the market. Decisions of the Vienna Agreement on the retention of investments of foreign banks operating in Serbia and monetary policy measures of the National Bank of Serbia have given the results in the short

term. In the long term, the interest of foreign banks is just profit and market conquering.

The main direction of further reform of the banking sector should move towards the strengthening of national banking. It has been shown that, in the conditions of the financial crisis, the state can lead a successful policy of further economic development of the country only through the national and development banks. In addition to investments in capital infrastructure projects, Serbia should recapitalize and invest in national banks, which besides state ownership, would be owned by domestic legal entities and individuals as well. New national banking should be primarily focused on the development concept, with the coordinating and logistic support of the state and its institutions. In accordance with its strategic development plans, the state should direct funds, through the national banks, at projects of structural, regional and sectoral character. The basic criteria for investments, in addition to profitability, is a strategic interest of the state and the nation.

Using knowledge and resources that foreign banks have brought to the Serbian market, new national banks should rely on big state companies, concentrate funds and allocate them to the industry and the resources that are crucial for the further successful growth and economic development in Serbia .

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**Dr. Mitar Lutovac**

Mitar Lutovac was born in Budisavci, Kosovo, the Republic of Serbia, on Aug. 10, 1962. He graduated from Kragujevac University Educational and Technical School in 2001. He completed his postgraduate studies at the same school with the grade of 9.67 out of 10, and won the title of Master of Technical Sciences in 2008. He defended his doctoral thesis at the European University on Oct. 1, 2012 and acquired the academic degree of Doctor of Science in International Management. Dr. Mitar Lutovac attended numerous congresses, conferences and seminars. He is the author of textbooks for Higher Technical School, and the reviewer for a number of manuals. He has been teaching IT at the Mladost high school of mechanical engineering for 25 years. He is fluent in Russian language.

## **It Management In Healthcare Of Montenegro**

**Abstract:** *Planned development of IT in the Health of Montenegro, refers to the period (2000-2012) and occurs when IT Management in the Health of Montenegro, creating a vision of the development of IT in the Health Care and devising a clear strategy for information management within the EHR system for quality management in IT Health.*

*EHR, Electronic Health records and quality systems in healthcare, is used in the Health Care and ambulances U.S., EU and other countries and represents an international IT basis of medical management. Because of the wide representation at the international level, management of Health Montenegro EHR system implemented through the European Institute of Health digital evidention (Euro Rec). The presence and quality caused by use of EHR by both worldwide and in the environment imposed by the need for digitalization of Health of Montenegro. Health systems in the world, even in the larger environment, in Montenegro's public system of Health with a tendency of transition to mixed In development is a system-voluntary supplementary medical care, the Fund uses the services of a number of private institutions. The Health of Montenegro in early 2000, the management of the National Fund for insured health by implementing basic business information system to record parts of the Commission of Labour. During 2001 begins builds basic computer resources for the Fund,, record insured*

taxpayer contributions OUD "What health task forces resulted in the replacement book and medical forms. Management of City Pharmacy Montenegro, Montefarm "2004 modernizes business IS for implementation needs, control, distribution and use of drugs "Republican fund management in 2005, recognizes the need for IS Republican fund exceeds the on-line work to integrate all the resources and put them in a function, good practices" as is being used in an environment In health centers: Danilovgrad Rožaje and Tivat 2007 begins implementation of the pilot project and the primary mental health care,-information system to support the reform of primary healthcare, "

During 2008, continued with the implementation of the project and primary mental health care in the form of:

"Implementation of IT support reform of primary healthcare<sup>115</sup>". In general hospitals with the implementation of the IS starts in 2010, while the:., general hospital information system" (additional modules) of 2011 implements. Functionality within a vision of development in the IT sector of Health of Montenegro was conceived through communication that would occur Lokal MPLS network and global network (Internet). MPLS is done through communication between: Minisarstva Health, Institute of Public Health, the Agency for Medicine, Clinical Center of Montenegro, special hospitals, general hospitals, ZHMP, primary health care, the Fund for health insurance and AU Montefarm. All these institutions are networked with the National Health Insurance Fund from which further communication takes place through global network (Internet) . Using Internet Republic Fund for Health Insurance communicates with: ICN Galenika Montenegro Insured (the patient), private dental practice, other private medical facilities, tax authorities and other institutions in Montenegro.

The use of the EHR system of public healthcare, representation of EHR in primary care over 95%, except for a few locations in rural areas. There are a number of strategic documents, but there is still no legal regulations for the use of EHR systems or data exchange, interoperability, etc. Generally, the legal basis for the development of IS, is largely an impediment to further (rapid) development and lags behind technological solutions. The problem with the conquest of new technology is moving towards the limitations in human resources, legal disparities and delays, organizational problems, using standard ...

EHR systems: assessment of quality. All patient informations combined in one place and collected from his birth, very broad set of data-take some grouping and

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<sup>115</sup> Mr Adis Balota , Zoran Glomazić , doc dr Ramo Šendelj, Denis Reković ELEKTRONSKI RECEPT U PRIMARNOJ ZDRAVSTVENOJ ZAŠTITI U CRNOJ GORI

*create a shortened version of the EHR is currently a proposal for the structure and content of the EHR that will be analyzed and improved by the recommendations of the expert team; Missing EHR and quality assessment is required to do periodic evolution in order to improve quality for EHR requirements.*

**Keywords:** *Computer; IT,;Management; HEALTH; HER; Euro Rec;Montenegro;*

### **Development Of Medical Informatics-In Southeast Europe Management**

Development electric of Health in South-East Europe primarily related to the digitization of healthcare in South East Europe (Croatia, Hungary, Montenegro, Bosnia and Herzegovina, Serbia, Bulgaria, Romania and Albania). Digitization of Health for support of SEE countries have received from the European Commission EuroRec dedicated promotion and use of quality information systems electronic health records (EHR system) throughout Europe.

### **Development of IT-medical management in Hungary**

Cardboard e-information system company ZipSoft, 10.05.2011. in Budapest is certified by the European Institute for Health Record - EuroRec [www.eurorec.org](http://www.eurorec.org) and became the second holder of the certificate EuroRec levels (EuroRec Seal Level 2). EuroRec is a nonprofit organization founded by the European Commission, dedicated to promoting the use of quality information systems electronic health records (EHR system) throughout Europe. ZipSoft company's e-Box 4 IS received a certificate of quality in mind EuroRec Level 2 certificate, having successfully presented by full compliance with a range of software EuroRec criteria. Criteria include 50 functional quality criteria relating to various aspects of electronic medical records: access and management systems, security, versioning changes, medical information management company atc. Representatives of the ZipSoft through three rounds Eurorec display quality certification e-Carton 4 software solutions, and full compliance with the standards EuroRec. The last round of certification held in Budapest 10.05.2011. with the presence of ZipSoft, president of the Serbian Prophecy of Mrs. Hope Teodosijević and Mr. Lea Ciglonečki and Mr. Dr. Josa Devliesa front EuroREC's. Successful completion of the third round of certification eKarton 4 companies ZipSoft officially certified EuroRec Level 2 certificate.

## Development of IT-medical management in Croatia

It is considered that the development of electronic of Health in the Republic of Croatia bound for 2003.year. Respecting importance of computerization of the health system of the Republic of Croatia, the Ministry of Health in its decision on the manner, time and place of conducting experimental work to select the application solution to putting in place an integrated hospital information system (IBIS or BIS) of the Republic of Croatia in March 2003., launched pilot projects in four hospitals in Croatia. One of them is General Hospital "Sveti Duh", in which the project is implemented through joint efforts of employees and hospital consulting company b4b from Zagreb.

### Business case solutions applied in 2003

The system that was implemented in 2003 in the project of computerization General Hospital "Holy Spirit" is a product of the company SAP AG, the world's largest integrated provider of business information systems with more productive than 30 000 installations worldwide in a variety of industries, and with more than 900 installations in hospital institutions. Using healthcare industry experience with the world's best business practices, SAP AG, together with its partners, has developed a solution that contains specific operating hospitals, and in an integrated manner that connects business processes of hospital operations, clinical operations department of the hospital with all business and administrative processes, there by creating the basis for an effective business processes and decision making in the management of the hospital on the basis of actual facts. *Integrated business information you easy mySAP Healthcare*<sup>116</sup>

Information you easy basically consists of three parts:

- Hospital and clinical systems
- Laboratory Information System
- Business and administrative system

These parts are fully connected, which eliminates the need of repeated entries already entered data, the use of written documents, and exchange of documentation, since it is contained in the system and is visible from all places to people who are in the system powers allowed.

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<sup>116</sup> I Pale 760 f doc documents from www.moh.hr at @EbookBrowse.



### ***Hospital and clinical systems***

Hospital Management System is designed for patients and nursing units in the hospital, including monitoring calendar and scheduling of employees were enrolled in the out-patient consultations, treatment or hospital. The system can monitor all patient data, since his admission to the hospital or hospital unit, through all the events with the patient during his treatment, all the way to its final release. All events and information during treatment the patient entered remain stored in electronic form and thus become an integral part of the electronic medical record of each patient. On admission, the patient entered into the system to all of its data, and the system assigns the case number. At each subsequent arrival, the patient no longer required to enter their data, as they are stored in the system, when a new patient who received assigned a new case number. In this way, it is possible that some cases have occurred with the patient considered separately by the number of cases, and in medical and financial sense. On the other hand, unique personal patient data base to provide an overview of all cases individual patient (electronic medical record). Clinical system intended business support each department. Functionality of the clinical part of the system, which is especially important in all organizational units of the medical activities related to the creation of medical documents, as well as seeking the services of other organizational units of the system while also accepting the findings of some required tests.

### **Laboratory information system**

Laboratory information system is built as a system for managing different analyzers in a way that sends them to the requirements of individual searchers and search over there, and also serves as a liaison between the clinical part of the system and analyzer. On same way it is possible to connect the clinical part of the system and other diagnostic devices, such as equipment for radiology management system through radiological images.

## **Business administration system**

Business administrative part of the system is based on standard SAP R / 3 solution, which its modular structure enables the selection and applying only the necessary components (modules) system. The system supports all financial processes, controlling processes in a hospital facility, material business processes, process monitoring and equipment maintenance management, and human resources management.

Especially important is the function of controlling functionality, which enables management to monitor business performance of the hospital. Controlling system and built the structure of cost and profit centers can be traced in detail how the external as well as internal costs and the realization of organizational units.

## **Implementations of new IT in health of the Republic of Croatia**

### ***Full implementation schedule:***

- ePrescription, general services (family) 03/01/2011 in medicine began full implementation throughout the territory of the Republic of Croatia. In full operation 03.01.2011.
- eHosts began full implementation of medical-biochemical laboratories in the second County. 17.01.2011.godine and to 14 February 2011. year - fully functional
- ePrescription eUputnice starts and applications in other fields 07.02.2011.year.
- Primary health care (health care pre-school children, health care for women). Up to 01 March 2011. year - fully functional
- Dental health care 01.03.2011.godine turned up to 02 May 2011. year - fully functional

## **Development of IT and medical management in the Republic of Serbia**

*Start of development of Health in the Electronic binds Serbia for 2008. year.*

*Based electronic arise on a project of Health Conference EHR Sava Center 17.04.2008. Introducing the EZD Srbiji.Na design conference in Sava Center, organized by the Ministry of Health of the Republic of Serbia on the introduction of electronic health records. The conference analyzed the pilot project in Pancevo, that's just the beginning of the project whose end is planned for 2015. year and that runs in cooperation with the European Union and the European Agency for Reconstruction. Full name of the project "Development of a health information system for primary health care and pharmaceutical services in Serbia." Visitors closed the conference were able to gain full access to the project plan, to get first hand information from people the last 3 years working on the project and the training of staff in health care facilities, look at how web applications for e-cards.*

## **Quality labeling and certification of EHR (Electronic Health Record) system**

At the annual conference of the Euro Reqa 2011.godine in Belgrade, organized by the Ministry of Health of the Republic of Serbia and EuroRec Institute, with support from the national associations and the Serbian-Prophecy Prophecy-Slovenia and the European project EHR-Q-TN, in Belgrade 21-November 22 held a regional conference, marking and quality certification of EHR (Electronic Health Record) "system and annual conference EvroRec 2111th The conference dedicated quality and certification of electronic records medical participating agencies to representatives of 15 countries and projects in Central and Southeastern Europe, Serbia and the Ministry of Health, the European Commission, EvroRec Institute, Serbia-Prophecy, Prophecy-Slovenia, IHE project, representatives of health institutions in Serbia and representatives of Health of Montenegro, certification bodies, European research centers and representatives of IT companies.

The conference is to share experiences, to stimulate kvalitetea labeling and certification of electronic records and information zdrastvenog officials from the health system and interested professionals from the region, which is an opportunity to gain insight into the field and make conclusions and recommendations on the regional level.

### ***Development of information the health system in Serbia by 2015***

Development of information the health system in Serbia, which is implemented in accordance with the strategic objectives of the Ministry of Health of the Republic of Serbia and the implementation of e-Health Documents 2015th (work plan, organization and development of an integrated health system information) in full compliance with European standards and regulations relevant institutions (EuroRec Institute)

According to the Action Plan is a strategic document Zravlje-2015th first interaction

Medical information technology sector will be completed in 2015 year. U Integrated Healthcare Information System will be linked to all the institutions and facilities in the healthcare system (Ministry of Health, National Health Insurance Fund, the institutes public health, community health centers, hospitals, clinical centers, pharmacies ...), in accordance with the Rules of the recent technological content and functional requirements for the establishment of an integrated information system of health.

During the computerization of health institutions in Serbia, which is implemented within the project of the Ministry of Health and the World Bank, Development of Health-Serbian additional funding 'and the Delivery of Improved usloga local level "-DILS.Do end of the year shall be equipped with all the facilities of primary health and Safety (158 health centers): 209 servers 5275 computer 2650 printer, 1312 bar-code readers and 3,250 card readers, and will be installed in a network to link 1800 my physical remote stations and ambulances with their central bildings.U the acquisition of certified software . During 2011, the 20 hospitals in Serbia secured the 100 servers, 1,600 PCs, 600 printers, bar code reader, LAN, and the corresponding softver.Evropska Union through the IPA program, provided a 19 hospital information systems, and 6 the hospital will be equipped with a joint investment projects through the Ministry of health and the World Bank and the end of 2012 IPA fonda.Do 45 hospitals in Serbia will have operational hospital information sisteme.Organizacija conference is supported by the project of the Ministry of health, Development of Health-supplementary funding Serbia "financed by the World Bank.EHR(Electronic health Record)or Electronic Healthcare record (EHR)

EHR (Electronic Health Record) tj. Electronic Healthcare Card (EHR) is a general term for the complete documentation of patient care, from the use of information systems in health institutions in different patient treatment episode.

EHR certification is recognized as one of the best ways to improve the quality and interoperability EHR sistema. U Serbia, in accordance with the Rules of the recent technological content and funkcionalnih requires the establishment of an integrated information system zdravstvenog Republic of Serbia, a procedure of certification of software or my physical information system for all three levels of health care (primary, secondary and tertiary). This activity is carried out through the project of the Ministry of health and the World Bank, Development of Health-supplementary funding Serbia 'and' Delivery of Improved local Services "-DILS.

In Serbia, for now certified eight, while the certification of 17 more softvera. The most of certified software is the way to gain EUROREC SEAL, European certification for healthcare information systems.

Euro Rec Institute is an independent nonprofit organization that promotes a Europe-wide use of electronic high kartona. EuroRec my physical Institute, as authorized European certification body, certification supports the development, testing and evaluation EHR defining functional and other kriterijuma. EuroRec is organized as a permanent network Prophecy national center and provides services industry (producers and programs), service providers my physical (buyers), policy makers and patients.

Prophecy is a Serbian-national body for the promotion of the exchange of experience and certification of high-quality software in the field of medical informatike. Members Prophecy Serbia, representatives of the Ministry of Health, Republic Health Insurance Fund, health institutions, research institutions and IT kompanija. ProRec Serbia is a full member of the Euro Institute and Rec as such, a participant in European projects related to the certification of software products in the field of Health.

## ***Development of information the health system in Montenegro***

### **Introduction**

Digitization of Health of Montenegro enabled quick access to the database for the first time are integrated: patient, physician, drug suppliers, the Fund ...

During 2008, continued with the implementation of IS projects primary health care in the form of: The Implementation of IT support primary health care reform "in general hospitals with the implementation of IS is beginning of 2010, while the:., general hospital information system (additional modules) 2011.godine.Funkcionalnost implemented within a vision of development in the iT sector of Health of Montenegro based is through communication that would occur cafeteria MPLS network and global network (Internet). MPLS through communication is made between: Ministry health, Institute of Public Health , Agency for Medicines, Clinical Center of Montenegro, special hospitals, general hospitals, ZHMP, primary health care, Health Insurance Fund and the AU Montefarm.Sve mentioned institutions are networked with the National Health Insurance Fund from which further communication takes place via the global network (INTERNET). Republican fund using Internet to communicate with health insurance: ICN Galenika Montenegro, the insured (the patient), private dental clinic, other private medical facilities, the Tax Administration and other institutions in Montenegro. The use of the EHR System Public Health, the representation of EHR in primary care over 95%, except for a few locations in rural krajevima.Postoji number of strategic documents, but there is still no legal framework to regulate the use of EHR systems or data exchange and interoperability etc..

Generally, the legal basis for the development of IS, is largely an impediment to further (rapid) development and lags behind technological solutions.Problem with the introduction of new technology is moving towards the lack of human resources, legal inconsistencies and delays, organizational problems, using standard ...

EHR systems: assessment kvaliteta.All patient information combined on one site and collected from his birth, very broad set of data-take some grouping and create a short version of a proposal currently EHR structure and content of EHR, which will be analyzed and promoted by the recommendations professional team; Missing assessment of the quality of EHR its needs to do periodic evoulacije in order to improve the quality of the requirements for EHR.**E-Card** (engl.*Electronic medical record*)

Represents a computerized medical record that as a direct replacement of classic cardboard used for collecting, analyzing, storing and sharing data about pacijentu. E-board is an integral part of nursing medical information system.

### **Characteristics of e-cards**

Digitization and implementation of information systems in medical facilities have paved the way for the concept of computerized medical records, which allowed all patient data are in electronic storage of medical information formi. Digitalno creates the potential for significantly improving the quality of medical services and the effectiveness of medical practice. Medical facilities that have introduced electronic card cut the administrative time at the lowest possible level, with a completely accurate insight on the services rendered as well as the data are entered in the recipe. E-board has systematically internal model of all information in its possession and supports the efficient collection of information in accordance with internal modelom. By increasing the healthcare efficiency and safety of use of electronic records and realized great financial savings.

### ***The advantages of introducing electronical medical records***

- Replaces the traditional medical records, which can often be incomplete, illegible and misplaced.
- Increased security of data collected and insists on their integrity and absolute confidentiality.
- to prevent the duplication of recipe.
- Ibjegava the possibility of medical errors (for example, guidelines for doctors to avoid risk when prescribing inappropriate drugs or those in which the patients are allergic to, so they will automatically alert you to this fatal combination).
- Computerized control and writing guidelines for laboratory analysis (electronically send instructions indicating the types of analyzes that are not subject to any change by the patients).
- All laboratory results are stored into the electronic record. Facilitated comparison of demographic data on the patients use this information for statistical purposes and, on that basis, improving the quality of health care services.
- Availability of records of services provided and much better control of material used.

### **The conclusion**

IT Management in Montenegro Compatible with IT Management in the EU and to some extent with the U.S. IT management. Some of the countries in the region have started earlier computerization of Health, to be decided at the end of the conventional medical information systems, the kind used by advanced European countries. Management of Health of Montenegro was initially delayed with computerization, followed by examples of good practice in the region, and currently is almost the same position as the country's environment, with modern IT system that integrates mental health institutions and agencies, created the precondition for further quality upgrade for kvalititan work health institutions and better control of materials and resources and thus rational use of finances.

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# TOURISM AND HOSPITALITY



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Started her career at the Faculty of Law in Osijek (1976 -1991); after moving to Belgrade, the advisor to the Company President at Inex-Interexport Holding Company (1992 -1999); since 2000 professor on the subjects The Elements of Tourism, Tourism Management, International Tourism and Ecological Tourism at Faculty of European Business and Marketing.

Over fifty scientific works and books, among which are: books - author: Tourism and Hotel Management - Management Approach; International Tourism and Hotel Management, European Tourism, and co-author: Management; Manuals: Elements of Tourism, Tourism and Ecology, International Tourism, and more than forty other works: Sustainable Tourism as the Factor of World Peace and Stability; Terrorism as a Threat to Modern Tourism; Some Issues on Establishing a Company in the European Union Internal Market; The Importance of the Court of Justice for Communitarian Law and Internal Market Development; Societas Europea - the New European Company Form, The Yugoslav Economy Re-Integration into the World Market Trends; Tourism, Heritage and the World Cultural heritage; Tourism, Ecological Awareness and Behaviour, etc.

## Influence Of Global Warming On Traditional Tourist Destinations

**Abstract:** *Global warming represents the rise in the average temperature of Earth's atmosphere and oceans which is being continuously increased since the late 19<sup>th</sup> century. Since the early 20<sup>th</sup> century, Earth's mean surface temperature has increased by about 0.8 °C, with about two-thirds of the increase since 1980.*

*Warming of the climate system is unequivocal, and scientists are certain that it is primarily caused by increasing concentrations of greenhouse gases produced by human activities such as the burning of fossil fuels and deforestation.*

*The implications of global warming are enormous, equally to all segments of human life. One of the economy branches that will have large consequences of this phenomenon is tourism.*

*Global warming will lead and is already leading to climate changes in the sense of temperature increase, what will cause and is already causing the ice melting. Ice melting will have and it already has the consequence of raising the level of the oceans and waters all the over the Earth, what will in near future lead to sinking of many cities situated low above the sea level. The world flora and fauna will change. Many tourist destinations will disappear - from the winter destinations, which will have no more snow and will have to change their assortment offer, to the summer destinations which will simple cease to exist.*

*It is commonly agreed that the main cause of global warming are humans themselves, so it is up to the human race to change their behavior and habits. This is the only possible way - if people want the tourist industry to continue being what it still is - very important branch of economy in many countries and extremely important source of income.*

**Key Words:** *Global Warming, Greenhouse Effect, Climate Change, Ice Melting, Tourist Destinations.*

## Introduction

A tourist product can be defined as a combination of various tourist activities and the tourist industry.<sup>117</sup> Among other things, climate is regarded as one of natural tourist attractions that can be considered as the most encouraging or the most discouraging factor for visiting a certain tourist destination.

Climate is regarded as an average quality of weather conditions in particular season and in particular region over years or dozens of years. Weather is determined according to the following elements: temperature, precipitation, wind, air pressure, overcast or visibility. A man himself can see what the weather is like (raining, sunny, snowing...) but the climate itself must be estimated according to average values.

The global climate system includes the Sun, atmosphere and its composition, oceans, water circulation and biosphere. When taking climate into consideration, the temperature on Earth plays an important part and it is the outcome of the heat coming from the Sun, overcast, winds, etc., but also of the natural greenhouse effect.

Gasses that affect creating the greenhouse effect are carbon dioxide (CO<sup>2</sup>), water vapor, methane, nitrogen oxide, ozone. Carbon dioxide is a very important factor in vital cycles that sustain life on planet Earth – it is used by plants in the process of photosynthesis during which they release oxygen which is necessary for preserving life of all animal species who return CO<sup>2</sup> into the atmosphere by exhaling, and in that manner complete the cycle.<sup>118</sup>

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<sup>117</sup> Tourist activities include beauty spots (topography, waters, flora and fauna), particular commercial attractions like theme parks, casinos and museums, but the climate as well. The tourist industry refers to tour operators and travel agencies, transportation, accommodation, nourishment and retail, according to B. Rilke: *Tourism and Hotel Business – Management Approach*, Belgrade, 2007.

<sup>118</sup> The quantity of CO<sup>2</sup> in the atmosphere has been measured since mid 20<sup>th</sup> century. Soon, it has been established that the existence of the cycles – when one of the Earth hemisphere is turned TOWARDS the Sun, which occurs in the northern hemisphere in spring and summer, then leaves are growing and inhaling carbon dioxide inducing its quantity in the atmosphere to decrease. However, when the northern hemisphere is inclined FROM the Sun, which happens in the fall and winter, leaves are falling which induces the quantity of carbon dioxide in the atmosphere to rise. It is like the entire Earth inhales and exhales once a year.

The natural greenhouse effect means that the surface of Earth is getting warmer for around 30 C° more than it would normally receive directly from the Sun rays. It also means that the temperature on Earth, without the greenhouse effect, instead of the existing +15 C°, would be even –15 C°. The consequence would be the freezing of waters that would make Earth completely unsuitable for living. However, thanks to the natural greenhouse effect, the atmosphere returns a part of infrared rays back to Earth increasing the temperature in that way.

*The greenhouse effect* is not the best choice as an expression, since the air temperature in the greenhouse increases mainly due to the mechanic prevention of hot air to leave it which is not the case in here. Namely, warming the ground of Earth with the energy of the Sun causes it to start acting as a source of warmth radiation. A certain part of the radiation should return back to space, which happens only in small quantities – most of it remains, captured in the atmosphere – absorbed and reflected by the greenhouse gases. These gases release the energy into the atmosphere and prevent it from escaping. It is like an envelope, a foil (analog to the glass in a greenhouse) is created. It is acceptable to a certain degree, the greenhouse effect is a natural process that, as it has already stated, makes the life on Earth possible. However, there is always some “but”!

Temperature on the planet Earth is continually increasing. During the past hundred years, the quantity of carbon dioxide in the atmosphere increased by almost 25%, so that the influence of global warming in real life has become striking.

And there is an alarm signal!

The greenhouse effect is the expression currently used in discussions on global warming and other environmental issues referring to the effect induced by the human influence with mass emission of CO<sup>2</sup> created by burning fossil fuels, oil, coal, etc.

### **Climate and Tourism**

Even before the time of mass tourism, people were interested in climate conditions, meaning that, on one hand, there was a search for cooler and drier weather to avoid heath and high humidity in cities and regions with high temperatures, and on the other hand, there was a need to find some nice and sunny beaches suitable for 3S tourism.<sup>119</sup>

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<sup>119</sup> 3S tourism – *sun, sea, sand* tourism – sun, sea, sand, meaning relaxing and lying on a beach

The British and the Dutch, for example, developed mountain summer resorts in their former colonies in Asia, some of them still used as tourist resorts by local elite and middle class population. Such examples include Shimla and Darjeeling in India (known as tourist destination as of 1860).

On the other hand, warm seas and sandy beaches in the Mediterranean, Florida, Caribbean Islands, Hawaii and other warm destinations have always been tempting for people living in regions with cooler climate.

However, some regions can be considered as too hot for majority of tourists, which is evident in records of low demand for equatorial and desert tourism. The average temperature of 20 - 30 C° is considered as an optimal temperature for 3S tourism.

The relation between tourism and climate is reciprocal – meaning that the same way the climate determines and affects tourism in some region the tourism affects the climate, usually by changing it. When the climate changes become a topic of a discussion, it is mostly about global warming.

It is hard to obtain specific and reliable data on the tourism's contribution to the warming process since it has a wide variety of forms and different components which contribute to climate changes in different manners (carbon dioxide emission, warming premises, using air conditioning systems, lighting, etc.).

Recent estimates show that:

- a)** Tourism is responsible for about 5% of global emission of carbon dioxide (CO<sup>2</sup>), i.e. the tourism contributes to global warming with around 4.6%.
- b)** The transportation sector, including air, vehicle and railway traffic, is considered the proportionally major contributor of harmful emissions (75%). The carbon emission standards, air transport accounts for 54-75% even, and automotive and rail 13%. Air transport is considered a major tourist contribution to global warming, is responsible for 40% of total emissions produced by the sector.
- c)** It is estimated that tourism accommodation sector contributes about 20%. This applies to heating, air conditioning, maintenance, restaurants, bars, swimming pools, etc... Of course, this varies according to the location and size of the accommodation, and the type of accommodation - hotels consume more energy than the board or camping.
- d)** Commercial tourist attraction, i.e. those caused by human activity - theme parks, tourist events, shopping and retail, museums - all in some degree also contributes to harmful emissions - about 3.5%

## Global Warming Effects

**Global warming** is a general increase in the average temperature of Earth's atmosphere and oceans, which, as a result of natural influences, it happened in the past. Now, however, the term most often used for warming due to increased greenhouse gas emissions resulting from human impact and not naturally.<sup>120</sup>

The global warming effects are numerous:

- **increasing the level of water on Earth**

The rise of the sea level generates extremely harmful effects. Ice cover is thinner now for five to six feet, and research suggests that the Greenland ice melts and its thickness decreases rapidly.<sup>121</sup> Mount Kilimanjaro was completely covered with snow more than 30 years, and today it is almost bare. By the end of this decade there will be no "Snows of Kilimanjaro".

Melting of glaciers, rising sea levels and coastal areas will sink and all the low islands. Unless people do something,<sup>122</sup> some authors have predicted that by 2050 the sea level could rise by one meter, which could sink cities like Venice and St. Petersburg, and also flood the Netherlands, the U.S. coasts, let alone the tropical islands in the South Pacific - the could simply disappear.<sup>123</sup>

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<sup>120</sup> The sun with its fluctuations participates in the global warming with only 20-25%, the rest is the work of man.

<sup>121</sup> During the stay in Greenland we were warned not to approach the edge of the glacier due to possibility of it to collapse, which was at that time greater than ever. Indeed, we had witnessed the grandiose cracking – breaking up of glaciers. It seemed monumental! And scary! The deafening noise and the "dust" of ice that disappeared. At sea, the captains when close to an iceberg in sound exactly know when it's going to collapse - by the cracking strength it can be determined how much time is left for the "Escape" tour.

<sup>122</sup> Ideally, it should reduce the production of carbon dioxide.

<sup>123</sup> Aware of this problem, Maldivian cabinet members have held a meeting and and that on the seabed, with the intention, in this symbolic way, to draw the attention of the world public of the dangers of global warming for all people living in low-lying.

- **appearance of climate refugees**<sup>124</sup>

Some islands in the South Pacific have already been deserted with inhabitants displaced because of flooding.

- **decrease of the amount of available fresh water**

There is a particular problem in the Himalayas - 40% of all people in the world get their drinking water from rivers and spring systems, which are mainly supplied from the melt water coming from the glacier. During the first half of the 21<sup>st</sup> century those 40% of people in the country will face a severe shortage of water. Simply because the glaciers will be disappear.

- **stronger and more frequent hurricanes and storms**

Warmer oceans are also cause of warmer storms. In recent years there have been many major hurricanes - Jenny, Francis, John, Irene, Katrina, Sandy... but tornadoes as well have also become more frequent.<sup>125</sup> Generally speaking, these strong winds have caused extensive damage, but casualties are also frequent. Hurricane Emily that hit Yucatan in 2005, then Jenny that has made a lot of damage - particularly on oil platforms. Katrina was devastating. When it hit Florida it was not so strong, but when it moved over warmer water, and with the increase of water temperature, as well as the wind speed, it absorbed the hot water energy and became even stronger. The consequences were terrible. Sandy that has occurred during 2012 caused a "mass" in New York...<sup>126</sup>

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<sup>124</sup> People who have had to leave their homes due to floods in places they used to live, as a result of sea and water level rising in the entire planet.

<sup>125</sup> The difference between tornadoes and hurricanes is in their width, a tornado is about half a few dozens of feet wide, a hurricane 100 miles and more, further more, tornadoes can occur in any part of the world, while hurricanes occur mostly 8 to 15 degrees north and south of the equator. And while they develop over warm seas, tornadoes can develop only over land.

<sup>126</sup> Only in New York dozens of people were killed, and across America about a hundred. Underground did not work for four days, about two thousand people were rescued from sunken houses, nearly two million people remained without electricity supply, airline flights were canceled -7000 on Monday, 29 October, and 3 000 on Tuesday, 30 October – and 611 flights on Thursday 1st November. The situation gradually became stable. Damage is estimated at about \$50 billion and losses on insurances at \$10-20 billion.



- **more frequent floods on the one hand, and extensive droughts, on the other**

One, often unnoticed effect of global warming is the occurrence of "unusual" natural disaster - terrible floods, e.g. in Mumbai, India – with 93 liters of rain per square meter, or in Zadar, Croatia in 2012, there was over 100 liters of rain per square meter. It is a paradox that at the same time and place there were incredible droughts - Lake Chad in Africa has almost dried up, creating additional problems for the local population. Aral Sea has completely changed its outlook. In August 2012, on the island of Cres in Croatia, there were animals dying in areas of thirst - deer, sheep, fawns...

- **large disturbances in different eco-systems due to their "movement" to the north**

Some animal species will manage to follow that movement while others will be unable and disappear. Scientists predict that in the near future, global warming could lead to the mass extinction of wildlife. It is thought that as much as a million species could disappear, which is about a quarter of the total known to us. Animals and plants accustomed to a cooler climate will have to move toward the poles or to higher altitudes. This process already exists in many places - in the Alps, in the mountains of Australia, in the misty forests of Costa Rica.

Among the most vulnerable species are giant pandas in China, green sea turtles in South America, the orangutan from Borneo in Indonesia, American whales, African elephants, Indian tigers, Australian frogs, and long-tailed penguins in Antarctica. The number of these penguins is getting smaller, and with the continuance of the trend of warming, it may happen that they abandon quite a large part of this promontory which is 900 miles long. Or polar bears which are found drowned for the first time, because they have to swim over 100 miles in search of solid ice on which they can climb.

There are also problems with corals - the Great Barrier Reef, the largest in the world, off the coast of Queensland in Australia, massive corals are beginning to die off due to an increase in water temperature. All fish species that depend on coral reefs are at risk - certain types of losses happen now speed 1000 times faster than the natural.

- **disruption in life cycles and phenol-phases<sup>127</sup>**

It happens that certain plants blooming before their pollinators come up.

- **disruption of food chain**

In Norway, the peak of migratory birds' arrival 25 years ago was 25 April. Their chicks hatched early in June, simultaneously with the release of caterpillars. As planned by nature! But after the increase of the heat, the larvae hatched two weeks before so it would be unfit for birds which tried to keep up with caterpillars - but they could not! And now they are in trouble!

- **spreading certain diseases in areas where they have not existed so far**

There are cities, founded just above the mosquito level - Nairobi, Harare, for example - as it getting warmer, mosquitoes are climbing to higher altitudes, and endanger the population of these cities. Malaria is becoming a worrying topic again.

During the last quarter of a century about 30 new diseases have appeared - many of them like SARS causing huge problems. Bird flu is a serious matter. Virus of the "West Nile" appeared on the eastern coast of Maryland in 1999, two years later it crossed the Mississippi, and after another two years it spread to the entire continent. There have been resistant forms of tuberculosis, meaning that the diseases that were once under control have taken over again...

There are millions of environmental stitches affected directly in this by warming! Unstitching them!

The message is clear and it reads **WHAT HAS ALWAYS BEEN FROZEN IN THE WORLD IS NOW GETTING MELT.**

And ice is telling its story!

**(a)** When it is snowing, a snow flake captures small bubbles of atmosphere which can be used for measuring the quantity of carbon dioxide in the atmosphere at the time it snowed. It is concluded that the quantity used to be much smaller.

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<sup>127</sup> Phenological phenomena related to first leaf emergence, flowering beginning, the beginning of hibernation, hatching of certain insects ... Pheno-stages are successive phenological phenomena in the life cycle of an organic species.

(b) Different isotopes of oxygen can also be measured, and it can be very accurately calculated what the temperature was when the bubble was trapped in the snow that was falling.

Also, it has been concluded that temperatures are getting higher today. And there is even much more than that. It contributes to the greater amount of carbon dioxide. The temperature rises when there is more carbon dioxide - the atmosphere retains more solar heat.

Today, there is much more carbon dioxide than ever. And if appropriate measures are not implemented, it will raise even more in less than fifty years.

The massive deforestation is one of the main causes of the increasing concentration and the increase in average temperatures. According to data from the World Institute of Natural Resources, so far there have been more than 80% of natural rainforest destroyed on Earth.

Since 1900, the almost 90% of forests in West Africa are missing, while in Brazil and Indonesia, that the countries with the largest areas under the rain forests, the situation is completely disturbing - so far there have been 2.3 million destroyed from the former four million hectares. In this region each year about 62,000 acres of jungle is cleared, which is the size of a city populated with millions of people.

Forests are disappearing not only their clearing. There is another problem appearing In the U.S. - the problem with pine beetles. They used to be killed by cold winters - far fewer days with frost and insects are destroying pine. In Alaska, these insects have destroyed 14 million acres of spruce.

And if the forest that is no more cannot breathe, the oceans annually absorb 2,340 million tons of carbon dioxide from the atmosphere, which raises the pH of the sea surface and kills plankton, without which there is no life in the sea. So the circle closes, in the most negative way possible.

One of the main contributors to global warming is **use of fossil fuels** by humans.<sup>128</sup>

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<sup>128</sup> Acid rains are the second serious environmental consequence of burning fosile fules.

Fossil (mineral) fuels are fuels formed in natural resources and contain high percentages of carbon and carbon-hydrogen. This includes coal (lignite, hard coal, and brown coal), peat, oil, natural gas. Currently they are the main sources of energy on Earth. The main by-product of its combustion is carbon dioxide - the already mentioned "greenhouse gas".

### **Influence of Global Warming to Tourism**

Traditionally, tourists go to certain destinations for their summer holidays, for swimming, sunbathing, diving, surfing; they traditionally go to some places for mountaineering, or take safari trips – for wildlife observation, observation of exotic plant species, giant sequoia; or they go skiing, sledding, for winter walks, observation of large icebergs ...

Although there are some **positive effects** of global warming on tourism, such as a longer tourist season in marine resorts (especially those that depend only on the sea, the sun, the beach...), or the development of rural tourism, yet **the negative effects** prevail:

**(a)** rise in sea level - leads in a long-run to flooding of low islands and coastal areas. Just those "little paradises" for the soul, and the areas that depended on tourism and used to live by it.

**(b)** Desertification and reduction of the amount of water available will make the traditional tourist destinations inhospitable to tourists (and unsuitable for local people to live).<sup>129</sup>

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<sup>129</sup> Water consumption in the world is very different.

In Europe, the daily consumption per person is on average 180-200 liters of water.

In the USA, this consumption is several times higher. "Champion" in the consumption of water is Las Vegas, which, due to its desert location consumes per capita massive 1400 liters of water per day. Namely, to parks, golf courses and all green decoration hotel were green and lush, everything needs to be continuously Bay.

On the other hand, residents of some African countries spend only about 10 gallons of water a day - in Kenya's daily water consumption per capita is only about 5 liters.

In Serbia, during the summer 2012, consumption was about 250 liters.

Montenegro as an important tourist destination for many years has a water problem, affecting tourism.

(c) Deforestation and the destruction of biodiversity will have a long-term impact on the eco-system, which will reduce the demand for such destinations.

(d) melting of snow and glaciers, which is one of the reasons for raising the sea level rise, will also affect mountain tourism and ski resorts, which will result in reduced demand for those destinations that depend on the attractive climate.

Weather and climate have had, as you can see, an intense impact on tourism and recreational activities of tourists, in fact on environmental resources that are essential for tourist activities (e.g. the habitats of certain plant and animal species for ecotourism; amounts of snow for winter sports tourism; water and the number of sunny days for 3S tourism). The length and quality of the tourist season depends on all of them.

The tourism industry is very important for the world economy, and the interdependence with climatic variations are evident, with still no adequate knowledge of the sensitivity of tourism in the context of global warming.

Climate change will create new opportunities and risks for different segments of the tourism market and change the competitive relationships between destinations.

The size of climate change impact will depend on various factors:

- the importance of the tourism industry in the regional economy,
- starting from the very characteristics of climate change and its impact on the natural

environment,

- adaptive response of tourists to climate change,
- the ability of the tourism industry to adapt to these changes, and
- from its interaction with other long-term impact on the tourism sector, such as:

(a) globalization and economic fluctuations,

(b) fuel prices,

(c) aging populations in industrialized countries

(d) increased travel security and health care,

(e) increasing environmental and cultural awareness,

(f) advances in information and transport technology,

(g) environmental restrictions - water supply and pollution

International conferences (like those in Djerba in Tunisia, Davos in Switzerland, London, Kyoto...) have the task of establishing a connection between the leading researchers in the field of climate change and tourism stakeholders. Only such a face-to-face encounter can lead to a consideration of the above situations and problems and some solutions to the decision.

In doing so, there should not be allowed for activities related to the mitigation of climate change to neglect another important objective - reducing poverty in the world. The main priorities of the United Nations remain the Millennium Development Goals. This means that the reduction of climate change and poverty reduction should be simultaneous goals. In doing so, they are connected in the same manner, because tourism provides one of the major opportunities for sustainable development in many poor developing countries, including the poorest:

- tourism generates huge funds, nearly a third of which goes to developing countries;
- tourism is one of the major export sectors in many poor countries, and it is a source

of foreign currency income for 46 of the 49 least developed countries.

- in the past decade, the international tourism has increased by 110% in the 50 least

developed countries in the world, and tourism, which offers opportunities for sustainable development

- tourism has a positive impact on local industries as well as some direct and indirect

influence to employment.

## Conclusion

And after all, the question which remains is what to do - how to contribute to the prevention of degradation of the Earth, how to mitigate the effects of climate change, to help the tourism industry to continue to improve the joy of those who travel, explore new places, relax, go hiking, swimming, sunbathing and doing everything what I enjoy doing, but also the joy of those who live on the same tourism, feed, dress, educate children - in a word maintain their existence.

There are ways - they are slow and long-lasting - but are helping to achieve the above:

### **The use of wind power**

In spite of some conflicting opinions, wind energy has the potential to provide more than 30% of the world's energy needs. It is not a constant occurrence, but when it's up, it releases large amounts of energy (without any side effects), which should be taken advantage of. This kind of energy could be used not only locally, but it also can be distributed to remote users. Wind farms could be installed – turbines should be placed in areas with strong air currents - energy-windmills, and the nearby towns could have been supplied with required quantity of energy, and its distribution would enable creating additional income.

#### **(a) Solar energy**

Sun provides a lot of energy and several times higher than the total world consumption (again with no additional side effects). However, people fail to use it adequately mainly because the technology that could make this possible has not yet been sufficiently developed. Investing in the development of this technology, investing in the development of solar cells that produce more energy - would be worth several times more.

#### **(b) Ocean power**

Tides, waves and sea currents have enormous, underutilized energy potential. This kind of energy will probably be better used by the future generations and thus reduce emissions of harmful gases. It is so because this kind of energy source can be used without negative side effects.

Although this method of obtaining energy is in its infancy, there are some positive results already achieved.<sup>130</sup>

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<sup>130</sup> Norwegian company "Wave Energy AS", located on the coast of Oregon in the Pacific Northwest, redesigned the breakwater at the entrance to the bay, so that the electric generators

**(c) Heating in more rational manner**

On its way from the producer (district heating mills) to the consumer (houses and flats of users) a lot of heat energy is spent. Some indicators even point out to a figure of 40% in some cities. The only way to avoid this is to set "heating station" on the spot, at homes of consumers. Recently, there have been more and more investments in the development of these "small home heating plants."

**(d) Energy saving homes and eco-renovation**

Building energy-efficient houses with improved insulation in windows and doors, and with new, energy efficient facades and improved ventilation system, which could save up to 60% of energy, would improve the warming of living and working space, and their cooling would be lower.

Efficiency in heating would rule out the need to create additional energy which production emits harmful gases that accelerate climate change and have the impact on the acceleration of global warming.

Also, old houses and apartments that were once built without taking into account energy efficiency should also be refurbished in an "eco-fashion".

**(e) Electric automobiles**

The latest research have shown that an increasing number of drivers around the planet have a desire to drive a car which does not pollute the environment.

However, until recently it was not the situation, and the main reason for bad reputation of electric cars was the lack of attractive design and their low speed. However, this has been slowly changing - cars are being improved, which improves the battery life and their overall performance. With even their price becoming more and more affordable, it is likely that these cars would soon replace the cars running on petrol and diesel engines.<sup>131</sup> The carbon dioxide emissions are in that way

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could be installed. The United Kingdom tested the energy generators that float on the surface of the water, and energy of waves up to 50 meters below the surface, were converted into electricity.

<sup>131</sup> During my travelling to Scandinavia in 2011, I saw quite a few electric cars, small, suitable for city driving. It was cute to see them on the streets "sucking" the energy.

Also in Istria, which advocates remaining a green oasis of the Croatian coast, some hotel complexes are also using electric car service.



shifted to power stations producing electrical energy, but even they can use solar energy.

**(f) Bio-fuel and other kinds of fuel**

By applying new technologies, all the things that are used while preparing food or producing it, all the waste from timber industry, etc. can be used for producing fuels. Biofuel production has so far been fairly anathematized, but because of highlighting the threat that forests and fields could be destroyed, which consequently led to food shortages in the world. Namely, it would be more profitable for agriculture to produce biofuels than food, so this has been stressed as one of the drawbacks.

That is the reason why we are now talking about second generation biofuels – i.e. its production by using new technologies, which would separate pulp in the wood industry and use waste to produce fuel, the technology that would produce fuel from agricultural waste - which would all be achieved and would provide secondary benefits.

**(g) Prevention of carbon dioxide emission**

It is necessary to prevent the carbon dioxide emission as soon as possible. Although the humanity is well aware of the fact that carbon dioxide is the main cause of numerous problems currently existing on the planet, above all the global warming, even though its harmfulness and consequences are well known, the emissions continue to be considerable.

It is necessary to find more efficient ways of preventing them – that should be the priority investments that would save up a lot of money to countries that are currently spending it on remedying problems cause by emissions of carbon dioxide.<sup>132</sup>

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According to numerous forecasts and analysis of various institutions, climate change can no longer be stopped. The most effective and best thing that can be done is simply to slow them down. On the one hand, we have to reduce greenhouse

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<sup>132</sup> The other way would be the prevention of damage that can cause global warming. So the group of architects from Hong Kong-developed a concept and is already building a prototype of the village where the houses are tornado resistant. Namely, when there are weather storms, a special hydraulic system is used quickly to pull houses down and bury them in the ground, and after the storm is over it rises them again to the surface. The walls are also considerably stronger than usual, thanks to the so-called “Kevlar” material whose fibers are stronger than steel.

gases in the atmosphere, and on the other, we have to constrain (because it is impossible completely to prevent and stop) the deforestation, and instead to encourage the reforestation of certain areas, because these are forests that consume or take carbon dioxide from the atmosphere and return the oxygen to it. PLANET SHOULD AND MUST BREATHE!

When the issue of climate change and global warming is in question, there is no place for disbelief. Evidence is everywhere - from major droughts and floods, to the winds and the storms...

However, people tend to wonder, they tend not to see the impending disaster ... When during 1930s, another kind of storm took place in the continental Europe, the UK Prime Minister Winston Churchill drew attention of the British by saying that it was something completely different from anything previously seen and that they should be well prepared. There were many who did not believe him. Then he said, *The era of procrastination, of half-measures, of soothing and baffling expedients, of delays, is coming to its close. In its place we are entering a period of consequences.*

And consequences were really catastrophic!

And we who are still on this planet, but on some other occasion, slowly but surely are entering a period of consequences – the consequences of our behavior and our attitude towards the environment ...

So, if we know that certain activities could slow the degradation of the planet and mitigate climate change, then join forces SHOULD AND MUST BE used to do that.

Some interesting, but little bit utopian possibilities have been recently considered about saving the civilization basin and tourist mecca in the Mediterranean basin in case that sea levels continue to rise. A possibility of building a dam at Gibraltar that would prevent flooding of many tourist sites and civilization has been considered as well. The dam would be held by the current level of the Mediterranean Sea. However, what is regarded as important is the fact that the dam would let the water from the ocean to the Mediterranean Sea so it does not dry out - which would otherwise happen quickly because local rivers are even now far too small and can hardly be maintained at their current level. And with the rise of global temperatures, rivers would become even more reduced.

This might help the Mediterranean Basin, but what will happen to other regions – the other parts of the world also need help...

The task for all of us is to save the planet! Since by saving it, we are saving ourselves and our children, and among other things, the bottom line is that tourism is currently (and probably it will remain in the future) one of the most important industries.

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## **Folk Culture In Function Of Modern Tourism**

**Abstract:** *In recent years, in Serbia, a distinctly anti-traditional public discourse dominates by which the tradition is the alleged burden that prevents this country on the path of modernization and Europeanization. The research that we have carried out in recent years have shown, however, that the revival of interest in traditional heritage and folk culture (folk cultures, ethnic) is one of the most important tendencies in European countries. This heritage is taught within the various disciplines but it is approached as living matter whose potential should be used for rural development, the design of authentic music, textiles and other products, and in particular for the development of tourism. Namely domestic tourists are interested in enjoying the specifics (food, clothing, drink, behavior) of another domestic site, and foreign tourists are particularly interested to get to know not universally existing forms that are present at their home, but exactly authentic traditional products of local culture.*

*In this paper we will present a number of specific cases that show good examples of the use of folk culture heritage for tourism development in Serbia, several particularly successful examples from nearby countries and point out the great potential Serbia has, but uses insufficiently. We will also point out the lack of adequate national strategy and set system in which not only the official state institutions and agencies, but also other entities (local government, cultural and educational communities, NGOs, individuals, entrepreneurs, diaspora) could obtain space for development and promotion of tourism conceived in this way.*

Anyone who monitors public discourse in Serbia during the last twelve years will easily recall that here dominates modernization paradigm which claims that supposedly the biggest problem for Serbia is insufficient, slow or stopped modernization. From this perspective the biggest problem and obstacle for such processes is the legacy of traditionalism that prevents us from moving down to the "European way". This passionate approach which apodictically opposes modernization and tradition, is extrapolated event to the relationship of the elite to the entire national heritage in a variety of areas, including artistic production and to the relationship to the entire heritage and practices of folk and folk culture. Systematically, politically, financially and in every other way, it promotes alleged universalistic modern art, and undermines the position of the specific artistic and cultural practices that are associated with folk or traditional culture.

And that exactly is anti-European practice. Within the European Union over the last few years is visible a strong global trend that goes in the direction of research, development and encouraging of use of authentic practices that have their source in folk culture. And there are many logical reasons for this. The countries of European Union as the biggest challenge to their identities perceive American pop cultural imperialism that seeks to establish itself as the only universal cultural paradigm. For small countries, there is also a strong need for recognition of their separate identities, since they do not want to be drowned and assimilated in the surrounding larger nations. Finally, the broad, common cultural policy of the European Union as defined in the Treaties, stresses cultural diversity as one of the principles of the European project. So as it is stated in the famous metaphor, the EU does not want to be a melting pot of American type but a kind of mixed salad in which all the ingredients remain unchanged and recognizable, and together create new and valuable products. Single European identity is built in the economic and political spheres, while in the field of cultural policies it promotes diversity and richness of the European continent.

In 2010 the European Commission has initiated extensive preliminary research on the current status of folk culture in some European countries. This research was conducted under the auspices of the Bonn renowned European Institute for Cultural Policy Research and the Arts (ERICarts). The idea was that researchers from different parts of the Europe create detailed surveys for individual countries and regions. The principle was to choose the ten most memorable

examples from each country, than to explain them and to provide adequate references. After that, the researchers gave general assessments of the relationship of the state to the national heritage and folk culture, on the position of folk culture in an official government policy, but also among private initiatives, local communities, etc...

The author of this article had the privilege to provide for the aforementioned research, with a colleague Dimitrije Vujadinovic, a comparative overview of these issues for the territory of Serbia, Croatia and Macedonia. The research results were very interesting because they show a great range of functions that popular culture has in contemporary European politics and society. In the final survey, which was edited by Sari Asikainen and Andreas Visand, the most important and the most interesting examples and references are given, but also a general overview of the state of this area is presented, with the major points of dispute, and especially the outstanding issues listed with different roles in which themes of popular culture are to be seen.

The reasons for increased interest in the context of the objectives and instruments of cultural policy are different and include:

- Efforts to build a nation
- Restoration of regionalism
- The need for economic development in rural areas, especially in Eastern and Central Europe
- The development of cultural industries (extending of their scope of work) and of tourism; lucrative interests
- Integrating of the "old" and "new" minorities / "intercultural dialogue"
- Modernization or redirection of responsibilities and funding
- Respect for the cultural dimensions of environmental protection.

This phenomenon can be seen in the context of the globalization of cultural production and of aggressive approach of commercial entertainment industry. All in all, popular culture is of great importance in the preservation and development of national identity, the preservation of minority communities, in rural development, environmental development, intercultural dialogue, show business and tourism.

It is undeniable that popular culture has enormous tourism potential. Tourism usually includes a segment of the quest for the exotic and of the need for the relocation out of the usual environment. In today's world which under the influence of globalization transforms all metropolises into identical places marked

by the skyscrapers and the McDonald's, the quest for authenticity and variety is gaining in importance and cost. Today's tourists are yearning to escape from the environment similar to his town, and to feel and experience some different areas and different forms of entertainment, food and life. So he is not interested in participating in the experiences that he already has at home, but is looking for something that is unique to every region. Serbia has and offers plenty of stuff and experiences of that kind.

Existing research in contemporary tourismology show that in our country much more profit is made in populated areas and cultural places than by the natural beauty. Tourists who come to Serbia are seeking not only preserved nature, but the authentic way of life and cultural production that is related to this nature, especially to specific national heritage. Hence the special popularity of a number of Serbian folklore groups; some of them appeared repeatedly in all parts of the world.

Unfortunately it seems that the tourism potential of folk culture still isn't adequately recognized and utilized in Serbia. There is ample room for ethno villages, for the traditional type of environmental amenities, farms, food in all its forms, wineries, ethno music, folk ensembles, authentic textile industry and manufacturing, design and so on. To illustrate the untapped opportunities for cooperation between the state, academic institutions, tourism organizations, private entrepreneurial initiatives, local government, tourism agencies and other stakeholders, we will give several success stories from Serbia and the environment.

1. Guca Trumpet Festival.

Official site of the festival <http://www.guca.rs/>.

This is one of the most famous festivals of its kind in Europe and the biggest tourist event in Serbia. This year it takes time fiftieth time, and in a few days through a small town of Dragačevo pass more than 500 000 visitors. In the last few years it has received strong political support and financial assistance from the various levels of government. Despite repeated disputes in public, this is one of the most successful brands in Serbia and a good indicator of how it is possible to preserve and revitalize folklore in a creative way and to use it as a part of rich tourist offer.

2. Promotional spot of Tourist Organization of Serbia: *Soul food Serbia*.

<http://www.youtube.com/watch?v=brPIUyd9i0E>

This is one of the most successful attempt of presenting the tourist offer of Serbia, and it is focused on the supply of food from different regions of our country. The authors started from the fact that foreign tourists in Serbia are usually impressed with the food that is natural, tasty, versatile and very affordable. Thus, they focused on the food that is produced here as "food for the soul." Thus, in a for minute clip Futog cabbage, Zlatibor ham, Homolj honey, Leskovac peppers, Sjenica cheese and other Serbian delicacies are presented in a natural setting in which they arise. Natural beauties of Serbia are promoted unobtrusively in the background as the setting in which one can enjoy the naturally manufactured and deliciously served food. The clip has hundreds of thousands of hits on *You tube*.

3. Galicnik Wedding,  
Village Galičnik

[http://www.gomacedonia.com/galicka\\_svadba.shtml](http://www.gomacedonia.com/galicka_svadba.shtml) (program of events)

Galičnik is the place from which years ago, because of work abroad, emigrated almost the entire population. So every 12th of each July (St. Peter's), former residents gathered to the wedding of two young persons to revive the tradition and spirit of a former life in a village. Over time it has become a manifestation of national importance. During the two days there are revived traditional costumes, food, crafts, customs, and Teškoto dance that symbolize the hard life in *pecalba*.

4. Cooperation of Ethnological Institute in Zagreb with Croatian Tourism  
Organization: affirmation of ethno cultural projects on the islands and offer of traditional food in tourism. Proceedings of the Institute of Ethnology and folkloristic and Croatian Ethnological Society

- Destinations of longing, loneliness locations: Insights into the culture and development opportunities of Croatian islands, Ines Prica and Zeljka Jelavic (Ed.) Zagreb, 2009

<http://crosbi.znanstvenici.hr/prikazi-rad?&lang=EN&rad=386876>

The book contains eighteen stories which from different perspectives (ethnological, ethno musicological, linguistic, sociological) and thematically diverse rejoin to investigate the issue of preserving the heritage and development of Croatian islands

- Tourist as a guest – pieces about culinary tourism.



Nives Ritig Beljak and Melanija Belaj (Ed.) Zagreb, 2009.  
<http://crosbi.znanstvenici.hr/prikazi-rad?&lang=EN&rad=439874>

Eleven reports from the round table *Tourist by the table - traditional origins of hospitality*, held during the exhibition The World of Food in Croatia, in Zagreb Ethnographic Museum in April 2007. Conductive feature of collection is displaying of previously realized inclusion of food and beverages in the tourist offer and questioning the possible development of new ways of culinary tourism attractions.

5. Ethno village near Bijeljina, Stanišići. <http://www.etno-selo.com/>

Family Stanisic began to make its place at empty wasteland when they transferred the old wooden houses from the Vlasic Mountain and some of them went to the tourist-catering engagement. Today it is a huge complex that includes several man-made lakes and a whole range of hotels, entertainment places, religion sites, different types of restaurants etc. Buildings bear the names of major Orthodox toponyms and are fully built in the authentic ethnic style. The success of the whole project is enormous and the number of visits per year ranges from 700 000 to one million.

Abstract: In Serbia, there is a wrong attitude toward tradition and folk culture as the alleged obstacles to modernization and Europeanization. On the contrary, within the EU there is a strong trend dedicated to affirmation of particular national cultures. The author starts from a large study in 2010 in which tremendous opportunities for the use of National Heritage and culture in contemporary European societies are displayed. It is shown that there is a huge tourist potential associated with various forms of folk culture applications. The author lists some of them and eventually ends with five specific, extraordinary success stories from Serbia and the neighborhood in which modern designs in tourism based on the heritage of folk culture achieved significant results.

Keywords: Serbia, folk culture, tourism, European Union.

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**Docent. Dr. Lidija Zec**

Lidija Zec was born in Podgorica, Montenegro, on Nov. 30, 1976. She graduated from the Belgrade based European University Faculty of International Management in 2001. She completed her postgraduate Master of Science studies at the Podgorica Mediteran University Faculty of Tourism in Bar, and gained the title of Master in Management and Tourism. Ms Zec defended her doctoral thesis at the European University in Belgrade on May 14, 2012, and won a science degree of a Doctor of Science in International Management.

Dr. Lidija Zec started her professional career in the Crna Gora Tours tourist agency, where she completed her IATA professional agent training. Between 2001 and 2005, she worked as a sales manager with the UTIP Crna Gora, with the Crna Gora, Ljubovic and Podgorica hotels, and between 2005 and 2007, she served as a head of the Crna Gora Tours tourist agency. In 2008, she transferred to ALGONQUIN Faculty of International Hotel and Tourism Management in Budva, where she has been serving as an assistant to Professor Dr. Rade Ratković for the courses: Basics of Tourism and Special Dimensions of Tourism. Ms Zec completed the ReSPA Participative Training Techniques course in Dec. 2009 and the SIGMA Training of Trainers program in Oct. 2010. She speaks English, Italian and French.

### **International Trends Of Sustainable Tourism Development With Special Reference On Montenegro**

Nowadays it is still valid that the traditional tourism represents the best chance for emerging destinations to position well themselves on the market and raise in the value chain. It is considered for an unknown destination that it cannot fight for a better position in the tourist market without a support of established large marketing channels, such as travel packages wholesalers, big hotel chains and other hospitality service providers which have already built up a reputation and a recognizable name.

These powerful players in the global market can quickly draw attention of the world to the destinations which are just emerging, but such developments are followed by certain consequences.

It is important to understand that these major players are very marketing disciplined and they are not prone to risk. They do not explore the world as a base of unknown, undeveloped, beautiful destinations, but rather follow the tracks of other pioneers who have previously drawn attention to a particular destination or they respond to aggressive stimuli of potential host countries from a desperate need to create a destination where it did not previously exist.

Great, powerful market creators are not pioneers themselves, unless the risk of investing in a foreign country is almost non-existent.

Once they invest their money, the priorities are changing and some other important issues appear which are worth considering in the case of a new destination which has just emerged on the market. Due to the extreme market discipline and strength, they have power to dominate the destinations that are just emerging on the market.

Although tourism is the major income generator in the world economy, and though a quarter of this income is generated in the developing countries, 49 least developed countries in the world are currently attracting less than one percent of international tourist arrivals and about half a percent of international revenues from tourism. These are countries which are desperately trying to get involved in global tourism trends. Some have already begun to make progress in this regard.

Tourism for one-third of the developing countries is the major source of income from exports. It is an encouraging fact that over the past twenty years in the least developed countries of the world the revenues from tourism have doubled, although the most of that growth came as a result of activities in only five countries.

This development, which is promising, nevertheless carries with it certain limitations. Namely, the efforts of developing countries to create an adequate internal environment for the implementation of tourism economic sustainability policy are undermined by external factors beyond their control, firstly the predatory behavior of associated market providers, who are taking the dominant position in the markets that generate the largest number of tourist arrivals.

In the case of Europe, where the largest share of travelling for holiday purposes is still organized via these integrated providers, a small group of increasingly

concentrated providers is controlling their markets from which tourists embark on trips; the worst result of this trend is that host countries have little bargaining power which results in a significant outflow of tourism revenues from the country.

The optimistic forecasts anticipate that about one-quarter of revenues from tourism goes on a destination which has a typical structure of a traditional tourism economy.

On the other hand, an alternative to traditional tourism shows limited capacity to increase added value from tourism in the local economy, recording at the same time the reduction in revenue leakage from the country. When it comes to Costa Rica, a very successful example of sustainable tourism, it is estimated that this country keeps almost half of already high value added from tourism.<sup>133</sup>

The largest share of travelling and tourism in the world today can be categorized as a mass market, so that, if a destination wants to develop its prospects for maximizing the number of visitors, then mass tourism is undoubtedly the right market segment to be considered.

However, if a destination wants on the contrary to maximize the revenues from tourism and, at the same time, to minimize the ecological and cultural impact followed by such activities, in that case an alternative sustainable tourism offers the best prospects/future. These alternative markets have sufficiently been developed over the last two decades, so that they could be used as useful case studies from which one can learn a lot, while there are now specialized marketing channels/intermediaries, which have been developed right because of changes in preferences of “non-mass consumers”.

Identifying of these new, alternative consumer preferences is a chance for destinations that are just emerging on the market - at least for those which have on disposal valuable property, as is the case with Montenegro - to attract/retain the most of what a visitor spends during a holiday, along with a provision of better services, but also minimization of negative impacts (on the local population and the environment).

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<sup>133</sup> Inman, C., “*Ecotourism versus Mass Tourism as a Source of Value Added for the Host Economy: the Case of Costa Rica,*” within “*Impacts on Developing Countries of Changing Production and Consumption Patterns in Developed Countries*“, 1998

In recent years, Europe receives almost 60% of all international tourists and generates over half of the world's tourism revenues. The share of tourism as a percentage of GDP (gross domestic product) is significantly high in several European countries: 10.7% in Spain; 7.7% in Switzerland; 4.7% in Portugal; 6.3% in Austria. Traveling inside Europe and inside the country are of particular importance with about 84% of arrivals in Europe by the travelers from Europe itself and around 60% of overnights in the European countries, which goes for citizens of these countries in which overnights are recorded.

As it can be seen from the example of Montenegro, tourism is unevenly distributed in certain regions of Europe, with 87% of revenues concentrated in 12 countries, while the remaining 34 countries generate only 13% of these revenues. In 2000, Europe received 403 million visitors, according to WTO estimates. In the following two decades the growth is expected, based on the extrapolation of these predictions, and it can be concluded that by 2020 about 717 million tourists will visit this region. It is estimated that the average annual increase in the number of international tourist arrivals in Europe in the next decade will be about 3.1%, which is lower than in other major tourist regions.

The forecasts are that the tourism in the region of East Asia/Pacific will have a growth rate of 7.5% per year, 5.3% in Africa, 6.2% in South Asia and 3.9% in North and South America.

For Europe in this period is expected to face the fall of market share of international arrivals from 58% in 2000 to 45% in 2020. This prediction, according to WTO, can be avoided if the countries of Central and Eastern Europe succeed in attracting more tourists in the future. Tourism represents an important category in the balance of payments of many European countries and many sectors related to tourism show that tourism is a key source of new jobs, although with significant seasonal fluctuations, depending on the region. Tourism in Europe is primarily made up of small and medium-sized enterprises, with more than 99% of companies employing less than 250 workers.

In Montenegro, as in many other new European destinations, the market share itself is very important. At the macro level, the European continent may wish to retain its global market share leadership and remain the region which is chosen by people as their holiday destination, while all the countries of that region respectively achieve benefits by competing to attract tourists; however, each destination, such as Montenegro, which is trying to manage its tourism development in a sustainable

manner, should think twice about whether they want to serve only as a mechanism by which Europe keeps its lead in numbers, i.e. leadership in the number of visits, compared to other regions in the world. Maximizing the number of visitors is a slippery slope on the road towards the unsustainable tourism development.



*Black Lake, Žabljak*



**Docent Dr. Milijanko Portić**

Dr. Milijanko Jovan Portić was born in Gorazdevac, near Pec in Kosovo, on May 1, 1955. He completed his studies at the primary school in Gorazdevac, and graduated from the High Hospitality School of the Center for Vocational Education in Pec with honor, in 1974. He graduated from the Higher Hospitality School in Belgrade in 1979, with the top grade after defending the paper Nutrition in Military Facilities, and acquired the title of the Senior Expert – Organizer of hospitality business.

Dr. Protić won the title of Engineer of Organization Sciences by graduating from the Belgrade University Faculty of Organization Studies. He enrolled to postgraduate studies in 1994, the department of management, and successfully defended his Master of Science theses Innovation Strategy in Modern Hospitality Industry in 1997, by which he gained the academic title of Master of Technical Science – the area of organization science and management.

Mr. Protić enrolled to doctoral studies with the European University in 1998, and defended his thesis International Management in Tourism and Hospitality with Special Reference to Gastronomy, on May 21, 2005, and won the title of Doctor of Science in International Management in the area of tourism and gastronomy.

#### Professional experience

1974 – 1976 employed by PIK Pec Restaurant Tavern.

1976 – 1978 Higher Restaurant Academy in Belgrade.

1978 - 1981 Manager of the Karagac-Metohijaturist Hotel in Pec.

As of Feb. 2, 1981, he has been serving as an instructor of practical training in the Hospitality and Tourism School in Belgrade.

On Dec. 31, 1998, he was appointed acting director of the Hospitality and Tourism School in Belgrade.

On Jan. 11, 2002 he was elected director of the Hospitality and Tourism School in Belgrade.



## Catering and Tourism School in Belgrade

Co-autor: docent Predrag Portić

**Abstract:** *Hospitality and tourism, as the branches of industry with the greatest potentials and prospects for development, have experienced a revival. However, at the same time such a position imposes a number of challenges and risks. Traditional schools and the quality of their work cannot sufficiently meet the needs of the modern society. In the modern society, the individual must act independently and take the initiative and responsibility for their own actions. Planning, organization and implementation of general, professional and vocational subjects in vocational schools are now at the methodical crossroads of the traditional education, on the one hand, and modern, interactive and multidimensional education meeting the need of a new generation of students, on the other. New conditions and new business systems require new competencies of employees. A particular problem is the realization of practical training in vocational schools and in hospitality and tourism companies. Practical training is a key element in achieving high-quality education for students and preparing them for employment and professional career. Information technology opens up many possibilities for innovating educational process with a different class organization, new teaching methods and approaches, and by using different media for didactic purposes. Teachers, with the main role in education advancement, have a direct impact on students' learning and development. The analysis of the necessary work competencies and definition of the job duties and tasks in a particular job lead to outcomes which need to be defined in the future curricula. Staff motivation is the best guarantee for a successful business in the hospitality and tourism industry. Motivation should already be present in the educational process and as such continuously present at work through constant practice and training in order to improve and upgrade the acquired knowledge. It is necessary to connect the world of education and the world of work through the so-called gradual education, which provides continuous and progressive improvement, and applying knowledge to the economy.*

**Keywords:** *education, reform, development, strategy, information technology, motivation, planning, organization*

## INTRODUCTION

Modern tourism has a leading position in the world's economy. It connects developed countries with developing ones providing an opportunity for the economic and social progress. The world's tourism market increasingly strives to define quality standards of services offered to and provided for guests. Such an approach to business operations produces a positive result in the work, as well as a huge responsibility of tourism industry to meet the clients' needs with a certain quality for the charged services.

These are the reasons why the hotel industry of the Republic of Serbia, if it seeks to join the international tourism flows adequately, needs to make certain adjustments in various areas of business operations. Apart from accommodation services, which have the primary role, hospitality services of offering and providing food and beverages also have an important role. It is considered that up to 60% of all tourism expenditures refer to hospitality services.<sup>134</sup>

The key factor in tourism and hospitality is still the man. The quality of services is mainly dependent upon employees with a direct contact with customers, and their business competencies which ensure the performance of business duties and tasks. The importance of human action is crucial in every hotel organization which strives to achieve business success in the world of global changes. Hotel enterprises are in many ways trying to increase their influence on their employees in order to set up a system of quality which secures competitiveness in the market. The key for a human resource management is to find a way to motivate employees to give their best. The human resource management is undoubtedly the management field which has developed the most lately. The traditional approach to management is increasingly being replaced by modern, practical forms that offer more flexible and humane approach.

All this represents a real challenge for management and managers who are engaged in education and training of personnel in hospitality and tourism and are trying to connect the world of education with the world of work in order to meet the needs and requests of the economy. In this situation, it is by no means an easy and simple job, but rather requires managers to show the maximum involvement through their activities.

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<sup>134</sup> Bakić O, Nikolić M, Bakić M, "Osnove turizma sa osnovama ugostiteljstva", Čigoja štampa, Beograd, 1999

Traditional schools, as well as their quality of work, cannot sufficiently meet the needs of modern society. One must act independently and take the initiative and responsibility. They collect information, manage it, analyze it, and transform it into usable knowledge. The traditional teaching has its deficiencies regarding individualization of learning and teaching, motivation to learn (both external and internal motivation of students and teachers), as well as the objective and realistic monitoring and assessment of students' achievements (knowledge, skills, and attitudes). In the traditional education system, a student is in the position of an object, and not the subject of education. They, as such, develop in accordance with the demands of educational aims in which the student is a passive observer. As a subject of education, a student represents a personality that develops according to their own abilities and aspirations including the mental activity. The traditional education requires knowledge reproduction whereas modern conditions require a more active process of building up knowledge of every individual. In the traditional education, the essence of the teaching process is the activity of a teacher, who uses teaching methods to develop mechanical memorizing abilities in their students. The emphasis is on reproduction instead of application of knowledge, skills and attitudes. Another deficiency of traditional teaching is the inflexibility of time and place of class attendance. Traditional schooling demands that all students are in the same place at the same time. Traditional schooling and the frontal method is best described by the following: **“The maximum has been drawn from this concept and one cannot expect it to bring new qualities, and once a technology is completely exhausted, new ones must be introduced for teaching must not remain on the level achieved so far”**.<sup>135</sup>

The problem is overcome by the use of information technologies in the educational process. Of course, we should not forget the advantages of traditional education, primarily the work on developing the personality of an individual in a social environment.

Planning, organization and realization of lessons in general-vocational and vocational subjects in secondary vocational is currently at a methodical crossroads of traditional (classical) teaching and the modern interactive and multidimensional one, which represents the need of a new generation of students. The new generation is the young, growing up with artificial intelligence which represents the dominant

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<sup>135</sup> Vilotijević M, “Od tradicionalne ka informacionoj didaktici“, Magazine “Obrazovna tehnologija“, br. 1-2, Beograd, 2003

social environment. The socially changed conditions are surely contributed by new informational, communicational and technological environments that are present in all areas of life. This dynamics certainly imposes the need for changes in the teaching process, especially in secondary vocational schools. Economic and social changes which appeared with the scientific and technological development impose the introduction of innovations in education. New production and business systems demand completely new business, as well as educational competencies. Through various market and market segment analyses, and considering all strengths, weaknesses, opportunities and threats (SWOT analysis) of the current state of the hospitality industry, managers must modify the education of hospitality personnel and in this way stimulate the industry to operate even better and more successfully. Also, it is inevitably necessary to introduce a standard of work with personnel as well as standard of work with guests, i.e. users of hospitality services.

### **Education of personnel in hospitality**

Education, education reform, education planning, education policy are certainly crucially important issues which represent the priority in national strategies of political, economic, social and technological development in all modern societies.

New business conditions and new business systems require new business competencies of employees. This imposes the need to adjust educational outcomes and competencies. As a consequence of discrepancy, there is a gap between the personnel needed in the industry and the ones present in the labour market. The cause of this is in educational outcomes which are inadequate in new economic and technological conditions.

Education of personnel in hospitality is of strategic importance for it increases the company value. It represents the basis for the creation of competitive advantage on the market, but only when the work quality of hospitality employees who are in a direct contact with guests is coordinated with the needs of a hotel enterprise, its goals, as well as the goals of the employees themselves. In a modern business environment, a hotel enterprise recognizes and improves the values of

their employees and uses them to accomplish business goals. Education and training are certainly not an expense, but the best investment into the future.

The social model which has imposed itself as a model for survival in the conditions of technological development is the “learning society”. Knowledge is power – is a distinguishing fact between the successful and the unsuccessful. In the modern hotel business operations we do not have the right to make a mistake. The service always needs to be standardized and profiled to suit the guest's needs. A guest who is dissatisfied does not return, therefore we will not be given a second chance. The above mentioned shows us that employees are an important factor of the quality of hotel enterprises. Only the personnel that are educated for the work in hospitality, i.e. armed with the required business competencies can adequately meet the demands of modern business. Those who do not improve themselves do not stagnate, but deteriorate. A sure survival is enabled only through permanent learning. A good example for this is the hotel company *Ritz Carlton*, which organizes a daily “quality order”, acquainting the employees with instructions for achieving the required quality of services, regardless of the job positions and the nature of business operations. The phrase often heard among employees in this chain containing 28 hotels around the world is: “We are ladies and gentlemen who serve ladies and gentlemen”.<sup>136</sup>

If we say that a company is worth as much as its employees and that the intellectual capital of a company is its IQ, then the fact that companies pay more and more attention to training and education of their employees is not surprising at all. On the other hand, employees have the need, as well as the

demand for permanent learning, training and improvement in order to acquire skills and knowledge which will prepare them for new business tasks and challenges.<sup>137</sup>

Education and training of employees represent a foundation of permanent education for and through work. The task is that employees expand and improve their present knowledge, as well as to acquire a new one. Forms of training and

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<sup>136</sup> Bogićević Milikić B, “Menadžment ljudskih resursa“, Ekonomski fakultet, Beograd, 2011

<sup>137</sup> Mašić B, “Menadžment“, Univerzitet Singidunum, Beograd, 2009

education can be internal and external.<sup>138</sup> Apart from internal trainings which are held in company training centres, such as courses for learning ‘the art of behaviour’, ‘how to deal with complaints’, ‘sales techniques’ through ‘skill training’ or ‘cross training’, there are external forms of continuous education which include various courses, seminars, advancement in specialist, master, magistrate, and/or doctor studies, all within the framework of educational or specialized institutions, professional associations, and other organizations. The internal and external forms of training and education generally have the same objective – to adapt and enable the company employees to follow and apply achievements and knowledge which occur in the field of hotel and restaurant business operations.<sup>139</sup>

Managers are of an opinion that the education of employees represents a basic assumption for the transformation of employees into experts, that is, for the professional business performance. From the aspect of organizational behaviour and function of human resource managers, education of employees is of the greatest importance. The development must be dynamic, continuous, and constant, and learning must be a permanent and lifelong process. Every organization establishes their own needs for the employees’ education. However, in the theory and practice of human resource management there are four different categories of educational needs, and to each category, and/or level correspond different educational contents, methods and instruments. Having established the level of educational needs used to determine and emphasize the depth and intensity of required and necessary education, we also establish the types of educational needs which are of strategic importance for any organization.<sup>140</sup>

Education is democratized and available to everyone regardless of their demographic and social characteristics. The needs for education defined in various ways are accomplished through formal and informal education in educational institutions accredited for such work. The question of the quality of education, new competencies, required outcomes, professional development, retraining, additional training, vocational training, as well as the question of the quality of the realization of a teaching process come to the fore. The modern society demands constant

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<sup>138</sup> Čačić K, “Poslovanje hotelskih preduzeća“, Univerzitet Singidunum, Beograd, 2010

<sup>139</sup> Čačić K, „Poslovanje hotelskih preduzeća“, Univerzitet Singidunum, Beograd, 2010

<sup>140</sup> Čerović S, „Upravljanje ljudskim resursima u hotelijerstvu“, Univerzitet Singidunum, Beograd, 2011

innovations in the field of general and specific aims of education, curriculum and syllabus, teaching process as an adequate answer to the changes in the environment. This demand is particularly manifested in the secondary vocational education.

A particular problem is the realization of the practical training in secondary vocational schools, as well as in enterprises in the industry of hospitality and tourism. Practical training is one of the key elements in the realization of the quality preparation of students and trainees for employment and a professional career. Elementary practical training of vocational school students is necessary for all educational profiles and, as such, it represents an essential part of skills and achievements which form the working capacity of an individual. During practical training in a business, students and trainees acquire professional practice in real-world conditions and actual technologies. The system of vocational education should develop organized practical training whose structure will include the combination of practical classes held at school and the professional practice carried out in a business organization. All educational profiles should have both types of practical training.<sup>141</sup>

In the Republic of Serbia, unfortunately, the practical training in hospitality and tourism industry is not organized well. This directly affects the quality of human resources for the industry needs. Changes which are necessary to be made in this field primarily refer to the introduction of a standard regarding the work with students. In order to achieve this, we need to define the key competencies for certain occupations, i.e. educational profiles. Within the competencies, it is necessary to define work duties and tasks. This framework essentially represents a criterion for performing work tasks and it is the best guideline for conducting training, i.e. practical classes. Of course, in order to be functional, practical training should be conducted in the industry, i.e. in real-world and primarily controlled conditions. Employees for conducting practical work with students are also required, and these are vocational subject teachers in secondary vocational schools. However, within the broader cooperation of social partners, primarily vocational schools, hospitality and tourism industry and the Chamber of Commerce, there is a need for a model of training and licensing people from the industry who can work with students by instructing them. They would represent a link for this kind of cooperation and would fill the space created by the hyper-production of human

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<sup>141</sup> Strategija razvoja stručnog obrazovanja u R. Srbiji, 2006

resources in the last twenty years. In order to receive a certificate which allows them to work with students, future instructors would have to undergo adequate examination and training in one of the accredited educational centers for the required field of study. The best example for such institutions is the Catering and Tourism School in Belgrade with the school workshop – the “*Palace Hotel*”, which is to grow into a training centre for vocational subject teachers, as well as industry representatives who would apply for working with students.

### **Traditional education and its deficiencies**

A characteristic of the traditional education system is a low level of students’ motivation. This key factor in the teaching process has the greatest influence on the learning process. External motivation dominates the traditional education system while internal motivation of students is not a primary goal. In such a system, students are mostly motivated by a desire to meet the expectations of their teachers and parents, to get good grades in order to continue schooling, as well as by the desire, i.e. fear not to be embarrassed in front of their peers. Students are passive and their activity is focused on listening to their teachers’ lectures. Students do not feel responsible for their own learning because they have a passive role in performing tasks. The weak internal motivation is surely the result of incompatibility of teaching to the needs and abilities of students.

The traditional education system favours learning from textbooks and mechanical memorizing based on it, where it should insist on independent gathering of information and its analysis which would lead to obtaining applicable and creative knowledge. Traditional teaching does not give an opportunity of providing information in more than one way, thus neglecting a basic didactical principle – the principle of obviousness which ensures that students learn the reality by using multiple senses. The basic method used in traditional teaching is the lecture, and the emphasis is on verbal transfer of knowledge. Alongside with this, a textbook is usually the basic and practically the only source of knowledge. As such, a textbook represents systematically arranged knowledge always available to a student, which makes this method economical though limiting. The method of text analysis is not adjusted to individual abilities of students because the content is the same for all students. The traditional approach requires that all students and the teacher are in the same place at the same time, which practically blocks the possibility for students to self-organize time to study.



With the advancement of new technologies there has been a need, as well as the possibility for the application of information technology in the teaching process. The information technology is present in all social spheres, so there is a need to train teachers in compliance with the present-day requirements. The biggest problem is the lack of new-technology equipment in schools. However, even in the case where schools have the opportunity to use new technologies, the problem is in insufficient training of the teaching staff for their use.

### **Application of modern technologies in the teaching process**

Modern technologies have widened the possibility of education. According to Giddens, “the revolution in the classroom”, “the arrival of the desktop virtual reality” and “classrooms without walls” have already been discussed.<sup>142</sup>

Changes in the fields of communication and technology have led to the entire chain of changes in the teaching process, the teacher-student relationship, the place of a student in the teaching process, as well as the role of the teacher in the teaching process. A special emphasis is put on the methodology and the new methodological approach to work. It is hardly possible to provide a teacher per student. New technologies solve this problem in a way that the use of computers in the modern society enables every student to advance according to their own abilities. The application of computers in teaching makes every lesson more appealing, and it therefore encourages active learning and greater learning motivation. The application of computers eliminates deficiencies of the traditional teaching, primarily: the frontal teaching method, the lack of feedback, a short durability of the acquired knowledge, the lack of connection between theory and the actual – the real life. The information technology creates a multitude of possibilities for teaching process innovations through diverse class organization, the use of new teaching methods, forms of teaching, and the use of various media for didactical purposes. There is a possibility for setting teaching goals and tasks for each student considering his prior knowledge, abilities, interests and capabilities. In this manner, teaching is individualized, which means that it is not adapted to the average student as was the case with traditional teaching. The students who have been neglected so far - students with abilities higher or lower than the average are now included. The pace of learning of every student will not be hindered by other students’ weaknesses or abilities, with the code of ethics

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<sup>142</sup> Giddens A, “Sociologija“, Globus, Zagreb, 2007

applied. The student becomes an active participant in the educational process which increases his attentiveness and motivation.

The information technology provides an opportunity for dividing the content into segments offering a possibility of a “step by step” learning. In this form, the teaching objective is brought closer and it becomes attainable in the eyes of students, which raises their motivation to learn. This approach enables easier monitoring by teachers. The feedback on every step enables students and teacher to gain insight into the achievements, concerning the expected outcomes. The information technology provides interactivity in communication in all directions (between teachers, a teacher and students, a student and other students, students and the learning content, etc.). The teacher becomes an associate and counselor of students who independently, actively and with motivation acquire the required knowledge, skills and attitudes. The increasing demand for teachers, in this aspect, is a new role of explorer creator, moderator and evaluator, which is primarily reflected in lesson planning and organization. The teacher practically leads students through mastering the planned outcomes and monitors their progress in acquiring the necessary knowledge, skills and attitudes, i.e. competencies. The student must be in the centre of the teaching work, directed and corrected with full engagement concerning their abilities.

The development of science and technology has enabled the application of new didactical media whose usage engages all students’ senses. The contents presented in this manner are far more interesting to students because of the principle of obviousness. The information technologies are setting new educational standards which imply efficient and obvious teaching, i.e. teaching which draws students’ attention. This teaching process is easier to manipulate, control and coordinate. Also, the assessment of the acquired knowledge, skills and attitudes is facilitated and accelerated. It is necessary to use multimedia presentations through which the information becomes interesting and appealing, encouraging students to be active and conduct further research. Therefore, students are willingly involved and they become responsible for their learning, and their inquisitiveness and the desire to learn are encouraged. By using information technologies, a student has the opportunity to find information independently, and textbooks and teachers are no longer the only sources of information. Students receive information from many sources, analyze it independently, reach conclusions and acquire knowledge. The knowledge acquired in this manner is no longer at the level of reproduction, but students are capable of applying it in the real life. When students understand that

the acquisition of certain knowledge is important in order to manage in life and work situations, they realize that the acquired knowledge is related to the real life and that is applicable as such, that theory is related to practice. In this manner, the durability of acquired knowledge is prolonged.

The use of information technologies also enables flexibility in time and place regarding class attendance. Students are given the opportunity to study:

- in the same place at the same time,
- in a different place at the same time,
- in the same place at a different time, and
- in a different place at a different time.

This approach is particularly suited to students who were absent from school for various reasons and who missed a lot because of this, and later had difficulties in learning the missed lessons. Now they have the opportunity to learn at home.

### **The national strategy of secondary vocational education development**

Considering the needs and demands of the labour market, the needs of society, the objectives and tasks of vocational education and training, considering strategic documents in the field of education, but also individual desires and abilities of students and trainees, the process of a further reform of vocational education and training in the Republic of Serbia includes:<sup>143</sup>

- Development of a system of standards which refer to institutions, teachers and educational programs;
- Development of a national framework and system of qualifications and standards of vocational education and training;
- Further modernization of the content of organization and methods of a teaching process of teachers and schools as a whole;
- Improvement and innovation of the modular model of educational programs

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<sup>143</sup> Strategija razvoja stručnog obrazovanja u Republici Srbiji, 2006

based on learning outcomes. Introduction of new educational programs, organizational models, methods and content of professional practice;

- Development of a satisfactory balance between general and vocational education, i.e. theoretical and practical (the proposed models can be found in pilot programs of secondary vocational education);
- Defining educational profiles and defining occupations to suit the needs of the new economic reality and the principles of sustainable development;
- Development of the accreditation and certification system which includes educational institutions and training programs, the methods of recognition in the certification system;
- Rationalization of the secondary vocational schools network to meet the needs of the economy, labour market of local communities, the requirement arising from the directions of social and economic development, employment policy, and in accordance with the needs and abilities of students;
- Increasing the capacity of three-year vocational schools as a direct response to the needs of the economy;
- Institutionalization of a continuous and active social dialogue in the fields of vocational education and employment development;
- Modernization and the development of professional practice and practical classes in secondary schools and educational institutions as well as in the economy;
- Ensuring the quality of vocational education, which involves constant monitoring and evaluation of results of students and teacher as well as of schools and/or educational institutions in general;
- Development of transparent, functional and fair system of assessment and evaluation of students' achievements;
- Providing a better vertical and horizontal mobility of students within vocational education and their future progression;
- Creating conditions for continuous professional training of teachers and the overall professional development of teachers, introduction of new teaching methods (group work, interactive learning, project work, problem solving, etc.);
- Updating equipment and teaching materials;
- Increasing independence and strengthening the rights and responsibilities of vocational schools in new conditions, linking with the local government, local economy needs, finding new ways of funding;

- Professional development of directors and their training for new working conditions;
- Establishment and development of management in vocational education.<sup>144</sup>

Based on these activities, the vision and the mission of vocational education which becomes a factor and one of the key factors of an efficient system of social partnership and joint action that creates experts who will be able to engage in a fierce domestic and international competition in every economic field are realized. Vocational education should provide every individual with a possibility of full social participation, improvement of the quality of life, personal choice, employment, professional development, all in a healthy environment. This means that the main aim of vocational education is providing an opportunity for the young and adults to acquire knowledge, skills and abilities (competencies) necessary for work and employment, further education and learning with respect to the guidelines of a sustainable development of the entire society.<sup>145</sup>

### **Professional competencies of teachers and their role in improving the quality of teaching**

Teaching competencies are the capacity of an individual which can be seen in the performance of complex activities in educational work. Competencies represent a group of necessary knowledge, skills and values of a teacher. Teachers have the central role in improving education, because they have a direct influence on learning and development of students.

Teaching competencies are determined in relation to the learning objectives and need to ensure professional standards of how teaching is considered successful.

They refer to the competencies for:<sup>146</sup>

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<sup>144</sup> Strategija razvoja stručnog obrazovanja u Republici Srbiji, 2006

<sup>145</sup> Ibid.

<sup>146</sup> Standardi kompetencija za profesiju nastavnika i njihovog profesionalnog razvoja, Zavod za unapređivanje obrazovanja i vaspitanja, 2011

- The teaching unit, subject and teaching methods;
- Teaching and learning;
- The support of personal development of students;
- Communication and cooperation.

The Law of the Basics of the Education System proscribes measures for the promotion of the quality of teaching and sets objectives and general outcomes in accordance with the vision of education, as a foundation of a “society based on knowledge”. In the defined objectives and outcomes of education, the emphasis is placed upon general competencies and development of specific knowledge and skills for life in a modern society. Therefore the manifold role of a teacher, for they need to:<sup>147</sup>

- Develop key competencies of students, which enables them to live and work, and also provides them with a foundation for further learning;
- Offer additional support to students belonging to sensitive social groups, talented students, and students with disabilities in order to achieve their educational potentials according to their possibilities.

In order to contribute to the efficacy and equal rights and availability of education of all students, a teacher should have competencies which refer to the prevention of violence in schools, motivation of students to learn, building tolerance, prevention of discrimination, etc.

A teacher should:<sup>148</sup>

- be acquainted with the education system, principles and objectives, outcomes and standards of education;
- be acquainted with and apply the legal regulations in education, strategic documents and relevant international documents;
- understand the social context of education and school, and actively contribute to multicultural and inclusive approach to education;
- contribute to the sustainable development and encourage lifestyles;
- express themselves verbally and in writing, complying with the rules of the

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<sup>147</sup> Standardi kompetencija za profesiju nastavnika i njihovog profesionalnog razvoja, Zavod za unapređivanje obrazovanja i vaspitanja, 2011

<sup>148</sup> Ibid.

Serbian language in which they conduct their teaching, work on the enhancement of their language culture and the language culture of students;

- apply information and communication technologies;
- coordinate their practices with innovations in education;
- analyze, assess, change and improve their professional work by using information received through self-evaluation and external evaluation;
- respect universal human and national values and encourage students to acquire them, supporting mutual understanding and respect, tolerance, respect for diversity, cooperation and socializing;
- by personal example, affect the formation of a system of values and the development of positive personal qualities of students;
- understand the importance of lifelong learning, undergo continuous professional development, update and improve their work;
- speak at least one foreign language.

This shows us how demanding and complex the role of a teacher is. A teacher in secondary vocational education must be the carrier of changes in the approach to and work with students. As a vocational subject teacher, they need to offer students a set of learning through corresponding knowledge, skills and attitudes required for the future profession. They will be able to do this only if they have and develop key teaching competencies.

### **The development of new educational profiles and curricula according to the demands of the hospitality industry**

An educational profile determines which professional requirements are to be met, defines the required general education, professional knowledge, skills and attitudes that enable employment and lead to it. The decisions on the duration of education for certain occupations and profiles are based on the actual demands of the labour market. This means that in the process of defining a new educational profile and redefining an old one, we should primarily start from the needs of employers. This mainly refers to necessary skills, knowledge and attitudes required for employment and work in a related field. The analysis of required work competencies, in the sense of defining job duties and tasks within a specific position, leads to the learning outcomes which need to be defined in the future plan and program. Thereunto, every educational profile should respect the principles of environment protection and sustainable development. In this manner, an educational profile becomes a complete specification for the qualification in

vocational education into which all relevant social partners and interest groups must be included.

An educational program is defined as a structural basis for organization and realization of education and trainings. This ensures the achievement of predicted learning outcomes. The program defines:

- Objectives, outcomes and contents of education;
- Processes and activities of their achievement and realization;
- Methods and criteria of assessing achievements.

The possibilities of introducing new teaching methods, especially active forms of teaching, and different combinations of theoretical and practical teaching are created in this manner. In the process of expanding programs and syllabuses, it is of a primary importance to introduce the modular<sup>149</sup> learning approach. The modular teaching approach enables vertical and horizontal interconnection, as well as a connection with other programs of schooling and education. Modules are specific and special segments which represent learning packages leading to achievements of the defined learning outcomes. They can be independent or a part of broader program and/or organizational wholes. Their structure enables the acquisition of vocational competencies through interdisciplinary, and/or cross-curricular teaching according to their flexible structure where boundaries between disciplines are not strict, but quite the opposite, enable permeation, correlativity and creation of a unique modular educational package.

Learning outcomes are clearly and unambiguously the defined knowledge, skills and attitudes achieved after a specific program, and/or process of education and learning. Outcomes are defined before the beginning of an education process and teachers and students are familiar with them. It enables:

- Teachers and students to have a clear image of the learning objective and tasks;
- Social partners to know what competencies are acquired at the end of educational programs in vocational schools (an appendix to a diploma).

### **The system of quality in school management**

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<sup>149</sup> A module is a set of functionally related knowledge, skills and attitudes necessary for performing a task



The quality in schools should be observed as a multidimensional concept comprised of three related dimensions:

- The quality of human and material resources (inputs);
- The quality of learning/teaching process management (processes);
- The quality of exit results (outcomes, achievements).<sup>150</sup>

The system of quality assurance in the education sector has many mechanisms. One of the main mechanisms refers to the periodical evaluation of the education system and educational institutions. Here we primarily refer to:

- Standardized examinations of students (national exams);
- Internal assessment of institutions (self-evaluation, self-assessment);
- External assessment (educational supervision).

In order to do this task, we must have a list of standards that define the quality and are indicators for measuring the quality.<sup>151</sup> The system of quality is a part of the basic management system which directs an organization towards achieving the set goals regarding the satisfaction of users and other interested parties in a standardized manner.<sup>152</sup>

### **Information technologies in the function of management improvement**

Information technologies represent a key factor and a driving force of changes in the modern society. Their application enables the unhindered flow of information at all levels, great transparency of data and information and availability of all market segments. Schools should highlight technologies for creating a high quality website, as well as the establishment of a functional information system, which would serve as a support to business and teaching processes in the school. The implementation of information technologies can significantly improve the educational process as well as the management of school institutions. Information

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<sup>150</sup> Čaprić G, "Kako unaprediti upravljnje u srednjoškolskim obrazovnim institucijama", A Collection of Papers, Univerzitet Singidunum, 2010

<sup>151</sup> Čaprić G, "Kako unaprediti upravljnje u srednjoškolskim obrazovnim institucijama", A Collection of Papers, Univerzitet Singidunum, 2010

<sup>152</sup> Heleta M, "Kako unaprediti upravljnje u srednjoškolskim obrazovnim institucijama", A Collection of Papers, Univerzitet Singidunum, 2010

systems in education are intended for administering data related to students and teachers:

- Organization of the educational plan and program;
- Organization of the course material assessment;
- Organization of other minor processes.

Implementation of an information system enables the introduction of changes in management. Information technologies are used very successfully in the process of knowledge acquisition in the form of different systems for distance learning, presentations, simulators and assessment of students. The main task of a teacher in the electronic testing system is to enter the questions and create a test for their students. Results of statistical analyses show teachers which areas students have not mastered well, i.e. which areas should be explained in more detail.<sup>153</sup>

### **The road to dual structures of secondary vocational education**

In the field of vocational education, a German model, known as the “dual system” has no rivals. The model is highly valued because it gives exceptional results, which is the reason why they are trying to introduce it in countries that started with the reform. Within the German model, the transfer of knowledge and skills is done on two separate tracks, i.e. by combining a school approach with practical work experience. The double track has become a guarantee of the quality of vocational education since it contains numerous advantages in relation to the classic vocational schools system. The German dual system has contributed to a closer cooperation between the state and the economy and has enabled learning within the work process. It has also strengthened cooperation between vocational schools and enterprises thus improving the overall reputation of vocational education. Because of all this, the German model of vocational education has become a subject of interest in many developed countries, as well as countries that are undergoing a turbulent economic transition.

The education policy in the Republic of Serbia, with a focus on the development of general and academic programs and a chronic neglect of vocational education, has been outdated for a long time when compared with reformation processes in the world. The vocational education system has therefore remained

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<sup>153</sup> Veinović M., Jevremović A, “Kako unaprediti upravljnje u srednjoškolskim obrazovnim institucijama“, A Collection of Papers, Univerzitet Singidunum, 2010

underdeveloped, with a bad reputation in the society and a second-rate meaning within the education system as a whole. Businessmen are not even remotely included in the process of planning and organizing vocational training even though they need qualified workforce. The greatest challenge for our system is conducting the vocational education reform which will, on the one hand, meet the industry requirements for the high quality workforce, and on the other, the need of population for training that will increase employment chances for individuals. This is the right time for Serbia to go with the flow of changes that have lately affected a large number of countries. All around the world, year after year, an increasing number of dual structures of vocational training which are oriented towards performing practical tasks in a work environment have been created.

It is very important that we become aware of the challenges imposed upon us by globalization as soon as possible, and that we do not rely only on our own experience while we face these challenges. Everywhere in the world, there is an obvious conflict between two basic tendencies in education: on the one hand, there is a tendency to keep the existing traditions, and on the other hand, the pressure to survive in the global arena is increasing. This is exactly why it is necessary to observe how other countries modernize their systems and how they tackle problems that stand in the way of introducing dual structure trainings.

The solutions which have shown their efficacy in practice have a huge significance. The German system of vocational education, with its great experience in relation to the economy, can serve as a guide to find one's path. It is our job to make the first step, i.e. to ask German experts and organizations for useful advice. The acquisition of vocational skills and professional competencies must be the main objective of the initial and continued vocational education. Vocational training led by a tendency to help generations of young people to find employment is organized on the principle of complete execution of tasks: students are obliged to learn all steps that a particular job involves, from collecting information and planning tasks to their execution and checking if everything is done properly. Students are encouraged to work independently and responsibly. It is necessary to establish strong cooperation between a large number of relevant social partners interested in secondary vocational education. The government, employers, schools, unions, and the non-government sector need to establish the minimum of common interests through a dialogue and agree upon the share of responsibilities which will be defined by the Government of the Republic of Serbia through the adoption of the new Law on Secondary Vocational Education. When the objective of the

reform has been defined, the setting of a time frame, the budget, as well as the choice of the partner organization which is to supervise the realization of the entire process will follow.

Although there is a principle consensus regarding the attitude that it is of a general interest to connect vocational schools with industry, it is necessary to ensure that the principle is applied in practice during the execution of every step in the reform. Therefore, it is first necessary to conduct a reliable market research in cooperation with professional organizations which have experience in the introduction of dual vocational trainings. The key point of the reform on which its success depends is giving authority to the voice of the economy when it comes to the educational program, plans for practical training, final exams and national qualification standards.

### **Connections between secondary vocational schools and the hospitality industry**

The previous practice has shown that students' practical training for work in the hospitality industry presents a very serious problem for conducting classes. There are a small number of hotels in Serbia willing to provide students with a practical training and to be more dedicated to training future personnel in hospitality industry. The cooperation of educational institutions and the industry is very important and presents a significant segment of further development of the hospitality and tourism industry. Serbia has a realistic chance to develop tourism successfully, as well as hospitality as its important component. The tourism development strategy in Serbia has set both the basic directions and the extent of hospitality development to be achieved until 2015. The strategy to improve training of human resources needs to be developed in this manner, and/or it is necessary to improve the connection between secondary vocational schools and the industry.

An acute problem of hospitality and tourism schools is certainly the problem of insufficient and superficial education and training of human resources in the industry, i.e. practical work. The cooperation between hospitality and tourism schools and the industry is unsatisfactory and it needs to be much better in the future. Schools need be up to date with the advancement of new technologies and skills, and develop informal forms of education alongside the formal ones so

that the students who are sent to modern hotels for their practical classes could fit in the work as per the latest standards.

Human resources that work in hotels, but do not wish to be included in education and training of future hoteliers present a big problem. Whether the cause of this is the non-mastery of the required knowledge and skills, the lack of motivation for this type of work or simply the lack of time, the time will show. The Catering and Tourism School from Belgrade is lucky to have the *Palace Hotel* as its workshop, where only practical training teachers, who train students during their practical assignments, are employed. Again, there is a problem of the lack of space; therefore the School is forced to direct a number of students to other hotels as well, where it literally depends on the shift how students are received and to what extent they are engaged.

In order to facilitate practical training both for students and the personnel in companies which train students, a publishing house *Zavod za Udzbenike i Nastavna Sredstva* has published a guide for professional training in companies: *Vodic za profesionalnu praksu u privrednim drustvima*, which represents a result of cooperation between *KulturKontakt Austria* organization and *Centar za Strucno Obrazovanje i Obrazovanje Odraslih* (the centre for vocational education and education of adults), as well as the team of teachers from the Catering and Tourism School in Belgrade (Ugostiteljsko-turisticka skola) and other most prominent schools in Serbia. A guide for professional practice in an enterprise contributes to improving education quality, raising education standards, improving the social role of school, improving teachers' efficiency and developing new mechanisms of cooperation with parents. Relevant forms which are necessary to interested parties (students, parents, teachers, the school management, and enterprises) and instructions for teachers and mentors in the economy indicate the complexity and seriousness of organizing practical classes in business enterprises). The guide contains detailed information for parents and students, techniques for communication with business enterprises, so that everyone is aware of their obligations and responsibilities. It offers hospitality and tourism schools in Serbia and their partner enterprises guidance and assistance in the joint implementation of quality students' practice in enterprises.

Business people want educational institutions to ensure that students finish schooling with knowledge of foreign languages, professional expertise and the ability to use modern technologies in the field of computers and informatics. In

order to keep up with modern trends in the field of hospitality and tourism, it is necessary that educational programs are designed in such a manner that teaching is mostly practical training organized in hotels and restaurants. In order to achieve this in practice, it is necessary to legally regulate educational programs together in collaboration with the Ministry of Education, Science and Technological Development of the Republic of Serbia and to implement them through current regulations. Educational institutions need to acquaint their partner enterprises with educational plans and programs used to educate and train students of different courses of study for the hospitality industry. It happens that students go to a business organization to have practical training classes, and that the personnel who receive them are not familiar with the skills and knowledge they need to pass on to students.

The question is how to overcome this gap between educational institutions and enterprises which provide students with their practical training. A possible solution is perhaps to create educational centers for personnel who work in business enterprises and have a direct contact with students. These educational centers would be created in larger regional centers (Belgrade, Novi Sad, Nis, Vrnjacka Spa, etc.) where high-quality and successful hospitality and tourism schools, which would be carriers of the trainings, are situated. Formation of such regional centers would lead to work standards of staff who train students in their practical classes, which would be applied in all parts of Serbia. The emphasis during trainings would be on psychology, pedagogy, teaching methods, as well as on interpretation of educational plans and programs, for these areas have proved to be unfamiliar to the staff working with students. After the completion of their training, the attendants would be given a certificate which proves they are trained to work with students. The certificate would be a requirement in order for students to attend practical classes in the facilities. Issuing these certificates would provide us with a clear image of which economic institutions are engaged in education and training of students for the needs of hospitality industry. By comparing guests' surveys about the quality of services provided in different areas, we would have clear indicators of the success of trainings in hospitality and tourism schools, and/or the quality of work and expertise of personnel employed in these institutions.

The Chamber of Commerce could be a sponsor and a guarantor of the quality of the trainings, and they should also find a way to motivate the staff who work with students in business enterprises and are not hired by the Ministry of

Education, Science and Technological Development of the Republic of Serbia. In this part we may conclude that the past cooperation was not satisfactory and that we should work on improving relations and promoting cooperation between educational institutions and corporate institutions.

Many educational organizations have taken serious steps to improve their education through a selection of competent teachers, appropriate curriculum, the establishment of individual processes, the application of the best teaching methods in conducting classes, the infrastructure improvement, etc. However, these organizations often do not achieve their goals concerning the provision of an appropriate level of education, and/or do not meet “students’ expectations”. Professional practice in business enterprises is not only the preparation for a professional career; it can be the beginning of a successful career!

### **Conclusion**

The economy needs to assume a share of responsibility for a successful education and training of future workers in hospitality industry, who will be carriers of quality work and relations toward guests, and whose work will provide a basis for a positive image of our country that guests, especially foreign guests will acquire. Today, only schools with a possibility to cooperate with top hotels, which are up to date with the development of information technologies in hospitality, and which possess one of the most important factors which are vocational teachers from the industry who transfer their experience directly to students, can take such responsibility on themselves.

We need to be aware of the fact that the motivation of employees is the best guarantee for successful business operations in hospitality and tourism. Motivation must be present in the process of education, and therefore continued at work through continuous trainings and consultancy with a goal of improving and upgrading the learned. It is necessary to connect the world of education with the world of work through the so-called stepwise education, which provides continuous and gradual development, as well as application of the knowledge in the economy. Only in this way, students and future workers can identify and involve themselves in the work process. As a result, the worker will be motivated and will have the right attitude to work. In this system, everyone is satisfied; employees because they

realize their wishes through an exceptional performance in the workplace, and managers because of the fulfilled expectations.

Demands of the modern age together with the development of information technologies require changes in the entire society. People's needs, lifestyle, and work environment have changed as a result of technological revolution we are witnesses of. The new information society questions many aspects of the traditional system of education. Therefore, changes in the teaching process, i.e. changes in the acquisition of necessary knowledge, skills and attitudes, are inevitable. With the application of information technologies in the teaching process, it is possible to overcome weaknesses of traditional teaching. Information technologies offer a multitude of possibilities for innovations in teaching, which the modern society must use. With the application of information technologies we can improve achievements of all students. Information technologies do not differentiate between those with weaker abilities and those with above-average abilities, but rather, with an adequate application of the code of ethics, give teachers an opportunity to adapt to each student and to attain achievements according to students' abilities. Information technologies enable students to use a larger number of information sources, independent research, as well as testing assumptions. Through this form of work, students are no longer passive observers, but become intellectually active and participate in their own education. With the introduction of information technologies in the teaching process, traditional teaching methods, where teachers and textbooks are the only source of information, are inevitably suppressed. The teacher becomes the organizer, adviser and evaluator, and is required to possess new knowledge in the field of new technologies utilization, with the aim of introducing standards and raising the quality of the teaching process.

For a long time, information and communication technologies have been the present, and not the future which is yet to come. Education without this segment cannot respond to the present demands of the society, because in addition to reading, writing and calculating, the IT knowledge represents the elementary literacy. For the educational system to be successful, one should keep pace with current trends and apply the cutting-edge technology.

**The Chinese proverb teaches us that every journey starts with the first step. We in the Catering and Tourism School in Belgrade can certainly say that the step has been made.**



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## **Manager Of Gastronomy As A Leader And His Contribution To The Development Of Culinary Products Profitability**

**Abstract:** *Kitchen chef should not be a leader who is preparing for paradise in heaven by making life hell for kitchen staff. Reason is not a curse, it is god's blessing. Reason as the ability of a healthy mind to think and make judgments, especially based on practical facts, is responsible for the fate of human civilization. If you are a gastronomy chef, or leader, you must have both your divine and human features integrated with your profession and professional orientation. You must not be strong, powerful, and omnipotent; on the contrary, you must make yourself think not only about your personal interests, but also about the common interests; deny your personal enjoyment when you have to, when circumstances demand that, for the sake of common good. These are the attributes of a wise leader, kitchen chef, manager, who understands that his success and happiness depend on the happiness of the people that he leads, that he is the leader as long as the staff members follow him not out of fear, but out of respect for his personal and professional qualities. A leader should constantly work at improving his own personality, skills, the power of conviction, etc. The ability to manage is a set of emotional energy and phenomena that should be skilfully used and directed towards achieving corporate and personal interests.*

**Key words:** *leader, management, kitchen, kitchen team, skill*

## **Introduction**

“Cooking is science, art, skill. Dear cooks, you are endowed with a remarkable talent; it is up to you to reach a certain level. Work as if you play a game, create a harmony of flavour and aroma, take part in creating wholesome food and thus contribute to man’s health. I have performed part of my mission by establishing the College of Hotel Management. It gives you a chance to become directors, managers, kitchen chefs, leaders, a chance to be important, to be work organizers, and in this way to make a significant contribution to the development of Serbia. As educated people, you have a historic task to reconstruct the foundations, to introduce changes, as often as possible, to plan for a long period of time and to see further than other people.” (Prof dr Milija Zečević, 1974) With these words, the then director addressed a group of graduate students. In a concise way, the quotation states the mission of a modern manager and leader.

Today, in aggressive business conditions, it is only product quality, high service level, flexibility, constant adjustment to the changing conditions and exploiting advantages that may results in enterprise effectiveness and success. This practically means that success depends on people, on their knowledge, skills, and, above all, on their self-confidence.

Each gastronomic enterprise has three basic aims: survival, growth and development. The essence of the aims is to create quality gastronomic product oriented towards the customer and market. In order to realize these aims, in conditions of severe market competition, the enterprise should possess a modern way of management, a powerful leader, reliable and well-trained staff.

Management function becomes more and more complex and significant. Under the influence of new requirements, demands, and pressure, both in the enterprise itself and in the surroundings, old methods of management and administration are being gradually destroyed. What used to be stable, certain, predictable, what demanded little or no creativity, nowadays turns to its opposite, and becomes a specific feature of today’s business environment, namely, unstable market of raw materials, workforce and capital, great risk of business and financial venture, a great demand for constant and growing creativity. Numerous and significant changes are an essential feature of today’s business life. In these conditions, it is not easy to identify someone as a leader and be confident that the person understands everything and that innovations, guidance and self-confidence are their strong point. In this paper we shall focus our attention on studying the

concepts of management and leadership and their specific features as applied to the kitchen environment.

### **Leaders and followers**

Leadership as a notion first appeared in non-economic social theories, and in accordance with the theories, *a leader is a person who, by their words and deeds, influences the behaviour, thinking or emotions of a considerable number of people regarded as followers, or people in general.* These theories do not limit leadership to just political life, but regard it as a relation to the general public and followers. Direct leaders address the public “face to face”, whereas indirect leaders exert their influence through their work or their creations. The leader may influence other people considerably for a long time even after their biological disappearance.

According to Gardener, the main characteristics of a leader may be presented as constants, and include the fulfilment of the following obligatory conditions. The leader must have a central story or message, which should be effective for a large heterogeneous group, or public. For constant leadership, it is necessary to have an institution with its own organizational basis. The creator of the story should be embodiment of the story; he should not be a contradiction to the story basic message. Creative leaders address the public indirectly, through the symbolic product that they create. In this, they differ from political leaders who address the public with their message directly. Direct address is fraught with more risk, but it can be more effective, if it is necessary to influence the public in a short period of time. Only people that have reached a high level of expertise in their profession or work or a high level of credibility in their life have a chance to succeed as leaders. Direct leaders, in principle, lack technical knowledge, whereas the strong point of indirect leaders is actually based on their knowledge of certain matters. As to leaders in the field of gastronomy, in our opinion, they should have both the central story and skills and products.

Unlike leaders, followers are made from an altogether different “stuff”. They are eternally seeking a figure that fascinates them, and numerous followers are constantly migrating, looking for, if not a perfect leader, than a perfect organization or association or society where they may belong. There are cases when chronic followers may become leaders. Some followers are attracted by a strong or powerful idea, others by the leader’s charisma. Charisma may be

physical, intellectual or spiritual. A loyal follower anticipates the deeds of the leader and does what the leader would expect them to do even in a situation outside the leader's control or presence.

It is extremely important, from the educational point of view, to keep in mind that the existence of leaders and followers in a human society is conditioned both biologically and psychologically. However, it is futile to make a leader of someone who is made from a different "stuff". It is believed that the development of the science of leadership will pay more attention to the early discovery of a leader.

### **Management and administration**

According to literature, there are no hard and fast lines between management and administration. According to Theo Haimann ("Managing the Modern Organization"), "*administration means overall determination of policies, setting of major objectives, the identification of general purposes and laying down of broad programmes and projects*". It refers to the activities of higher level. It lays down basic principles of the enterprise. According to William Herman Newman (Administrative action: The techniques of Organization and management"), "*administration means guidance, leadership & control of the efforts of the groups towards some common goals*".

*Management involves conceiving, initiating and bringing together the various elements; coordinating, actuating, integrating the diverse organizational components* while sustaining the viability of the organization towards some pre-determined goals. In other words, it is an art of getting things done through and with the people in formally organized groups. Practically, there is no difference between management and administration. Every manager is concerned with both - administrative management function and operative management function. However, the managers who are higher up in the hierarchy devote more time to administrative function and the lower level devote more time to directing and controlling worker's performance i.e. management.

There are many factors according to which administration can be distinguished from management. Their *nature of work* is different: administration is concerned about the determination of objectives and major policies of an

organization, while management puts into action the policies and plans laid down by the administration. The function of administration is to *determine*, whereas the function of management is to *execute*. They differ also in the *scope of responsibility*: administration takes major decisions of an enterprise as a whole; management takes decisions within the framework set by the administration. As to the level of authority, administration is a top-level activity and management is a middle level activity. Administration consists of owners who invest capital in and receive profits from an enterprise. Management is a group of managerial personnel who use their specialized knowledge to fulfil the objectives of an enterprise.

Management is used in business enterprises. Management decisions are influenced by the values, opinions, and beliefs of the managers. The main functions of administration are planning and organizing. Motivating and controlling functions are involved in management. Administration requires administrative rather than technical abilities. Management staff require technical abilities.

Management is a process of directing people behaviour towards achieving a certain aim. In this sense, to *direct* means to demand that an individual behaves in a certain way or follow a certain direction. The main feature of management is using people to fulfil a purpose (accomplish a task).

### **Management and leadership in gastronomy**

Management in gastronomy makes kitchen chef, manager, supervisor privileged and responsible for directing staff actions in performing the work of the hotel organization. Management skills are acquired and perfected in the course of time. Most people who are talented will succeed if they strive for perfection and improvement.

The difference between kitchen chef and supervisor on the one hand, and leader on the other, consists in the following: the chef or supervisor role is legally determined, whereas the role of a leader can be performed by any staff member. That is why, not all supervisors are leaders, and not all leaders are supervisors.

Leaders play a crucial role in creating product quality. A leader in gastronomy is efficient and capable of making good ideas a reality by uniting the staff's effort and energy for achieving a certain attractive aim. When a chef wants to be a good leader, nothing can prevent them from it. Leaders are responsible for



making progress. They make every effort to enable their team members to do their best. Leaders may take risks, proceeding from the assumption that mistakes, not failures, are possible. Leaders are capable to free people from concepts that block new ideas. Leaders mete out work and idleness, praise and criticism. Capable leaders have enough experience to make a correct decision and solve a problem.

Management in the kitchen does not depend only on the amount of stimulation or pleasant working conditions. The ability of chef supervisor to motivate people is independent of these factors. In order to lead the kitchen team, supervisors should master management skills and should have a strong desire to succeed. They should lead workers by their personal example. They should have a clear picture of what they are trying to achieve. They should be strong enough to overcome obstacles or even to face a failure. Leaders know where they go and why.

Leaders are not born, a person becomes a leader. Management is a skill that can be learned like any other skill. It is wrong to connect management and superiority. In this sense, the fact that you are at the top, does not mean that you are a leader, since management is not a position, it is process. It includes skills and abilities that are useful both for leaders and for rank and file workers. Leaders who influence other people and make them follow them are leaders with certain limitations. Leaders who influence other people and make them do their best are leaders without limitations. Management is not as much demonstration of power as it is educating others. Leaders are able to turn ideas into reality by uniting energy to achieve an attractive aim.

People often confuse the terms manager and leader. They are not the same thing although it is possible to be both. A leader has a vision, which is an idea or an achievable dream. Managers plan: planning is used to enable the manager to do the job well. Leadership is about asking the questions, 'what' and 'why' and empowering people (followers) by giving them the responsibility to do things right. Leaders therefore work with people and their emotions. Managers ask, 'how' and work mainly with processes, models and systems – things.

One of the most famous distinctions between managers and leaders was made by Warren Bennis, a professor at the University of Southern California. Bennis believes that "Managers do things right (in the right way), but leaders do the right things". If you think about doing something right, you think about how to do it. This is a manager's task. Doing the right thing however is a much more philosophical concept. It is thinking about the future, it has to do with

vision and dreams: this is what a leader does. This definition, though popular, is not sufficient and complete. Moreover, it implies that leaders and managers are on opposite sides, which is obviously not the case in organizations, especially if we take into account that every business environment needs a leader and a manager. They are not competitive but complementary. Both are necessary for the organization to prosper. However, strong leadership and weak management may put the organization in danger.

### **Management power in gastronomy**

There are several different types of power in management: legitimate, professional, commanding, forced, and authoritative. Power is acquired in several ways.

- There are situations in the kitchen when it is necessary for someone to take the lead. By mutual agreement, an individual gets such power. The leader takes control.
- Special activities in the kitchen require a leader. Most often, it is the kitchen chef, a person with the most experience and skill. Experience and skill are the basic factors for promotion.

A title may promote a person, but it does not automatically mean that a manager, kitchen chef or supervisor is able to be a leader and take control. If the chef's authority is based only on the formal title, it is highly probable that the person will not be accepted in the collective, that morale, as well as productivity, will be on a low level, and that a high turnover of staff is likely to take place.

Consistent management on behalf of the kitchen chef is achieved by a combination of above given factors. A real leader is a person that people wish to follow because they believe that person and respect the person as an individual.

Improving management skills is a process of self-development. It is facilitated by education, experience, practice. The success of the kitchen chef depends on the source of authority and the workload. The better his or her management skills are, the higher are satisfaction and productivity of the kitchen staff. Management skills in the kitchen presuppose: creativity, trust in one's own abilities, good social skills, ability to make decisions, trust in kitchen staff, the wish to develop skills in other people, the ability to motivate people, a leisurely way of giving orders, the ability to take a well-measured risk. These management elements

are necessary for the staff to have confidence in the kitchen chef, to be sure that his or her orders are sensible and have a clear aim. A trustworthy kitchen chef is the essence of management, thanks to which the atmosphere of productivity is created in the kitchen. Management presupposes openness and sincere communication, the feeling of commitment and community.

Education and experience develop self-confidence, which helps kitchen chef to face management challenges. Those with the lack of self-confidence signal the team that certain tasks are beyond their power. Consequently, these make bad leaders.

William Cohen noted: “the first way to develop self-confidence is to become an informal leader”. There are numerous occasions in the kitchen when an individual becomes a leader. Some become a leader by studying a situation and offering their help in finding solutions or doing things. Others treat their colleagues and employees with respect, selflessly teach them, offer help, as among the kitchen staff, there are always members that need help, and thus acquire their colleagues’ trust. Still others become leaders by perfecting their skills, as a high-skilled person is also a source of authority.

A rational, clever cook does not wait for orders from the above level of management, as otherwise the leader’s potentials may be blocked. On the contrary, he or she takes control of the situation and of the staff and leads them to the realization of the greater aims. That is why it is not necessary to have a formal title of a leader in order to become leader. Leadership is, at most and above all, the process of self-development, taking responsibility.

There are two ways of making people do what you wish. You may convince them or you may force them. How do we know that someone is a good leader? Simply by asking a question: do the people follow the leader because they have to or because they wish? Convincing people requires that a leader knows human nature, or, to be more precise, knows what motivates people.

Good leaders actively create mechanisms and symbols that remind the team that they take care of the human side of gastronomy. Among the actions that support these efforts are the following: occasional social gatherings, recognition of individual and team achievements, giving full publicity to such achievements, creating an internal motto of the team, encouraging a mild competition spirit

among the team members, etc. Trivial as they may seem, these things are very important, as they stress the human side of the business.

Max de Pree in the book “Leadership is an Art” enumerates features and behaviour that most people resent in leaders. These are: the quality of being superficial, lack of dignity, being unjust, arrogance, betrayal of the quality principles, treating guests as transient objects, relying on policy and hierarchy and not on skilfulness and trust. A cold, rude, arrogant and egocentric manager, just as a person with lack of openness for new and different ideas, or a person with lack of responsibility for achieved (or not achieved) results cannot be a real leader. Getting rid of these flaws presupposes increasing emotional intelligence. Technically, it is necessary to organize a correct and exhaustive feedback and use its results.

## **Conclusion**

Management in the kitchen as a part of a complex process makes the kitchen chef privileged and responsible for directing actions and deeds of the staff team in order to achieve the aims of the hotel organization. Management skills are learned in the same way as cooking skills. Improving management skills is a process of self-perfection. It is facilitated by practice, education, experience.

Gastronomy management cannot be reduced to decision-making. It involves convincing, motivating, and influencing people with the aim of implementing the decision. Management presupposes great knowledge, abilities, experience, and skills, respect and trust, as well as teamwork.

A good leader tries to study incessantly and strives for self-perfection. He or she defines their strong and weak points and tries to get rid of the weak points by making a plan and following it.

A good leader takes responsibility for their deeds. As soon as they notice a problem, a leader does not wait for others to solve it, does not say that it is none of their business, but looks for ways of solving the problem. When a leader makes a mistake, they admit it, accept the criticism and find ways to correct the situation.

Unlike management, leadership is an emotional phenomenon. That is why it is necessary to have a feeling for emotional needs of the team. A good leader encourages and awards every risk taken for the sake of achieving the common aims oriented towards the product and the guest.

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## Food As A Form Of Branding Serbian Rural Destinations

**Abstract :** *This paper examined the identity of food in relation to Serbia as a rural tourism destination. Tourism brochures, booklets and food packaging were assessed. Compared with others rural destinations which make extensive use of food as part of its core positioning statement, Serbia makes little reference to it, even though its indigenous cuisine is unique and rich. The findings imply that when using food in destination marketing, some expertise and knowledge are essential not only in marketing destinations but also in local and international cuisines as well as in socio-cultural characteristics of potential tourists. In case of Serbian rural tourism, food can be used as a form of destination brand identity and become a powerful means in building a destination brand.*

**Keywords:** *local food, rural tourism, destination marketing, identity and branding.*

### Introduction

Over the past decade, the ever-increasing competition between tourism destinations has led to the development of more appealing attractions to catch the attention of prospective tourists. Many destinations have used food as a source of attraction in strengthening their tourism marketing. For instance, the ‘ Taste of Wales ’ initiative has successfully promoted local food and food products, thereby giving a boost to the hospitality industry throughout Wales ( Jones and Jenkins, 2002 ). Australia has tried to integrate food tourism with travel destinations across the continent ( Cambourne and Macionis, 2003 ). The Niagara Region, Canada, has developed ‘ Niagara cuisine ’ as a new tourism product ( Telfer and Hashimoto, 2003 ). Henderson (2004) indicates that the characteristics of Singapore ’ s geography, history and modernity are evident in its food and that those same characteristics have become a selling point for the Singapore Tourism Board.

All of these examples demonstrate that food is directly or indirectly connected with specific destinations; it encourages tourists to taste and experience a region ’ s cuisine. More importantly, researchers indicate that food can be used as a means of marketing and branding a tourism destination.

### Relation of food, tourism and rural destination

The extant literature on brand management and tourism-destination branding states that a clear and consistent identity is the basis of building a strong brand ( Aaker, 1996 ). Explicitly, the strength of a brand is determined by the consistency of various brand-identity components. The notion of ‘ identity’ in the



corporate context concerns the attempts of a firm or an organization to identify itself and convey its uniqueness and symbolic meanings to all consumers, stakeholders and the general public (Nandan, 2005 ). Brand identity usually serves to distinguish a product, service or organization from its competitors and to make consumers more loyal. In accordance with the brand-identity concept, Morgan *et al* (2002) indicate that the core values of a tourism destination brand should be established and that the representative elements of a destination need to be clearly identified in building a successful destination brand. Cai (2002) further asserts that the elements of a tourism destination brand should be unified in forming a consistent, unique and strong destination brand identity.

Recently, it has been argued that a unique and memorable ‘ food identity ’ can contribute to the sustainable competitiveness of a destination ( du Rand and Heath, 2006 ; Fox, 2007 ). Hashimoto and Telfer (2006) point out that the food of a specific place is essential to its success as a tourism destination; and they examine the relationship between Canadian identity and Canadian cuisine to identify potential branding strategies for the nation ’ s culinary tourism. According to the Annual Survey Report on Visitors ’ Expenditure and Trends in Taiwan( Taiwan Tourism Bureau, 2008 ), food is the main reason why international tourists visit Taiwan. More than half of the inbound tourists came to Taiwan because of its food (cuisine and fruit), and about 60 per cent of them sample local delicacies in the night markets, for example, oyster omelets, stinky tofu and pearl milk tea.

With the growing role that food plays in tourism, many researchers have devoted time to the study of the relationship between food and a specific tourism destination, such as food tourism, culinary tourism and gastronomic tourism. Hall and Mitchell (2001) define food tourism as ‘ visitation to primary and secondary food producers, food festivals, restaurants and specific locations for which food tasting and / or experiencing the attributes of specialist food production region are the motivating factor for travel ’. Long (2004) defines culinary tourism as ‘ the intentional, exploratory participation in the foodways of another – participation including the consumption, preparation, and presentation of a food item, cuisine, meal system, or eating style considered to belong to a culinary system not one ’ s own ’. Regarding gastronomic tourism, Santich (2004) posits that it is ‘ tourism or travel motivated, at least in part, by an interest in food and drink, eating and drinking ’. Santich further states that gastronomic tourism is about participating in another culture, associated with a particular place and people. According to these explanations of the use of food in tourism, it is apparent that food has the ability to enhance the sustainability and the authenticity of a destination, strengthen the economy of a place and establish the hospitality of a region ( du Rand *et al* , 2003 ; Everett and Aitchison, 2008 ).

Food is often intertwined with the social, cultural and natural characteristics of a specific region, and therefore carries a large number of symbolic meanings ( Lockie, 2001 ). As a result, food has a strong connection to a place. French wines, Italian pasta and Cajun cuisine are good examples. In light of this fact, the

distinctiveness of food in relation to a place plays a significant role in a destination identity.

With respect to the use of food-related subjects in destination awareness, Sparks *et al* (2001) and Sparks *et al* (2003) emphasize the significant contributions a restaurant can make to a tourism destination. They highlight restaurants as an important component of tourist attraction, which may influence tourists' behaviour and overall satisfaction with a destination. More specifically, local restaurants can become a part of destination image held by tourists. In addition to restaurants, local food shops, food and beverage outlets, wineries and farms have also been considered tourist attractions ( Hall *et al* , 2003 ; Long, 2004 ). Jacobsen and Haukeland (2002) then conclude that three major factors may influence tourists' selection of eating-places while traveling. These are the physical standards and ambience of the eating places, the quality of food along with the accessibility of the food service locations and the human factor, such as service quality and friendliness. In addition to food-related establishments, food-related activities (for example, food-related festivals and exhibitions of agricultural products) allow food to be treated as both a commodity and symbol, which can provide a meaningful experience for tourists ( Long, 2004 ).

Some of the authors who have studied the complementary of local foods, tourism and rural destinations are:

TOPIC	SUB TOPIC	PUBLICATION
Local food and tourism	Rural development/rural tourism	Renko, Renko, & Polonijo, 2010; Sims, 2009, 2010; Vaz, Nijkamp, & Rastoin, 2009
	Authenticity Social effects Rural cultural heritage Food tourism  Wine tourism  Culinary  Organic agriculture and agri-ecotourism	Sims, 2009 Everett & Aitchison, 2008; Brandth & Haugen, 2011 Szlanyinka, 2009; Ohe & Ciani, 2011 Hall, Sharples, Mitchell, Macionis, & Cambourne, 2003 Hall, Sharples, Cambourne, & Macionis, 2000; Kim, Yuan, Goh, & Antun, 2009  Montanari & Staniscia, 2009 Horng & Tsai, 2010;  Kuo, Chen, & Huang, 2006
Rural tourism  Economic effects of local food and tourism	Differentiation of tourism destinations Food consumption by tourists  Backward economic linkage  Hedonic pricing approach	Bélisle, 1983; Ohe, 2008; Telfer & Wall, 1996 Haven-Tang & Jones, 2006  Kim, Eves, & Scarles, 2009; Skuras, Dimara, & Petrou, 2006 Telfer & Wall, 2000  Ohe & Ciani, 2011
Economies of scope	Agricultural and rural field	Azzam, 1998; Chavas, 2008; Chavas, Chambers, & Pope, 2010; Fernandez-Cornejo, Gempeasaw, Elterich, & Stefanou, 1992; Hartarska, Parmeter, & Nadolnyak, 2011; Melhim & Shumway, 2011

## **The potential of rural tourism in Serbia**

Analysis of rural tourism in Serbia has shown that it is already contributing to the rural economy, and has great potential for further development. In some parts of Serbia he diversifies the rural economy with good examples of integration of rural tourism and agricultural products. In rural areas there are more than 32.000 beds of which 10.000 exclusively rural. Rural tourism generates significant revenue. An estimated total of 10 billion revenue from rural tourism. (5 billion USD of income derived from accommodation and about 5 billion USD is direct revenue). This represents 16% of the total USD 62 billion of direct tourism GDP, which is in Serbia in 2010. calculate the WTTC (Master Plan for sustainable development of rural tourism in Serbia, 2011). Clear perspective of this form of tourism can be seen in the tourism master plan that put a stress on rural tourism such as: Mountain areas (eg Old Mountain), lakes and rivers (eg, Upper and Lower Danube), cultural resources (eg, the Roman emperor) and spas (eg Sokobanja). And besides all this Serbia has many and diverse natural and cultural resources with high potential such as internationally recognized resources (StaraPlanina candidate for the UNESCO-MAB), Felix Romuliana (UNESCO World Heritage Site) and Golija Biosphere (MAB UNESCO list); traditional festivals, local events, local pub and village.

Branding a tourist destination can be very complex. In the case of rural tourism, rural destination could be branded, or it could be products, services and employees, given they create key benefits in interaction with customers, so that rural product of Serbia represent a mix of brands.

Branding is the process by which tourist organizations try to create desired perception of a tourist destination as a specific product, as well to encourage consumers to associate the country with a tourist destination. It is a process by which a country stands out and individualize its offer compared to the offer of competing countries.

The brand consists of a name, phrase, symbol, logo, design, and a combination of all these elements which helps to recognize the product, and as means of differentiation from the competition (Kotler, Bowen and Makens, 2005). Branding is actually giving power of the brand to specific products and services. Branding is based on making a difference. To brand a product, it is necessary to instruct and educate consumers. "What" is the product, "what" is achieved by using different elements of the brand, and "why" consumers should pay attention. Branding involves creating mental structures and it helps consumers to organize their knowledge about products and services in a way that will clarify the decision.

Branding a tourist destination means communicating the values, vision and mission to the staff in various tourist organizations, to the country's population and its tourists. A brand is more than a product or service and must not be a promise

that can not be achieved. People who promote the development of certain forms of tourism have to be responsible for promoting and ensuring a favorable brand image. It is achieved by developing awareness of the destination, then knowledge, as someone who is aware of the existence of rural tourism in Serbia need not to know anything about its tourist offer.

Introducing a consumer with the tourist product aims at creating good feelings and preferences, as one country could be liked by tourists but not the preferred one compared to competing countries. In order to build consumer preference, consumers must be introduced to advantages of the country, that will lead to decision to visit it.

Marketing advantages that each destination can achieve from branding include the following (Kotler et al., 2005):

- Tourism product is easy to identify and differentiate thanks to brand;
- Global brand increases the range of tourism product acceptance, by agencies and tourists;
- The reaction of consumers to the price increase is more inelastic;
- The reaction of consumers to the price reduction is more elastic;
- Simplifies the selection of products, reducing the risk when buying and provides emotional benefits;
- More effective marketing communications;
- Less sensitivity to competitive marketing actions;
- Increased loyalty.

For a destination to become a brand, it is necessary for all tourist organization to participate in the process of branding, national, regional and local, as well as to establish cooperation with all stakeholders. Attention must be paid to the following activities: infrastructure development, tourism product development, protection of natural environment, changes in organizational culture and promotion. In order to identify the needs and wishes of consumers, it is necessary to continuously work on market research. Other phases are: development of brand identity, brand launching (introduction), brand implementation and monitoring, evaluation and revision of the brand (Morgan, Priitchard and Pride, 2006).

Brand as a reflection of quality needs a developed quality system. It is necessary to invest in accommodation facilities, security, traffic control, sanitary services, public services. The villagers and homeowners must be educated when it

comes to tourism. For a Serbian village to create a positive image, it is necessary to establish contacts with visitors, with employees and population of tourist destination, because an image must be created from within. Employees must be ambassadors of positive impressions and they must believe that the performance of their tourist product is authentic. Only then can visitors enjoy a unique and unforgettable experience which can not be experienced elsewhere. It is necessary at the same time to create a product and build an image.

Branding should provide a new dimension to brand identity, connecting with people on a personal, holistic level, where in addition to closeness, pillars of branding are sensory experience, imagination and vision also. While creating a brand image of the village, one should know that the brand represents a set of strategic ideas arising from personal fascination and personal fantasies, such as social interaction, aesthetic experiences and events. To build the image of rural destinations, it is necessary for them to possess the appeal that will keep travelers at least several days. Passengers should be allowed to continually explore things, which would consist of linking rural tourism with other forms of tourism such as wine, mountain and spa tourism.

Numerous studies show that the country's image significantly affects the re-visit of a certain destination. Many have rated this factor as one of the most important when making decisions on re-visit destination. Other factors include: natural beauty, climate factors, traffic connectivity, security, etc.

The rich cultural heritage, hospitality of people, healthy food, wine tours, fresh air and much more, are just some of the attractions that have not been used in sufficient scale in designing the image of rural products. Image of Serbia as a tourist destination hasn't been built adequately, which may have a negative effect on creating the image of Serbian rural tourism.

## **PRODUCT PORTFOLIO IN RURAL TOURISM**

The term "tourism product" can be used just conditionally, since it includes a series of partial "products" (different products) used by tourists to meet the needs, in their discretion. The main part of the "tourism product" includes services. Most of the total tourist expenditure is attributed to various services and only a small part to the material and tangible products. Other spendings include pure services such as transportation, guides, excursions, treatments, cultural events and so on.

Tourist destination product is a set of tangible and intangible elements, which, as a combination of attractive, receptive and communicative factors, could meet the customers needs and desires of tourists, choosing the right combination of these elements in their own discretion.

Rural tourism is usually the second or third holiday, and lasts longer than 10 days. The product is very seasonal, with demand peaks in spring (March - May) and autumn (September - October). It is highly price elastic.

Many authors believe that every rural tourism destinations should have their product portfolio consisting of attractions that could be "seen", attractions that could be "bought", and attractions in which you can "participate".

- attractions that could be "seen" are primarily passive; they mainly include tours of local sights, monasteries, traditional houses, historic places.

- attractions that could be "bought" are part of rural products which are tangible, and visitors could take home: souvenirs, food and drink. These last two categories are particularly important in realizing the economic benefits, in expression of local identity, and in creating the vital network-market of farmers, shops selling local products, village fairs and tours of food and beverage suppliers.

- attractions in which you can "participate" can be hiking, horseback riding, bird watching. Market niche here may be represented by creative workshops and schools of painting, sculpture, yoga (Hall, Kirkpatrick and Mitchell, 2005).

Product portfolio in rural tourism could be composed of specialized products being specialized, which is the most common case, or of "tailor made" products, where visitors can create their own offer (product mix). For the organizers of these trips, specialized product is much more relied on existing market segments, allowing to focus on the image of the destination itself. Increasing the line width and depth of rural products can include many segments of consumers.

Since the rural tourism relies mainly on domestic tourists, following steps are necessary to ensure long lasting development of this product:

- Development of a central reservation system in rural tourism at the destination (country, region) level, and subsequently connecting to the rural tourism booking systems of Europe;

- Creating a system of standard offers of rural facilities (quality housing, food, staff, putting bids on the Internet);

- Create a calendar and schedule of local events, festivals and events, aimed at promoting domestic sales;

- Initiation of inter-regional (and / or cross-border) cooperation;

## **SEMIOTIC ANALYSIS**

In marketing, communicating with consumers relies on so-called semiotic analysis. The application of semiotics in branding is of great benefit due to the fact that all signs and symbols in the environment are consciously or unconsciously interpreted by consumers, where the meaning of things is created depending on their socio-cultural experiences and traditions. Brands are positioned and brand image is built using characters, image, and consumers develop positive or negative attitudes that affect the purchase (Hall et al., 2005).

With all attempts to convey intangible qualities of material culture, analysis of the meaning of advertising is not an exact science. Opportunities for rational and convincing interpretation of messages are numerous, which makes no version everlasting. In a case of rural tourism, the subject of semiotic analysis are controlled messages and symbols, designed to project the image of rural areas to potential consumers and stimulate connection and desire for visit. The interest, in addition to signs that promote a specific place, should be based on identifying and interpreting values and myths of rural, but also the wider political, economic and cultural context, in which these meanings are created and consumed.

Semiotic analysis is used primarily to identify the type of product or service to be offered in market. Then the entrepreneur or tourist organizations choose to select the logo that marks a specific product or destination (as a visual element of the Serbian village, some of the motives of the handworks that would become universal for the total of Serbia could be chosen). Also, it is important to associate the sign of the product and the way it is perceived by consumers.

In Serbia, certain chaos in the promotion of villages could be observed. Non-existing printed material in many cases is just the beginning of the problems we are dealing with, when it comes to promotion. What is the bigger problem is that we have shortcomings with the placement of our services when the online promotion, as a far cheaper form of promotion.

Each rural tourism promotional material should include written text, images, but also slogans (short phrases pronounced by attractive font size, position or design) and maps. Most promotional materials of rural areas of Serbia applies only to rural households (mainly accommodation and breakfast, specialized shops selling souvenirs and local products) rather than pointing to the possibility of using offers from a wider environment.

Slogans and logos are the two most common techniques used to establish the image and identity of a product (in this case the destination) in the minds of consumers.



Like any system of signs, these systems often have a second or even more meanings, besides the literal meaning of which particular care should be taken when positioning in foreign markets. Slogans should be short, simple and easy to remember, but first of all they should captivate consumer's attention and arouse strong positive impressions with branded destination.

Analyzing the propaganda of rural areas in the United States, one could come to the conclusion that there are at least four dominant themes i.e. code in the promotional slogans (Butler, Hall and Jenkins, 1998):

"Environment" - nearly half of slogans (45%) have been using this theme that can be divided into three specialized code: the experience of place, nature and landscape. Rural areas offer an experience of "fun", "discovery", "satisfaction", "magic" and "much more to explore". Natural connotation is conveyed by labels that include "land, water, air and fire," "sand, sun, snow", while the landscapes are full of "wild", "resources", "Wonderland".

"Ideal Community" - 26% of the slogans have been ideal community as a promotional theme. Tourists are invited to "come to the village", "to relax and enjoy" in "friendly community" where "you come as a guest and leave as a friend."

"Location advantages" - going to the village has its advantages, according to 15% of the slogans. Some of them let you know that you are "in the economic center", "the cradle of country music" or "where the fun begins".

"Legacy" - the historical identity have been stressed in only 14% of rural communities, using phrases like "turn the clock back in time", "return to childhood", "discover the best of your past".

They have also been using 4 groups of symbols in branding their rural areas: symbols that represent 64% of the natural environment - there are wild animals, trees, water, flowers and vegetation, insects. Symbols which represent the legacy 20%, of historical buildings, ancient objects, tools, ancient clothes. Symbols related to agriculture 16% - grains, livestock, farm tools, rural buildings and recreation 12% - sports equipment, cars, camp fire.

## **THE ROLE OF ATTRACTIONS IN BRENDING OF RURAL TOURISM**

Attractions as a set of elements inside destination environments, which serve alone or in combination as the main motive for visiting tourists, represent just one of several components of tourist system. Other components include: an informational component that includes a greater emphasis on promotional mix and other information affecting the demand to be directed to offer; features of the tourists, their cultural level, seasonality of tourist traffic; traffic infrastructure and housing, food, fun, entertainment and so on.

Rural manifestations events are not just a product, but also experience and enjoyment that affect the tourists to feel like part of the story. The main characteristics of the events are following: limited in duration, occur rarely or only once, offering social experience, they are unusual, raising awareness of the region, creating a positive image and attract tourists and thus affect the development of tourism in general (Bodwin, Allen, O'Toole, Harris and McDonnell, 2007).

Rural manifestations and their organization have a very important role in the economy, culture and the promotion of rural areas. Organizers of such events can use many tactics to cover their costs, such as sponsorships, rental of advertising space as well as space for displaying, selling food, drinks, souvenirs, etc.. But if you compare all these events, small number of them have a primary role to return money to the organizers but most of them helps to attract tourists who otherwise would not have opted for this form of tourism. Various activities throughout the year help in overcoming the problem of seasonality.

The events which can be organized regardless the season are: schools in the countryside, exploring old tools, sports competitions, animal feeding, farm sightseeing and walk through nearby forest. Most people engaged in organizing events instinctively knows or quickly learns that all local events should be based on existing cultural and natural resources because they are a strong foundation for creating a strategy of one place branding.

Since ancient times there were wine roads going through our country as well. In recent years, small wineries are popular, that addition to production of wine possess cellars for tasting and drinking wine, a few small apartments, homemade food accompanied by the flavor and aroma of wine. This is an interesting model for which the state is interested as well, as higher education institutions, for placing on the domestic and foreign markets. In mid-September in Vrsac, "Days of vintage" are organized, accompanied with competition in the trampling of the grapes, selling exhibition of grapes and wine, as well as competition for the best vineyard.

Although most of the events is used to support the existing image of the village, creating a new event would be an effective way to create a new image of

this region in the minds of urban consumers. This would greatly impact the positioning of rural products in urban markets. In the promotion of such events and destinations, we could use the help of foreign countries practice that know how to make the interesting from the simplest facts, especially when it comes to the hometowns of celebrities. Such festivals are Glenn Miller of Iowa, or Judy Garland Festival in Minnesota.

In addition to celebrities, we can use many other subjects, the Festival of White daisies could easily be started, so the Avala tower gatherings, as the Miroč mountaing gatherings became popular, or religious gathering, Lady of Medjugorje, in Croatia.

### **ATTRACTIONS THAT COULD BE BOUGHT**

Our country has a significant rural eco resources upon which healthy organic food could be successfully produced. Representatives of Ministries and the National Association for the development of organic production, "Serbia Organica", agreed that the Serbian demand for organic products is growing, but the future of the industry lays in exports to European markets. Natural food without chemical additives are not found in all parts of Serbia, because only a small number of stores in Belgrade and Novi Sad in its range has products of organic origin.

Food from organic farming is presently produced on 2400 acres. There are about 80 registered organic producers in Serbia. The largest portion, almost 90% of organic products from Serbia is directed to export markets of the European Union, United States and Japan.

We live in difficult and turbulent times and have less and less time to think about ourselves, the environment and food we use in our diet. Only when the damage to our health is recognised we begin to understand what we lost and how it is difficult to recover. Village and rural areas offers tremendous opportunities, not only to improve our health from time to time, but to permanently bond ourselves to the rural eco pantry. In the developed world, there are concepts of healthy foods relied mostly on food production in rural and attested areas.

Such food could be bought in supermarkets and is often called organic, eco or healthy, natural food, green treasury etc. Some hotels invest in advance for certain biocultures at certain hosts, and thus promote a healthy natural organic food that is served in their hotels.

The state should use credit policy, low interest rate loans and grants to encourage and help rural people in the controlled production of healthy food with the application of HACCP. Mediation of state institutions between the hotels and

producers of organic food on the other side would be very important, which could be best seen in the example of Greece (Skuras, Dimara and Petrou, 2006)

In branding of these products, retail environment as well as their packaging is of great importance. Generally, the service environment includes external and internal appearance of buildings, with additional furniture, equipment, etc, but also the spirit of people indoors, and a host of other factors. Service ambience plays an important role in facilitating service delivery activities. The service environment should provide information to tourists on services offered. It also plays an important role in the socialization process of employees and visitors, communicating the expected behavior, roles and relationships between employees and guests.

The service environment represents at the same time a kind of service package, and should be designed to affect the image of the product, but also to cause sensory and emotional reactions. The service environment serves to differentiate the company from the competition or similar centers. It should also affect the socialization of consumers, enabling them certain roles, behavior and relationships. There are numerous elements that affect the spirit. environment, the most important are: music (eg faster tempo and louder music raises the level of vibrancy and activities of people), smells (a strong influence on mood, emotion and evaluation, and purchase intentions and behavior in the store), color (warm and cool colors have different effects on consumers), temperature, lighting, noise.

Retail space with farm products should be inspired with rural motifs and consistently reflecting the brand image. Purchase of rural products can easily become a family entertainment and an unforgettable and exciting experience, if consumers are enjoying what they see, smell, hear and feel. It is very simple to organize branded entertainment playgrounds, such as small farm with cows, pigs, chickens and other animals near the parking lot, which would be the attraction for kids and parents. It is possible to play original cartoons where they the addresses of rural households from which products come could be read.

The whole environment should provide great credibility in terms of freshness of products, so consumers could enjoy a variety of flavors, and be served with coffee, juice, or buy some traditional Serbian food at the kitchen that exists inside the store during their tour. Thes eshops should be focused on providing what is usually related to Serbian village products: quality, freshness, abundance, and a friendly atmosphere.

Good packaging of rural products is necessary for several reasons. In addition to marking and shortening the time for seeking such products, it should establish sensual relationship with the product also. Its design should be such to emphasise

itself on the shelves, and thus increase our expectations and even force us to think about buying this product category.

Budgets for advertising these products are very small so packaging is the element that will attract customers' attention.

To be functional, it should enable the product:

- Easy visibility and recognition
- informations
- To create emotional needs and
- Provide product protection, shipping, handling and storage until use.

The current packaging design of rural products generally looks the same. Besides the basic functions to protect the goods from the farms to shop, and provide the relevant product information (weight, composition and product bar code) it must also tell a story which will create an emotional dimension to the brand.

New living trends such as the environment, humane treatment of animals, caring for the environment, healthier lifestyles and increasing need to explore new products support the branding of healthy foods and transmission of sensory and emotional message through interesting packaging.

## **CONCLUSIONS**

The positioning of Serbian rural areas in the world market implies the existence of a quality tourism product, design of a communication strategy that would make the tourism product become recognized as the tourists prefer it over other competing destinations. Therefore it is necessary to keep in mind that food image is one of the important factors in creating a destination brand. Branding this form of tourism means communicating values, mission and vision to tourists.

For Serbian gastronomy offer to become a brand, it must cause a feeling of credibility of its own quality. The main limiting factors for effective marketing of culinary and agricultural products in international market are: poor rural product range, strong fluctuation in product quality and lack of any controlling, packaging are becoming very important, lack of long-term contractual relationships between farm and food industries. On the other hand, the production of rural products achieved significant role in employment and national income and this activity should be a leader in rural regions. The brand must fulfill and surpass all expectations of guests - related to products / services, and experiences that awaits them, as guests should always be surprised with little things. Branded destinations or products are synonymous with certain quality. Satisfied tourists could easily re-opt for a rural household, where loyalty allows predictability and certainty in demand. It is necessary to ensure good and continuous communication that will give tourists a good reason and clear explanation of reasons why they should choose Serbia, as a rural tourism destination.

The brand should be always represented through visual identities such as logo, slogan, promotional material, internet presentations, etc. The positioning of Serbia as a relatively new rural tourism destination should always emphasise the belonging to the rural tourism products, tourist product of Serbia, and then point to the diversity of its elements compared to competitors in the region.

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**MR. MOMČILO STOJANOVIĆ**

Momčilo M. Stojanović was born in Batocina on Aug. 26, 1954. He is married and father of two grown up children. After completing his studies at the Higher Hospitality School, during which he was sent to attend a seminar in Switzerland, the school principal sent him to a three-month professional training in France. Upon his return, he got the job with the school where he is still employed. He graduated from the Hospitality Faculty in Opatija, Croatia, at the department for hospitality and tourism. He completed the specialist training by passing the vocational exam at the Novi Sad University Faculty of Sciences. After that he completed postgraduate Master of Science studies with the same faculty by defending the thesis Planning, Organizing and Implementing Training in Hotel Business, and won the academic title of Master of Science.

Mr. Stojanović has been working for 35 years with the Higher Hospitality School, out of 39 years of his total work experience. During that time he was engaged in different tasks and jobs, most of them connected to teaching, starting from an associate demonstrator to the professor for subjects of Restaurant Business and Catering, which he is still teaching. He has been a coordinator of practical training for years. During his professional career he has also been involved in some social activities including cooperation with other professional organizations and restaurant businesses, aimed at promoting the profession, which he himself has given a substantial personal contribution. He cooperated with Ugoprogres (now Hores) company, restaurant business Mladost Turist Ltd. – “M” Hotel, Unija, Tri Grozda, Metropol, and Visnjica.

The Belgrade Tourist Association appointed Mr. Stojanovic a member of the working group for drafting the Rules for categorizing hospitality facilities. At the initiative of the Belgrade Labor Union and the Association of Serbia Caterers, he was hired as a member of the jury at caterers’ gatherings in Zlatibor, Vrnjacka Banja, Herceg Novi, Novi Sad, again Zlatibor, and Kopaonik for several times, as well as Kladovo and Kragujevac. He participated in Barflam Fest, Jahorina, in 2001, the event which was organized under the auspices of the Republika Srpska Chamber of Commerce aimed at the topic of the Completing the preparation of a meal in front of guests, when he presented his manual that he had published just before that. He has also published his professional papers in the Hotel Link professional magazine for hospitality theory and practice.

Momcilo Stojanovic has been involved in the mentorship process in preparing students for international competitions organized by AEHT, organized in Bled, Slovenia, 2010; The Hague, the Netherlands, in 2011; and in Ohrid and Skopje, Macedonia, in 2012.

## The Development Restauration Business And Hospitality In Serbia

**Abstract:** *This text is based on a lot of data that is related to hospitality (hotel and restaurant business) development in Serbia as well as the rest of the world, especially from the aspects that had the most influence on the development of the hospitality in these parts of the world. A part of the text is pointing out the importance of education, because only a human who knows a lot can strive to the success.*

*Therefore, this text is explaining everything that is important for the development of hospitality from its beginning, with the accent given to the actions that need to be taken in the future, so that the hospitality is placed in a position where it belongs.*

**Key words:** *hospitality, restaurant business, hotel business, services, development, Serbia.*

### Introduction

People migrations from the place of residence for different reasons are as old as human society. People used to travel individually, with their families or in groups for different purposes, mainly familiarizing with the surroundings. At the beginning people would take journeys for trading goods, later-on those journeys developed from trading and business character into tourism character. During journey people are staying away short or long periods of time from their places of living, therefore they need to be provided with accommodation and food for that amount of time. Throughout history people used to satisfy those needs in a different ways, which had its influence on hospitality development.

This text is explaining what it was like, what it is like now and what do we expect hospitality to look like in the future. After reading professional literature, making different analyses and collecting statistics, I've got to a conclusion that hospitality and tourism industry have a great potential in helping the development of economy in Serbia, therefore we need to develop a study and strategy for future development of Hotel and tourism industry in Serbia. Considering that personal contact with the customers is mostly involved in hospitality it is important to hire large number of employees, which affects standards of living and the level of the economy in the country.

### **Definition and Types of Hospitality**

Hospitality is a large and very important part of the Tourism Industry. Hospitality takes care of preparing and selling food and drinks in a professional manner as well as furnishing and hiring accommodation. Hospitality divides into two sections, the first one is accommodation section and the second one is restaurant services. These two sections provide services which have a very long tradition, depend on each other very much, have national significance and can have seasonal or all year character, etc.

Hospitality has a very important significance on tourism industry and travelling in general.

Basic services of previously mentioned activities are various and they depend on guests' needs and wishes. All additional services depend on the complexity of facilities that are offered during the stay in the hotel are important for the residents of the hotel as well as walk-ins.

### **Historical View of the Hospitality**

Development of hospitality (hotel and restaurant industry) was throughout the history in line with the economy, politics and all social events, therefore it has marks left from the development of the human society that had its influence through the centuries. Its beginnings reach long time in the past, from the first economic formation- the first human society.

The first time when the humans had spare product that its society couldn't spend, and needed something else, they have developed need for travelling and exchanging goods with the other communities, also having to be accommodated and fed. Consuming food and taking accommodation were the first examples of hospitality which led to first hospitality facilities. Initially those services were free of charge.

Further development was in a very close connection with the way that people used to live, with their various needs, development of infrastructure, modernizing of transportation, development of the economy and culture, etc.

Hospitality services that were provided in the old days to the travelers that were coming from afar, were gradually evolving into hospitality industry – catering. These services started to be charged for, at the beginning by exchanging goods – accommodation for some other product, later on for money.

An organized provision of hospitality-catering services existed in ancient times in numerous organized societies-states: Assyria, Babylon, Egypt, Rome, etc.

Depending on a state they used to be called different names also having slightly different levels of service provided within.

The Romans had the best organized network of catering facilities, because of their military and trading needs. There are some traces of their culture and residence in most states that they have conquered. Undivided attention was also paid to the beneficial effect of these thermal and medical waters, which affected the development of thermes and spas for vacation, recovery and medical purposes. Some of them exist in Serbia even today frequently visited and very popular (Vrnjacka, Sirijanska, etc.). The Romans also had a huge influence on gastronomy and catering in general because of their large food and beverage consumption. War pace after the fall of the Roman Empire, made roads unsafe, so there were no safe places to stay. French king, Carlo the Great, gave order that all monasteries had to take in all passengers that needed a place to stay. That is how the Hospice was made, the facilities where passengers used to get food and accommodation free of charge, which would later on develop into the facilities for the ill and helpless (Hospitals) how they are called even today.

Returning to the nature is very important part in development of hospitality-catering, whose beginner in Europe was French philosopher and writer Jean Jacques Russo during XVIII century. He was climbing the Alps several times to and around Genève's lake which is one of the most attractive destinations today.

With the development of the rail, possibilities for mass traveling increased, becoming cheaper than others, later on supplemented with catering (food, drink and accommodation) offer.

Today we have a large number of international organizations promoting Tourism and Hospitality. United Nations announced 1968 The Year of International Tourism, twenty years later EEU did the same in 1992.

### **Development of Hospitality Industry In Serbia**

Serbia is a European country situated in the Balkans, with the Sava and Danube rivers, also situated at the crossroads of very important international roads, different cultures, religions, etc.

It is a rich and beautiful country, the country of good, open-minded, hardworking and hospitable people, who were very often in a situation to fight for all those valuables against numerous conquerors, finding themselves in their way being a nuisance for them to satisfy their conquering ambitions.

During a long period of Serbian history, Serbia was occupied and invaded lots of times by different armies, their cultures, ways of living. The things that one invader built and left, were destroyed by other and so on, always starting all over. Considering the country of the invader, and the length of captivity, they've left

different influences in different parts of Serbia, which we can notice from different customs and habits, even different vocabulary.

During The Nemanjic dynasty Serbia was trying to secure traveling to ensure development of Serbian Economy. There were numerous facilities built next to the restored roads, offering their passengers food and lodging. In the areas where there were no hostels, local people were obliged to accommodate passengers.

The rule of Dusan the Tzar was a very important period with his firm passenger safety regulations. Traces of his safety regulations, theft and criminals, still can be found in The Dusan's Law from 1349 and 1354.

After the battle of Kosovo in 1389 Serbia was invaded for six hundred years by the Turkish Empire. This invasion left deep traces on people, their way of living, culture, economy, also on hotel industry in Serbia, changing everything according to their needs. Existing accommodation facilities beside the roads were kept, and lots of new ones were built in the cities (Ascinice, Kebab shops, Coffee shops, Taverns, Pubs, etc.) having to serve only food and drinks or accommodation as well. Some of them exist even today. The descriptions of these specific facilities (Caravanserai and Han) we can still find in the journals written by people who traveled through Serbia. The famous Turkish writer Evlija Celebija had written about his stay in Serbia in 1661, describing catering facilities back then. Also lots of Serbian writers from that time were writing about them, such as Stojan Novakovic, Branislav Nusic, etc.

After the Turks left Serbia nothing major happened for a long time. Habits inherited from the Turks, their culture, customs were kept long after, left a deep trace especially in small cities. Instead of "Han", they were building taverns, pubs, much later restaurants and hotels.

Most famous tavern built in Serbia is in Belgrade during Milos Obrenovic: „Gospodarska Mehana“. Owners of these facilities were earning large sums because they were trading as well as lending money.

Development of the Hotel and Restaurant industry is falling behind comparing with the other European countries, because Serbian economy couldn't develop under Turkish occupation. The part of Serbia that was under the Habsburg Empire, followed economy development with the rest of the Europe. Turkey as an invader of the most of our territory did not keep any pace of the industrial development at the time. Therefore we cannot speak about modern development of hospitality industry up to XIX century, especially in Serbia.

In the hospitality facilities standards of service were very low. Serving drinks in a very poor glassware with limited standards of service. Only after 1827 the first spoon was used in Milos Obrenovic's castle, and 1834 the first draught beer in „Manojles basta“, in Belgrade. At the beginning of the XIX. century people started playing social games, cards, the first billiards was played 1822 and then, soon after, the first piano.

### **Aspiration for improving service in Serbia and influence of the global experience in this industry**

From the very beginning people gained new findings in different areas, so that they could satisfied their needs in all areas of their life also affecting the development and improvement of hospitality industry in Serbia and all over the world.

A new possibility was created for mass tourism and modern technology, organizational skills (management), technical improvement by opening new hotels. Hotel Tremont, the first hotel, was opened in 1829 in Boston. It signifies the beginning of new era in Hotel and Restaurant Industry. Soon after numerous hotels were opened in America and Europe. That was the beginning of the battle for prestige on a world market in hospitality industry.

Who is going to be the best? Who is going to have more quality services and better comfort? Who is going to have more professional staff, who will provide the best quality service to its guests? Who will have better profit and have better chance for progress and growth. Those were the questions that we were looking to find the answers. Important people at the time in business, hospitality industry, made the effort to increase the level of service at the highest possible level, using their knowledge and quality, because they were aware of the fact that they could attract and keep their customers and make profit, only with the best quality, which was their aim.

An urge to make every new hotel a better hotel than the previous one turned, Boston hotel Termont, after short period of time into a second class hotel.

First modern hotel in our parts was built in Belgrade in 1843. after Milos Obrenovic fled Serbia, which proves the claim that his rule and leading parties at his time had not done anything, since 1830., to make changes in hospitality industry, unlike certain changes made in other fields. Ten years later a new hotel was built in Belgrade“Srpska kruna“, soon after lots of others in short periods of time.

Important remark of development of hospitality industry at the time, especially in developed cities and places in Serbia, is that they are offering social, cultural and political life as well as basic food and beverage services, which had effect on fast development and modernization of hospitality. Food and drink offer was expanding constantly, and influence of the European cuisine started to notice. There is a copy of the Menu from special dinner that Prince Mihailo organized on April 5th in 1867 in honor of giving the keys of the city to Ali Riza Pasha, commander of Belgrade fortress, still kept in the National Museum in Belgrade. Menu card was written in French, there were diplomats and representatives from other countries at the dinner. At the menu there were oriental dishes, for Turkish representatives, as well as dishes from European cuisine, which are even today prepared for festive

occasions. Hospitality industry in Serbia was relatively developed in XX century. Network of the hospitality facilities is changing. Beside taverns, pubs and 'krcmas' (inns) there are modern restaurants, hotels, cafes, etc., coming to the scene. The best and the most complete before Second World War in Belgrade was: "Srpski kralj", which was built at the same place as restaurant, with the same name, before the the First World War, made for high class only.

The hotel employed only professionals, and was run by two Czech brothers Frankl. Hotel had full comfort, prices followed the level of service, making them twice higher than other hotels.

In the next couple of years Belgrade got few very nice and comfortable hotels, and other hospitality facilities, such as: Moskva in 1906, Splendid in 1924, Union in 1925, Kasina and Posta in 1933, Astoria in 1928, Balkan in 1930, Prag in 1933, Majestic and Beograd in 1937 Belgrade had in 1937, 20 hotels with 1153 rooms and 1676 beds.

The building of hospitality facilities, primarily the building of hotels, during that period was growing in other cities in Serbia as well. In the city of Nis the Park Hotel, in the town of Sabac there were 5 hotels, with the Paris hotel having a cinema hall within. Between two wars lots of hotels are developed in spas: Vrnjacka, Mataruska, Koviljaca. Also in Kraljevo, Cacak, Krusevac, Leskovac.

Important expansion and improvement of standards of accommodation contributed to the development of Hotel industry in our country, also improving quality of restaurant industry in newly developed facilities. In order to live up to the expectations of the customers those hotels and restaurants needed to employ professionals who knew how to give adequate service considering standards.

Legal regulations for the industry started in 1861 when the first regulations for taverns were introduced. In the year of 1878 a regulation was passed considering working hours and equipment needed. The Law of 1832 states that the owner must have a degree in hospitality management, which was soon abandoned because they only needed statement from the witness that they own it.

### **Beginnings of professional staff in Serbia**

Education of hospitality personnel began to raise a special interest in the period between the World Wars. In the initial phase of hospitality development the personnel consisted mostly of rich farmers, who invested a part of their income in the construction of accommodation facilities. Qualified personnel was not necessary in this phase. Later, when the hospitality industry began to develop more intensively, personnel was brought from foreign countries in order to satisfy the needs for professional staff in big cities (Belgrade, Novi Sad, Subotica and other cities). Personnel in other facilities consisted mostly of the self-taught

people, who were able to do the job with a lesser degree of expertise. Practically there weren't any educated hospitality workers. Hospitality was considered as a part of manufacturing industry, and the students (apprentices) went to some kind of prolonged and periodical schools with students of other branches of manufacturing.

The student status, education and gaining of certain qualifications were controlled by the Labor law between the two wars in Serbia. According to this law, a student was every person working in a hospitality facility. A student could not be under the age of 14, they had to have at least a four-year school degree, they had to be physically competent to study, and later work in the field of hospitality. The student was enrolled in school by their employer, who made an agreement with the student to provide them with the apprenticeship. In order to finish the school a student had to pass an exam to become "an assistant in hospitality service" or an apprentice at the association which was in charge in a particular area.

Right before the WWII a group of hospitality workers from Belgrade launched an initiative for founding a hospitality school. Soon after that, in 1938, founding of Higher Hospitality School was approved. It was a two-year and three-year education. The school had its own boarding school and a restaurant where the practical training took place, which consisted of serving and cookery. The school was closed already in 1941. Although only two generations graduated from this school, they contributed a lot to the development of hospitality industry after the WWII.

### **Development of the hospitality industry in Serbia after the war**

There were big losses left after the World War II, both regarding manpower and material goods, making Yugoslavia, and Serbia as a part of it, a country which was the most destroyed during the war. Most of the accommodation facilities were either destroyed or damaged, and one part of these facilities was left without necessary equipment and inventory.

With diminished and poorly equipped network of accommodation facilities, situated mostly in worn out buildings began the period of hospitality industry in Serbia after the WWII.

Right after the war (1946) forming of the social sector of the hospitality industry began. Earthly hospitality company was founded in Belgrade and it consisted of large number of hospitality companies. Private hospitality companies were



nationalized. The main role of the hospitality industry in this period of re-establishment was to provide the food through rational supplying.

The number of accommodation facilities was reduced after the WWII but from 1957-1962 their number was slightly increased. The focus was primarily on rebuilding the economy in this period. In that way the development of the hospitality industry could not follow the fast rate of economy development.

Rapid development of the hospitality industry can be seen in the period from 1962-1970, but the most intensive development was in the period from 1970-1975.

The intervention of political parties was especially dominant in this period. They gave considerable resources to encourage the development of hospitality industry and tourism. The main characteristic of this development was administrative management and leadership. Different types of organizations were created to satisfy all the needs of the hospitality industry, and at the same time to achieve the goals of the economy. In that way all the important companies were created: federal, regional and local.

Several bigger hotels were built in this period as a part of federal organizations: in Belgrade, Zagreb, Dubrovnik and other places. They were mainly used for social representation.

The trend of hospitality industry development continued in the following years (until 1985). After that, the period of stagnation came, followed by certain changes, mainly in ownership of hospitality industry in Serbia. First hotels, parts of the bigger hotel chains, were built. The first ones were "Intercontinental" in 1979 and "Hyatt" in 1990, both in Belgrade. New hotel "Slavija Lux" was built cross the street from the existing hotel "Slavija" in Sveti Sava street. That increased the accommodation capacity of our capital and helped setting tourist offers of Belgrade and Serbia on a higher level. Important historic and social changes marked the end of the 80's and the beginning of the 90's in, what at that time already was, former Yugoslavia. Turbulent times marked with divisions, civil war, new destructions, refugees, economic crisis, political changes, transition economy, left the mark on the lives of people living in this area.

During the bombing a lot of facilities were damaged throughout Serbia, and among them some of the accommodation facilities (hotel "Yugoslavia" in Belgrade).

The hospitality industry stagnated in this period and the need for hospitality services was decreased in some regions.

With the new millennium came significant changes in Serbia. These changes brought some ownership transformations, and it affected the hospitality industry too. New private hotels were built ("In hotel", "Zira" "President", "Kovilovo) which were the property of either our or foreign investors. Several of the existing hotels were privatized and sold to both our and foreign investors, who made adaptations more or less successfully. Some of them are "Balkan", "Moskva", "Putnik", "Splendid", "Prag", "Astoria", "Excelsior", "Royal". The "Metropol" hotel after stagnating for a few years regained its old fame and was renamed to "MetropolPallace". The hotel "Continental" which lost its license and the right to the name "Intercontinental" is being renovated at the moment after which it will be renamed to "Crown Plaza".

Education of the personnel is developing and improving side by side with the hospitality industry. There are many high schools which offer different profiles of this profession. These schools can be found in Belgrade and other bigger cities in Serbia. There are some classes formed as a part of similar schools where the interest in these professions was shown. In that way education became more accessible and less expensive. VI degree schools became VII1 degree schools, and departments for hospitality industry and tourism studies were opened both as a part of public and private Universities.

Education follows the trends of development and the needs of hospitality industry and tourism (market demands). The personnel with different degrees in Serbia are very professional and frequently asked to work abroad, and they can be seen in all parts of the world as the ambassadors of our beautiful country.

### **Expected tendencies in the hospitality industry (hotel and restaurant management) in Serbia**

Serbia has real chances to develop hospitality and tourism thanks to natural and anthropological resources we have, which are very important element of hospitality.

In order to take this chance at the fullest, it is necessary to make the same unsettled issues clearer, especially regarding property, management and organization. In that way better conditions and setting would be created, especially for foreign investments in this field of economy in Serbia. Apart from directly investing in hospitality and tourist facilities it is also necessary to invest in knowledge and permanent education of the employees in this field, in researches and development projects and in organized marketing activities of hospitality companies.

Hospitality services need to be in accordance with the demands and to be adjusted structurally to all the important economic, political and other tendencies, which have a significant influence on creating terms for touristic and other travels both local and international.

The development strategy of hotel and restaurant management in Serbia is tightly connected with the development of tourism. Some of the important activities that need to be conducted in order to increase the competition of Serbian hospitality and tourism are: renovation and modernization of existing accommodation facilities, change in value system and categorization of facilities and services, forming additional services, business connection, cooperation and merging in the field of hospitality industry especially regarding international cooperation.

The already commenced privatization needs to be brought to an end and establish mutual cooperation between private companies, as well as with the public sector.

There are many destinations with high-quality potential which could be a solid foundation for further development of hospitality industry and tourism. In the years to come it is necessary to opt for what to build and modernize and offer as such, and how to organize and manage the field activities.

Serbia has chosen faster and more concrete development of hospitality industry and tourism in the future. Large and extensive plans with appropriate strategies are adopted. More concrete tasks are pointed out within the development strategy that is to be carried out to terms in order to accomplish the objective.

## **Conclusion**

Based on everything presented in this work, a few important elements can be pointed out as a disclosure and that is the following:

- Hospitality industry (hotel and restaurant management) as a part of the economy consists of providing the services to customers. It is a field whose goal lies in providing the services and is a part of the tertiary sector of the economy
- Hospitality industry has been developed throughout the history, side by side with economic, political and social affairs and in that way is marked with in all human activity. Hospitality of people shown in the early times toward the travelers coming from far places gradually grew into hospitality industry. In the beginning those services were free, and later on charged, first it was a barter trade and afterward a financial trade.
- Organized providing of hospitality services can be seen in organized countries in the past such as Rome, Babylon and Egypt. As great conquerors in that time

these countries spread their influence, culture and custom over the conquered territories.

- There were many conquerors on our territory, coming one after the other, with their armies and cultures. Things ones built were destroyed by the others and every time it started all over again. However every one of them left a certain mark and influence which were preserved more or less to the present days.
- The 19<sup>th</sup> century represents an important period marked with the intensive development of hospitality industry both on a global level and in Serbia. Inspired by the developed counties in Europe and the USA contemporary accommodation facilities and hotels began to open in Serbia, especially in Belgrade. This event was very important for not only the hospitality industry but for tourism as well, as an important segment of economy tightly connected to hospitality industry.
- Hospitality industry in Serbia was developing side by side with the development of economy. Rebuilding the country after the ravages of war was hard, so hospitality industry and building of its facilities were in a way put aside compared to the other fields of economy. The most intensive period of the hospitality development in Serbia was from the end of the 60's to the mid 80's. Those were the years of prosperity in Serbia, and the most of the population lived well. A great number of hotels were built, parts of big hotel chains. Hospitality industry and tourism became an important source of the national income.
- The breakup of Yugoslavia, wars between Yugoslav republics marked the period of the 90's and everything went downhill. One decade went by in a total despair. Former allies and "brothers" became enemies. There were suffering everywhere.
- The year of 2000, and the new millennium brought social and political changes. Ownership transformation and privatization began; new hotels were opened and the old ones were adapted. The first private hotels were built in Serbia, especially in Belgrade. Some of the long forgotten spas were brought to the investors' attention, and some of them were adapted and modernized – became wellness centers.
- Rural tourism, farms, spas and mountains became very popular, because they represent a great challenge for hospitality workers. Tradition, culture, custom, national cousin, organic food, reconnecting with nature and healthy way of living are guidelines to be followed in order to improve hospitality services in Serbia as well as the life of its population.