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In the last issue of *Ekonomika preduzeća* we published the first part of *Prof. Madžar*'s discussion on the traps and perils of government interventionism in Serbia. This issue also starts with the introductory article written by *Prof. Lj. Madžar*, which represents the second part of his long debate with his contemporaries, both like-minded thinkers and those from the opposite side of the ideological spectrum.

In *Organization and management* section, *N. Janićijević* and *I. Marinković* present the results of empirical investigation of the validity of Hofstede's measurements of national culture in Serbia, France, the Netherlands, and Denmark. The study was conducted in order to determine whether Hofstede's measures of national culture dimensions are still valid. The authors came to conclusion that the position of the four observed national cultures is precisely the same in three out of four dimensions as Hofstede had described in his research.

In the second paper in this section, *A. S. Trbovich* and *N. Krstić* have tested the presence of stakeholder management theory in the case of Serbia. The authors came to various conclusions, most notable of which is that the financial sector places most emphasis on its customers, whilst the construction sector (cement industry) sets the local community and employees as the cornerstone of its business operations, in line with international practice. However, the research also revealed the lack of understanding of the stakeholder role in business performance improvement, which confirms lower level of development and early stage in transition to best EU practices.

The first paper in *Transition and restructuring* section by *Z. Jeremić*, *M. Milojević* and *I. Terzić* analyzes business performance of the largest exporters in Serbia during the period 2008-2014. The authors actually created a database that comprises balance sheets of about 4,000 companies, which were actively exporting over the observation period as well as export and import results and statistical data concerning their business operations. The research has shown that Serbia has a small number of competitive net exporters, the export concentration being focused on a narrow segment of companies primarily owned by foreign legal entities. Besides that, low labor force and state incentives still remain the primary attraction for those investors.

The challenging question as to whether partner relations in marketing channels make a difference in brand management implementation is a central dilemma of the sole paper in *Marketing* section in this issue. *Z. Bogetić*, *S. Veljković*, and *D. Stojković* provide evidence from Serbia and Montenegro. The research based on a sample of 121 managers from Serbia and Montenegro indicates that brand management commitment, marketing channel relationships, and brand myopia have a significant impact on brand performance.

In the last paper in *Transition and restructuring* section *L. Barjaktarović*, *R. Pindžo*, and *A. Vjetrov* presented different models of project financing in residential construction. Based on the analysis of the principles and product offers of the project financing banks in Serbia the authors have shown the prevailing principles and main advantages of the project financing of residential branches in one part of Belgrade.

Prof. Dragan Đuričin, Editor in Chief

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ME AGAINST THEM: A DECISIVE SETTLING OF ACCOUNTS – THE PERILS OF OVERSIZED GOVERNMENTAL INTERFERENCE (PART TWO)

Moj obračun s njima – pošast preteranog državnog intervencionizma (drugi deo)

Abstract

In the analysis of the choice of the regulating mechanisms, containing various ingredients of market and government, the usual fallacy is pointed out consisting of the belief that, wherever the market fails, government is automatically flawless and able to overcome the failures. The real situation is the one of the choice among the mechanisms which are all fraught with their own deficiencies and the comparative analysis is called for to enable the selection of the least among several evils. Government failures are examined to some detail. Several dilemmas connected to the present crisis of the world economy are discussed. The two most marked among them are about the origins and the initiators of the crisis – is it caused by the market's inherent deficiencies or by poorly concocted governmental policies – and about what to do about the crisis – should governments intervene as they did, with much bailing out the agents from dramatic situations caused (at least partly) by their own mistakes, or should they let markets alone to work themselves out and eventually lead the economies onto the paths of stable and sustainable development. The arguments favoring the both sides of the dilemmas brought out are discussed in detail, but the general inclination of this author is towards the markets. This inclination is due to doubts in governments' willingness and ability to act properly in the times of crises (and otherwise), with some space devoted to these doubts.

The myth of deregulation is discussed to some length and it is underlined that the overregulation is a part of contemporary economic realities. Tens of thousands of pages of new regulation are annually added to the existing stock of rules in various entities (the USA, the EU, individual countries). Overregulation has become a grave hazard to the economy on a planetary scale, as the institutional arrangements arising from it become as bulky and complex as to turn unmanageable. The instances are cited about the authors of various regulating acts not being able to understand the texts formalizing the regulation. The consequences of the huge regulating machinery based on those tens of thousands pages of newly created texts are literally unpredictable. One unintended consequence is structural distortion of the economy: new regulation and the one accumulated in the past and still valid is almost impossible to follow; the large firms find it easier to carry out that challenging task, occasionally by creating specialized departments, but for the smaller firms that fixed cost is more and more difficult to bear. A bias against the small firms is introduced. How is an economy to avail itself of the large firms if – and to the extent that – they have to be small before they grow?

The mind of the general public, and even the professional mind, is hopelessly contaminated. A representative work of a renowned German sociologist is analyzed as an appropriate example. He takes it as perfectly reasonable to have two parallel and equivalent distribution mechanisms: the one based on the market and based on the principle that everyone obtains what he produces, i.e. what he constructively offers to the society; the other based on citizen's "rights" empowering the individual to appropriate income independently of his productive contributions. When are these left-wingers going to learn that there is no long run hope for any system in which what one gets is not sufficiently tightly connected with what one produces and thereby contributes to the satisfaction of the needs of others?

There is a basic contradiction among the ranks of the *AL*. On the one hand, they extensively and intensely criticize governments, not even allowing for the objective constraints that they are facing; on the other, they ask for more and more of its intervention. Their answer to this criticism is that they have in mind an entirely different government: honest, uncorrupted and, at long last, efficient. Any attempt to explain to them that good governments are not that easy to come by and that it may take decades to get hold of a solid government – proved unsuccessful and vain. The *AL* has a strong aversion towards the *L*. But they never take effort to define what to them mean the words liberal and liberalism. Nobody knows what they mean when using them. That "enables" them to ascribe to the *L* all evils of this world. Thus, international domination of the strong over the smaller and weaker states, aggressions and wars, the "disastrous" influence of international financial organizations...all these are described as genuine products of so called neoliberalism. They can throw all perversions at the front door of the liberal order and the liberal way of thinking because they don't know what the word liberal means. If they knew that the basic values on which liberalism is based are life, freedom and private ownership, they could not go on with such senseless accusations. Let this summary be concluded by a jewel thrown at an audience assembled in Andrićgrad September 12, 2014: neoliberalism is a market for war and death!

Key words: *liberalism, antiliberalism, market vs. government, government failures, institutional constraints, economic policies, economic and financial crisis, moral hazard, the limits of government interference, (re)distribution as a constraining growth factor*

Sažetak

U analizi izbora između regulativnih mehanizama, takvih koji sadrže različite sastojke tržišta i državne intervencije, istaknuta je uobičajena zabluda koja se sastoji u uverenju da, kad god tržište pokaže slabosti, država je automatski delotvorna i sposobna da te nedostatke prevaziđe. Prava situacija je u znaku izbora između mehanizama od kojih je svaki opterećen svojim sopstvenim manjkavostima i stoga je potrebna komparativna analiza da bi se omogućio izbor (naj)manjeg od nekolikih zala. Defekti države ispitivani su donekle detaljno. Raspravljane su nekolike dileme povezane sa sadašnjom krizom svetske privrede. Dve najmarkantnije među njima se odnose na poreklo i inicijatore krize – da li je izazvana inherentnim defektima tržišta ili loše sklopljenim državnim politikama – i na ono što bi u vezi sa krizom trebalo preduzeti – treba li da vlade intervenišu kao što su to i činile, uz masovno spasavanje aktera iz dramatičnih situacija izazvanih (bar jednim delom) njihovim sopstvenim greškama, ili je bolje da puste tržišta na miru da se istutnje i eventualno odvedu privrede na trajektorije stabilnog i održivog rasta. Donekle detaljno pretreseni su argumenti izneseni u prilog i jedne i druge strane ovih dilema, ali opšta orijentacija ovog autora ide u prilog tržišta. Ova sklonost je posledica sumnji u spremnost i sposobnost vlada da prikladno postupaju u kriznim vremenima (a i inače), pa je nešto prostora posvećeno tim sumnjama.

Mit o deregulaciji raspravljen je prilično detaljno i istaknuto je da je preterana regulacija deo savremene ekonomske stvarnosti. Desetine hiljada stranica nove regulacije godišnje se dodaje postojećem fondu pravila u raznim entitetima (SAD, EU, pojedinačne zemlje). Preterana regulacija postala je poguban ekonomski hazard na planetarnom nivou, budući da institucionalni aranžmani koji izrastaju iz nje postaju tako glomazni i složeni da se ispostavljaju kao neupravljivi. Navode se primeri kad autori raznih regulativnih dokumenata nisu u stanju da razumeju tekstove kojima je regulacija formalizovana. Posledice te glomazne regulatorne mašinerije zasnovane na desetinama hiljada novostvorenih tekstova doslovno su nepredvidive. Jedna od nenameravanih posledica je strukturna deformacija privrede: nova regulativa, kao i ona akumulirana u prošlosti a još važeća, gotovo da ne može da se prati; krupna preduzeća mogu lakše savladavati taj izazovni zadatak, pokadšto stvarajući specijalizovana odeljenja, ali manje firme daleko teže mogu da podnesu taj fiksni trošak. Tako je ugrađen uklon protiv malih firmi. Kako jedna privreda može doći do velikih firmi ako – i u meri u kojoj – one moraju da budu male pre nego što izrastu u velike?

Svest najšire javnosti, i čak profesionalna svest, beznadežno je kontaminirana. Analiziran je jedan reprezentativni tekst poznatog nemačkog sociologa kao prikladan primer. Za njega je savršeno razumno da postoje dva paralelna i ravnopravna sistema raspodele: jedan zasnovan na tržištu i na principu da svako prisvaja ono što i proizvede, tj. što konstruktivno nudi društvu; drugi zasnovan na „pravima" građanina koja pojedinca ovlašćuju da učestvuje u raspodeli nezavisno od svog proizvodnog doprinosa. Kad će ovi levičari najzad naučiti da na dugi rok nema nade za bilo koji sistem u kome ono što neko dobija nije dovoljno čvrsto povezano sa onim što on proizvodi i tako doprinosi zadovoljavanju potreba (svih) drugih?

U redovima *AL* postoji jedna temeljna protivrečnost. S jedne strane, oni naširoko i snažno kritikuju vlade, čak i ne uvažavajući objektivna ograničenja sa kojima se suočavaju, a s druge traže sve više i više državne intervencije. Njihov odgovor na ovu kritiku jeste da imaju na umu potpuno drukčiju vladu: poštenu, nekorumpiranu i, na kraju, efikasnu. Neuspešan i zaludan biva svaki pokušaj da im se objasni da se do dobrih vlada ne stiže tako lako i da mogu da budu potrebne decenije da se društvo dočepa valjane vlade. *AL* imaju prema *L* jaku averziju. Ali nikad se ne potrude da preciziraju šta za njih znače reči liberal(no) i liberalizam. Niko zapravo ne zna na šta oni misle kad te reči koriste. To im „omogućava" da *L*-u pripišu sva zla ovog sveta. Tako npr. međunarodna dominacija jakih država nad manjim i slabijim, agresije i ratovi, „pogibeljni" uticaj međunarodnih finansijskih organizacija...sve to je opisano kao bokor autentičnih produkata tzv. neoliberalizma. Oni sve opačine mogu da istovare pred vrata liberalnog poretka i liberalne misli jer ne znaju šta znači reč liberal(no). Kad bi znali da su osnovne vrednosti na kojima se temelji liberalizam život, sloboda i privatna svojina, ne bi mogli da nastavljaju sa takvim besmislenim optužbama. Neka ovaj rezime bude zaključen jednim biserom izbačenim širem auditorijumu koji se sastao u Andrićgradu 12. septembra 2014: neoliberalizam je tržište rata i smrti!

Ključne reči: *liberalizam, antiliberalizam, tržište naspram države, manjkavosti države, institucionalna ograničenja, ekonomska politika, ekonomska i finansijska kriza, moralni hazard, granice državnog uplitanja, (pre)raspodela kao ograničavajući činilac rasta*

The potential and limitations of stabilization policies

If it were certain that (1) stabilization policies would be unquestionably successful in attempts to curb and control grave turmoil in the midst of the deep crises, and (2) opportunity and other costs of such interventions would be less than the effects achieved in combating depressions –

nobody in his right mind would be against macroeconomic stabilization policies. However, interventions could turn out ill-advised and deepen the crises rather than suppressing them. The interventions always affect and change macroeconomic flows which, in fact, would also change in some way without them. Honestly speaking, when one carefully observes the set of economic trends and their shifts, one is most of the time unable to diagnose for certain whether the changes happened due to or despite the given governmental stabilization attempts. The doubts are additionally augmented by taking into account that the governments are hard pressed to intervene immediately, before the breaks in economic trends are properly understood, and quick measures are to be taken in a situation requiring careful and long study.

The nature of the entire set-up is such that governments are urged and forced to intervene in the most complex and least understood economic situations and free of the pressures to act in an anticipatory way in (more) normal situations when there is much more time for preparing the actions and when the risks and cost of intervening are much lower. This is a permanent feature of the grand system of the economy-cum-government making for inefficiency and a low probability of success of the governmental interventions taken in their entirety. There are tremendous and, as it looks, legitimate disagreements in assessing the appropriateness of a large collection of governmental interventions taken in connection with the crisis of 2008 and carried out up to the present day (end of 2014) practically the world over. A large stream within economic profession claim that the governmental stabilizing actions were essential and soul saving; their tremendous social utility stems from the alleged fact that without them the entire system would fall apart, their effect – so it is claimed – is life saving and civilization preserving.

The other stream of professionals, perhaps equally strong and influential, come up with the contention that the entire interfering into otherwise self-regulating market system was a huge blunder owing to the incomplete knowledge or even to complete ignorance of mechanisms producing deviations from steady-state movements. As a good deal of these deviations is to some extent due to the business mistakes of the economic agents, such interventions bail out the "sinners" and produce a long-run systemic deficiency in the form of moral hazard. Knowing that the state is ready to step in to bail them out, they will go on with their overly risky and irresponsible behavior. The long-run social cost of intervention is therefore much higher than the purported benefits even though the benefits may overweigh in the short(er) run. This fits nicely into the well known and quite persuasive, empirically supported theory that the decision-making horizon of politicians is short and that what matters to them is what happens within their mandate. The crown argument of this critical approach to governmental interference is that governments with their policies go in for alleviating or solving the problems which they themselves have created.

The differences in opinion should not come as a surprise. The situations which are the subject matter of the analysis are exceedingly complex and contain many complicated, frequently partly hidden facets. Concentrating on one facet may understandably and legitimately lead to vastly differing conclusions compared to the ones derivable from concentrating on the other facet. And the choice of the facet is partly a matter of understanding and intellectual capacity and partly due to more or less direct interests which tend to be clearly differentiated at al levels of intermediation. It is probably true that our understanding and accompanying analytical capacity tends to be affected by interests; we study more carefully and perhaps more successfully matter to which we are associated by some sort of interest. Needless to say, the *AL* tend to adopt a proactive stance when it comes down to assessing the desirability of the governmental intervention, while the *L* mostly reject it pointing to frequently neglected but huge future costs, mostly pushed into the more distant future periods, driven by the logic of the inescapable political opportunism.

In analyzing the crises much attention is directed to regulation and deregulation. The *AL* claim that the principal contributor to the crisis is massive and, in their view, irresponsible deregulation which has provided room for the anarchy of the markets (this sounds quite Marxian!) and given impulses to destructive speculations which, in turn, had shaken the system as a whole, and, indeed, from the very foundations. The *L* has several ripostes to these diagnoses. They are to be described here with certain enthusiasm, as they seem shrewd and convincing to this writer. To begin with, deregulation is denied to be a part of economic reality and to have happened any time in the past. The hundreds of thousands of pages of various laws, by-laws, directives and other regulations are cited as a conspicuous part of the regulative reality. There has not been such a thing as a deregulation [17, p. 71] and, moreover, the huge and cumbersome regulation is brought out as a principal generator of the crisis [17, p. 76].

More than that, to the extent that crisis was initiated and driven by the behavior of the market agents, such behavior was caused by the ill-advised and deficient motivating arrangements created by overextended and distorted regulation [17, p. 76]. The key culprit of the crises is the state which now takes appearance of some sort of a savior by attempting, not very successfully, to correct its own mistakes. Besides constraining the entrepreneurs and other economic agents, the excessive regulation homogenizes the behavior of the regulated making them respond quite similarly and often identically to external shocks. This introduces uniformity of behavior into the system as a whole and makes it akin to the centrally planned economies. In reacting to the exogenous shocks such heavily regulated systems tend to overdo to whichever shock they respond. That makes them extremely unstable and prone to big crashes. The probability of hazards is significantly increased [17, p. 82]. Moreover, it is in the nature of the system that excessive and inappropriate regulation is recognized too late, when it is also late to undertake the appropriate measures, to the extent that the state is at all capable of devising such measures [17, p. 79].

To these *Tasić*'s convincing arguments still other can be added. First of all and generally speaking, the turmoil brought by crises is too big to be produced by smaller players. Such a big disturbance can ultimately be generated only by a very big, the biggest player, and that can only be the state. It is true that multitudes of much smaller market agents adjust to such big state-produced shifts, exacerbating the tumults, but the initial impulse comes from the governmental moves. Secondly, by whatever motives the state intervention may bi inspired, it is always selective: it only affects certain, individual segments or affects all of them but in different ways. In both cases the market agents are affected in different ways, they are put into unequal positions and made to respond in differentiated ways. All this leads to misallocation of resources and moves the entire economic system onto lower levels of the overall performance. Opportunity cost of the lost GDP is the cost of the governmental intervention even if it is directed to stabilizing the perturbed economy. Thirdly, the state itself is undergoing its own endogenous cycles, including the electoral cycles and those generated by inconsistent and indecisive responses to external parametric shifts, which turns out to be the way in which the economy is unceasingly perturbed. Unsteadiness of the state's handling of the economy partly derives from the fact that certain objectives of governmental policies are more fully and more effectively realized by surprising economic agents and undertaking steps that cannot be foreseen by the public. Among the major generators of the crises one can certainly recognize what a number of writers call regulatory confusion: the legal and administrative acts, various ordinances and directives are so numerous, so complex and to such a degree interrelated that the public finds them exceedingly hard even to understand, not to speak about learning them so thoroughly as to be able to apply them consistently and unmistakably. There are quite a few reports about the authors of the regulations themselves not being able to understand the larger complexes of messy documents by which they attempted to streamline various segments of economic life (see the indicative and truly enlightening statement by *Bernanke* cited in [17, p. 147]. Attempts are made to rectify the errors in regulation by creating new regulation, which the entire field makes even more hopeless. The steadily growing amount of regulatory measures and acts becomes more and more difficult just to follow and imposes growing following costs; these are particularly burdensome for the small firms as the large firms can create specialized departments for following of the new deepening the understanding of the old regulation. This has produced a bias in the position of firms, with larger forms enjoying obvious advantage. The end result is a strange and unanticipated phenomenon of the economies of scale, with obvious distortion of the scale structure of the economy and equally harmful effects on the allocation of resources. Fourthly, one could speak about regulatory hysteresis of sorts: large chunks of regulations seem to be taking on the features of a one-way street – once introduced into the system, they cannot be recalled. The guillotine of regulations, so loudly and insistently announced, never was put into operation properly. Fifthly, regulatory measures and corresponding legal and administrative acts, being defined as number or quantity per unit of time, have the character of a flow in the sense of quantitative economics; the total amount of regulatory acts, presented on the above emphasized thousands of pages, has the character of a stock. As current economic activities, through which the GDP and related aggregates are generated, naturally have the character of flows, it is an arithmetic necessity that the mass of regulatory documents per unit of newly generated economic aggregates us bound to increase. The intensity of the stream of generation of regulatory documents can certainly vary from one time interval to another, but as long as the number of newly added acts (net of those which are retired) is positive, the amount and burden of regulation of necessity increase. Speaking about deregulation, particularly the excessive one, runs into the problems of simple arithmetic – for obvious reasons it cannot be true. Sixthly, the waves of deregulation, to the extent that one can speak of them meaningfully, don't come out of the blue; more often than not they are responses to the overextended and hopelessly inefficient regulation; if the regulation were workable as anticipated, deregulatory waves would not have a chance. Seventhly, both regulation and deregulation are parts of the governmental policy; if anything goes wrong with either of them, government is to be blamed for both. Is it realistic to expect the government to be successful in proposed regulatory moves if it had allegedly been disastrously unsuccessful in performing massive deregulatory moves? This can be a legitimate subject of polemical discussions, but there remains something to the implied asymmetry of the governmental efficiency in two opposite ways in varying the pool of regulatory devices. In any case, bad regulation inspires deregulatory campaigns, but unfavorable experiences with deregulation lead to new turnarounds to more comprehensive regulation. One reason for these turnabouts is that the existing working solution is implemented in practice and as such has shown its deficiencies; the alternative solution is still in the stage of an idealized blueprint and always looks more attractive than the currently operating thing. This appears to be one more source of shocks which governments with their interventionist activities administer to the economy. Eighthly, it is not easy to regulate a steadily changing economy, with the rhythm of changes becoming ever quicker; this comes out equivalent to shooting an accelerating moving target. Namely, technical progress creates new structures of the rising complexity in the economy and market agents daily invent new and again ever more complicated instruments. These are hard even to understand, not to speak about able to control and steer the bulky and highly interdependent complexes arising therefrom. Can regulatory authorities hope to come to grips successfully with these challenging tasks? The suggestion *noli movere* should not be received as bizarre in this context: life solves many problems more successfully than any attempts to interfere directly into the structure of the things involved: a gardener produces large quantities of the first class fruits without trying to assemble them molecule by molecule, possibly using huge microscopes and minute, invisible tools; providing the necessary humidity, temperature and illumination is enough, the rest is done by nature and its automatic, elemental processes. The same goes for the economy: what economic science and policy are unable to master, and even to understand, "nature" will perform in a satisfactory way, without us not even being able to understand fully what is exactly going on in these mysterious transformations. And tenthly at last: because of the massive and insurmountable regulation it becomes next to impossible to recognize, comprehend and measure its effects and to perceive it. The end result is that such priorities are very difficult to identify and that some truly needed regulatory activities fail to be undertaken. Thus, insufficient and inadequate regulation in some, perhaps even important, fields comes out as a consequence of the overextended, bulky and dysfunctional overall regulation. The bizarre finding is that overextended regulation comes to be seen as a cause of insufficient regulation in the areas where it could be badly needed.

Further issues associated with the role of the state: The inescapable controversies

The state and governmental machinery with associated set of public policies is one set of institutional arrangements for satisfying the needs of the society. The other is the collection of markets with accompanying adjustment mechanisms. There is a fundamental difference between the two with far-ranging and truly significant implications. The market is an arrangement on which individuals directly choose and without any intermediation decide what items to pick out and on what commodities and services to spend their available income. This immediacy is of crucial importance. It implies that connection between the satisfaction of needs and allocation of resources is as direct as it can possibly be. The government and its policies are basically different in that important direction. In the governmental machinery the authorized agents use – to utilize once again *Friedman*'s happily invented pun – the other people's money to satisfy still other people's needs. These big, general collective decisions refer to equally big and general social needs and are greatly removed from the needs as revealed by the multitude of individuals in a society.

This deeply seated difference between the two arrangements – direct satisfaction of needs vs. collectivized, generalized and necessarily politicized use and disposition of money – is lasting, unbridgeable and with such qualitative properties that can never be relativized by any compensatory allocative adjustments. This is not to say that collective arrangements for use and allocation of resources can or need be dispensed with – far from that – but it does mean that any expansion of government at the expense of the market carries with it grave hazards of politicized and bureaucratic alienation of the use of resources from the genuine need as felt and expressed by the concerned individuals themselves. While elaborating this fundamental issue, the well known deficiencies of the market are not ignored. However, these are phenomena and variations of the second (third?!) order of magnitude and cannot wipe out the basic contrast between direct (on the market) and markedly indirect and roundabout (the state) satisfaction of needs. After all, one should not forget that the theory of market failure is *not* developed in the camp of antiliberal thinkers but by neoclassical thought which, true, does not coincide with liberal theory in all of its streams, but is very close to this theory and, in any case, incomparably closer than to the antiliberal *Weltanschauung*.

When thinking about pros and cons of governmental role in allocating resources and perhaps steering economic development, one should not forget another fundamental truth about likely attributes of political and administrative behavior characterizing the governmental machinery. Whatever the conceptual formalization of social needs – and it is well known that the toolkit of social preferences and welfare functions is not particularly happy or successful – government with its peculiar objectives and lasting idiosyncrasies cannot be taken as institution primarily oriented towards satisfaction of social needs, say as represented by some sort of social welfare function. Behind any government there is unavoidable political authority which is particularly, in an inescapably peculiar way, placed in relation to the electoral body for whose approval and support it persistently fights. The political parties carry out these fights by endeavoring to maximize the number of votes at the coming elections. Governmental objective function – maximizing the number of votes – is vastly different from maximizing whatever welfare function may be selected as a representation of "social needs" [2, pp. 96-113], [2, pp. 164-204]. The government tries to achieve its goals by offering short term benefits at the expense of the long term effects, its decision making horizon is notoriously short and squeezed into the set of election cycles, and in the most untoward way at that. Political forces which fight for electoral survival, by doing what is best for them, do not behave in accordance with the best interests of the "society". This important point cannot simply be overemphasized. It bears repeating: what is good for political authority is not good for the society, whatever the way of defining the latter's interests. This should be the justification, and even a logically impeccable proof, for the general presumption against big government and a clear warning for the need to ward against its excessive, unhealthy growth.

Discretionary decision making on the part of the government is a grave danger for the society at large. Both theoretical analyses, with accompanying formalization through models, and massive empirical evidence point to the perilous dangers of governmental abuse. The real constraint on the government's discretion is the rule of law which makes regulation of social relationships and interactions universal and equal to all, eliminating possibilities of discrimination at the basic, elementary level of determining principles. The rule of law implies that the citizens are free to undertake whatever is not prohibited by law and the state agencies are permitted to do only what is strictly prescribed and provided for by the law. That the rule of law is the right approach to regulating social relations is easier said than done. It takes decades and in some aspects even centuries to build institutional structures which make it possible for the rule of law to prevail.

The institutionally undeveloped societies are far from having such structures and enjoying the benefits of their functioning. As a grossly imperfect substitute they have "great" leaders. Societies based on the role and the functions of the leaders do not offer political and social environments for affirming, preserving and further developing civic and other freedoms. Societies based on leaders predictably and unavoidably develop rigid hierarchies. In such societies the citizens are not governed by neutral, objective rules equally applicable to everybody, but are instead ruled by other individuals. The command system, which is adverse to freedom as a matter of principle, inescapably prevails in such societies. With liberty circumcised and personal uncertainty hypertrophied, such societies are not able to fully utilize and develop available human potential, their growth prospects are compellingly curtailed. Even if economic development comes to be accelerated for some time, it turn out to be unsustainable as the society remains deprived of momentum of motivation of free individuals and entrepreneurial propensity to venturing, combined with inventions, emanating therefrom. Without governing by neutral and undiscriminating rules, with overriding personal discretion, the uncertainty of life and property becomes a universally permeating invariant of social life, with loss of life and dignity as a foreseeable consequence. Nobody is certain in such societies, not even those occupying the highest places in the governing hierarchy; the highly placed individuals become distrustful of each other and physical extermination becomes a usual way of preserving one's earthly existence. Routine killings and various kinds of purges become a lasting component of social reality. Particularly hazardous are changes of personnel at the highest levels of the governing pyramid: political shocks generate tremendous disturbances and huge costs to the society. Contrary to this, the rule of law provides for peaceful, comfortable and secure life, allowing people to make their own choices and thereby contribute their maximum to the development of the society as a whole. Needless to say, the *AL* and *L* have vastly differing attitudes toward the governance by rules and the one by leaders and associated highly placed "cadres": the *AL* insists much less, if at all, on the rule of law and shows a sort of affinity, investing a lot of hope, into the "great leaders".

The measures leading to the overextending the role of the state move the society away from the rule of law and bring it closer to the rule of men by men. Such changes are bad enough by themselves, but they generate further untoward effects. The bigger government tends to be the more intensely intervening government, and, as any governmental interference – without capability of being neutral, as that would deprive it of its rationale – tends by its very nature to be selective, it differentiates the market position of economic subjects and introduces deformations into the allocation of resources. Selectivity of intervention can lead to formation of coalitions of rent seeking and rent appropriating agents which may lead further to the perverted growth of government making for exploitative rather than value creating arrangements. Such governments are prone to indulge into massive redistributive activities demotivating the producers both at the receiving and the expropriating end of this pathologically deformed, coercive relation. Due to the growing command over real and, particularly, financial resources, the incumbent government becomes too strong *vis-à-vis* its political opposition and more difficult to replace; such rigidity of the political system generates a kind of political monopoly of the incumbent parties, leading to overgrowth of their power, reducing the pressure on them to act responsibly and augmenting the room for further abuses of the state authority. Big government is a big political hazard and equally pernicious economic danger and cause of waste.

Some further controversies on the role of government and the "liberal" character of economic policies in Serbia

The source of grave risks is what a rapidly growing government tries to achieve as a complex of so called social policies. Governments make use of them to grow more quickly and more comfortably, easily justifying their appropriative actions before the voting public. There are several dangers emanating from governmental endeavors to be "more social". Firstly, an overextended government is a weak government due to the fact that its limited administrative capacity is stretched over a large front; due to that, the government is unable to target the social assistance properly, so that many well to do citizens get hold of a good deal of so redistributed income. Secondly, by acquiring command over large quantities of resources to be used as social support to the needy, the government appropriates a large part of what is to be redistributed to itself, expanding thus its bureaucracy and the coercive mechanisms. Thirdly, by taking large and growing parts of income to itself, the government saps the economy of its growth potential and lowers the rate of growth; this is a mechanism through which the entire society becomes worse off in a somewhat longer perspective, including the needy for the sake of whom the entire redistributive confiscation is putatively undertaken; the only ultimate beneficiaries are the governmental circles and political elites, accompanied by public bureaucracy, who perform this drastic expropriation. And, at last, fourthly, the overly strengthened government and political parties behind it become able to pursue their particularistic goals, avoiding reforms and preventing institutional modernization; the end result is petrifying of the extant institutions, keeping the economy at the suboptimal, inferior growth trajectory and predetermining the society to suffer low income and lasting deprivation, including the loss of face in the international arena.

The confusion on the account of redistributive expropriations of income and the role of government in their execution is truly amazing. As an illustration, a newly published paper by a renowned German sociologist [16] is analyzed to some length. The big point is that he examines the mechanisms of the market determined distribution and the government imposed fiscal and administrative redistribution as equally legitimate and naturally acceptable distributive arrangements! He may be right in analyzing the factual relations and trends in this sensitive and highly distorted area. But he is inexplicably wrong in treating these two arrangements as equivalent in a normative perspective. Appropriating the value which one has created in the market, by satisfying the needs of his consumers, is completely coequal and equipollent to him as expropriating income created by others, resorting thereby to the coercive state actions. Not a single word about ethical perversity of such confiscations and the obvious injustice of developing skills to take hold of what others are creating rather than producing income through own work, inventiveness and entrepreneurship. He discusses these economically groundless unilateral takes in complete oblivion of the strong disincentive effects of such arbitrary reshufflings of income the demotivating consequences of which are bound to reduce greatly the development potential of the economy, with all of society falling because of that to much lower levels of income and – how ever defined – social welfare. Contamination of mind and, as a consequence, social consciousness seems to have become an incurable malaise of contemporary civilization.

The story of market failures has been developed into a handy myth "justifying" various kinds of governmental dysfunctional interference which cause grave damages in allocation and production. To begin with, the state intervention directed towards "eliminating" market failures may contain much more serious failures of its own. The assumption of a flawless policy intervention directed towards cleansing the market of its failures is far from being warranted. It is also true that the same intervention, while eventually removing some failures, may create new ones, occasionally more damaging. In addition to this, interventions are costly. In addition to the direct financial costs covered out of tax receipts, there are allocation costs induced by distortions of the motivation structure caused by such spending itself as well as (additional) taxation. Another, still additional, component of costs is caused by the fact that most of these interventions introduce additional constraints into the system which clearly shift production and other desiderata onto the lower levels. Much of what is undesirable happens outside the scope of the objectives envisaged in the stage of planning these interventions. The motivation structure is typically (though unintentionally) distorted through such interventions, which is also a source of costs. Moreover, the business orientation and the entrepreneurial energies are dysfunctionally shifted from productive to the rent seeking and other redistributive gains. Exploitative moves grow in importance compared to constructive productive initiatives. A moral hazard failure is also developed by redistributive skewed interventions: the market agents learn to expect similar interventions in the future and adjust their behavior accordingly, seeking opportunistically to appropriate income created by others.

Many of the described actions of economic policy amount to genuine acts of governmental warfare over the economy. The interventions call for tax increases and, when spending occurs, private investment is crowded out. The spending itself is a manifestation of expansionary fiscal policy which, in combination with frequent accompanying restrictive monetary policy, results in high interest rates and discourages private investment on that account, too. Such uplifted interest rate, as a factor price, occasionally in combination with appreciated currency, as was and still is the case in Serbia, gives a distorted overall price system as a result; this turns out a way of crippling the entire market and making it far less efficient that it would otherwise be. The policy of subsidizing a substantial number of sectors and of the groups of enterprises (the so called firms under restructuring, so conspicuous in Serbia) distorts the market in still another way. A little less than a half of the GDP of Serbia is subject to the price controls: what more severe dislocation of the market can be imagined? The labor market, the mechanism determining wage and visibly affecting salaries, still another important factor price, was badly deformed by perverted and senseless legislation; only lately have steps been taken to rectify these contortions. The legal prohibition to adjust employment to the changing market conditions reduced greatly competitiveness of the local firms and, through their increased mortality, additionally deducted a noticeable number of jobs. Inconsistencies and volatility of economic policies created perilous uncertainties and crippled the economy through this channel, too. One should remember that markets are in many segments inherently unstable [7, p. 16], [7, p. 135] and that unnecessary shocks of economic policy cause large but avoidable losses and costs to the economy. What to say about illiquidity and the lack of protection of contracts? It has long been more difficult to collect the receivables than to produce and deliver goods. With such lack of paying discipline the market is literally annihilated. While indulging into far-fetched redistributive and other harmful activities, the government fails to perform one of its most important functions. Can one expect an efficient action in enforcing the paying discipline from a government which itself has more than one billion euros of arrears towards economy? One does not need much imagination to see how much harm this one government failure has done to the economy. While doing what it is not supposed to do, or rather what it is supposed not to do, the state misses on what its truly crucial functions are.

Subsidies are a special chapter in the long list of government failures in Serbia. To begin with, why subsidies at all? Despite considerable efforts, not a single sound microeconomic justification for the type of subsidies distributed in Serbia could be found. If the given entrepreneurial option is profitable, the investor should be interested in it without subsidies; if it is unprofitable, investment should not be undertaken on it anyway. Do we need investments which are to be undertaken only if subsidized and what will happen to the resulting establishments once subsidies cease to produce their effects? Clearly, investments induced by subsidies may be profitable politically, but economically they certainly offer no hope. Subsidies clearly differentiate the business conditions and, by putting various producers into unequal position, produce grave mistakes in the allocation of resources. Illiquidity, inefficient judicial system, lengthy and morally exhausting administrative procedures, the over indebted government on the verge of bankruptcy... and what not are parts of what everyone calls unfavorable business environment. Instead of intensely working on improving this environment, which is the task of the government, it has made itself busy with subsidies and other redistributive abuses, which is neither its task nor function.

Yet, one legitimate reason may be found for government stepping in to spurt on investments. Because of the lack of really working capital market and marked scarcity of credit, caused, among other, by the government's failure to improve the business environment, there may exist attractive investment opportunities which, because of the lack of finance, may go unutilized. There is some work here for government to perform. But it does not have to be in the form of subsidies; the granting of credits can perfectly fit. If the given entrepreneurial option is truly attractive, it should turn natural and convenient for the firm to take credit and to pay it off out of future proceeds.

Much of what is expounded here the *AL* doesn't understand. For some reasons they believe that economic policy in Serbia is conducted in accordance with the spirit of liberal teachings. The true state of affairs is exactly the opposite. Price controls, appreciation, legislative crippling of the labor market, the exceedingly high interest rate produced, among other, by the unhappy combination of restrictive monetary and over expansive fiscal policies, inconsistencies and volatility of economic policy in general, particularly in view of its unpredictable turnarounds... all these are the conspicuous, eye-hurting manifestations of antiliberal policies. Some of these mistakes produce the hysteresis effects. For instance, significantly and long enough appreciated currency has led many firms to incur high external debts and the domestic debts with an automatic adjustment for the change of the exchange rates; as a consequence, eventual, otherwise badly needed depreciation, would produce large losses in the balance sheets of many firms and drive them into bankruptcy; the authority doesn't dare to depreciate, as that would cause high mortality of firms, while keeping the exchange rate at the existing level continues to produce grave macroeconomic damages in the balance of payments and elsewhere. There are other manifestations of antiliberal stance in the local economic policy: huge budget deficit, overindebted state (on the verge of bankruptcy), bulky and inefficient public enterprises, large share of the state in the ownership of social capital, infinitely dragged and, as it seems, never to be finished privatization...It is not easy to imagine a country which could be seen to be more antiliberal than Serbia. By claiming that Serbia is all liberal, the *AL* do not prove anything but their disappointing and disastrous ignorance of the real situation and, particularly, of the theoretical foundation and analytical toolkit of the profession to which they believe to be belonging. Some time in the past I might have written that, by their bizarre notions and inconsistent reasoning, they have put themselves out of the profession. I was criticized for that in an informal discussion. Upon reflection, I take this statement back. They have not put themselves out of the profession; they have never really been in it.

Me against them: Settling accounts as a closing move

The purpose of this section is to line up a number of criticisms directed to the *AL* part of the economic profession in Serbia and to point out a number of fallacies which so vividly characterize their work. This review of objections and critical comments will have to be selective, meaning that the number of remarks will not be as big as it is called for given the number of reasons contained in their work and fully justifying the criticisms. Thus, many comments are omitted, including, of course, quite a few of those predictably and justifiably sharp and sufficiently bitter. The space and the reader's patience are limited and only some characteristic features to be discussed here have to be chosen. There is an alleviating circumstance though: our antiliberal writers are very similar to each other, they appear to be akin to each other like an egg to another egg, to translate literally a Serbian adage. Speaking of weaknesses of some of them, one is in the position to say a lot on the rest of the crew. This section is divided into two parts, the first of which will be devoted to the elaborating of the general traits of their analyses, while the second will be split into brief subsections, each of which will be devoted to the one *AL* author. It is felt that each of the considered *AL* authors should receive separate attention, so that none of them would be in the position to believe that he is outside the critical purview or even immune to critical remarks. Nevertheless, not all *AL* analysts will be considered in this overview but only those who are perceived in the public as prominent or, in a few cases, who think of themselves as being prominent and visibly display that conviction in their public performances.

Some general traits of the antiliberal economists

The most conspicuous feature, with hardly any exception to be noticed, is their common enthusiasm in criticizing so called neoliberalism and the failure to define clearly the corresponding body of doctrinal contributions and institutional blueprints that they are in fact talking about. That allows them to pile all kinds of social and economic perversions on a huge heap and to call this bunch of oddities *neo*liberalism. This comes up as a direct negation of the universally needed discipline of thought, reasoning and expression. Most of the evils that they so lightly and offhand ascribe to neoliberalism have no connection whatsoever with any variety of liberalism or any stream of liberal thinking. Among the items ascribed to the *L* in such a way are appreciation of the national currency, the hasty and sudden opening of the capital market, the disequilibria in the balance of trade and the balance of current accounts, the unsustainable acceleration of the aggregate consumption, high levels and the excessive increases of the public debt, the deficit in the national budget and even international aggressions and "imperialistic" encroachments into the policies and even sovereignty of the smaller nations. An antiliberal sociologist recently wrote about something like the "market for international crime" and the "market for death" labeling them as paramount liberal phenomena. An *AL* economist cited him very approvingly, indeed enthusiastically, accepting wholeheartedly the "idea" of developing the "market for death" as a liberal peculiarity. Reminding them that life, liberty and private property are three basic pillars of liberal thought and value nexus proved to be absolutely in vain. How could death and killings be treated as liberal doings if life is one of the fundamental values and one of the elements that are considered sacred in the liberal *Weltanschauung*? This misunderstanding is largely a predictable consequence of failing to define the concepts that are utilized leading to all kinds of arbitrary absurdities. In fact, the evils they choose to treat as components of the liberal baggage are eminently antiliberal; given the quantity and selective ugliness of what they in their oblivion choose to pile on the liberal collection plate, the institutional model which they call neoliberalism could with incomparably more justification be called neoantiliberalism. They thereby commit at least two mistakes: the sloppy thinking and the unfounded labeling of a majestic doctrinal and institutional system in connection with which they missed on badly lacking care even to (at least) superficially get acquainted with.

A particularly enlightening illustration of their mistaken notion of liberalism is their frequent citing of the breakdown of the economy of Chile which, as they claim, underwent disaster caused by "liberal policies" accompanied, as they also claim, by unprecedented criminal acts with hundreds of thousands of innocent people having succumbed tragically. In bringing out such senseless accusation they fail to ask themselves a number of questions and to attempt seriously to provide accompanying clear answers. Firstly, they fail to describe in sufficient detail what the *Pinochet's* policies exactly had been. Secondly, what part of these "policies" might have been caused by systemic constraints or imposed by an inescapably intervening set of objective circumstances? And third and most important – what in these policies had been inspired or instructed by liberal teachings. The most touching is yet the attempt to ascribe those thousands of deaths to the "perverted" liberal notions of how to organize the economy and the society. Equally exciting is their identifying of all policies of the USA as the essence and paradigmatic instance of neoliberalism. The US policies turn thus out as a sort of proxy for the missing definition of *neo*liberalism; the fact that the US are far from the liberal idea(l)s, and in some dimensions tend to the opposite end of what the genuine liberalism would imply, simply does not catch their minds. The *AL* are also characterized by a generally inimical stand towards the international financial organizations, particularly towards the International

Monetary Fund and the World Bank, not being able to see the precious expertise which had been provided through these channels and ignoring the fact that these organizations never invite themselves to any country but usually respond to desperate calls of the countries whose own economic policies have, for various reasons, brought the corresponding economies to the brink of catastrophe.

Another amazing detail in the antiliberal perception of the economy and the society is the contention that all failures in the economic development of Serbia are caused by the underlying liberal orientation. However, if one was to pick the most striking example of antiliberal policies, Serbia would be a good candidate for the choice. To that conclusion more than eloquently point the following components and aspects of various economic policies (the time of writing late November 2014): slowly executed privatization with some 500 firms still in the state ownership or self-management status with what used to be called social property, almost half of the GDP being produced in the regime of price controls, huge and difficult to explain, not to speak about justifying, subsidies in the economy, the share of budgetary deficit in the GDP far above what was prescribed by law, analogous overextension of the ratio of public debt to the GDP, perverted legal regulation of the labor market which until recently (late summer 2014) gravely discouraged expansion of employment discriminating in fact heavily against the unemployed, remnants of protectionism in foreign trade, high inflation, far-reaching redistribution, massive forgiving and writing off of unpaid taxes, placing the party functionaries to highly paid posts in public enterprises, massive abuses in allocation of credits out of public funds and the state owned banks etc. [10, pp. 102-103], [13, p. 135]. Perhaps nothing testifies more convincingly to the lack of information, shaky professional knowledge and the loss of any touch with reality than the *AL*'s belief and even open claims that economic policies in Serbia are all in the liberal spirit and that such liberal stance has produced the economic disaster which both *AL* and *L* see and acknowledge. As indicated above, the *L* are able to see and explain some of the objective reasons of failed policies, such as destructive competition among the parties in the political market and the shaky and slow acting coalition governments, while the *AL* neither see nor try to interpret any of this.

Another common feature of the *AL* in Serbia is a, so to speak, utmost distrust into the market and an unfounded and equally divorced from reality belief in governmental benevolence, cognitive capacities and efficiency. This lack of trust is revealed upon a more thorough examination of their way of thinking despite their ostensible pronouncements for the market. In fact, they may not be fully aware of their anti-market stance and would probably energetically deny it. However, their frequent and in fact regular turning to all kinds of direct intervention by the governments and the broad front that they would like for government to occupy demonstrate quite clearly their rejection of the market in many areas where it clearly performs better than the politicized civil service and the overbearing bureaucracy. The mere fact that market can show deficiencies in certain parts and in recognizable ways appears to them as a proof that the government at these points of market deficiency has automatically to be the right kind of coordinative device. Utterly alien to them is the idea of having both markets and governments deficient and prone to failure and that in the underlying choice between two evils comparative analysis has to be undertaken.

Preferences, alternatives and constraints could be taken as fundamental concepts in economic thinking. The *AL* is prone to neglect all three. Thus the political elites and the bureaucracies as their supporting echelons may have their strong, very particularistic interests which may greatly distort whatever public policies are being planned. One has to take into account such likely implementing deviations when counting on what could be entrusted to the government as opposed to the market which is freed from that type of malformation. The *AL* is oblivious of that kind of risks of government interference. It is also true that many changes and effects which are perhaps achievable in view of the extant level of technology and the available resources may not be feasible in view of the constraints within the institutional system itself. Such constraints the *AL* doesn't recognize and even strongly criticize the attempts of some *L* to identify such constraints and to trace down their implications. They treat such analyses of institutional constraints as apologetic ventures of the *L* economists to find justification for policy mistakes and to defend governmental agencies against rightful reproaches of the profession. They look for causes of economic disturbances exclusively in the acts of concrete individuals, resorting even to their names in texts written with scientific pretensions – *nomina sunt odiosa* – and thus behave exactly in line with the theory of conspiracy about which Popper wrote with so much justified ridicule.

There is a basic contradiction characteristic of all adherents of *AL*. On the one hand, they look at the government as an institution providing socially acceptable solutions of almost all major problems and the implied width of recommended governmental intervention testifies to the exaggerated assessment of the market deficiencies and the unwarranted extreme belief in the benevolence laden efficiency of the entire machinery of the state. On the other hand, the actual policies of the government and its current performance are the subject of their overarching, bitter and unsparing, criticism. They refuse to see that they in fact recommend what in their ravaging critiques they find catastrophically devastating. That is a huge, inexcusable contradiction which they cannot logically justify. Their answer to this observation is that, while recommending the comprehensive state intervention, they do not have in mind the government as it is, the state in its present shape. They count on a quite different government, one which will prove to be constructively poised towards the grave problems of the present day, incomparably more efficient and able to overcome the difficulties which happened to fall far beyond the reach of the government as it presently exists and – this is automatically implied by their reasoning – beyond the range of whatever can be achieved by the market.

This is the grand illusion, one of the greatest mistakes persistently being reemphasized by the *AL*. They fail to see that creating a good government is a challenge far exceeding the building of infrastructure, industrial capacities and other physical components of the production system. They don't recognize that such a plan may never succeed because the prospects of getting an efficient government depend on a wide enough range of general social factors which may be objectively given and completely uncontrollable. If some possibilities of getting a perfect government existed, that might have happened long ago; history would not have waited for their recommendations to deliver such perfect government. Some societies will have to live for long – some perhaps forever – with clumsy, inefficient and corrupted governments and the reasonable way to proceed is not to expect the unreachable wonders but to limit the area of governmental engagements and to orient it to its proper functions.

In the above reasoning the *AL* make a logical error close to *petitio principii*: they assume (the possibility of a) perfect government and than continue comfortably recounting uncountable functions which it is supposed to perform in an impeccable way. By allocating many functions to a government supposed to be next to perfect, they in fact assume the way in which they will be performed to "conclude" that the level of performance will be consistent with that way, i.e. a perfect performance is the premise and the "very satisfactory" performance the conclusion. A similar factual and logical error is committed by the *AL* when they take the example of a supposedly successful country – the South Korea is the ready and regularly utilized example – and then offhand conclude that the "deeds" should be entrusted to our state, i.e. the state existing in Serbia *hic et nunc*. As if all the states are alike and as if a country with inefficient and corrupted state can overnight create an almost perfect one. The *AL* is also prone to referring to the (professional) authorities and to using their assertions as the proofs for their own (the *AL*'s) claims. They should understand once and for all that the number of authorities is practically limitless and that by selecting the "appropriate" authority anything can be proven.

Selective comments on the findings and judgments of some antiliberally oriented economists

This overview is not meant to be exhaustive but only illustrative and, as suggested by the title of this subsection, highly selective. It is intended to provide a somewhat more concrete picture with insights into the means and byways of the antiliberal thinking. It is also intended to illustrate to some extent eccentric, if not bizarre features of the antiliberal *Weltanschauung*. The selection of authors to be discussed in this part of the overview is in some measure arbitrary, without clear-cut criteria pointing to some easily recognizable authors rather than others. The criteria, to the extent that they showed up in determining this selection, would be the representativeness of the views within this school of thought against which this entire book is written, the acrimony and intolerance with which the *AL* ideas are formulated and defended and the presumed influence they might have left in our insufficiently informed and collectivistically contaminated public. The collectivist attitudes are much closer to the atavistic communitarianism of our people [15, p. 54], [15, pp. 65-66] and noticeable influence of the *AL* views should be expected independently of their intellectual merit and theoretical foundation. This is the reason because of which any struggle for the acceptance and recognition of the *L* views is uneven and difficult [13, pp. 132-135], with moderate prospect of wider adoption of these tenets as leading *Leitlinien* of social organization.

One of the criteria of choice – true, supplementary and indeed secondary – might have been, in some sense, the loudness and frequency of expression of these *AL* views, together with arrogance with which they are thrown upon the public. Even though the *AL* doesn't recognize the institutional constraints and objective obstacles in implementing economic policies, the general spirit of their elaborations is much closer to the mood of political elites than the content of the *L* views; by asking more and more of governmental interventions they contribute to their expansion despite the fact that, by their own admission, they never get what they hope to see as corresponding interventionist result.

Nebojša Katić is one of those *AL* authors who are most vocal in recommending the governmental intervention, especially in the times of crises whose possibility of having been government induced he would never admit. The remarkable fact is that he takes the government's ability to contend with the crisis as evident and unquestionable, and the risk of crisis being deepened by these interventions as nonexistent. Not a single shade of doubt in governmental ability to come to grips with the crisis can be noticed in his writings. With such deep conviction about governments' capacity to solve the messy problems "caused by recklessly deregulated market" (this is a guess of how his formulation might look like) he goes on and with some ecstatic exhilaration asserts that all have now (in times of crisis) become Keynesians. To my best knowledge, none of the liberally oriented economists here in Serbia has converted to this old macroeconomic faith. More to the point, even the officially launched economic policy of Serbia is at the opposite end of the article of faith implied by Keynesianism: in the depth of the current recession the government has resorted to significant cutting of pensions and wages and salaries in the public sector; the imperatives of life take most naturally precedence over theoretical (haven't they become ideological?) prejudices. The duly sober and professionally unquestionably competent Fiscal Council [4] does not harbor any hopes regarding revival of the economy through increased public spending; the only point at which they are discretely Keynesian is worrying about the impact of possibly restricted aggregate demand on domestic production, due to the just mentioned cuts in incomes, which is quite legitimate and for which risk they are seeking the appropriate remedies. *Katić* interprets the current crisis as a mortal blow to the liberal thinking without explaining what exactly – beside purported deregulation for which *Tasić* [17, pp. 77-82] convincingly demonstrates that it did not exist – what exactly was so terribly liberal in the pre-crisis policies. Moreover, the deregulation, to the extent that it came to the fore, might have been forced by exogenous factors such as the international competition of the regulating arrangements themselves, but this idea does not provoke any reverberation in his mind. Whatever catastrophe the *L* doctrine might have suffered, an objective analyst is expected to observe phenomena in a wider context and see what happened to the doctrinal systems competing with the *L*. Had he taken a wider look at the world economy and institutional realities, he would have observed the epochal breakdown of the socialist system and concluded that, whatever damage suffered the *L* doctrinal body, its principal and the most conspicuous alternative fared much, much worse. Similarly to other *AL* adherents, *Katić* fails to pay heed to the alternatives, one of the basic categories of economic science, and therefore misses on the basic truth revealed in the area of comparative systems: the given variant *V* may be unlikable in many respects that we care about, but if no other feasible and sustainable options exist, it is still an institutional optimum, the best among available options. He may attempt to take refuge in asserting that Keynesianism and other forms of interventionism are the alternatives to *L* he had in mind, but that would not be correct; *L* is a grand, comprehensive system of doctrines and institutional choices and its alternatives can meaningfully be defined only on the same level of generality. The true alternatives to such a comprehensive, epochal and grand system would be only socialism with its Marxist substantiation or, not too far from it, fascism with its alternative, again collectivist ideological superstructure. *Katić* is one-sided, too narrowly focused and irrevocably prejudiced in his institutional and policy preferences; therefore, no hope should be laid in affecting appreciably any of his thoughts. Deeply dug into his antiliberal views, he is likely to remain there until the end of time.

He is economically literate enough to understand that the so called Washington Consensus (*WC*) is a set of theoretically and logically grounded rules which any reasonable policy us bound to respect, but he still finds fault with it; he does that by referring to details and asserting that it is the details which allegedly make the *WC* deficient as a platform of economic policies (*Der Teufel steckt in Kleinigkeiten*), but he never comes back to these details to demonstrate the ineptitude of the *WC*. He also accepts the so called greed theory with visible enthusiasm and, one is tempted to say, puts himself outside the science of Economics; it only remains to one to wonder what alternative economic theory he has in mind and how could a theory be developed at all without postulating that something is maximized in the behavior of economic agents. How come that people became so greedy in these days without apparently having been greedy in the long course of human history? Are we witnessing some deterioration of human material, a sort of its ethical degradation?

Mlađen Kovačević continues to be one of the most vocal critics of the *L* thinking and a prominent proponent of the view that about all evils stemming from economic predicament of Serbia emanate from wrong policies inspired by the perverted conceptual framework and the accompanying theories associated to the liberal outlook on economic realities. It is highly indicative that one cannot unambiguously discern what he exactly means by neoliberalism and his assertions cannot be checked against some clear and unique standard of semantic identification. That does not come as a surprise because any attempt to define precisely neoliberalism would plunge him into serious trouble: many of deficiencies which he judges as of liberal origin would come down to be directly nonliberal. He is the most extreme among those who use neoliberalism as a waste basket for stuffing in whatever he finds unlikable or damaging. It will come as a surprise to him that by far the most of the monstrosities which he throws on, what he thinks, a liberal rubbish heap are, in fact, eminently antiliberal. He has turned it all upside down.

I have to point out to his credit that he immediately understood the explanation of the origin of the major part of the balance of trade deficit of Serbia: a country which has significant remittances and other forms of factor income, as well as foreign exchange inflows through foreign direct investment, increasing foreign indebtedness and other similar inflows, does *not* have to maintain – and even cannot aspire to achieve – the equalizing balance of its foreign trade. Therefore, whenever foreign exchange availability is above the export proceeds, the country has to run balance of trade deficits. These deficits are in the case of Serbia significant because the excess of foreign exchange receipts over what is earned by exports is also significant. Economists have long ignored this elementary fact and have criticized foreign trade policies out of any proportion with what is justified in view of the real constellation of the relevant macroeconomic aggregates and in view of the above indicated legitimate foreign trade deficit. Here and there I have resorted to the appropriate self-criticism (this used to be a sign of not-so-bad part of the behavior within the Party during Communist times), while professor *Kovačević* has not done that (even though he has occupied incomparably higher places in the Party hierarchy than was the case with me).

Another *AL* adherent, *Marko Sekulović*, seems not yet to have understood the elementary arithmetic fact – when total foreign exchange inflows are much higher than the export proceeds, imports have to be correspondingly higher than exports, with smaller modifications of the second order of magnitude – and has on October 15, 2009 in Kragujevac launched a polemic with me exactly on that account. He accused me of siding with the government and defending its failed policies, as exemplified by huge deficits of the balance of trade, and seems to be opposed to this arithmetic fact ever since, until the present day. The hope remains that some such things the local antiliberals will be able to clarify among themselves, so that we, the participants of *L* do not waste any more time on these trivialities. Just in case, let me refer to a textbook [14, p. 458], which I read only later, following this discussion, and was unable to refer to at that time. By the way, I wholeheartedly recommend to the adherents of the *AL* systematic reading of textbooks; the insights presented there are carefully sifted and clearly laid out, so that they provide the easiest way of supplementing our knowledge in which we never exceedingly abound. This was a convenient opportunity to mention in passing professor *Sekulović* since I don't intend to devote any further part of this overview to him.

Jovan Dušanić is a truly dear friend of mine, as are in fact almost all Serbian antiliberals (with two exceptions, one of which is due to the inescapable generation gap). This makes it markedly more difficult to indulge into the verily principled discussions, which are inevitable when it comes down to refuting the statements not holding up to the rigorous scientific scrutiny. Yet, this must be done; it would not make sense to continue these polemics which last for quite some time now without going sufficiently far and deep to justify the hope that some kind of truth is reached and proved.

The first friendly quarrel I have to indulge into relates to his belief and repeatedly brought out statement that the economies of (more or less) all countries are growing in size and, simultaneously and perhaps even more, in complexity (with which statement I have no quarrel), and that the need for governmental interventionism increases quickly in parallel (with which I have plenty of quarrel). From the way he formulates his conclusion about the growing need for government intervention [3, p. 31] it comes out clearly that he has in mind management and control of these huge systems, the way big (and small, for that matter) companies need management and developmental steering. The body of literature which can be considered truly scientific contains rigorous proofs of a thesis which is exactly the opposite from what *Dušanić* claims. The most reliable and the most economical way of clarifying this contention is to refer to the monumental work of equally monumental figure of *Hayek* [5, pp. 133-144], [6, pp. 44-58, and more particularly pp. 44-45]. The basic idea is straightforward even though the proof is involved.

The available knowledge and the accompanying quantity of information are limited at any point of time and these factors clearly define the reaches and possibilities of managing (in the usual sense and in the sense of *Dušanić*) any system. The larger the system, the more severe such limitations. The large and complex institutional creations can be so complex that they cannot be properly understood even by the authors of the acts and the accompanying by-laws [17 p. 147], [1, p. 92]. What cannot be understood cannot be managed. The fact of the matter is that these huge and steadily growing systems cannot be governed (in the usual sense of the word) by governments or any other agency. The only way out is to resort to creating and shaping the rules, i.e. building the institutional framework and legal order. Any attempts to govern and manage (in the usual sense implied by *Dušanić*) can only produce more chaos and, ultimately, catastrophe. A detailed and highly professional development of underlying argumentation in the domestic literature can be found in *Lakićević* [8, pp. 161-171]. In fact, that proposition is empirically confirmed in the most drastic and tragic way: the epochal breakdown of the socialist order happened *in ultima linea* as a result of the faulty system based on the notion of governing the ungovernable.

The analogy with the gardener comes in again very nicely here: any attempt to create a leaf by sorting out the molecules must be unsuccessful and could only produce chaos in the microcosm of these tiny components of matter. But if the gardener provides the appropriate conditions (humidity, temperature, illumination), which are analogous to the rules in this context, many leaves will nicely grow by themselves, the nature will perform the miracle which proved to be beyond the reach of anybody attempting to create a leaf artificially. The leaf allegory is perfect for presenting the two opposing conception of the role of the state, the *AL* and the *L* conception. The *AL* approach is analogous to the gardener-engineer attempting in vain to construct a leaf by ordering the molecules; the *L* approach corresponds to the traditional gardener who just provides the condition and lets nature do the most complicated, unmanageable part of the work. To summarize, the approach of professor *Dušanić* is akin to the class of attempts to create and coordinate by direct actions an inconceivably complex organization, such as the proverbial leaf. Such an approach is unrealistic and infeasible, and, equally to the point, it is in direct contradiction with the established and widely accepted scientific results. What is intended to be said here is that *Dušanić's* approach is unscientific.

The second big issue which has to be raised with *Dušanić* is his contention that the dollar is accepted as an international currency by force and, so to speak, brutal coercion [3, pp. 131-141, especially p. 132]. That is outright mistaken and deprived of any logical foundation. The simple truth is that no currency can be forced upon others by any kind of coercion. Currency can gain the status of the international money only if it acquires credibility, i.e. if it earns that elevated status. This is so obvious that it is almost embarrassing to proceed to proving it. Let it only be mentioned that there have been several occasions allowing acceptance of other currencies (euro, yen) and that considerable hopes have been entertained by some international business segments and, notably, financial circles, to launch a particular currency as an international means of transacting; but nothing came out of it. The key word is again the credibility; someone currency stands the chance of being accepted as a means of transaction only if both (all) parties to it believe that the value of the currency will be maintained and that no one will find himself in the position of feeling sorry of repenting because of agreeing to deal in that currency.

Another big area of disagreement (among many!) between professor *Dušanić* [3, pp. 147-154] and me is the interpretation of the Chinese development miracle. He is convinced that this miracle is due to the activities of the state. It is true that China has implemented some extremely well thought out and macroeconomically favorable economic policies, but that does not provide the answer to the question of Chinese success. There is much more to it than just the policies: China has liberated her people, one could say in such a magnificent way which can be termed unprecedented. That is the key item in the recent Chinese history without which the miracle cannot be explained. This liberation has unleashed tremendous, unimaginable energies without which anything undertaken at the top of the governing hierarchy can only be futile. At an operational level, huge successes cannot be produced by the narrow circles party or whatever elites; for huge successes participation and cooperation of huge numbers is needed, and that, in the Chinese case, was only possible by eliminating the shackles of the people's communes and totalitarian government which ruled for decades prior to the initiation of this success.

It goes to the credit of the government that it did stifle not this huge creative upsurge by some ill-conceived, by the past doctrines inspired policies. One important thing, which I found nowhere else to be emphasized, is that it is not only institutions as such, whatever their form, that drive development and produce success, but also institutional dynamics. The right direction and the proper kind of institutional change generate favorable expectations and thus contribute to a huge anyway growth potential of the economy. To conclude, it is not the concrete actions and undertakings on the part of the enlightened state that have engineered the admirable Chinese growth, but the fact that the situation was at last created in which growth will be driven up and happily secured by others. And those others numbered hundreds of millions, with all of them placed in an entirely new state in which so much could have been done what prior to that had been impossible. One could argue that this liberation of people is also an act of the state and that the ruling, party or whatever, elite is to be credited for this achievement. However, such a statement does not amount to much: it is equivalent to saying that the gardener should be hailed for the creation of the allegorical leaf without specifying whether he did that by using inconceivably huge microscope with unbelievably tiny instruments or by relying on nature and just supplying necessary general conditions (in our case analogous to institutions) in the form of appropriate temperature, illumination and humidity.

Dušanić is thrilled by Chinese values and contributes to them a good deal of the said developmental success [3, p. 151]. He is plain wrong, here too. His view is all too narrow to make him able to understand the significance of values. While speaking enthusiastically about noble Chinese values he forgot that China is one of the most corruptively contaminated countries of the world and certainly one with the largest number of death penalties adjudicated for corruption. She is the country with one of the most unfavorable records in the domain of human rights – where human rights are at such a low level of protection, one can hardly speak about notably elevated status of human values – and a country with appalling inequalities between the rural and the urban areas. *Dušanić's* view is again too narrow – this seems to be a generic characteristic of the *AL* camp of analysts – he misses gruesome atrocities perpetuated during the Great Jump Forward and the Cultural Revolution, when millions of innocent people lost their lives; that, too, was done by the same (noble in *Dušanić's* view) Chinese people.

It is well known that China has still a bulky junk of perilously inefficient public enterprises which piggyback on the rest of the economy, i.e. on the private sector. The authorities use these enterprises to place the party cadres into well paid and comfortable positions, rewarding them for their political services. This is an exploitative violence exercised not only to the private sector but to the society at large – the losses of these firms are being covered at the expense of the taxpayers – which is grossly inconsistent with the *Dušanić's* rosy picture of the altruistic and self-denying social values of the Chinese society. Focusing on conveniently chosen details and forgetting a wealth of other elements contradicting their contentions is typical of the *AL* branch of the local economic profession and a crying sign of intellectual inadequacy.

Just one word about the military for which I have been arguing for about 15 years to be dissolved and removed for good in a human and organized way. Here, too, *Dušanić* shares the weaknesses and ineptitudes of the camp to which he belongs. Despite more than painful evidence to the contrary, he believes in the ability of our own army to defend us against foreign enemy. Hasn't the disappointing experience with the JNA been enough? The right defense strategy for a small and economically broken country like Serbia is having powerful friends and avoiding all kinds of enemies; the risk is high that even if we find ourselves in the conflict with a weaker state – and the number of such states is limited and, as it seems, declining – somebody bigger and stronger will intervene and the outcome is bound to be the same – unfavorable. Professor *Dušanić* seems ready to be defended by the domestic army; as for me, I follow the lines of a popular joke – thank you. Declaring itself to be the country without army, Serbia would get substantial prestige and international recognition. *Dušanić* with undeniable wits cites an ancient proverb: those who don't feed their military will feed somebody else's; my answer is: if none of these – our own or alien – is of any use, none should be fed.

Radovan Pešikan is another nice, easy-going and civilized man with whom I, unfortunately, have to continue the polemic. He has declared himself to be a liberally oriented economist, but with his ideas of a dense network of state run banks [11, pp. 233-241] and the recommendation of heavy involvement of the government in the production and choice of the investment projects [12, p. 344], one is at pain to see how these recommendations could fit into any, even the most flexible and unendurably stretched liberal framework. He, too, shares the conspicuous and sadly damaging laxities of the antiliberal front (*AL*). Firstly, he does not have a clear understanding of what liberalism (*L*) and its adherents are, and, secondly, he is oblivious of realities and overwhelming empirical evidence speaking against his notions. As to the first ineptitude, he significantly departs from the rest of his *AL* colleagues in that he perceives *L* as something positive and desirable and ascribes to it many of the attributes he believes would be of much use to the economy. This positive attitude is worthwhile, at least from the point of view of *L*, but as many of his recommendations appear not to be well taken, his constructive misunderstanding partly boils down to what other *AL* claim while offering a radically interventionist blueprint of economic policy. The sameness consists in advancing views which either cannot be applied or, if applicable, would be damaging to the economy. The second *AL* feature shared by *Pešikan* is the ignoring the facts of life, the empirical basis of one takes upon himself to analyze. Just as the core of the *AL* clearly perceives and bitterly criticizes the way in which managerial, entrepreneurial and other direct functions of the state are performed and yet ask for more of its intervening into the allocation and use of resources, so *Pešikan*, oblivious of the drastic failure of the state (partly or totally) owned banks insists on all banks being a part of the network run by the government.

Another striking feature lining him just along with other *AL* economist is his unwarranted belief in the might and responsibility of science. Economics is, to begin with not particularly strong and there is much in it of which we cannot be proud. More to the point, economics as a science is most of the time ignored and political bodies in implementing policies pursue their own interests. Being without influence – and, in part, deservedly so – economic science cannot be responsible for what is unfolding in the economy of Serbia. Equally important is a look into the future: the prospects of having this science much stronger influence is slim indeed and counting on a big turnaround regarding the treatment and resulting influence of economic profession is plainly unrealistic and naive. After all, what responsibility there remains in this chaotic country and its deeply disrupted (macro)economic position – is undoubtedly borne by the incumbent political directorates and asking for particularly big influence of the scientific circles amounts to asking authority without responsibility. By asking such a thing, the initiator of such move displays disappointingly poor understanding of some elementary economic principles.

There remains one more major misunderstanding deserving supplementary comments. It refers to an extremely simplified procedure for measuring performance of the ruling political directorate which consists in measuring the rates of growth of the GDP and a number of chosen macro indicators; these would be compared with the performance indices set in advance and promised in electoral campaigns, in case of underfulfilment surpassing the degree specified in advance, the incumbent government would have to resign. A detailed review of this proposal, offering comprehensive criticisms, is given in an earlier paper [9, pp. 314-323], so that only a few critical remarks will be given here.

The principal difficulty of the proposed scheme is the simple fact that variations of the growth rate of the GDP and of the aggregates that may be selected along with it, such as growth rate of exports or the changes in the ratio of exports to imports, do not reflect the quality of the governmental policies. The governments are frequently in the position to undertake fiscal consolidation and major stabilization actions which, in order to succeed, imply as a rule lowering rather than increasing the relevant rates of growth. The proposed scheme would punish governments undertaking and implementing the most needed, optimal policies at a given time. It would, on the other hand, reward the opportunistic policies forcing up the growth rates by postponing or omitting altogether the urgently needed actions of putting the economy in order. The influence of exogenous factors is also disturbing. That influence is particularly strong in the shorter time intervals, those going up to the electoral cycles, which introduces a stochastic element into the evaluation of the performance of the incumbent governments. Due to sheer luck, some governments would severely suffer, while the others would undeservedly fare well. A bias toward opportunism in development and economic policy would also be introduced: due to temporal substitutability of the rates of growth, the possibility of achieving relatively high rates in the short run at the expense of their marked decline in a somewhat longer run would exist. Incumbent governments would be induced to pump up the rhythm of growth in current periods while leaving the heavy legacy of reduced growth potential to the future. At last, we should be restrained in evaluation of our creative capacities: if it were that simple to design a procedure for evaluating governments and taking them to responsibility, somebody else would have devised it long ago; the history would not wait for two of us to come up with such an “elegant” solution.

Risking the same kind of objections, albeit less damaging because the proposal will be less ambitious, an alternative procedure is proposed here just as a suggestion for further considerations, without pretence of having found the right solution. Rather than following the volatile and unpredictable growth indices suggested by *Pešikan*, the birthrate and mortality of the firms, as well as the difference between these two magnitudes, could experimentally be considered as an indicator of government's seriousness to revive the economy and to give it a sustainable impulse for further growth. That indicator would be more closely linked to the economic policies, especially to the government's effort to (re)gain the confidence of the business circles. E.g. inimical or clumsily devised policies are almost immediately reflected in the increased mortality of the firms and a set of constructive policies could be interpreted by the public as a hint or a series of hints of systematic and persistent future encouragements to the business sector. The increase of this indicator of business vitality could more closely reflect the true support to business on the part of the government.

No doubt, a series of unsolved problems remains unresolved. There is still some temporal interdependencies – the actions undertaken now may produce some effects in the future and some forced quick results might have their longer-run costs in terms or reduced growth of the number of new establishments in the future. Some problems might prop up in connection with the magnitude of the newly born and currently extinguished firms: should all firms, both at the birthrate and the mortality side, be weighted equally, and if not, how to go about this? It goes to the credit of *Pešikan* that he has spurned on a new line of thinking and suggested some interesting associated ideas. The hope remains that other people may join in suggest something more founded, logically as well as functionally, contributing to ever alive and relevant problem of improving the social control over the ruling directorate.

The great theme of doctrinal divergences can never be exhausted. A number of them are discussed in this overview to some length and a much larger number has only been touched upon. The principal message is not that one or the other stream of doctrinal development is for or against the market or the government. Both streams are for both market and government, but in vastly different ways. The liberal stream in economic science (*L*) advocates the stand that well protected property and appropriate contract discipline is unimaginable without a strong and well organized government. That means that a devoted and efficient government is an essential precondition for the well functioning markets. In view of the limited capacity of the governmental machinery, and particularly of the civil service, the government cannot be strong and efficient if engaged on a broad front and in many undertakings that don't belong to the proper functions of the government. The antiliberal stream (*AL*), on the other hand, wants the government to be engaged on a broad range of tasks, many of which are reducible to direct control in the economy and management in the conventional sense of the word. By being occupied by such a broad range of tasks the government cannot be strong and efficient in carrying out its proper functions. In what is its proper job government in the antiliberal set-up turns out weak. Thus, if one considers the range of functions properly belonging to the government, the *L* conceptual approach is the one of strong government, while the *AL* paradigm is in fact a teaching of weak government. True, if government proceeds to act on a very large range of social affairs, it certainly amasses considerable, dangerously augmented power; however, this is not the strength in performing its immanent functions but the strength in relation to the rest of society. It should prove evident that governmental strength in this latter sense of the word, the strength over society, is certainly not something to be desired. It is a permanent source of institutional hazards and political *cum* economic dangers.

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EMPIRICAL TESTING OF HOFSTEDE'S MEASURES OF NATIONAL CULTURE AND THEIR IMPACT ON LEADERSHIP IN FOUR COUNTRIES

Empirijsko testiranje Hofstedeovih merila nacionalnih kultura i njihovog uticaja na liderstvo u četiri zemlje

Abstract

This paper presents the results of empirical investigation of the validity of Hofstede's measurements of national culture in Serbia, France, the Netherlands, and Denmark. In one multinational company the employees have taken part in the questionnaire the purpose of which was to investigate whether the relative relations between positions of the observed national cultures stayed the same when compared according to each of the four national culture dimensions as Hofstede had originally described. In addition, it has been also explored whether a national culture could, through its power distance dimension, be a relevant factor in the choice of leadership style in organizations. The results of the research have demonstrated that the positions of four national cultures and their relative relations have remained the same as Hofstede outlined them through his indexes in three out of four dimensions. The research has also shown that in the national cultures with high power distance, the employees prefer Likert's autocratic leadership styles (exploitative and benevolent), whereas in the cultures with low power distance they tend to choose democratic leadership styles (consultative and participative).

Key words: *national culture, cross-cultural research, leadership, Serbia, France, the Netherlands, Denmark*

Sažetak

U radu se prezentiraju rezultati empirijske provere validnosti Hofstedeovih merila nacionalne kulture u Srbiji, Francuskoj, Holandiji i Danskoj. Anketiranjem zaposlenih u jednoj multinacionalnoj kompaniji proveravano je da li su pozicije i relativni odnosi njihovih nacionalnih kultura u tim zemljama, po svakoj od četiri dimenzije koje je identifikovao Hofstede, onakvi kakvima ih je on opisao. Uz to, proveravano je da li je nacionalna kultura preko svoje dimenzije distance moći relevantan faktor izbor stila vođstva u organizacijama. Rezultati istraživanja su pokazali da su pozicije četiri nacionalne kulture i njihov relativni odnos, po tri od četiri dimenzije, onakvi kakvim ih je Hofstede opisao kroz svoje indekse. Istraživanje je takođe pokazalo da u nacionalnim kulturama sa visokom distancom moći zaposleni preferiraju Likertove autokratske stilove vođstva (eksploatativni i benevolentni), dok u kulturama sa niskom distancom moći biraju demokratske stilove vođstva (konsultativni i participativni).

Ključne reči: *nacionalna kultura, interkulturno istraživanje, liderstvo, Srbija, Francuska, Holandija, Danska*

Introduction

The process of globalization has weakened the borders and intensified the flow of goods, information, and people between the states and nations. Thereby, globalization has highlighted the cultural differences between various nations and has made them visible, and thus it has initiated interest in national culture and its influence on the spheres of business and management. Research studies on this impact have gradually led to the creation of a completely new field of interest – cross-cultural management. The object of research studies in this field is differences between national cultures and the very impact that specific values of national cultures have on organization and company management.

Cross-cultural research studies in management were based in the 1970s, when the Dutch researcher *Geert Hofstede* conducted an extensive research on the national cultures. The results of his research were published in 1980 in his book *Culture's Consequences* (the second edition of this book was published in 2001 and it included the synthesis of all the research studies that were performed on the basis of the results from 1980). Although there were earlier writings about national cultures [11], they were mostly anthropological in character and did not have such valuable implications for management. Therefore, Hofstede is considered to be the pioneer in the cross-cultural research of management as well as its most famous author. Hofstede had actually performed an exploratory empirical research based on the sample of 115,000 employees in the branches of IBM multinational corporation in 40 countries around the world. The purpose of the research was to identify the dimensions in which national cultures differ, which also had the significant implications for business and management. The exploratory character of the research implied that Hofstede did not test the validity of the already given dimensions of national cultures, but that he identified these dimensions in the research itself.

Hofstede's research has been, and still is, the most fundamental research in cross-cultural research studies. Whenever a study is conducted on how a national culture affects motivation, leadership style, organizational structure or conflict resolution style, it always starts with the dimensions of national cultures that were identified, defined and explained by Hofstede. One of the reasons for this is certainly the fact that Hofstede managed not only to describe the differences between the national cultures in their qualitative sense, but also to quantify them. Namely, he identified four main dimensions by which national cultures differ, and afterwards he determined the index for every dimension of national culture for each country that took part in his research. The index showed a country's position on the continuum between the two extreme poles of the cultural dimensions. Certainly, it is very suitable for every further research on the national culture's impact on management to have a quantified position of the national culture in each of the identified dimensions, and this is precisely what made Hofstede's research so popular worldwide. Serbia is lucky that Hofstede's research included the former Socialist Federal Republic of Yugoslavia, and this was only due to the fact that Yugoslavia was the only country of that time's Eastern Bloc where IBM had its branch. A very fortunate circumstance was also that IBM had its employees in Ljubljana, Zagreb, and Belgrade, and this enabled Hofstede to, after Yugoslavia fell apart, stratify the sample and calculate the indexes of the dimensions of the national cultures of Slovenia, Croatia, and Serbia [8].

After *Geert Hofstede* published his work, the research studies of national cultures mostly followed two directions. One group of authors strived to identify a different set of dimensions on the basis of which national cultures differ ([4], [16], [18], [19] as well as the group of authors gathered around the *GLOBE project* [10]).The other research direction in the sphere of intercultural management included the research studies based on the impact of individual dimensions of national culture on the individual components of management and organizations [1], [2], [3], [5], [10], [20].

Despite a huge popularity and influence, Hofstede's research failed to avoid many critiques. The most numerous were methodological in character: starting from the fact that the research was conducted in only one company due to which the organizational culture of the company affected the results, the fact that the sample was one-sided and the whole survey left out many Third World countries as well as many communist countries, to the fact that there was a significant correlation between some of the dimensions which implied that they were not independent [19]. However, despite the criticisms, another factor occasionally occurs and questions the validity of using Hofstede's dimensions of national cultures in the cross-cultural research: time. In fact, the following question often arises: since national cultures change over time, are Hofstede's indexes of national cultures still valid and can they be used to study the influence of national culture on management? While some argue that due to changes within national cultures, Hofstede's indexes may at best be used with precaution, others claim that the changes in national cultures, if there are any, happen so slowly that the 40 years that have passed since Hofstede's study do not make a sufficient time-frame for any significant deviations in his indexes to occur.

The aim of this paper is to empirically test the position of national cultures of the four countries by using each of the Hofstede's dimensions of national culture, to determine the differences between the cultures and to determine whether the differences correspond to those that Hofstede had already found. Another purpose of this paper is to test Hofstede's assumption that national culture is an important factor when choosing the leadership style in organizations. In order to achieve these two goals, we will first present the dimensions of national cultures that Hofstede defined as well as the indexes of the national cultures of Serbia, France, the Netherlands, and Denmark which describe each country's position according to the Hofstede's dimensions. Afterwards, we will present the methodology of the empirical research that was conducted in the four countries which will be necessary for the presentation of the results of the research. In the following paragraphs we will discuss the obtained results, draw conclusions and underline the implications as well as the limitations of the research.

The theoretical framework

Hofstede [8, p. 25] defined national culture as *"… mental programming: the pattern of thoughts, feelings and actions which every individual adopts in childhood and applies throughout the entire lifetime."* In order to deal with national culture's influence on organization and management, its substantial components that distinguish one culture from another must be identified. Those components are the dimensions of national cultures, which form the basic assumptions and values that constitute the culture's substance, define its specific nature and distinguish it from others. Hofstede's understanding of dimensions of national cultures is based on the ideas provided by *Kluckhohn* and *Strodtbeck* [11]. In their view, the basic assumptions and values that comprise dimensions of national cultures are, in fact, the answers to fundamental questions that every society faces.

Building on these ideas, *Hofstede* identified and described four fundamental dimensions, according to which national cultures worldwide can be differentiated [7], [6]. Society resolves the questions of authority and social inequality by accepting a premise about power distance. The question of individual-collective relation is resolved by locating the national culture at a specific position on a continuum between two extremes: individualism-collectivism. Social implications of male and female find their reflection in the dimension of national culture called masculinity-femininity. Finally, the manner in which a society reacts to uncertainties, changes, differences and conflicts is determined by the level of its uncertainty avoidance, as a dimension of national culture.

Power distance indicates the level in which society accepts the fact that power found in institutions and organizations is distributed unequally [7], [6]. Power distance reveals the manner in which a society has solved the problem of distribution of power, varying between egalitarianism (low power distance) and high level of authoritarianism (high power distance). High power distance indicates that unequal distribution of power in a society and its organizations is considered normal, useful and natural, and as something that should not or could not be changed. Unequal distribution of power in society is considered the only possible and natural state of affairs and a prerequisite for a functional society and its organizations. Low power distance implies the belief that it is most appropriate and useful for the society that the power is distributed equally to all of its members.

Uncertainty avoidance indicates the level of endangerment felt by the members of a society in uncertain, unclear and variable conditions [7], [6]. Uncertainty avoidance signifies the manner in which society deals with fundamental issues of changes, uncertainty and the unknown. In national cultures with low uncertainty avoidance, the level of tolerance to uncertainty, changes, risks, and ambiguity is relatively high. Differences are accepted and people's curiosity, along with their willingness to try something new, is relatively high. National cultures with high uncertainty avoidance do not like changes, new things, differences, risks, and uncertainties. These cultures value stability, order, familiarity, repetition, and simplicity.

Individualism-collectivism answers the fundamental question that every society must deal with: the individual-collective relation. The crucial difference between individualism and collectivism concerns placing of the responsibility for one's own destiny. Individualism considers every individual responsible for himself and his family. Conversely, collectivism – in a family, an organization and society in general alike – considers the collective responsible for its every individual. In collectivism, individuals believe they have the right to expect the collective to take care of them. In return, they owe complete loyalty to the collective and its leader. In individualism, an individual assumes himself responsible for his own destiny and does not see the collective as obliged to him. Individualist cultures base their identity on the individual, while collectivist cultures base theirs on the social system or the collective.

Masculinity-femininity dimension of national culture reveals society's attitude toward doing and being. Cultures with prevailing value of masculinity appreciate action, accomplishment, results, determination, and aggressiveness. Since these values are often perceived as 'masculine', the cultures in which they dominate are called masculine national cultures. These are the 'doing cultures' in which someone's value is measured by his ability to earn money and his material prosperity. Feminine national cultures are those comprised of prevailing values such as relationships, quality of life, balance, and harmony. Since these values are often perceived as 'feminine', the cultures in which they dominate are called feminine national cultures. These cultures prefer harmonious relations and connections with natural and social environment.

All four countries that we have involved in our research were also included in Hofstede's original research [7], [6] and hence we have the data on indexes of their national cultures for each of the four described dimensions. It is already noted that Yugoslavia was included in the original research and that Hofstede later on stratified the sample into three subsets which allowed him to calculate indexes for Slovenia, Croatia and Serbia [8]. Interestingly, though not surprisingly, the national cultures of these three new countries were very similar, with the only exception that refers to the fact that Slovenian culture is much more 'feminine' compared to Croatian and Serbian (masculinity index for Slovenia is 19, whereas indexes 40 and 43 refer to Croatia and Serbia respectively).

The comparison of national cultures of Serbia, France, Netherlands and Denmark, according to the results of Hofstede's research, is presented in Table 1 that also contains the indexes of the national cultures of the four countries for each dimension.

With respect to power distance, we can clearly point out two groups of countries. Serbia and France have a high power distance when compared to the Netherlands and, in particularly, Denmark that have a low power distance. The situation is very similar when we speak about another dimension of national culture – uncertainty avoidance. Both Serbia and France have high uncertainty

Table 1: The Hofstede's indexes of four dimensions of national cultures: Serbia, France, the Netherlands and Denmark

	Serbia	France	The Netherlands	Denmark
Power distance	86	68	38	18
Uncertainty avoidance	92	86	53	23
Individualism	25	71	80	74
Masculinity	43	43	14	16

Source: [17]

avoidance, while the Netherlands has a low to moderate, and Denmark has very low uncertainty avoidance. Serbia is the only country in our sample that has a collectivistic culture due to its low index of individualism. All the other three above mentioned countries have a highly expressed individualism in their national cultures. Ultimately, masculinity indexes follow the power distance pattern because both Serbia and France have medium to medium-high levels of feminine values, whereas the Netherlands and Denmark are noticeably feminine cultures.

When analyzing national cultures by taking each country as a whole, we can notice two tandems: Serbia and France on one end, and the Netherlands and Denmark on the other. Serbia and France are similar in three out of four dimensions of national cultures. These two countries only differ in the aspects of collectivism versus individualism. On the other hand, the Netherlands and Denmark are alike in all four dimensions, yet the Netherlands does not have such low values of power distance and uncertainty avoidance like Denmark does. The Netherlands and Denmark are different from France in all dimensions except for the degree of individualism, while Serbia differs from them in all four dimensions.

Bearing in mind that our research has had two purposes, we have formulated two research questions. The first question that has been investigated is whether the national cultures of the four countries included in the sample indeed follow the pattern revealed by Hofstede. Or, in other words, are the indexes of the four national cultures that Hofstede had determined still valid. Given the limitations of the sample, instrument and method of the research, we have been unable to precisely establish whether the indexes of the national cultures were correctly determined and whether their values corresponded to the current state of affairs. But, we have in fact managed to determine whether the pattern of the relative relations between the four chosen countries is still valid. In other words, we have not been able to determine if the power distance indexes are still 86, 68, 38 and 18 for Serbia, France, the Netherlands and Denmark respectively. However, what we could ascertain is whether Serbia has the highest and Denmark the lowest power distance, and whether Serbia and France have a significantly higher power distance in comparison to the Netherlands and Denmark, as Hofstede claimed. This is very important, keeping in mind the aforementioned employing of the national cultures' indexes in cross-cultural research, as well as solving the dilemma whether the national cultures of the four countries have changed since Hofstede's research. We can obtain the answer to this question if we test the hypotheses about the relative relations between the dimensions of the national cultures from Hofstede's work. Thus, we have set up the following four hypotheses:

H_1: Serbian national culture has the highest power distance and it is followed by French, Dutch and Danish national cultures. Serbia and France have significantly higher power distance than the Netherlands and Denmark. The power distance in Dutch national culture is in the middle between Serbia and France from one end, and Denmark from the other.

H_2: Serbian national culture has the highest uncertainty avoidance and it is followed by French, Dutch and Danish national cultures. Serbia and France have significantly higher uncertainty avoidance in their cultures compared to those in the Netherlands and Denmark. The uncertainty avoidance in the Netherlands is in the middle between the uncertainty avoidance in Serbia and France from one end, and Denmark from the other.

H_3: Serbia has high level of collectivism in its national culture, while France, the Netherlands and Denmark have high level of individualism in their respective national cultures. The Netherlands has the highest level of individualism whereas France and Denmark have almost the same level of individualistic values.

H_4: France and Serbia also have the equal moderate level of feminine values, while the Netherlands and Denmark have the equal high level of feminine values in their countries.

The second scientific question that we have posed to ourselves is whether national culture is an important factor of the choice of leadership style and its effectiveness. To answer this question we have tested the relation of power distance and leadership style. Power distance, as previously mentioned, can be high or low, while the classification of the leadership styles is adopted from *Likert* [14], [13]. He has distinguished four styles of leadership: exploitative authoritative, benevolent authoritative, consultative, and participative. Conditionally, these four styles can be grouped into two categories: authoritative (exploitative and benevolent) and democratic (consultative and participative). The criterion for the leadership style diversification is obvious: the degree in which the leader includes his followers in decision-making process. *Hofstede* [7] has argued that a high power distance in one national culture leads to a better acceptance and more frequent occurrence of the authoritative leadership styles in organizations within that national culture. The reason is more than obvious: a high power distance implies that the members of that national culture perceive the unequal power distribution both in society and its organizations as a natural, inevitable, and beneficial appearance. If so, then it is only natural that an individual or a small group at the top of the social hierarchy who have the power makes all the decisions, while others carry them out. This fact implies direct acceptance of authoritative leadership. Considering the differences in the level of power distance between the four national cultures which Hofstede defined (see Table 1) we can expect that authoritative leadership styles will be more effective, frequent, and accepted in Serbia and France than in the Netherlands and Denmark. Also, we can expect that authoritative leadership styles will be somewhat more accepted in the Netherlands than in Denmark, which has the lowest power distance in its national culture. Therefore, we can establish the fifth hypothesis:

H_5: Authoritative leadership styles will be significantly more present in Serbia and France than in the Netherlands and Denmark. Authoritative leadership styles will be a little more accepted in the Netherlands than in Denmark.

Methodology of the research

In order to test the established hypotheses, we have interviewed the employees of one multinational company's branches in four countries: Serbia, France, the Netherlands, and Denmark. The corporation is one of the leading multinational companies in the field of technology, specifically in the domains of financial and retail services. The main activities of the company are related to providing services of both software and hardware maintenance to the leading clients from the banking and retail industries. The company is also known for the production of cash and teller machines, self-service kiosks, bar code scanners and check-out machines at airport terminals. The Company's headquarters are placed in the United States (Atlanta) and the employees (around 29,000) are localized in almost all European and Asian countries.

The very fact that the survey was conducted in only one company, although in different countries, presents a peculiar resemblance to the Hofstede's research because it was also performed within just one company (IBM). However, the sample's size is nowhere near to Hofstede's, which is a significant limitation of our study. In our research, we have surveyed 155 employees of a multinational company, where 40 employees came from three countries and 35 employees were from Serbia.

The sample structure corresponded to the structure of the employees in the four branches of the company (see Table 2). In those branches, the employees were mostly young people, predominantly male and mainly highly educated that also reflected in the sample. One third of the sample population was under 30, and only ten employees were over 45-year-old. Two thirds were men and one third were women. Finally, 90% of the surveyed employees had a Bachelor's or Master's degree.

The sub-sample from Serbia consisted of the employees from the branch office in Belgrade. In addition to the native Serbian language, it was mandatory for the employees to have a full proficiency (the so-called C1 level) in English and in another foreign language. Strict criteria during the human resources recruiting process had initially singled

Table 2: The sample structure

Country	Number of respondents	Average age		Sex		Education: the percentage of employees with Bachelor's and Master's degree
		20-30 yrs	30-45 yrs	Male	Female	
Serbia	35	35%	65%	57%	43%	100%
France	40	10%	90%	80%	20%	85%
The Netherlands	40	5%	95%	75%	25%	80%
Denmark	40	55%	45%	50%	50%	100%

out a group of young people who had spent a certain period of their lives abroad (on average, one academic year), mainly thanks to study programs at universities or student exchange programs. The French sub-sample included 40 employees from Paris. They were of French nationality (usually both parents were French) and they lived in Paris and the surrounding areas (Ile de France, with the exception of three team members from Reims, Alsace and Nantes). The Dutch sub-sample consisted of the employees living in Amsterdam and Brussels surroundings who were of similar age and education as the French team. The employees from Brussels (due to their Dutch origin) were included in the Dutch cultural cluster and the team consisted of a group of young people with high academic degrees (BA or MA) similar to those from the French team. Last but not least, the Danish team also consisted of young, university educated employees (male-female ratio was equally distributed) who lived in the peninsula called Vest Danmark and the capital city, Copenhagen.

For the purpose of the study, we used two questionnaires. One questionnaire had the purpose to measure the dimensions of the national cultures in the four countries, while the other was used to detect the leadership style preferences. The questionnaire that analyzed the positions of national cultures according to the Hofstede's four dimensions was formulated on the basis of the initial Hofstede's questionnaire [7], [6], but it was much shorter and significantly simplified comparing to the original questionnaire. Such an instrument had already been used in earlier research studies [9]. Our questionnaire consisted of 20 questions in total, divided into four groups. Each group contained five questions related to one of the four dimensions of national culture. The questions were formulated as statements that reflected a particular value of national culture. The respondents were explicitly asked to express their agreement or disagreement with each statement and to mark it on the five-point Likert scale: strongly disagree, disagree, neither agree nor disagree, agree, or strongly agree [12]. The statements were articulated in such a manner to express high power distance, high uncertainty avoidance, collectivism, and feminine values. Therefore, a higher percentage of agreement with the statements reflected a higher power distance, uncertainty avoidance, collectivism, and feminine values. The questionnaire that measured the respondents' leadership style preferences consisted of four separate brief descriptions of four leadership styles according to Likert's classification. The respondents were asked to choose one of the posed styles that they preferred the most. Both questionnaires were translated into all four languages: Serbian, Dutch, French, and Danish.

A statistical analysis of the obtained questionnaire results was done by a simple calculation of the frequency of the provided answers. Since the questionnaire which evaluated the national culture in four countries used Likert scale, the most adequate method for data processing was, of course, to calculate the frequencies of the provided answers, as well as the percentages in which positive (agreement) and negative (disagreement) answers appear. Since the questionnaire contained 20 questions (with 5 questions related to each of the four dimensions of the national culture), we calculated the average frequencies of the provided answers separately for each country by determining the percentage of agreement, disagreement and neutral outlooks that the employees provided. A higher percentage of respondents' positive answers or agreement shows that they value a certain dimension of national culture to a greater extent. For instance, if the respondents from a certain national culture express a higher level of agreement to the questions that measured power distance, it means that power distance is higher in that specific national culture. A similar method was applied for processing of the data from the questionnaire related to the preferred styles of leadership. Since the respondents stated their preference by selecting just one out of the four offered leadership styles, we could not apply the calculation of the average mark. Therefore, we also applied the calculation of the frequency of the obtained responses (for each of the four leadership styles) in each of the four countries' employee groups. In this way, we obtained the percentage, for each country separately, of the respondents who opted for each of the four leadership styles.

The statistical significance of the identified differences between national cultures, as well as between the preferred styles of leadership in them, is analyzed by means of ANOVA. Since ANOVA analysis uses parameters and measures the difference in variances of two independent populations, but assumes that variances are homogenous, which is not the case in our study, so therefore, we used Welch's test. The differences between all four national cultures were tested separately for each of the four of their dimensions. The differences between preferred leadership styles in the four national cultures were tested in the same way.

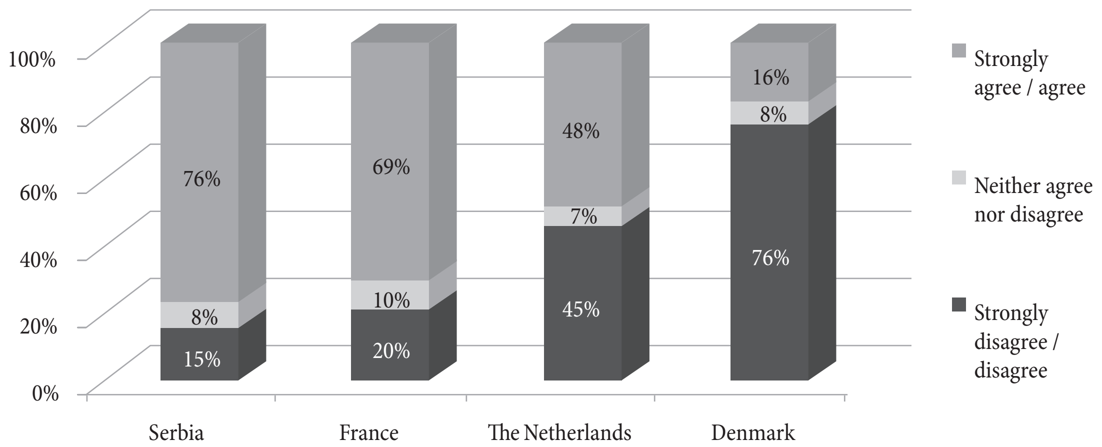
Results of the research and discussion

In this part of the study we will present the results we have obtained by surveying the employees in the multinational company in four aforementioned countries. The results will be presented by the dimensions of national culture in order to determine whether the established hypotheses on relative relations between the four national cultures according to Hofstede's dimensions are accurate or not. The hypotheses were tested by a simple comparison of the relative relations between the positions of the four observed national cultures in each of the dimensions emerged from Hofstede's indexes and the relative relations of the same cultures obtained in our research from the surveyed employees. Due to the specific form of the questionnaire used in our research, it was not possible to calculate the indexes of the four national cultures according to four dimensions as Hofstede had originally done. Therefore, the comparison of the relative position of each national culture with respect to other cultures in the sample was the only way to examine if Hofstede's indexes regarding the character of the four observed national cultures are still valid. The Welch's test that we used confirmed that all the identified differences between national cultures are statistically significant, both with respect to their dimensions as well as with respect to the preferred leadership styles.

The relative relations between the positions of the four national cultures in the power distance dimension were described by the first hypothesis, H_1. In order to test the validity of this hypothesis, we have included the set of five questions in the questionnaire aimed at measuring the position of each country in the dimension of national culture. We have calculated the average percentage of agreement and disagreement with the statements given in the questionnaire which reflected a high power distance, and then we have merged the answers 'strongly agree' and 'agree' as well as the answers 'strongly disagree' and 'disagree' to obtain better visual and simplified results. The analysis of the obtained responses is provided in Figure 1.

The results of measuring power distance in four national cultures show the following: 1. Power distance is the highest in Serbian national culture and national culture of France, the Netherlands and finally Denmark follow respectively; 2. Power distance is significantly higher in the national cultures of Serbia and France than in the national cultures of the Netherlands and Denmark; 3. The values of power distance in Dutch national culture is somewhere in the middle between its values for Danish national culture at one end and its values for Serbian and French national cultures at the other end. These results

Figure 1: Average agreeing and disagreeing with the statements that express high power distance obtained from the respondents from four national cultures



practically confirm the validity of H_1 which concerns the relative relations between the positions of the four national cultures in the power distance dimension. The correspondence between Hofstede's initial results (expressed through indexes) and those obtained by measuring the power distance in the national cultures of the four countries is extremely high. Even the relative relation of the percentages of agreement with the statements in the questionnaire notably corresponds to the values of power distance indexes that Hofstede had calculated for the four countries (see Table 3).

Table 3: The comparison of the percentage of agreement with the statements in the questionnaire regarding power distance dimension and Hofstede's power distance indexes

	Percentage of agreement with high power distance statements	Hofstede's index of power distance
Serbia	76%	86
France	69%	68
The Netherlands	48%	38
Denmark	16%	18

We can conclude that H_1 is confirmed, which means that the relative relations concerning power distance dimension in the national cultures of the four observed countries are exactly the same as Hofstede had presented them in his indexes.

The relative relations between the positions of the four national cultures in the uncertainty avoidance dimension are presented in the hypothesis H_2. In order to test the validity of this hypothesis, we have included a set of five questions in the survey which measured the position of each country in that dimension of national culture. Afterwards, we have calculated the average agreement or disagreement of the respondents with the given statements that expressed high uncertainty avoidance and, like in the previous example, we have also merged the answers ('strongly agree/agree', 'strongly disagree/disagree' and 'neither agree nor disagree') for better illustrative and simplified view of overall results. The analysis of the provided answers is presented in Figure 2.

The results of measuring uncertainty avoidance in the four countries show the following: 1. Uncertainty avoidance is the highest in French national culture, and Serbian, Dutch and finally Danish national cultures follow respectively; 2. Uncertainty avoidance is significantly higher in the national cultures of Serbia and France, compared to those in the Netherlands and Denmark; 3. The values of uncertainty avoidance in Dutch national culture lie somewhere between its values for Danish national culture at one end, and its values for Serbian and French national cultures at the other end. These results explicitly confirm the validity of the hypothesis H_2 which refers to the relative relations between the positions of the four national cultures in the uncertainty avoidance dimension. But unlike the power distance dimension, the correspondence between the Hofstede's indexes and the results that we obtained is somewhat smaller in this case, and we have also pointed out the certain deviations that are presented in Table 4.

Figure 2: Average agreeing and disagreeing with the statements that express high uncertainty avoidance obtained from the respondents

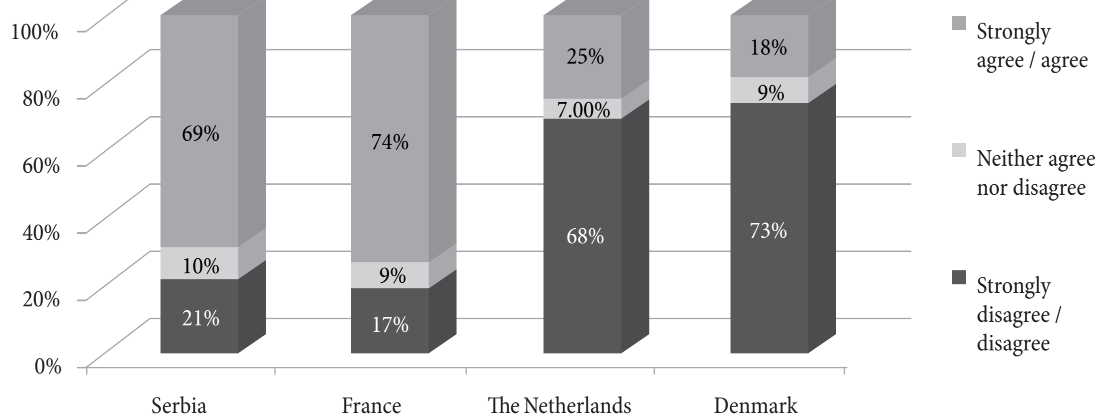


Table 4: The comparison of the percentage of the respondents' agreement with the statements in the questionnaire regarding high uncertainty avoidance and Hofstede's indexes of high uncertainty avoidance in four countries

	Percentage of agreement with high uncertainty avoidance statements	Hofstede's index of uncertainty avoidance
Serbia	69%	92
France	74%	86
The Netherlands	25%	53
Denmark	18%	23

Table 4 shows that the highest uncertainty avoidance is observed in French national culture and that Serbian national culture immediately follows, while when observing Hofstede's indexes we can observe exactly the opposite to be the case. Nevertheless, the differences are too small, both in the provided indexes as well as in the percentages of our research, so we cannot claim that a real discrepancy actually exists. Also, although Dutch national culture has the same ranking both in our study and Hofstede's indexes (third place by uncertainty avoidance value), in our research it is much closer to Danish culture than to French and Serbian cultures than it is presented in Hofstede's indexes. In addition, the relative pattern of relations in the uncertainty avoidance dimension remained the same as in Hofstede's research. Keeping in mind all the above, we can conclude that the hypothesis H_2 is confirmed, which means that the relative relations regarding the levels of uncertainty avoidance in the four national cultures remained in most part the same as Hofstede had presented in his indexes.

The relative relations between the positions of the four national cultures in the individualism-collectivism dimension are described in the hypothesis H_3. Following the previous examples, we have again used the set of five questions in order to measure the position of the four countries in this dimension of national culture. We have afterwards calculated the average agreeing and disagreeing of the respondents with the statements from the questionnaire, and we have also merged the answers ('strongly disagree/disagree', 'neither agree nor disagree' and 'strongly agree/agree'). The analysis of the provided answers is illustrated in Figure 3.

The results of measuring the collectivism-individualism dimension in the four national cultures show the following: 1. Serbia has a high level of collectivism in its national culture, while France, the Netherlands and Denmark have a high level of individualism in their respective cultures; 2. The highest level of individualism is present in the national culture of Denmark; 3. Denmark and the Netherlands have similar levels of individualism in their national cultures, while France has somewhat lower level of individualism and lies between Serbia at one end, and Denmark and Netherlands at the other end.

In the manner of uncertainty avoidance, we have confirmed the original pattern of relative relations between the four national cultures as Hofstede had described by his indexes, although with certain discrepancies, as shown in the Table 5.

Figure 3: Average agreeing and disagreeing with the statements that express the collectivism obtained from the respondents

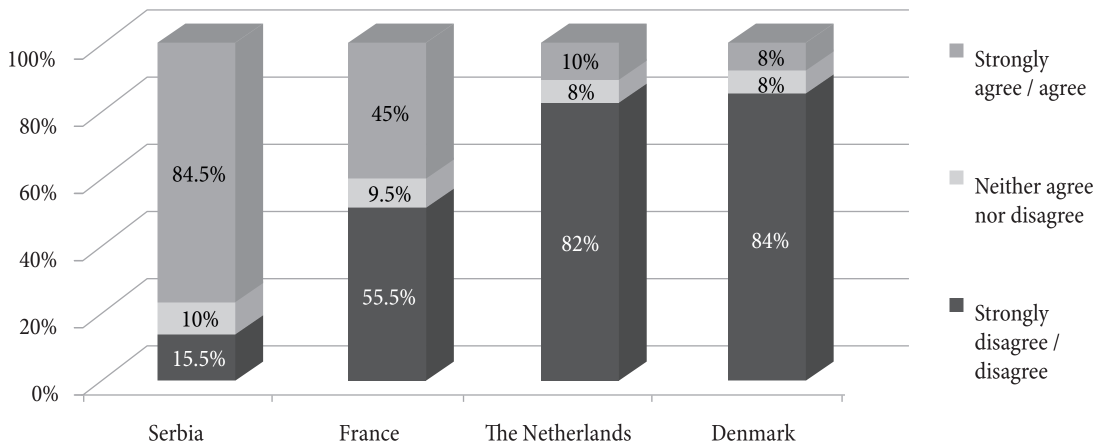


Table 5: The comparison of the percentages of the respondents' agreement with the statements in the questionnaire that expresses a high level of individualism and Hofstede's indexes of the mentioned dimension

	Percentage of agreement with individualism	Hofstede's index of individualism
Serbia	15.5%	25
France	55.5%	71
The Netherlands	82%	80
Danmark	84%	74

Table 5 clearly shows that the highest level of individualism, according to our research, belongs to the Danish and not the Dutch national culture, as it can be concluded by Hofstede's indexes. Nevertheless, the difference between these two national cultures is very small. Second, according to our research, the level of individualism in the French national culture is not as high as Hofstede had elaborated in his indexes, and it is significantly lower compared to those observed in the Dutch and Danish national cultures. Yet, the relative pattern of relations in the individualism-collectivism dimension is the same as Hofstede's. Therefore, we can conclude that the hypothesis H_3 is confirmed, which means that the relative relations between the national cultures' positions in the individualism-collectivism dimension are in most part the same as Hofstede had presented them in his indexes.

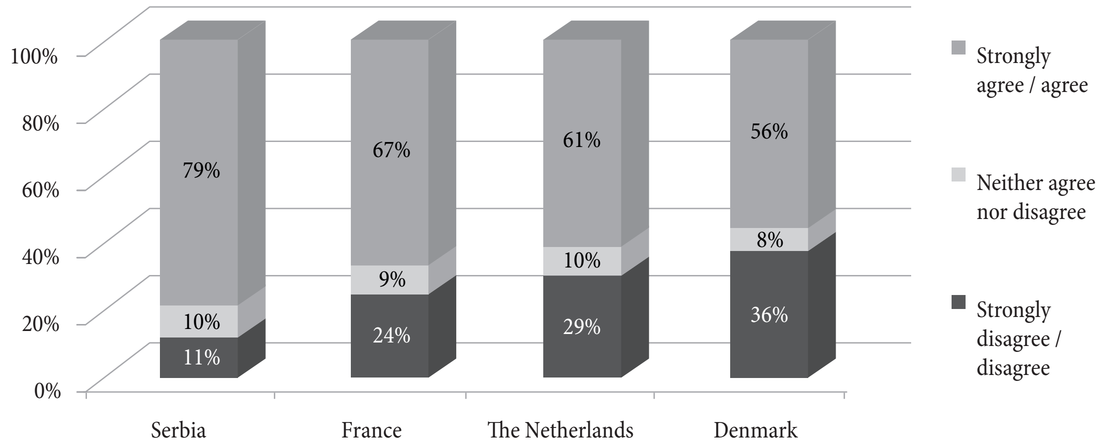
The relative relations between the positions of the four national cultures in the masculinity-femininity dimension are described in the hypothesis H_4. In order to test this hypothesis, we have inserted a set of five questions in our questionnaire aimed at measuring the position of each of the four countries in this dimension of national culture. We have calculated the average agreeing and disagreeing of the respondents with the statements that reflected an intensive presence of the feminine values, and we have then again merged the answers ('strongly disagree/disagree', 'neither agree nor disagree' and 'strongly disagree/ disagree') in order to provide a simplified illustration of the given data. The analysis of the obtained answers is presented in Figure 4.

The results of our research show that feminine values predominate in all of the four observed cultures. Serbian national culture has the highest presence of feminine values and, ergo, the lowest presence of masculine values. It is followed by France, the Netherlands and Denmark respectively. In addition, the level of feminine values in Serbian national culture is significantly higher then the

Table 6: The comparison of the percentages of the respondents' agreement with the statements that expressed masculine values and Hofstede's masculine values indexes

	Percentage of agreement with masculine values	Hofstede's index of masculinity
Serbia	11%	43
France	24%	43
The Netherlands	29%	14
Denmark	36%	16

Figure 4: Average agreeing and disagreeing with the statements from the questionnaire that express feminine values obtained from the respondents



level of presence of feminine values in the remaining three national cultures.

Unlike the other three dimensions of national culture, the basic pattern of relative relations between the positions of the four national cultures in femininity-masculinity dimension (as Hofstede had described in his indexes) was not confirmed, as it is presented in Table 6.

Unlike the three previously analyzed dimensions, the results that we obtained for the masculinity-femininity dimension for the four national cultures are appreciably different than Hofstede's results and indexes. Indeed, the results show that all four countries have national cultures with prevailing feminine values, which correlates with Hofstede's findings. However, according to the masculinity index values that Hofstede had identified, the Netherlands and Denmark are significantly more feminine cultures than France and Serbia. Contrary to this, our research shows that Serbia and France have more feminine cultures than the Netherlands and Denmark. In addition, the Serbian national culture has higher femininity values than French culture, even though Hofstede had aligned them in this dimension. Finally, our research shows that the Dutch culture is more feminine than Danish culture, which is contrary to Hofstede's indexes. We can conclude that hypothesis H_4 is only partially confirmed: all four observed national cultures are feminine cultures, while their relative relations in the femininity-masculinity dimension are completely different in our research than in Hofstede's indexes. Therefore, we can conclude that that hypothesis H_4 is only partially verified.

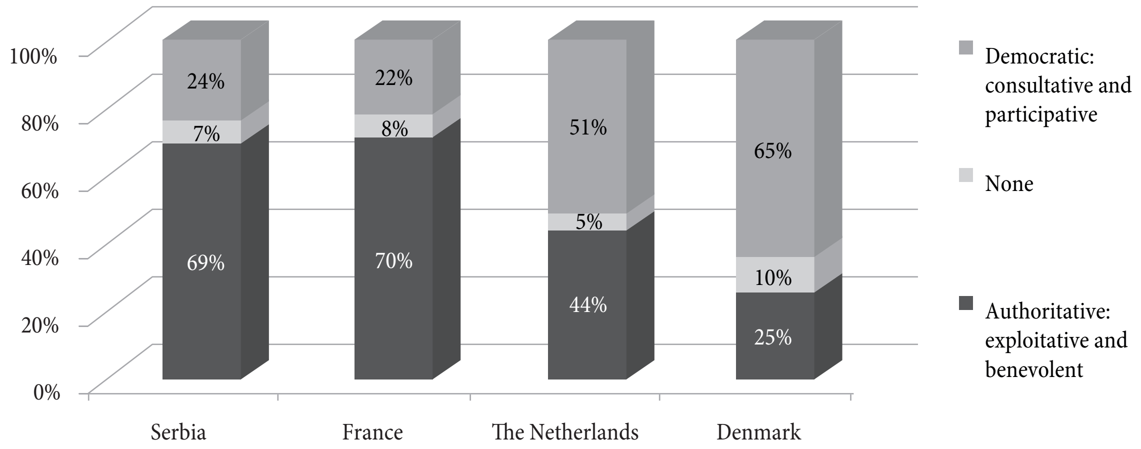
In the attempt to identify the possible causes of the deviation of our results from Hofstede's results with respect to femininity-masculinity dimension, we can point out a few possible reasons. First of all, it is possible that the results were different due to the various methodology tools: sample, questionnaire, etc. Also, we cannot also exclude the possibility that the set of questions concerning the femininity-masculinity dimension were wrongly or inadequately formulated in our research, so the dimension itself might therefore not have been measured appropriately. Second, it is possible that this dimension of national culture has undergone some changes in all four countries and, if that is the case, we would need to identify the root cause of it and investigate how changes happened in only one and not all four dimensions of national culture.

The second objective of this study was to answer the question whether a national culture can be regarded as explanatory factor of leadership. Or, in other words, do leadership styles systematically differ from one culture to another? The hypothesis H_5 refers to the relation between the degree of power distance and the preferred style of leadership in a national culture. Power distance was measured in all four national cultures in the previously described manner, while leadership style was measured by means of [13], [12]. The results indicate that national culture is an important factor of leadership style effectiveness, and that power distance directly affects the choice of leadership style.

In the view of the fact that Likert questionnaire measures the respondents' preferences among four potential leadership styles, it is vital to determine which leadership style is preferred in each of the four observed national cultures, and also whether these potential differences are systematical or random in their nature. If we want to simplify some more and, at the same time, also sharpen the picture of the preferred leadership styles in the four observed countries, we can merge the authoritative styles (exploitative and benevolent) on the one hand, and the democratic styles (consultative and participative) on the other. The result of the combined answers is provided in the Figure 5.

The results show that in the countries with high power distance (such as Serbia and France in our study) the preferred leadership styles are authoritative, whereas in the countries with low power distance, like the Netherlands and Denmark, the preferred leadership styles are democratic. A very high percentage (about 70%) of the respondents from Serbia and France would gladly cooperate with the leader who practices one of the two authoritative styles. In addition, the difference between Serbia and France lies in the fact that Serbia shows a greater tendency towards exploitative, authoritative style, while in France the benevolent authoritative leadership style is preferred. Oppositely, two thirds of the Danes and one half of the Dutch prefer some of the democratic leadership styles. In addition, the Danish national culture which has the lowest

Figure 5: The preferred leadership styles in four observed countries



power distance value also has the highest percentage of the respondents who had chosen the participative leadership style as the most democratic one. These results therefore confirm Hofstede's assumption, as well as our hypothesis H_5 which imply that power distance affects the preferred leadership style.

Conclusions, implications and limitations

The study conducted in the branches of a multinational company in Serbia, France, the Netherlands and Denmark aimed to determine whether Hofstede's measures of national culture dimensions are still valid. Due to the mentioned limitations in methodology, sample size, instrument, and applied statistical methods, the aim of the study was not to explicitly test the accuracy Hofstede's indexes, but to enlighten the general position of the four observed countries in national culture dimensions and their mutual relations. The study also sought to determine if national culture, through power distance dimension (like Hofstede assumed), is the prevailing determinant for the leadership style. In order for the study's goals and questions to be clear, we have formulated five scientific hypotheses, and we have further tested their validity.

The study results have indicated that the position of the four observed national cultures (Serbia, France, the Netherlands and Denmark) is precisely the same in three out of four dimensions as Hofstede had described in his research [7]. Furthermore, the differences between national cultures and the relative relations between their positions in three dimensions of national culture correspond to Hofstede's results. The only deviation from Hofstede's results is concentrated around the masculinity-femininity dimension. Lastly, we conclude that three out of four established hypotheses about the relative relations between the positions of the four observed countries in national culture dimensions are confirmed, whereby Hofstede's research is also verified.

The second purpose of the study aimed to verify if power distance as one of the national culture dimensions determines, as *Hofstede* [7] argued, the preferences of the members of an organization regarding leadership style. Our results confirm the fifth hypothesis which claimed that the degree of power distance is a determinant when choosing leadership style. Namely, we have determined that national cultures with high power distance, like Serbia and France, favor one of the two authoritative leadership styles. On the other hand, countries with low power distance, such as the Netherlands and Denmark, prefer one of the forms of democratic leadership styles. This confirms Hofstede's premises about the impact of power distance on leadership style.

The key implication of our study is that Hofstede's national culture indexes are still a reliable tool for measuring the positions of countries in national culture dimensions (except perhaps for the masculinity-femininity dimension) and they can be applied in the cross-cultural research in management. That was at least the case with our four observed countries: Serbia, France, the Netherlands, and Denmark. The implication of this study is also that we should continue to explore the influences of the national cultures on various spheres of management (such as leadership) because there is a good basis to do so. Likewise, our study has certain implications for the convergence-divergence debate which is very popular and present in the academic world [15]. Namely, the results of our study confirm neither convergence nor divergence, but the *status quo* of the national cultures' values in the four observed countries. All four national cultures that we have included in our research have not changed their positions since Hofstede's research, with perhaps the only exception of masculinity-femininity dimension. And this is especially interesting in the case of Serbian national culture. Since Serbia has undergone a serious process of transition in the past 15 years, it could have been expected that certain changes may have occurred in its national culture. According to the followers of the convergence hypothesis, these potential changes should lead the Serbian national culture in the direction of the cultural values of Western Europe. In that case, we would expect that Serbian national culture today has lower values of power distance, uncertainty avoidance, collectivism, and feminine values. Obviously, this has not happened yet. Therefore, this confirms another Hofstede's premise: national cultures change very slowly and the process of their transformation may be possible only in the long time spectrum, much longer than 15 years.

The study's limitations that we have previously presented are crucial, and they actually point out the necessary precautions with respect to generalization of its results. The limitations emerge, above all, from methodology of our research: the sample was too small for any serious measurements and comparisons. Even though Hofstede's original research was also small in terms of respondents group's size in each individual country, still Hofstede had included much more countries in his research. Another limitation that we have encountered is related to the research instrument. We have not used the original Hofstede's questionnaire. Instead we have applied a questionnaire that was developed by one of the authors and that was already used for cultural values research. The questionnaire has not yet been tested for reliability, hence we cannot be completely sure whether it really measures the target variables. Finally, the applied statistical methodology was by far simpler when compared to the one used by Hofstede.

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STAKEHOLDER MANAGEMENT IN SERBIA'S CSR PRACTICE

Upravljanje zainteresovanim stranama u praksi društveno-odgovornog poslovanja u Srbiji

Abstract

The article tests the stakeholder management theory in the case of Serbia, a country where modern corporate social responsibility practice was introduced relatively recently, despite rich tradition of philanthropy. To validate the theory, we formulated three hypotheses, assuming that stakeholder management is predominantly used as a PR tool, that stronger corporate governance correlates with developed CSR function within the organisation and that regulated industries such as researched examples of construction and banking demonstrate more advanced stakeholder management. These hypotheses were examined against the available literature review and a comprehensive empirical study (desk research, online survey and in-depth interviews with business managers, compared with best European practice). We have shown that the financial sector places most emphasis on its customers, whilst the construction sector (cement industry) sets the local community and employees in the cornerstone of its business operations, in line with international practice. However, public relations or marketing sector are primarily engaged with stakeholders' relationship in Serbia from a company's image perspective, lacking understanding the stakeholder role in business performance improvement, which indicates a lower level of development and early stage in transition to best European union practices.

Key words: *stakeholders, corporate social responsibility (CSR), management, banking, construction (cement) industry*

Sažetak

U članku se istražuje primena teorije upravljanja zainteresovanim stranama u slučaju Srbije, u kojoj je praksa savremenog društveno-odgovornog poslovanja (DOP) nedavno uvedena, uprkos bogatoj tradiciji zadužbinarstva i dobročinstva. Radi provere teorije, utvrdili smo tri hipoteze, pretpostavljajući da se upravljanje zainteresovanim stranama kao deo DOP prevashodno koristi kao oruđe odnosa s javnošću, da kvalitet korporativnog upravljanja zavisi od funkcije DOP u organizaciji, kao i da u više uređenim industrijama kao što su građevina i bankarstvo postoji naprednije upravljanje zainteresovanim stranama. Hipoteze su ispitivane na osnovu raspoložive literature i sveobuhvatnog empirijskog istraživanja (kabinetsko istraživanje, anketiranje i dubinski intervjui poslovnih rukovodioca, upoređeni sa najboljom evropskom praksom). Ukazano je da finansijski sektor najviše pažnje poklanja klijentima, dok građevina (cementna industrija) u središte poslovanja stavlja zajednicu u kojoj posluje i svoje zaposlene, što odgovara i međunarodnoj praksi. Međutim, služba za odnose s javnošću ili marketinga prevashodno se bave odnosima sa zainteresovanim stranama u Srbiji, iz ugla slike preduzeća u javnosti, bez dovoljnog razumevanja uloge zainteresovanih strana u unapređenju poslovnog učinka preduzeća, što pokazuje niži stepen razvijenosti privrede i rani stepen tranzicije ka najboljim praksama Evropske unije.

Ključne reči: *zainteresovane strane, društveno-odgovorno poslovanje (DOP), upravljanje, bankarstvo, građevina (proizvodnja betona)*

Introduction

Our article tests the stakeholder management theory in the case of Serbia, a country where modern corporate social responsibility (CSR) management practice was introduced relatively recently despite rich tradition of philanthropy [69]. To validate the theory, we have formulated the following two hypotheses:

- H1: In transition economies with weak stakeholder management, CSR activities facilitate communication with stakeholders. However, this process is predominantly viewed as a public relations function rather than a means of improving a company's overall business performance and sustainability.
- H2: In regulated industries, dominated by multinational enterprises, such as the banking and cement industries, stakeholder management in the CSR context is more advanced.

These hypotheses are first contrasted against the relevant literature review and then empirically tested by means of a comprehensive, structured online survey of business leaders in Serbia, further validated by semi-structured in-depth interviews with top executives, as well as desk research of top three market players in banking and cement industries in Serbia, compared to Hungary, Slovenia (selected as countries from the region experiencing similar transition), as well as the European Union (EU) leaders (mainly coming from Western and Northern Europe).

The role of CSR in stakeholder management: From understanding to engagement

The origin of "stakeholder" in management literature can be traced back to 1963, when the word appeared in an international memorandum at the Stanford Research Institute defined as "those groups without whose support the organisation would cease to exist" [13, p. 174]. Consequently, *Freeman*, known as "the father of the stakeholder theory", considered that the business objective should be to supplement the "general welfare" for many, individuals or groups, regardless of whether they are related [17], and hence the role of stakeholders was intertwined with their ability "to affect or (be) affected by the achievement of the organization's objectives," which *Freeman* also termed as "Principle of Who or What Really Counts" [15, p. 411]. To this day, the concept has evolved and is now widely recognised as a pillar of an organisation's effectiveness where "stakeholders play important roles as advocates, sponsors, partners and agents of change" [28, p. 2].

Besides *Freemen*, numerous other authors have discussed the concept of stakeholders, linking stakeholders to objectives and performance [31]; or organisation's strategy [47]. *Post et al.* [50, p. 229] indicate stakeholders' double function as beneficiaries and/or risk bearers: "The stakeholders in a corporation are the individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity by means of their activities, and that are therefore its potential beneficiaries and/or risk bearers." *Clarkson* [8, p. 92] conceptualises stakeholders by their rights and interests: "Stakeholders are individuals or groups that have or demand ownership rights or interest in the corporation and its activities (past, present and future). The rights or interests are the results of transactions or actions undertaken by the corporation and they can be legal or moral, individual or collective." *Mitchell et al.* [42] further derive a typology of stakeholders based on the attributes of power, legitimacy and urgency, while *Phillips* [49, p. 125] distinguishes between normatively legitimate stakeholders (those to whom an organization holds a moral obligation) and derivatively legitimate stakeholders (those whose stakeholder status is derived from their ability to affect the organization or its normatively legitimate stakeholders). These definitions have implications for stakeholder management [18] and developed in corporate practice, leading to International Finance Corporation definition of stakeholder engagement as "a means of describing a broader, more inclusive, and continuous process between a company and those potentially impacted that encompasses a range of activities and approaches, and spans the entire life of a project" [27]. As concluded by *Jeffery* [30, p. 8], "Organisations can no longer choose if they want to engage with stakeholders or not; the only decision they need to take is when and how successfully to engage."

Stakeholders, whether active or passive, internal or external, primary, secondary or key, narrow and wide, are essential for the success of a company, a specific business project or activity [16]. Recognition and inclusion of stakeholders at an early stage of a project, or business goal can greatly decide the positive outcome, and ensure avoiding the relevant business risks. After analysing 400 strategic decisions, *Nutt* [46] demonstrated that half had 'failed' (status: not implemented, partially implemented, produced poor results) because decision makers miscarried to align them with the interests and information held by key stakeholders. Thus, *Freeman* [16] proposed that each company generate some type of a "generic stakeholder map" where stakeholders would be analysed and strategically determined according to their level of influence, which we took as a basis for our empirical research.

Stakeholder management is thus deemed an integral part of sound, responsible and sustainable business practice, and ISO 26000 [29], the Global Reporting Initiative [20] and Global Compact Communication on Progress [66] are using stakeholder mapping as one of core pillars in their reporting principles. Besides, recent research highlighted "the importance of greater alignment not only between the interests of stakeholders and those of managers in CSR departments, but also between stakeholders and business or operational units within the same organisations" [30, p. 20].

Importance of stakeholders in Serbia's business (and CSR) practice

Over the last decade, there has been significant progress in reporting and overall transparency of business activities of Serbian companies, which are publishing more information about the achieved financial and operating results, ownership and management structure, as well as results in the area of responsible business practice. At present, companies mainly communicate their CSR performance by means of official Internet presentations, press releases and other forms of media publicity [71]. CSR reporting is still rare; only around 20 companies use either the Global Reporting Principles (GRI), or the Global Compact Communication on Progress (GC COP), which are not subject to external verification except in seven cases[1]. These reports inevitably include an overview of a company's stakeholder management. Thus, the pressure exerted on Serbian companies by media, non-governmental organisations (NGOs), consumers, trade unions, investors and business partners as a reaction to socially irresponsible behaviour is still incomparably smaller compared to developed countries [72]. However, with the progress of the European Union (EU) accession process the expectations of stakeholders in Serbia towards CSR have also increased. Consequently, in February 2014 the "First Cross-sectoral Panel on CSR and the Role of Business Sector in the Society" was organized by the Business Leaders Forum, and attended by business executives, government officials and NGO representatives, aiming to discuss the importance of CSR for sustainable growth and European integration process. The Head of the European Union Delegation in Serbia, *H.E. Michael Davenport* then concluded, "EU will not impose any special standards regarding CSR, but it will certainly insist on general principles: obeying the law, respecting ethical, environmental, consumer rights... are goals to which the society should aspire. As Serbia makes progress in the accession process, Serbian companies will have to adapt to the way businesses are managed across Europe, and CSR is an integral part of this process" [61].

In our article, we will focus on companies from two industries: banking and the cement industry, which are subject to regulated product or service declaration and accountable advertisement, monitored by consumers' associations and exposed to media attention. They are also dominated by multinational companies, which generally bring more advanced business practices to transition economies.

Empirical study of businesses approach to stakeholder management

To test whether stakeholders are engaged in CSR activities in Serbia, and whether CSR is viewed as a PR tool or a means of improving a company's overall performance and sustainability, a comprehensive online survey with 92 business managers was conducted, followed by

1 Coca-Cola, Delta Holding, Erste Bank, Hemofarm, Holcim, NIS and Titan

individual, anonymous, in-depth interviews conducted with 10 Serbian top executives. These interviews were conducted between September 2013 and January 2014, with additional, comparative desk research undertaken until January 2015. Surveyed participants originated from successful Serbian companies, with emphasis on top exporters [53], companies awarded for CSR practice [64] and members of the Global Compact in Serbia [67] and/or Business Leaders Forum[2] [54]. The executives who participated in direct interviews were selected according to the company's successful market position, sound CSR practice and personal reputation (membership in leading business associations, personal philanthropic beliefs and media visibility), with a particular focus on representatives from banking and cement industries. The characteristics of the sample used in the online survey and the in-depth interviews, are presented below (see Table 1 and Table 2).

The survey questions were structured around the Global Reporting Initiative (GRI) criteria [20], focusing on stakeholder management as an integral part of sound, socially responsible business practice. The responses were close-ended and, when possible, scaled on 1-5 gradient to enable quantifiable measurement. A high, 92% of surveyed participants (see Figure 1) showed awareness of the importance of individual stakeholders, by identifying at least three different stakeholder groups. The majority (74%) highlighted the significance of consumers (clients, customers) for the success of their business activities, cognisant that without consumer acceptance, including alignment with sustainable consumption trends, their products/services would not have a market [40]. Secondly, significant importance was granted to the employees as core internal stakeholders – 61%, a positive finding for Serbia where close to 20% of citizens are unemployed [58].

Table 1: Quantitative online survey (n = 92, business (usually mid-level) managers)

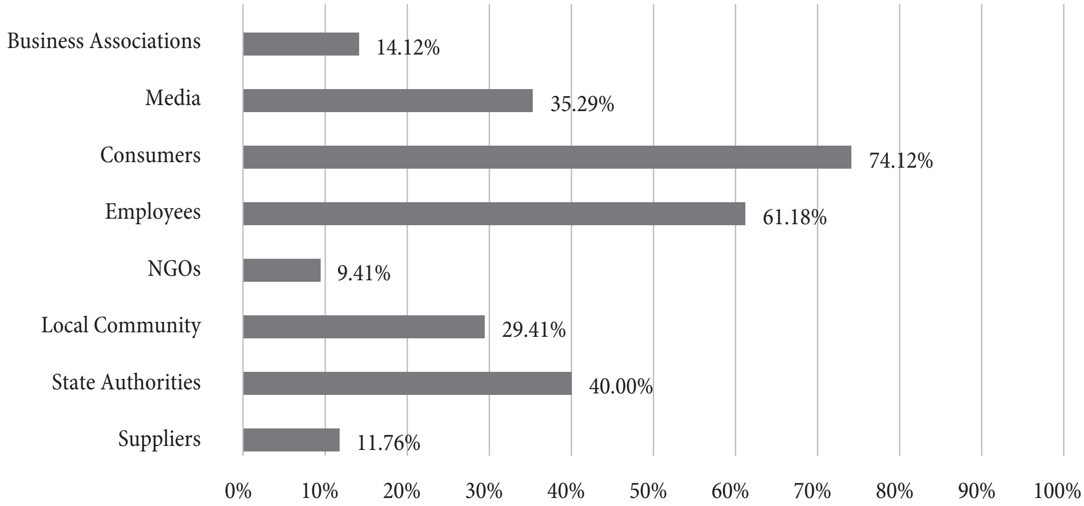
Industry	Manufacturing: 20% Service: 80%
Organizational form/size	Large companies: 46% Mid-size companies: 23% Small companies, business associations and NGOs: 31%
Employees	1- 200 employees: 53% 200-1000 employees: 21% Over 1000 employees: 26%
Ownership	Private, foreign capital: 58% Private, domestic capital: 31% State-owned: 11%
CSR awards	Yes: 48% No: 45% Do not know: 7%
Gender	Female: 57% Male: 43%

Table 2: Qualitative in-depth research (n = 10, top executives)

No.	Industry	Size	Employees	Ownership, Legal form	Gender
1.	Chairperson, Executive Board, Banking Industry	Large	1,500	Private, Foreign, Joint Stock Company	M
2.	Executive Board Member, Banking Industry	Large	510	Private, Domestic, Joint Stock Company	M
3.	Executive Board Member, Cement industry	Large	276	Private, Foreign, Limited Liability Company	F
4.	Executive Board Member, Cement industry	Large	275	Private, Foreign, Limited Liability Company	M
5.	Mayor, Municipality	195,000 citizens	171	State Municipality	M
6.	President of the Foundation, Media	Large	250/10	Private, Foreign, Non-profit	M
7.	CEO, Creative Industry	Medium	52	Private, Domestic, Limited Liability Company	M
8.	CEO, Medical Device Industry	Small	50	Private, Foreign rep. office	M
9.	CEO, Pharmaceutical Industry	Medium	600	Private, Foreign, Limited Liability Company	M
10.	CEO, Media and Publishing industry	Large	315	Private, Foreign, Limited Liability Company	F

2 Renamed into Responsible Business Forum (2015)

Figure 1: Selection of key stakeholders with impact on future business operations (up to 3 answers)



Source: Quantitative survey of Serbian business managers (n = 85; unit: %)

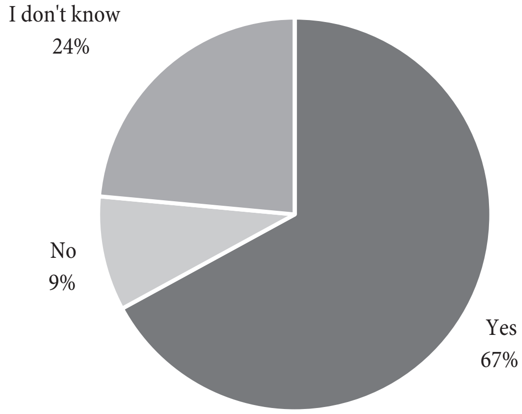
Greenwood [21] argued that act of labelling employees as stakeholders is more likely to serve the interest of the organisation rather than the interests of employees. We understand this to imply that a strategic view of employees as an asset contributes to advanced business practice and improved performance, expecting employees to gain additional significance in Serbia as the market develops. Thirdly, 40% of the participants noted the importance of government for their business, since unanticipated changes in the fiscal or monetary policy, legislation and overall business climate may jeopardise business operations and projected profitability. Highlighting importance of regulators was specific to the manufacturing sector, particularly medical devices, pharmacy, cement, beverage, tobacco industries, but also financial services. This was confirmed in qualitative, in-depth interviews. Nonetheless, overall importance of regulators is ranked relatively low, which is in line with other international studies [60]. Fourthly, about a third (35%) of business executives singled out the media as a key stakeholder that could influence the firm's reputation positively or adversely, known as "headline risk" [39]. Tabloidization, relatively non-transparent ownership structure and insufficiently profiled business journalism [10] render current media in Serbia capable to both enhance business reputation and destroy it overnight.

Yet, only a small number of participants recognised the importance of suppliers (12%) and the NGO sector (9%). Global corporate scandals, which escalated as a result of poor supply chain practice[3], or NGO pressure regarding non-ethical business behaviour (especially in the environmental area), are not a feature of the Serbian market, not due to lack of malpractice, but rather because of relatively weak advocacy capacities of the civil society, in combination with pressing economic problems burdening the citizens. On a positive note research has shown that responsible behaviour towards employees (human resources dimension) and towards customers and suppliers (business behaviour dimension) act as complementary inputs of financial performance, leading to mutual benefits and reduced conflict between those stakeholders [7]. Nonetheless, recent research also shows that even more regulated industries such as financial services institutions' have limited understanding on impact they could have by using their network of commercial clients to influence global sustainability, and that the relationship between the firm and its supply chain merits additional study [62].

As a confirmation of the previous finding, which treats consumers as the most important stakeholder group, 67% of business managers believe that their CSR activities matter to the buyers of products or services (see Figure 2). Academic survey results indicate that most consumers appreciate and either do or would reward firms that demonstrate sound CSR practice and/or offer sustainable products and services, such as fair-trade [43]. Consumers expect firms to protect the environment and

3 e.g. Enron, Nike, Bangladesh factory collapse

Figure 2: Question "*Are your CSR activities important to consumers?*"



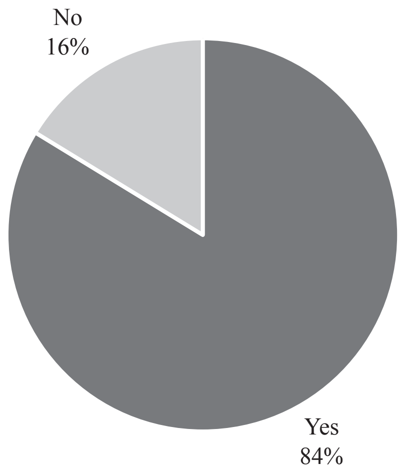
Source: Quantitative survey of Serbian business managers (n = 85; unit: number and %)

behave ethically, basing an increasing number of purchasing decisions on these factors (ibid).

However, in past research CSR in Serbia an important paradox was detected in surveyed citizens' response [59]: "Business sector should inform the public about CSR activities, but shouldn't communicate them further". They later explain "CSR should not be advertised, i.e. the companies should not profit in that way, nor have direct gains, if it is considered as "real CSR". However, companies are still expected to provide certain information about their actions". On one hand, citizens desire to be informed, but they are also concerned that CSR activities may be misused as advertisement. The opinion of business managers is also divided with regard to this issue, although the majority supports communication; 84% of surveyed business managers believe that their CSR activities should be communicated to the public, while only 14 participants are against it (see Figure 3).

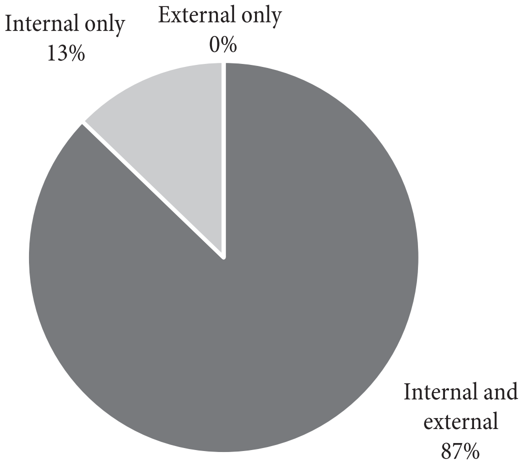
Amongst the surveyed business managers, an absolute majority (87%) considered it equally important to inform both the internal and the external public about the conducted CSR activities. Yet, a smaller share of just 13% considered the internal public (employees) as highly important stakeholders, which contrasts to 61% surveyed managers identifying employees among top three stakeholders (see Figure 4). Nonetheless, there is a growing awareness of the internal public, and the potential benefit from using CSR as a tool to attract, motivate and retain qualified workforce, transforming them into "brand ambassadors", or valuable human resources (HR) tool

Figure 3: Question "*Should CSR be communicated to the public?*"



Source: Quantitative survey of Serbian business managers (n = 86; unit: number and %)

Figure 4: Question ***"Should CSR be communicated to the external public, internal public, or both?"***



Source: Quantitative survey of Serbian business managers (n = 86; unit: %)

[9]. Indeed, none of the participants believed that CSR activities should be communicated towards external public only, implying understanding that CSR is not exclusively an external PR tool.

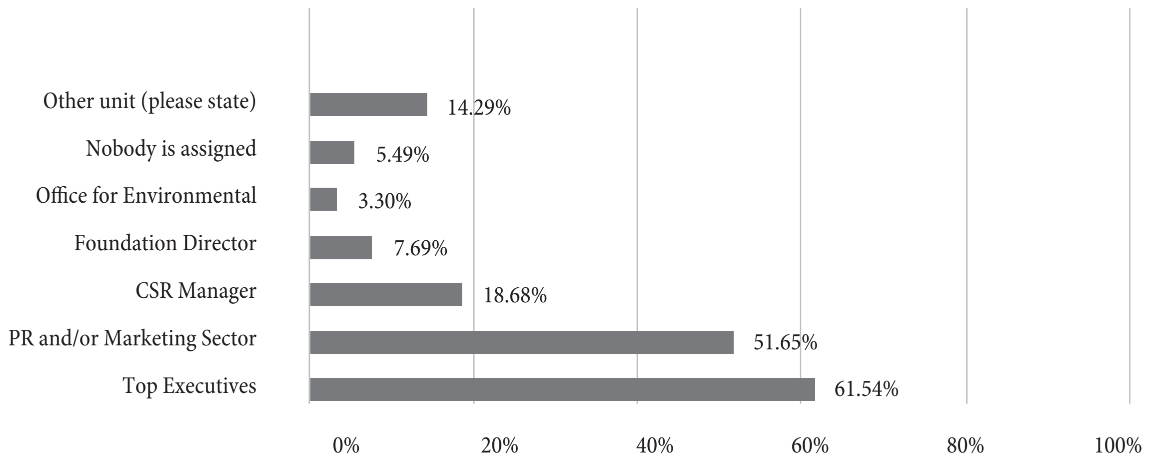
In line with the results of the online business survey, directly interviewed top business executives granted most significance to the consumers. Majority (60%) believes that they must fully shape their product/service offerings in accordance with customer needs, in order to ensure long-term sustainability, threatened by purchasing power decrease, low barriers to entry and fierce competition in certain sectors. Moreover, as members of top management, exposed to media attention, they also underscored the role of media in shaping a company's reputation (50%) despite awareness of limited participation and interest of the media in informing the public about good CSR practices and their outcomes, confirmed also by past research on philanthropy in Serbia [3]. Multinational corporations' executives with local production presence, led by cement industry representatives, all agreed that successful business relies on strong local community, and that they should develop together. Moreover, employees, media and local community are the top three ranked categories for these executives. 40% of executives also cited shareholders as important internal stakeholders, as well as executive managers who "should create a balance between shareholders and stakeholders, design a strategy which will bring added value to the company, so that owners wouldn't treat CSR as expense, but rather as a gain. CSR should be incorporated in the management education process" (President of the Media Foundation). The local community and Government/regulatory bodies are viewed as equally important stakeholders by 40% of interviewed executives. Employees were ranked as important only by 30% of executives (cement industry included) which contrasts to online survey findings where mid-level managers valued more highly the importance of employees (61%). Therefore, we can conclude that mid-level management is closer and more sensible to the employees' concerns and role in business development. None of the interviewed executives mentioned the suppliers, calling attention to the fact that this question, highly pertinent at the global level, has not yet reached the same level of significance in Serbia, where supply chain responsibility is often reduced to basic fulfilment of contractual obligations. A municipality president deduced that it is important for management that "channels for communication with stakeholders are carefully selected, as you cannot conduct an identical dialogue with everyone". Stakeholder dialogue is an important source of information that improves dealings and results, creates legitimacy for business decisions; in turn, for stakeholders it represents an opportunity to raise important questions about their concerns and expectations, and possibly participate in decision-making. With the aim of implementing a quality, two-way, continuous dialogue, companies often use a dedicated communication plan, where the level of the dialogue, model and intensity depends on the levels of influence of specific stakeholders and their organisational forms [11]. Amongst surveyed executives, such an advanced form of stakeholder relationship was highlighted by representatives of the cement industry: "Our Community Advisory Panel consists of local decision makers and NGOs, which are surveyed annually about our relationship, with the aim of defining areas of additional focus and/or needs for improvement".

CSR function within Serbian companies compared to EU practice

According to the database of good CSR practices in Serbia [34] and analysis of companies' official Internet presentations, only a few companies in Serbia employ CSR managers; in some, the HR Department or Regulatory Affairs Office or Charity Foundation Director performs this function, whilst the majority of companies have assigned CSR to the PR and/or marketing sector. In the course of research, we also observed that several large companies have a CSR-dedicated web page with general information, but without noting the responsible contact person/unit. Some companies cite the contracted PR agency, or head-office as responsible for CSR. This is confirmed in our business survey, with 52% of participating managers stating that the PR and/or marketing department predominantly takes care of individual CSR projects and actions (see Figure 5).

This implies that Serbian companies still principally regard CSR as a PR tool that could improve their public reputation, as well as the brand value and attributes [41]. A fifth (20%) of the business survey participants confirmed that their company employs a CSR manager, which implies a more systematic, strategic CSR approach and practice exceeding occasional charity activities. An additional 8% of companies have established a charity foundation for CSR activities, which entitles them to certain tax incentives or work with the NGO sector to manage their CSR activities in a transparent and institutionalised manner [52], [65]. Nonetheless, since the survey was geared toward leading companies with more advanced business practices, this number should be highly discounted for a more general outlook on private sector CSR practice in Serbia. The study of banking and cement industry practice demonstrates that in these industries CSR is managed by the corporate communications sector, albeit by a specific employee fully dedicated to CSR activities and reporting. Moreover, specially structured "CSR Committees" have recently been introduced in the cement industry, composing of top management, and dealing with strategic issues (noted under "Other unit" in Figure 5). This novelty in approach represents a leap to more strategic use of CSR and could serve as an example of a good practice introduced to the Serbian market. Our findings support the value-enhancement hypothesis [6] and are consistent with the premise that the top management in controversial industries generally considers social responsibility to be important although their products are harmful to health, society, or environment.

Figure 5: Question "*Which company unit is in charge of CSR activities and strategy?*" (up to two answers)



Source: Quantitative survey of Serbian business managers (n = 91; unit: %)

Stakeholder / CSR management in banking and cement industries

The countries of Serbia, Hungary and Slovenia have been selected for comparison on basis of regional and market transition similarities, and further compared to leaders in the European Union CSR practice. Market leaders in banking and cement industries were identified and screened by means of a comprehensive analysis of official Internet presentations (section relating to CSR/Sustainability) and available annual CSR / Sustainability reports in the period between November 2014 and January 2015 (see Table 3 and Table 4).

Table 3: Top 3 banks in Serbia, Hungary, Slovenia and EU (Western Europe): Overview of main shareholders, CSR management and CSR reporting

Banking Industry	Key stakeholder(s)	CSR managed by:	CSR reporting
Serbia (aggregate results)	Customers	PR/Marketing Sector, with dedicated person	Yes, in accordance to GRI and/or UN GC COP, without external verification
1.Banca Intesa [1]	Customers, Employees, Suppliers	Media Relations Manager	Yes, Sustainability Report: GRI/B level, not externally verified
2.Komercijalna banka [33]	Customers (charity, art)	PR	Yes, UN Global Compact COP
3.Unicredit bank [68]	Customers (Social Entrepreneurship)	Communications	Not on local level, Unidea Foundation on Group level
Hungary (aggregate results)	Customers, and to extent Community	PR/Marketing, with dedicated person	Yes, in accordance to GRI principles
1.OTP Bank [48]	Customers, Employees	Marketing Directorate, with designated manager responsible for CSR	Yes, Corporate Social Responsibility Report: GRI/B+, externally verified
2.Erste Bank [14]	Customers (Financial education, Charity, Culture)	PR	No, dedicated section within Annual Report
3.K&H Group [32]	Customers (Sports, Children Healthcare), Employees, Community (Environment)	Communications with dedicated CSR manager and CSR Steering Committee (CSRSC)	Yes, K&H Sustainability Report: GRI:G3, not externally verified
Slovenia (aggregate results)	Customers, Employees and to extent Community	PR	No, but dedicated section in Annual Report
1.NLB [44]	Employees, Community (Culture, Environment, Sports), Customers	Corporate Communications	Yes, Annual Report Social responsibility of the NLB Group based on GRI principles, without external verification
2.Nova KBM [45]	Employees, Community (Environment), Customers (financial literacy)	PR	No, dedicated section in Annual Report
3.SID Bank [57]	Customers, Employees	Communications	No, dedicated section within Annual Report
Western Europe [2]	Community	CSR Department	Yes
1.HSBC [26]	Community (Environment), Customers (Equator principles, Risk), Employees	Global Corporate Sustainability Division	Yes, Sustainability Report enclosed with Annual Report, with limited external verification (Equator Principles, CO2 emission)
2.Santander Bank [56]	Community (Environment), Customers, Shareholders/ Investors	Sustainability Committee, Sustainability Director, part of communications, corporate marketing, research division	Yes, Sustainability Report, GRI/A+, with external verification
3.BNP Paribas [5]	Customers, Community (Exclusion, Education, Culture, Climate Change), Employees	Corporate Social Responsibility Department	Yes, GRI/A, with external verification

Table 4: Top 2 cement industries (plants) in Serbia, Hungary, Slovenia and EU (Western Europe): Overview of main shareholders, CSR management and CSR reporting

Cement Industry	Key stakeholder(s)	CSR managed by	CSR reporting
Serbia (aggregate results)	Community	PR / Marketing	Yes, Sustainability Reports
1.Holcim* [25]	Local Community (Community Advisory Panels, Stakeholder Engagement Scorecard, Environment), Employees	Communications (dedicated employee for CSR) and CSR Committee	Yes, Sustainability Report, GRI: B+, externally verified (for 2012), for 2013 – only CSR report
2.Lafarge [38]	Local Community (Beocin Business park, Environment), Employees (safety at work)	Communications	No
3.Titan [63]	Local Community (Our community, our responsibility stakeholder dialogue, Environment), Employees	CSR Manager	Yes, Sustainability report, GRI: A+, externally verified
Hungary (aggregate results)	Local Community	PR	Yes, Sustainability reports
1.Duna-Dráva Cement/ Heidelberg Cement [12]	Local Community (Environment), Employees	Communications	Yes, Sustainability report without external verification
2.Holcim Hongária [24]	Local community (Community Advisory Panel), NGOs, Employees	Communications, Holcim Hungária Home Foundation	Yes, Sustainable development report, GRI: B, not externally verified
3.Lafarge Cement Hungary – Királyegyháza [36]	Local community (Environment)	Marketing Communications	Yes, without external verification
Slovenia (aggregate results)	Local community	n/a	No
1.Salonit Anhovo – Deskle [55]	Local community, Employees	n/a	No
2.Lafarge Cement - Cementarna Trbovlje [37]	Local community	n/a	No
Leading EU/Western Europe-headquartered cement companies (aggregate results) [19]	Local community	PR	Yes, GRI of highest mark, with external verification
1.Lafarge [35]	Local community (Stakeholder panels), NGOs, Employees	Lafarge Group Communications, Sustainable Development & Public Affairs, Senior Vice President Sustainable Development and Public Affairs	Yes, Sustainability Report, GRI: A+, externally verified
2.Holcim [23]	Employees (Occupational Health, Safety), Local community (CO2 emission, Community Engagement Plan, Community Advisory Panels)	Corporate Communications, Foundation for Sustainable Construction	Yes, GRI: A+, externally verified
3.Heidelberg Cement [22]	Local community (Community advisory panels), Employees	Group Communication	Yes, Sustainability report, GRI: A+, limited external verification on $C0_2$, health and safety

* Holcim and Lafarge announced merger on global level

Conclusions

Study of stakeholder management is significant from economic development perspective since it reflects the transition to modern market standards and a higher level of economic governance [4], which is why the European Union as a policy maker, as well as the academic community, has become increasinginly involved in this area. In our study, the cases of strategically planned and developed CSR based on stakeholder relations and engagement, which were the subject of research of Hypothesis 1 are still rare in Serbia, confirming that CSR is still primarily viewed as a CSR tool with limited understanding of its role in stakeholder management and business strategy. Consequently, it is unsurprising to observe that implementation of CSR activities is the predominant task of the PR and/or marketing sector. Our findings also indicate a potential for CSR to be developed from charity and/or marketing to a management tool, where CSR would be defined in relation to key stakeholders and integrated in core business activity [70]. This conclusion is supported by a high awareness of surveyed business managers and executives with regard to importance of various stakeholders, though there are differing views by mid-level managers and executives relating to significance of employees as stakeholders, while all identify customers, government/regulator, media and local community as key stakeholders. Executives, understandably, find regulatory bodies to be a strongly relevant stakeholder, while suppliers tend to be undervalued, indicating a lower level of market development in Serbia.

Our research, including an in-depth study of banking and cement industries, demonstrates both an advancement of CSR practice in more regulated industries where multinational enterprises dominate, and certain sector variations in terms of stakeholder focus. The cement industry in particular has introduced more advanced CSR practices and engaged the community in Serbia (with a focus on environmental protection and local stakeholder engagement panels), while the banking industry compared to peers in the region and the leading EU countries pays less attention to employees, implying a need for a greater involvement of human resource managers in CSR activities. According to an international study, the businesses generally expect CSR to be mostly managed by HR in the future [51], as this ensures that CSR can become the organisation's core activity and employees the company's "brand ambassadors". With the same aim, CSR accomplishments ought to be examined in the executives' annual performance evaluation, and CSR activities listed in scope of work, in order to ensure its place on executives' agendas.

CSR is globally underdeveloped and insufficiently exploited to improve a company's core business by means of a more quality stakeholder engagement as suggested by the presented literature findings, and therefore it is even more challenging for a less developed economy to advance its business practice in this regard. We therefore conclude with recommendations for companies operating in a transition environment such as Serbia:

- Corporate (and CSR) strategy should be structured and adjusted based on mapping, engagement and dialogue with key stakeholders, as a crucial factor of credibility and success;
- In addition to complying with a legal obligation of issuing annual reports and/or financial statements, companies should also report on CSR/sustainability. Reporting in accordance to GRI and/or Global Compact Communication on Progress (GC COP) criteria provides a broader and more transparent picture of the company, further engaging stakeholders;
- Companies should not expect that customers will recognise and value responsible business practices, but rather focus on sustainable products/services, which will introduce new customer groups, or penetrate to market niches. Thus, it is necessary continuously to work on improving customer communication channels, by enhancing the level of information and knowledge, and using complaints as valuable tools for business improvements. Consequently, the media should be educated and channelled to report on good practices and not only mispractice of companies;
- Using CSR as a tool to engage employees and attract/retain qualified workforce is an untapped resource and should be paid more attention;
- Similarly, supply chain management needs to be improved to achieve business success in the mid and long-term.

The suggested policies could be further assessed for impact, which may lead to additional fine-tuning. Future studies may also be able to find ways to overcome the current limitations faced by our research, including unclear governance structure in terms of CSR responsibility within the organization, with some companies and/or managers considering this to be part of PR, marketing, HR, operations, or even finance functions, and hence resulting in a somewhat subjective choice of interviewees in empirical research. One should also bear in mind the generally socially acceptable attitude of interviewees leading to declarative commitments of executives towards CSR, which calls for a more reserved analysis of their statements. Furthermore, valuable sources such as CSR reports are still relatively rare, with local subsidiaries of multinational companies increasingly relying upon the head office to publish just one, high level report. Additional comparative studies may be particularly useful to verify findings and allow for more consistent conclusions drawn across countries and/or industries.

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BUSINESS PERFORMANCE OF THE LARGEST EXPORTERS IN SERBIA DURING THE PERIOD 2008-2014

Poslovne performanse najvećih izvoznika u Srbiji u periodu od 2008. do 2014. godine

Abstract

A further shift of Serbian economy towards export-oriented economy is a solution which has no alternative. It requires a fundamental change of the current model of development and creation of export strategy which should be supported by adequate economic measures. The purpose of this paper is to identify successful and competitive export companies based on the analysis of business performance results in the period 2008-2014. Therefore, a database was created for the given period that comprises balance sheets of about 4,000 companies which were actively exporting over the observation period as well as export and import results and statistical data concerning their business operations. After analysing 100 largest exporters, the companies were classified based on their size, industry they operate in, degree of technological development, concentration, and export diversification. Based on the conducted analysis, it is established that Serbia has a small number of competitive net exporters, the export concentration being focused on a narrow segment of companies primarily owned by foreign legal entities. What these investing companies have found most appealing was mainly low-priced labour force and state incentives. Due to deep structural disruptions, Serbia is unable to reverse the course of negative trends unless it creates and implements a high-quality export strategy in parallel with fiscal consolidation and improvement of business environment, with direct and indirect export incentives in the current situation being highly necessary.

Key words: *export, import, competition, sector, concentration*

Sažetak

Za ekonomiju Srbije preorijentacija na proizvodnju zasnovanu na izvozu nema alternative. To zahteva temeljnu promenu dosadašnjeg modela razvoja i kreiranje izvozne strategije koja će biti podržana merama ekonomske politike. Cilj ovog rada je da na bazi analize poslovnih performansi izvoznika u periodu od 2008. do 2014. godine identifikuje uspešne, izvozno konkurentne kompanije. Kreirana je baza podataka za posmatrani period koja se sastoji od bilansa oko 4000 preduzeća izvoznika, zatim od njihovog ostvarenog izvoza i uvoza, kao i od statističkih podataka o njihovom poslovanju. Na bazi analize 100 najvećih izvoznika izvršeno je segmentiranje po kriterijumima veličine preduzeća izvoznika, sektora iz kojih dolaze, tehnološke razvijenosti, koncentracije i disperzije izvoza. Na bazi izvršene analize utvrđeno je da u Srbiji postoji mali broj konkurentnih neto izvoznika, uz visoku koncentraciju izvoza usmerenu na usku grupu preduzeća koja su pretežno u vlasništvu stranih kompanija. Ova preduzeća, kao investitori, privučena su uglavnom niskom cenom radne snage i državnim stimulacijama. Zbog dubine strukturnih poremećaja, Srbija ne može preokrenuti negativne trendove ukoliko se uporedo sa fiskalnom konsolidacijom i poboljšanjem uslova poslovanja ne bude kreirala i sprovodila kvalitetna izvozna strategija, uz direktne i indirektne stimulacije izvoza koje su u postojećoj situaciji neophodne.

Ključne reči: *izvoz, uvoz, konkurentnost, sektor, koncentracija*

Introduction

In the aftermath of the global economic crisis, export competitiveness of countries and companies which operate in their territories has become the central issue of global economy. In the case of Serbia, the orientation towards export as the main engine of economic growth is additionally important considering the fact that economic growth is only possible based on export-oriented production. Domestic economic science and international financial institutions both agree that the model of economic growth used after 2000, based on capital and loan inflow accompanied by favouritism towards the import of consumer goods, is both unsustainable and impossible. The above reasons imply that the economic policy in Serbia, as a country characterised by a poor market, should be much more focused on creating more favourable conditions for the development of export companies. Therefore, the goal of this paper is to understand the structure of exporters and to identify the dynamic changes in their business performance results over the observed period, but also to point out the industry sectors and braches where export is viable. This would also contribute to creating an adequate economic policy, i.e. export strategy, and help the country to find optimal areas for export growth, i.e. to identify the areas of relative comparative advantage together with switching export structure toward value-added products. Serbia, therefore, needs to define its "product space" [4], [5], [6] and, based on it, create a high-quality industrial strategy. Serbia has major structural issues given that the share of export in GDP is multiple times lower compared to the countries which have recently acceded to the EU. Therefore, it is in no position to leave the creation of export to the market alone, as it is still underdeveloped, because the economy is predominantly linked to the state and public sector. However, the issue of creating optimal indirect and direct support to investors and exporters remains to be tackled: "What exports should Serbia develop and which products could Serbia export? One way is to let the market decide, but that is not the road most of today's emerging exporters have taken. Typically, they adopted a strategy. Serbia should do the same. The Product Space analysis offers a data-driven way to evaluate feasibility and desirability of sectorial transformation options [10, p. 26]."

Some authors even believe that countries are defined according to their production structure. "Rich countries are those that have latched on to "rich-country products", while countries that continue to produce "poor-country goods" remain poor. Countries become what they produce [4, p. 2]." This suggests how Serbia looks like in terms of the economy bearing in mind that its dominating exporting products are agricultural raw materials and low-processed products which are characterised by outdated technologies used and cheap and insufficiently qualified workforce which is typical of poor countries. In order to ensure its further development and enrichment, Serbia must shift towards the export of goods with higher added value which is typical of wealthier countries.

Methodology and databases

In order to grasp the changes in the export structure in the period after the onset of the global economic crisis, we gained an insight into balance sheet and income statement of 4,000 medium-sized and large companies which exported their products in this period and into statistical data on their employees, including the data on recorded exports and imports for each of them per year. This allowed us to have a database with time series which enables the understanding of the movements in export and import trends and to combine such data with balance sheets and income statements as well as the data on business performance of these companies. The goal was to discover, based on defined criteria of success and during the observed period, successful exporting companies and what industrial sector or company group they belong to. The first results of this research were presented at the Kopaonik Business Forum 2015 [8]. The balance sheet and income statement data and statistical data were obtained from the Serbian Business Registers Agency – SBRA, while the data on exporters and importers were obtained from the Customs Administration of the Republic of Serbia. We conducted analysis of 100 largest exporters and 100 largest importers with the aim of comparing their business performance results over the observed period. Since the groups are non-homogenous, which prevents coming to any conclusions, we classified the companies into groups and then conducted analysis of each company individually. As the sample is rather small for high-quality statistical processing by using any of the known statistical methods, we only processed the first base which comprises companies whose export exceeded the amount of million euros per year. We also used regression analysis with the primary goal to determine the degree of dependency between increased export and improved business results.

In order to identify differences between the companies which are predominantly exporters and the ones which are predominantly importers, we compared cumulative balance sheets and income statements of both groups. We also aimed to determine which sectors and groups exporters and importers come from and what relevant changes occurred in the observed period, then their size, ownership structure, number of employees, and costs of research and development (for those few which did research and development). Particular attention in the research was focused on net exporters because they are the most significant from the perspective of countries' balance of foreign trade and payment operations.

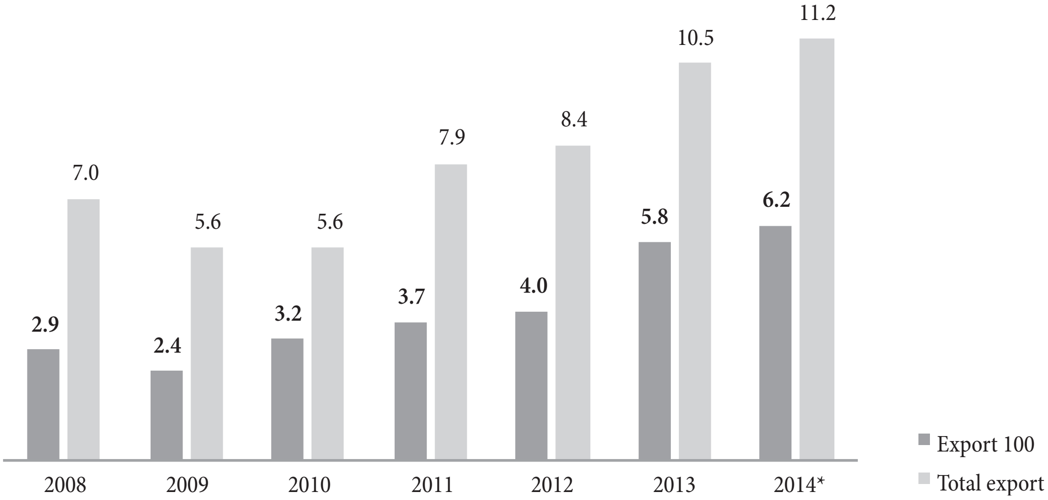
Business performance results of 100 largest exporters in Serbia

We analysed 100 largest exporters in Serbia during 2014 and the changes in their business performance over the period 2008-2014. In the observed period, this group of exporters continuously recorded increase in exports, with the exception of 2009 when the total export dramatically dropped due to the shock caused by the global economic crisis. The share of the first 100 exporters in total export continuously increased, from 42% in 2008 to 56% in 2014 (see Figure 1). This is indicative of the increase in concentration of export on a small number of large companies.

In addition to economic growth, the export also showed mild improvement of its structure in the observed period, heading toward processing and added value. Each improvement of the export structure is very important for Serbia because, in addition to an exceptionally low share of export in GDP, the export structure is also highly unfavourable since it is based on poor-country products and not on rich-country products.

The increase of share of the first 100 export companies in total export is also indication of the increase in concentration of export within the first 100 exporters. One company recorded the export over EUR 1 billion (FIAT), whereas the remaining 6 companies, which recorded the export in the range of EUR 100 million to EUR 400 million, have higher rate of growth and competitive advantage, which decisively contributes to positive performance results and increase in exports over the observation period. A large number of smaller companies, despite being exporters, recorded a decline in business performance results in the observation period. The improved results of export therefore primarily

Figure 1: Total export and export of 100 largest exporters (2008-2014, in EUR billion)



Source: Customs Administration of the Republic of Serbia, summarised by authors originate from a small number of large companies, mostly owned by foreign legal entities.

The group of 100 largest exporters is mainly composed of the companies which are simultaneously big importers, so a third of this group is comprised of the companies which are net importers. Among others, it includes NIS, but also Tigar Tyres, Philip Morris, Impol Seval and others, which are publicly mostly recognized as the largest exporters. One thing that is peculiar about 2014 is that the import of the first 100 largest exporters slightly exceeded their total export (see Figure 2). When the interests of the largest exporters are viewed from the standpoint of foreign exchange rates, a third of exporters with higher import than export should be excluded from the group of largest exporters even though they are always listed as the largest exporters because they tend to prefer appreciation rather than depreciation of domestic currency and market liberalisation.

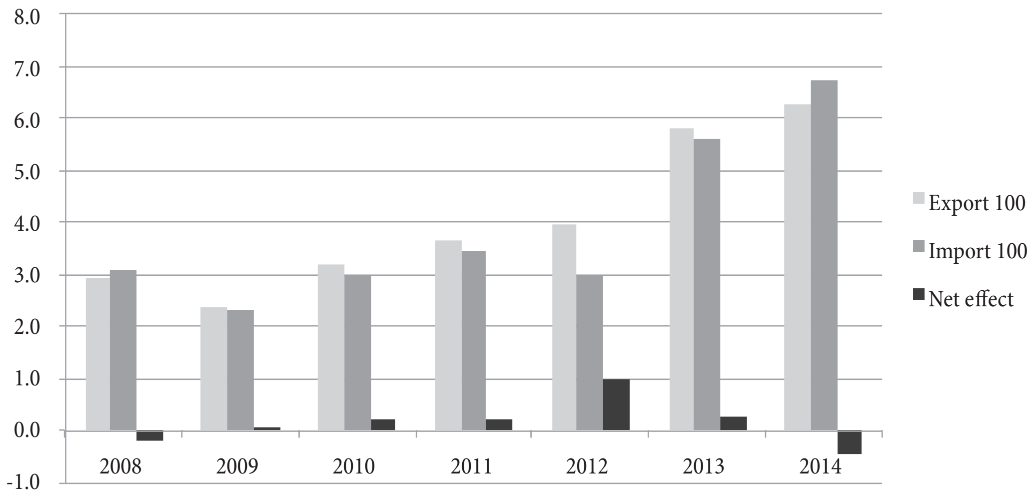
Business results of 100 largest exporters in the period 2008-2013

In order to identify performance results of exporters in the observed period, we summed up their balance sheets and income statements. The interpretation of the results obtained should however be done simultaneously with gaining an insight into individual characteristics of each company, along with identifying typical ownership structure of some groups or significant events as, for example, their entering the market dominated by largest market players (for example, FIAT and manufacturers of car spare parts) or drop in their performance due to the global economic crisis (e.g. Zelezara Smederevo, Farmakom and larger exporters undergoing restructuring).

The group of 100 largest exporters, observed through aggregate data, achieved very good business results in the observation period despite the economic crisis (see Table 1). In the period from 2008 to 2013, they recorded 54% increase in assets, converted into EUR, increase in capital of 34% and EBITDA of 60%. Due to the exchange rate of RSD on two observed days, this growth is more pronounced in RSD. Average number of employees has recorded an increase of 17% for these 6 years while the cost of labour increased by 4%. If we focus our analysis on the companies, both very good and very bad examples are available. It is beyond doubt that the single most negative effect identified in joint results was the deterioration of the business performance of Zelezara Smederevo, and the losses of several major export companies undergoing restructuring but which continue to operate thanks to state subsidies.

Figure 3, showing balance sheet items of operating profit, EBITDA and export, paints a clear picture of a sharp drop in these values in 2009 as a consequence of the global economic crisis which significantly affected export (despite all the previous forecasts that this would not have a major effect). This figure also clearly shows the continuous growth of exports afterwards and the recovery

Figure 2: Export and import of 100 largest exporters (in EUR billion)



Source: Customs Administration of the Republic of Serbia, data processed by authors

Table 1: Balance sheet items of 100 largest exporters

	2013	2012	2011	2010	2009	2008	INCREASE 2013/2008
ASSETS	12,216	11,144	10,211	8,699	8,160	7,918	54%
Capital	4,747	4,346	3,774	3,092	3,141	3,552	34%
Long-term loans	1,146	1,419	1,361	1,011	1,116	714	61%
Operating income	11,713	9,885	9,312	8,357	7,027	8,589	36%
Operating expenses	10,655	8,811	8,575	7,723	6,792	8,146	31%
Operating profit	1,130	1,258	1,022	833	513	590	91%
Operating loss	272	256	285	199	277	147	85%
Net profit	1,024	967	844	535	344	364	181%
Net loss	447	243	425	286	698	342	31%
Interest expenses	124	113	116	103	114	175	-29%
EBITDA	1,711	1,719	1,441	1,229	977	1,069	60%
ROA	5%	7%	4%	3%	-4%	0%	
ROE	12%	17%	11%	8%	-11%	1%	
Cost of salaries and wages	913	875	912	806	842	875	4%
Average number of employees	74,396	70,099	68,151	64,563	63,185	63,677	17%
Cost of salaries per employee	0.012	0.012	0.013	0.012	0.013	0.014	

Source: SBRA, summarised by authors

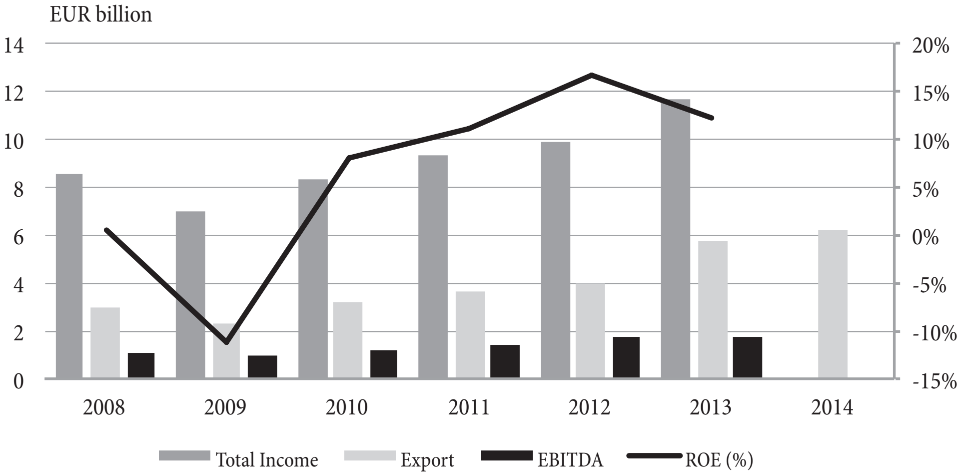
of profitability in 2012. However, new deterioration of profitability rate occurs which will likely be visible in the final accounts for 2014 (not available yet).

Export structure and diversification

The structure of exporters based on the amount of actually realised export is very interesting (see Figure 4). Only one exporter (FIAT) recorded export exceeding EUR 1 billion and represents a relevant exporter from the perspective of broad market. There are no exporters with export value between EUR 400 million and EUR 1 billion. This may lead to a conclusion that there are not sufficiently large exporters and that this segment must be expanded which is only possible through the introduction of new market players, though this is highly unlikely at the moment. Having larger exports would reduce the risk accompanying possible significant reduction in FIAT's exports, which would make the shown values plunge.

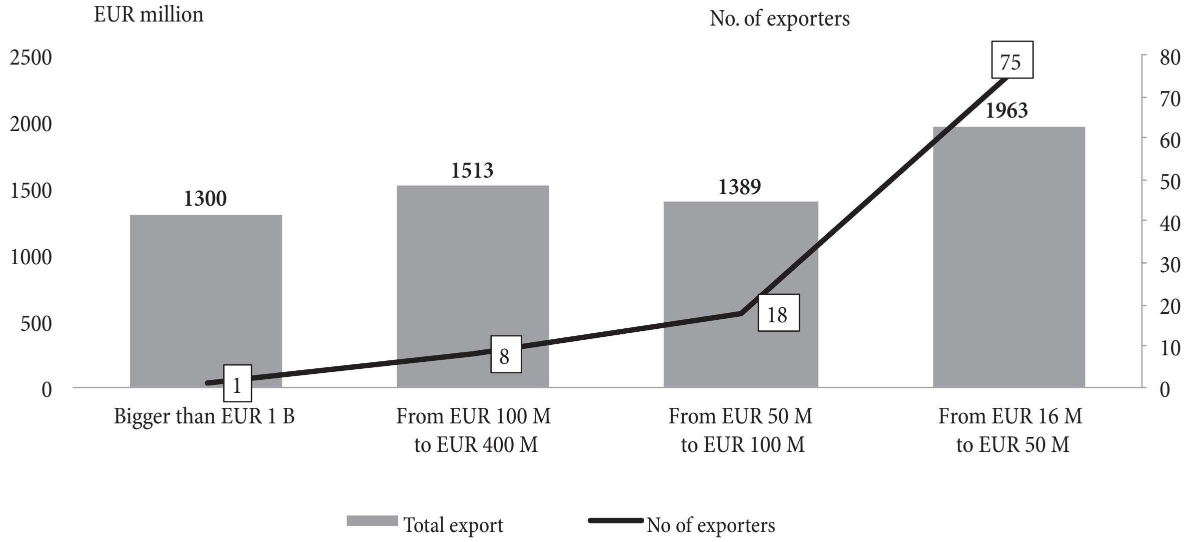
In order to analyse the export of individual companies, we need to classify the companies based on the achieved export results and based on the time they entered the market. Some of the most successful exporters were not even present in 2008 since either they only entered the market in the subsequent years or their business operations were at the very start.

Figure 3: Balance sheet items and export of 100 largest exporters (in EUR billion)



Source: Customs Administration and SBRA, summarised by author

Figure 4: Classification of companies based on export achieved in 2014



Source: Customs Administration and SBRA, summarised by authors

FIAT is followed by a large gap in the amount of exports and the next group of companies with export exceeding EUR 100 million consists of 8 companies (see Table 2). With EUR 370 million worth of exports, NIS is the first exporter in this group but it also recorded an imposing growth of export of 283% since 2008. Its share of export in operating income increased from 5% to 17%. Considering that the import of oil is substituted by processing of domestic oil, its effects on the balance of payments and the growth of GDP is truly remarkable (without reviewing other aspects of NIS operations in details).

Gorenje is the following good example of an export company with growing exports. Gorenje Valjevo recorded EUR 135 million worth of export in 2014 which is an increase of 248% since 2008, with export having a share of 94% in its operating income. It is a fine example of the companies which were the first to penetrate the Serbian market, largely due to the state subsidies and low-cost labour. One should bear in mind that Gorenje has two more factories – Gorenje Tiki, Stara Pazova and Gorenje Home, Zajecar – which recorded EUR 50 million of export in 2014, making it an important exporter.

Significant increase in export was also accomplished by Tetrapak, Tigar Tyres and Yura Corporation, which entered the market in 2010 with export worth of EUR 8 million only to reach EUR 119 million in a few years, thus becoming one of the most significant net exporters.

Table 2: Increase in export and share of export in operating income in the group of exporters with export worth between EUR 100 million and EUR 400 million

In EUR million				EXPORT GROWTH					Share of export in operating income*		
	EXPORT			2014/	2014/	OPERATING INCOME			Export 2014/	Export 2008/	ROEE
EXPORTER	2014	2013	2008	2013	2008	2013	2012	2008	Op. inc. 2013	Op. inc.2008	2013
NIS A.D. NOVI SAD	370	301	97	23%	283%	2,176	2,023	1,910	17%	5%	37%
GORENJE DOO VALJEVO	135	120	39	12%	248%	144	71	44	94%	88%	4%
TETRA PAK PRODUCTION, BG	160	102	78	57%	106%	142	141	133	113%	58%	99%
TIGAR TYRES DOO, PIROT	233	231	125	1%	86%	259	230	152	90%	82%	40%
HEMOFARM, VRSAC	149	158	105	-6%	42%	213	220	216	70%	48%	28%
YURA CORPORATION RACA	119	116	0	3%	0%	119	99	0	100%		95%
HIP-PETROHEMIJA in restr.	148	234	206	-37%	-28%	372	124	338	40%	61%	
ZELEZARA SMEDEREVO	201	131	877	53%	-77%	186	187	970	108%	90%	
	1,514	1,393	1,526	9%	-1%	3,611	3,096	3,764	42%	41%	

Source: SBRA, Customs Administration, summarised by authors

Note: In calculating the share of export in operating income, we took 2013 as the relevant year since the data for 2014 are still not available due to regulations in this area. For this reason, the export values of some exporters exceed 100% of operating income but this can also be a consequence of the time of recognizing export, i.e. invoicing.

These few exporters have exceptional profitability and return on average capital which is hard to encounter in the market economy.

On the other hand, a significant drop in exports, which annulled the positive export results of this group, was recorded by Zelezara Smederevo with a record EUR 877 million of exports in 2008 reduced to EUR 201 million in 2013. In addition to Zelezara, a substantial drop in the observation period was also recorded by Petrohemija, which is also looking for a potential strategic partner.

Group of exporters with export value in the range of EUR 50 million to EUR 100 million

This group comprises 18 companies, with 7 companies being distinguished based on their speedy growth of export over the observation period (see Table 3). Unlike the previous group which comprises the exporters whose export is worth more than EUR 100 million, where many recorded both growth and exceptionally high profitability rate, this group is characterised by an increase in export, but maintaining the profitability of these exporters became an issue with the start of the economic crisis. In this group of exporters, the export growth was not correlated with the increase in profitability due to a decline in prices of their products on the global market and/or due to poor management.

Even though this group has low profitability, the majority of these companies have economic prospects and potential for growth, which is primarily dependent on the recovery of global economy. The volatile trend of export can be noticed in smaller sized companies. This can be attributed to aggravated operating conditions in the aftermath of the global economic crisis as small sized companies are in disadvantageous position when it comes to obtaining loans on the financial market. Therefore, an overall view remains that small and medium sized companies have lost their positions in foreign markets and thus were forced into bankruptcy since the loss of foreign markets cannot be compensated by domestic market because the consumer purchasing power in Serbia has declined.

The second negative effect which gives way to high instability of exports is the fact that export depends mainly on raw materials and has low diversification of industrial products. This is typical of all underdeveloped countries. “Export instability is another reason for the benefits of export diversification, which is analogous to the portfolio effect in finance. Commodity products are often subject to very volatile market prices so that countries that are dependent on these commodities may suffer from export instability [8].” Having in mind that agricultural raw materials are dominant products in export, the result is, in addition to low profit, high volatility of export due to various circumstances such as drought, presence of aflatoxins etc. The same goes for the industry: should FIAT experience significant drop in export because, for example, the company failed to launch a new model from its factory in Kragujevac, both export and production would sustain a major blow. Therefore, switching to highly processed products and diversification of exported goods and increasing the number of competitive export companies could reduce the risks of a sudden drop in exports (see Table 4).

Table 3: Exporters with export worth EUR 50 million to EUR 100 million

	EXPORT			EXPORT GROWTH		ROEE
				2014/	2014/	
EXPORTER	2014	2013	2008	2013	2008	
PHILIP MORRIS, NIS	86	48	14	80%	527%	13%
VALY	94	118	19	-20%	394%	1%
RTB INVEST DOO	81	107	19	-24%	325%	
SOJAPROTEIN AD BECEJ	64	63	16	2%	297%	
VALJAONICA BAKRA SEVOJNO	87	53	30	64%	189%	
LBK LIVNICA KIKINDA	55	48	23	14%	140%	10%
HENKEL SRBIJA, BGD	67	52	35	28%	91%	17%
BALL PACKAGING, BGD	97	96	53	1%	82%	11%

Source: Summarised by authors

Table 4: Increase in balance sheet items of 100 largest exporters and importers in 2013/2008

	GROWTH 2013/2008			
	based on items in RSD		based on items in EUR	
	Exporters	Importers	Exporters	Importers
ASSETS	100%	54%	54%	19%
Capital	73%	46%	34%	12%
Long-term loans	108%	21%	61%	-7%
Operating income	89%	71%	36%	23%
Operating expense	82%	68%	31%	21%
Operating profit	166%	95%	91%	40%
Operating loss	157%	33%	85%	-4%
Net profit	291%	252%	181%	153%
Net loss	82%	-11%	31%	-36%
Interest expenses	-2%	-16%	-29%	-40%
EBITDA	122%	-33%	60%	-52%
Average ROA	2.3%	1.7%	2.5%	1.8%
Average ROE	6.3%	4%	6%	4%
Cost of salaries and wages	45%	45%	4%	4%
Average number of employees	17%	15%	17%	15%

Source: SBRA, summarised by authors

Importance of net exporters in changing export structure

Positive trends however can be seen when it comes to changing export structure. About one third of companies considered net exporters in 2008 have recorded a continuous increase of export with their share in total export growing as well. On the other hand, about 300 companies, some of which are undergoing restructuring or were subject to unsuccessful privatisation procedure, have significantly reduced their export operations thus causing a certain recombination of the structure of net exporters during the observation period of economic crisis. This was under a major influence of the fact that many new net exporters whose business was mostly export-oriented emerged on the market. Although there were many mistaken or unnecessary subsidies, the effects were clearly visible wherever foreign investors oriented towards exports and new technologies were drawn to invest.

In respect of ownership structure, the majority of the largest exporters are predominantly owned by foreign companies. When it comes to the criterion of success, there are state-owned companies listed here which are large net exporters but in terms of business results, they remain unsuccessful and survive solely due to the fact that the state covers their losses and/or tolerates their failure to pay obligations (HIP-Petrohemija, Zastava oruzje, Azotara...). With the view of their export potential, it is of key importance to ensure the consolidation of these companies and, for some, to finally cut off state subsidies if they do not prove to be economically sustainable regardless of companies' potential for exports.

When it comes to financial incentives and compromises made in order to appeal to foreign investors, this analysis showed that their positive effects should not be underestimated nor the fact that re-industrialization of Serbia cannot happen without large investors as a prerequisite for the development of small and mid-sized domestic companies, provided that they use the opportunity to integrate themselves into such systems. What surely remains positive and clearly visible is the high rate of increase in net exports of manufacturers of car components that have arrived to Serbia precisely to do business with FIAT but also to export their products to partners outside Serbia. They are also net exporters. So, there are two car component manufacturers among the first 30 net exporters: Yura Corporation, Raca whose export increased from EUR 96 million in 2012 to EUR 116 million in 2013 and EUR 119 million in 2014 and Leoni, Prokuplje whose export was worth EUR 65 million in 2012, EUR 87 million in 2013 and EUR 80 million in 2014. Both companies are characterised by a low share of imported components, while low labour costs (a reflection of the circumstances in effect in the country with extremely high unemployment rate) accompanied by certain sales on both domestic and foreign markets, state subsidies and relatively low investments make them highly profitable, with high return on total assets and total capital. Similar logic can be applied to other car component makers and therefore an increase in production and export and their arrival in greater numbers to Serbia could turn out to be the most significant long-term effect of doing business with FIAT, because net export would grow along with domestic production of such companies. Their motives for coming to Serbia would gain momentum with further development of car manufacturing industry and possibly also if some other manufacturers are also drawn to come. The greatest risk of entering into business with FIAT is the market risk which depends on the global market movements and FIAT's decision to produce new models in Kragujevac, without which no development and profitability is possible in any car industry in the world as this is a prerequisite for ensuring competition on the global market.

Foreign companies that have emerged on the domestic market have significantly contributed to the increase of net export. This group is headed by FIAT, Tigar Tyres, Yura, Leoni, Gorenje. What is common for all these companies is that they are owned by foreign legal entities, attracted to Serbia by state subsidies. It would be interesting to see what share export has in their profit. Namely, 88% of income of all of the above-mentioned companies is earned on foreign markets. Almost the entire income of Yura and Leoni comes from sales abroad (Yura 99%, Leoni 93%). In 2013, both companies multiplied their profit in comparison to the previous year with exceptionally high return on capital. However, unfavourable aspects may be reflected in ROL and debt-equity ratios of these companies. Liabilities of Yura and Leoni exceed the amount of their capital (D/E=1.19 and 1.7, respectively) and therefore, from the standpoint of economic theory, their financial stability could be brought into question. Their liquidity ratios in 2013 (Yura 1.05, Leoni 0.66) only corroborate the previous statement. High values of ROE are partially resulting from relatively low value of capital, i.e. debt financing, which can be improved by reinvesting high profit earned. The production of electrical appliances has also been largely improved in the past several years. Gorenje is a large net exporter mainly to the Russian market. It also includes not only Gorenje Valjevo but also Gorenje Tiki, Stara Pazova and Gorenje Home Zajecar. The profitability of this company is however significantly affected by a sudden drop in demand for export on Russian-Ukrainian market (several other large exporters oriented to these markets experience the same issue, such as hosiery manufacturer Valy).

What is noticeable is that the structure of net exporters has an increasing number of export-oriented companies which are not focused on domestic market but for which Serbia is a base for production. In order to establish whether the connection between income and export has become statistically significant due to the change in export structure and arrival of foreign companies which made impact on the net export we used regression analysis. The regression analysis was applied through NuM XL Program. When the obtained determination coefficient for 2013 (92.5%) is compared to determination coefficient for 2008 (85%), we may conclude that the change of export value in percentages relative to 2008 much "poorly" explains the growth of operating income which is mainly the result of attracting export-oriented investors. These results should, however, be taken with a pinch of salt, above all because of the short timeline.

Comparative analysis of the balance sheet items of 100 largest exporters and importers

The following section will be dedicated to the analysis of aggregate balance sheets of two observed groups: the first group consists of 100 largest exporters and the second consists of 100 largest importers. The goal of this analysis is to identify elementary changes in their balance sheet structure. This analysis should, however, be taken with a pinch of salt as the majority of big exporters are also big importers and vice versa, which makes the obtained results relative because the groups are not completely homogenous. However, certain useful indicators of the positions of the group of exporters and importers can be obtained with such limitations taken into account.

After the start of economic crisis, liquidity became the most important factor of business strategies applied by the companies. In 2008, the current ratio (CR) for exporters was 0.98 and 1.21 for importers. Furthermore, according to the value of this financial indicator, neither exporters nor importers meet the standards but, in the observed year, exporters were more liquid than importers. In the period 2008-2011, both exporters and importers recorded increase in the value of these indicators, which means that the majority of analysed companies relied on the strategy for the increase of liquidity as a protection measure against the bankruptcy risk. From 2011, CA has been declining over the years and in 2013, the value of this ratio for exporters was 1.13 and 1.08 for importers. Acid Test Ratio (ATR) paints a more specific and precise picture of the companies' liquidity because the most non-liquid item, i.e. supplies, is excluded from the current assets (see Table 5).

The norm for this indicator is 1:1 and we may observe that, from the standpoint of this ratio, ATR of the companies is higher than their CR. Both exporters and importers have invested a significant amount of their available funds in supplies. In 2013, the value of this ratio of exporters and importers was below norm but certainly above the value in the initial year under observation.

The major impact on liquidity has the accounts receivable collecting period. In 2009, the average receivables collection period in 100 largest exporters was 88 days and 69 days in 2013. Data indicate that the average receivables collection period significantly shortened over the period of 6 years by 24.47%, which is a positive trend and speaks of the speeding up of the cash generation cycle of the largest Serbian exporters. These data have additional importance in the light of the structure of Current Assets (CA). The working capital of the largest exporters in 2013 predominantly consisted of receivables (54%), followed by supplies (37%) and cash (9%). By comparing these data with the circumstances in 2008 (see Figure 5), we may conclude that the share of receivables in the structure of CA increased by 10.60% and the share of supplies and cash declined by 10.76% and 8.07%, respectively.

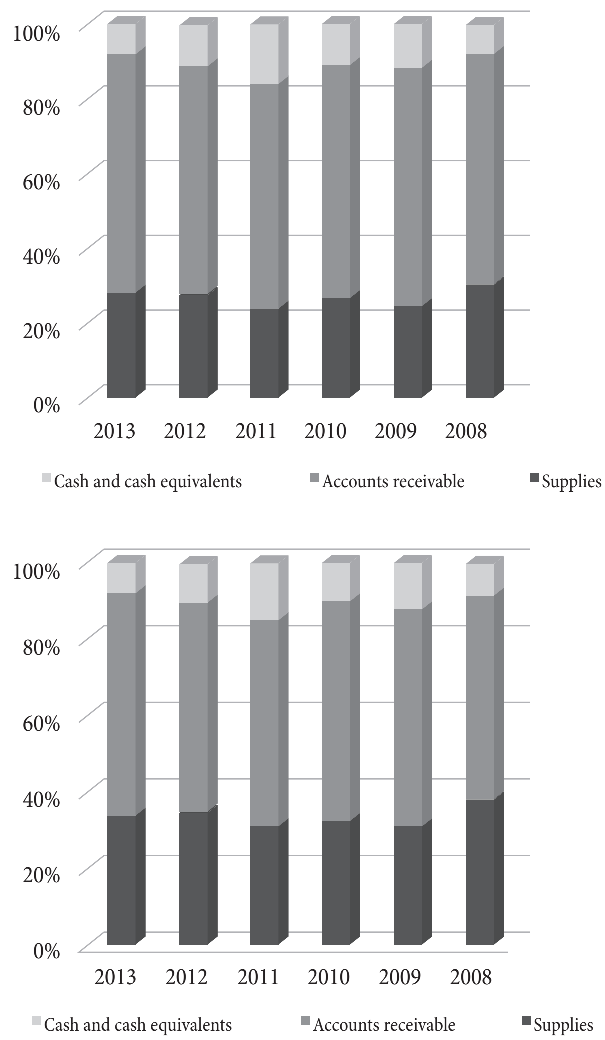
Table 5: Acid Test Ratios for the period 2008-2013

Year	2013	2012	2011	2010	2009	2008
RLR exporters	0.79	0.84	0.94	0.86	0.82	0.67
RLR importers	0.78	0.81	1.03	0.9	0.87	0.72

Source: Authors

The position of the largest importers is somewhat different. Average accounts receivable collection period in 2008 was 100 days and 72 days in 2013, which is a reduction of almost 28%. Based on the comparison of average accounts receivable collection period across the observed groups of largest exporters and importers, we may conclude that exporters collect their receivables faster than importers. The observed fact could be explained by more stable sales accompanied by faster collection, which results from gaining position on foreign markets and contracts concluded with foreign partners. On the other hand, importers are oriented towards domestic market that is faced with the drop in demand, which is the reason why in 2009 the average accounts receivable collection period was 100 days. It implies that, in order to prevent

Figure 5: Breakdown of the current assets of exporters and importers for the period 2008-2013



Source: SBRA, summarised by authors

further dramatic drop in their income, these companies sold their goods for deferred payment, the deadline for collection by far exceeding global standards and norms.

By comparing cumulative values of supplies, accounts receivable and cash and cash equivalents, it is evident that the supplies and accounts receivable of importing companies showed a mild but stable rising trend whereas cash item records an increase in the period 2008-2011 only to drop again. It is obvious that the largest importers were "scared" by the economic crisis of 2008-2011 and therefore insisted on increasing their current liquidity. As the effects of global crisis wear off, their financial management tends to move from liquidity to profitability.

The increase of working capital shows that exporters have much more supplies than importers. In 2013, this difference amounted to EUR 300 million which is a 14% increase from the initial observation year when this difference was EUR 263 million. The result should not be surprising because exporters are dominated by the companies from the processing industry which must use raw materials and consumables, i.e. must have supplies. Unlike exporters, the structure of import companies is dominated by wholesale trade companies. These companies are oriented towards faster circulation of funds so these companies recognized higher amounts of accounts receivable compared to exporters. In 2013, importers recognized higher value of accounts receivable than importers in the amount of EUR 266 million, which is a 28% drop compared to the initial observation year. The approximation of cumulative sums of accounts receivable recognized by exporters and importers is the result of regulation of payment deadlines in the domestic market where the reduction of the average accounts receivable collection period is obvious.

Analysis of income statement shows that operating income over the observed period increased faster than the operating expenses: 36.42% versus 30.82% recognized by exporters, i.e. 23.05% versus 20.85% recognized by importers. Faster increase in operating income than operating expenses was reflected in the operating profit indicator which increased by 91.31% in export companies and by 40.40% in import companies. Though inflation should be taken into account, this growth of profit still shows that the majority of large Serbian exporters have something to offer to their market. On the other hand, the first 100 exporters also include companies whose operating income is insufficient to cover all operating expenses and, as a consequence, these companies recognized operating loss.

Higher growth of income on the side of the exporters results from the fact that exporters sell their goods and services on a foreign market in stable currencies and they are much less sensitive to circumstances on the domestic market.

Conclusion

The export of Serbian companies in the period from 2008 to 2014, after recording a minor decline in 2009, was continuously on the rise accompanied by a slight improvement in the export structure towards highly processed and value-added products. In this respect, we may observe that the export is, after all, one of rare shining lights in this country's economy, but that this progress is insufficient to turn around negative trends. In order for these tiny movements to be made in the right direction, it is necessary to drastically improve economic environment and establish macroeconomic balance which would also reduce the operating risks in Serbia.

The majority of the largest Serbian exporters are simultaneously big importers. In 2014, in summary, 100 largest importers had higher total import than export and about a third of the largest exporters were also net importers over the observation period. This structure is also reflected in their interest which means that, when the exchange rate of RSD is concerned, they prefer its appreciation rather than depreciation. Since the largest exporters also have the greatest capability to influence the economic policy, they are the only ones, if they had interest to do so, who could prevent the actual appreciation of RSD which has been prevailing since 2000 and sudden market liberalisation which we have witnessed after the country opened up to foreign investments. Since this interest for depreciation is really present only in primarily net exporters (provided that they are not deeply indebted with foreign currency clause loans), it is clear that the resistance to appreciation could not be expected.

The analysis showed that a group of successful exporters became noticeable for overall better operating results than importers that had bigger issues with the drop in domestic demand and general illiquidity. Exporters recorded more stable sales figures, faster and more certain collection of accounts receivable and lower market risks. For this reason precisely, the export will in the future remain the only possibility for survival for many companies. This also applies to the entire Serbian economy which should be more focused on export.

In order to improve foreign trade balance, i.e. reduce high deficit, the net export companies must be significantly stronger and the centre of attention of the economic policy. The increase of net exports was largely dependent on subsidies for foreign investments in Serbia. We may still say that some effects were actually achieved whenever they were used to increase net exports and to appeal to foreign companies to invest in value-added products.

The concentration of exports in Serbia is very high: one company records export which is worth over EUR 1 billion (FIAT), while the remaining six companies with export worth between EUR 100 million and EUR 400 million also achieved higher growth and competition parameter, which decisively contributes to their positive business performance results and growth of export during the observation period. Large number of smaller companies, despite being exporters, experienced the worsening of their business performance results during the economic crisis so that progress is owed to a small number of competitive companies, both across entire economy or a certain industry sector. Export, viewed as a whole, was not diversified but relied solely on agricultural raw materials and a small number of companies, mostly in foreign ownership, which leads to greater potential risks.

Despite having probably the highest potential for growth and high value-added products, i.e. net export, the agriculture failed to accomplish sufficiently good results over the observation period even though its share in export has recorded an upward trend. The first great opportunity which should be seized is to increase the export of processing industry which processes agricultural materials whose current share in total export of agricultural products is about 20%. The second great opportunity lies with the stronger integration of domestic economy with foreign companies emerging on domestic market, primarily in the industry of car manufacturing, electrical appliances and processing industry which relies on agricultural raw materials. Reinforcing the industry of value-added products which is export-oriented must be supported by indirect and direct economic policy measures, along with fiscal consolidation and improved business environment. Proactive policy taken in relation to export is necessary in the current circumstances and the expectation that the market will resolve the issue by itself is unrealistic. So, the question is not whether the state should have a strategy and active role in it but what kind of strategy it should be, how it should be implemented and how it should be used to minimise all negative effects.

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DO PARTNER RELATIONS IN MARKETING CHANNELS MAKE A DIFFERENCE IN BRAND MANAGEMENT IMPLEMENTATION? EVIDENCE FROM SERBIA AND MONTENEGRO

Da li partnerski odnosi u kanalima marketinga značajno utiču na implementaciju brend menadžmenta? Iskustva iz Srbije i Crne Gore

Abstract

This paper discusses the preconditions for successful business operations of suppliers in Serbia and Montenegro, taking into account their weakening position in marketing channels and relatively weak consumer purchasing power. This research aims to determine the interdependence of brand management and partner relationship development in marketing channels and their influence on brand performance. Therefore, BCR model was constructed. Research into the influence of marketing channel relationships on the business success of supplier operations was especially emphasised. An empirical research was conducted using a sample of 121 managers from Serbia and Montenegro. The results of quantitative analysis confirmed that three independent variables of the BCR model (brand management commitment, marketing channel relationships, and brand myopia) had a statistically significant impact on brand performance. It was also proved that companies, which adopted and implemented marketing channel relationships at a higher level than their competitors, achieved better financial results from their operations. The implications for managers of supplying and retail companies were especially emphasised and discussed.

Key words: *marketing channels, suppliers, brand management, Serbia, Montenegro*

Sažetak

U radu se diskutuju pretpostavke uspešnog poslovanja dobavljačkih organizacija u Srbiji i Crnoj Gori, u uslovima slabljenja njihove pozicije u kanalima marketinga i relativno slabe kupovne moći potrošača. Osnovni ciljevi istraživanja su utvrđivanje međuzavisnosti brend menadžmenta i razvoja partnerskih odnosa u kanalima marketinga i njihov uticaj na performanse brenda. U tu svrhu je konstruisan BCR model. Posebno je istražen uticaj odnosa u kanalima marketinga na uspešnost poslovanja dobavljačkih organizacija. Istraživanje, koje je bilo osnova za analize prezentovane u ovom radu, sprovedeno je na uzorku od 121 menadžera u Srbiji i Crnoj Gori. U radu je potvrđeno da tri nezavisne varijable BCR modela (posvećenost brend menadžmentu, odnosi u kanalima marketinga i brend miopija) imaju statistički značajan uticaj na performanse brenda. Takođe je dokazano da preduzeća koja su usvojila i implementirala partnerske odnose u kanalima marketinga na višem nivou od konkurencije, imaju bolje finansijske rezultate poslovanja. Implikacije za menadžere dobavljačkih i trgovinskih kompanija su posebno istaknute i diskutovane.

Ključne reči: *kanali marketinga, dobavljači, brend menadžment, Srbija, Crna Gora*

JEL Classification: M31, L25, L81

Introduction

Significant changes have occurred in the Western Balkans marketing channels in the past decade. Retailers have gained significant power due to processes of concentration and integration. In addition, foreign retailers have been leaders in the most the Western Balkans countries (WBC). They have brought new practices and more developed retail formats. The retail sector in WBC is much less fragmented than a decade ago, although it is still less concentrated than those in developed economies. However, manufacturers have grown as well, and international presence has also become more significant, but the market power has gone to the retailers in most industries. Wholesalers have lost a significant part of their influence, but the most successful of them have focused on efficient logistics or entered upstream or downstream integrations. Suppliers have lost a significant portion of their bargaining power and had to accept new practices in order to adapt to the changing environment. Technological innovations have influenced all segments of marketing channels. Customers have accepted multichannel environment and its advantages. Modern customers in WBC have more information, more choices and are less loyal. On the other hand, the standard of living and purchasing power are stagnating. In this situation suppliers need to carefully build their brand position, especially when competition in their industry is fierce. They communicate with customers (both business and final) through different types of marketing channels which coexist in the Western Balkans.

Serbia and Montenegro are important part of the Western Balkans where most of the above mentioned changes have occurred in marketing channels but with certain specific characteristics. Therefore, the authors have decided to conduct the research concerning the roles and importance of cooperation in marketing channels in modern brand management, aimed at creating a strong market position of the brands and improving financial results and company performances in these two countries. In addition, similar researches have not been conducted in Serbia and Montenegro.

The main objective of this paper is to research into the role of cooperation in marketing channels in the light of modern brand management implementation. Furthermore, we will examine whether and to what extent can the development of good partnership relations contribute to the improvement of brand performance and, consequentially, influence the financial results of the company. Based on a comprehensive literature review, the authors have defined research methodology and established an initial model. The research has been conducted among marketers in Serbia and Montenegro in mid-2014, with marketing, sales, brand, and general managers expressing their views on several related topics. Their responses were used in further analysis. A Brand Channel Relationships (BCR) model was constructed with the purpose of exploring the influence of variables on Brand Performance. Results of quantitative analyses and its discussion have been presented in this paper as well as the main findings and managerial implications. In addition, the research limitations and future research directions have been discussed.

From transaction to partnership: Conditions, concepts, results

Modern times and conditions of doing business require new strategic and organizational responses [4]. Business innovations are essential for survival and development in the conditions of rapid changes in the environment, market redefining, demanding upgrades of business processes, and globalization [43]. Consumer power and purchasing logics are also changing. Therefore, cooperation has become crucial for surviving in the market [53]. Forces that shape market strategies lead to new competition logics of integrated business systems [54]. The traditional transactional approach to business relationships does not offer a strategic response to business environment changes [51].

The development of modern information technologies for collecting and exchanging information stimulates cooperation initiatives. Therefore, all marketing channels members have to respect the information power of retailers [54].

The increased business risk is an important motive for closer cooperation among suppliers and retailers. The objective is to decrease business risks and increase loyalty in marketing channels. Close relationships with customers considerably stabilize supplier operations [44]. In addition, the level of industry maturity also influences suppliers to cooperate with retailers. When main determinants of success are price and availability of goods, the suppliers are in danger of brand commoditization; hence the importance of implementing adequate business strategies in different stages of product life cycle [16].

Customer loyalty decreases business risk. Adequately organized sales and well-treated customers make loyalty more certain [38]. However, suppliers do not reach loyalty by implementing the same strategies and tactics.

Freedman et al. [18] distinguish the supplier's generic roles. In this way, the supplier uses the retailer as a means of market approach, focusing on selling producers' brands (traditional brand management). A supplier can also be pragmatic and play the role of the leading supplier by developing deep relationship with retailers (modern brand management). The opposite extreme is the supplier not thinking of their own brand, and working for the retailers and their private brands.

Customer characteristics [27] and the need for their long-term satisfaction define the tasks and required changes for the supplier. A widely accepted opinion is that differences in character, motives, and behaviour of retailers and market features are sufficient to justify a special approach, i.e., the individualized treatment by the supplier [28]. Furthermore, the customers themselves often seek appropriate respect. The suppliers must meet the set expectations by jointly working on developing the relationships [15], [9].

In supplier–retailer relations, the inter-organizational harmonization, relationship development and adequate resource allocation are very important [64]. However, personal relationships between suppliers and the retailer's employees are significant as well. In this sense, the key account management strategy is the means for providing a stabile cooperation [14]. Strategically important customers must have a special treatment, which includes operational capacities for the development of a long-term and profitable relationships [46]. This implies that the business process should be defined so as to fit the key accounts [5].

Top management should primary handle the most important assets, reflected in the selected customers with their own needs [71]. It should be emphasised that key accounts are demanding and particular. *Levy et al.* [36] observe that modern retailers pay special attention to selection of suppliers. In order to have a harmonious relationship with customers [60], the supplier needs to be focused on their individual needs and interests which implies cooperation. Key account management (KAM) cooperation has strategic and organizational aspects [22], [3].

Trust is a prerequisite for partnership development. Transactional or price focused phase is usual at the beginning of cooperation. Initial phase should be followed by relationship development [17]. The literature distinguishes five phases of supplier-customer relations: probing relationship, basic relationship, cooperative relationship, interdependent relationship, and integrated relationship with the customer [44].

Upon achieving good business results, both the supplier and the retailer develop their cooperation at different organizational levels. This includes organizational harmonisations from a multifunctional relationship level to a strategic alliance level. The basis and the result of the KAM strategic alliance are performing of work with understanding and trust, as well as the sharing of profit and risk between the business partners. This leads to creating mutually competitive business systems [37].

Globalization and rationalization of procurements bring forth the phenomenon of extremely important customers [59]. Customer concentration and focus on fewer sources [72] require suppliers to adjust [57] and apply strategic sales approach [50]. New resource allocation is utilized [29] as well as a network perspective of key account relations [61], which relativize the conventional KAM treatment [58].

Strategic co-creation of value becomes very important [47], [55] and requires qualified managers for its implementation [61]. Synchronization of numerous activities, as a part of partner relations [52] and customer satisfaction [68], demands adequate knowledge, skills, and support [10].

The above summary of supplier–customer relations development has clear chronological outlines. Transactional communication in marketing channels, during the times of suppliers' domination with their brands, has evolved into more profitable ways of cooperation [49]. Capital concentration and retailer technological and information power were both necessary in order to develop relations in marketing channels. Figure 1 illustrates the development of supplier/retailer relations.

Traditional brand management was common practice in the developed countries during the 1960s. For example, up until 1967, almost 84% of large producers of packaged fast-moving consumer goods had the position of brand managers. In addition, retailers were mainly passive members of marketing channels in the 1960s throughout the traditional brand management era. During the 1970s, due to the changing role of retailers in marketing channels, a counter-offensive was launched against the traditional manufacturers' brand practices [40].

The breaking point is achieved due to a technological breakthrough in retailing. Technological innovations such as bar coding have led to revolutionary changes in marketing channels, and enabled the concentration of capital in retail and also a new approach to marketing [39].

Beside the KAM initiative during the 1980s, trade marketing practices were also developed [33], as well as the concept of category management, and strategy and tactics of supply chain management [8]. The positioning approach at category level [19] was completed at the beginning of 1990s with the innovation of Efficient Consumer Response (ECR) strategy, which integrated demand management (category management) and supply management (efficient supply) [56].

Later on, the initial idea of efficient consumer satisfaction would be improved with the idea of good experience at the point of sale. Good shopping experience, as a holistic concept, is implemented on the basis of shopper marketing which involves tracking the customer through the shopping process [62], and focusing on the 'triggers' in the conditions of 'hybrid shopping' [31]. All influences on the customer are carefully tracked, such as communication [12], packaging [32], and store crowding [11]. Therefore the necessity of integrated marketing communications has risen [69].

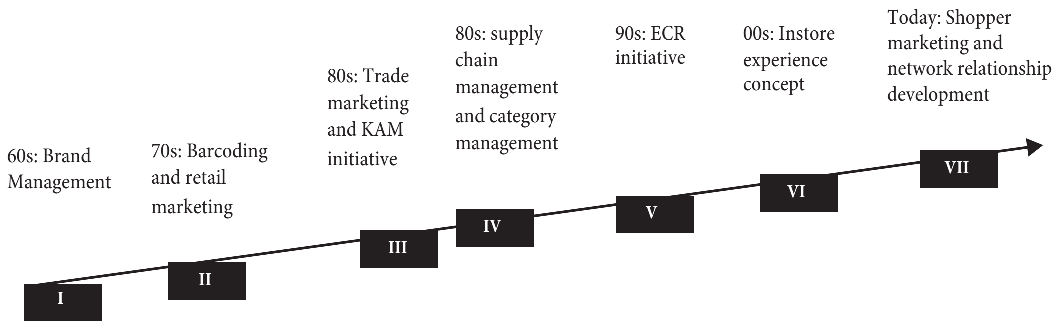
Today, the retail environment is dominantly determined by IT achievements [26], which enable mass customization of even the basic goods and services. This is the essence of the modern retail revolution [1]. A strong, retailing brand is developed, and it is more defined by technological, than physical capacities [54].

On the other hand, the quality of supplier-customer relations defines the quality of retailing business [63]. Hence, there are high expectations from suppliers, including the following: client management, organization and people, category management leadership, supply chain management, financial management, understanding and activation of customers and adequate brand management, marketing, and innovation [7], [63].

A literature review indicates that cooperation in marketing channels is a precondition for successful brand management [21]. By summarizing the above presented views of numerous authors, we have reached conclusions about strict requirements of sustainable brand management. Brand oriented suppliers have no choice but to get closer to retailers and their resources [45]. The closer and the deeper the connection with retailers is the more secure is the survival and progress in marketing channels [42].

In the conditions of traditional brand management crisis, the application of customer relationship management

Figure 1: From traditional brand management to collaboration in marketing channels



Source: Developed by Bogetić [6], Harris [25]

(CRM) business strategies and tactics represent the basis of successful brand development and sustainability. The positioning of products in heavily technologically defined business environment, coupled with intensive increasing strengthening of retail brands, implies a multifunctional, holistic cooperation. Increasingly demanding final customers, above all, call for cooperation in marketing channels. A modern final customer rewards customized and localized offers. Market survival nowadays requires supplier and retailer teamwork and respect of mutual interests in marketing channels [66].

Traditional suppliers' brand management is in crisis, and modern approach to brand management has emerged [69]. Multiple authors point out the benefits of a strong brand and successful application of brand management. According to *Madden et al.* [41], brand is a powerful tool in reducing the volatility and vulnerability of cash flows and business risks because a strong brand carries a lower risk of market failure. *Aivaldi et al.* [2] emphasize the role of brand as a source of competitive advantage which significantly contributes to financial results.

Lee et al. [34] assert that modern brand management system has a significant impact on brand performance. At the same time, brand performance consists of two variables – customer performance (discussing the relations between customer and brand, such as satisfaction, reputation, loyalty, and so on) and financial performances of a certain brand (sales growth, market share, return of brand investments, etc.).

Lennartz et al. [35] have measured brand strength, brand associations, and performance perceptions of the four marketing-mix instruments including distribution. *Burman et al.* [13] have analysed the influence of brand commitment on brand strength, emphasizing internal brand management as the key determinant of brand success.

Wong and Merrilees [70] have established the link between brand performance and financial performance of a company. Brand performance is a mediator among company brand orientation, innovation, and financial performances. In measuring brand performances, they have started from the position of the brand defined by the awareness, image, loyalty and reputation the brand had with customers. In addition, there are brand barriers which have a negative impact on brand orientation and brand performance. *Gyrd-Jones et al.* [20] have found the existence of brand strategy barriers in organizations, such as different focus of sales and marketing department.

Suppliers' position in marketing channels and other factors require applying a more flexible approach to brand management, i.e., a modern brand management. This increases the possibility of successful coexistence in marketing channels, including constant monitoring and revision of the brand management concept [65].

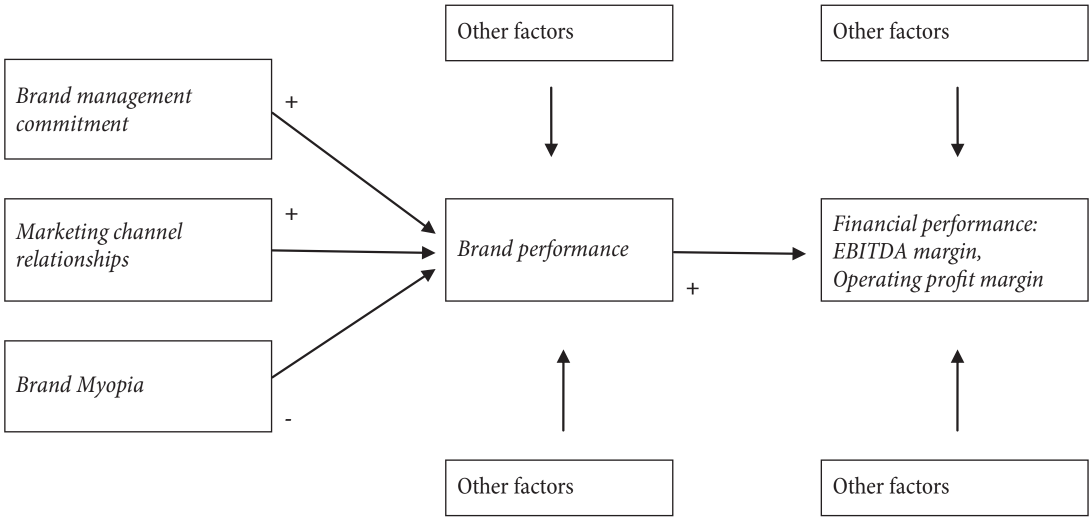
Brand management strategy has to be adjusted to local conditions because there are differences in general economic development, culture, market structure, etc. There are no significant research studies which cover the field of brand management and marketing channels relationships in Serbia and Montenegro. Therefore, the authors have conducted a pioneer field research in these two countries in order to get valid inputs for further analysis.

Overview of research methodology

Based on the above presented theoretical background, as well as on overall objectives of the study exposed in the introduction, we have defined our research model shown in Figure 2.

Brand management commitment refers to the respondents' opinions regarding the necessity of brand management for business success. A special emphasis in the research was put on barriers, both organizational and personal, which were viewed through a latent variable Brand Myopia. Variable *Marketing channel relationships* required more responses that shed the light on marketing channel cooperation, as seen through the eyes of suppliers. All the listed latent variables had an indirect impact on company financial performance, through the established brand position on the market (*Brand performance*) which they impacted directly. Responses on brand and company position were given by the respondents, based on their own estimates. Finally, market position of a certain brand (*Brand performance*) influenced the financial performance of a company, which were presented by *EBITDA margin* and *Operating profit margin*.

Figure 2: The proposed research model – BCR model



Source: The authors' model based on the literature review and previous research

According to the model, we have defined our main research questions as follows:

- RQ1: Which individual variables constitute latent variables of Brand Channel Relationships (BCR) model?
- RQ2: Is there a relationship between the variables and what is their impact on market position (Brand Performance) and financial performance of the company?
- RQ3: Which clusters in terms of the Marketing Channel Relationships practice can be extracted?

The basic hypotheses emerge from the above stated research questions.

H1: There is a statistically significant effect of BCR model variables on Brand Performance.

H1a: Brand Management Commitment positively influences Brand Performance.

H1b: Marketing Channel Relationships positively influences Brand Performance.

H1c: Brand Myopia negatively influences Brand Performance.

H2: Companies that have understood and implemented Marketing Channel Relationships at higher levels, achieve better financial results.

The research was conducted by collecting responses from CEOs, marketing managers, sales managers, brand managers, and other types of managers or specialists professionally connected with brands and CRM. The research was conducted during June and July 2014, and involved managers and companies that were doing business in Serbia and Montenegro at the time of the survey. For the purpose of this research we used a web-based questionnaire, which allowed the respondents to reply and express their opinions to the asked questions at the time most convenient for them. Around 850 survey requests were sent, and a total of 145 responses were received. Upon eliminating the incomplete and invalid responses, further analysis was based on 139 responses (respondents). Specific brands could only have one answer in the database, and after the elimination of double entries, a total of 121 valid responses were included in further analysis.

The research of marketing channel relations was a part of a wider research, with the goal of collecting managers' opinions on different issues of modern brand management and business in general. For the collection of responses relevant for the analysis of the topic of this article, a seven-point Likert scale was used. The questionnaire statements stemmed from both the wider explanation given in the literature review and previously conducted research in this field [70], [30]. By using the standard Likert scale, the respondents were requested to indicate the extent to which they agreed or disagreed with the statement. Their responses regarding the implementation of brand management practice, as well as marketing channel cooperation, were especially relevant to the research. All respondents were suppliers. They were either managers in production companies or managers of dealers/distributors of certain domestic and foreign brands on the domestic market (Serbia or Montenegro).

The data relating to financial results were received and calculated: 1) For Serbia, based on the official data from the Serbian Business Registers Agency (www.apr.gov.rs) and the data from the business portal of CUBE Risk Management Solutions, a specialized consulting company (www.cube.com); 2) For Montenegro, based on the data from the official financial reports from Central Bank of Montenegro (www.cb-mn.org).

Sample characteristics, research results and discussion

The sample characteristics

As previously indicated, the research was conducted in two countries, Serbia and Montenegro, and the respondents came from companies of different sizes, industries, and ownership. A detailed overview of the sample is given in Table 1. Since suppliers were the focus of the analysis, most companies from the sample were producers (over 60%); while with respect to ownership, the companies with majority domestic capital (64.5%) were dominant, and brand ownership had a similar structure (domestic brands 52.9%, foreign brands 47.1%). Most companies exported goods in the given period (75.2%), but only 7.4% companies were dominantly export-oriented (export comprised 50% or more of total sales). Furthermore, dominant companies and brands were the ones who targeted final customers (81% of total respondents), and among them FMCG brands. Companies and brands which targeted corporate customers (B2B) were represented by 19% in the sample. The respondents were mostly from the field of marketing and sales (31.4% and 12.4%), and 20% of the responses came directly from company brand managers.

Given the fact that a large number of companies did not have brand manager positions, and that their marketing

Table 1: Sample characteristics (n=121)

Characteristics		%	Characteristics		%
Company size	Small	24.8	Job description	Marketing department	31.4
	Medium	38.0		Sales department	12.4
	Large	37.2		General and Executive Directors (out of sales and marketing)	16.5
General activity	Production	60.3		Brand managers	20.7
	Distribution / Representation	36.4		Others	19.0
	Other	3.4	Respondents' position	Financial Director	3.3
Country	Serbia	92.6		Commercial Director	9.9
	Montenegro	7.4		Director General	9.1
Origin of company ownership	Foreign	30.6		Marketing Director	18.2
	Mainly foreign (over 50%)	5.0		Marketing Manager	16.5
	Mainly domestic (over 50%)	8.3		Brand Manager	14.9
	Domestic	56.2		Product manager	3.3
Origin of a Key-brand	Foreign	47.1		Category manager	5.0
	Domestic	52.9		Others	19.8
Share of exports in total sales	0%	24.8	Respondents' level of education	Secondary school qualifications	5.0
	1% - 24%	52.9		Two-year post-secondary school qualifications or BA	5.0
	25%-49%	14.9		Bachelor's degree (BSc)	67.8
	50% and over	7.4		Master, PhD	22.3
Specific business area of a Key-brand	Fresh and frozen food	16.5	Respondent's age structure	under 30 years	10.7
	Packaged food	24.0		30-39 years	49.6
	Non-alcoholic beverages	5.0		40-49 years	35.5
	Alcoholic drinks	10.7		50-59 years	2.5
	Non-food FMCG	9.9		60 years and older	.8
	Pharmaceutical and related products	7.4		n.a.	.8
	Durable goods and small appliances	5.0	Respondents' profile of qualification	Economics and Business	69.4
	Other consumer oriented business	2.5		Technical - Engineer or similar	16.5
	B-to-B products	19.0		Others	14.0

Source: The authors' calculation

and sales departments were relatively underdeveloped (primarily in small and medium enterprises – SMEs), in many cases the responses were given by general managers or other executives. However, their specific positions, formal education, qualifications, and other respondent characteristics reveal that they were informed about the questions that were in the questionnaire.

Factor analysis

After a thorough literature review and based on the previously established research questions and hypotheses, a pool of 35 items was generated. The questionnaire included items measuring various dimensions of brand management practice, brand equity understandings, relationships in marketing channels, etc. After screening of items independently, a total of 15 items were retained for further research. In order to get latent variables, factor analysis was conducted on 15 items (inputs of presented BCR model) using principal component method and varimax rotation. In their research and analyses, *Hair et al.* [24] and *Gupta & Adil* [23] suggest that factors with eigenvalues greater than 1.0 and factor loadings that are equal to or greater than 0.50 should be kept.

The results are shown in Table 2. Factor analysis singled out three factors (with eigenvalues greater than 1.0) as an optimal sorting of the 15 presented statements. By taking the value of 0.50 as the lower limit of factor loadings, two statements were excluded from further analysis. The three featured factors correspond to the set assumptions, and the statements comprising each of the factors are given in Table 3.

The first factor represents *Brand Management Commitment*; the statements in the second factor describe *Marketing Channel Relationships*; and the third factor represents *Brand Myopia*.

The *Cronbach's Alpha coefficient method* is most often used to measure internal consistency and therefore reliability of a questionnaire. It is a suitable method that can be used for Likert scale items, which was used in this specific study. As shown in Table 3, the values for

Table 2: Factor analysis – factor extraction with the goal of constructing latent variables

Rotated Component Matrix[a]

	Component 1	Component 2	Component 3
Brand management is a powerful instrument for improving the competitive position on the market.	.834		
Branding is essential for our company's development strategy.	.813		
Long-term planning of a brand is the key for our future success.	.716		
Branding spread through all of our marketing activities.	.707		
Brand management contributes to reducing the risks of doing business.	.697		
There is a great flow of information from our company to the retailers/distributors about a brand and the category in which we operate.		.830	
There is a great flow of information from retailers/distributors to our company about the brand and the category in which we operate.		.829	
Retailers/distributors are generally well skilled in the ways of making the best offer for their customers.		.668	
Our brand has built a good reputation among retailers/distributors.		.643	
Managers who are responsible for purchasing at major retailers/distributor have a high level of expertise.			
In our company, brand building is dominantly seen as a cost, rather than an investment.			.774
In our company, there is no clear separation between the costs of product branding in comparison to other marketing costs.			.725
In our company, we do not invest enough in brand.			.724
In the future, brand management will lose its importance in our company.			.572
Brand value is as much the consequence of careful planning and design, as it is of the current market situation, luck and coincidence.			

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

Table 3: Latent variables, description of constructs and Cronbach's Alpha coefficient

Brand Management Commitment – No. of Items: 5	Alpha
• Brand management is a powerful instrument for improving competitive position on the market. • Branding is essential for our company's development strategy. • Long-term planning of the brand is the key for our future success. • Branding spread through all of our marketing activities. • Brand management contributes to reducing the risks of doing business.	.816
Marketing Channel Relationships – No. of Items: 4	
• There is a great flow of information from our company to the retailers/distributors about the brand and the category in which we operate. • There is a great flow of information from retailers/distributors to our company about the brand and the category in which we operate. • Retailers/distributors are generally well skilled in the ways of making the best offer for their customers. • Our brand has built a good reputation among retailers/distributors.	.783
Brand Myopia – No. of Items: 4	
• In our company, brand building is dominantly seen as a cost, rather than an investment. • In our company, there is no clear separation between the costs of product branding in comparison to other marketing costs. • In our company, we do not invest enough in brand. • In the future, brand management will lose its importance in our company.	.761
Brand Performance – No. of Items: 4	
• Our company has built a strong consumer loyalty towards the brand. • Our company has built a good brand reputation among consumers. • Our company has built strong brand awareness among consumers in the target market. • The market share of our company during the past 12 months has increased.	.763
Financial Performance	
• EBITDA margin. • Operating profit margin.	

Source: The authors' calculation

Cronbach's Alpha were all above the acceptable limit of 0.7. These values of the coefficient are suitable, and can be, according to the recommendations in the relevant literature, used in further analysis [48].

Exploratory analysis

The presence of different categories of brands and companies allowed us to implement the appropriate statistical and logical analysis, highlighting the first results and elaboration of the findings related to interdependence of latent variables and brand performances.

Correlation analysis showed a statistically significant correlation ($p < 0.01$) between the Brand Performance and all three presented latent variables (see Table 4).

According to the strength of the correlation, measured by Pearson's coefficient, the strongest (positive) correlation is between Brand Performance and Marketing Channel Relationships. In addition, correlation is significant at the 0.01 level among Brand Performance and two other factors of the BCR model (positive between Brand Performance and Brand Management Commitment, and negative between Brand Performance and Brand Myopia).

Taking into account the characteristics of brands, companies and respondents presented in Table 1, we have analysed whether there was a statistically significant difference of BCR model elements based on individual characteristics of the sample. Sample size did not allow the confirmation of some connections (e.g. between more narrowly defined fields of the key brand and BCR model variables), since each of the examined strata contained less than 30 subjects/responses. Therefore, the focus of this analysis was directed at wider characteristics, which

Table 4: The correlation between the Brand Performance and latent variables

		Brand Management Commitment	Marketing Channel Relationships	Brand Myopia
Brand Performance	Pearson Correlation	.347**	.685**	-.408**
	Sig. (2-tailed)	.000	.000	.000
	N	121	121	121

**. Correlation is significant at the 0.01 level (2-tailed).

Source: The authors' research

divided the sample into two or, at most, three parts (e.g. company ownership, brand origin, wider business sector, exporters or not, etc.).

Statistically significant differences were determined for certain variables in relation to the origin of company ownership and brand. With respect to the origin of the brand, it was found that there was a statistically significant difference ($p < 0.05$) for the variable Marketing Channel Relationships. In addition, there was a statistically significant difference ($p < 0.1$) in terms of Brand Myopia. Figure 3 gives a detailed overview of the differences between the brands with domestic and foreign origin in all the variables examined in this specific study.

Figure 4 shows all differences in values of certain variables in regards to the origin of company ownership. Due to this, companies were classified into two categories (with majority foreign or domestic ownership). The only statistically significant difference ($p<0.01$) was determined in regard to the Brand Myopia variable where, as we can see, the domestic companies had a limited knowledge and understanding of branding and brand management in modern market conditions.

With increasing the size of the sample and taking into account other characteristic, there is a possibility that other differences in the observed variables might appear. At this level of analysis and with 121 responses, arranged as in Table 1, it was impossible to determine other statistically significant differences in terms of independent and dependent variables of the BCR model.

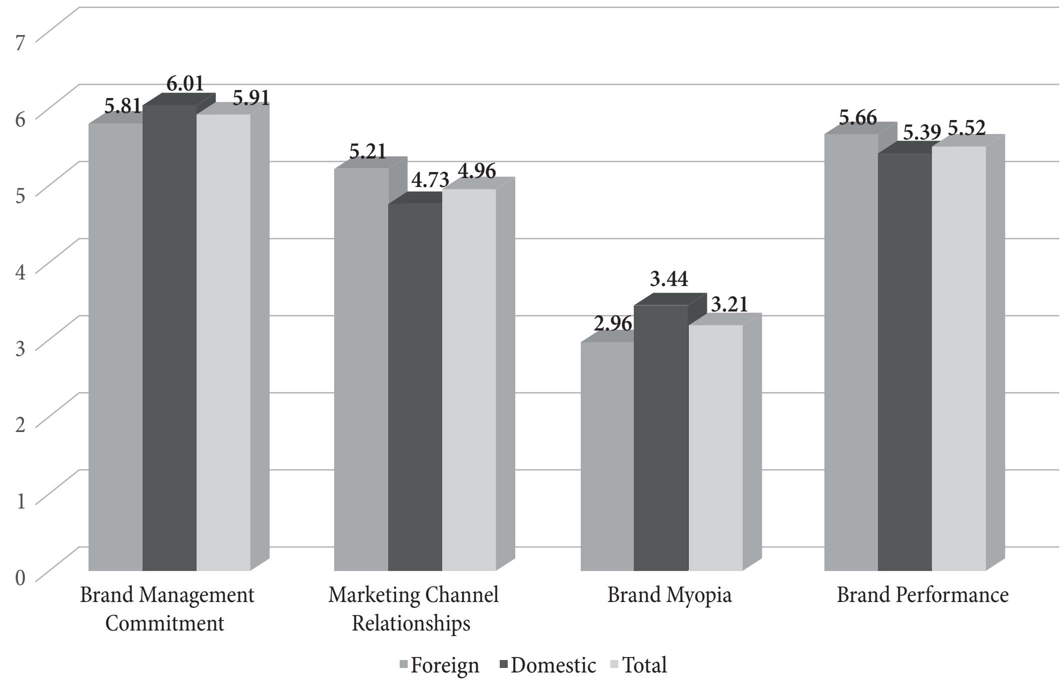
Multiple regression analysis

A multiple regression analysis was performed with the following aims:

- To explore if the independent variables from the starting model (Brand Management Commitment, Brand Myopia, and Marketing Channel Relationships) affect the dependant variable, i.e., whether they explain the significant part of the variability of the dependant variable (Brand Performance); and
- To determine which part of the variability of the dependant variable could be explained with independent variables, i.e., to determine the strength of their bond.

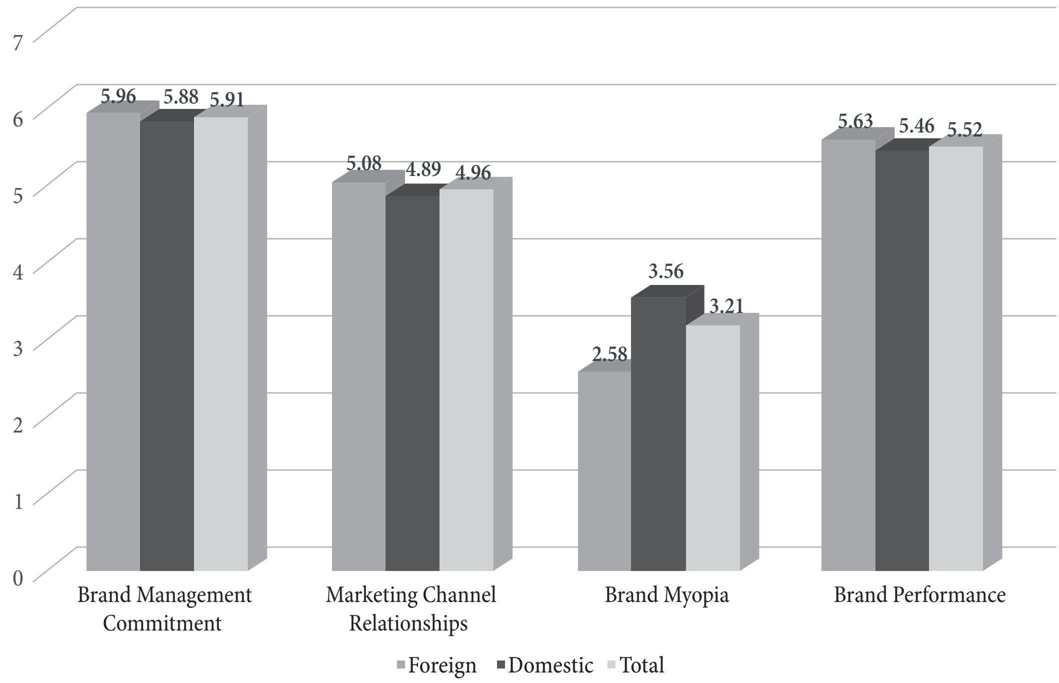
In the structural element of the model, the regression parameters explaining Brand Performance indicated that all three independent variables (Brand Management Commitment, Marketing Channel Relationships and Brand Myopia) had a significant influence on the dependent variable

Figure 3: The differences between the brands of foreign and domestic origin in the value of the latent variables and brand performance



Source: The authors' research

Figure 4: The differences between the companies with mostly foreign and the companies with mostly domestic ownership in the value of the latent variables and brand performance



Source: The authors' research

($p<0.1$). Two independent variables (Brand Management Commitment and Marketing Channel Relationships) had a positive relationship, and the third independent variable (Brand Myopia) had a negative relationship with Brand Performance.

This multiple regression accounted for 51.3% of the variability, as indexed by the adjusted R^2 statistic (52.5% indexed by the R^2 statistic). Model Summary is shown in Table 5.

The regression equation for predicting the Brand Performance is:

$$\hat{y}= 1.607 + 0.599x_1 + 0.211x_2 - 0.094x_3$$

x_1 – *Marketing Channel Relationships*

x_2 – *Brand Management Commitment*

x_3 – *Brand Myopia*

The variable *Marketing Channel Relationships*, as indexed by its β value of 0.599, showed the strongest relationship to *Brand Performance*. Brand Management Commitment and Brand Myopia were also important factors of influence in determining of the Brand Performance. In this way it was confirmed that all independent BCR model variables affected the dependent variable. In accordance with the findings that Marketing Channel Relationships variable had the most important influence, it was used for segmentation of brands and companies from the sample.

Table 5: Relationship of Brand Management Commitment, Marketing Channel Relationships and Brand Myopia with Brand Performance – Model summary

Model summary[d]										
					Change Statistics					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.685[a]	.469	.465	.82424	.469	105.210	1	119	.000	
2	.716[b]	.512	.504	.79341	.043	10.430	1	118	.002	
3	.724[c]	.525	.513	.78651	.012	3.077	1	117	.082	2.266

a. Predictors: (Constant), Marketing Channel Relationships

b. Predictors: (Constant), Marketing Channel Relationships, Brand Management Commitment

c. Predictors: (Constant), Marketing Channel Relationships, Brand Management Commitment, Brand Myopia

d. Dependent Variable: Brand Performance

Cluster analysis

In further analysis, a segmentation of the sample was performed in order to determine whether homogenous groups of respondents existed in relation to the application of the starting assumptions. For that purpose, in order to get segments, a hierarchy cluster analysis was applied (Ward's method) as a technique used in similar studies [73]. The starting point, in accordance with the results of factor, correlation, and regression analyses, but also in accordance with the basic research goals was the Marketing Channel Relationships variable.

In this specific case, a three-cluster division was optimal, given the sample size, homogeneity within the cluster and heterogeneity between them. In order to test the statistical significance between the clusters, the chi-square test and ANOVA were used, depending on the type of data. The basic differences, pertaining to the basic variables and measures of company financial performance, have been summarized in Table 6.

Sixty brands were classified in the first cluster, 44 in the second and 17 in the third. There was a statistically significant difference between clusters ($p<0.01$) for all business success indicators (Brand Performance, EBITDA margin and Operating profit margin). The best results were concentrated in Cluster 2, then Cluster 1 and, finally, in Cluster 3 for all measures of success. The assessment of brand market position (Brand Performance) was performed by the respondents themselves, by answering the questions on the Likert seven-point scale. The result was generated as an average value of the statement responses (which could have been in an interval of 1 to 7). As for the EBITDA margin and Operating profit margin, the data for each company was generated from the official financial reports, and the values have been given in percentages in Table 6.

A statistically significant differences was found among clusters ($p<0.01$) for two latent variables (Marketing Channel Relationships and Brand Myopia). According to these variables, Cluster 2 also had significantly better results, then Cluster 1 and finally Cluster 3 (see Table 6). When it comes to the Brand Management Commitment variable, there were no statistically significant differences between clusters what so ever.

Final discussion of research results

The initial latent variables of the BCR model, which were identified by the factor analysis, are consistent with initial assumptions of the research. Three factors explain the model variability in most part. Based on the responses to five statements, a Brand Management Commitment variable was constructed. The variables Marketing Channel Relationships and Brand Myopia consist of the four statements each. The dependant variable (Brand Performance) shows the current market position of the brand.

By applying the correlation and multiple regression analyses, the following has been determined:

a) Brand Management Commitment positively affects Brand Performance;

Table 6: The differences between the segments reported in the value of the latent variables, Brand Performance, Operating profit margin and EBITDA margin

Ward Method		Brand Management Commitment	Marketing Channel Relationships	Brand Myopia	Brand Performance	Operating Profit Margin*	EBITDA MARGIN*
Cluster 1	Mean	**5.92**	**4.71**	**3.33**	**5.56**	**6.82%**	**10.23%**
	N	60	60	60	60	60	60
	Std. Deviation	.82115	.40081	1.48972	.87013	.0613957	.0841197
Cluster 2	Mean	**6.06**	**6.07**	**2.74**	**6.14**	**8.27%**	**11.30%**
	N	44	44	44	44	39	39
	Std. Deviation	1.02687	.47116	1.23297	.74786	.0795261	.0951552
Cluster 3	Mean	**5.51**	**2.96**	**4.03**	**3.78**	**-4.90%**	**2.93%**
	N	17	17	17	17	17	17
	Std. Deviation	1.31171	.66869	1.70679	.96777	.2045422	.1213328
Total	Mean	**5.91**	**4.96**	**3.21**	**5.52**	**5.59%**	**9.52%**
	N	121	121	121	121	116	116
	Std. Deviation	.98519	1.12609	1.48593	1.12666	.1086002	.0971885

* In five cases, data about EBITDA margin and Operating profit margin were not available.
Source: The authors' research

b) Marketing Channel Relationships positively affects Brand Performance;

c) Brand Myopia negatively affects Brand Performance.

It can be concluded that all three factors that make the initial BCR model affect the dependant variable (Brand Performance).

The regression analysis has shown that all three factors explain, with over 50%, the dependant variable's variability, which means that all individual factors and the model as a whole have a statistically significant influence on the market position (success) of a brand.

Based on the above stated, the research results have confirmed the first hypothesis and all three sub-hypotheses:

H1: There is a statistically significant effect of BCR model variables on Brand Performance.

H1a: Brand Management Commitment positively influences Brand Performance.

H1b: Marketing Channel Relationships positively influences Brand Performance.

H1c: Brand Myopia negatively influences Brand Performance.

In further analysis, the influence of the independent variable Marketing Channel Relationships on business performances of companies was examined because this factor had shown the best results in the correlation and regression analyses out of all independent variables of the BCR model. In accordance with the above mentioned, a hierarchical cluster analysis was applied (Ward's method). Marketing Channel Relationships was chosen as an input variable for dividing sector into clusters. The three clusters, generated as the result of the applied statistical method, had different level of understanding and implementation of partner relations in marketing channels. It is interesting that the clusters were not significantly statistically different from one other with respect to the value of Brand Management Commitment. With all three clusters, these values were very high (from 5.51 to 6.06 on a scale from 1 to 7). These results indicate that there is a general consensus regarding the idea of brand management and its necessity for business operations and market position. Brand Myopia, as the third independent variable model, showed a statistically significant difference among clusters ($p<0.01$), i.e., it moved in opposite direction comparing to the Brand Management Commitment variable results. Finally, the dependant variable (Brand Performance) showed a statistically significant difference among companies from the three observed clusters ($p<0.01$). There was statistically significant difference among clusters by EBITDA margin and Operating profit margin criteria ($p<0.01$). Cluster 2 that had the most prominent awareness and habit of applying a good partnership practice, stood out with respect to financial results (EBITDA margin 11.30% and Operating profit margin 8.20%). On the other hand, companies that did not understand and did not apply this concept (Cluster 3) had the weakest results (EBITDA margin 2.93% and Operating profit margin -4.90%).

Based on these results, H2 was also accepted: Companies that have understood and implemented Marketing Channel Relationships at a higher level have better financial business results.

We can conclude that all the research hypotheses have been accepted. However, there are some limitations which will be stated in the following text after stating the concrete managerial implications.

Managerial implications

Managerial implications of the research are classified in two sections: implications for suppliers and implication for retailers.

Suppliers in Serbia and Montenegro are on the defensive path due to concentration and redefinition of retailing structure. This forces the successful suppliers in these countries to closely cooperate with their customers. They are accepting CRM practices, such as information exchange and partnership. This is what defines brand success in Serbia and Montenegro because brand management connected with CRM produces better results, both in market position terms and financial effects compared to the traditional brand management practice. This is even more important in times of economic crisis.

We can conclude that CRM applied in supplying companies in Serbia and Montenegro removes business barriers and leads to effective brand management, which is evident in quality EBITDA results. Better market position of these suppliers also implies a more certain sustainability of their business.

This research, based on the findings that most respondents understand the importance of brand management while simultaneously implementing different practices, carries especially important lessons for suppliers. We can implicitly conclude that some of the respondents, due to different business results that they achieve in their respective companies, do not have the same idea about how to reach effective brand positioning. We can further conclude that a large number of employees theoretically support modern brand management. However, in practice, they do not understand the essence of modern brand management strategy. For example they do not understand that results are achieved in the conditions of cooperation, information exchange and quality business communication. Our final conclusion is that the employees who have an insufficient understanding of the essence of success in the 'battle of the brands' conditions, should receive adequate education. The study has shown that brand management respect and simultaneous affirmation of transactional, instead of long-term relations in Serbia and Montenegro do not bring good business results. This brings the basic postulate of brand management, i.e., the strategic orientation, into collision with transactional marketing which is short-term oriented.

Different concepts of channels partnership are beneficial to its users in developed countries. Our research has shown that partnership with customers also gives positive results in developing economies such as Serbia and Montenegro. Taking into account that Serbia and Montenegro are developing countries with EU perspective, we can conclude that currently profitable cooperation practices should bring more benefits in the future.

This research brings forward certain implication for trade as well, especially for retail chains. Suppliers who believe in brand management, but do not support cooperation with retailers are not long-term oriented. Their perspective of the validity of transactional relations is disputable, bearing in mind the achieved market and financial effects. An implicit finding is that formal expression of dedication to brand management does not always lead to long-term business cooperation. Retailers operating in Serbia and Montenegro should carefully chose suppliers for long-term cooperation. We need to remember that a perspective of long-term cooperation is the foundation for the realization of category management strategy, which is the basis of market strategy and organization of numerous retailers in Serbia and Montenegro.

Second lesson of the study for retailers is that they need to evaluate supplier's knowledge of retailers business, i.e., the understanding retail business from store to company level. Suppliers whose employees do not grasp the importance of CRM are not strategic partners, and do not understand the challenges of retailing. Developing business with a supplier who does not understand modern brand management means investing in brands with uncertain future. This can lead to retailer's shoppers' disappointment and into the expensive risk of disloyalty. These research findings promote the cooperation in marketing channels as a means of satisfying shoppers and achieving better partnership result.

The third lesson is that retailers themselves need to be a true partner, regardless of them being 'stronger' than suppliers, because the partnership is mutual. Constant supplier and brand changes in retailer stores, as well as a weak cooperation with respect to information exchange with suppliers, will distort the market position of the retailer and its business results in the long-run.

Conclusion, limitations and future research

This paper has determined the interdependence of brand management and partner relationship development in marketing channels and their influence on brand performance in Serbia and Montenegro. The results of quantitative analysis have confirmed that three independent variables of the BCR model (brand management commitment, marketing channel relationships, and brand myopia) have a statistically significant impact on brand performance. It has also been proven that the companies which have understand and implemented marketing channel relationships at a higher level than their competitors, have achieved better financial results from their operations.

The presented research has some limitations. The sample was not representative for Montenegro because of a small number of respondents. In addition, in the Serbian sample the medium and large enterprises were overrepresented because of the higher response rate from such type of companies.

Likewise, we are aware of the limitation due to the fact that the respondents' answers could in their nature be 'socially desirable' answers, i.e., that there is a possibility that the responses do not represent the respondents' real opinions or the real way they conduct business of their brands/ companies. Additionally, the analysis used the estimated results that indicated the strength of a brand (i.e., brand performance). We used short-term performance criteria, EBITDA margin and Operating profit margin as a means of measuring business success. A significant number of other factors that were not the subject of this research may influence EBITDA and Operating profit margin (previous company debt, connected operations losses, etc.) However, despite these limitations, our study provides certain evidence with regard to the key areas of company cooperation in marketing channels and the role of developing good partnership relationships for the successful implementation of brand management in business.

Future directions of the research in this field may include some of the following areas:

- Exploring the influence of other variables that can affect cooperation in marketing channels and contemporary forms of brand management implementation;
- Considering the impact of model variables on other financial and business performance criteria;
- Focusing on specific industries and a deeper insight into the factors that influence the success of cooperation between partners and the use of brand management in business practice;
- Exploring the opinions of the managers in the leading retail companies in Serbia and Montenegro in order to examine their perception of the value chain;
- Observing the dynamics in the relationships in marketing channels – monitoring the phenomena in the long-run;
- Expanding the research to other Western Balkans countries.

Brand management and marketing channels relationships are wide and current research areas. Therefore, there is a lot of space for important further researches which should bring significant theoretical and practical contributions.

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PROJECT FINANCING IN THE CASE OF RESIDENTIAL CONSTRUCTION IN BELGRADE

Projektno finansiranje na primeru rezidencijalne gradnje u Beogradu

Abstract

Project financing is a method of funding in which the creditor primarily takes into account revenues generated by individual project, as the source of repayment and security for the risk exposure. Risk assessment is a critical phase for investor and creditor in project financing as it bears responsibility for the assessment of project's ability to repay debts (loans), cover costs as well as for the payment of dividends to shareholders. Designed and expected cash flow generated by the project is strongly influenced by risk. If the risks are not adequately assessed and anticipated, there should be a decrease in cash flow or the deficit. If cash flow is not sufficient for servicing commitments toward lenders, the project is unsuccessful and needs to end.

On the basis of the analysis of principles and product offers of the project financing banks which are operating in the Republic of Serbia (Banca Intesa, Erste Bank, Sberbank and UniCredit Bank) it is practically shown which are the principles of the project financing of residential branches in Zarkovo (part of Belgrade) and what are the advantages for the investor (concerning assets, cash flow projections in the function of repayment of loans, the basis for the approval of project financing – future revenues generated by the project, the legal status of borrowers and risk distribution).

Key words: *project financing, risk exposure, cash flow, residential construction*

Sažetak

Projektno finansiranje je metod finansiranja u kome kreditor prvenstveno uzima u obzir prihode koje generiše pojedinačni projekat, kao izvor otplate i obezbeđenje za izloženost rizicima. Procena rizika je kritična faza za kreditora i investitora u projektnom finansiranju jer snosi svu odgovornost za procenu sposobnosti projekta da otplaćuje dugove (pozajmice), pokriva troškove, kao i za isplatu dividendi akcionarima. Projektovani i očekivani novčani tok koji generiše projekat je pod snažnim uticajem rizika. Ukoliko rizici nisu na adekvatan način procenjeni i anticipirani, dolazi do smanjenja novčanog toka, odnosno, deficita. Ukoliko novčani tok nije dovoljan za servisiranje obaveza prema kreditorima, projekat je neuspešan i potrebno ga je okončati.

Na osnovu principa i ponude proizvoda projektnog finansiranja banaka koje posluju u Republici Srbiji (Banca Intesa, Erste banka, Sber banka i UniCredit banka) praktično je prikazano koji su principi projektnog finansiranja rezidencijalne gradnje u Žarkovu (delu Beograda) i koje su prednosti za samog investitora (u vezi sa imovinom, projekcijama novčanih tokova u funkciji otplate kredita, osnovama za odobrenje projektnog finansiranja – budući prihodi koje generiše projekat, pravnim statusom korisnika kredita i raspodelom rizika).

Ključne reči: *projektno finansiranje, izloženost rizicima, novčani tokovi, rezidencijalna izgradnja*

Introduction

"The project is temporary endeavor undertaken to create a unique product, service or result [19, p. 5]." Project financing, as a model of investment projects financing, was created as an expression of the need for implementation of the projects for which investors did not have sufficient own funds or sufficient creditworthiness for borrowing. It found its use in capital-intensive industries in highly profitable projects. In other words, when a project can be separated into an independent legal and economic entity which brings such revenues to pay out without difficulties executed investments, as investors and creditors, then we talk about project financing [20]. Project financing should be distinguished from direct, corporate financing or general company lending [18]. Participants in project financing share the profits, but also potential risks that arise from their partnership in the process of project implementation. Risk is a measure of the probability and consequences if defined objectives of the project are not reached [12]. It represents insufficient knowledge of future events and can be defined as a function of uncertainty and possible resulting damage. The risk may also be defined by the causes of risks and precautions to avoid danger.

In accordance with the Basel agreements (so called: Basel II, [22]), project financing is a method of funding in which the creditor primarily takes into account the revenues generated by individual project, as the source of repayment and security for the risk exposure [2]. *Cliffor Chance* says "the term project financing is used for a wide range of financial structures. In any case, these structures have one common characteristic: the financing does not depend primarily on the creditworthiness of the sponsors/investors, or on the value of the property, but the performance of the project itself."

This type of financing is usually suitable for industries such as construction, tourism, energy, infrastructure, waste material, entertainment, telecommunications, transport; oil, gas and mining; health, social protection and education [15]. A list of acceptable industries for project financing is defined by the Basel II framework [22], in the part *First pillar* – minimum capital requirements, where are precisely defined certain types of banks' exposure to risks. Namely, within the class of assets of the economy are the following sub-classes of specialized lending: 1. *Project financing* – including the financing of power plants, mines, process industries, oil resources, telecommunications, media and technology; 2**.** *IPRE* (*Income Producing Real Estate*; *Corporate/Special financing*) – the purpose of credit is to build and/or buy: business premises; residential buildings; hotels; hypermarkets and shopping centers; logistics centers; complex, gyms, cinemas; technology parks*;* 3. *Financing facilities (Corporate/Special financing/Financing facilities)* – financing the purchase of buildings, movable property: planes, ships; trains; fleet; satellites; 4. *Commodity financing (Corporate/Special financing/Commodity financing)* – includes financing stocks, reserves in the commercial exchange of goods (oil, metals, grains, etc.).

The main goal of this paper is to show the practical implementation of the residential construction project, based on the methodology used by commercial banks in the Republic of Serbia. The aim of this paper is to point out the advantages of project financing in relation to the standard investment projects financing by commercial banks. Accordingly, this paper is organized in the four parts. The introduction will determine the concept of the project and project financing. In the second part will be presented the principles of project financing applied by commercial banks in the Republic of Serbia. In the third part, a practical example of the project financing of residential premises in Belgrade will be shown. Finally, within part four, conclusion as well as the main results of case study will be presented.

Principles of project financing of commercial banks in the Republic of Serbia

General principles of special financing of legal entities in the Republic of Serbia, based on the offers of four banks: Banca Intesa a.d. Beograd, Erste Bank a.d. Novi Sad, Sberbank a.d. Beograd and UniCredit a.d. Beograd will be presented in this chapter (see Table 1). Also, it will be presented the key factors that determine the project's suitability for project financing as well as the key financial indicators for determining the justification, effectiveness and profitability of a specific project being considered for project financing.

General principles of financing: The case of special financing of legal entities

General principles of financing in the case of special funding of legal entities are [2]: (1) Placements are granted to registered legal entities (recommended to be newly established enterprises with the purpose of special projects). The founders of the new entity (*Special Purpose Vehicle – SPV*) can be legal entities and/or individuals with experience in the field of construction. (2) The primary source of repayment of the loan is at least 50% of cash flow from (future) operations of the project. Other sources of funding may constitute cash flow of guarantor or other projects. (3) The level of income and risk exposure of entity are not the basis for customer segmentation in the bank's balance (sheet). (4) As a part of its balance sheet, the possibility of customer migration from sub-class Corporate/Special funding to the sub-class of Corporate/General exists, based on the decision of the sector for risk management.

Special financing includes the fulfillment of the following conditions [2]: (1) The purpose of the credit is the purchase or re-financing of tangible assets; (2) The credit is approved to the company, established solely for the purpose of a specific project; (3) The Company that was established for the specific project has insignificant or no material assets, or activity, and therefore has insufficient ability or capacity for the credit repayment. (4) Future revenues that will be generated by the project represent the source of credit repayment.

In practice, a client's (enterprise's) – the borrower's several activities or projects have been financed by the Bank. Therefore, approval of new credit of special financing takes into account the following: (1) At least 50% repayment of a new exposure can be restored from regular cash flow from all existing projects or activities; (2) Cash flow from other projects is available to legal entities established especially for a concrete project.

Considering the requirements of clients and experience within the parent group of local banks, the following models of special financing are used (see Table 1): (1) Financing the construction of residential and commercial buildings intended for sale; (2) Financing the construction of residential and commercial buildings intended for renting; (3) Financing the construction of tourism facilities.

By providing special financing banks want to help their clients in the construction of buildings which will be subject to sale or rent on the market, both in the big cities in Serbia and in the areas recognized as tourism centers. Serbia needs to upgrade its accommodation facilities in accordance with the EU standards, especially out of Belgrade and other big cities (in terms of population and industrialization level). The demand for creating a better quality in terms of products and services has become one of the most important strategic priorities currently being faced by hotels in general [17].

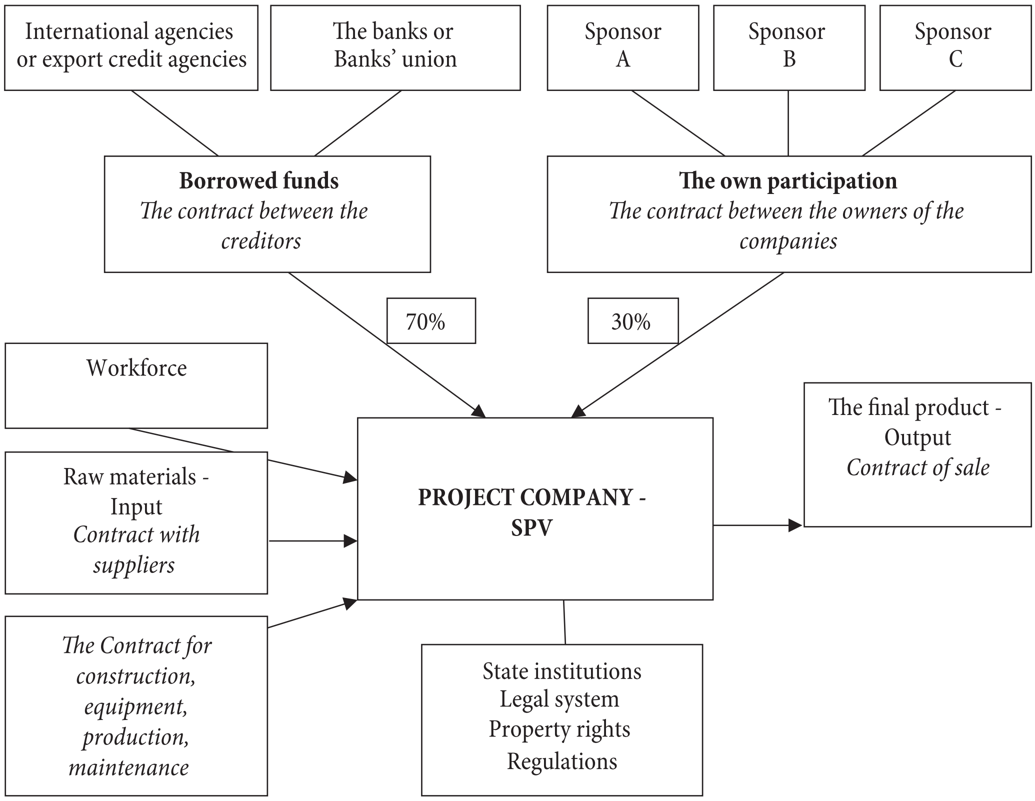
Amounts of credit due to the size and severity of projects can be up to 80% of the total project cost (generally 70%). It is recommended that the participation of investors, i.e. the borrower, is 30% of the value of investment as a sign of the willingness of the borrower to bear the risk of investment, while the bank finances 70% of the value of investment. In practice, it is possible to grant a loan to the client with a lower percentage of its own participation, but the prerequisite for approval of the credit is a completion of minimum 20% and maximum 100% preliminary contracts of sale/renting between the credit user and the buyers or tenants (a typical structure of project financing is shown in Figure 1).

Table 1: Overview of special financing product of commercial banks in Serbia

Bank	Construction credits	Credits for the purchase of land	Credits for the purchase of premises for future upgrading or building a new facility	Issuance of bank guarantees to buyers of apartments under construction	Limit for guarantees to construction companies for apartments under construction for individuals
Banca Intesa a.d. Beograd	+	-	-	-	-
Sberbank a.d. Beograd	+	-	-	-	-
Erste Bank a.d. Novi Sad	+	+	+	+	+
UniCredit Bank a.d. Beograd	+	-	-	-	-

Source: [2], [9], [21], [23]

Figure 1: The typical structure of project financing



Key factors that determine the suitability of the project for project financing

The degree of reliability of the project's future revenues is the key factor that determines the project suitability for project financing. In the process of project realization, the next phases are important [11]: 1. *Feasibility study* – should include a description of the project (i.e. the summary about the project), the project sponsor information, a report on the valuation of a particular facility/location, technical and legal aspects of the project, market analysis, competitive analysis and projections of future market demand, market environment; investment costs, cash flows and profitability calculations; revenue/expenses and cash flow projections; break-even analysis (break-even point); economic and sensitivity analysis. The purpose of this study is to identify whether the project is commercially acceptable, justifiable as well as to determine whether project financing is the best form of financing. 2. *Project planning* – includes a range of services from initial consultation to the funding organization. Consultation is related to the study with emphasis on the variable components of the project – interest rates, foreign exchange rates, inflation rates, expected profit of the project. In accordance with the projected project's costs it is necessary to predict the influence of economic trends to the future cash flows so as to determine the best method of financing. Planning assumes testing of the susceptibility of financial models from the perspective of key business variables in the application of different possible scenarios. 3. *Organization and planning of financing* – focuses on obtaining the primary sources of financing. For this purpose, it is important to prepare the project prospect that will actually present an overview of the essential elements of the project. In order for project sponsors to have sufficient scope and sources of funds, it is necessary to combine loans (bank credits) with equity capital and investments and, through proper allocation of investment and risk, a good financial package could be created. (A) The financing plan takes into account the objectives, such as the availability and accuracy of financial sources; avoidance of expensive sources and maximization of return on equity (ROE); minimizing risk for all parties (risk sharing); optimization of tax aspects (avoiding double taxation); maximization of subsidies (state, the EU). It is obvious that some of the goals are negatively correlated, so the project's priorities should be defined as a result of collaboration of all partners/participants in the project. (B) The project plan together with the risk analysis and the sensitivity analysis shows the possible shortcomings and difficulties (increased costs, delays due to weather inflows, permits, falling, etc.). The financing plan must earmark funds for such circumstances. Simultaneously, maximization of ROE can be achieved by matching the moment of payment of credit installments with the moment of funds influx, low interest rates and a high coefficient of debt due to existing tax charges (depending on the tax system). Optimization largely depends on the primary valuation method. A common method is the discounted cash flow (DCF). 4. *The supervision over the financing* – is being implemented in three segments: in the phase of construction, in the phase of production start and in operational phase. The purpose of supervision is to embarrass surprises of creditor and those who invested their funds in the project. The supervision is the phase in which control and monitoring are implemented with the aim to avoid obstacles that could threat the project (primarily involves monitoring of the operational plan works, monitoring of the work progression in relation to operational plans of construction, monitoring of work in relation to an approved building permit and banks reporting on all listed above monitoring and control).

Income, expenses and cash flows forecasts as the main tool for valuation of the efficiency and profitability of investment

Every rational investor expects tangible benefits and increased present value of their investment when makes decision on a new project. The decision to enter into a specific investment project carries an additional business risk, both for the investor and the bank. Therefore, it is important to determine the benefits of certain investments in relation to the risks assumed.

The traditional model of project financing is based on market and financial evaluation of the acceptability of the project. Substrates for evaluation of the acceptability of the project are financial and economic flows, which are formed on the basis of projections of certain items that are taken from the prepared table, such as investment, finance, income statement, and so on [6].

On the basis of formed financial flows the following can be concluded: (1) Total liquidity of the project – is based on the formed financial flow for the period of realization of an investment, for the phase of economic life of a project when the project is able to fulfill financial obligations and for the whole economic life of the project (cumulative). It demonstrates the financial strength of the project or its ability to fulfill financial obligations. (2) Profitability of the project – is assessed based on the (formed) financial flows of the project, which is the economic strength of the project independently of the aspect of the analysis (investor, financier or other). Profitability is assessed on the basis of appropriate indicators of success, such as internal rate of return, net present value, relative net present value and payback period of investment. (3) Sensitivity analysis – besides the efficiency indicators, it is necessary to analyze project sensitivity to changes in certain key parameters. In this way, it perceives the "importance" of the influence of certain parameters on the expected results of the investment, or the possible risks from the expected efficiency investments.

As regards *the conventional models of long-term financing* (long-term investment loans), it is necessary to determine what are additional (incremental) cash flows arising only from the investment that shall be calculated as:

Cash flows from investment – Cash flows without investment

So, if the company wants to calculate net cash flows (from the investment activities), it can be done by the separate calculation of the primary sources that will isolate the effects of the existing business. As regards *project financing*, total cash flows *de facto* are incremental cash flows.

Below we explain the role and importance of projections and forecasts as a significant tool in the analysis. Two important principles of projections are: cash flows and P&L account. Projections of the balance sheet are also used but they are less important [5]. Projections of cash flows (cash flow forecasts) should show: what level of cash will be necessary for the duration of the project, when this need will occur and for how long a certain level of cash must be obtained. Bearing in mind that cash flow forecasts for a longer period of time may have a certain variation in the real necessary funds, it is important for investors to have the possibility of providing additional funding, either through an additional investment of own funds in the project or through external funding such as bank loans. Net cash flow, after debt servicing, is the result of the projection of cash flows. After debt service, net cash flow represents difference of the total inflows and total outflows of funds from the business operations, investments and financial activities of the company. Cash flows (inflows and outflows) by year projections are derived from the previously projected income statement and projected positions of balance sheet for each year of the projection.

Key categories of position in the *cash flow projections* in the case of project financing are [8]: (1) incomes: operating and other income; (2) expenses: operating expenses and cost of capital; (3) taxes; (4) debt service: payments of principal and interest; (5) reserves; (6) changes in cash. The choice of a particular indicator of cash flow projections depends on the type of project, period of an analysis (long-term or short-term work) and uniformity of repayment plan (way of repayment). This means that you cannot use all the indicators in an analysis. Assessment of the cost-effectiveness of a project includes answers to the questions in Table 2 [5], which entails the application of appropriate ratio numbers.

PLCR is calculated by the following formula:

Net present value of free cash flow (before interest) during the project / Credit

Free cash flow before interest is reduced by EBITDA (*Earnings before taxes, interest and depreciation – gross earnings before interest, taxes, depreciation and amortization*) for taxes, changes in working capital and investments. It shows how the liquid funds generated in each year of the project are available for servicing financial sources (typically external financing before its own investments). External interest rate is usually the discount rate. This ratio represents the ratio of the sum of discounted cash flows and debt that will be interested in a certain period of time – in this case, during the entire project. The value of the ratio depends on the risks of specific industries and the phase of the project. In addition, the value amounted to 2 would present the lowest acceptable value.

LLCR is calculated by the following formula:

Net present value of free cash flow (before interest) during the term of the loan / Credit

This ratio is calculated in the same way as the previous one but only for the loan duration. The aspect between the period of the loan and the duration of the project will certainly vary depending on the specific industry. In practice, the loan period is shorter than the duration of the project: usually between 60% and 70% of the total duration of the project. At the same time, this ratio, at the beginning of the repayment period, at the level of 1.5 will be acceptable in most cases.

ICR is calculated by the following formula:

EBITDA / Net Interest

This ratio represents the ratio of EBITDA to net interest, usually for a period of one year. The both ratios below, DSCR and Free Cash Flow / Debt Service represent the relation between profit (EBITDA or free cash flow before interest) for a certain period and the repayment of debt in the same period (a year, 6 months, etc.).

DSCR is calculated by the following formula:

Free Cash Flow / Debt Service,

which is calculated by the following formulas:

EBITDA / Debt service or EBIT / Debt service

Table 2: Basic indicators of the project feasibility

Question	Ratio (Answer)
Will the whole project generate a sufficient cash flow?	PLCR (Project Life Cover Ratio) LLCR (Loan Life Cover Ratio)
Is the repayment of interest provided during the project?	ICR (Interest Cover Ratio)
Is debt service (interest and principal) covered during the project?	DSCR (Debt Service Cover Ratio) Free Cash Flow / Debt

Source: [14]

DSCR ratio is involved in all analyzes, but it does not take into account the liquidity of some investments during the operational phase. Generally, the ratio of 1.35 is considered to be the least acceptable limit, though lower values come into consideration for the projects that have shorter implementation phase.

Also, in some cases, repayment in equal installments is not possible due to the nature of the project. It is necessary to predict uneven repayment of the loan. It should be noted that, according to internationally agreed criteria (OECD manuals for export credit support), only the companies for insurance of export credits/loans are capable, acceptable, to cover certain maximum deadlines of funding. Financial counselors often advise repayment of the loan in project financing in one installment or more installments at the end of the project. It is the way to preserve a certain percentage of cash flow for certain payments. In reality, large banks would rather avoid such uneven financing due to the possible risks or additional credit insurance requirement.

Positive cash flow occurs when there is an excess of cash (monetary assets) inflows in comparison with outflows (liabilities). The free cash flows arising from the operating income of the project will be used as follows [6]: operational commitments have been made – the rest is EBITDA; investment needs are resolved – the rest is actually free cash flow before interest; hence, debt service (interest and principal) – project is closing. The remaining liquid assets constitute a surplus of free cash.

In order to preserve the liquidity of SPV and minimize risks, the lender will certainly require the following: disposal of surplus for maintenance purpose, which represents a budget for unplanned investments or future costs, shift to a reserve account to pay the debt exploited for an extraordinary debt repayment in advance. Any other funds belong to shareholders, i.e. business owners.

In general, in project financing during the project implementation period the above criteria or indicators are under monitoring [8]: main/vital determinants of the project (e.g. minimum number of base stations of mobile telephony), minimum level of gross profit (EBITDA), minimum level of equity (in absolute value), minimum debt coverage ratio (DSCR) and minimum ratio of interest coverage (ICR).

In addition to these indicators, the banks and financial institutions for project evaluation also use some other indicators, such as NOI (*Net Operating Income*), LTV (*Loan to Value* – an indicator of the loan compared to the value of collateral) and LTC (*Loan to Construction Value* – an indicator of loans in relation to the value of the building under construction). They will not be subject to further analysis.

The example of project financing: The case of construction of residential and commercial premises

On October 31, 2012, Company XYZ development d.o.o. (XYZ) Belgrade addressed to the Orange Bank a.d. Belgrade with the request for financing the project of residential and commercial building in Belgrade at 75 Trgovacka Street, the plot number 975/3 KO Cukarica, floors Po + P + 5 + Pk, 2,608.47 m^2 gross area (useful area) and 1,742.6 m^2 for sale. The structure of the proposed loan application is as follows:

1. *Long-term loan (project financing)* for the construction of residential and commercial premises in the amount of EUR 1,300,000.00 (including the amount of capitalized interest) for a period of 21 months including grace period equal to the period of construction of the building, i.e.15 months.
2. *Overdraft credit* (business account overdraft) for financing value-added tax (VAT) in case of the cost of construction of residential and commercial building 5, in amount of RSD 9 million, for a period of 15 months.

The borrower is a company (SPV) owned by two individuals (Dragan Persovic and Aleksa Petrovic) who are co-owners of the company XYZ that has a long reference in the construction of dwellings (residential) buildings. The company has offered the following collaterals: 1. The mortgage of the first class over the land and building under construction at 75 Trgovacka Street in Belgrade, parcel No. 975/3 KO Cukarica (estimated value of the building in the current phase of construction is EUR 501,000). 2. The hostage of 100% of shares of the borrower (capital worth is EUR 500,000 in RSD). 3. The bills of exchange and contractual authorization to debit regular RSD (dinar) and foreign currency account of the borrower. 4. The bills of exchange and contractual authorization to debit regular dinar (RSD) and foreign currency accounts of the Guarantor XYZ development d.o.o. Belgrade. The Company has submitted a request with the financial statements for the previous calendar year (established on October 30, 2011; According to the classification of the National Bank of Serbia, SPV is considered and automatically received the Rating B) and the business plan.

The Orange Bank completes loan/credit application, which includes a description of the request and its purpose, the list of transaction and the collateral (all legal issues are resolved), basic information about the company of the Borrower (ownership structure, the project sponsor, reference list), description of the project (planned surface of the floors, structure of flats in the building, projected sales revenues), micro location of the building, the building budget, deadlines for construction (description and analysis of the contractor) and market analysis (macro and micro, including the current offer and existing customers). In terms of the work will be presented the financial part of the project financing. Also, it is necessary to outline that the previous study regarding the development of the residential market in Belgrade was done and that it was noted that there is a significant level of demand for family dwellings in this location, especially for a two and three room apartments.

The planned level of medium quality building construction should contain the following parameters, starting from the elementary location to the completion of the construction phase to the Main Building Project (see Table 3): the building plot: 587 m^2, the number of apartments: 22 (the average area of 67 m^2), the retail units: 3 (with gallery), the number of parking spaces in the garage: 24, the number of open parking space: 1, gross building area of all floors: 2,608.47 m^2, net building area of all floors: 2,304.08 m^2, sales (commercial area) retail units: 260.87 m^2, and sales (commercial area) apartments: 1,481.8 m^2.

The total budget of the project amounts to EUR 1.99 million (including financing costs and costs without VAT), out of which the *Client's contribution is EUR 692,000 or 35% of total value of the Project* and the remain amount is the Bank's loan (see Table 5). At the same time, within the project budget the costs of location are recognized as the market value of the plot in accordance with the valuation of certificated appraiser Invekon gradnja, from August 14, 2012. That price was approved and accepted as the real price of the location by the supervisor SGS Company, although the investor paid EUR 600,000 for relevant location at the end of 2011, with attached evidence. SGS Company, as a supervisor, considers that the investor has subscribed to the location and accepted the valuation report. The investor considers that the location is not considerably overpaid, due to decreasing value of EUR (in comparison with RSD) in the last quarter of 2011. As a result, prices on the real estate market increased and the sales of apartments at a price of EUR 1,300/m^2 (which is achieved price) and sales of retail unit at the price of 1,800 EUR/m^2 (which

Table 3: The planned area of retail units (by the floors) and structure of apartments

Planned area by floors			Structure of apartments			
Floor	Net (m^2)	Gross (m^2)	Type of apartment	Number	Average area (m^2)	Total area (m^2)
Basement	367.58	429.76				
Underground Total	**367.58**	**429.76**				
Ground floor	215.30	243.17	One-bedroom apartment	4	43.34	173.36
Gallery	71.70	71.70	Two-bedroom apartment	10	60.38	603.84
First floor	275.09	310.74	Three-bedroom apartment	6	82.62	495.72
Second floor	275.09	310.74	Four-bedroom apartment	2	104.42	208.84
Third floor	275.09	310.74	**Total**	**22**		**1,481.66**
Fourth floor	275.09	310.74				
Fifth floor	275.09	310.74				
Sixth floor	275.09	310.74				
Loft Total	**1,936.50**	**2,178.71**				
Total	**2,304.08**	**2,608.47**				

Source: [14]

is the real market price) achieved a profit of 20%, which represents a good profit margin (see Table 4).

The participation of the investor – The investor has so far invested EUR 769,530.75 in the project for the purpose of: (1) purchase of the land – EUR 600,000, (2) payment of the project documentation design – EUR 29,971.32, (3) compensation for design of construction site – EUR 119,106.89, (4) utility connections (fee for shelters and different fees) – EUR 20,452.54, which is attached as the evidence in the Zero report. Also, the investor will use its funds to pay the cost of fees for the approval of the construction loan.

Due to the decrease of market value of the plot that the investor has bought, the Orange Bank recognized a total initial investment in the amount of EUR 692,000 or 35% of the investment budget. The agreed price of works on the facility in Trgovacka Street in Belgrade is EUR 1,074,000.00 without VAT or EUR 411.69/m² gross (i.e. EUR 1,288,000.00 including VAT), which is in line with the level of costs of the quality of this type of facility. The determined price is based on the prices of materials, labor, machinery and other elements at the time of bidding. If the price of these elements increased so as to cause an increase in the contract price by more than 10%, the contractor is entitled to demand an increase in the contractual price by the amount exceeding 10%. The condition is that the increases in the price elements did not occur as a result of delay caused by Contractor as well as this increased prices are not a result of applying materials for which Contractor received advance payment. For this reason, the supervisor has foreseen in the budget a reserve in the amount of 6% of the cost of construction, although we note once again that contracted price of EUR 412/m² is above the average market price and in the opinion of the experts of the Orange bank already has a certain reserve.

The deadline of the works is 15 months. The contractor may execute certain works with the subcontractor. In the Building Contract it is referred that the contractor has the right to the Purchaser unless the advance payment requires a dedicated advance. However, as we were informed by the investor there will not be advance payment. In accordance with that situation, the Contractor shall only provide a

Table 4: The projected sales revenues (excluding VAT)

Floor	Area (m²)	EUR/m²	Total (EUR)
24 parking places		3,500	84,000
Ground floor	260.8	1,500	391,200
First floor	246.4	1,200	295,700
Second floor	246.4	1,200	295,700
Third floor	246.4	1,200	295,700
Fourth floor	246.4	1,200	295,700
Fifth floor	248.1	1,150	285,300
Loft	248.1	1,150	285,300
Total sale area	**1,742.6 (without parking places area)**		**2,144,500 (without revenues from garage)**

Source: [14]

Table 5: The Project budget

Types of costs	Price (EUR) without VAT	% of total costs	Financing by credits (%)	Financing by participation (%)
Location	501,591	25	0	100
Directorate	119,100	6.2	0	100
Technical documentation	30,700	1.6	0	100
Design of the plot	5,000	0.3	100	0
Connectors	84,000	4.4	75	25
Building	1,074,000	56.2	100	0
Supervision	15,300	0.8	90	10
Marketing	17,000	0.9	100	0
Reserves	65,000	3.4	100	0
Interests	60,000	3.4	100	0
Total	**1,991,100**			

Source: [14]

bank guarantee for good performance in the amount of 10% of the contracted work. If the Contractor does not provide a guarantee for good performance, retention fund will be set up in the amount of 10% of the value of construction work – from any temporary situation 10% will be retained on the restricted deposit account. The payment is made on the basis of temporary situation and ended situation. The price of additional works that the Purchaser specifically requires will be determined by contracting parties in the form of Annex, before the start of work. The guarantee period for works is two years and for equipment is determined by the manufacturer. The Contractor has been engaged at the construction site in Trgovacka Street, which confirms the picture from the construction site. The Orange Bank conducted an analysis of the business contractor MI construction and noted that they cannot menace the implementation of the projects in the agreed terms.

The borrower is required to obtain a use permit no later than March 31, 2014 and to register the facility no later than June 30, 2014. Otherwise, the Bank shall charge fees for non-compliance with the deadlines for the completion of building and disrespect of the deadline of implementation of condominium surveys in the land register in accordance with the Collateral catalogue.

The existing customers: The investor has so far concluded two contracts on the sale of two-bedroom apartments, and the several contracts are in the process of concluding, which will fulfill the commitment of the sale of 30%. In all cases, it comes to cash buyers and the contract price is not lower than EUR 1,200/m².

The profitability of the project: Analysis based on the baseline scenario (see Annex 1): (1) The total sales area (including garages): 2,129 m²; (2) The cost of construction – construction price EUR 504/m² (the ratio of the cost of construction without VAT and the total sales area).

The Orange Bank considers that the project has a satisfactory profitability (see Table 6), because it is necessary to sell 60% of the surface area intended for sale and 13 apartments of the average area of 67m² in order to the credit back. In other words, the investor can repay the credit by selling smaller apartments (one and two bedrooms) and by selling three-bedroom apartments. The Orange Bank considers that the marketability of garages and retail units is big, given the low planned price of garage and high demand for premises in Zarkovo. Break-even price is 62% lower than the average market price, meaning that in case of market disruption investor can decrease 38% of their prices and provide income to return credit. LTC is calculated based on the cost to the budget, which the supervisor accepted (land value is lower than the price paid for the land). In the pessimistic scenario, the average selling price is lower than the baseline price by 10%, which is quite affordable for the Orange Bank (considering that the average price reduction in Belgrade in the past year was up to 15%, and in Banovo brdo up to 10%. In the coming period a further decrease in prices is not expected, bearing in mind the limited offer of properties on the market and few projects for execution. Consequently, the sale of all apartments, except two apartments on the top floor (an area of over 100m² makes possible to repay credit – see Annex 2).

The Client's scenario is based on an average price of apartments of EUR 1,300/m² and an average price of retail units of EUR 1,800/m². Such expectations are acceptable due to the fact that already in advance client realized price of EUR 1,250/m² for apartments, while the price of retail units on the market is EUR 2000/m². The investor expects

Table 6: The scenario of the Orange bank

Element	Scenario of the Orange bank		Clients' scenario
	(*Base*)	(*Worst*)	
LTV	58.33%	65%	54.63%
LTC	65%	65%	65%
Profit margin	10.7%	0.5%	21%
Break-even sales area	1,075 m² (60% of over ground area)	1,195 m² (68.5% of over ground area)	952 m² (54.63% of over ground area)
Break-even sales price	EUR 757/m²	EUR 754/m²	EUR 749/m²
Reserves	38%	31%	45.4%

Source: [14]

that it will be able to repay credit from the sales of the first four floors apartments (their total area is 985.56 m²).

The positive aspects of credit requests for project financing are: good profitability parameters of the investment; significant experience of the investor in the field of construction, real estate market and the use of project financing; consistency of apartment structure with the needs of targeted customers; benefits of the apartments compared to apartments with the same quality in similar locations (lower price compared to the wider part of Vracar and New Belgrade, a higher quality of life compared to Vozdovac). The negative aspects and the main risks regarding the realization of project financing: investor paid location more than its current market value and is able to sell at the greatest possible market price (good thing is that dynamics of sales is defined and the CBRE is engaged as an agent for the sale of apartments and retail units); although the Contractor has extensive experience this is one of the largest investment – the payment will be after the execution of works. The Orange Bank Credit Committee decided to approve the requested loans by XYZ development, recognizing the positive aspects of the submitted credit application. Accordingly, XYZ is contacted to provide the list of necessary documents in order to conclude a credit agreement.

Conclusion

The project proved to be able to operate completely independently of the parent company. Accordingly, 1) the assets of the borrower's is small, usually ownership of the site or facility, but the expected return on using is very high; 2) funding is based on the expectations of future cash flows and cash flows of the project, not on the borrower's current creditworthiness; 3) the SPV is the borrower; 4) all participants who financed the project have the risk of the project realization. The main conclusion is that the feasibility study shows that the project is economically and commercially justifiable.

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ANNEX 1 - BASE CASE SCENARIO

Currency:	EUR	VAT	0%	Start of the project	1/ Aug 12	Project period:		21 Month	End of the project	1/ May 14
Investment costs	**NET**	**%**	**VAT**	**GROSS**	**OBLIGATIONS:**		**%**	**Capital:**		**%**
Land	501.0	25.2%	0%	501.0	Credit 1	1,239.1	90.2%	Land	501.0	72.4%
Directorate	119.1	6.0%	0%	119.1	Credit interest	60.0	4.4%	Directorate	119.1	17.2%
Connectors	84.0	4.2%	0%	84.0	Overdraft	75.2	5.5%	Projects	30.0	4.3%
Projects	30.7	1.5%	0%	30.7	Credit 4	0.0		Connectors	20.5	3.0%
Supervision	15.3	0.8%	0%	15.3	Interest costs	0.0	0.0%	Bank fees	20.0	2.9%
Building	1,074.0	53.9%	7%	1,149.2	Bank costs	0.0	0.0%	Supervision	1.5	0.2%
Reserves	65.0	3.3%	0%	65.0	Early repayment	0.0	0.0%	Other 4	0.0	0.0%
Marketing	17.0	0.9%	0%	17.0	Other debts 1	0.0	0.0%	Other 5	0.0	0.0%
Design of the plot	5.0	0.3%	0%	5.0	Other debts 2	0.0	0.0%	Other 6	0.0	0.0%
	0.0	0.0%	0%	0.0	Other debts 3	0.0	0.0%	Other 7	0.0	0.0%
	0.0	0.0%	0%	0.0	Other debts 4	0.0	0.0%	Other 8	0.0	0.0%
	0.0	0.0%	0%	0.0	Other debts 5	0.0	0.0%	Capital 9	0.0	0.0%
	0.0	0.0%	0%	0.0	Other debts 6	0.0	0.0%	Capital 10	0.0	0.0%
Bank charges	20.0	1.0%	0%	20.0	**Total net liabilities**	**1,374.3**	**100.0%**	Capital 11	0.0	0.0%
Credit's interest	60.0	3.0%	0%	60.0	VAT credit	0.0	0.0%	Capital 12	0.0	0.0%
Total costs of investment	**1,991.1**	**100.0%**	3.8%	**2,066.3**	**Total gross liabilities**	**1,374.3**	**100.0%**	**Total (capital)**	**692.0**	**100.0%**

Calculation of sale			WITHOUT VAT (NET)				VAT		WITH COSTS (GROSS)			
Class		PLANNED			REAL			PLANNED		REAL		
	unit	m^2	Price/m^2/unit EUR	Income (000)	Status of sale	Income (000)		Price/m^2/unit EUR	Income (000)	Price/m^2/unit EUR	Income (000)	
Retail (GF)	3	260.8	1,500.0	391.2	100.0%	391.2	18.0%	1,770.0	461.6	1.8	461.6	1,500.00
Apartments (I floor)	4	246.4	1,200.0	295.7	100.0%	295.7	8.0%	1,296.0	319.3	1.3	319.3	1,200.00
Apartments (II floor)	4	246.4	1,200.0	295.7	100.0%	295.7	8.0%	1,296.0	319.3	1.3	319.3	1,200.00
Apartments (III floor)	4	246.4	1,200.0	295.7	100.0%	295.7	8.0%	1,296.0	319.3	1.3	319.3	1,200.00
Apartments (IV floor)	4	246.4	1,200.0	295.7	100.0%	295.7	8.0%	1,296.0	319.3	1.3	319.3	1,200.00
Apartments (V floor)	3	248.1	1,150.0	285.3	100.0%	285.3	8.0%	1,242.0	308.1	1.2	308.1	1,150.00
Apartments (Loft)	3	248.1	1,150.0	285.3	100.0%	285.3	8.0%	1,242.0	308.1	1.2	308.1	1,150.00
Total / average	**25**	**1,742.6**	**1,230.7**	**2,144.5**	**85.8%**	**2,144.5**	**9.8%**	**1,351.6**	**2,355.2**	**1,575.9**	**2,355.2**	1228.6
Number of parking spaces	**24**	386.9	**3,500.0**	**84.0**	**100.0%**	**84.0**	18.0%	**3,500.0**	**99.1**	**3,500.0**	**99.1**	
Total sales revenue		2,129		**2,228.5**		**2,228.5**			**2,454.3**		**2,454.3**	

TOTAL TURNOVER	2,228.5		VAT	2,454.3
Total sales revenues	**2,228.5**		10.1%	**2,454.3**
Residential/commercial property	2,144.5		9.8%	2,355.2
Parking spaces	84.0		18.0%	99.1
Other revenue	0.0		0.0%	0.0
Total costs of investment	-1,991.1		3.8%	-2,066.3
PROFIT MARGIN I	**237.4**			**388.0**
Other costs 1	0.0		0.0%	0.0
Other costs 2	0.0		0.0%	0.0
Other costs 3	0.0		0.0%	0.0
PROFIT MARGIN II	**237.4**			**388.0**
PROFIT MARGIN II (%)	10.7%			15.8%
Interest costs / Bank costs	0.0		0.0%	0.0
Interest income	0.0		0.0%	0.0
Net interest	**0.0**			**0.0**
CAPITAL:	**31.0%**			
RESERVES:	**38.3%**			
GROSS BREAK-EVEN PRICE/ m^2	**757.7**	**GROSS BREAK-EVEN AREA**	**1,075**	

ANNEX 2. WORST CASE SCENARIO

Currency:	EUR	VAT:	0%	Start of the project	1/ Aug 12	Project period		21 Month	End of the project	1/ May 14
Investment costs	**NET**	**%**	**VAT**	**GROSS**	**OBLIGATIONS:**	**%**		**Capital:**		**%**
Land	420.0	22.0%	0%	420.0	Credit 1	1,239.1	90.2%	Land	420.0	68.7%
Directorate	119.1	6.2%	0%	119.1	Credit interest	60.0	4.4%	Directorate	119.1	19.5%
Connectors	84.0	4.4%	0%	84.0	Overdraft	75.2	5.5%	Projects	30.0	4.9%
Projects	30.7	1.6%	0%	30.7	Credit 4	0.0		Connectors	20.5	3.3%
Supervision	15.3	0.8%	0%	15.3	Interest costs	0.0	0.0%	Bank fees	20.0	3.3%
Building	1,074.0	56.2%	7%	1,149.2	Bank costs	0.0	0.0%	Supervision	1.5	0.2%
Reserves	65.0	3.4%	0%	65.0	Early repayment	0.0	0.0%	Other 4	0.0	0.0%
Marketing	17.0	0.9%	0%	17.0	Other debts 1	0.0	0.0%	Other 5	0.0	0.0%
Design of the plot	5.0	0.3%	0%	5.0	Other debts 2	0.0	0.0%	Other 6	0.0	0.0%
	0.0	0.0%	0%	0.0	Other debts 3	0.0	0.0%	Other 7	0.0	0.0%
	0.0	0.0%	0%	0.0	Other debts 4	0.0	0.0%	Other 8	0.0	0.0%
	0.0	0.0%	0%	0.0	Other debts 5	0.0	0.0%	Capital 9	0.0	0.0%
	0.0	0.0%	0%	0.0	Other debts 6	0.0	0.0%	Capital 10	0.0	0.0%
Bank costs	20.0	1.0%	0%	20.0	**Total net liabilities**	**1,374.3**	**100.0%**	Capital 11	0.0	0.0%
Credit interest	60.0	3.1%	0%	60.0	VAT credit	0.0	0.0%	Capital 12	0.0	0.0%
Total costs of investment	**1,910.1**	**100.0%**	3.9%	**1,985.3**	**Total gross liabilities**	**1,374.3**	**100.0%**	**Total (capital)**	**611.0**	**100.0%**

Calculation of sale			**WITHOUT VAT (NET)**				**VAT**	**WITH COSTS (GROSS)**				
Class		**PLANNED**			**REAL**			**PLANNED**		**REAL**		
	unit	**m2**	**Price/m²/unit EUR**	**Income (000)**	**Status of sale**	**Income (000)**		**Price/m²/unit EUR**	**Income (000)**	**Price/m²/unit EUR**	**Income (000)**	
Retail (GF)	3	260.8	1,300.0	339.0	100.0%	339.0	18.0%	1,534.0	400.1	1.5	400.1	1,300.00
Apartments (I floor)	4	246.4	1,100.0	271.0	100.0%	271.0	8.0%	1,188.0	292.7	1.2	292.7	1,100.00
Apartments (II floor)	4	246.4	1,100.0	271.0	100.0%	271.0	8.0%	1,188.0	292.7	1.2	292.7	1,100.00
Apartments (III floor)	4	246.4	1,100.0	271.0	100.0%	271.0	8.0%	1,188.0	292.7	1.2	292.7	1,100.00
Apartments (IV floor)	4	246.4	1,100.0	271.0	100.0%	271.0	8.0%	1,188.0	292.7	1.2	292.7	1,100.00
Apartments (V floor)	3	248.1	1,000.0	248.1	100.0%	248.1	8.0%	1,080.0	267.9	1.1	267.9	1,000.00
Apartments (Garret)	3	248.1	1,000.0	248.1	100.0%	248.1	8.0%	1,080.0	267.9	1.1	267.9	1,000.00
Total/average	**25**	**1,742.6**	**1,101.5**	**1,919.4**	**85.8%**	**1,919.4**	**9.8%**	**1,209.0**	**2,106.8**	**1,409.7**	**2,106.8**	1100.0
Number of parking spaces	24	386.9	**3,500.0**	**84.0**	**100.0%**	**84.0**	18.0%	**3,500.0**	**99.1**	**3,500.0**	**99.1**	
Total sales revenue		2,129		**2,003.4**		**2,003.4**			**2,205.9**		**2,205.9**	

TOTAL TURNOVER	**2,003.4**		**VAT**		**2,205.9**
Total sales revenue	**2,003.4**		10.1%		**2,205.9**
Residential/commercial property	1,919.4		9.8%		2,106.8
Parking spaces	84.0		18.0%		99.1
Other revenue	0.0		0.0%		0.0
Total costs of investment	-1,910.1		3.9%		-1,985.3
PROFIT MARGIN I	**93.2**				**220.6**
Other debts 1	0.0		0.0%		0.0
Other debts 2	0.0		0.0%		0.0
Other debts 3	0.0		0.0%		0.0
PROFIT MARGIN II	**93.2**				**220.6**
PROFIT MARGIN II (%)	4.7%				10.0%
Interest costs / Bank costs	0.0		0.0%		0.0
Interest income	0.0		0.0%		0.0
Net interest	**0.0**				**0.0**
CAPITAL:	**28.1%**				
RESERVES:	**31.4%**				
GROSS BREAK-EVEN PRICE / m²	**754.6**	**GROSS BREAK-EVEN AREA**	**1,195**		

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has a PhD in Economics in sectors banking and finance. At the University Singidunum in Belgrade she teaches Banking, Risk Management and Corporate Finances (from 2008). She has been Vice-Dean at the Faculty of Business in Belgrade since 2012. Ms. Barjaktarović had banking career in the period 1998-2008. It started in Jugobanka A.D. Belgrade, after which she moved to Societe General Yugoslav Bank a.d. Belgrade, and then to Raiffeisen Bank a.d. Belgrade in order to be promoted to the Head of the Regional Branch Central Serbia. In 2005 she moved to Erste Bank a.d. Novi Sad to become the Director of Corporate Division. At the end of 2007 Erste Group named her a member of the Corporate Board and Corporate Working Group on the level of the Erste Holding Vienna.

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