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## **PERSPECTIVES FOR DEVELOPMENT OF THE INTERNAL AUDIT IN THE PUBLIC SECTOR IN THE REPUBLIC OF NORTH MACEDONIA**

Sanja BOZINOSKA\*<sup>1</sup>

<sup>1</sup>Rollsoft, Dame Gruev 8, Skopje, North Macedonia

### **ABSTRACT**

The primary goal of this paper is to understand the conditions of the legal and institutionalized regulation of internal audit in the public sector in the Republic of North Macedonia in the means of giving recommendations for sustainability and upturn.

This paper will determinate the conditions of regulation of the internal audit in the public sector in the Republic of North Macedonia, the legal framework for internal audit in the public sector, as well as the institutions that are responsible for the development of the internal audit in the Republic of North Macedonia.

By the determination of the situation of the internal audit regulations and functioning of the institutions that take care of strengthening the audit profession in the member states of the European Union, the paper will provide guidelines for improving the internal audit situation in the public sector in the Republic of North Macedonia.

**KEYWORDS:** internal audit, public sector, legal framework, institutionalized regulation, public internal financial control, European Union.

**JEL CLASSIFICATION:** M42

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\* E-mail address: [bozinokas@yahoo.com](mailto:bozinokas@yahoo.com)

## 1. INTRODUCTION

The audit as a method of examination aims to help in the responsibility and control of the conduct of economic activities in the business entity. The term audit represents the process of independently and objectively gathering evidence for the effects of operations in an enterprise that expresses an opinion on the veracity and objectivity of financial statements in accordance with the relevant legal regulations. The audit can also be defined as a systematic review of the business and accounting reports performed by the auditor authorized to carry out audit activities in order to express a competent, professional and independent opinion on the correctness, veracity and accuracy of the same.

Auditing itself is a systematic process, because it deals with strictly defined and planned goals, and not a process that would take place unorganized. She aspires as such a process to collecting and evaluating the data from the economic operation of the business entity (Gjorgjievski,2018). By conducting an audit, we strengthen the financial discipline and protect the institution from inefficient spending of financial resources. The role of the internal audit is to ensure that state money is spent and managed in the most correct and efficient way possible.

The internal audit has the task of revealing to what extent and whether the activities and organizational procedures in the organization meet the set norms and criteria. With its help, the institution will achieve its goals and improve the effectiveness of risk management, control and governance processes. Of particular importance is the internal audit in the public sector. Internal audit quality, which is determined by the internal audit department's capability to provide useful findings and recommendations, is central to audit effectiveness. Internal audit has to prove that it is of value to the organization and earn a reputation in the organization (Sawyer,1995).

Internal auditors try to establish cooperation and productive working relationships with management through activities that provide greater value to the entity. Given that such a broad-based audit of all activities has begun to take place relatively recently, it is generally considered a modern internal audit. Auditors should not share the information obtained during the audit with third persons either in oral or in written form, unless for the purpose of satisfying statutory or other established obligations by the Supreme Audit Institution in accordance with applicable laws. This is considered one of the ways in which a professional's conduct is viewed by an auditor.

Internal audit, also referred as operational audit, is a voluntary appraisal activity undertaken by an organization to provide assurance over the effectiveness of internal controls, risk management and governance to facilitate the achievement of organizational objectives. The public sector as a whole is ensuring the concrete use of public goods and services equally for all citizens in a community, proper interpretation of the law and correct action according to it depending on the scope of the institution. For public sector institutions, good governance is of great importance, which essentially means complete management and correct use of resources in an open, transparent and equal way to the needs of individuals.

## **2. LEGAL REGULATION OF THE INTERNAL AUDIT IN THE PUBLIC SECTOR**

The public sector is defined as an integral part of a country that deals with the production, distribution and supply of goods and services to the Government and the citizens, regardless of whether they belong to national, regional or local level. The public sector, in principle, carries out activities related to the establishment of social security of the citizens, administrative action and the provision of national security and safety.

Public sector entities are the beneficiaries of the finance from the Budget of the Republic of North Macedonia, the funds, municipalities and the city of Skopje, agencies and other institutions established by law, public enterprises, public institutions and other state-owned legal entities or in which the state is a shareholder.

The audit of the public sector is important because it enables quality and transparent work of public institutions, restoring citizens' trust in the work of institutions that are part of the public sector, during which it is protecting the economic efficiency of business entities and protecting wider social interests. Requests for internal audit in the public sector are aimed at examining the legality and correctness of budget transactions.

A public sector audit is necessary for the public administration, as public asset management is a matter of trust. The responsibility for the management of public funds in accordance with their purpose is entrusted to a legal or natural person acting on behalf of the public. The public sector audit improves the confidence of users of audit reports by providing information and an independent and objective assessment of deviations from accepted standards and principles of good governance.

Practice in the field of the public sector has shown the existence of various risks the entities incur. Their acuity and importance differ from one period to another in

accordance with the status of economy, as well as the changes occurring in the society as a whole (Ctefanescu,2009). Public sector entities should respond to the continuous demands of users for various and quality public services, demands for greater public and social responsibility, as well as strictness related to performance and transparency.

In high performing organizations, every part of the organization would like to contribute on a higher level, whether it is sales, operations, or administrative support. Internal audit is not alone in its desire to offer its expertise at a strategic level.

Internal audit can control the overall operation or certain ones segments of operations depending on needs. It can be observed as part of administrative oversight, the subject of which is all business functions, by improving the information system in the business entity and data from all spheres of its operation.

The reason for the adoption of the Law on Internal Audit is to strengthen the public internal financial control and auditing capacities of the Ministry of Finance as well as their expansion in the public sector, in order to establish internal audit units in all business entities in the public sector.

According to the existing legislation, i.e. in accordance with Article 3 of the Law on Public Internal Financial Control, internal audit is an independent activity that aims to provide objective assurance and advice, established in order to contribute to increasing of the value and improving the operation of the entity. It helps the entity achieve its goals by applying a systematic, disciplined approach for assessment and improvement of effectiveness in risk management, control and management processes.

Pursuant to the Law on Public Internal Financial Control, the system of public internal financial control includes financial management and control, internal revision and their harmonization, established in accordance with international standards for internal control and internal audit.

Public Internal Financial Control is a concept developed by the European Commission to help candidate countries reform their internal financial control systems. The concept is based on international standards for internal audit and the practice of European countries.

The Law on Public Internal Financial Control regulates the system of internal controls in the public sector of the Republic of North Macedonia which aims at ensuring the application of the principle of stable or good financial management. Also, the law creating conditions for strengthening managerial responsibility and internal audit as part

of that system which is in function of independent and objective evaluation of the system of internal controls and giving advice in order to improve the operation of the institutions.

### **3. INSTITUTIONS FOR DEVELOPMENT OF THE INTERNAL AUDIT IN THE PUBLIC SECTOR**

Institutions in charge of monitoring and harmonizing the internal audit in the public sector in the Republic of North Macedonia are the Central Harmonization Unit of the Ministry of Finance, as well as the Association of Internal Auditors of Macedonia.

The Central Harmonization Unit is an organizational unit within the Ministry of Finance that is responsible for coordination the public internal financial control in the public sector in the Republic of North Macedonia.

Public Internal Financial Control introduces a systematic management approach through:

- Strategic planning;
- Program planning;
- Risk management;
- Authorization and responsibility for the realization of goals and management of budget funds;
- Recording and reporting system;
- Self-assessment of financial management and control (Statement on the quality and condition of internal controls, Self-assessment questionnaire of financial management and control) and
- The further development of this system will continue after the accession of the Republic of Northern Macedonia to the European Union, taking into account the current developments in the budget system, but also the practice of the member states of the European Union.

The Association of Internal Auditors of Macedonia (ZVRM) was established as a non-profit organization on June 6, 2008. The first Assembly during which the idea for the establishment and existence of the association in Macedonia was presented was held on June 6, 2008. On October 17, 2008, ZVRM organized a meeting of interested persons with the representative of IIA Global Denis Bergevin for presentation and affirmation of IIA Global in North Macedonia and for the affiliation of the association within the global association. The second assembly was held on December 20, 2008. In the past, ZVRM did

not have a formal presentation in public. No formal working relations have been established with relevant ministries, faculty institutions ect. Although informal presentations and talks with the relevant parties took place, the challenge in the coming years remains in the establishment of cooperation agreements with the relevant parties for the operation of the association.

As part of the informal presentations, we emphasize the participation in the public parliamentary debate on the Law on Audit, which for the first time the public learned about the existence of the Association of Internal Auditors in the country.

#### **4. REGULATION OF AUDIT IN THE MEMBER STATES OF THE EUROPEAN UNION**

The Eighth Directive is a revision directive in the member states of the European Union. It was adopted on 10 April 1984 and is based on Article 54 (3) (d) of the Agreement on the Confirmation of Persons Responsible for Legal Audit of Accounting Documents.

The Eighth Directive explains the issues related to the audit of financial statements. It consists of four parts:

- ✓ the main objectives of the audit (scope);
- ✓ the rules for verifying persons who can perform audits;
- ✓ the professional integrity and independence of the persons who perform audits and
- ✓ publishing the opinion of the auditors regarding the audit of the financial statements (publicity).

The first part of the Eighth Directive states that the Directive applies to persons who perform:

1. legal audit of the annual accounts of associations and companies and verification whether the annual reports contain the necessary annual accounts to the extent that the audit and verification require it in the Law of the Community and
2. legal revision of the consolidated accounts of the bodies that undertake and verify whether the consolidated annual accounts contain the consolidated accounts to the extent that the audit and verification require it in the Law of the Community.

The persons responsible for auditing the accounting documents must have a good reputation and should not be involved in any audit incompatibility activity.

Article 2 of the Eighth Directive states that the legal audit of the documents listed in the first part of the Eighth Directive may be performed only by approved persons. The governments of the participating States should only approve persons with a good reputation and who do not engage in any activity contrary to the law.

The eighth directive concerns the work of audit firms and the issuance of certificates to certified auditors:

In the third part of the directive (Professional Integrity and Independence), the ability and independence of auditors are specifically developed.

The future certified auditors must have a complete educational upgrade and pass the examination for obtaining the title of Certified auditor (or have a recognized title acquired in another country). Independent audit is seen from the content and performance of audit procedures according to the audit standards applied in the audit.

The Eighth Directive specifically clarifies the obligations of statutory auditors and sets out certain ethical principles to ensure objectivity and independence. It introduces a condition - not a recommendation - for an external quality recommendation, provides solid clear oversight of the audit profession and improves co-operation between the regulatory bodies of the European Union.

The persons may conduct legal audit on accounting documents after:

- ✓ acquiring appropriate university education;
- ✓ completing the theoretical instruction course;
- ✓ gaining practical experience and
- ✓ passing the exam for professional competence of the faculty and the final exam level organized in the respective country.

In addition to the Legal Audit Directive, there are basic audit recommendations. They are:

Recommendation no. 2002/590 / EC on the independence of statutory auditors in the European Union: The Recommendation has a set of high-level principles and it recommends that statutory auditors be prohibited from conducting audits if they have any connection with the client, which could lead to question their independence. Although the recommendation is not a legally binding instrument, it sets a clear benchmark for good practice for the European Union audit branch.

Recommendation no. 2001/256 / EC on Quality Assurance in Legal Audit: The Recommendation sets minimum standards for external quality assurance systems for legal audits in the European Union. The purpose of quality assurance is to ensure that legally prescribed deadlines are met in accordance with established audit standards and that auditors comply with ethical rules, including independence.

## **5. INTERNAL AUDIT IN THE PUBLIC SECTOR IN THE REPUBLIC OF NORTH MACEDONIA: CONDITIONS AND RECOMMENDATIONS**

The internal audit in the public sector in the Republic of North Macedonia is legally and institutionally harmonized with the regulations of the European Union, i.e. with the Eighth Directive of the European Union. The legal framework defines financial control, the system of public internal financial control that includes financial management and control and internal audit and its harmonization.

The Law on Public Internal Financial Control was developed in accordance with international standards for internal control and internal audit, and the law regulates the conditions and manner of conducting the procedure for taking the exam for an authorized internal auditor in the public sector.

Competency can be related to the ability of an individual to perform a job or task properly base on the educational level, professional experience and the effort of the staffs for continuing professional development. Auditors' competency determines the effective auditing in the organization. It contributes to the ability of the auditors to perform the systematic and discipline audit approach to improve the effectiveness of internal audit (Baharuddin, Shokiyah and Serjana Ibrahim, 2014).

Despite of the adoption of the Law on Public Internal Financial Control and the existence of institutions that care for the harmonization and sustainability of internal audit in the public sector in the Republic of North Macedonia, the situation of internal audit in the public sector in the Republic of Northern Macedonia is not on a high level. The situation is such that, first of all, the legislation is not fully respected and the internal auditors, due to their knowledge, are given to do other things that are not related to the internal audit, and at the same time by doing so obstruct the execution of the internal audit.

Another significant obstacle to the poor state of the internal audit in the public sector in the Republic of North Macedonia is the lack of authorized internal auditors in the

public sector. There is a large number of internal auditors who do not have a certificate for internal audit in the public sector and as a result the quality of internal audit in the public sector decreases.

Because internal auditors are employed by the auditing entity, their independence in auditing is greatly questioned. When the internal auditor cannot be completely independent in its operation, the question arises about the quality of the internal audit and the basis of its functioning in order to improve the operation of the entity.

In order to maintain the state of internal audit in the public sector at a higher level due to its great role in increasing the value and improving the operation of the entity, guidelines are given that can contribute to meeting the basic objectives of the internal audit.

First of all, work is needed regarding the functional placement of the internal audit in the public sector, and it should be built at the highest possible level, through the existence of an internal audit sector.

Secondly, it is necessary to respect the number of internal auditors that should exist in the institution in accordance with the Law on Public Internal Financial Control. There is a large number of institutions that have no internal audit at all, as well as those that have a very low number of internal auditors.

Another factor that can contribute to an effective audit is the need for organizational independence and objectivity that can enable audit activity to work without interference from either side.

The capability of the auditees to meet their objectives also reflects on audit quality. The interview responses and data from the questionnaire reveal that the poor record management system in some areas is more pronounced than the difficulty of access to files. The level of cooperation of the auditee and auditee capability in light of established criteria are nevertheless sound enough not to adversely influence audit effectiveness (Getie and Wondim, 2007).

In part, internal audit's ability to communicate hinges on its relationships outside the audit function. Without strong relationships, even the best messaging and insights can fail to reach the intended audience, or fall on deaf ears. Internal auditors need to invest in relationships, making every effort to get to know their clients (Angela Witzany 2016).

Of great importance for maintaining internal audit at a high level is increasing the knowledge of internal auditors by taking the exam for Certified internal auditor in

accordance with the Law on Public Internal Financial Control, as well as exchanging experiences between internal auditors by increasing the number of practical trainings organized by the Central Unit for Harmonization of Internal Control at the Ministry of Finance, as well as attending international trainings in the field of internal audit.

## **CONCLUSION**

Internal audit helps the entity meet its goals by applying a systematic, disciplined approach for assessment and improvement of effectiveness in risk management, control and management processes and contributes to increasing the value and performance of the entity.

Given that the public sector is responsible for delivering quality services to citizens, it is of great importance that internal audit is established at a high level, in order to effectively manage the public funds of citizens and increase the transparency of the operation of public sector institutions.

In the Republic of North Macedonia, with the adoption of the Law on Public Internal Financial Control and its implementation, the concept of internal audit in the public sector has been solidly built. Due to the condition of internal audit in the public sector in the Republic of North Macedonia, there is a necessity for the internal auditors to continuously improve their knowledge, first by taking the internal auditor exam in the public sector and attending trainings in their field.

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## QUALITY MANAGEMENT OF PRODUCTION ORGANIZATIONS UNDER THE STANDARD ISO 9001

Peter BRIS\*<sup>1</sup>, Mohammad YOUSAF<sup>1</sup>, Marie CERMAKOVA<sup>1</sup>

<sup>1</sup>BataUniversity in Zlín, Faculty of Management and Economics, Mostní 5139,760 01  
Zlín

### ABSTRACT

This paper is focused on the effective implementation of new ISO 9001 requirements into companies. The qualitative research was carried out in five international medium-sized production organizations. Difference analysis, analysis of parties involved, and cost analysis were used to solve the problem. The difference analysis was described between standards ČSN ISO 9001:2009 and ČSN ISO 9001:2016. The analysis of parties involved was created on basis of new requirements and it describes all parties involved in the company, both from the public and private sectors. The aim of the work was to propose gradual steps, based on which a successful transition to a revised standard can be made, which is not quite simple, given the general validity of the standard for all types of organizations.

The study presents various solutions for a successful transition to new and revised version of the standard. Nine primary propositions and seven secondary propositions were suggested.

**KEYWORDS:** Difference Analysis, Qualitative Research, Efficiency.

**JEL CLASSIFICATION:** L15

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\* E-mail addresses: [bris@utb.cz](mailto:bris@utb.cz) (T. Bris), [yousaf@utb.cz](mailto:yousaf@utb.cz) (M. Yousaf), [cermakova@utb.cz](mailto:cermakova@utb.cz) (M. Cermakova)

## **INTRODUCTION**

The research deals with the effective introduction of new requirements of ISO 9001: 2015 into the current quality management system. This is a new revision of the standard, which began to be efficient from 9/2015 and its introduction to business is allowed until 9/2018 (then the validity of the certificate ISO 9001:2008 expired). Therefore, it is an up-to-date problem which must necessarily to be solved in every organization governed by these standards. Due to the different requirements of the new standard, each company must undergo transformation and identify its own shortcomings. The aim of the qualitative research is to identify the shortcomings of the current quality management system according to the requirements of the new ISO 9001: 2015 and then propose measures for the effective introduction of new requirements into this system. listed in a clear table exactly in the order of the chapters of the new standard. The main reason for the research is a set of proposals to eliminate identified shortcomings, and to implement new criteria and documents in line with the requirements of the revised ISO 9001 standard. These suggestions follow in a logical sequence further recommendations on creating a new process map, creating process cards, reducing and capitalizing guidelines, reducing and updating standard procedures, reducing and updating forms, formally editing guidelines, and adjusting the quality manual.

Conducting all of the above recommendations in organizations can greatly contribute to the innovation of ISO 9001: 2015 management that organizations must implement while they want to remain competitive.

## **LITERATURE REVIEW**

The control expression can be seen in many different connections and systems. There are even more terms for it as leadership, control, management, etc. The control point is more important because the processes that are underway in each dynamic system are regulated by specific circumstances (Blecharz, 2011). The basis of the multifaceted concept of the importance of management is the diversity of these systems. In the most general sense of meaning, it is possible to define management as an action between information systems and individual systems, ie subject and subject of management. There is still a general definition of a dual concept of the meaning of the procedure even though there are more definitions. This is the concept:

1) Closer management - This process portrays target control of processes in existing systems.

2) Management in the broader sense - this process is understood as the sum of multiple controlled interventions, which include, in particular, planning, organization, decision making, regulation, control, etc.

Váchal (2013) defines the procedure as follows: "Management represents a (special) distinctive specialized activity, inevitable in various organizational units: enterprises, universities, army, art, etc. The need to manage appears essentially with the emergence of organized life, people are joining together to achieve some common goals. "Management is a complicated and multifaceted process in which production, technical, economic, and social processes are integrated, integrated into mutual ties.

According to van Van der Aalst (2016), business process management has become a rigorous discipline with a well-established set of principles, methods and tools that combine knowledge in information technology, management and industrial engineering to improve these processes (van der Aalst 2004, 2013). Similarly, conclusions are drawn by Weske (2007) and Dumas et al., (2013). The principle of the procedural approach is based on the assumption that the "basic object of management" is a described, defined, structured, source and input process that is implemented for a particular customer and has a clearly defined owner. According to ČSN EN ISO 9000: 2016, the process is a "set of interacting activities that converts inputs to outputs (ČSN EN ISO 9000: 2016). It follows from these definitions that the process is a set of interactions of activities that deliver inputs to value added when using resources and converting to outputs that have their customers. According to Tao, Z. (2015), strategic planning plays a key role in process management, which takes place in every part of the process. Good governance demonstrates that everyone plays a role in the management process, each area must be explored by the management process and everything has to be controlled (Zhang et al., 2006). In other words, this kind of management theory requires that all people be involved in the process (Liu and Chen, 2007). Harmon P. (2015) examines the three most important approaches to procedural control. The oldest approach is the simplification of work and quality control represented by Six Sigma and Lean. The second approach is to manage teachers and advisers such as Porter, Rummler and Hammer. The third tradition is information technology management with a focus on process automation of all kinds. Other authors

prefer the use of ISO 9001 (Psomas, 2015) or EFQM (Jiménez, 2015). In ISO 9000: 2015, the definition of a process approach can be read as follows: "Consistent and predictable results are achieved more efficiently and efficiently when activities are understood and controlled as interconnected processes that act as a coherent system (CSN EN ISO 9000, 2016). The notion of control overlaid only in the 1990s when trends such as "re-engineering companies," business as a system ", and " process mapping "(Blecharz, 2015) emerged. The introduction of nationwide prizes, such as the MBNQA (Malcom Baldrige Award in the US), the European Quality Award, the UK Business Excellence Award, and many others, was the first impetus for introducing the notion of procedural control. The whole "excellence" model is based on several common basic principles, including leadership, including organizational culture, planning including strategy, policy and strategy, stakeholders, processes and management knowledge, including innovation and problem solving, and ultimately the presentation of results to all stakeholders. A key organizational success is the efficiency of procedural management (Brodský, 2009). EFQM, according to Hoyle (2007), has been developed for the needs of self-evaluation and improvement of organizations so that they can gain "excellence". This model can be self-implemented by organizations. EFQM is defined as "self-assessment, an all-encompassing systematic and regular process of reviewing organization activities and their results (EFQM, 2017). Excellence is understood as a comprehensive practice in organizational management based on nine critical groups. (Briš, 2010). Effective implementation of EFQM Excellence requires special training and long-term experience of so-called internal evaluators (Spejchalová, 2011).

In the global economy, there is growing pressure on organizations to invest resources to improve their management practices. Economic and market globalization, which has led to new market interactions, has also led to the growing importance of standards (Aba and Badar, 2013). In addition, efforts to create better quality products and services led to the need for uniform international quality standards (Badiru, 1995). Guasch et al. (2007) and the National Research Council (1995) pointed out that standards have the ability to use network externality, increase productive and innovative efficiency, reduce incomplete information, expand innovation, reduce costs, promote competition, enhance compatibility, promote public welfare. These positive effects of the standards are not mutually exclusive. Santos et al. (2011) highlighted the key benefits of quality system certification: "Increasing customer base and subsequent

delivery volumes, increasing company profitability and productivity, competitiveness and performance (cost savings), reducing external and internal discrepancies, and gaining prominent clients". It is essential for management to know whether the financial benefits associated with ISO 9001 certification exceed the costs associated with obtaining the certification. Sharma (2005) said that ISO 9001 certification has a direct impact on improving the company's financial performance. This is supported by Santos et al. (2012), which found that industrial enterprises with ISO 9001 are investing faster than other companies. It turned out that 66.39% of industrial companies had returned to ISO 9001 in less than three years. In addition, Corbett et al. (2005) found that publicly traded manufacturing companies in the United States had an extremely significant improvement in financial performance after the implementation of ISO 9001. It is important to point out that at the same time, organizations (both production and non-productive) that have adopted ISO 9001 invest more quickly than others (Santos et al., 2012).

## **METHODOLOGY**

Implementation of the difference analysis of standards and analysis of the quality management system was carried out in the settlements of 5 Czech companies from the category of small and medium-sized. The target audience was the organization that planned to conduct an audit in line with the transition of new version of the standard. The research was conducted in 2018. The analysis of documents and standards was carried out in the form of qualitative research in five production organizations, during which both internal and external documents of companies were used. In this work, various research methods and techniques are applied. This is, in particular, a *difference* analysis and an analysis of the company's stakeholders resulting from the new requirements of the standard. The new version of the standard also includes other analyzes such as risk or SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis. However, in the case of stakeholder analysis, cost analyzes, risk and SWOT analyzes are very sensitive data, therefore, analyzes are kept as nonpublicable, confidential documents of companies. Initially, a literature review of the issue, and then an analysis of quality management systems was carried out before the implementation of a new version of the standard. The analysis of quality management systems in companies is meant mainly by the current description of the systems, i.e.

what guidelines the company has, how they have a defined process map, how they have a formulated hierarchy of documents, etc. Then a difference analysis was made between the standards, in which the difference parameters were highlighted in detail. After the difference analysis, it was also necessary to focus on the shortcomings of the existing quality management system in companies and at the same time set out proposals for their effective implementation so that companies can successfully complete the audit in the interim period. The data were collected in the framework of qualitative research in the form of unstructured interviews with experts in strategy, quality management, and top management. All the chapters of the ISO 9001 standard were subjected to detailed analysis. Difference analysis between standards is described in Table 1, where the contents of both standards are compared and the individual differences are listed in a separate column "Differences". Through a detailed analysis of the analysis, we can identify the company's shortcomings in the current quality management system and take appropriate steps to correct and subsequently introduce new requirements into the quality management system. (Chapters where there were no changes are not listed in the table).

**Table 1 Difference analysis between two standards**

ISO 9001:2015		ISO 9001:2008		DIFFERENCES
<b>4</b>	<b>Organization context</b>			<b>New request</b>
4.1	Understanding the organization and its context			<b>New request. The company must define the external and internal contexts that affect it. It is mainly about its products and services.</b>
4.2	Understanding the needs and expectations of stakeholders			<b>New request. While the former standard has focused on customers, the new version of the standard specializes in stakeholder engagement. These are mainly customers, suppliers, public administration, etc.</b>
4.3	Determining the scope of the quality	4.2.2	Quality Manual	In the previous version, this requirement was found in the Quality Manual. <b>This is no longer binding, but the requirement to determine and document the scope remains.</b>

	management system			
4.4	Quality management system	4.1	General requirements	Requirements remain the same, but new requirements with risk and opportunity identification are integrated. In addition, process inputs and outputs are assigned responsibilities and authority within processes.
5	<b>Leadership</b>			
5.1	Leadership and Commitment	5.1	Engagement and management activity	The chapters are similar. The new standard focuses primarily on developing awareness and supporting others who are involved in the effectiveness of the quality management system. <b>The fundamental difference between the versions is that new ones require top management to take responsibility for the effectiveness of QMS.</b>
5.1.1	In general	5.4.2	Quality management system. <b>Planning</b>	
5.1.2	Customer Focus	5.2	Customer Focus	Requirements are being maintained, but a <b>new requirement is emerging, which is to identify risks and opportunities. This applies to the conformity of products, services and valid legislation.</b>
5.2	Quality Manual	5.3	Quality Manual	Requirements remain the same, but a <b>new requirement is growing again. This is that a quality policy must be available to interested parties as required.</b>
5.3	Role, responsibilities and authority within the organization	5.5.1	Responsibility and authority	<b>The major difference between standards is that the new one does not require the appointment of a quality management representative. However, the new article describes in more detail the roles, responsibilities and competencies of QMS, which can be assigned to different people.</b>
6	<b>Planning</b>			
6.1	Measures to address risks and opportunities	--	---	<b>New request. The incorporation of the risk planning principle into the planning process occurs for the first time in the standard, while for other management systems standards (eg ISO 14001) risk analysis is the initial step in the planning process. It is imperative that organizations identify the risks and opportunities that affect the organization's performance.</b>
6.2	Goals of quality and planning to achieve them	5.4.1	Goals of quality	<b>The requirements remain the same, but they are further developed in the new revision, and in particular they need to be clarified.</b>
6.3	Planning changes	5.4.2	Planning QMS	<b>A new revision of the standard determines how changes to QMS must be controlled. Their purpose, possible consequences, availability of resources and assignment of responsibility must be taken into account.</b>
7	<b>Support</b>			

7.1	Resources	6.1	Providing resources	Past requirements are preserved, but the new version points to capability and limitation of existing internal resources as well as to what needs to be obtained from external providers.
7.1.1	In general			
7.1.5	Resources for monitoring and measurement	7.6	Control of measuring and monitoring devices	The new standard focuses primarily on providing measurement and monitoring resources. The former standard focused only on measuring devices. The company must maintain documented information as evidence of the appropriate use of monitoring and measurement resources.
7.1.6	Knowledge of the organization			New request. It deals with the knowledge that organizations must have in order to be able to provide product and service. The company must define the necessary range of knowledge for the functioning of processes and the achievement of products or services.
7.2	Competence	6.2.2	Professional competence, training and awareness	Competencies and awareness are divided into two articles separately, in order to highlight their significance and provide more detailed requirements.
7.3	Awareness			
7.4	Communication	5.5.3	Internal communication	Revision of the article includes internal and new external communications. Another requirement is to determine the responsibility and the way of communication.
7.5	Documented information	4.2.3 4.2.4	Document Management Records management	Compared to an earlier revision of the standard, there has not been a fundamental change in the company documentation requirements, but there has certainly been some relief. The quality manual has changed to documented information on the scope of the quality management system. The originally required 6 documented procedures were limited to keeping records of the documented information that is a record of the status of the result. Instructions for documented information, instead of documented procedures, remained in the standard requirement, including what all the documented information should contain (management, origin, origin, etc.)
7.5.1	In general	4.2.3 4.2.4	Document Management Records management	
7.5.2	Creating and updating documented information			The new requirement to properly identify and describe the documents was not formulated in an earlier standard. But it was part of the principles of the documented document management procedure required. Since the first edition of the standard, document management has not changed significantly, only the management of electronic documentation has been added.
7.5.3	Managing documented information	4.2.3 4.2.4	Document Management Records management	Requirements for the management of documented information are more or less equivalent to the article of the previous standard. The new standard included details on the management of electronically managed documentation and requirements to ensure protection against loss of

				<b>accessibility, confidentiality and integrity. Documented information must be both maintained and maintained</b>
<b>8</b>	<b>Operation</b>	<b>7</b>	<b>Product realization</b>	
8.2	Product and service requirements	7.2	Customer processes	<b>Requirements are almost identical. A new revision of the standard places emphasis on communication about customer care.</b>
8.2.1	Communication with a customer	7.2.3	Communication with a customer	
8.2.4	Changes to product and service requirements			<b>A new requirement that defines requirements for changes to product and service requirements.</b>
8.3.1	In general			This article defines when application of article development is necessary.
8.3.3	Inputs for design and development	7.3.2	Inputs for design and development	<b>Virtually identical formulation.</b> Additionally, there is a requirement to identify the risks that may arise during design and development already at the input.
8.3.4	Design and development management	7.3.4 7.3.5 7.3.6	Design and development review Verification of design and development Validation of design and development	<b>Virtually identical formulation.</b> The new article summarizes the requirements of the three articles of the old standard while preserving the same scope and wording requirements. The influence of nature, length and complexity on development activities is emphasized.
8.4	Management of outsourced processes, products and services	7.4.1	Purchasing process	<b>The requirements remained practically identical, only the title of the article changed. New subcontracting processes have been newly incorporated in the previous standard in Chapter 4.1.</b>
8.4.1	In general			
8.4.3	Information for external providers	7.4.2	Purchase information	<b>Virtually identical formulation.</b> A new revision of the standard places emphasis on monitoring and managing the productivity of external providers.
8.5	Production and provision of services	7.5	Production and provision of services	<b>Virtually identical requirements,</b> but the new standard points to the validity of established managed conditions, both on delivery and delivery.
8.5.1	Managing production and service delivery	7.5.1 7.5.2	Managing production and service delivery	

			Validation of production processes	
8.5.3	Assets of customers or external providers	7.5.4	Assets of customers	<b>Virtually identical formulation</b> , however, in a new standard, requirements are extended to the assets of external providers.
8.5.5	Post-delivery activities			<b>In the previous standard, post-delivery activity was across across content, whereas in a new revision of the standard these requirements are summarized in a single article.</b>
8.5.6	<b>Change management</b>			<b>Change management has been mentioned in a number of places in the old standard, but the new revision of the standard is summarized in a single article.</b>
8.6	Release of products and services			<b>A new requirement</b> that deals with product verification and guarantees that products or services meet the requirements.
<b>9</b>	<b>Performance evaluation</b>			
9.1	Monitoring, measurement, analysis and evaluation	8.2.3	Monitoring and measurement of processes	The new article emphasizes monitoring and measurement requirements for processes, products and services.
9.1.1	In general	8.2.4	Monitoring and measurement	
<b>10</b>	<b>Improving</b>	<b>8.5</b>	<b>Improving</b>	
10.1	In general			The requirements in the new standard clarify how it should be in the process of improvement.
10.3	Constant improvement	8.5.1	Constant improvement	The new standard emphasizes using all available information for the continuous improvement of QMS.

*Source: own processing*

The next analysis concerns mandatory information, which is a new concept in ISO 9001: 2015. Mandatory documented information in the new standard of controlled change management. It builds upon previously documented procedures, documents, and quality manual. Obligatory documented information linked to previous records must be retained (their content should not be changed and to be available). There, where an international standard uses information instead of documented information, it does not require documentation. The analysis shows that all the documentation has changed to documented information and created new requirements for it. The original documentation has been preserved, but it is otherwise formulated. The new

requirements for documented information are as follows: 4.4.2.2 - Information necessary to support the operation, 4.4 - Proof that the processes are in progress as planned, 8.2.3 - The results of the review of customer requirements with respect to products, 8.3.2 - Documentary information required to demonstrate that the requirements have been met, 8.3.5 - The organization must keep documented output information, 8.4.2 - Outputs from the evaluation of products and services supplied by external providers, 8.4.3 - Inputs for external providers, 8.5.6 - Change Management and 8.6 - Release Notes.

### **EMPIRICAL RESULTS, DISCUSSION AND PROPOSALS FOR INTRODUCING A NEW QUALITY MANAGEMENT SYSTEM**

1. Request for assessment of organization context - entirely new requirement of the standard. The organization must identify the internal and external aspects that directly affect it, and create a way to understand its context.
2. Request for interested parties - a completely new requirement of the standard. The old standard only mentions customer care, not all stakeholders. Therefore, the organization must identify all its stakeholders in the form of an analysis.
3. Risk management requirement - This is not an entirely new requirement, however, in the old standard, the risks crossed across the standard, while the new standard concerns the provisions of Articles 4.4 (Management and Quality System), 5.1 (Leadership and Commitment) 6.1 (risk and opportunity measures), 8.5 (production and provision of services), 9.3 (management review) and 10.3 (continuous improvement). It is clear that organizations now have to define risks from the above-mentioned provisions. Appropriate analysis using proven methods has demonstrated the risks that organizations need to respond adequately to.
4. Requirement to opinate opportunity - Again, this is not an entirely new requirement, in the earlier version, there was a requirement for planning. As the new standard requires risk considerations, it is also necessary to assess the potential risks in the context of the risks. The company does not have this analysis, the resulting risks must then be combined with opportunities to meet both the requirement for risk assessment and the requirement to assess the opportunities.
5. System changing requirements - The original standard defined change planning, while the new standard specifically describes individual requirements.

6. Organization knowledge request - a new requirement of the standard. The company must describe its own knowledge in the form of documented information. In the original standard, knowledge emerged across the entire content of the standard through competencies (for example, a matrix of company responsibilities). The company must realize that people have excellent knowledge about the company.

7. Communication requirement - The old standard had built-in internal communication only, this requirement is met by the company. The new revision, however, requires the quality of external communication to be incorporated into the management system - this requirement no longer satisfies the company. Another criterion of communication is the more detailed formulation of communication requirements.

8. Requirement to change the change of products and services - In contrast to the original version, this requirement is individually separated in one provision. The new standard requires the creation of documented information for this task, whereas in the old revision this requirement was not. Now, the company will have to review the product changes (created by the customer or created by the company itself), approve these changes by a competent person and create review measures.

9. Requirements for release of products and services - This new requirement determines when the product can be released from the factory to the customer. A similar request is found in the old version in Chapter 7.5.1. Unlike the new version, however, documented information was not required for the old version. Therefore, the organization must create the documented information for the release of products and services.

### **Further suggestions to improve the quality management system.**

**1. CREATING A NEW PROCESS MAP** - Since process maps do not capture reality in organizations, it is necessary to update them or create new ones with the new requirements of the current revision of the standard.

**2. CREATING PROCESS CARDS** - Current process maps do not contain any process cards. All processes, both main, management and support, are described in the guidelines, which is currently inefficient. Therefore, it is recommended to write the process cards to the main processes.

**3. REDUCING AND AUTUALIZING DIRECTIVES** - Companies have created many directives, with the 2009 standard mandating Directives 6 (documented procedures).

It is therefore appropriate to reduce the Directive to 6 and at the same time update the content of the directives according to the new standard, although the new version of the standard no longer refers to documented procedures but generally to documented information. The newly revised 6 directives should only concern production, non-compliance, purchase, trade, internal audits and documented information.

**4. REDUCING AND UPDATES STANDARD PROCEDURES** - At present, organizations use a total of 30-42 standard procedures (for example, workplace safety regulations, metrological and calibration rules, welding processes) to implement their products. It is appropriate to completely remove some standard procedures (for example, a code for safe office work) while streamlining current standard procedures.

**5. REDUCTION AND UPDATE OF FORMS** - It is necessary to remove about one third of the forms, update the second third because they do not correspond to the facts and leave the remaining third in the original state because they were updated last year.

**6. CHANGE FOR THE FORMAL ADAPTATION OF DIRECTIVES** - the number of directives in the company has already been mentioned, it will be necessary to write new directives in line with the new requirements of the standard.

**7. ADJUSTMENT OF THE QUALITY GUIDE** - the current Quality Manual should be retained, although the new standard does not refer to the original one about the obligation to keep quality guides. However, it will be necessary to modify the quality manual on a formal basis, in particular to adjust the content according to the requirements of the 2016 standard. The quality manual will refer to newly created directives as separate documents, as other requirements can be described in a shorter form than the mentioned directive.

## CONCLUSION

The aim of the work was to analyze the shortcomings of the current quality management systems and to propose measures for elimination in accordance with ISO 9001: 2015. In the first phase, an analysis of the current quality management system was carried out in companies, and a gap analysis between the old standard of 2008 and the new 2015 standard was created. Based on these two analyzes, new requirements of the standard were identified, respectively shortcomings in the current quality management system. In Chapter 4, both are identified and removed in the form of

suggestions and recommendations. Through these proposals, these new requirements have been incorporated into the company's quality management system to move to a new version of the standard under the supervision of an audit organization. Following the introduction of new requirements, we can continue to streamline our company's quality management system. In the first step, it is necessary to update and rewrite company directives according to both the production process and the administrative process. The updated directives will also reduce the directives as a new revision of the standard is not as demanding as documentation. It is envisaged to reduce the directives by up to half. After adjusting the guidelines, a quality guide would be available that would remain in the companies but would have to be adjusted to the new standard. In the Quality Manual, of course, an updated process map will be displayed, including process cards for the main processes. Standard procedures and forms will then be modified. Standard procedures need to be adapted to reality in the production process. Also, some standard procedures will need to be removed, some edited, and then added as new ones. For forms, it is necessary to change the numbering and naming, because unnecessarily complicated marking is used. The next step for the forms is to update them as they do not match the actual production documentation. The deadline for the transition to the old ISO 9001 standard ended in September 2018. If companies successfully defend their up-to-date quality management system, they can immediately think of introducing opportunities arising from risk analyzes or from SWOT analyzes.

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## **BUSINESS SUPPORT MEASURES IN EU PRE-ACCESSION PERIOD: EXPECTATIONS FOR THE REPUBLIC OF NORTH MACEDONIA**

Biljana GJOZINSKA\*<sup>1</sup>, Adrijana BULEVSKA ZARIKJ<sup>1</sup>

<sup>1</sup>Integrated Business Faculty, 3-ta Makedonska Brigada No. 66A Skopje, R. North Macedonia

### **ABSTRACT**

The process of Pre-accession to the European Union is filled with measures for assistance for the candidate countries, as to create a favourable accession and harmonization period for the candidate countries' systems. As such, the European Union uses different measures for support of businesses and the economic environment of a candidate country, as a part of a large programme, dubbed "the Instrument for Pre-Accession (IPA)". Funds used from this Instrument target capacities build-up on different areas within the candidate country throughout the accession period, with the goal of creating progressive and positive developments in the candidate country.

The Republic of North Macedonia has been identified as a potential EU candidate since 2003, when the Thessaloniki European Council has granted this status. Since 2005, the country has been granted candidate status, with recommendation to open accession negotiations in 2015. Therefore, the pre-accession assistance that is to be granted to the country is expected to be similar to countries that have already been through this process and are now members of the EU. For comparison purposes, the support measures from the pre-accession period of two similar, already EU-member countries are compared throughout this paper. Slovenia, as a member state that has similar population, size and political background to the Republic of North Macedonia, is taken into the research of this paper, as well as Bulgaria, which is a country that is most similar to the political and economic situation of the Republic of North Macedonia during its pre-accession period, and it is one of the last countries to enter the EU. Their respective use and allowances under the IPA, with focus on measures within the instrument used to enhance the business environment of each country, are thoroughly analysed throughout this paper, as to offer an insight into what can be expected as business support measures for this period of pre-accession for Macedonia.

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\* E-mail addresses: biljana.gjozinska@fbe.edu.mk (B. Gjozinska), adrijana.bulevska@fbe.edu.mk (A. Bulevska Zaric)

Additionally, the results from these support measures in Slovenia and Bulgaria give a clearer image as to what should be expected and what can be the impact on development and progress of the business and economic environment of Macedonia, during this pre-accession period.

**KEYWORDS:** European Union, EU accession, IPA, funding

**JEL CLASSIFICATION:** E02

## 1. INTRODUCTION

The EU's Pre-accession Assistance were developed to help potential candidates' countries or candidates' countries on their path to democracy and a functioning market economy, with stable governmental institutions and competitive private sector. The Assistance goes towards measures aiming at implementing the needed comprehensive reforms required to comply with the Union's core values and standards, to make the country appropriate for EU membership.

In the process of accession of a country to the European Union, one of the most significant issues is the alignment and harmonization of the candidate country's political, economic and legal environment with EU's pillars of freedom. The European Union defines the four freedoms of movement as the pillars of its existence: the freedom of movement of people, goods, capital, and labour across its member countries. (Council of the European Union, 2018) In order to be able to fit into this assembly of countries, a candidate country has a long path of processes, installed specifically for its ease of accession. The processes that need to be followed to ensure that the moment a country accesses the EU, the shock impact on its economy and society will be minimized. Because of this, EU has installed a series of measures for assistance in the pre-accession period of candidate countries, with the goal of creating a favourable accession and harmonization period for the candidate countries' systems. As such, the European Union uses different measures for support of businesses and the economic environment of a candidate country, as a part of a large programme, dubbed "the Instrument for Pre-Accession (IPA)". Funds used from this Instrument target capacities build-up on different areas within the candidate country throughout the accession period, with the goal of creating progressive and positive developments in the candidate country. The IPA is not solely a financial instrument; it offers technological, technical and know-how assistance in different areas as to enhance the development of the candidate country and ease its accession process in the EU.

The Republic of North Macedonia has been started its process for becoming EU member since 1997 by signing the Cooperation Agreement with European Community. Even though, in 2005, Macedonia has been among the first Balkan countries to be granted a candidate status to the EU, the country had a long and difficult path to start of accession negotiations on 25<sup>th</sup> March, 2020, as a result of solving the name dispute with Greece.

Although the Republic of North Macedonia has been a beneficiary of the Pre-Accession funding since 1996, the main part of the funds were intended for capacity building of the state, democratization, human rights and good governance support, and had no direct impact on support and development of businesses, although undisputable is the indirect impact on the business environment.

Taking into account the started negotiations for EU membership, in the next period it is expected with IPA III (2021-2027) to be guaranteed increased financial means, which will ensure a gradual transition from pre-accession status to that of EU Member and will allow the necessary absorption capacity to be developed.

In this context, for a comparison purpose, the measures applied in Bulgaria and Slovenia in the pre-accession period, are analysed to get an impression of the expected reforms in the business sector in the coming period.

## **2. MACEDONIA AND ITS PATH TO EU ACCESSION**

Since 1997, the Republic of North Macedonia has begun the process towards EU accession, by signing the Cooperation Agreement with the European Community. Additionally, in 2001, the Stabilization and Association Agreement has been signed. It has been in force since 2004, when it was ratified by EU member states.

Macedonia has been among the first Balkan countries to be granted a candidate status to the EU, as early as 2005. Additionally, since 2009, Macedonia has received recommendation for the start of negotiations for accession to the EU (European Commission, 2016). At this period the visa liberalization for Macedonian citizens also came into force. However, due to political instability, lagging economic progress and name dispute with Greece, the process of starting EU membership negotiations has been prolonged for over a decade. During this period, country progress reports of the EU for Macedonia have been including various remarks and recommendations for change, in order for the country to be able to start the process of negotiations. In 2015

these recommendations were codified in the Przhino agreement and the Urgent Reform Priorities, mainly in the areas of competition, transport and energy. According to the 2018 European Commission report, since the second half of 2017, the Macedonian government has begun addressing state capture and battling legal issues by gradually restoring rule of law and strengthening democracy (European Commission, 2018). The country is undergoing fundamental changes in a more inclusive and open political atmosphere. The European Commission recommendation is that the institutions need to improve and enhance their legal frameworks and legislative functions, with a focus on limiting extensive use of shortened procedures in creating legislation. A recent assessment suggests substantial further reform is required before the country will be ready to join the EU (Culkin et Simmons, 2018) Nevertheless, the European Commission has recommended the opening of accession negotiations, in April 2018, as a follow-up to the creation of favourable and stable political environment in Macedonia (Armakolas et al., 2019).

On 12 June 2018, Republic of North Macedonia and Greece signed the Treaty of Prespa, under the United Nations' auspices, resolving almost a three decade dispute over the name Macedonia. The EU member states, on 25th March 2020, the resolution of the name dispute recognized as a sign of Macedonia's political maturity, and a sufficient argument to start accession negotiations for EU membership.

### **3. CURRENT EFFECTS OF PRE-ACCESSION ASSISTANCE IN MACEDONIA**

During the pre-accession period of Macedonia to the EU, several phases in pre-accession funding have occurred, each with its own impact on the economy and businesses in general in Macedonia. This portion of the paper will briefly analyse each of these phases and their respective business impact.

The first pre-accession funding period can be defined as the period between 1996 and 1999, when Macedonian pre-accession funds have largely been attributed to the PHARE program. The PHARE<sup>1</sup> program, first created as a pre-accession instrument to Poland and Hungary, at the time of their pre-accession periods, has been established

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<sup>1</sup> The PHARE programme is one of the three pre-accession instruments financed by the European Union to assist the applicant countries of Central and Eastern Europe in their preparations for joining the European Union. It has been originally established in 1989, named Poland and Hungary: Assistance for Restructuring their Economies (PHARE) programme, but since then it has extended to all other candidate countries of the period, up until its completion before 2000.

as a pre-accession instrument for Macedonia since signing the Cooperation Agreement with the European Community. For the brief period this program has been functioning in Macedonia, it has shown to have a largely unstructured relationship with respect to the businesses and the overall economy in Macedonia.

The second phase, or period, in EU pre-accession funding in Macedonia can be attributed to the CARDS <sup>2</sup>program, between 2000 and 2006. CARDS was introduced in 2000 as a part of the Stabilization and Association Process (SAP), launched in 1999 and reconfirmed in 2003. Although for some Balkan countries, such as Albania, Bosnia and Herzegovina and Croatia, CARDS has been managed by decentralized agencies, for the remainder of the Balkan candidate countries, including Macedonia, this program has been managed directly by the European Agency for Reconstruction (EAR), in its Thessaloniki office. The initial goal of CARDS had been the support of reconstruction, development and stabilization in post-war and post-communist areas and countries. However, its focus has quickly shifted to building institutions and institutional capacity in these countries, including Macedonia. Specifically, objectives of the CARDS programme in Macedonia included democratic stabilization, institutional and legal development, with the focus of harmonization of legislation in the country with EU legislation, enhancement of the rule of law, human rights support and support to freedom of speech and freedom of media, civil society support and the support of a free market economy. Under the support of economic changes for creating a free market economy, structural reform to businesses and state-owned agencies has been endorsed, although the main accent of CARDS has been on the institutional and not private business support. However, it has offered a more structured approach to pre-accession, tailored to specific sector needs.

CARDS was reconfirmed in 2003 and continued to serve as a pre-accession support mechanism until the introduction of the Instrument for Pre-Accession (IPA) in 2006.

Since 2007, IPA funding has been the main EU pre-accession mechanism in Macedonia. As opposed to PHARE and CARDS, with the introduction of IPA there has been a trend of annual decrease in funding, with a significant overall total funding under IPA since 2007, until the present day. IPA is still the main pre-accession mechanism for EU funding in Macedonia, and it is more specifically structured and

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<sup>2</sup> Community Assistance for Reconstruction, Development and Stabilisation.

hands-on mechanism, than the previous ones. However, it must be noted that there is a general lack of focus on many important areas for development of the economy, including focus on business sector, SMEs and private companies in general. Instead, since 2007, the main focus of IPA funding has been Transport and Environment. And even in these two areas, the main focus on usage of EU funds has been for technical support, as opposed to actual developmental support (Gjorgjievski et Stankovikj, 2012). Additionally, to give a quantitative assessment on the support provided and the developmental advancement by using IPA funds is difficult, since there is very limited data on indicators of usage of IPA funds. Therefore, most of the assessment is based only on the available qualitative indicators. At the end of the 2007-2013 programme period, a total of 192.157.615,00 euro of European financing has been used under the IPA programme, which represent 15% of the total value of projects funded – 85% has been accounted under national co-financing (European Commission, 2016). One other major issue with the usage of IPA funds is the limited absorption capacity. Between the years 2007 (as an initial year of using IPA funds) and 2013 (as the final year of the first IPA programme) the usage has been between 0.97% and 1.36% of GDP.

Since 2014 a new IPA programme has been in place, IPA II, which is programmed to be used up by 2020. However, as with the previous instalment of IPA funds, the main focus of usage in Macedonia is once again on Transport and Environment. It can be argued that there is a serious overlooking of real economic and business support to the private sector under the IPA instrument for Macedonia. In the Transport sector, IPA support is mainly targeting the development the South East Europe Core Regional Transport Network (corridors VIII and X). In the Environment sector, the majority of IPA funding is targeting investments in waste water treatment and solid waste management (European Commission, 2018). By the end of 2017, it was assessed that Macedonia has received 94.900.000.00 euro under the new IPA programme, which places it somewhere in the middle upon the funds received compared with other Balkan countries (European Court of Auditors, 2018).

Actually, low level of absorption, caused mainly by the weak administrative capacity of the Western Balkan countries, is the main problem in usage of the Pre-Accession funds, recognized in the European Court of Auditors' Special report on pre-accession assistance for the Western Balkans. In this report the IPA's objectives were

criticised as not always specific, measurable and in line with the countries' political will for reform (European Court of Auditors, 2016).

However, it is important to note that one particular EU funding programme has been beneficial in developing Macedonian businesses. Since 2010, the European Bank for Reconstruction and Development (EBRD), supported by EU grant funding, has developed a strategy for supporting Macedonian private businesses and their competitiveness. The strategy combines access to finances with technical support and administrative assistance (Melohina, 2015). This program, launched in April 2010, for the period 2010-2015 has dispersed about 19 million euro in support to Macedonian SMEs, through EBRD credit lines. This has been the only direct funding measure supporting the business sector in Macedonia, by using EU funds.

#### **4. PRE-ACCESSION ASSISTANCE MEASURES EFFECTS ON THE BULGARIAN AND SLOVENIAN BUSINESSES**

In order to try and compare the pre-accession business assistance in Macedonia to similar, already EU member states this paper will discuss the pre-accession assistance measures in two other Balkan countries, Bulgaria and Slovenia. Both of them are currently EU member states, but they also have been recipients of pre-accession assistance funds in the past. This portion of the paper will outline the benefits to these countries' economies and business sectors from the pre-accession assistance offered by the European Union. Slovenia is chosen as a comparison country, because of the similar size and population to Macedonia's. Additionally, both Slovenia and Macedonia have a similar political background, before becoming EU candidate states (and in the case of Slovenia, member state), as they both come from the Yugoslavian federation. Bulgaria, on the other hand, has been chosen for comparison because of the relatively similar current economic and political situation with Macedonia's political and economic situation. Additionally, together with Romania, Bulgaria has been one of the last countries to join the European Union, which implies similar pre-accession assistance mechanisms as the ones used in Macedonia today. Before starting the analysis, it is worth noting the difficulty to systematically compare today's candidate countries, and the pre-accession assistance they receive in full, with member states, because when they were candidates, different economic, cultural, and social changes were at play.

#### **4.1 Pre-Accession Assistance effects in Slovenian businesses**

The Republic of Slovenia has joined the European Union in 2004, as a part of the 2004 enlargement process. Until then, Slovenia has been a recipient of varied EU pre-accession assistance funds, since the beginning of 1992 (Ulyanov, 2018). The first pre-accession mechanism in force in Slovenia has been the PHARE fund, initiated as the primary funding mechanism for assistance to Slovenia as a candidate country. Until 1995, PHARE program was directed mainly towards reconstruction and restructuring of the Slovenian economy, with an accent on privatization, public finances and banking business, receiving one fifth of total PHARE funding, followed by funding in education and science and technology and environment (Ulyanov, 2018). In the period 1992-1995 has been seen as the most helpful pre-accession assistance program to creating a favorable economic and business environment, with a high impact on creating and sustaining Slovenian businesses. The PHARE program has been praised to have a high effect in developing Slovenian businesses as to be prepared for internal market competitiveness upon Slovenia's accession in the European Union.

In 1996, Slovenia has become a recipient of a second PHARE fund, expiring by the end of the century. However, the second portion of EU funding under PHARE has been largely directed towards pre-accession strategy, harmonizing legislation and reforming public development (Genorio, 2002). Until 2000, the main focus of EU funding in Slovenia has been divided between three pre-accession strategic areas: strengthening and creating more efficient public administration, raising public awareness about Slovenia's EU accession and creating a support mechanism for the Slovenian National Assembly (Parliament) in its pre-accession activities.

The significance of PHARE funding in Slovenian business sector, especially for the privatization and development of small and medium sized enterprises has been detected early on, and over 70% of early PHARE funds have been successfully structured towards creating and supporting businesses under the strain for regional business assistance. Critique has been initially made towards Slovenian institutional mechanisms, mostly the Department of Small Businesses as a part of the Slovenian Ministry of Economic Affairs, as to the strong level of institutional and governmental control over the business sector in the initial years of the PHARE programme. What resulted from this politicized conflict between the Government of Slovenia and the PHARE program coordinator was that Slovenia, being by far the most advanced post-

Communist economy was considered a relative laggard in receiving funding and institutional support for the SME development. (Ulyanov, 2018)

Additionally, Slovenia has been a recipient of both ISPA<sup>3</sup> and SAPARD<sup>4</sup> funds, both in the last pre-accession period, between 2000 and 2002, after the completion of the PHARE program. It must be noted that under the last two pre-accession funding programs, Slovenia has received a significantly lower amount of financing, with a lower focus on development of economy and private sector. This is mainly because the major part of economic development financing has already been carried out previously, under the PHARE program.

**Table 1. Funding under Pre-Accession Assistance programs in Slovenia, period 1992-2002**

Instrument	PHARE	SAPARD	ISPA
Period of Funding	1992-2002	2000-2002	2000-2002
Funding received (million €)	336	19.4	71
Total Funding from all three programs	426.4		

*Source: Lajh, 2004*

#### **4.2 Pre-Accession Assistance effects in Bulgarian businesses**

In the case of Pre-Accession Assistance programs in Bulgaria, it must be noted that nearly the same programs applied as in the Slovenian case, but with a longer duration period, as Bulgaria joined the European Union in 2007. Until 2000, Bulgaria as well as been recipient of PHARE funds, which has been crucial for economic development, enterprise restructuring, development of the financial sector and development of small and medium sized enterprises. Under the PHARE program, as much as 10.9% of total funding has been dedicated to private sector development and enterprise support. The development of the financial sector has been enhanced with 3.2% of total PHARE funds, whereas for employment development a total of 1.3% of PHARE funds have been dedicated (European Commission, 2015). PHARE was demand oriented until 1997, giving little results in the business sector. As it became accession oriented in July 1997, it created greater benefits to businesses and the economy overall

<sup>3</sup> Instrument for structural policies for pre-accession

<sup>4</sup> Special Accession Programme for Agriculture and Rural Development

by funding projects and enterprises which helped ease the accession of Bulgaria in EU. PHARE served as a buffer of the mid-1990s socio-economic crisis as well. PHARE funds also accounted for job creation in Bulgaria in this period.

Similarly, to the case of Slovenia, Bulgarian pre-accession programs included ISPA and SAPARD, as two specific programs following the PHARE funding period. ISPA financed investments in environment and transport. SAPARD targeted the long-term adjustment of the agricultural sector and rural areas, prepared candidate countries for the conditions of receiving support from the Common Agricultural Policy. (European Commission, 2015)

#### **4.3 Pre-accession assistance benefits to businesses in Slovenia and Bulgaria**

While regional discrepancies exist, European firms benefit from a bigger and more diversified market. Enterprises in the new member states have become part of the pan-European supply chain, helping them restructure their production systems and increase their exports. Pre-accession funds assist businesses to restructure production and increase exports. Additionally, GDP growth has been affected by pre-accession assistance in several manners. Primarily, the development and growth of the financial service sector has been largely assisted by EU pre-accession funds, with an accent on the banking sector. Additionally, the telecommunications sector has begun to develop both in Slovenia and Bulgaria under EU assistance programs before their respective accessions. Industry growth has also been accelerated by pre-accession assistance funds, with a specific concentration on the growth of the construction industry. Additionally, the usage of pre-accession assistance funds has led to export growth, increase in foreign direct investments and international subcontracting relations, with focus on the European internal market. While regional discrepancies exist, European firms benefit from a bigger and more diversified market. Enterprises in the new member states have become part of the pan-European supply chain, helping them restructure their production systems and increase their exports.

In the case of Slovenia, it can be noted that there have been well-designed business support measures from the very beginning of the pre-accession period, which have led to a significant effect of the pre-accession programs (especially PHARE) on the Slovenian economy. There was a development of a Program for Entrepreneurial Promotion and Competitiveness which has helped increase entrepreneurial activity and innovation in pre-EU Slovenia. However, recent findings argue that in terms of SME

development, the impact of pre-accession programs may have been low, even negative, mostly because of politicized negative relation between pre-accession assistance agents and Slovenian governmental institutions (in particular, during the PHARE period). (European Commission, 2015) Moreover, the primary funding focus in the pre-accession period has been on the industrial potential in urban areas, with rural and underdeveloped areas lagging behind. However, in general, there was a high liberalization of economic activities, which has been seen as an important factor for the ease of accession of Slovenia in the European Union.

In the case of Bulgaria and the received pre-accession assistance, it can be argued that programs were developed only for fast accession business support measures, offering last-minute economic remedies. This approach has led to a more difficult economic stabilization after its EU accession, and economic turmoil, which continues even today (European Commission, 2015). Although pre-accession measures cannot be stated to be the sole contributor to the progress made in Bulgaria and Slovenia, it certainly played an important part of the positive impact.

## **5. EXPECTATIONS FOR THE BUSINESSES IN REPUBLIC OF NORTH MACEDONIA**

As is was previously discussed, a number of the different assistance measures to former candidate countries have been helpful in developing the business sector, but still the economies have been having difficulties upon accession. Some countries, such as Bulgaria, have been struggling with economic issues for a longer period, than other, which have had a more peaceful transition, economic-wise, such as Slovenia. From their previous experiences, several expectations can be drawn for Macedonian businesses and the overall state of the economy. Also, expectations should be in within the frame of the IPA III programme (2021-2027).

Primarily, as the Republic of North Macedonia is moving closer to the accession process, European financial aid is expected to move away from traditional financing from the past, transport and environment in particular, and move towards financing economic and social development of the country (European Council of Auditors, 2018). For example, since 2018 the European Investment Bank has focused on “stimulating private-sector led growth” which will have a significant impact in assistance programmes developed for financing businesses, support of the SME sector and

enhancement of the economic development in the country. It can be expected that business-tailored support programs will be more often the focus of the European pre-accession funds.

Additionally, investments via the European Bank for Reconstruction and Development will continue to flow, in all sectors, including SME development. Majority of Balkan investments are actually in the private sector, and especially in developing SMEs. Aside from the traditional focus on transport and environment/green energy, the EBRD designates more and more funds in the Balkan countries to developing the SME sector and creating competitive advantage for SMEs. The EU-EBRD SME competitiveness program is in place for all pre-accession economies, with focus on small businesses, women entrepreneurship (Women in Business Programme) and similar. The combination of easily accessible financing for small companies, via loans (debt financing) with coaching programs is expected to boost the entrepreneurial and SME business and help advance the economy.

In the previous pre-accession programmes one of the main problems was the lack of tailor-made measures, and most pre-accession aid was similar to all candidate countries, although they differ in size, population, GDP and economic and political conditions. Unfortunately, EU pre-accession assistance so far has been giving some negative results as well, especially by overlooking broadly the business sector. For the following period, it is expected to ensure a balance between predictability and performance-based funding. IPAIII programme introduces more flexibility by not establishing the aid allocations between beneficiaries from the outset (European Economic and Social Committee, 2018). In the case of Macedonia, it is likely Pre-accession assistance is to be used for economic reforms in direction of better and easier functioning according to EU laws, creating a favourable business environment in order to foster entrepreneurship, and help SMEs grow and development. These priorities are perfect balance between the thematic priorities of the IPAIII<sup>5</sup> and the real needs of the beneficiary-Macedonia (European Commission, 2018).

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<sup>5</sup> Thematic priorities with direct impact on business surrounding in IPA III are: 1) Strengthening economic governance which embrace: fostering economic reform, enhancing the capacity to strengthen macroeconomic stability and supporting progress towards becoming a functioning market economy with the capacity to cope with competence and market forces within the Union; and 2) Improving the private-sector environment and competitiveness of enterprises which embrace: improving of business environment thorough job creation, growth and development

## 6. CONCLUSION

The process of EU accession can be a long and difficult one for candidate countries. Additionally, economic shocks during accession are a major drawback in the process. This is why EU Pre-Accession Assistance programmes have been in place for all countries on the road to the European Union. As it can be seen in the past, some of those have been successfully implemented, giving a more or less undisturbed economy to the candidate countries, while others have been insufficient or improperly used, which has led to turbulent economic situations.

As the Republic of North Macedonia has been moving toward negotiations for EU accession, it is important to understand the impact pre-accession funding will have at this stage, especially on businesses, which may be hit economically during the accession. So far, the greatest problems with the usage of EU funds have been the areas to which they are allocated and the lack of full potential exploitation of these funds. Unfortunately, in the past EU accession funds have been used to a small percentage of the allocated funds. For the future, it can be expected that new funds, and more specifically business-designated funds will be open to Macedonian companies. The focus of the support funding will be towards innovation, entrepreneurship and development of the SME sector, an area that has lagged in funding far behind the funding of transportation and environment.

Still, it is important to note that the extent and amount of EU pre-accession funds will have little significance if they cannot be used, or if businesses are not properly informed and prepared to use them. The success of the pre-accession assistance that can be expected in the future will depend not only on its design, but on the willingness and preparedness of the recipients to approach and use it.

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## DEMONOPOLIZATION AND PRIVATIZATION OF THE SECURITY FUNCTION OF THE STATE

Boshko KARADJOV\*<sup>1</sup>

<sup>1</sup>SOU "Gimnazija Koco Racin" – Veles, Blagoj Gjorev 14, Veles, R. of North Macedonia,

### ABSTRACT

In this article we will try to value the most radical economical, political and philosophical idea of demonopolization and privatization of the state and its security function. This idea is expressed in the last great work of political and economical romanticism *Anarchy, State and Utopia* (1974) by the American philosopher Robert Nozick (1938-2002). This book changed the way in which political economy and political philosophy was re-thinking. And not just because of the scandalous consistency of his radical positions, but mostly because he used the techniques of analytical philosophy and applying destructive counter-examples and bizarre thought experiments. Nozick, almost all his professional life, dealt with epistemology. At Princeton he received a doctorate under the mentorship of the Carl Hempel. However, his research in the field of applied logic and the general theory of rationality remained in the shadow of *Anarchy, State and Utopia*. This book in 1975 won the prestigious U.S. National Book Award in the category: Philosophy and Religion and it contains the most vital moral critique of redistribution models of social justice and the most complete apology of market freedoms. Nozick's idea of privatizing all public (state) services, and consequently, security and protection as a state service *per se*, is a radical political, economic philosophy in which we see the one possibility of restoring and cultivating the philosophical practice of utopian thinking in the field possible new economic and social arrangement. That is why we will analyze, through the influence of the 'invisible hand' of the free market of private security agency, the consistency of its normative assumption about the origin, value and justification of the minimal state with unconditional value of freedom and libertarianism as a political and economic philosophy.

**KEYWORDS:** anarchy, state, minarchist society, security, private security agency, freedom, invisible hand, protection of natural rights, self-possession, free market, utopia, etc.

**JEL CLASSIFICATION:** L41

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\* E-mail address: karadza999@gmail.com

### ANARCHY, STATE AND UTOPIA

Nozick, immediately at the beginning of his *Anarchy, State and Utopia*<sup>1</sup> sets his own minarchistic position:

Our main conclusions about the state are that a minimal state, limited, to the narrow functions of protection against force, theft, fraud, enforcement of contracts, and so on, is justified, but any more extensive state will violate persons' rights not to be forced to do certain things, and is unjustified; and that the minimal state is inspiring as well as right.<sup>2</sup>

Through the prism of history of political philosophy it is obvious that Nozick builds his conception on the foundation of Kant's ethical imperative in which man is a means, not a goal, and on John Locke's theory of natural rights. Namely, Immanuel Kant in the *Criticism of the Practical Mind*<sup>3</sup> advocated supreme moral autonomy of the person expressed in the commandment: " *Act in such a way that you treat humanity, whether in your own person or in the person of another, always at the same time as an end and never simply as a means*".<sup>4</sup> Then Nozick applies John Locke's ideas from *Two Treatises of Government*<sup>5</sup> where he asserted the political-economic justification of the **natural state** of perfect freedom and equality of man to act as he wishes, to dispose his own property as he finds as convenient, without seeking permission or dependency on any other person<sup>6</sup> and the **natural law** in which no one may harm the life, health, freedom or property of the other<sup>7</sup>. John Locke and Robert Nozick unconditionally believe that man should not abandon the rights and privileges in the natural state and the moral power of natural law, nor to give up the legitimate defense of them.

However, as Locke warns us, the attributive justice in the natural state is compromised because: a) for most people, natural law is incomprehensible; b) there is no neutral instance in those situations in which the opponents cannot agree on, and c) the damaged party in the conditions of the natural law is not always strong enough to execute justice, more precisely, to enforce the natural law itself. Therefore, Locke says: "*people quickly see the bad conditions in which they are in the natural state, do not given*

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<sup>1</sup> Robert Nozick, *Anarchy, State, and Utopia*, Blackwell Publishers Ltd, 1974; Robert Nozick, *Anarhija, država i utopija*, Naklada Jesenski i Turk, Zagreb, 2003; Robert Nozick, *Anarhija, država i utopija*, CID, Podgorica, 2010.

<sup>2</sup> R. Nozick, Predgovor. *Anarhija, država i utopija*, op. cit. preface, p. IX.

<sup>3</sup> И. Кант, *Критика на практичниот ум*. Метафорум, Скопје, 1993.

<sup>4</sup> Ibid., 74.

<sup>5</sup> Locke, John. *Two Treatises of Government*.

<<http://socserv2.socsci.mcmaster.ca/econ/ugcm/3ll3/locke/government.pdf>>

<sup>6</sup> Ibid., 106-107

<sup>7</sup> Ibid.

*up from the privileges of that natural state, and they move into an organized society."*<sup>8</sup> More precisely, the state is necessary for realization of the natural law and natural state. Hence, for Lock, the state is a consequence of a social contract that should secure the life, health, freedom and ownership of the individual. Therefore, people have the rights, and the government or state has the duties. The state is an executor with certain tight duties, always predefined by the interest of the user i.e. people. Nozick recognizes the power of this theoretical position of the state as apparatus, and therefore this model of the night-watchman state is actually his initial position that the minimum state is the maximum that is allowed and morally acceptable. But Nozick goes a step further. He inserts the idea of ultra-minimal state. In it, the right to life, security, property and free market will be guaranteed only to those who decide to use the protective role of the state. Nozick speaks about economic, political and philosophical idea in which there is no state, but individuals agree with private contractors/companies that provide all social services. Even for the security function of the state. His idea of anarcho-capitalism as a natural state, in which the role of the state is demonopolised and handed over to private companies and private courts who compete among themselves, is precisely such a radical philosophy and utopian thinking that causes unusual philosophical curiosity and opens doors for exploring the different forms of freedom and allows the space for the ideological struggle against violent and repressive society and state. Therefore, within the following chapters, we will focus on the crucial question of the consistency of its normative assumption (theory) of the origin, value and justification of the minimal state with freedom as an unconditional value.

### **SECURITY AGENCIES IN ANARCHO-CAPITALISM**

The analysis of the consistency of his theory of the origin and justification of the state with freedom as a value must focus on his idea of the immaculate conception of the state. He aims to show that the state can arise, and exist, in a process in which any immoral actions will not be included. Also, the free market and voluntary consent may lead to a political and legal state-like entity.<sup>9</sup>

In his imaginary anarcho-capitalist society, at the beginning, there is no state-

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<sup>8</sup> Ibid. 107-108.

<sup>9</sup> R. Nozick, *Anarhija, država i utopija*, op. cit., str.3-21

like entity, and there is a natural state in which everyone must protect his own rights to life, freedom and property without relying on an organized security system such as the state police or military. However, this activity for every family would be expensive and impractical because it takes a lot of time. So naturally and inevitably, says Nozick, people will begin to organize themselves and form voluntary associations for protection and security. These associations will agree to protect the safety of other families, collectively deciding how to secure rights, punishing offenders, etc. Furthermore, naturally and inevitably, part of the members of this anarchist community will decide to start offering security services, after which they will fully devote themselves to the protective activity, forming a kind of private association or agency that will offer security services for the protection of members of the that community. Certainly for a certain fee. Naturally and inevitably, the other members of the community could do the same, and so a certain market competition would be developed between them as providers of competitive security services.<sup>10</sup>

Nozick believes that this process of competition among the associations that deliver security services will inevitably and naturally lead to a single, dominant security agency. He thinks that this is necessary because people have the consumption logic that when it comes to the protection, safety and security of their life and property, then the largest and most powerful supplier and provider of such protection is always chosen. That supplier of security and protection services will become the dominant player of a large part of the security services market in the given territory. Even if more companies or security agencies become larger in the market, however, they are likely to form one dominant association. His main assumption is that there cannot be a greater number of security agencies in the so-called maximum competition. For all things and services, the economic principle applies that competitiveness is a virtue in comparative market decisions about the value of the services, goods and products. But for the security services, it is indisputable that customers who pay the security service could not be permanently determined for less quality service because the service that is not maximized falls in value in disproportion with the number of people who buy the maximized service. Therefore, the competitive security agencies, naturally or marketally, would spiral out of their value. Nozick believes that in the free market

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<sup>10</sup> R. Nozick, *Anarhija, država i utopija*, op. cit., str. 13-14, 19-21.

economy of security services there are so-called economies of scale that in most cases lead to a nearly pro-state monopoly in each geographical area.<sup>11</sup>

Furthermore, Nozick identifies the security role and function of the dominant security agency with the conception of the state. The minimum state, or rather the ultra-minimal state, is born at the very moment when the market dominance of the selected security agency is created. Hence, the state can immaculately emerge in a moral way without force, coercion and violence. This ultra-minimum state is a consequence of an open and free market for security services, where a large group of private security agencies naturally come to a security service provider that will have almost a monopoly or dominant role in protecting the rights and security of the individuals and families. With the emergence of a dominant agency in the security services market, which is basically a police, court, and military, anarcho-capitalist society is turning to an ultra-minimal state. But the agency is still a private company. In order for the agency to become an ultra-minimal state, it is necessary to fulfill an additional requirement.

#### **DEMONOPOLIZATION AND PRIVATIZATION OF THE LEGAL ORDER**

Nozick in the whole theoretical construction for the immaculate conception of the state does not lose sight of the assumption that every security agency in the anarchist-capitalist state will act morally, non-aggressively and well-intentioned. However, it is consistently considering scenarios of possible disagreement between clients from various security agencies which also include physical conflict and aggressive behavior. One of the scenarios, which is quite likely from an economic point of view, predicts that agencies offering services in the area of protection and security in a certain security crisis or state of war would have a problem with the funds and a certain loss of customers. Therefore, according to Nozick, it is quite expected that agencies that provide security services on the market would agree on ways to resolve disagreements. Here Nozick inserts his arbitrators and third-party moderators or so-called private appellate courts. In this way Nozick postulates that a key part in the so-called security package of services that customers pay is arbitration, arbitrators, appellate courts or more simply the private court. The agencies that provide security services in the mutual agreement are sticking to the so-called third judge, whose

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<sup>11</sup> Brian Meehan, "Do Economies of Scale Exist in Private Protection? Evaluating Nozick's "Invisible Hand", *The Journal of Private Enterprise* 32(2), 2017, 83-91

decisions will be respected even when their clients will be divided. In this way, systems and subsystems of appellate courts and general consent rules are established.<sup>12</sup> And although there are different agencies, a single federal or confederate judicial system will be created, of which agencies and customers will be an integral part. Historically, this idea of private courts and security agencies in a state of anarcho-capitalism is not something unknowing. An interesting historical example is the The Champagne fairs which was the largest international market for any trade in Europe in the Middle Ages. The Champagne fairs had demonopolization and privatization of its legal order within the *Lex mercatoria* where the *ex aequo et bono* principle was based. The Champagne fairs had a number of courts belonging to merchants, nobles or the Church, and they competed for the clients.<sup>13</sup>

### SECURITY SERVICE AS PROVISIO FOR THE TRANSITION FROM ANARCHISM TO MINARHISM

The dominant agency transforms to an ultra-minimal state in a crucial, according to Nozick, possibly inevitable scenario. Namely, there is a certain situation in which the security agency detects independent persons who do not pay security premiums to the dominant agency and perform fair or unjust revenge on dominant agency's clients. In that case, this question arises: would the dominant security agency have the right to defend its clients from the actions of individuals and groups outside of its security umbrella?<sup>14</sup> On the other hand, it's plausible that some individuals and groups are unwilling to be protected from the dominant agency and insist on defending their rights on their own. It is possible for such individuals and groups to accuse clients of the dominant agency of violating their rights. In this case, will the dominant agency punish its own clients?

Nozick believes that the dominant agency is committed to protecting the rights of its clients. And that includes the right of clients not to be just or unjust, arrested, tied or punished more severely than they deserve. Of course, the dominant agency clients can indeed be guilty of violating the rights of individuals and groups not subscribed to

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<sup>12</sup> R. Nozick, *Anarhija, država i utopija*, op. cit., str.13-14.

<sup>13</sup> Sheilagh Ogilvie, *Medieval Champagne fairs: Lessons for development*, VOX CEPR Policy Portal 23 December 2015. < <https://voxeu.org/article/medieval-champagne-fairs-lessons-development>>

<sup>14</sup> R. Nozick, *Zabrana, nadoknada i rizik. Anarhija, država i utopija*, op. cit., str. 44-71.

the dominant agency security services. But Nozick's idea is that as long as the dominant agency does not know if its clients are guilty or not, the agency cannot allow them to be punished. Accordingly to this, a dominant agency must generally prohibit independent individuals and groups from defending their rights against the dominant agency's clients. Specifically, prohibiting independent individuals and groups from using their own means of coercion or, generally speaking, risky procedures. In other words, the dominant security agency must have the exclusive right to decide which of its clients should be punished and what the punishment should be. In this case, with this prohibition, the monopoly on the use of force is born. And it is a determinant trait of a state-like entity. Hence, anarcho-capitalist demonopolization has become a monopoly on the use of coercion. In this way, the dominant agency, with the ban on the independent individuals and groups and the process of monopolization, becomes what Nozick calls an ultra-minimal state.<sup>15</sup>

But here we come to the most problematic part. Nozick is aware that the dominant agency in this way endangers the rights of the independent individuals and groups by forbidding them procedural protection and security when they are in conflict with its clients. In order to avoid the moral problems of the independent individuals and groups and to continue building the flawless conception of the state, he proposes a certain obligation of the dominant agency for the compensation of the independent individuals and groups. Compensation in the sense that the dominant agency agrees to provide them with security services. Compensation in particular means that the dominant agency will provide protection or security services to independent non-clients as well, and that is the moment when the ultra-minimal state becomes a kind of minimum state. With the ban, the agency becomes an ultra minimal state, and with the compensation the agency becomes a minimal state.

Specifically, the dominant security agency deprives the non-clients from their rights to enforce security protocol and redistribution by themselves and therefore the agency is morally obliged to compensate for damages to independents. According to Nozick, in the name of defending procedural rights, an individual who deprives another from the means of protecting his procedural rights must be adequately compensated for the damage. The upgrade actually means having the procedural safeguards in hand

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<sup>15</sup> R. Nozick, *Anarhija, država i utopija*, op. cit., str. 90-93.

again. To compensate for damages from a violation of the right to self-protection, the agency monopoly extends its security services to cover those who are not its original clients. In other words, the dominant security agency, as Nozick claims, behaves morally and properly as long as it compensates for the damage to the independents, as much as it is necessary to buy protection from it and without imposing additional costs.<sup>16</sup> Consequently, as a consequence of the prohibition and indemnification, the state is born as a morally justified political-legal entity. Without violating anyone's rights. In addition, according to Nozick's assurances, this justifies the minimal state. And any other intervention by the state violates natural rights and its not morally justified.

### **CONCLUSION: THE FREEDOM AND JUSTIFICATION OF MINARCHISM**

Based on Nozick's analysis of the origin, value and justification of the minimal state through the influence of the "invisible hand" on the free market in which private security agencies compete, we can raise the question of the relevance of his theory to the freedom as supreme value. In this respect, Nozick has several deviations or inconsistencies according to the ideal of freedom. First of all, the prohibition of independents to use risky procedures and the creation of a security monopoly on the use of coercive means has no logical or conceptual connection with the free market and the principle of the invisible hand. With the ban, the dominant agency takes over a monopoly over coercive power and we are already having the problem of controlling its powers. A problem that even the Roman poet Juvenal dealt with in the verse: *Quis custodiet ipsos custodes* (who will guard the guards), and the possibility that the agency would adopt the right to even greater power because, once it had a monopoly, any dispute over its function would decide and evaluate by themselves. A dominant agency in a lack of competition is quite certain to become less cautious and it will judge for itself the legitimacy of its procedures.<sup>17</sup>

Secondly, Nozick's compensation for the independents by the very act of simply extending security services to them also lacks a logical or conceptual connection to the freedom, to the free market and to the principle of the invisible hand. The security

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<sup>16</sup> R. Nozick, *Anarhija, država i utopija*, op. cit., str. 83-88.

<sup>17</sup> This kind of objections and observations can be found in: Younkins W Edward. "Robert Nozick's Libertarian Framework for Utopia", *Le Quebecois Libre*, Montreal, 13., april, 2002, No. 102. < <http://www.quebecoislibre.org/020427-13.htm> >

services of the dominant agency cannot be denied. But even in this case, if a dominant security agency as a minimum state is morally obliged to provide security services and protection for those who cannot pay and those who remain to be compensated for the ban of risky activities, then it burdens the original customers either by paying higher security premiums or putting them in an unjust situation where someone else's right is his duty to pay. Which is also far from the axiological principles of libertarian philosophy. Additionally and practically, it follows that it is better and more cost-effective to break the obligation to pay the dominant agency's security service. Since you decide not to pay and decide to be part of the independents, in the case of Nozick's prohibition and compensation, you certainly get a security package of services. Morally, someone else's right has become your moral duty to pay. From a market standpoint, the dominant agency would either raise the price of the security service or the quality of it would decline. Both variants lead to customer drop-offs to either non-dominant agency or non-paying customers. The logical question in the end is: who will stay to pay now?<sup>18</sup>

Thirdly, although Nozick speaks of a minimal state, yet his theory is a theory of justifying the state. His idea is often found in the category of right-wing anarchism, but does not advocate anarchism at all. As Murray Rothbard says: "*Nozick is quite far from proving that state is a product of market freedoms in the security business*". Rothbard thinks that if one's fear of risky activity allows to lead to coercive action, then every tyranny becomes justified. In this way, the Nozick's minimum state becomes maximum, since it has no limit for the transition from minimum to maximum, i.e. totalitarian state.<sup>19</sup> It's obviously that Rothbard exaggerated in criticism that Nozick's ideas of prohibition and compensation lead to the conclusion that justifying the minimum implies justifying the maximum state. Nozick speaks about limit for the transition from minimum to maximum, but in his theoretical conception, although he assures the power of the invisible hand of the free market, yet the whole state-building process is conscious and visible.

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<sup>18</sup> See and compare this kind of remarks in more detail in: Childs, Ro "The Invisible Hand Strikes Back", *Journal of Libertarian Studies*, 1, No.1 (1977): 23-33. <<https://mises.org/library/invisible-hand-strikes-back>>

<sup>19</sup> Rothbard N. Myrray, "Robert Nozick and Immaculate Conception of the State", *Journal of Libertarian Studies*, vol. I, num.1, 1977. <<https://mises.org/library/robert-nozick-and-immaculate-conception-state-1>>

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## MODERN TRENDS OF RECRUITMENT – INTRODUCING THE CONCEPT OF GAMIFICATION

Zanina KIROVSKA<sup>\*1</sup>, Saso JOSIMOVSKI<sup>2</sup>, Martin KISELICKI<sup>3</sup>

<sup>1</sup>Integrated Business Institute, Bul. 3 Makedonska Brigada no. 66A, Skopje, North Macedonia

<sup>2</sup>Faculty of Economics – Skopje, University Ss. Cyril & Methodious, Goce Delcev 9V, Skopje, North Macedonia

<sup>3</sup>Integrated Business Faculty, Bul. 3 Makedonska Brigada no. 66A, Skopje, North Macedonia

### ABSTRACT

The paper explores the concepts of gamification systems and their fusion with e-recruitment. Research is implemented in through available literature, by comprehensively defining them and their main elements, as well as the practical application of these systems analyzed through case studies to gain insight into the real-world implications and benefits they bring. Through gamification in e-recruitment, companies can achieve various benefits which are outlined in details, such as reduced time to hire and greater engagement and levels of interaction through the recruiting process.

The paper presents the general ways for the implementation of gamified systems in e-recruitment, with a clear definition of the elements needed to achieve success. The findings clearly show that gaming systems can offer numerous advantages in the e-recruitment process and overcome certain barriers that companies face.

**KEYWORDS:** recruitment, trends, modern, gamification

**JEL CLASSIFICATION:** O15

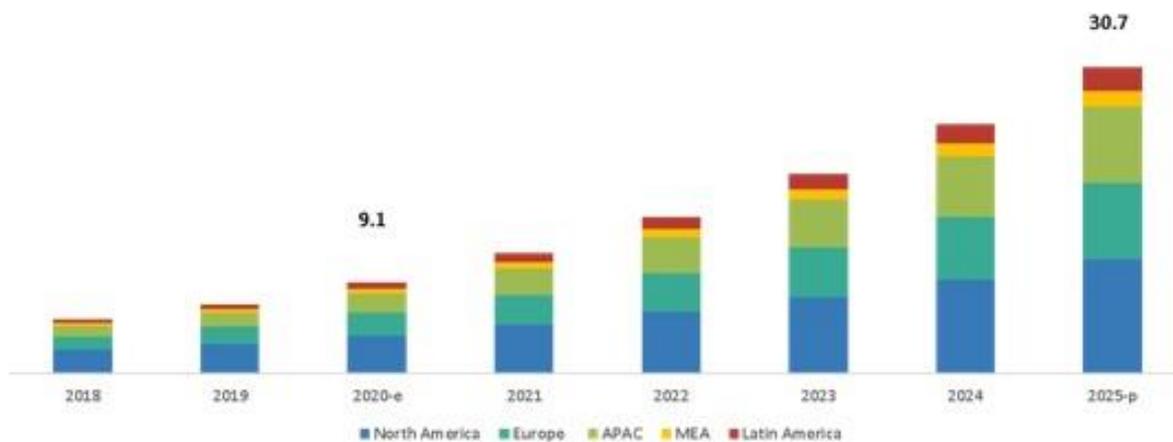
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\* E-mail addresses: [zanina@fbe.edu.mk](mailto:zanina@fbe.edu.mk) (Z. Kirovska), [sasojos@eccf.ukim.edu.mk](mailto:sasojos@eccf.ukim.edu.mk) (S. Josimovski), [martin.kiselicki@fbe.edu.mk](mailto:martin.kiselicki@fbe.edu.mk) (M. Kiselicki)

## LITERATURE REVIEW

The concept of gamification can be defined as utilizing game theory, mechanics and certain elements of game design in an environment outside of (video) games, with the end goal being to motivate people to achieve their goals (Detering, 2011). Gamification as a system is starting to gain traction through various implementations. Companies utilize gamification systems to intensify customers' and employees' interest in a specific brand, leading to increased engagement and levels of satisfaction. Gamification can appear in many different forms, such as loyalty programs, hidden tokens, virtual avatars, competitions, game prizes and etc (Van Der Boer, 2013).

**Graph 1.** Gamification market forecast



Global forecasts and predicted trends can be seen in Graph 1, for the period between 2020 through 2025, implementation of gamification is expected to be more than triple in size. As the popularity of gamification is growing, its' focus is shifting from external (customers) to internal (employees). Early implementation of gamification within the company targeted employee motivation in their day to day activities and introducing various ways of increasing it. More modern implementations of gamification systems extend their reach into other functions within the organization, with a more prominent being the recruitment process, under the human resources function. While recruitment is a method of attracting, selecting, and filling vacancies within the company, modern e-recruitment systems utilize Internet technologies to attract potential job candidates and hire them (Ghazzawi & Accoume, 2014). The e-recruitment process covers all activities that use web-based tools, and is most often used in the first step in the recruitment process, namely in identifying needs, defining job vacancies and attracting candidates (Kim & O'Connor, 2009).

In recent years, the use of gamification systems in the candidate recruitment process, defined as the use of elements and ways of thinking of video games in an environment that has no connection to video games, has been common (Detering et al., 2011). The concept itself is inspired by game theory, mechanisms and design in order to digitally interact and motivate people to achieve their goal (Alsawaier, 2017). Motivation can be divided as intrinsic and extrinsic, with the intrinsic motivators having much larger impact & being more lasting (Bonjour & Reena, 2019). The idea behind gamification systems is to stimulate people's intrinsic motivators to be longer lasting and stronger, with activities and desired behavior being maintained for a long period (Josimovski and Kiselicki, 2019).

According to Chou (2015), gamification as a system can greatly improve human motivation, because at its core there is a human-focused design and structure. As such, it is logical to assume that human resources can greatly benefit through its implementation, because it is the only function which puts employees first, even more prominently evident in the recruitment process. Gamification in HR isn't limited to just finding and hiring the right people, but extends to the onboarding process as well. During the onboarding process, as a new employee is introduced to the organization, gamification systems can be put in place to ease this transition. Available data show a 50% increase in engagement when gamification is introduced, as well as 36% lower staff turnover (Laurano, 2013).

Since the core of gamification consists of introducing various elements and mechanisms to engage employees, it is well suited for each step of the recruiting process. Generally, in a typical recruiting scenario, candidates are taken through systematic and well-know steps, leaving them space to prepare well in advance and to have formulated answers. By utilizing gamification, completely new systems can be put in place, which aren't similar to existing traditional activities, leading potential candidates to complete them without prior preparation (Wozniak, 2015). This fusion of gamification with recruitment can be often seen referred as "recruitment", because it encourages the candidate to better engage during the recruiting process, while giving recruiters a better chance to objectively analyze the candidates' skill and performance (Korn & Brenner, 2017).

Gamification systems can boost the HR branding aspect of the company and prove as a differentiating competitive advantage. Some of the benefits of introducing gamification in the recruiting process are (Dineen & Solitis, 2011):

- The elimination process is way faster as companies can test specific skill-sets such as innovative thinking, creativity and time management.
- The candidate can easily garner ideas on the role and the organization while making it fun and vibrant.
- On-the-job performance of a candidate can be assessed by offering simulated scenarios, thereby unraveling behavioral traits and capabilities.
- Gamification is a smart and attractive way of interviewing and screening possible applicants. It makes recruitment more interactive and adds to the brand value of a company, given its youthful and energetic verve.

#### **METHODOLOGY**

Different methods of data collection and analysis have been used for the preparation of the paper. Theoretical data is obtained through a comprehensive literature review, including books, scientific papers, and articles by relevant authors, dealing with the e-recruitment process as well as gamification systems. Additional data in the paper is collected through the case study method on companies that have successfully implemented gamification systems in their e-recruitment processes.

#### **ANALYZING CASE STUDIES**

To better analyze the different mechanisms of implementing gamification in the e-recruitment process, several case studies are analyzed based on the available data. All case studies demonstrate the benefits gamification can bring to various phases in the e-recruitment process. The first case study is focused on the French shipping company, Formaposte, which faced problems immediately after the recruitment process. That is, although the recruitment process is going relatively quickly, almost 25% of new hires have left the job just months after hiring. Due to the nature of the job (mailman), candidates often have little insight into the difficult requirements and toll on their private life, leading to many of them being dissatisfied even after the first work week. This has been a major blow to the company's resources, as it has to invest time and money in recruiting for the same job, leading again to employees leaving and restarting the recruitment processes again and again. To combat this problem, the company launched the game Jeu Facteur Academy. This gamification system has

becoming a permanent part of the company's e-recruiting process from 2015. To combat this problem, the company launched the Jeu Facteur Academy game<sup>1</sup>, where players (potential job candidates) can live as a mailman all week - waking up early, delivering shorter deadlines, getting in. in the work cycle and interact with other employees. All job applicants are encouraged to try the game for at least one week, as a mandatory part of their application process. During the week, they can get a better insight into the requirement and toll on their personal lives, (waking up early, going through the work cycle, following the ethics and etc.) while on the other hand the company can get a better understanding of their skills and performance. This leads to benefits on both the employer and candidate sides and implementation has reduced job vacancies from 25% to only 8% (White, 2015). Similarly, Siemens has introduced Plantville<sup>2</sup>, which is a gamified application (not just a game) with the same goal as Jeu Facteur Academy). In this iteration applicants can simulate the work of a plant manager at the company. This tool enables the applicants to get acquainted with the manufacturing industry, while also serving as both a selection tool (to evaluate candidate performance), as well as to start the onboarding process with training new employees on the functioning and back-end processes of the factory. Another gamified application which has proven useful is "My Marriot Hotel"<sup>3</sup> (only on the platform Facebook), which enables players to see what it takes to virtually manage one of the hotel locations. This application serves more of a recruiting purpose, with an end-screen containing a button "Do it for real", which takes potential candidates to the career page on the web-site of Marriot Hotels.

The goal of these gamified application is to simulate a work environment beforehand, which enables both the candidate and the company to gain valuable insights which will help their respective decisions. Benefits are present from both sides, as candidates can see if the job is a right fit for them, while companies can evaluate not only employee performance, but take a deeper approach in evaluating skills, communications, personalities and other relevant aspects for the job position.

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<sup>1</sup> <https://formaposte-iledefrance.fr/>

<sup>2</sup> <https://www.prnewswire.com/news-releases/siemens-launches-plantville--an-innovative-gaming-platform-to-showcase-products-and-solutions-for-industry-and-infrastructure-118571809.html>

<sup>3</sup> <https://www.blogs.marriott.com/marriott-on-the-move/2011/06/get-a-taste-for-what-it-takes-at-my-marriott-hotel.html>

## IMPLEMENTING A MODEL FOR GAMIFICATION IN RECRUITMENT

Introduction of any new technology or process involves risk. Hence, planning any game for recruitment process needs proper analysis and requires constant monitoring. Few points are to be considered before incorporating Gamification in the recruitment process. When gamification is involved in the recruitment process, it should inspire candidates to engage with the organization's career pages and social media profile. Also, the Commission should be planned in such a way that it has access to the point of multiple candidates in different geographical areas. Involvement in Gamification generates data, in the form of game performance and feedback. The game must be designed in such a way as to allow the employer to understand more about the potential candidate or player. Even after completing the recruitment process through gamification, it can help the employer in both the selection process and the greater awareness of the selected candidates. Therefore, companies must approach serious games based on recruitment and selection differently than they approach serious games for other management processes such as learning, training and development.

**Organizational goals are important:** Before including gamification in any process of the company, it is important to have clear goals about why the company needs gamification and what will be the KPIs (key performance indicators).

**Engaging:** When Gamification is involved in recruitment, it should inspire the candidates to engage with the organization's career sites and social media profile. The content should be simple, interactive and entertaining, but must always include the principles of Gamification. Surveys and page ratings are few examples that can be used to increase the interaction level of the site. Also the Gamification should be planned in a way that it had access to multiple candidates' touchpoint across different geographical area.

**Unveil the real candidate:** Involving in Gamification generates data, in form of performance in the game and feedback. The game must be designed in a way that it enables the employer to understand more about the potential candidate, or the player. This would help the employer in the process of elimination and now the employer is more informed about the selected ones also, as well as reducing the time to hire (Howden, 2019).

**Informative:** the game should not only engage the player or the candidate, it must not only benefit the recruiter but also must provide the player with the insights of the organization.

**Different games for different approach:** One must always remember, “No two games are alike”. Companies must approach recruiting and selection based serious games differently than they approach serious games for other management processes like learning, training and development.

**Security issues:** In games, there is lot of scope to game the game; hence a great need for security arises to create serious games for hiring purposes. While in training environment if the player cheats, he ultimately cheats himself as they are missing learning opportunities but when it comes to hiring, if a player cheats, the whole organization is cheated.

## **MECHANISMS FOR GAMIFICATION IN E-RECRUITMENT**

### **Competitions and leaderboards**

Using public competitions, such as creating an online quiz show, where competitors must get all the questions about the company to be able to win, is a good tool in gamification. The prize can be money, free products, or even a prestigious title. To make the game even more competitive, it can provide the use of a record-breaking board or title holders. This creates excitement in the candidates / recruits and encourages them to try again for those who are not ranked.

In this way, the candidates / recruits spread the awareness of the employer and educate potential candidates for the company. Also, by requesting an email address to join the contest, they can also provide a pool of candidates that may be appropriate for your team and interested in joining.

### **Simulations and puzzles**

Gamification can have value as a tool for assessment. Interviews have been used for thousands of years, but they are biased. Plus, candidates can easily prepare the perfect answers to interview questions before entering your building. However, gaming estimates may include real-world tests of skills and behaviors that candidates will use in the workplace. This includes the practice of virtual interns in a simulated office, for the rapid identification of possible new employees. On the other hand, players (candidates / recruits) have the opportunity to see if they will enjoy working there.

Simulations and puzzles can also be used in the selection phase to quickly narrow down your talent pool based on opportunities and behaviors. These games can be tested for problem solving, creative thinking, conflict management, time management, and even how candidates cope with pressure. The result will be in mind, new employees will be able to meet work expectations.

### **Gamified onboarding programs**

Employment gamification can mean adding gaming elements, such as a two-way information sharing process, where new hires can find out about the company while having fun. There are many different ways to do this:

- driving course with the involvement of a storytelling element. New employees can take on a character and meet other characters who represent real people in the company as they move through each chapter. Each module can be a new level of the game, and the reward is with badges that would be collected as they approach completion.

Then, to make new employees feel supported and to seek help, sharing information can be through play. The company can create a Q&A forum and reward employees who offer the most help for new jobs, or those whose responses receive the most "likes" from other employees. This can be supplemented by a board that recognizes employees who perform best in the game.

### **Employee Referrals & virtual headhunting**

Gaming can be used to strengthen the sharing of vacancies among current employees through social media. There are several online tools that employers can use to create virtual job fairs, attracting candidates.

### **Rewards**

If it is an organization that has a branded place for a career, gamification is a great opportunity for employment. Adding bonus points and badges to candidates coming from the site, sharing a comment, conducting a survey or evaluating your company's performance is a great opportunity in the process of attracting the recruits needed for the company.

## **DISCUSSION AND CONCLUSIONS**

Based on the available data, gamification can be utilized to invigorate the recruiting process, as well as eliminate some of the barriers which modern recruiting

systems face. E-recruitment tools can benefit greatly by implementing gamification systems and mechanisms, where every activity can be modified in a minor or major manner. By integrating gamification with common interview processes, one can introduce interactive quizzes, company-related quests, behavioral tests, and other industry challenges, to make the screening mechanism more conversational, entertaining and meaningful. It will also help the candidate consider simulated work environments and recruiters can check on an applicant's creativity, innovation, aptitude, and problem-solving capacities.

Instead of asking candidates to upload their resume and their cover letter and answer a bunch of qualifying questions, companies could require potential candidates to play a game (use a gamified application), which leads to several advantages:

- **Those candidates who complete the game are clearly the most motivated.** Job seekers probably send a lot of applications – sometimes without doing much thinking on whether they actually like the job or company. Playing a game requires effort and commitment, forcing them to stop and think whether it's worth their time. Candidates who are less interested might self-select out, so you'll end up with more relevant applications.
- **You can more easily evaluate people without much experience.** For example, imagine that you're hiring for entry-level salespeople and you receive dozens (maybe hundreds) of resumes of recent graduates. Resumes don't give you much to go on, so you might unwittingly reject candidates who have high potential. But, by asking them to play a game, you can identify their actual skills and abilities early on.
- **You can evaluate people who have diverse experience.** If you're evaluating candidates based on their relevant experience, then you might be excluding those who're making a career or industry change. These people may have different experience but they might also possess transferable skills and the ability to adapt. Games give them the chance to showcase their actual competencies and their agility.
- **You can engage candidates.** Gamification in recruiting makes your hiring process more interactive and it may also project a company culture that's enjoyable and fun, thus attracting more quality candidates. There's a pitfall here: candidates may wonder whether games are effective hiring criteria. You

could remove doubts by clearly explaining the purpose of the game and next steps. This means you should be certain that you've chosen the right game to assess the right skills – if you're using a gamification vendor, make sure to ask them how they correlate the game with the skills it assesses (e.g. how a particular game assesses analytical thinking.)

Games could complement (or even replace) the assessment stage. Instead of asking candidates to complete assignments or answer multiple test questions, you can ask them to play an online game for a few minutes. These games can:

- To help build different teams. The games are the same for everyone and they evaluate specific work-related skills. This means that they can help control candidates more objectively than pre-employment tests (such as personality tests) that can harm many people and whose ability to predict performance at work is questionable.
- reduce employment time. The game lasts only a few minutes and the results are sent automatically. Reduced employment time is also an advantage of using games in the application phase - candidates are immediately displayed in a fun way instead of selecting shortlisted candidates and being screened later.

The research can be expanded by further examining the effects of gamification in e-recruitment focused on several countries from the Balkan region, with specific focus on the Republic of North Macedonia through case studies and experiments. Furthermore, questionnaires can be arranged to examine the level of both e-recruitment and gamification in countries from the Balkan region, as well as to develop statistics and trends for future implementations.

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## ZONES OF ACTIVISM AND SUSTAINABLE CONSUMPTION – INSIGHTS FROM BULGARIA, ROMANIA AND SERBIA

Vanya KRALEVA\*<sup>1</sup>, Svilen IVANOV<sup>1</sup>, Radenko MARIĆ<sup>2</sup>

<sup>1</sup>University of Economics – Varna, 77 Knyaz Boris I Blvd., Varna, Bulgaria

<sup>3</sup>University of Novi Sad – Faculty of Economics in Subotica, Segedinski put 9-11, Subotica, Republic of Serbia

### ABSTRACT

With the COVID-19 outbreak the world was faced with undeniable evidence of the impact that human activity has on Earth. Only a few months of quarantine were enough for the air in traditionally polluted cities to get cleaner. Inevitably it changes the perception of sustainable human behaviour. Although the main study in this paper was conducted before the outbreak of the COVID-19 pandemic, its main purpose is directly related to this process of awareness wakening accelerated by social isolation. The importance of the role played by individuals for the protection of the environment and for sustainable development is obvious with regard to the results achieved by simply restricting consumption. And while currently no one can say whether and to what extent these trends will be kept in the long-term, it is important to study the ways in which individuals perceive this role, because it shapes their conscious behaviour and actions.

The purpose of this paper is to examine the areas of activism and sustainable behaviour of individuals, determined by the motives of this behaviour. In order to achieve this main goal, there were conducted in-depth interviews with respondents from Bulgaria, Serbia and Romania. The respondents from the three countries included in the study cover six main profiles of consumers with sustainable behaviour. A debate on the ego- and eco-centricity of the motives for sustainable action is presented. The results from the analysis of the collected qualitative data show that recycling is defined as the most important marker of the contribution of individuals to achieving sustainability, as opposed to the consumption of organic and eco-products, the reuse of goods and the reduction of energy consumption by households.

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\* E-mail addresses: [vanya.krалева@ue-varna.bg](mailto:vanya.krалева@ue-varna.bg) (V. Krалева), [svilen.ivanov@ue-varna.bg](mailto:svilen.ivanov@ue-varna.bg) (S. Ivanov), [radenko.maric@ef.uns.ac.rs](mailto:radenko.maric@ef.uns.ac.rs) (R. Maric)

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**JEL CLASSIFICATION:** M31

## 1. INTRODUCTION

In mid-November 2019, the Bulgarian Ministry of Agriculture and Food announced to the media the results of an audit made to the producers of bio products (Dousens of fake bio products on the market, 2019). Of the 63 samples taken, 14 indicate the presence of unauthorized substances in the products, even for traditional agriculture. Two weeks earlier, a Bulgarian journalistic site published data from its investigation, according to which for the period 2004-2018 the largest waste management organization in Bulgaria (with a 42% market share) has received ten times more in recycling fees compared to the amount invested in recycling over the same period (Yonchev, 2019). Four years earlier, one of the largest packaging recycling companies in Romania was fined EUR 12 million for suspected fraudulent activity (Romanian waste recycling company receives EUR 12 mln fine, 2015). The similar examples of unjustified prominence of bio product quality, was the case of Russian bread Tonus, which was launched in Serbian market in 2017. Tonus has been marketed as a product certified by the Russian Academy of Sciences and it is specific because it helps treat diabetes and cancer, as well as GMO-free content. Serbian Market Inspection has decided to verify these claims. No documents were submitted during the inspection which confirming allegations that Tonus bread was produced as a bio product under license from the Russian Academy of Sciences, to treat diabetes and cancer. Due to false advertising and false statement of quality of product, Serbian Market Inspection has requested producers to withdraw Tonus bread and misdemeanor charges were filed for violation of the Consumer Law Protection of the Republic of Serbia (Marić, 2019).

The dissemination of facts such as these define the context for shaping attitudes towards sustainable behavior and set the framework for its expression. If the individual believes that his personal efforts do not lead to a concrete result, then the individual gradually loses his motivation to make efforts through his behavior in order

to support the shared values in which he is undermined. This is especially true of sustainable behavior, because its concise results can hardly be measured and evaluated immediately. In the light of the COVID-19 pandemic the world was provided with precious lessons. Social isolation has raised the question of limiting consumption and the associated reduction in the environmental footprint left by human daily activities, such as personal and public transport. A number of reports show that during quarantine the air in traditionally polluted cities is cleaner and a positive effect is also observed in the seas, lakes and rivers in general.

Pointing on the problems discussed above the main task of this study is to outline the areas of human behavior related to sustainable development. The research aims at describing consumers' understanding of how those areas are related to achieving sustainability and to what extent they believe that the behavior of individuals and institutions can lead to specific results. The basic starting point for elaborating the zones of sustainability and the factors that can be attributed to each of them is the understanding that the sustainable behavior of people is formed by a combination of sustainable consumption and activism.

## **2. LITERATURE REVIEW**

Recent research show that over the past 50 years our Ecological Footprint has increased by about 190% (WWF, 2018) and we already exceed Earth's biological capacity (WBCSD, 2008). If everyone on the planet consumed as Europeans do, we would need almost three Earths to support the global economy (WWF & Global Footprint Network, 2019). Mobility, food, home-building and energy-using products are responsible for 70–80% of the lifecycle environmental impacts in industrialised countries (Tukker et al., 2010). Therefore from a citizens perspective, engaging and providing opportunities for changing purchasing behaviour is key if we are not to jeopardize the needs of future generations (Pantzar et al., 2018). This idea is first proclaimed by the World Commission on Environment and Development with the emphasis on the importance of sustainable development (WCED,1987). Its three main pillars - economic growth, environmental protection and social equity - must be balanced as economic development should not only promise a high level of income but should also demonstrate itself through better education, health, justice, environment and other socio-economic indicators (Ramos et al., 2018). At the consumer level this is

conveyed by a trend towards sustainable behaviour which is facilitated by institutions, norms and infrastructures that frame individual choice, in order to minimize the use of natural resources and generation of wastes, while supporting fairness and prosperity for all (Akenji & Chen, 2016). Sustainable behaviour is ecologically and socially sound in respect to diet, mobility patterns and physical training and thus contributes to the conservation of the environment, enhances social quality and individual wellbeing (Klade et al., 2013). This trend is internally driven by the emergence of a New Ecological Paradigm (Dunlap & Van Liere, 1978) and by a shift in human values, attitudes, and day-to-day behaviours (Leiserowitz, Kates & Parris, 2006; Sharma & Jha, 2017). Researchers argue that a new breed of consumers has arrived. They can be named green (Elkington, Hailes & Makower, 1990), sustainable (Berlin, 2011), responsible (Roberts, 1995; Han & Stoel, 2017), sophisticated (Titus, 1996; Stanimirov & Georgieva, 2019) or conscious and they form a growing market known as the Lifestyles of Health and Sustainability (LOHAS) (Kirig & Wenzel, 2009; Mohr, 2011). These consumers are concerned about human rights, fair trade, the environment, sustainable practices, and spiritual and personal development and they want to integrate their values with the products and services they buy and use (Emerich, 2000).

Researchers have identified three sets of variables that appear to be influential in classifying this new breed of consumers (Gilg, Barr & Ford, 2005). These focus around environmental values and concern, socio-demographic variables and psychological factors. Environmental values reflect the importance of the natural environment in one's life (Steel, 1996) and the relation between humans and nature (O'Riordan, 1985), altruism and openness to change (Stern, Dietz & Guagnano, 1995), frugality and post-materialism (Inglehart, 1990). The psychological factors on the other hand may be based on moral obligations or on a rational analysis of personal effectiveness, costs and benefits. Here are examined overlapping concepts such as perceived consumer effectiveness (Kinnear, Taylor & Ahmed, 1974; Hanss & Doran, 2019), perceived behavioural control (Steg & Vlek, 2009) and self-efficacy (Schwepker & Cornwell, 1991; Bandura, 1997) as well as social responsibility based on the Norm Activation Theory (Schwartz, 1977) and the effects of availability, price, quality and brand loyalty. There is also empirical evidence that activism is the strongest predictor

of ecologically conscious consumer behaviour (Brochado, Teiga & Oliveira-Brochado, 2017). However these data in scientific literature is based mainly on reserach in mature markets like the US and Western Europe. Looking back at the context in Bulgaria, Romania and Serbia, where the institutions meant to be the facilitators of sustainable behaviour are often involved in public scandals, there comes the question whether the same motives would guide sustainable behaviour. Empirical evidence in the field from the Balkan region is scarce and covers mainly topics related to the social responsibility of corporations (Danchev, 2006; Manié et al., 2021; Zlatanović, 2015; Pandur, 2016). The factors that determine the sustainable consumption and the activism of consumers are not well examined.

### 3. METHODOLOGY

In order to explore the zones of sustainable behaviour in less mature markets such as the outliers of the EU - Bulgaria and Romania and the latest candidate to join the Union – Serbia, an exploratory study design is undertaken. The research process involves a series of in-depth interviews with respondents from these three countries. Based on previous research<sup>1</sup> there are defined different behavioral profiles that group consumers with regards of their sustainable behaviour in six segments.

The first segment "Successful activists" (SA) includes people with high income, sensitive to social problems, who have gained experience as volunteers and are willing to support non-governmental organizations with donations. The "Idealists" (ID) are people with predominantly low income, who generally donate less, but are more likely to express their personal position directly, not through the non-governmental sector. The segment identified as the "Self-Oriented" (SO) have the lowest sensitivity to social problems. They are relatively satisfied with their income and are inclined to direct their personal energy to seeking more individual rather than collective solutions to problems. In the "Indifferent" (IND) segment consists of people with more neutral ratings on satisfaction with income and sensitivity to social problems. They rarely donate and don't participate in civil protests, or volunteer initiatives. Within the last two segments – the "Copyists" (COPY) and the "Conformists" (CONF) – there can be found people that have almost opposite characteristics. If income satisfaction and

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<sup>1</sup> The research results are presented on the XXI International Scientific Conference "Management and Sustainable Development". 22-24 March 2019, Jundola, Bulgaria.

sensitivity to social problems of the "Copyists" are low, "Conformists" are generally satisfied with their material status and at the same time have a higher degree of sensitivity to social problems. In general, "Copyists" are much more likely to declare an active position, which, coupled with lower self-esteem, speaks of the possibility of being manipulated or much more influenced by external influences. For their part, the "Conformists" show much greater satisfaction than the positions they occupy, without, however, showing any tendency to engage in actions united by common causes.

The sample of respondents interviewed for the study was intentionally constructed to cover all of the six segments. Table 1 informs about the country of origin of the participants in the in-depth interviews and the segment to which they belong.

**Table 1. Profile of Respondents**

Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Country	BG	BG	BG	BG	BG	BG	BG	RO	RO	RO	RS	RS	RS	RS
Segment	CONF	IND/SO	SA	SA	ID	COPY	ID	ID	IND	SA	CONF	SA	SO	SA

**Source: Based on the study**

The in-depth interviews follow a common structure. It covers the main areas/zones where, according to the authors, aspects of sustainable human behavior can be observed. These include motivation for green purchase, recycling and composting, reuse of goods, reduce of energy consumption, attitude towards CSR and activism through participation in civil protests and initiatives, donation and volunteering.

The scenario for the interviews follows a single logic in each of the zones. The purpose is to gather data on how the interviewees perceive the zone as relevant to the concept of sustainable development, how they relate to it in general, to what extent their attitudes are formed on the basis of personal experience or information influence, to what extent they consider the main ideas from the zone are applicable to their daily lives and whether their personal actions related to these ideas would produce any result. Particular attention is paid to the opinion of the respondents on the role of the State, the institutions, the business and the non-governmental organizations for the current state and for the eventual change within these zones. The focus of the study is the motivation behind the interviewees' sustainable behavior. Two groups of motives are defined - egocentric and ecocentric. The egocentric are related to the benefit that

the interviewee derives for himself / herself within the framework of a sustainable behavior model, and the eccentric - to the result of his / her sustainable behavior for attaining the core values embedded in the concept of sustainable development. This is important for the study because if consumer choice is solely driven by a group of self-centered motives, then their behavior should not be defined as sustainable because it is precisely the motives behind one or the other action that define it as such and not so much the effects that this action causes. Two arguments could be put forward in this regard. First of all, we should talk about a sustainable outcome, not a sustainable behavior. And secondly, a meaning should not, at least it is not ethical, be assigned to an action if the action itself does not possess it. Because in this case, the claims that the action is sustainable are purely manipulative and can be easily referred to the area of the so-called green washing.

#### **4. RESULTS AND DISCUSSION**

Respondents' attitude to bio-products is generally positive, and their consumption is linked to the pursuit of a healthy lifestyle. Most of them link the main motive for the purchase with personal health care or the life cycle of the family (the birth of a small child). They believe that bio-products, if not more useful, are less harmful than conventional ones because of the quality, their composition and the less chemicals used in their production. Some interviewees share the view that bio-products have become fashionable and that there is insufficient information whether they are useful or not (Respondent 8):

*"The simple consumer who does not have a lot of knowledge cannot decide whether they are better or not. It is considered healthier for sure but not from my point of view necessarily."*

The views of the respondents from Serbia indicate again the pursuit of a healthier lifestyle but also distrust of companies' marketing efforts to enter new markets. For the consumers interviewed in the three markets, although they see some abstract connection between the market and actions related to sustainable development, people's motives for buying bio-products are much more self-centered.

Unlike bio-products, the understanding of the CSR concept is more abstract. Respondent 3 states that CSR is *"good if it is not just words"*. This statement actually describes the attitude of the interviewed Bulgarians that CSR is, in essence, something

positive, which, however, is used by Bulgarian companies for image purposes. Respondents' skepticism also extends to the link between CSR and the environmental impact of firms' actions. In summary, it can be stated that the interviewees' opinion supports the idea that CSR could bring a competitive advantage to companies under two conditions - (1) if companies invest continuously in communicating CSR with their target customers and (2) if they target this communication to the segment of socially engaged consumers. At the same time, however, they believe that it is difficult to find a direct link between the specific actions of companies building their CSR and the effect on environmental protection and tackling social inequality. For those interviewed, CSR behaviors include activities aimed at reducing the environmental footprint, but they would only have a market effect if they were communicated to segments that were sensitive to environmental topics. At the same time, respondents do not link CSR with topics related to social inequality and the efforts of organizations to overcome it.

Regarding recycling, the respondents from Bulgaria take a common position - it is very important for environmental protection, but there are no conditions in the country for people to recycle. Most believe that people do not have enough recycling information and attach no confidence to it. For Romanian respondents, recycling is also an important topic related to sustainable human behavior. Respondent 8 points out the relationship between the propensity to recycle and the cultural environment that defines them:

*"In my city, people are a little more civilized - there is German and Austrian influence, but not everyone obeys the rules and there will be penalties for not obeying them. They do not understand why this (recycling) is done in fact."*

The respondent mentioned the importance of personal example within the community in which people lives. According to him, "... if you live in a block and others recycle, so do you". All survey respondents argue that neither individuals, nor non-governmental organizations, or informal associations of people can play an important role in the change needed to make recycling part of people's lives, because only the State and institutions can do so. For all respondents, composting, although related to the concept of sustainable development, is not applicable in an urban environment and can hardly become a motivator for sustainable behavior.

The idea of a link between the reuse of goods and environmental protection remains somewhat distant to the survey respondents:

*"It is unlikely that many people are guided by environmental motives. Well, no, they buy second-hand, because in Bulgaria the standard is low. You're happy with the money you've saved, not with saving e-junk by not buying a new phone."*

As summarised by Respondent 3, the motive to buying second-hand items is that it is a good deal because of the lower price. There are also barriers to the use of second-hand clothes, for example, as it is not hygienic or is a sign of poverty. At the same time, however, only one respondent is a supporter of second-hand products exactly because he is aware of their connection to sustainable development. In contrast to the other two countries in Serbia buying used goods has only a negative connotation as stated by Respondent 14:

*"In a country with a decreased purchasing power, it is the only option for consumers to use such products, as they cannot afford the new ones."*

Respondents describe energy efficiency as purely rational behavior tied to financial interest. At the same time, there is a lack of confidence in companies that they keep their promises for energy efficiency, and on the other hand, people's sense is that the companies themselves benefit from it because it reduces their costs. Romanian respondents are convinced that public institutions are the largest and most unwise users of energy resources, and in this sense they cannot set a good example for citizens (Respondent 9):

*„The waste of energy comes may be from the city authorities – our city being very crowded all the time and you can't save energy. At the family level everybody is trying to save energy.“*

Regarding the energy efficiency of the business, the respondents believe that it is more a way of acquiring municipal financing and marketing gimmick. The respondents in Serbia are unanimous that people are not aware of the need for energy efficiency. The problem must be taken into consideration by all entities: institutions, companies, state bodies and even end-users but at the same time there are no incentives provided by the state. There is an understanding that switching to greener production is expensive and companies could not manage it unassisted. One of the

interviewers even questions whether this should be a priority for a country in transition that has many other problems to solve.

The overall attitude of the respondents from Bulgaria to the protests is positive. The main reason for people to protest is to cross the border of tolerance, the intrusion of self-interest and the rise of discontent with excessive greed and lawlessness. In order to take action, according to two respondents, a “shake-up” is necessary. A key factor in whether they will or will not protest, however, for half of those surveyed is the critical mass of people united in expressing their dissatisfaction. Here is how Respondent 3 explains it:

*“It's just that a lot of people came together who thought in the same way that it was high time something changed. Other people's opinions are also very important.”*

For Romanian interviewees, the pessimistic attitude and the fear of people engaging in person come to the fore. The explanation for this is the method used in the communist period to suppress civic activity, which still finds ground in the country. People's fear is a key topic in discussions with Romanian respondents. For Respondent 8, it is at the roots of the lack of activity in the masses:

*“There are times when I say to myself I will no longer go out on the street about topics of concern because I am sick of people who do nothing.”*

Among the respondents in Serbia, civic activity is again discussed in the discourse of political burdens and their predicted inefficiency. On the other hand, it is stated that protests can illuminate certain problems, and political will is needed to solve them.

Respondents from all three countries are positive about each of the other forms of civil activity - participation in initiatives, donation and volunteering. In most cases, however, participation in initiatives, donations and volunteering are poorly understood and are generally driven by external factors, indicating a lack of personal engagement for change and a commitment to sustainability.

## **CONCLUSION**

The overall conclusion of all interviews is that respondents share the belief that an individual could do nothing alone. Everything that happens must be the result of governmental and institutional policies pursued, with the role of the individual putting

pressure on them to bring about this change. At the same time, there is a conviction that it is the State and the institutions that should initiate specific actions in each of the sustainability zones, and the active actions of the people are mainly focused on attracting attention on problems that may or may not be resolved, and on which actions are taken in the wrong direction.

In their behaviour, people are driven by ego-centric rather than eco-centric motives. It is common understanding that actions in each of the areas discussed have a positive effect on environmental (more) and social (much less) equilibrium, but this result is more abstract for respondents. The leading motives for engaging interviewed respondents with actions in different areas are related to the desire to derive a greater degree of utility for the individual than for nature and society as a whole. At the same time, the respondents represent, although amorously, a segment of consumers who, in their sustainable behaviour, are driven mainly by eco-centric motives. Overall the behaviour of people in that segment is assessed as not particularly adequate to the reality in which they live; rather, it is viewed as extreme and overexposed, while at the same time expressing scepticism as to how effective this behaviour can be for reaching sustainability.

The results of the study point to a key phenomenon describing the context of sustainable behaviour of people - the general distrust of the activities of the State and the institutions on the one hand and companies on the other. Although they are defined as the major players in sustainability (both as initiative and as real action) there is a doubt that sustainability topics are used as an alibi for pursuing other interests. As this distrust largely shapes the motives for engaging in sustainable actions in the areas considered, it is necessary to measure and evaluate them in future studies and to determine their role in shaping sustainable behaviour.

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## BRANDING PRODUCTS AND SERVICES THROUGH INNOVATIONS

Mario LUKINOVIĆ<sup>\*1</sup> Larisa JOVANOVIĆ<sup>2</sup>

<sup>1</sup>Faculty of Law Union University, Belgrade, Serbia,

<sup>2</sup>ALFA BK University, Belgrade, Serbia

### ABSTRACT

Identification of products and their differentiation in comparison to the products of the competition through the process of branding is based on an elaborate and complex process that includes many segments. Due to its visibility, propagating and advertising of products represent synonyms for branding products. However, the process of creating a perception of the product is based on its elementary values that provide additional value through propagation and advertising. Features of the product are based on its innovational elements that have a crucial value for creating a product. Creation of an emotional bond between the consumer and the product/service is most notable among products that have gained its dominance on the market by its uniqueness. They enable a business success through monopoly on the market that often results in higher prices, which usually remains stable even after the appearance of competition in the field of their production/provision of services. The monopoly on the market, based on a unique market, transforms its trademark into a synonym for a certain sort of goods/services, and in the eyes of the public, it becomes inseparable from the product/service itself (Google for internet explorer, Thermos for vacuumed bottles, Kalodont for toothpaste, Gillette for razors...).

**KEYWORDS:** branding, innovations, market monopoly, products, services.

**JEL CLASSIFICATION:** M31, M37

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\* E-mail addresses: [mario.lukinovic@pravnofakultet.rs](mailto:mario.lukinovic@pravnofakultet.rs) (M. Lukinovic), [larisa.jovanovic@alfa.edu.rs](mailto:larisa.jovanovic@alfa.edu.rs) (L. Jovanovic)

## 1. INTRODUCTION

Statistical data show that more than 50% of consumers would rather pay 20-25% more for a favorite brand than to replace it with some other. Innovation is a significant growth segment of any economy. The significance of a brand as one of the most significant factors for reaching competitive advantage, and one of the most significant elements of non-material assets, arose from the specificity of the modern life. The brand represents a contemporary social and economic phenomenon that exists in all fields, and that gives strength and identity to everything. Plato believed that the idea not only exists independently, but is also the source of reality that we perceive with our senses, and that nothing would be able to exist without the previous existence of an idea. In such a way Plato, when explaining perception, used the example of a horse, stating that everyone perceives a horse as a magnificent four-legged creature with a tail and a mane, as a symbol of strength and graciousness. But not all horses are the same. They differ among themselves, but we recognize all of them thanks to their mutual "general horse-like features" that make them sufficiently recognizable in comparison to a cow or a chair. Such is also the nature of a brand; it provides identification for a group of things based on the set of recognizable features. The writer Stephen King said "a product is something made in a factory; a brand is something that is bought by the customer". Thus, brands are not made in the same place where the products are manufactured, but they emerge in the consciousness of the consumers that buy them.

Even though we can justifiably comprehend a brand as a psychological reaction of a consumer, where subjectively determined features come to the fore, brand is actually a set of subjective, but also objective features. The objective features provide it with meaning and the subjective ones explain the consumer's perception of the said meaning. The objective features of a brand are represented through its physical/functional characteristics (price, quality, design, etc.), and the subjective features of a brand are linked to sociological aspects of a brand, the assumptions that motivate a buyer to want a certain brand. Physical/functional characteristics represent the most effective and fastest way for presenting the consumers with the advantages and values provided by a certain product or service. Such products/services demand for much more investment of time and money in the process of branding due to its uniqueness on the market.

Innovation create new living conditions. Data show that new technologies attribute to the growth of productivity amounting to 75-90%. They are initiated by the wisdom of human ideas and the understanding of the world that surrounds us. From the invention of the first tool for hunting and fishing, inventions enabled progress of the humanity. The inventor is the one that has provided fulfillment of the basic human needs from the first traces of human culture, from cultivating abandoned fields to creating pile dwellings on the water. Elements of a brand are an important factor in the branding process, and sensory branding optimizes impulsive behavior of a consumer, creating a situation that the emotional reaction overrules rational perception.

“Within the complex process of streaming wisdom, first appears the invention, and then follows the potential innovation as a possibly usable or otherwise useful invention, based on innovation. The final link of the invention-innovational chain is the invention itself, that is, a patent, as a registered right on a proved useful novelty”.

The contemporary way of live has directed the consumers towards a drastic reduction of the lifespan of a product and a maximum increase of investment in innovation and affirmation of the created intellectual capital [8]. The market needs encourage innovation of goods and services by creating an interactive relation in which numerous producers decide to allocate a certain amount of funds for research development of new projects and improvement of the existent ones.

## **2. ROLE OF INVENTIONS IN BRANDING GOODS AND SERVICES**

The invention, as a result of spiritual creation, emerges with the beginning of the human civilization. The man always strived towards discovering the secrets of the nature and subjecting them to his rule. As the time passed by, during the fight for survival, human knowledge accreted, formed and grew richer. As the scope of knowledge grew, the line of its development grew longer. Progress never really fulfilled its needs permanently. It always strived towards getting better.

Nowadays, economic position more and more depends on the technological changes than on capital investment; technical-technological information became the main development resources, and patents make its foundation. The role of invention in branding goods and services on the market is not dominant as a role of differentiation marks have (trademark, design, geographical indication of origin), but it is also not that insignificant (to the contrary). There isn't almost any product that has not become a successful brand with its emergence. However, products based on

inventions that have made an evolutionary jump in comparison to the existing product did not bring to their owners only a high economic gain, but its uniqueness on the market has also risen its brand to the levels where the type of product is equalized to its brand (trademark). Already at the end of the 19th century, inventions and innovations were globally accepted as a driving force for economic growth and development.

Certain patents have become synonyms for a type of product, such as linoleum, the invention of Frederick Walton from 1860, escalator (moving stairs), invented by Charles Seeberger from 1897, and many other. Some of the most successful and globally strongest companies owe their strength, but also their recognition, to patents. Certain inventions have become living monuments that carry on the glory of their inventors after whom they were named – razor (Gillete), as well as gramophone (Alexander Graham Bell). Inventiveness and novelty of inventions have, throughout the history, often been not only the carriers of fame, but also the guarantees of success. Many global companies owe their fame and success to successful inventions. The Mercedes-Benz Company arose from the merger of companies of two inventors – Karl Benz (*Benz&Co.*) and Gottlieb Daimler (*Daimler-Motoren-Gesellschaft*). Their inventions (Benz patented the first car with internal combustion, and Daimler patented the first four-wheel car) enabled a dominant position of the said company in the first days of the automobile industry, and the innovation expressed throughout the years that followed has preserved that position to our days. *Nestle Nescafe* owes its leading position in production of instant coffee to the innovation that emerged in 1952, when the first coffee that dissolves in water or milk was presented, as well as to its promotion into granulated coffee in 1994. The *Xerox* Company, a synonym for photocopier machines, after numerous failures (telecopier – the early version of fax machine; system for data processing based on a similar IBM model) invented the first photocopier device in the world – *Xerox 914*. Two years later, the *Fortune Magazine* called this product „the most successful product on the American market of all times“. Patents have an especially interesting role in the development of the biggest American producer of home appliances - the *Hoover* Company. The factory for production of carioles and horse belts was facing extinction due to development of new technologies (the emergence of cars), when the founder and owner of the said company, William H. Hoover, accepted to buy off the vacuum cleaner patent from the cousin of his wife. The

vacuum cleaner market did not exist at the time, and the first vacuum cleaner patent has made him the natural leader, and he was also recognized by the consumers as such. *Sony* also gained recognition on the market through technological innovations. It invented the video recorder, which was soon enough followed by the revolution created with the invention of Walkman, and together with the *Philips* Company, it gave the world the first CD.

General and broad perception of the invention states that it represents the knowledge about something that was never seen before or that was unfamiliar. A number of authors sees in technical character of inventions its fundamental differentiation from the rest of formations of the intellectual creation, stating that the invention is a spiritual creation or a new cognition that might, with the use of nature, formulate an unfamiliar result that fulfils the human needs in a unique and advanced manner. The technical feature is what brings the invention closer to the legal patent subjectivity. The invention must be an embodiment of a certain technical idea or the idea that belongs to the world of technique.

The example of Japan testifies to the significance of innovation as one of the elementary segments of recognizability, given that, in the said country, the invention has surpassed the elements of the market game, and has become a synonym for the said country. Up to certain times, it was believed that Japanese invention resembles to plagiarism, and is thus second-grade. Many years of encouragement of Japanese inventors and promotion of innovative products that originated in Japan have contributed to recognizing that the said technologies are, for many things, more advance and more quality, and as such, they have won the trust and recognition from the consumers world-wide, so that the products created in other countries were often given fictional Japanese names.

### **3. ROLE OF DESIGN IN BRANDING A PRODUCTS**

Placement of goods and services in the conditions of the contemporary business depends, in many respects, on the external looks of the said goods. This is especially characteristic in the field of mass production goods, which visualization and appealing looks attract customers and motivate them to buy designed product. The contemporary society is rich in information, but lack time. Numerous researches have proven the existence of a significant impact of the external appearance of a product to making decisions on buying a certain product. A few seconds, which is the amount of

time spent by consumers on choosing the mass production goods due to repetition of the said task, are decisive in the focus of the consumer. The differences expressed in the said few seconds leave behind all previously received advertising messages. Designing an object is often a factor of visual liking that is crucial in the decision-making process of the consumer when choosing a certain product. The design makes the object attractive, likable or desirable, and in such a way, it contributes to the competitiveness and sale of a certain product, as well as to the increase of its commercial value. Besides the practical use, design also has an emotional value – it should point to additional values of the product itself. There are some that think that the design emerged from the form and function, since the products created from firm materials naturally must have a certain form. In order for an object to have its use value, this feature must be contained in the form, and thus the form and function create a unity from which, chronologically speaking, emerged the design. In such a way, by using previous experiences of crafts and art, by merging the form and function, emerged the design as a creational discipline we know today.

The visual impact and aesthetical pleasure are very important when taking over the customers [2]. Attractiveness and appeal provided by design are especially important for the categories of products that serve the same function. Having in mind the commercial significance of advantage that the brand gives to the success of a certain product, protection from forgery and imitation by registering industrial design as the intellectual property rights is necessary.

Design has multiple functions. It is the means of visual communication used for passing information about a product, and it also contributes to the competitiveness of a product by making it more attractive, more pleasing and more desirable. Besides the practical use, design also has its emotional value by pointing out additional values of the said product. By its form itself, it can monumentally set up emotions in motion. Design is one of the most effective ways for differentiating products of the same sort. The function of design as a sign of differentiation, even though primary, is not the sole function. Given its complexity, it often represents the means of functional protection from forgery.

In the past, Swiss chocolate producers did not have the right to include national symbols into their trademark, which would point out the origin of the product. Because of that, wishing to insinuate the silhouette of Swiss Alps with the form of chocolate,

*Theodore Tobler* created in 1906 triangle-shaped chocolate called *Toblerone* according to the form of the top of the *Matterhorn* Mountain, that has become recognizable more by its form than by its taste. Characteristic forms of the *Galliano* bottles shaped as Roman pillars, square-shaped *Johnny Walker* bottle, as well as the *Absolute* vodka bottle, have all become famous by the form of the bottles, that is, by their design. The *Barbie* doll, as well as the disassembled parts of this popular children toy, are easily recognized by anyone – the high-arched feet, narrow thighs or the long hair [6]. The recognizable design of fabrics of the fashion giant *Burberry* is one of the most famous protected designs. When speaking of the power of recognizability carried along by the design, it is worth mentioning the example of *Burberry*: even though it represents the status and luxury world-wide, when in pubs in the Great Britain, it has a completely different meaning – the British hooligans have adopted this design as a sort of identification and caused a significant decline in sales of this fashion brand on the territory of the Great Britain. When speaking of the relation between the product and the design, we can also mention the example of the French producer of *Hennessey* cognac, which witnessed over 30% decrease in sales on the far-eastern market simply because the restaurant owners kept empty bottles and filled them with cheap cognac.

#### **4. CONCLUSION**

Branding is present in all social forms. From sports to politics and culture, brands and branding represent an integral part of the contemporary life. Valorization of brands, expressed in the form of the market value, is the main catalysator of the complex system of branding. Within the scope of contemporary economy, functional and use value of the products are more and more suppressed, the consumers are less and less basing their purchase on the features of a product, and more on their brands. Creation of a brand/service that is based on innovative elements provides its owner with an enormous market value. The uniqueness of such product does not provide only comparative value, but most often also provides a dominant, monopoly advantage within a longer period of time. Consumers not only recognize its functional advantages, but also relate in a certain way with such products/services, often equalizing them with generic terms used for such type of goods/services. Thanks to that, their value on the market is more stable, and the competition needs significant amounts of time and finances in order to get through to the consumers.

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## **FINTECH SERVICE ADOPTION IN THE REPUBLIC OF NORTH MACEDONIA BASED ON USERS' AGE, GENDER AND INCOME**

Jani MANASOV\*<sup>1</sup>, Lidija Pulevska Ivanovska<sup>2</sup>

1 Stopanska Banka A.D. Skopje, 11 Oktomvri, 1000, Skopje, Republic of North Macedonia

2 Ss. Cyril and Methodius University in Skopje, Faculty of Economics-Skopje, Blvd. Goce Delchev 9V, 1000 Skopje, Republic of North Macedonia

### **ABSTRACT<sup>1</sup>**

The aim of this paper is to define the connection between users' gender, age and income and the fintech services adoption. Research has been conducted via a structured online questionnaire covering 158 financial services users from the Republic of North Macedonia. The results showed the average fintech services adoption rate is 45%. The Chi-Square test indicated no statistically significant relationships between the independent variables - gender and age and the dependent variable - fintech services adoption. The same test pointed out the statistically relevant connection between the independent variable of average income and the dependent variable - fintech services adoption.

**KEYWORDS:** fintech, banks, digitalisation, fintech services, users

**JEL CLASSIFICATION:** G20, O33

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\* E-mail addresses: [janimanasov@gmail.com](mailto:janimanasov@gmail.com) (J.Manasov), [lidijap@eccf.ukim.edu.mk](mailto:lidijap@eccf.ukim.edu.mk) (L. Pulevska Ivanovska)

The opinions expressed within the study are those of the authors only and do not represent the opinions of the institutions where they work.

## INTRODUCTION

Rapid growth of technology has significantly affected the manner of providing and using financial services. The phenomenon of using new technologies to create financial services is known as “fintech” or financial technology (European Banking Federation, 2017). The Financial Stability Board (2019) defines FinTech as “technologically enabled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on financial markets and institutions and the provision of financial services” (p. 1).

The fintech sector became prominent in the past years, although it emerged after the world economic and financial crisis of 2009. Following this period, many new start-up companies and tech giants entered the fintech services market and delivered “financial products and services directly to businesses and consumers” (Nicoletti, 2017, p. 17). Wewege (2017) states that “global investment increasing more than twelvefold from \$ 930 million in 2008 to more than \$ 12 billion in 2014” (p. 2). This fact is more than sufficient to highlight the importance of the fintech sector. “Within the last three years, the total worldwide investments in the fintech sector amounted to 122 billion dollars” (King, 2018, p. 117). The financial technology sector advancement, supported by the exponential growth of technology, has a significant impact on the digitalisation of the banking sector. Namely, the banks actively become digitalised and simultaneously create innovative banking products and services with the help of the new technologies. Skinner (2018) states the most banks that have been established in Great Britain nowadays are fintech banks. In addition, the fact that fintech services have been placed at the market, due to the implementation of legal regulations, supporting these activities, should not be ignored. Simultaneously, all around the world fintech users, whose preferences change all the time, are clearly seeking efficient and innovative fintech services. One of the key drivers of financial innovations is the raised expectations of consumers (Financial Stability Board, 2017). Research has shown that fintech services are becoming more and more adopted by fintech users from around the globe.

Fintech users in developed countries have the possibility to access higher number of fintech services and to use the benefits thereof. When it comes to the Republic of North Macedonia, it can be highlighted that the fintech industry is still in

its inception phase and that there is a limited number of fintech services. Still, fintech services adoption in the country is a currently topical research issue because the answer thereof will reveal how the fintech services market will grow and whether customers will accept those services. On the positive side, in the context of research, the European Commission unambiguously confirms that fintech activities provision is required on the fintech services market (European Commission Communication COM, 2017). Namely, The European Union Payment Services Directive (PSD2) allows non-banking institutions to enter the payment services market. Along these lines, the Central Bank of the Republic of North Macedonia fervently insists to align its regulations with the EU directives in the area of banking and finances, including the PSD2 Directive. In this context, according to "the Central Bank of the Republic of North Macedonia" (2019), the current Governor of the Central Bank, Anita Angelovska-Bezhoska on the occasion of the 12<sup>th</sup> Conference on Payments and Market Infrastructure organised by the Central Bank, stated: „*The Central Bank and the Ministry of Finance continue to work together on the Draft Law on Payment Services and Payment Systems, transposing the provisions of the payment Services Directive 2, as well as other relevant EU regulations in the field of payments*“. Concurrently, during the same event, the current Governor highlighted that: "*Financial technologies and innovations give a fresh look to the financial industry, create new service providers, business models, new products and solutions, which introduces changes to the entire financial ecosystem... The inflow of financial innovations offered by the new players, but also by the existing payment service providers on the market introduces huge changes in the financial industry.*"

In this regard, the CBRNM supports innovations on the financial services market because it opens a whole new segment in their work i.e. the so called "Innovation Gateway". "The basic aim of this Innovation Gateway of the Central Bank is to facilitate, to kindle and to enable innovation development in the area of financial services and products in every company that would like to initiate an innovative business activity" (The Central Bank of the Republic of North Macedonia, 2019). The implementation of adequate regulations by the CBRNM will bring about the entry of new non-banking companies that will place fintech services on the financial services market in the Republic of North Macedonia. However, it can be pinpointed that the banks are the

main innovation introducers in the financial sector of the country and they start to actively use the new technologies to create innovative fintech services. Although, at the moment, there is an insignificant number of fintech services available on the market for customers to use, there is no doubt that in the near future the customers in the Republic of North Macedonia will have more opportunities to use new fintech services provided by the leading banks, and by new fintech companies. Every aforementioned fact confirms that all matters covered in this paper are of exquisite importance with respect to the fintech industry's growth in the country.

## 1. LITERATURE REVIEW AND HYPOTHESES DEFINITION

Taking into account that fintech services have been emerging actively on the market during the past few years, the adoption rate of these services, as well as individual factor's impact on the fintech services adoption, is a relatively fresh research topic. Previous research on this topic was limited and was generally done by companies involved in analysis and research in this area.

According to Lee & Shin's paper (2018), Holland Fintech's research indicates that fintech services use is prevalent amongst the young, rich consumers. Simultaneously, it is highlighted that the consumers, first to accept fintech services, are the ones with extended knowledge of information technology, the ones who are younger, urban individuals of higher income. Pursuant to the research conducted by Ernst & Young in 2015 in Great Britain, regarding the fintech services adoption amongst users, 14% of the digitally active consumers in Great Britain are fintech users (Gulamhuseinwala et al., 2015).. Within the meaning of their research, fintech users were defined as customers who have used at least two fintech products within the past six months. Also, they emphasize that the fintech services adoption rate in London is at around 25%. This percentage reflects mostly the younger and richer population, who, in fact, are the first customers to accept fintech services (Gulamhuseinwala, I. & Kotecha, V., 2016).

The 2017 World Fintech Report illustrates that at a global level, half of the consumers (50.2%) stated that they use fintech services from at least one non-traditional institution for banking, insurance, payments and investment management (Capgemini 2016). The report highlights that younger consumers who are skilled in

using technology, and are richer, are more likely to perform the basic financial activities by choosing the options offered by fintech companies. According to the author Quesada (2017) the banking services users at the age of 25 to 34 mostly prefer personal banking, fast and express services and transparency. The Ernst & Young studies regarding the fintech services adoption by users, dependent on their age, confirm that relatively young users are more inclined to using these services. Users at the age of 25 to 34, in accordance with this research, are users who are most likely to accept and use fintech services (48%). Users at the age of over 55 very rarely use services of this kind, 55 to 64 years of age - 22%, and only 15% of the users aged 65 to 74 accept fintech services (Gulamhuseinwala, I. et al., 2017).

Furthermore, according to the Ernst & Young research, the fintech services adoption rate amongst consumers continuously grows (Hwa, 2019). The studies indicate growth in the fintech service adoption rate all around the world. Namely, in 2015 the average growth of fintech service adoption rate amongst consumers was 16%, while, in 2017 the rate amounted to 33%. The same research pointed out that the average global adoption rate for fintech services provided by banks and by fintech companies, amounts to incredible 64%. The research verified that users from China and India are leaders in fintech services adoption (87%).

The previously described studies do not include data on the characteristics of respondents regarding gender. In 2019, in Europe, the internet use rate amongst male and female internet users was very similar, 84.9% men and 80.3% women ("Statista", 2019). When it comes to data in the Republic of North Macedonia, the studies of the Macedonian E-commerce Association emphasize that in 2018 in the state there were 406,000 online shoppers, most of whom were women. Moreover, 79.2% of the population at the age of 15 to 74 used the internet in 2018. Out of this percentage a total of 80.9% were men, and 77.4% women. Still, only 12% of the internet users used electronic banking, 14% of which were women, and 10% men (Ангеловска H. and Ангеловска J., 2019).

Arising from the literature review and provided facts and conclusions in this area, the following three hypotheses are to be tested in the Republic of North Macedonia:

Hypothesis No.1: There is a statistically significant difference in fintech services use/adoption between male and female customers.

Hypothesis No.2: There is a statistically significant difference in the fintech services use/adoption amongst customers of different age groups.

Hypothesis No.3: There is a statistically significant difference in the fintech services use/adoption amongst customers of different incomes.

## **2. RESEARCH METHODOLOGY**

The aim of this research is to determine the rate of adoption of fintech services by the users thereof – physical persons in the Republic of North Macedonia. Also, the goal is to find out the relationship between the fintech services adoption and the users' age, gender and income. Hence, research was done covering fintech services users by way of conducting an online questionnaire, implying that all respondents are digital users.

The questionnaire was structured and composed of two parts. The first part contained questions relating to respondents' characteristics, such as gender, age and average monthly income. The second part of the questionnaire contained ten questions referring to the use/adoption of concrete fintech services. More specifically, ten fintech services were first identified as available on the financial services market in our country. Each of these fintech services was described in a simple and clear manner within the questions and simultaneously the provider(s) of this fintech service on the market was/were indicated. Due to the fact that the objective was to identify active fintech users, in the questionnaire, it was highlighted that the users should answer the questions positively only if they used the mentioned fintech service at least once within the last six months.

In line with the studies in this area, within the meaning of this paper, fintech users who answered at least two questions positively shall be deemed fintech users. In other words, users who have used at least two fintech services (of the 10 included in Table 1, which formed part of the questions) within the last six months shall be considered users adopting fintech services.

**Table 1 – Fintech services in the Republic of North Macedonia**

No.	Fintech service
1.	Online foreign currency exchange
2.	Instant (fast) payment, i.e. transfer of money to friends and phone contacts, without knowing their bank account number
3.	POS terminal payments directly via mobile phone (mobile wallet)
4.	Online payment via the electronic payment transaction service - Paypal
5.	Overseas remittances (money transfer) via electronic banking
6.	Online deposit placement or online transfer of money on a savings account
7.	Online securities trading via the application E-TRADER
8.	Online budgeting and financial planning via electronic banking
9.	Online virtual financial advisor for personal finance management
10.	Full online application and approval of short-term loan from a non-banking company

Source: author's research

The research covered a total of 158 respondents, i.e. this exact number of answers was collected with the submitted questionnaire forms. Snowball sampling was used in distributing the questionnaire. This method relies on referrals from initially sampled respondents to other users. The reason behind using this approach was to include various profiles of fintech users in the research. The research was conducted in the period of January-February 2020. All questionnaires were completely answered, i.e. all 158 respondents answered all of the questions. The characteristics of the respondents about gender, age and average monthly income are part of table 2.

**Table 2 – Characteristic of the 158 respondents**

<i>Gender</i>	(N)	(%)	<i>Age</i>	(N)	(%)	<i>Average monthly income</i>	(N)	(%)
Male	68	43.0	18 - 24	11	7.0	No income	5	3.2
Female	90	57.0	25 - 34	75	47.5	Up to MKD 15,000	12	7.6
			35 - 44	40	25.3	From MKD 15,000 to MKD 30,000	50	31.6
			45 - 54	18	11.4	From MKD 30,000 to MKD 60,000	62	39.2
			Over 55	14	8.9	Over MKD 60,000	29	18.4

Source: author's research

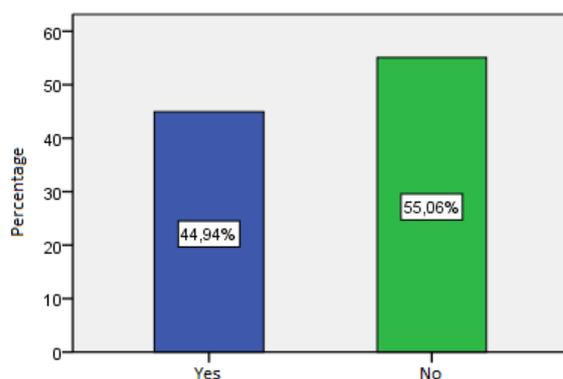
### 3. RESEARCH RESULTS ANALYSIS

The results obtained from the conducted research were processed in the SPSS software tool. Namely, descriptive statistics and result analysis were made, and then Chi-Square test was used to verify the set hypotheses. The test results, which serve to verify the hypotheses, will be displayed hereinafter.

Firstly, an average fintech services adoption rate will be determined for the users in the Republic of North Macedonia. As stated, users who have used at least two fintech services within the last six months shall be considered fintech users. Afterwards, data will be shown on fintech services adoption against gender, age and average monthly income of the users.

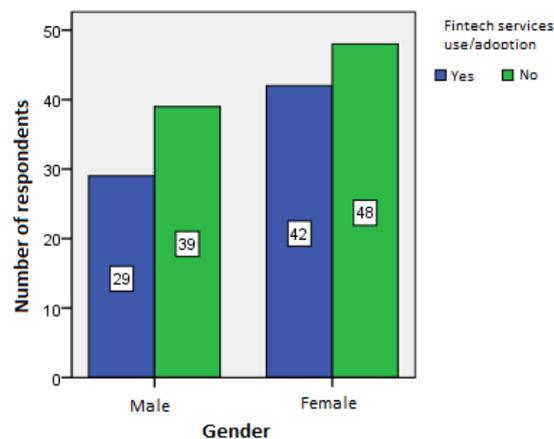
On the following Figure 1, it can clearly be noticed that the percentage of fintech services adoption (option Yes) is 44.94% or circa 45%. Out of the total number of 158 respondents, 71 users are found to be fintech users. On the contrary, 55.06% of the respondents, or a total of 87 respondents, have not used any or have used only one fintech service (option No) within the last six months. It is important to highlight that the adoption rate (45%) is the percentage of digitally active users in the country, taking into consideration that the questionnaire was conducted online.

**Figure 1 – Fintech Services Adoption Rate in the Republic of North Macedonia**



Source: author's research

**Figure 2 - Fintech Services Adoption by Users against Gender**



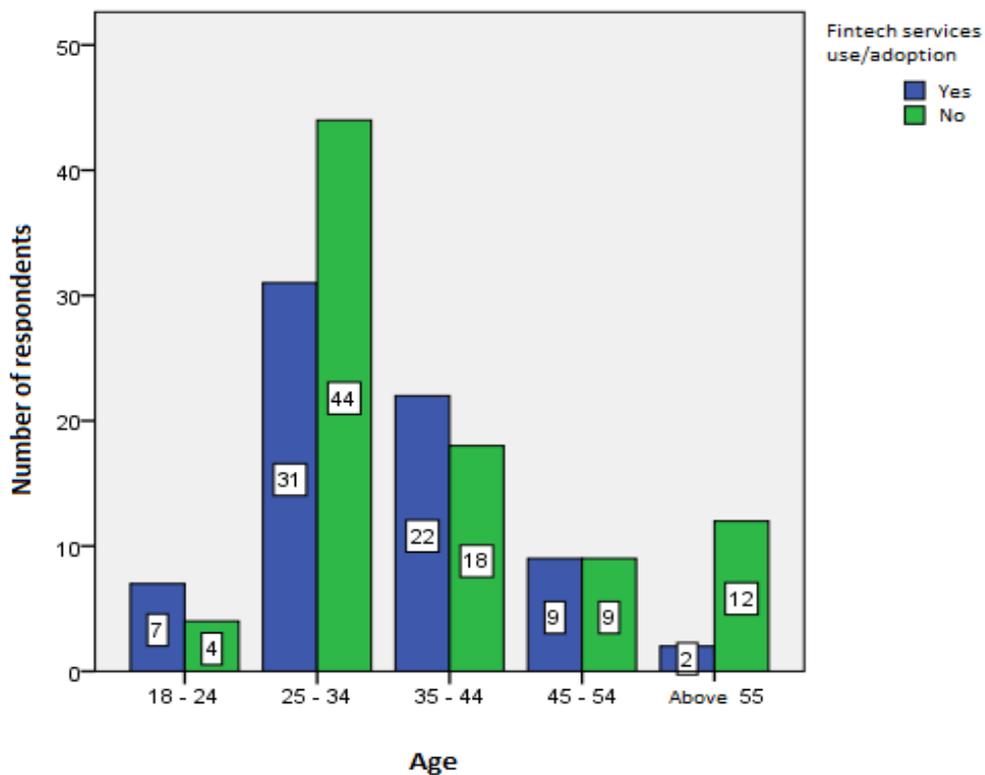
Source: author's research

From Figure 2 above, it can be concluded that there is a similarity in fintech services adoption amongst both male and female respondents. Namely, out of 68 male respondents, 29 adopt fintech services or 42.6% of male respondents, while, amongst female respondents, out of a total of 90 respondents, 42 adopt fintech services or 46.7%. It can be concluded that these identical results indicate that there is no statistically significant difference regarding adoption of services against gender, however this will be verified by use of statistical methods later in the paper.

The following Figure 3 presents the number of users who adopt fintech services categorised by age. At first glance, it can be seen that most of the users who adopt fintech services fall in the age group of 25-34. However, this information arises from

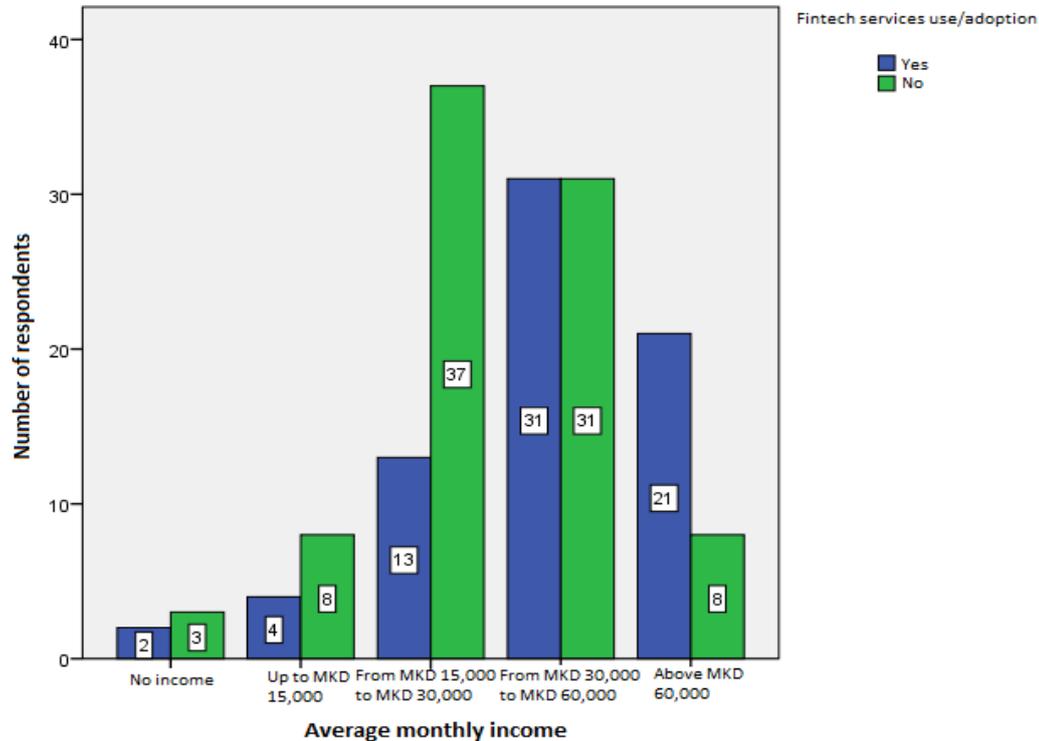
the fact that this age group of users entails the highest percentage of the total number of respondents. Still, in this group of respondents aged between 25 and 34, the adoption rate is below average. Out of the total 75 respondents aged 25-34, only 31 (41.3%) respondents are fintech users. The highest rate of fintech services adoption falls under the category 35-44 years of age, because out of the total 40 respondents, 22 are fintech users, i.e. 55%. As expected though, the lowest fintech services adoption rate is found amongst the age group of over 55, because out of the total 14 respondents, only 2 respondents use/adopt fintech services, i.e. 14.3% of this age group.

**Figure 3 – Fintech service adoption amongst users against the category of age**



Source: author's research

**Figure 4 - Fintech service adoption amongst users against the category of average income**



Source: author's research

Figure 4 above explicitly shows that users of higher monthly incomes use fintech services more frequently, in comparison to users of lower monthly incomes. If we analyse the fintech services adoption rate within each group, we may find that the highest fintech services adoption rate is noticed in the group of users with an average monthly income of over MKD 60,000, i.e. 21 out of 29 users, or 72.4% of this group of respondents are fintech users. Furthermore, high adoption rate of 50% is found amongst users of average monthly income between MKD 30,000 to MKD 60,000. Nevertheless, amongst the other lower income groups, the adoption rate is relatively lower.

#### 4. VERIFICATION OF HYPOTHESES

After conducting descriptive result statistics and analysis, hereinafter the three set hypotheses will be verified. All variables used in the verification of hypotheses shall be defined as categorical. The dependent variable - use/adoption of fintech services – will be verified from the aspect of all three separate independent variables - gender, age and average monthly income. For each of the three hypotheses statistically

significant difference will be determined between the dependant variable and one of the independent variables.

Due to the fact that in each hypothesis two categorical variables are tested, the Chi-Square test, determining the relationship between two categorical variables, will be used separately in verification of each of the three hypotheses. All preconditions for conducting the Chi-Square test, for verification of all three hypotheses, have been met: there are two categorical variables, two or more categories for each variable, there is no connection between any of the groups, there is sufficient respondents sample number, and the expected frequency for each group of variables, separately, is at least 5 for over 80% of the groups (cells) of the variables.

Upon data analysis in regard to the verification of defined hypotheses,  $p < 0.05$  was taken as a basis for establishing whether there are statistically significant differences or not. To verify all three hypotheses, Chi-Square test was conducted and the results thereof are displayed in Table 3.

**Table 3 - Chi-Square test data on the relationship between the dependent variable - use/adoption of fintech services and independent variables - gender, age and average monthly income**

Use/adoption of fintech services *	Gender			Age			Average monthly income		
	Value	df	Asymp. Sig. (2-sided)	Value	df	Asymp. Sig. (2-sided)	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	,253 <sup>a</sup>	1	,615	9,087	4	,059	17,440	4	,002
Likelihood Ratio	,253	1	,615	9,796	4	,044	17,987	4	,001
Linear-by-Linear Association	,251	1	,616	1,876	1	,171	11,826	1	,001
N of Valid Cases	158			158			158		

Source: author's research

Important values for the verification of hypotheses from Table 3 are Pearson Chi-Square coefficients and p-values, which will confirm or reject the hypotheses.

To verify the first hypothesis, referring to the relationship between respondents' gender and fintech services adoption, the p-value is equals 0.615 ( $p=0.615$ ). This implies that there is no statistically significant difference between the gender and the fintech services adoption. To be exact, users of both genders equally use fintech services. Thus, the hypothesis No. 1: There is a statistically significant

difference in fintech services use/adoption between male and female customers – is rejected.

When it comes to the verification of the second hypothesis, examining the relationship between age and fintech services adoption, the p-value equals 0.059 ( $p=0.059$ ). This data indicates that there is no statistically significant connection between age and use/adoption of fintech services. It may be concluded that age for the users in the Republic of North Macedonia does not affect significantly the use/adoption of fintech services. Therefore, hypothesis No. 2: There is a statistically significant difference in the fintech services use/adoption amongst customers of different age groups – is rejected.

Regarding the third hypothesis, investigating the relationship between the variables of average monthly income and the fintech services adoption, the p-value is 0.002 ( $p=0.002$ ). Contrary to the first two hypotheses, this value indicates that there is a statistically significant connection between the average monthly income of users and the fintech services adoption. Taking into consideration the data of the descriptive analysis, it can be verified that higher income users use fintech services significantly more frequently in comparison to lower income users. With this, the hypothesis No. 3: There is a statistically significant difference in the fintech services use/adoption between customers with different incomes – is confirmed.

## CONCLUSION

The research data analysis provided valuable trends and conclusions on the adoption of fintech services by customers in the Republic of North Macedonia.

The descriptive result statistics and analysis showed that the average fintech services adoption rate by digital users (physical persons) is around 45%. Simultaneously, the Chi-Square test results proved that there is no statistically significant connection between use/adoption of fintech services and user's gender or age. Still, the same test indicated that there is statistically significant difference between the fintech services adoption and the average monthly income, thus proving that higher monthly income users use fintech services significantly more frequently.

Certain limitations of the research, conducted within this paper, have been stated hereinafter. Firstly, the sample of 158 respondents is relatively small to

determine for sure the average fintech services adoption rate. Secondly, the fintech services supply in the country is relatively limited, i.e. the number of specific fintech service providers is significantly restricted. These limitations may have certain impact on the research conclusions.

Finally, it may be concluded that the fintech sector in the Republic of North Macedonia will start to actively grow and on the fintech services market new and innovative fintech services will emerge. Hence, the average fintech services users' adoption rate is expected to increase in line with the trends in the developed countries.

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**ANNEX**

## Questionnaire

1. Пол
  - Машки
  - Женски
2. Возраст
  - 18 - 24
  - 25 - 34
  - 35 - 44
  - 45 - 54
  - 55 - 64
  - 65 - 74
  - Над 75 години
3. Степен на завршено образование
  - Основно образование
  - Средно образование
  - Додипломски студии
  - Магистерски студии
  - Докторски студии
4. Просечен месечен приход (вклучително редовни и дополнителни примања)
  - Нема приход
  - До 15.000 денари
  - Од 15.000 до 30.000 денари
  - Од 30.000 до 60.000 денари
  - Од 60.000 до 90.000 денари
  - Над 90.000 денари
5. Живеалиште
  - Централно подрачје на главен град
  - Населба во главен град
  - Поголем град
  - Населба во поголем град
  - Помал град
  - Село

На прашањата во продолжение одговорете со опција „Да“ само доколку сте ја користеле наведената финансиска (финтек) услуга барем еднаш во ПОСЛЕДНИТЕ ШЕСТ МЕСЕЦИ. Во спротивно, изберете ја опцијата „Не“.

6. Дали сте вршеле онлајн купопродажба на девизи преку електронско банкарство на некоја од банките кои ја нудат оваа услуга (Стопанска банка, НЛБ банка, Комерцијална банка итн.)?
  - Да
  - Не
7. Дали сте вршеле инстант (брзо) плаќање преку користење на TOPSI услугата од Стопанска банка, преку која може да правите пренос на средства до Вашите facebook пријатели или пријатели од именик на Вашиот телефон, без притоа да ја знаете нивната трансакциска сметка?
  - Да
  - Не
8. Дали сте вршеле плаќање на ПОС терминал (во маркет, продавница, ресторан итн.) директно преку Вашиот мобилен телефон користејќи ја апликацијата на некоја од банките кои ја нудат оваа услуга (NLB Pay на НЛБ банка, KOM Pay на Комерцијална банка или MOBIPAY услугата на Телеком и Стопанска Банка Битола)?
  - Да
  - Не

9. Дали сте вршеле онлајн плаќање преку електронскиот сервис за платежни трансакции Paypal?
  - Да
  - Не
10. Дали сте вршеле плаќање во странство (не се мисли на online shopping со картичка, туку пренос на средства на физичко или правно лице во странство) користејќи го електронското банкарство на некоја од банките кои ја нудат оваа услуга (Стопанска банка, НЛБ банка, Комерцијална банка, Халкбанк итн.)?
  - Да
  - Не
11. Дали сте отворале онлајн депозит преку електронско банкарство (Халкбанк, Прокредит банка) или пак онлајн сте префрлале средства на постоечки штеден влог (депозит) преку електронското банкарство на некоја од банките кои ја нудат оваа услуга (Комерцијална банка)?
  - Да
  - Не
12. Дали сте тргувале со хартии од вредност преку електронско (онлајн) давање на налози за тргување до вашите брокери (банки) користејќи ја апликацијата E-TRADER или M-TRADER на македонска берза или друга онлајн апликација за тргување со хартии од вредност на некоја од банките кои ја нудат оваа услуга?
  - Да
  - Не
13. Дали сте користеле онлајн услуга за буџетирање и финансиско планирање на вашите финансии (како што е услугата Мој Буџет на електронското банкарство на НЛБ банка)?
  - Да
  - Не
14. Дали сте користеле онлајн виртуелен финансиски советник за водење на лични финансии, поставување на цели или штедење, односно личен финансиски менаџер преку електронско банкарство на некоја од банките кои ги нудат овие услуги (Шпаркасе банка, Охридска банка)?
  - Да
  - Не
15. Дали сте користеле краткорочен кредит од небанкарска компанија (Credissimo, Forza итн.) преку целосно онлајн аплицирање и одобрување на кредитот (без Ваше физичко присуство)?
  - Да
  - Не

## **IMPLEMENTATION OF THE RIGHT TO PETITION IN REPUBLIC OF NORTH MACEDONIA – A SOCIAL SUSTAINABILITY PERSPECTIVE**

Aleksandar PETKOVSKI\*<sup>1</sup>, Daniel PAVLOVSKI<sup>1</sup>

<sup>1</sup>University Mother Theresa Skopje, str. Mirche Acev 4

### **ABSTRACT**

With reference to the broader concept of Social Sustainability and the advancement of human rights as one of its significant aspects, the right of the citizens to petition authorities for redress of grievances without fear of punishment or reprisals lies at the cornerstone of modern democratic states, tracing back its origins as far as the “Magna Carta Libertatum” from the XIII century. The right to petition is recognized in the basic treaties and the Charter of Fundamental Rights of the European Union, and exercised through the work of the Committee on Petitions in the European Parliament.

The right of the citizens of Republic of North Macedonia to petition and elicit action from public authorities is guaranteed by the Constitution and the Law on Acting Upon Complaints and Proposals. An inquiry on the implementation of this Law has revealed many shortcomings, ranging from the inexistence of several crucial bylaws, inexistence of specialized departments for admission and acting upon submitted petitions, and the absence of systems for recordkeeping and reporting on submitted petitions. Taking the legal framework and the praxis of exercising the right to petition the institutions of the European Union as a reference point. The authors are discussing the status of the implementation of the right to petition in the Republic of North Macedonia, concluding that the related regulations are incomplete and not properly applied. Hence, the implementation of the right to petition in the Republic of North Macedonia is categorized as dysfunctional. In the final section the authors are offering a set of recommendations as a way forward toward revitalization and consistent implementation of the legislation pertinent to citizens’ right to petition.

**KEYWORDS:** social sustainability, right to petition, participatory democracy, democratic practice, rule of law

**JEL CLASSIFICATION:** K19

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\* E-mail addresses: [aleksandar.petkovski@unt.edu.mk](mailto:aleksandar.petkovski@unt.edu.mk) (A. Petkovski), [daniel.pavlovski@unt.edu.mk](mailto:daniel.pavlovski@unt.edu.mk) (D. Pavlovski)

## **1. HISTORICAL AND CONTEMPORARY PERSPECTIVE ON THE RIGHT TO PETITION**

Predominant number of modern day Constitutions are defining citizens as bearers of sovereignty of the state (Galligan, 2013). The citizens are exercising their sovereign power through electing their representatives or through direct forms of democracy such as the referenda or the Swiss Landsgemeinde type of direct democracy, where all members of the local community are discussing certain issue and finally taking a decision with a majority vote (Schaub, 2012).

Apart from exercising their sovereignty through participation in various collective forms of indirect or direct democracy, on many occasions citizens are compelled to address the state as individuals and expect the state to respond and act concerning the issue in question.

The right of the citizen to address the state and its affiliated institutions is commonly referred to as "the right to petition". The right to petition government for redress of grievances is the right to make a complaint to, or seek the assistance of one's government, without fear of punishment or reprisals. Numerous distinguished historians have traced back the role of petitioning in English constitutional history as far as the "Magna Carta Libertatum"<sup>39</sup> from the XIII century (Mark, 1998). The right to petition was recognized by the local assemblies in colonial America, preceding the enactment of the First Amendment to the Constitution of the United States of America in 1791 reading that: "Congress shall make no law ... abridging ... the right of the people ... to petition the Government for a redress of grievances." (Higginson, 1986). Ever since, the right to petition the government is omnipresent in various national and international legal documents. In Europe the right to petition exists in most jurisdictions at local, regional and supra national level (with rare exceptions, such as Cyprus, Estonia, Finland or Sweden), (Tiburcio, 2015).

With the introduction of the concept of Social Sustainability emphasizing the harmonization of the environment, economy, and society (Barbier, et al., 1987 cited in Obashi, 2009, p.2), democratic processes and open and accountable governance

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<sup>39</sup> Magna Carta Libertatum (Medieval Latin for "the Great Charter of the Liberties"), is a charter of rights agreed to by King John of England on 15 June 1215. First drafted by the Archbishop of Canterbury to make peace between the unpopular King and a group of rebel barons, it promised the protection of church rights, protection for the barons from illegal imprisonment, access to swift justice, and limitations on feudal payments to the Crown.

structures have been enlisted among preconditions for sustaining contemporary societies (Ohashi, 2009).

## **2. THE RIGHT TO PETITION IN THE EUROPEAN UNION**

From a perspective of the European Union (EU), the right to petition EU institutions and receive an answer belongs to every citizen of the European Union including the right to petition the European Parliament. In addition, every natural or legal person residing or having its registered office in an EU member state has the right to address a petition to the European Parliament on a matter which comes within the Union's field of activity and which affects the person directly<sup>40</sup> (Treaty on the Functioning of the European Union, 2016).

The right to petition the institutions of the European Union is additionally reaffirmed in the text of the Charter of Fundamental Rights of the European Union (2016)<sup>41</sup>. For the purpose of supporting the implementation of the right to petition, the European Parliament has established the Committee on Petitions, which is one of the 20 specialized standing committees in charge of examining legislative proposals, proposing amendments, and carryout hearings. The Committee on Petitions also adopts own-initiative reports, organizes hearings with experts and scrutinizes other EU bodies and institutions (European Parliament, n.d.). The work and the authorizations of the Committee on Petition are laid out under "Title IX" and "Annex 5 item XX" of the Rules of Procedure of the European Parliament (2015). The first step taken by the Committee, when examining petition, consists of assessing its admissibility. Petitioners often tend to confuse competences of the EU with those of the member states or other international organizations (Marzocchi, 2019). Upon admission, the Committee on Petitions carries out a procedure for ascertaining the facts from the petition. At this stage, the Committee may ask the European Commission to conduct a preliminary investigation on the allegations from the petition. Should the Committee decide to place a petition on its agenda for discussion, representatives of the petitioner, the European Commission and the member state(s) concerned are invited and given the opportunity to present their stances. Based on the results the Committee on Petitions may decide to conduct a field fact-finding mission or hold a

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<sup>40</sup> See article 20 section 2 item d, article 24 and article 227 of the Treaty on the Functioning of the European Union.

<sup>41</sup> See articles 41 and 44 from the Charter of Fundamental Rights of the European Union.

hearing inviting experts and various stakeholders. The final step in the process of addressing a submitted petition is adoption of final report. If the Committee reveals incorrect transposition or application of EU laws in the process of examining a petition, it will set off the Commission to take legal action in direction of correcting the omission. Petitions submitted to the European Parliament are available to the public. Summaries of petitions are published in all official EU languages on the Petitions Portal<sup>42</sup> of the European Parliament (Rules of Procedure of the European Parliament, 2015). The petitioner is informed in writing of all decisions of the Committee concerning his/her petition and the rationale behind these decisions (Ibid.). The Committee on Petitions is issuing an Annual Report on the deliberations of the Committee on Petitions including information on the number of petitions received, their format, status, outcome, concerned countries, language, nationality and subject, relations with the Commission, Council and Ombudsman, fact-finding visits, public hearings, studies commissioned and other key issues. As highlighted in the Report on the outcome of the Committee on Petitions' deliberations during 2018: "[the European] Parliament has always considered petitions as a key element of participatory democracy. It has also underlined their importance in revealing instances of incorrect transposition and implementation of EU law by member states" (Wikström, 2019). Finally, aiming toward greater and improved publicity and transparency of petitions, as well as interaction with the citizens and their participation, in 2014 the European Parliament launched the Petitions Web Portal<sup>43</sup>. In 2016 a Petition Network was established, ensuring greater cooperation among committees dealing with petitions, and cooperation and dialogue with national parliaments and authorities, as well as with other EU institutions.

### **3. LEGAL ASPECTS OF THE RIGHT TO PETITION IN THE REPUBLIC OF NORTH MACEDONIA**

The right to petition state bodies and other public services is guaranteed under article 24 of the Constitution of the Republic of North Macedonia "Every citizen has the right to submit complaints to the state bodies and other public services and to receive a reply thereon" (Constitution of Republic of North Macedonia, 1991). A citizen cannot

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<sup>42</sup> <http://www.europarl.europa.eu/committees/en/peti/home.html#>

<sup>43</sup> <https://petiport.secure.europarl.europa.eu/petitions/en/home>

be called to account or suffer adverse consequences for viewpoints expressed in the complaints, unless they entail committing of a criminal offense (Ibid.). From a legal standpoint, the right to petition and receive an answer from the state bodies and other public services is further regulated under the provisions of the Law on Acting Upon Complaints and Proposals. The authorities are obliged to respond to any petition submitted orally or in writing for the purpose of protection or exercising of the civil rights, protecting the public interest, or raising initiative (Law on Acting Upon Complaints and Proposals, 2008). The authorities should keep records of submitted petitions. The authorities should provide the petitioner with an answer within 15 days (or up to 30 days for complex issues). Within the aforementioned period, the authority acting upon petition should take all necessary actions on ascertaining facts and addressing the issues raised. Citizens and legal persons are obliged to cooperate with the authorities acting upon petitions, through provision of information or taking other actions directed toward addressing the issues raised with the petition (Ibid.). Should the state or the public entity acting upon concrete petition find out about any violation of the rights or damages suffered by the petitioner, it should immediately inform competent institution demanding protection of the infringed rights. If the state or other public entity acting upon petition fail to provide the petitioner with an answer within the legally prescribed timeframe of 15 days, the petitioner is entitled to file a complainant, asking the Ombudsman of the Republic of North Macedonia to act in direction of protecting the rights of the petitioner (Ibid.). Finally, the Law on Acting Upon Complaints and Proposals (2008) contains misdemeanor provisions envisaging fines for non-compliance with the provisions of this Law.

#### **4. FINDINGS ON THE FACTUAL IMPLEMENTATION OF THE RIGHT TO PETITION IN THE REPUBLIC OF NORTH MACEDONIA**

The insight on the factual implementation of the Law on Acting Upon Complaints and Proposals reveals a lot of inconsistencies. In the following paragraphs, we are disclosing the inconsistencies in the implementation of the of the Law on Acting Upon Complaints and Proposals. In accordance with article 13 of the Law on Acting Upon Complaints and Proposals, the Minister of Information Society and Administration has the obligation to enact a regulation that will further specify the procedure to be followed by the state and other organizations that exercise public

authority, when they are working on preparing the response to a submitted petition. So far, no such regulation has been enacted (Tegovska, 2019).

In accordance with article 19 of the Law on Acting Upon Complaints and Proposals, the Minister of Information Society and Administration has the obligation to enact another regulation on specifying the format of the Record Book and the manner of keeping records of the content and the outcome of every submitted petition. No such regulation exists (Ibid.). Consequently, state and other organizations that exercise public authority do not submit semiannual reports to the Ministry of Information Society and Administration on the number, content and the outcome of the received petitions<sup>44</sup>.

The Ombudsman of the Republic of North Macedonia is the institution designated to protect the citizens' right to petition state and other organizations that exercise public authority. The Office of the Ombudsman of the Republic of North Macedonia does not keep a separate record of the received complaints based on citizens' dissatisfaction from the implementation of the provisions of the Law on Acting Upon Complaints and Proposals (Годишен извештај за степенот на... заштита на човековите слободи и права, 2019). Therefore, in the Annual Report of Activities of the Ombudsman there is no data indicating the number, the content, or the outcome of the complaints filed, due to citizens' dissatisfaction in relation to exercising their right to petition (Bajramovska, 2019).

The Administrative Inspectorate is the institution entitled to set in motion a judicial procedure against the state and other organizations that exercise public authority in situations when the aforementioned breach the citizens' right to petition or fail to comply with the provisions of the Law on Acting Upon Complaints and Proposals. In an interview with one of the inspectors from the Administrative Inspectorate we found out that the Inspectorate does not have a record of setting in motion a judicial procedure against any state or other organization that exercises public authority, on the grounds of breaching the right to petition or failure to comply with the Law on Acting Upon Complaints and Proposals (Sekulovski, 2019). Trying to find out whether some of the leading state institutions act in accordance with the seventh article of the Law on Acting Upon Complaints and Proposals (2008), we

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<sup>44</sup> Obligation from Article 19 from the Law on Acting Upon Complaints and Proposals.

have visited the web sites of the Parliament, and the ministries in the Government of North Macedonia. The survey revealed that none of the aforementioned institutions neither have established specialized department for admission and acting upon petitions, nor have assigned authorized person on the top of the department.

## **DISCUSSION & RECOMMENDATIONS**

From a perspective of perceiving the right to petition as one of the basic civic instruments for eliciting their response with regards to addressing issues of concern to the citizens, findings reveal that the exercising of this right in the Republic of North Macedonia is heavily undermined with the present ill implementation of the provisions of the Law on Acting Upon Complaints and Proposals. Consequently, the dysfunctionality in the implementation of the legal provisions is directing us toward the conclusion that the current status of the implementation of the right to petition in North Macedonia is undermining the concept of Social Sustainability with regards to the affirmation of the democratic processes and open and accountable governance structures as some of the preconditions for sustaining contemporary societies (Ohashi, 2009).

Having into consideration the above and with intention of pursuing the establishment and sustainability of democratic practices as part of the broader concept of Social Sustainability, we are giving the following recommendations: To begin with, the Minister of Information Society and Administration should immediately enact the missing regulation on further clarification of the procedure that should be observed by the legal entities when acting upon submitted petitions. Also the Minister of Information Society and Administration should immediately enact the missing regulation on specifying the format of the Record Book and the manner of keeping records of the content and the outcome of every submitted petition. The aforementioned regulations were supposed to be enacted twelve years ago, i.e. no later than six months following the promulgation of the Law on Acting Upon Complaints and Proposals. The idleness of the Minister of Information Society and Administration, beyond any doubt had set forth the stage for all the other inconsistencies and ill practices manifested by various state organizations, responsibility for the implementation of the Law on Acting Upon Complaints and Proposals and the right to petition.

Once the Minister of information Society and Administration will enact the

missing regulations, the Parliament, the ministries, all state, and other organizations that exercise public authority should establish specialized departments for admission and acting upon petitions, and assign authorized person on the top of the department. As soon as the legally prescribed departments will get established and become operational, all state and other public entities entitled to admit and respond to petitions should begin with keeping the records and submitting semiannual reports to the Ministry of Information Society and Administration including the number, the subject and the outcome of the received petitions.

Only after reaching the point where all the regulations and organizational structures envisaged in the Law on Acting Upon Complaints and Proposals will be up and running, the focus should be placed on the functioning of the instruments for protection of the implementation of the right to petition and control of the application of the Law on Acting Upon Complaints and Proposals. The Office of the Ombudsman of the Republic of North Macedonia should adjust the content of the Annual Report of Activities in direction of introduction of a separate category concerning registration and reporting on received complaints based on citizens' dissatisfaction from the implementation of the provisions of the Law on Acting Upon Complaints and Proposals (2008). The Administrative Inspectorate is entitled to control the implementation of the Law on Acting Upon Complaints and Proposals and to act against state and other organizations by setting in motion a judicial procedure when the aforementioned are violating the right to petition or non-complying with other legal provisions of the Law on Acting Upon Complaints and Proposals. The Administrative Inspectorate is bearing the same amount of responsibility as the Minister of Information Society and Administration regarding the idleness in terms of the implementation of the provisions of the Law on Acting Upon Complaints and Proposals and protecting the right to petition. The Administrative Inspectorate should finally begin exercising its authority of controlling, warning, and sanctioning, pursuant to article 21-a of the Law on Acting Upon Complaints and Proposals (2008).

The right to petition is one of the basic rights of the citizens of the EU, guaranteed in the founding treaties and the Charter of Fundamental Rights of the European Union (2016). The implementation of the right to petition is further supported through the work of the Committee on Petitions in the European Parliament and the judicial protection from the Court of Justice of the European Union. Taking into

account that the exercising of the right to petition in the EU is fully functional, we recommend that the EU should use its position to put pressure upon authorities in the Republic of North Macedonia on implementing the legal provisions pertaining the right to petition. Thus far, the EU has not observed the ill implementation of the right to petition and has not referred to that as something that needs to be improved (North Macedonia 2019 Report, 2019).

The Parliament of the Republic of North Macedonia is the institution that is ultimately bearing the responsibility for both making and controlling the implementation of the laws. Therefore, we recommend that the best way to initiate the process of revitalization of the implementation of the Law on Acting Upon Complaints and Proposals is to organize a public hearing under the auspices of the Parliamentary Standing Committee on Legislation and Legal Issues. All sides concerned with the implementation of the right to petition should take part in the hearing, focusing on scrutinizing the reasons for the inconsistent and incomplete implementation of the Law on Acting Upon Complaints and Proposals.

Our final suggestion is that the public hearing on the status of implementation of the right to petition should result in establishment of a Working Group comprised of representatives from the Ministry of Information Society and Administration, the Office of the Ombudsman, the Administrative Inspectorate, the academia and other interested parties. The working group should gather under the auspices of the Minister of Information Society and Administration and devise a plan with timetable on enactment of the missing regulation and suggesting other necessary steps toward achieving complete and functional implementation of the Law on Acting Upon Complaints and Proposals. The Parliamentary Standing Committee on Legislation and Legal Issues should supervise the results of the actions carried out by the Working Group.

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## THE ROLE OF PROJECT DESIGN AND PROJECT PLANNING IN EU FUNDED PROJECT PROPOSALS

Blaž RODIČ<sup>1</sup>, Jerneja ŠAVRIČ<sup>2</sup>

<sup>1</sup>Faculty of Information Studies, Ljubljanska cesta 31, Novo mesto, Slovenia

<sup>2</sup>School of Advanced Social Studies, Gregorčičeva 19, Nova Gorica, Slovenia

### ABSTRACT

Paper presents the results of our research on the IT support related factors affecting success at public calls for research and development project proposals, with focus on public calls for EU grants. Paper is focused on the role of role of project design and planning methodologies, and compares the EU project planning recommendations with the most popular formal project management methodologies. Main components of a project proposal are examined, and research-based recommendations for the selection of project planning methodology and organization of project planning activities are presented. Authors also examine the influence of information system support for project development and management and available methods for evaluation of information system quality.

**KEYWORDS:** Project Management, EU Funds, Project Proposals, Public Calls, Success Factors, IT Support

**JEL CLASSIFICATION:** O32

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\* E-mail addresses: [Blaz.Rodic@fis.unm.si](mailto:Blaz.Rodic@fis.unm.si) (B. Rodic), [Savric@gmail.com](mailto:Savric@gmail.com) (J. Savric)

## 1. INTRODUCTION

Public calls for research and development project proposals present an important source of co-financing for development, especially for small and micro enterprises. However the same companies are held back from accessing the funds by fundamental problems - a lack of trained personnel capable of preparing and managing a complex project proposal (Usenik, 2007) or insufficient spare time to prepare a proposal. Thus some companies do not apply at calls demanding detailed project proposals, or the quality of their applications is poor.

On the other hand, modern software solutions for project management facilitate planning and implementing projects, and reduce the amount of work. Use of specialized project management software therefore represents an opportunity for companies to increase their participation and improve the quality of project proposals for public calls. Our research aims to identify the project planning and management IT support factors affecting success of companies at public calls for research and development project proposals on a sample of Slovenian small and micro, medium and large companies.

The baseline problem that our research aims to impact is the low administrative absorption capacity of companies in drawing EU funds from public tenders, i.e. low rate of success of companies at EU funded calls for project proposals (Netherlands Economic Institute, 2002).

The concept of absorption of funds was first introduced by a group of experts, which also carried out the analysis for Slovenia in 2001 (Netherlands Economic Institute, 2002). Generally, the absorption of EU funds depends on the capacity of final recipients of funds (companies and other institutions) as well as the absorption capacity of member states (their management of calls for project proposals and direct operation). Reasons for failure of proposals or projects may include:

- low quality of applications, i.e.:
  - poor content (state of the art, project planning, capabilities,...), or
  - not meeting formal requirements of call,
- and inadequate project management:
  - on the applicant's side or
  - on the side of the intermediary body.

On the side of applicants (i.e. companies), issues with methodology, skills and IT support of project management affect both the development of suitable project proposals and the management of co-financed projects. Mrak and Wostner argue that "the administrative burdens of applicant must be proportionate to the expected benefits" (Mrak and Wostner, 2005), which means that the difficulty of the tender documentation and the application process should increase with the size of project funds, as they reflect project difficulty and complexity.

To improve understanding of these issues authors have researched how companies in Slovenia carry out project planning in the role of applicants at EU funded public calls for proposals and identified the properties of information support and some other factors that influence the success of companies in such tenders through their practices and the use of sociological theories have. In order to carry out their processes, companies use technology that affects their work organization, the structure and processes in the company, while the development of technology, on the other hand, is influenced by user requirements.

The main research questions in our project were:

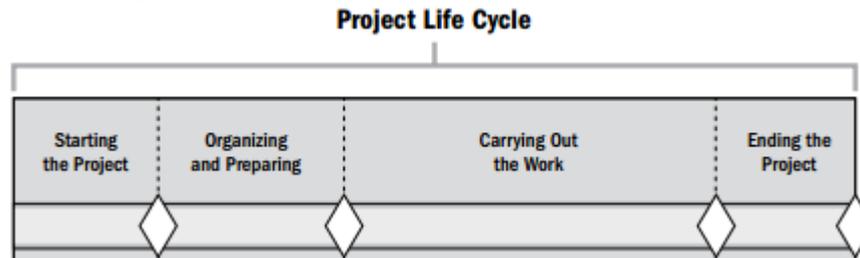
- How does IT support in companies affect the success of participation in national and community calls?
- How do successful companies organize their project proposal development and management?
- How and what kind of dedicated software companies use for successful participation in national and community calls?
- How do companies train employees to successfully use dedicated software in participating in national and community calls?
- What is the attitude of employees towards their dedicated software in successful companies?

### **1.1 Project Management**

The definition of a project is found in the ISO 21500: 2012 standard is that "a project consists of a single set of processes of controlled and coordinated activities with start and end dates that are performed to achieve project goals" (Lachapelle, Eric, Hundozi, Besnik and Ajvazi, Bardha, 2015). Like the definition of a project, the terms

‘project management’, ‘life cycle’ and ‘project phases’ are cited and argued differently by different authors. One the most detailed methodologies, PMBOK (Project Management Body of Knowledge), (Project Management Institute and Agile Alliance, 2017), which is maintained by the Project Management Institute association, in its 6th edition models the project lifecycle as shown in Figure 1.

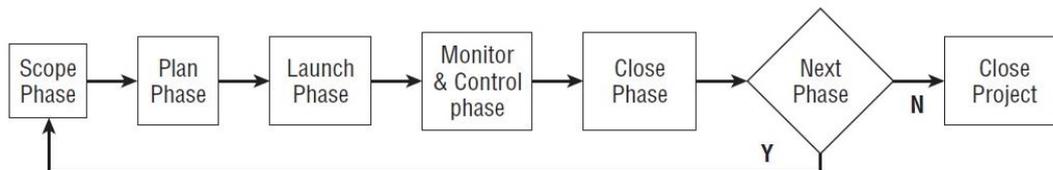
**Figure 1. PMBOK 6th Edition Project Lifecycle**



(Project Management Institute and Agile Alliance, 2017)

Main project management methodologies such as PMBOK (Project Management Institute and Agile Alliance, 2017) and PRINCE2 (Axelos, 2019) may vary in the weight they assign to the project lifecycle model, however they use a similar set of project phases. Methodologies also differ in whether they specify the project Control to be a separate phase, or involved in all project phases as a separate task. More detailed methodologies, such as the PMLC (project management life cycle) by (Wysocki, 2013) may include up to seven phases, as seen in Figure 2.

**Figure 2. Extreme Project Management Life Cycle Model**



(Wysocki, 2013)

## 1.2 Project Planning

The design of the project is a (pre)phase in which we determine whether the project is worthwhile. The design process should be managed by a potential project manager, while other participants at this stage are not necessarily involved in the implementation phase (Stare, Rozman and Škarabot, 2011).

The design phase produces a “project draft” and is concluded with the decision of the executives to either start a project or delay or abandon it. Better performing companies collect the project ideas past the design phase and place them in an “idea funnel”, which is then used to select the best projects and integrate them into their development strategy and place them in an implementation queue. This type of

strategic planning has been posited to avoid ad-hoc projects that would divert a company from their strategic path, mission or even vision (Šavrič, 2016).

Well-formed strategies are specified so that their realization (success in following a strategy) can be measured. Specific milestones are called strategic goals. However, an organization cannot achieve strategic goals with the general actions outlined in the strategy, but needs a very concrete plan to achieve goals that are measurable. A plan that is limited by resources (financial, work and staff), time-bound and with a specific goal, i.e. a project. The purpose of projects, is therefore to realize strategies or achieve strategic goals.

Formerly the European Commission (EC) has prescribed selected project management (including planning) methodologies for project proposals within several programs (EuropeAid Cooperation Office, 2004). While since 2007 the EC has not required the applicants to use a particular project management methodology, some of the call specific Guides for Applicants and manuals for EC Project Managers, e.g. (Papadimitrov and Nikolovski, 2017) and (EuropeAid, 2008) recommend the use of a combination of two methodologies: the Project Cycle Management (PCM) (EuropeAid Cooperation Office, 2004) and the Logical Framework Approach (LFA) (Barreto Dillon, 2018).

PCM and LFA envisage and recommend the use of various techniques, the most important of which are: stakeholder analysis, problem analysis, goal analysis and strategy analysis (also called "options"). These techniques are crucial for the program and project design phase, while the Logical Framework Matrix (LFM) is a summary diagram for the design phase, implementation phase and evaluation phase. These matrices are usually supplemented by documents such as the Gantt chart, the Project Organizational Structure document, and the budget or financial plan (in the form of tables, descriptions, etc).

The techniques are further defined as:

- Stakeholder analysis: identifies and identifies major stakeholders and assesses their roles, capabilities, willingness to contribute to the project, including economically and financially, if co-financing for the project is required in accordance with the program regulations;
- problem analysis: identifies major problems, constraints and opportunities, and their sample-consequence relationship;

- Objective analysis: develops solutions (to address identified problems in the light of future improved status and sets specific project goals, outputs and outputs);
- analysis of strategies (options): identifies different strategies or options for achieving a solution, choosing the most suitable solution;
- risk analysis: definition of risks, their management and alternative scenarios.

Project proposal development is further divided into at least two sections: content preparation and administrative application preparation. Project content development depends on the goals and capabilities of the applicant company, while the administrative preparation depends, in part, on the formal requirements of the intermediary body that publishes the call and partly on the capacity of the applicant, i.e. of its employees.

## **2. METHODOLOGY**

Our research was divided into two parts:

- quantitative research on the database of companies and their cofinancing from EU funded calls, with the goal of identifying companies successful at public R&D calls, and
- qualitative research, with the goal of identifying factors influencing success at calls, with focus on IT support.

Research was conducted with the sample of privately owned Slovenian companies, selected according to their success at public calls for R&D project proposals that were co-financed by EU funds. Quantitative research was done in order to analyze the participation of companies at public calls and select a sample for qualitative research.

The data was obtained from intermediary bodies, i.e. state ministries and agencies, and EU program contact points. Data included public calls in EU's Framework programmes (FP6, FP7, Horizon 2020) programme and national R&D calls co-funded by the EU and published by various Slovenian agencies and ministries. Data included 1254 selected successful project proposals by 704 different companies funded from 31 different public calls for proposals dating from 2007 to 2016. Only calls that required

a detailed project plan: itemized financial plan, Gantt chart and allowed companies from all parts of Slovenia to apply were considered.

In order to select the population of most successful applicants for qualitative research, a multi-criteria decision model was developed (Šavrič, 2016). We haven't found any formal methodologies for evaluating applicants' performance in participating in calls for proposals for co-financing R&D in the literature, and thus decided to develop an original methodology. The main objective of the new methodology was to facilitate the selection of companies to participate in the qualitative research: to conduct interviews on IT support to the project organization of work in preparing applications for tenders, however the applicability of the methodology presented in (Šavrič, 2016) is wider. Our goal, therefore, was not to evaluate performance solely from an economic point of view (in this case, the criterion of all the assets acquired would be sufficient), but to evaluate performance according to the size of the company and its orientation to the market or tenders.

As the size of a company significantly influences the available resources for project development and planning, and presumably the type of projects the company engages in, we have divided the list of companies into three groups according to company size classification: small and micro companies, medium sized companies, and large companies. Companies were classified into size groups according to the EU criteria (staff headcount, annual turnover, annual balance sheet total), available at ('European Commission', 2003)

The model was implemented as a formula in a spreadsheet, where each subject calculates a rating on the preferential scale with thresholds of 0 and 100 based on the criteria. In this paper we focus on the qualitative part of the research project and the final results.

## **2.1 Qualitative research**

Population of our qualitative research were the most successful companies in applying for large-scale calls, ranked according to the quantitative model described in (Šavrič, 2016). The sample used was the four most successful companies of each size group (small and micro, medium, and large companies). Sampling was purpose designed, with the main criteria of company size and performance at public calls. Authors utilized qualitative methods: semi-structured interviews (Edwards and Holland, 2013) with companies in the sample (four best rated companies from each

size category), qualitative content analysis of interviews, and formation of a well-grounded theory and a paradigmatic model (Fischbein, 2005), with the goal of identifying the role and impact of IT support and other factors that influence the success of companies in public tenders for co-financing of R&D projects. The content of interviews was focused on how companies in the role of the applicant implement project generation, selection, planning and preparation of project proposals for public calls, the IT support (types of software) and IT training provided by the company for this purpose, and the attitude of employees towards software provided.

The process of qualitative analysis of the interview transcripts was divided into six steps: (1) arranging the material, (2) determining the coding units, (3) open coding, (4) selecting and defining the relevant concepts and categories, (5) relational coding and (6) forming the final theoretical formulation (for more information on methodology see (Saldaña, 2015): p. 75).

Selective coding was carried out with reference to the basic research question: what is the nature of IT support in companies that successfully participate in public calls for R&D projects. Authors also divided the basic research question into specific research questions: (1) how is project related work organized in companies that successfully participate in public calls; (2) what kind of specialized project management software do these companies use, and how; (3) how do these companies train employees to use the specialized software; (4) what is the attitude of employees towards the use of specialized software in these companies.

The main goal of the qualitative content analysis was the creation of concepts, hypotheses and explanations, that is, the grounded theoretical formulation, which is read as a narrative about the use of project management software and its impact on the performance of companies. Authors formed the grounded theory via "selectively encoding" (Chametzky, 2016) the categories formed in the process of qualitative content analysis by linking them to each other and displaying the relations between them within the paradigmatic model scheme. The selective coding was carried out with reference to the research questions.

### 3. RESULTS

#### 3.1 Information technology related factors and work organization factors

By documenting and comparing the practices of companies within each size class authors have identified relevant IT support related factors and the additional factor of human resources. Via additional interviews with intermediary body representatives, the authors have identified further factors of mismatch in project management methodologies of companies and project officers at intermediary bodies and the differing definitions of project impact, which influenced the approach to project design and measuring of its success.

The results of qualitative research contained in the paradigmatic model (Šavrič, 2016) show that the impact of information support on the project organization of work in companies in successful participation in national and community calls can depend on:

- the degree of structure in work organization,
- the qualifications of employees in terms of exploiting the opportunities offered by the specialized project management software,
- employee attitude towards specialized software and, last but not least,
- the role of the specialized software.

Authors found that all interviewed companies, regardless of their size:

- use separate software for administrative management and cost management,
- size and number of projects influences the company need for software,
- companies evaluate the ISARR system (national project reporting software) negatively,
- prefer electronic (web based) call applications and project reporting,
- are motivated to use project management software.

Companies indirectly influence the attitude of employees towards the software and its effective use through their software training methods. Organization of work in the project proposal development process also depends on the size of the company, with large and medium companies having a greater transparency and more structured work, and mostly implement the “idea funnel”. Regardless of the size of the company they implement a total separation of work on the administrative and R&D aspects of a project proposal, and their process of project development follows a sequence of pre-

defined phases. The detailed description of the developed grounded theory is available in (Šavrič, 2016) and will be the subject of further publications.

### **3.2 Project Management Methodology**

In interviews, authors did not find any participants (neither the applicant nor the intermediary body) to be aware of project management methodologies recommended by the EU (PCM and LFA) or the EU's recommendations. Most interviewees who are employed in small or micro-enterprises do not use specialized software when preparing a project for a call for proposals. While most of the interviewees who are employed by large companies manage projects according to the PRINCE2 project management methodology.

Interviewees consider the methodology even more important for successful project management than suitable software. The tender conditions and application forms are very inconsistent and vary greatly from tender to tender. Therefore, project applicants do not seek to unify their selection of dedicated project management software.

Regardless of the size of the company, users are however mostly in favor of using specialized software to prepare project proposals, and in large companies such software is considered indispensable. Specialized (purchased or custom made) software is seen as reliable while adapted general purpose software (mostly Open/Libre Office or Microsoft Office) is seen as unreliable. Authors find that in large companies the attitude of employees towards software is influenced by regular updates and user-friendly interface.

National intermediary body administrators do not follow a known formal project management methodology or standard, or, even if it is followed internally, project consortia are not aware of this, therefore the methodology of project management on both sides cannot be unified. Slovenia's intermediary bodies still use a project management system (ISARR) that does not meet the criteria of a reliable, accessible, secure and user-friendly information system.

### **3.3 Recommendations for project planning**

Strategic and project planning in the planning of the development of companies and research institutions need to be tightly coupled, especially if organizations wish to finance their products, research (projects) from the public funds, i.e. to compete with their project ideas in the public tenders "market".

Project planning is the key to the success of the project and, as such, the most important phase of project management. By defining the scope, purpose and purpose of the project and the course and description of procedures, tasks, roles and responsibilities, planning helps to reduce the major pitfalls that lead to project failure, while giving actors insight into the competencies and expectations within the project. Good project planning saves countless hours of work, confusion, corrections, additional sub-phases; reduces costs and the timeframe, and increases the benefits of stakeholders and actors during and after project implementation.

The planning phase, resulting in a project plan answers the questions:

- What are the project objectives?
- What does it take to achieve the objectives?
- How will we achieve our objectives? How will the activities be implemented?
- Who will participate in the activities?
- When will activities take place?

Many companies do not systematically plan and execute projects and, as a result, lack of transparency and unsystematic management results in the problem of low profitability of products due to increased costs of production or development (project of production or product development), while projects are not even completed or their completion is assessed as unsuccessful (or due to disproportionately increased costs, longer project completion time, inadequate product features, etc.). In contrast, advanced companies carefully plan and analyze the feasibility of projects (Stare, Rozman and Škarabot, 2011).

Project ideas that have completed the "design" phase are "deposited" in a funnel of ideas from which the best ones are periodically selected and integrated into company development strategy, i.e. put them in the "queue" for implementation according to the priority criteria. This kind of strategic planning is highlighted by the interviewed companies as good because it also avoids ad-hoc projects that might derail the company from their strategic path, mission or even their vision.

An organization should follow their strategy in the development and selection of projects aimed at public calls. Applying for public project funding simply because it is available, regardless of the projects role in company's strategy will not aid company growth. Our research results indicate that most successful companies at public tenders

are large companies with a clear development strategy that are engaged in process of EC public funding from the start, by participating as much as possible in the development of EC strategies in a particular field.

#### **4. CONCLUSION**

The results are useful both in the practice of planning public tenders and in preparing project proposals for applying for public tenders and project management. They also serve as an identifier of problems in systemic planning and tendering on the side of the managing authority and the intermediate body. The results of this research are furthermore applicable in the theory of project management, with application in approach to public calls for project proposals in companies. Authors hope to have contributed to sociological research on interplay of IT and society and have a potential impact in the design and management of public calls for project proposals and contribute to the development of methodology for identifying key factors of company performance in public tenders.

In the future, it would also be interesting to investigate how the composition of a project consortium, i.e. the choice partner institutions influence the success of the application and the quality of management and the implementation of the project. It would also be useful to expand the quantitative aspect of the research, and obtain information on rejected project proposals. An analysis of institutions by status (public and private) could determine whether there are differences in organization, choice of IT support and resulting performance. A quantitative survey would give a more detailed view of and assessment of company performance, and on that basis it would then make sense to examine the way project development and management is performed in the "successful" and "less successful" organizations, and to assess the impact of work methodology and use of IT.

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## USEFULNESS AND DESTRUCTIVENESS OF MONEY AS A MEANS OF CONJUNCTURAL POLICY

Krste SAJNOSKI\*<sup>1</sup>

<sup>1</sup>Integrated Business Institute, 3-ta Makedonska Brigada No. 66A Skopje, R. North  
Macedonia

### ABSTRACT

It has become generally accepted to undertake "everything that is needed" in order to avoid even greater troubles, not only because of the economic damages but also because of the loss of human lives while having in mind how to get out of the troubles of the Great Depression, and today's double crisis – health and economic one. With reason, no one asks what the price would be. Nor even the economists. However, they are professionally obliged to estimate the achievement in "everything that is needed", to point out the reasons which led to situations of "a knife under one's throat", to tell if they could not be avoided and how to prevent them in the future, especially under conditions when the policy measures of undertaking "everything that is needed" have amounted to the previous unconventional measures of monetary policy including the "helicopter money."

**KEYWORDS:** Monetary Policy, Money Making, Golden Value, Additional Credit, fiat standard, Money as a means of conjunctural policy, global money

**JEL CLASSIFICATION:** E-12, E-22, E31, E42, E52, E-58

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\*E-mail address: [krste.sajnoski@fbe.edu.mk](mailto:krste.sajnoski@fbe.edu.mk)

## INTRODUCTION

Even without examining the causal and consecutive relations of using the money as a means of conjunctural policy, it is a fact that the functioning of the gold standard has shown that even when its “neutral” role is strictly respected, it performs a function to a great extent, which helps the scarce means for production to be used optimally as a basis for improving people’s well-being relying on the growth of productivity and innovation. By transforming into a gold- exchange standard and gold-dollar standard, the valorization of money’s “active” role is considered to be a cure for all economic diseases. The previous practice of such attempts has given not only sustainable results, but it also generates destructions for which there is no cure except if the monetary-credit systems in the world are reset in accordance with the functioning of the global (commodity or paper) currency. And since the most interested take no notice of undertaking a venture in exploiting the “active” money role both in the national economies and on a global level, the destructions will multiply whereas the relations, on a national and a global level, will get worse. It is hard to expect that the powerful would turn themselves back to reasonable exploitation of the “active” money role (considering the privileged position of their national currencies performing the role of world money).

After the inflationary financing of the Vietnam War and the breaking of the multilateral Bretton Woods global monetary system, the absurdity in relation to money is expressed through requirements of “helicopter money”<sup>1</sup> apart from the unseen unconventional monetary policy measures (quantitative and qualitative reliefs including a zero interest rate) applied to get out of the Great Recession. And while being still stuck in the recession, the world has fallen into a new double crisis caused by the Covid-19 pandemic whose damages have been shown so far in terms of production slump, unemployment growth and hundreds of thousands of human victims.

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<sup>1</sup> It is rightly pointed out that the new term is just a metaphor for the possibility of a central bank being able to distribute cash directly to individuals to stimulate consumption (that is, they are not thrown out of the sky by helicopter). Practically, “helicopter money” is the last resort used to achieve such a goal after the effects of quantitative easing have disappeared or gone, and interest rates have dropped to zero and even negative. They are in the function of an expansive fiscal policy, financed with money from the central bank, and not through taxes. For Willem H. Buiter, “helicopter money” is an application of Modern Monetary Theory (MMT) in which the central bank finances fiscal stimulus by purchasing government debt issued to finance tax cuts or public spending increases “(2020). This practice undermines its independence.

The money purpose for overcoming the health and economic crisis (with regard to the poor, unemployed and the ones who have lost their jobs and the small and medium-sized businesses thrown out of balance as a result of the inevitable physical and social distance and increase in the capacities provided for the diseased) shows that the macro-economic policies of the developed countries, not to mention the underdeveloped ones, have neglected the problems of income redistribution (the employed could put up with unexpected financial expenses such as unanticipated surgery, funeral costs, replacement of a washing machine or a car<sup>2</sup>), the development of health capacities and staff and of the education and science in order not to select who is given a health service, and who is not. People are equal, i.e., they have equal rights, don't they? However, the extorted ad hoc interventions have shown on several occasions so far that they are far more expensive than the continuous activities of strengthening the standard of the population, the health and education institutions, the infrastructure, and the protection of nature.

In the absence of policies that would accost unexpected troubles, it is quite understandable the fact that about ten thousand billion dollars have been announced and injected urgently only in the developed economies<sup>3</sup> up to now. There are no objections to those finances used in a short period of time for alleviating the consequences of the double crisis. However, this is not the case with those being short of finances because they are not in a position of using the benefits they realized due to the implementation of unconventional monetary policy measures by the developed economies (given the fact that their currencies perform a role of world money as well). The developed ones have no short-term risk of creating excessive budget deficits and public debts since they are able to pay them off by issuing their own paper money where the only problem is, metaphorically speaking, the extension of working hours of the money printing offices. However, the borrowing undertaken to escape from the unexpected troubles would put the underdeveloped economies in a situation of increasing their already big debt burdens that stunt their development. After all, the

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<sup>2</sup> The public data show that half of the US families are not able to deal with an unexpected blow of 400 dollars. However, the Eurostat data show that every third EU citizen (32%) cannot put up with an unexpected financial shock and that percent amounts to more than 50% in the underdeveloped economies.

<sup>3</sup> The governor of FED, Jerome H. Powell, stated that "Congress has provided roughly \$2.9 trillion in fiscal support for households, businesses, health-care providers, and state and local governments — about 14 percent of gross domestic product", *Current Economic Issues*, May 13, 2020

IMF and the World Bank provide them with support of favourable credits, but yet being funds that have to be paid off, at least with a low-interest rate.

The privileged position<sup>4</sup> of the developed countries, particularly that one of the USA, is known due to the domination of their currencies in the way they deal with the double global crisis. Nevertheless, it has never been used for giving away such big sums until the Great Recession as it is also used nowadays for overcoming the health and economic crisis. However, after the exit of the crisis, the differences between the developed and underdeveloped countries would get larger along with the consequences arising out of them. Poverty would increase in all countries. The global economy would keep on moving in the eve of the next (debt, inflationary, or other) crisis generated due to the resistance to create a global (commodity or paper) currency. The mentioning of a potential inflationary crisis looks paradoxical considering the deflationary tensions lasting several years in the most developed economies. However, it does not. The period of Great Moderation is considered as an artifact of imbalance: "It was made possible by the willingness of the world to hold U.S. dollar assets as their reserve and so to support the long-standing deficit in the U.S. current account"<sup>5</sup>. Referring to Skidelsky, Galbraith stated that "This is just the sort of long-run equilibrium illusion against which Skidelsky correctly warns us earlier on".

The absurdity of the situation refers to the fact that the way for escaping from the current crisis contains the sprouts of the next one unless it changes the attitude towards money as a cure for all economic and social problems. It may look real for some individuals. However, its appreciation is contra productive and extremely destructive not only for the countries and the development of global relations but also for the privileged ones, taking into account particularly the manipulation with

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<sup>4</sup> The impact assessments are different. "It is difficult to estimate the cost to the US of losing the dollar's position as the leading international currency. But 2% of GDP, or one year's worth of economic growth, is not an unreasonable guess. With foreign central banks and international investors shunning dollars, the US Treasury would have to pay more to borrow, even if the debt ceiling was eventually raised. The US would also lose the insurance value of a currency that automatically strengthens when something goes wrong (whether at home or abroad). (Barry Eichengreen, The Dollar and the Debt Ceiling, Project Syndicate, Oct.10, 2013)

<sup>5</sup> James K. Galbraith: The Past and Future of Political Economy, REVIEW ESSAY, Money and Government: The Past and Future of Economics by Robert Skidelsky,

inflation<sup>6</sup>. The reason for this situation is that the lion's share of benefits is used only by several economies (only a few of the wealthy ones). Nevertheless, the rest of them have to observe the classic rules of working with money and adjust to the changes made in relation to the balance of power between the developed economies (they need to deal with them directly and not via the global currency).

In support of the above-mentioned thoughts and attitudes, in the text below it will be elaborated the useful and destructive role of the money as a means of conjunctural policy with the assurance that the world would surely be on a higher level in every way if the benefits of the useful role of the money as a means of conjunctural policy were realized under conditions of functioning of the global (commodity or paper) currency. Under such conditions, the effects of the privileges of creating global money would be used by all countries for solving global problems as it is the accelerated development of the underdeveloped countries, for constructing global infrastructural objects, avoiding pandemic diseases and protecting the nature.

#### **MONEY IN THE ROLE OF DYNAMIZING THE ECONOMY BY APPROVING SOME ADDITIONAL CREDIT**

The idea of money as a means of conjunctural policy has come up with the practice of creating money that would affect the economic movements in order to achieve certain economic and political goals. First of all, for instance, in case of a war, it was performed a **redistribution of the national income** through inflation. Afterwards, it was realized that the expansion and contraction of the money flow through a credit policy could **have an influence on the course of conjuncture** (they could mitigate the tendencies of abnormal prosperity and depression). At last, money was seen as a power that can be used for **achieving a more dynamic development** by increasing the real investments above the volume of the so-called real savings. According to professor Meichsner<sup>7</sup>, Schumpeter put forth a thesis that the monetary and credit policy must be leveled up in proportion to the overall economic situation and therefore become a means for regulating the economic flow. A. Han pointed out to

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<sup>6</sup> "Inflation bestows benefits, as well as wreaking havoc. Wealth is transferred from one group to another. Although the transfer has haphazard elements, it goes from the middle class and the poor to the government, the bankers, and the large corporations. This is the immoral process that must be stopped".(Gold, Peace, and Prosperity: The Birth of a New Currency, Second Edition, p.41/42)

<sup>7</sup> D-r Vjekoslav Meichsner: Fundamentals of the Science of Money, University-Skopje, 1958, p.223

the creative power of the “additional credit” (the credit which surpasses the real savings) of creating new productive capital. J. M. Keynes recommended attaining full employment, not only as a socially recommendable goal but also as the main and for sure the only noticeable element of using the potential capacity of one national economy entirely.

The quoted economists refer to the opportunity of using the money power for achieving more dynamic development, given the fact that the increased dynamics can be achieved by approving some additional credit above the level provided by the country’s savings. It means that by approving some additional credit, it is consciously accepted a certain degree of increase in prices, particularly in investment funds. The reason for this is the fact that the additional credit increases the demand for investment goods. This idea refers to the gold standard systems with convertible currencies that have embedded “brakes” in themselves (a policy of giving the advantage to sustain external stability by maintaining the par value of the currency) in order to avoid any aggressive inflationary tensions.

Giving an opportunity to approve some additional credit for dynamizing growth is contrary to the functioning of the gold standard system. The issuing of some additional credit in case of an unsuccessful process of investing causes a rise in prices, it puts some pressure on decreasing the national currency’s value, and it brings into question the advantage postulate of maintaining external stability and gold parity. However, it is anticipated that a responsible monetary policy would take care of leveling up the growth of investment goods’ prices (occurring due to the increased expenditure by using some additional credit funds) with the increased supply of goods after the successful activation of new capacities. Moreover, if the expectations fail, the national economy’s competitiveness will be endangered due to the growth of the general level of prices, and some pressure will be used for changing the par value of the currency.

By making an observation in this context, it is obvious that the approving of some additional credit (“forced savings”) for dynamizing progress justifies the idea of the money role’s usefulness in terms of dynamizing the growth only if the investment in new capacities shows itself to be profitable. In this case, the balance between the money and goods would be established on the previous level if the additional credit volume was brought down to the level from the beginning of the inflationary process.

On the contrary, the general level of prices would increase, and the balance itself would be established on a new, i.e. a higher level of prices. It means that if the money is used reasonably, the additional credit is a useful constructive solution, but it is destructive if it is used badly. However, in both cases, it comes down to a shift of the income and property status, and thus one of them gets some profitability and the other one – damages. Therefore, the income flows are lower in the course of successfully attaining the additional credit than the ones obtained in the course of managing the money of the additional credit in a bad way.

The affirmation of the way of understanding the need for approving some additional credit in order to dynamize the development is related to the monetary (inflationist) view of history. According to that view, as professor Meichsner<sup>8</sup> says, all periods of deflation meant a collapse of cultures and kingdoms. Nevertheless, the periods of inflation were clearly favourable not only for the prosperity of the economy but also for the flowering of the civilization when comprehended in its broadest sense. Some recommendations have been drawn out from this point of view that a constant inflation has to be implemented with the monetary policy funds but on a moderate scale. Therefore, this situation paved a way for looking for prosperity in the gradual decline of the money value.

The formal inflation of the gold standard system began with its transformation into a gold- exchange standard due to the agreements signed at the Conference in Geneva in 1922. Because of the transformation, the national currencies convertible into gold were included as reserves in the IMS in addition to the gold itself. After the war, those currencies were the dollar and the pound. The inflation was embedded<sup>9</sup> due to the practice of using them as a monetary base of the other countries in the monetary system. However, the countries whose currencies were convertible into gold found out an additional source of funds for the countries whose currency has replaced the gold, let us not say, it has supplanted the gold. Since then, it has begun the century of

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<sup>8</sup> Ibid. Vjekoslav Meichsner: *Fundamentals of the Science of Money* ..., p. 222

<sup>9</sup> Jacques Rueff gave the most incisive critique about "The dual pyramidal credit structure based on the world gold stock." In "The Monetary Sin of the West", Jacques Rueff pointed out that after World War I, the gold exchange standard "produces a duplication of the world's credit base" (p. 26) and "becomes a powerful instrument of worldwide inflation the moment large migrations of international capital occur." (p.26). This happened because "the gold-exchange standard was a formidable inflation factor." (p.19)

inflation, a period in which the queries about possible destructions resulting from the inflation's impact on the system have shown to be reasonable.

Not only Rueff, but also Mises<sup>10</sup> reminded that the inflation celebrated itself as an invention even though the money's inner logic tells that it is a harmful phenomenon, and the one-century practice has confirmed that. It is a fact that both the national and global economies have progressed more, but at a slower pace due to the slowdown of productivity growth rather than in the course of the gold standard period.<sup>11</sup> And let us not bring to mind the consequences of the authorities' accommodation caused by using the process of inflation in terms of development. Accustomed to comfort while running the countries, they spent those one hundred years searching for new ways for creating money out of its integral role's logic or within the framework of its constructive role.

Objectively speaking, there is no doubt that the need for dealing with the consequences of World War I and the need for recovery of the national economies increased the attractiveness of the gold-exchange standard by using the created opportunities for enlarged crediting. The inflation growth data also refer to this situation.<sup>12</sup> Furthermore, the unsuccessful attempts to bring back the pure gold standard made a contribution when moving in that direction.

Mises gave a convincing critique of "the inflationist view of history", and the belief in the inflation usefulness in relation to development. At the same time, he brought into question the claims of expansionism as a moving force of the economic progress pointing out the effects of the changes undergone by the purchasing power of money

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<sup>10</sup> Mises stated that "Inflation cannot be employed as a permanent policy because it must, when continued, finally result in a breakdown of the monetary system" (Mises Ludwig, [Human Action](#) Books / Digital Text, Foreword to the 3rd Edition by Ludwig von Mises, Ludwig von Mises, New York, March, 1966)

<sup>11</sup> "According to standard estimates, annual labor productivity growth in the North Atlantic region averaged 1% from 1800 to 1870, 2% between 1870 and 1970, and 1.5% since then – with a possible slowdown in the past decade. But this is largely an estimate of how we have improved at making bare necessities for the world's poor; it does not measure how much our lives have been enriched by higher productivity". (J. Bradford DeLong Opinion: Rethinking economic progress, and how far we have yet to go, Project Syndicate, March 6, 2017)

<sup>12</sup> The data presented by the Nobel Prize winner, Robert A. Mundell, is illustrative: "If we measure the magnitude of inflations both the product of its rate and the total value of commodities affected by it, we can be sure that more inflation has been created since 1914 than in all preceding millennia put together". "But a fundamental change came about with the breakdown of the international monetary system in 1971. As already noted, both countries inflated but the British price level rose by 750% while the US price level rose by 390%." (Robert Mundell Lecture Page 1, The International Monetary System in the 21st Century: Could Gold Make a Comeback? Robert A. Mundell, Columbia University Lecture delivered at St. Vincent College, Letrobe, Pennsylvania, March 12, 1997)

on the labour division, capital accumulation, and technological improvements<sup>13</sup>. And let us not bring into mind that “Inflation bestows benefits, as well as wreaking havoc. Wealth is transferred from one group to another. Although the transfer has haphazard elements, it goes from the middle class and the poor to the government, the bankers, and the large corporations. This is the immoral process that must be stopped.”<sup>14</sup>

Political élites used the idea of the money’s useful role in making some efforts to overcome the implications of the Great Recession. J. M. Keynes came up with this idea too, but by making an approach from another viewpoint. Seeing the reasons of business cycles and high unemployment in the insufficient demand because of the bigger tendency for savings in one national economy, Keynes drew a conclusion that the savings ought to decrease and the investments to increase in the period of depression in order to enlarge the expenditure along with the level of supply. However, if the effective demand is not sufficient, then the State will have to spend money more than its income through deficit financing. To avoid or overcome any depressions, the State has to instigate the expenditure and thus to achieve full employment, not taking into account the principle of budget stability from one year’s end to another. Having this in mind, Keynes made an effort for using the money to attain full employment not only as a social goal but also as a means for exploiting completely one national economy’s potential capacity.

While the idea of creating some additional credit is realized by financing investments with funds of the budget deficit that the State has at its own disposal, the country also chooses a way for instigating the expenditure to maintain or increase the dynamics both of the development and employment. It means that Keynes’s suggestion contains a wider range of expenditure forms (personal, investment, and social), and additional credit funds used for investing. The useful role of the money as a means of conjunctural policy is obvious. However, the practice has shown that it comes down to some mistakes in the course of its realization as a result of what its efficiency of using it decreases. The mistakes in terms of the additional credit are made by the credit users. However, the State is responsible for those mistakes made in relation to the budget deficit, and they are manifested by the constant growth of the public debt. It is known a recipe how the deficit financing may not cause an increase in the public debt

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<sup>13</sup> Mises Ludwig, [Human Action](#) Books / Digital Text

<sup>14</sup> Paul Ron, Gold, Peace, and Prosperity, p. 42

on a long-term basis. When a conjunctural cycle is in a flowering process, the fiscal policy has to be managed in a deflationary way (public expenses need to be reduced). Furthermore, when the economy is in a depression process, it has to be managed in an inflationary way (public costs need to be increased). In such a case, a deficit will arise in the state budget in the phase of depression, whereas in the phase of flowering, a surplus will occur. However, it will be achieved a balance in the course of a conjunctural period as a result of what the public debt will not increase.

The useful role of the money as a means of conjunctural policy has come to the fore, especially in terms of the efforts made to help the national economies recover after the Great Depression by increasing the country's role in encouraging the expenditure. This practice also continued to be applied after World War II, but under conditions of a newly established international monetary system (gold-exchange / gold-dollar standard), with institutions and rules being a barrier to irresponsible creation of new money and by creating additional credits and budget deficits. And it is not a coincidence the fact that after a quarter-century since the war had ended, the world achieved growth in productivity, a little bit smaller than it was in the period of a gold-exchange standard, but bigger than it was in the period after the slump of the Bretton Woods system<sup>15</sup>. And again, it is not coincidental. By demonetarizing the gold as global money and imposing the national currencies with floating rates of exchange to play the role of world money, it was increased the freedom of the national economies whose currencies perform an international role of using their power for conjunctural and other policies. And while doing this, they have no big fear that the current mistakes will manifest themselves into a growth of the public debt because they can pay it with their own currency, which they can create as much as needed. It is true, but it does not mean that it is good for the national economy, and not to mention global relationships.

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<sup>15</sup> In the period from 1970 to 2014, labor productivity (output per hour worked) grew at an average annual pace of 1.62 percent, compared with 2.82 percent in the previous half-century ([J. Bradford De Long](#))

## **MISUSE OF THE MONEY'S USEFUL ROLE AFTER THE IMPOSITION OF NATIONAL CURRENCIES WITH FLOATING RATES OF EXCHANGE IN A FUNCTION OF WORLD MONEY**

There is no doubt that the role of money, as such, is neither just useful nor destructive. What it would be like depends on the consequentiality of its functions in the national and global economy and on the consistency of their implementation. The automation of the gold standard has shown that it leads to the dynamization of the development on the basis of extorting bigger efforts to increase productivity, economy, and innovation. However, it manifests both inflationary and deflationary pressures on a national and global level (due to a deficit or surplus of production of the precious metal).

The interwar gold-exchange standard demonstrates inflationary pressures, currency crises, and a rise of protectionism. However, the contractual Bretton Woods IMF (a gold-exchange and gold-dollar standard) has created conditions for a more dynamic growth under terms of stability despite the internal contradiction to satisfy the international liquidity with a national currency. The key assumptions made for that development were the gold in the role of world money, even though it was supplemented by the dollar with a value expressed in an amount of gold, the convertibility of the dollar and other currencies into gold, the fixed but adjustable rates of exchange in terms of the inter-currency relations in the world, and the liberalization of international transactions and payments. Under such conditions, the success of national economies depends on the national efforts made in terms of increasing productivity and innovation. Nevertheless, it has to be paid attention to the effective use of funds by making use of additional credits and budget deficits. If they can be managed efficiently on a long-term basis, then it is justified the useful role of the money as a means of conjunctural policy.

The use of money as a means of conjunctural policy in the Bretton Woods system after World War II, up till the moment when the USA started refusing to convert the dollars of the foreign central banks into dollars for a fixed price of 35 dollars per ounce, is more constructive. The USA and the countries exporting goods (in order to gain dollars), and the countries importing from the USA (in order to supply themselves with the necessary goods) have had a profit from the privileged dollar's position in the IMF. The USA has helped the restoration of war-torn Europe and supported the economic

development of Japan. Thus, they helped more countries to heal their economy, establish convertibility, and revive multilateralism. These relations were realized on the basis of the role of the dollar, in addition to the gold, in fulfilling the needs of international liquidity. In such a situation, even despite the declared convertibility of the dollar into gold at a fixed exchange rate of 35 dollars per ounce, the USA has continued to create deficits in order to meet the needs of international liquidity and to increase the deficit in the current account from the balance of payments. When they first refused to convert the obtained dollars into gold at a fixed price, the trust in the dollar fell under suspicion. Thus, the contradiction embedded in the IMF (the national currency in the function of world money) has shown itself as an inconsistent solution which does not last long in spite of the constructive use of the dollar in the post-war development of the world. The contradictory position of the dollar (if it meets the needs of international liquidity, it generates debts; if it fights against the debts, the world economy will suffer from deflationary tensions) has shown that the dollar's position in the system is not sustainable, i.e. the national currencies cannot be good world money. Therefore, global solutions have to be found in order to deal with global problems.

The dissatisfaction with the decline in the value of the dollar has increased since the Vietnam War. It is often said that the dollar has got stuck in Vietnam. The inflationary financing of the war means a destructive way of using the newly created dollars. Their bad use has led to a rise in prices, a decline in competitiveness, increase in trade deficits, distrust of the dollar, pressures used to depreciate the national currency's value, foreign currency exchange crises, reduction of the population standard, price distortions of the products having dollar prices (particularly in relation to the petroleum), and dissatisfaction in the country itself and abroad. However, the foreign creditors were dissatisfied not only because they faced refusal of having their earned dollars converted into gold, but also because they had to revalue their own currencies by using "soft" power in order to create a space for the dollar so that it can continue performing its global role without losing its trust.

The disability to bear the tensions emerging from dissatisfactions has resulted in a key reform of the IMF, a contract for creating Special Drawing Rights (SDR) as "paper gold" (1969). However, right after two emissions of the SDR (only as a supplement of the gold in the process of improving the international liquidity), the president Nixon

changed his mind. To overcome the already mentioned problems, he abolished the convertibility of the dollar into gold, he abandoned the dollar's fixed rate of exchange so that it could fluctuate freely, and he increased the customs duties. As a matter of fact, the USA dismantled the "brakes" avoiding the abnormal creation of international dollar liquidity (having a strong influence on the other countries regarding its dominant position in international transactions and payments). That position has made the forced expansion of financial capital possible on international grounds (forced financial globalization<sup>16</sup>). However, it has also enabled the relaxation of the monetary and fiscal policy in the country. The tax-reduction policy and the relaxed monetary policy have resulted in an increase in inequality in the country.

Due to the elimination of the global commodity currency (the gold) and the abandonment of the fixed rates of exchange, the degree of freedom in terms of pursuing a monetary and fiscal policy has increased. The useful money role in dynamizing development has ended up with an abnormal approval of "additional credit" used not only for investments but also for all the needs for whose financing the political élites showed an interest. The good intentions of increased expenditure have ended up in the emergence of price balloons of real and financial assets in the USA and the other developed countries. There have also emerged global imbalances as a reason for threatening with currency and trade wars.

The policy of eroding the money value on a national and global level, forced after the abandonment of the gold as a global commodity currency (1971), ended up with the outbreak of the Great Recession and the efforts made to overcome it by implementing unusual unconventional measures of the monetary policy (enormous quantitative and qualitative reliefs including a zero interest rate). Such support could be given only by those countries whose currencies comprise the SDRs as "a basket of currencies" with floating rates of exchange (dollar, euro, pound, yen, and yuan). The purpose of the funds is to instigate both growth and employment. However, it is a problem whether all users of the funds obtained from the newly created money utilize them rationally and profitably or they use them only for delaying the bankruptcy. In fact, only the USA managed to bring themselves back to the parameters they had established before the recession even though there is present the problem of rescuing

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<sup>16</sup> The US financial sector has increased its GDP share from 4 to 25% up till the Great Recession.

“zombie” companies. The reason for this, of course, is the fact that the US central bank has injected far more money and important fiscal funds (by increasing the budget deficit) in the state’s economy than the other countries. This situation has led to a huge increase in the FED assets.<sup>17</sup> The fact that the world economy and the other developed economies have not recovered yet even after a period of ten years implies that the solution to get out of the Great Recession by putting huge amounts of money into circulation (above the level of the law of money circulation, and above the reasonable level of additional credit and state intervention in encouraging expenditure) is inefficient. This situation is completely in compliance with the logic according to which it cannot be expected the problem to be eliminated by finding such a solution that has a significant role in its generation. The presence of uncertainty and distrust in the future working conditions has suppressed the stimulating unconventional monetary measures, including not only the zero interest rate but also negative interest rates.

A whole arsenal of measures taken to overcome the Great Recession by using even larger amounts of money and supplemented with the new idea of “helicopter money” (direct payments of economic stimulations to persons, for instance, in the USA 1, 200 dollars plus 500 per child) has already been used in the fight for eradicating the viral pandemic. Some other countries have also followed this example, but of course, with sums of money far smaller than the already mentioned. And this act was completely understood and approved all over the world.

Pressed by the necessity to intervene urgently to save more lives, the political élites in the developed economies whose currencies play the role of world money have increased the money flow rapidly to alleviate the health and economic implications of spreading Covid-19. Released from the fear of “building” debts, they have created projects for giving support to the enormous number of fired workers (because of the requirement to close businesses in the sectors where the social closeness of people is a way of working), and allowances to employers and separate categories of citizens and families including the most vulnerable ones. The USA has already programmed about 3, 000 billion dollars, and the EU has been negotiating to give away a sum of 750

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<sup>17</sup> “The total amount of FED assets has increased rapidly because of injecting liquidity into the financial system since March 2020. From 4, 240 billion dollars at the beginning of March 2020, the assets increased to 6, 720 billion dollars on 5 May 2020. It could amount to nine thousand billion dollars till the end of 2020, i.e., it would accounts 40% of US GDP.” (Prof. Dr Gjorgje Gjukjik: The Power of the US Central Bank and the Dollar during the Crisis caused by the Pandemic, Politika, 27 May 2020)

billion euros. The richest countries in the world (OECD) will take on additional government debt of at least 17 trillion dollars, struggling with the economic consequences of the pandemic. The sums of money have been increasing continuously. The IMF is planning to invest about 1,000 billion dollars to support the most indebted developing countries. It is also taken into account the possibility of writing off a portion of their debts. The need for money in the countries with "ordinary" currencies will be fulfilled, above all, by borrowing money from capital markets. It looks as if one would understand the need for joint ventures undertaken not only to get out of the crisis and eradicate the epidemic but also to create conditions under which they will be prevented after having faced the first wave of expressive selfishness of rescuing oneself alone in the course of the double crisis in the world. Such ventures are needed for alleviating the inequalities in separate countries and the ones between them, preventing the dangers of climate change and an increase in poverty. The effects of those ventures are the best barrier for dealing not only with the surprising dangers but also with the contradictions embedded in the systems, which sometimes manifest themselves in economic crises.

In this context, in relation to the usefulness of the idea of money as a means of conjunctural policy, it can be pointed out the possibility of applying it under conditions of functioning of a global (commodity or paper) currency. This situation is also indicated by finding a way for getting out of the health and economic crisis caused by Covid-19 in the EU (even through rough disputes). There is an assumption that in the world there would function a global (commodity or paper) currency (for instance, a BANCOR) that the IMF would create for a continuous realization of the commodity-money transactions worldwide as it does the euro in the euro-zone. The IMF would provide funds needed for taking off the health and economic consequences, being in the interest of all, and with an adequate share of all. Thus, one could react more rapidly to the ongoing happenings, and there would be avoided discussions about the privileges of the most developed countries and the inevitable worsening of the underdeveloped countries' situation due to an increase in debts to alleviate the consequences. In this context, it is symptomatic the fact that it is only indicated here and there the possibility of issuing a new emission of SDRs (composed of 5 currencies with floating rates of exchange) as it was done when supporting the countries being most affected by the Great Depression. Nevertheless, it is obvious that there is a bigger

interest in the expansion of the market capital rather than in giving such a role to the SDR.<sup>18</sup>

## CONCLUSIONS

1. In terms of the evolution of understanding the role of money in the commodity-money economies, it is apparent the practice of a gradual, but continuous depreciation and misuse of the noble idea of using the money as a means of implementing a conjunctural policy (but without undermining its integral function). To approve some “additional credit” for dynamizing the development above the opportunities given by the savings and the state intervention to encourage the expenditure and thus instigate both the development and employment (in addition to this, to keep stable the general level of prices), the creation of money began to be used as a major lever of the macroeconomic policy including the achieving of goals being out of their power. Thus, it was crossed the line of the useful role of the money as a means of conjunctural policy and it was gone into a domain of unknown voluntarism and destructions in the national economies and the global one. Let us just remind of the increase in inequality in separate countries and the one between them, the creation of “balloons” regarding the prices of financial and real assets, the occurrence of external imbalances, and the threats of trade and currency wars. In the end, this situation has brought about the outbreak of the Great Recession.
2. The change of the attitude in terms of creating money has happened along with the transformations of the gold standard into a gold-exchange and gold-dollar standard. By refilling the gold reserves with currencies convertible into gold, it was consciously enlarged the monetary base in the countries earning gold-convertible currencies. Thus, inflationary pressures got embedded in the monetary system. Frankly speaking, the pressures in those systems were a piece of cake in relation to the inflation after the abandonment of the currency convertibility into gold and the transition to a fiat standard, the abandonment

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<sup>18</sup> One can sense this due to the statement made by the IMF executive director, Kristalina Georgieva: “For emerging economies, the IMF can engage through our regular lending instruments, including those of a precautionary nature. This may require considerable resources if further market pressures arise. To prevent them from spreading, we stand ready to deploy our full lending capacity and to mobilize all layers of the global financial safety net, including whether the use of [SDRs](#) could be more helpful.” ([Kristalina Georgieva: A Global Crisis Like No Other Needs a Global Response Like No Other](#), IMF Blog Email Updates, APRIL 20, 2020)

of the fixed but adjustable rates of exchange, and the transition to floating exchange rates. These changes definitely helped the removal of the “brake” of bad managing, let us not say, of manipulating consciously with the creation of new money. Hence, the countries whose currencies play a role of international money have increased the degree of freedom in terms of pursuing the macroeconomic policy up to the level of showing indifference regarding the increase in public debt, taking further into account the opportunity to service their obligations towards the creditors with their own currency which they can create as much as necessary, but not forever. The political *élites* have to keep an account of not losing one’s trust in their currency as a result of what it ceases the domination maintained by using a “soft” or “hard” power.

3. The contemporary problems such as the increase in inequality in separate countries and one between them, the pandemics and climate-changing are serious warnings. Without a global answer, they can only get worse. It is possible to overcome them by applying global solutions inspired by the improvement of the population’s well-being in the world. However, it is likely to reach these solutions not only by redistributing the built wealth but also by creating global conditions which would make each country fight for achieving the national goals being in compliance with the global ones. It means that each country has to fight to be rationally included in the international labour division on the basis of increased productivity and innovation.
4. The urgency of intervening in the fight against the health and economic crisis that has hit the world and the anticipated overcoming of the consequences should not be regarded as evidence of acceptable functioning of the global system. It is irrational to react ad hoc to the serious threats of new global economic, health, environmental, and natural catastrophes. The ongoing combined disaster is an adequate event for the world to carry out the necessary deep reforms in the global and national systems that would encourage sustainable development and readiness to respond quickly to the dangers threatening the world. The system of national currencies in the role of world money has exhausted the potentials. It is necessary to create a global currency to solve global problems. Furthermore, it would be far more accepted its use as a means for alleviating and overcoming the global risks in a similar way to the

ECB's intervention undertaken to deal with the health and economic crisis in the EU.

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