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Dear readers, you can afford an access to the newest issue of *Horizons*, the scientific magazine of “St. Kliment Ohridski” University-Bitola but this time it has a new form and a new structure, as well as prepared and published in a new technology. The journal starting with this issue, opens up new horizons, educational scientific and research not only locally but spreading to reach the European higher education area.

This special edition of the scientific magazine *Horizons* represents a medium through which the research papers of the participants in the XII International conference on Service Sector get international dimension.

What is considered a matter of even greater visibility is the international dimension of the scientific papers submitted for publishing, evident in the large number of papers by authors from abroad. This is in confirmation and enlargement of the promotion function the journal has regarding the scientific-research activity of the young researchers in front of the international auditorium. The University scientific magazine *Horizons* confirms the role that St.Kliment Ohridski University-Bitola plays in the development of advancement of the scientific thought in Macedonia in a number of scientific fields as a proof of its scientific approach. Thus, this issue of the journal contains papers dealing with topics in the area of economics.

Editorial Board



The development of the Faculty of tourism and hospitality in the course of its four and a half decade of existence is a proof of its institutional dedication not only to educate academic professional staff in the service sector but to develop the scientific thought of the scientific fields studied in this institution. The teaching staff and the scientific potential of this institution are in direct contact with its orientation towards following the modern tendencies in the educational process and the contribution towards the scientific thought development.

The organization of the 12<sup>th</sup> Scientific conference for Service Sector October, 3-5, 2013 is in the context of the Faculty of Tourism and Hospitality - Ohrid continuing contribution in the development of the scientific thought nationally and paper presentations that fulfill the standards for their publication. It is an honor to maintain high interest in this Conference which is a stimulus for presenting the latest scientific, practical and professional accomplishments by high quality papers as a basis for further debate.

We strongly hope that publishing of the papers in this special edition of the scientific journal HORIZONS will largely contribute to the development of the overall scientific thought.

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## **OPEN DATA: CHALLENGES AND OPPORTUNITIES FOR THE TOURISM INDUSTRY**

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Contribution to the « Conference scientifique Internationale dans le domaine du tourisme et les secteurs /services accompagnant », Ohrid, 3.-5. Octobre 2013

### **Abstract**

Open data is the idea that certain public data (not related to private life) should be freely available to everyone via the web to use and republish as they wish, without restrictions from copyright, patents or other mechanisms of control. The fact that different sources of data can be exploited and superposed produce new information and knowledge, new uses through the implementation of new services, often innovative. The application linked to mobile technologies could in particular generate an important market based on the innovative use of public information.

The open data movement is no more restricted to the states, but is extended to local bodies (cities, chamber of commerce, professional associations....). Regarding tourism, data related to the territories (maps...), to cultural information, traffic, and many others can be relevant, as these data are usually exhaustive and reliable; many startups are indeed created in the internet (mobile) technologies to sustain local development through tourism applications, and the local public bodies are more and more involved in these strategies. Many partnerships are created, dedicated to local development and re definition of the coordination of the 'tourism industry'. Building from the concept of sectoral sector of production and innovation, the paper analyzes the major changes the open data movement has induced in the tourism industry.

**Key words.** Open data, tourism industry, sectoral systems of production and innovation, mobile technologies

## Introduction

Since a famous 2007 meeting coordinated by Tim O'Reilly and Carl Malamud gathering open government advocates in Sebastopol (California), where the general principles of Open Government Data have been defined, the movement has spread all over the world and gained significant momentum. The principles define open government data as complete, primary, timely, accessible, machine processable, non-discriminatory, non-proprietary, and licensefree<sup>1</sup>.

The possibility to reuse these data without restrictions should according the group promotes increased civil discourse, improved public welfare, a more efficient use of public resources<sup>2</sup>.

The different governments and authorities opening public data afterwards have presented their policies as engines for innovation, sources of wealth creation, and incentives for web developers and Internet entrepreneurs to produce new, useful applications for citizens (Lacombe *et al.*, 2011). The policy turned out to be an important element of the ongoing processes changing the society. But reservations have to be unlocked, as openness can appear as a loss of control and a decline of influence for the producers of data.

Internet and mobile applications are the first outcome that comes when considering open data, and tourism is the first market. Tourism plays in the economic side of the ongoing data revolution the same driver role it played for the take off of Internet use in the economy or ecommerce (Werthner and Klein, 2005; Marcussen, 2009). Buhalis and Law (2008: 610) indicate that "*technological progress and tourism have been going hand in hand for years*".

The spread of data products (Loukides, 2011) is to increase the leading role of tourism in innovation and technological progress already underlined in the literature (Hjalager, 2002, Buhalis and Law, 2008 and Hjalager, 2010). Open data has indeed lots of consequences for tourists, through access to contextual information and opportunities provided in site for instance. The question is also

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<sup>1</sup> <http://www.opengovdata.org/home/8principles>

<sup>2</sup> <http://www.opengovdata.org/home/8principles>



often raised of the opportunities or threats open data represents for the actors of tourism, institutional or private, national or local (Lazard, 2013). But the issue does not resume to established individual actors facing new challenges, it embraces the whole industry and must be analyzed dynamically at this level.

Tourism is not a simple 'sector' in the usual sense (Leiper, 1979, Tremblay, 1998); the chapter will refer to tourism as an industry which encompasses all the activities dedicated to the satisfaction of tourists' needs, and borrows from multiple activities (Longhi, 2003). The industry relies on the organisational complementarities and interdependences among actors and groups of actors, sharing responsibility for and planning tourist flows and needs (Tremblay, 1998), on firms that purposely undertake joint coordination of their activities for serving the tourists (Leiper, 1979).

Coordination of activities is the core issue, which points out the importance of an analysis of the actors and their interactions. The concept of system emerged as the most suitable analytical framework to cope with the activity, and underlies the basic theoretical developments (Leiper, 1979; Buhalis and Licata, 2002, Buhalis, 2012).

The tourism industry will thus be defined as a sectoral system of innovation and production (SSIP) as defined by Malerba (2001: 3), i.e. *“a set of new and established products for specific uses and the set of agents carrying out market and non-market interactions for the creation, production and sale of those products. The agents are individuals and organizations at various levels of aggregation with specific learning processes, competences, organizational structure, beliefs, objectives and behaviors. They interact through processes of communication, exchange, cooperation, competition and command, and their interactions are shaped by institutions (rules and regulations). Over time, a sectoral system undergoes processes of change and transformation through the coevolution of its various elements”*.

According to Malerba (2001, 2004) and Tether and Metcalfe (2004), a SSIP is characterized by a set of attributes or building blocks that evolve over time, and specify the components and modes of interaction of the system. These attributes are the knowledge bases and technologies, the organisations (firms, non-firms, networks), the institutions, and the existing, emergent and potential demand; they help to explain the constraints linked to the specificity of the tourism innovation process (Hall and Williams, 2008). The sectoral system is an

open system, with evolving boundaries triggered by evolving attributes along innovation processes.

The open data movement and other disruptive technological changes it cannot be totally separated – social web, semantic web, and mobile technologies – foster a deep redefinition of the whole attributes and thus of the tourism industry. The chapter cannot thus pretend to exhaustiveness regarding disruptions some consider as an Information Revolution of the scope of the Industrial Revolution. It analyzes the significant evolutions of the attributes of the sectoral system, the institutions, the knowledge bases and technologies, the organisations and networks of interactions, the markets and the demand, to draw the new frontiers of the industry.

### *Open data; definitions*

The open data movement is born in a drastically changing environment. Quantitatively, the world is often said to produce more data in some days than in its whole history. More than people, sensors and internet of things are continuously adding billions of data to the network.

Qualitatively, the web has also deeply evolved. “*Web 1.0 consisted of static web pages enabling global information sharing but not interactivity .../... Web 2.0, often called the social or community web, linked people and users .../... Web 3.0 is the Semantic Web, where meaning of content is recognized and understood by computers, enabling machine to machine interaction. This capability makes data interoperable and capable of manipulation by computer program*” (Mistilis and D. Buhalis, 2012). The web will be able to aggregate mass of interdependent and dispersed information at a single address (Brugière and Népote, 2011), to provide contextual information. While the Semantic Web is the goal of this process, Linked Open Data provides the means to reach it.

The necessity to link data for the development of the web has been introduced in Berners-Lee (2006)<sup>3</sup>; his note on Linked Data describes four rules for publishing data: “Use URIs to identify things that you expose to the Web as resources; use HTTP URIs so that people can look up those names; when someone looks up a URI, provide useful information, using the standards (RDF\*, SPARQL); include links to other URIs, so that they can discover more things”.

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<sup>3</sup> <http://www.w3.org/DesignIssues/LinkedData.html>

Open government data are pivotal, as public or local authorities produces every day a lot of data related to population, geographical, statistical, economic, ...issues that could be linked to other open or private data to better outcomes.

The general principle of open government data have been defined during a meeting held in 2007. Following the conclusion of debates, open data should be freely available to everyone to use and republish as they wish, without restrictions from copyright, patents or other mechanisms of control. It refers to public data, not subject to valid privacy, security or privilege limitations. The principles are completeness, primacy, timeliness, ease of physical and electronic access, machine readability, non-discrimination, use of commonly owned standards, licensing, permanence and usage costs<sup>4</sup> Raw data now !<sup>5</sup> is the slogan launched by Berners-Lee to promote open data. Obviously data are always enacted, produced either by people or machine for a precise issue, Openness means not only free access to the information internally produced by the authorities, but access to the datasets made of primary data, as complete, disaggregated and timely than possible, to allow new uses. Metadata explaining the raw data have to be attached (i.e. purpose, date of creation, author, location of the data). Files formats like pdf or proprietary programs should be avoided as difficult to re-use or costly. And finally, open licenses should allow to re-use, transform and even market the services built from raw data.

Different licenses exist (open database license, open license, creative commons...) which precise the rights and obligations of the re-user, particularly the commitment to inform about the source, date of creation and release (Telecom Valley, 2011). And the more primary, the more likely of combination with other sources, merging datasets to produce “unexpected” knowledge. In this sense, data can be considered as raw.

Summing up, when synthesizing the principles underlying the open data movement, three main domains emerge. Technical (raw data and open format), Law (open license), Economic (free disposal or minimum costs). The principles never refer to political or moral principles (Chignard, 2012). The group has specifically focused on technical requirement regarding the domains underlined. There is not *a priori*, different choices are thus possible. to implement the principles in effective policies.

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<sup>4</sup> <http://sunlightfoundation.com/policy/documents/ten-open-data-principles/>

<sup>5</sup> <http://www.wired.co.uk/news/archive/2012-11/09/raw-data>

### *Institutional changes*

Tourism industry is shaped by institutions, which includes norms, routines, common habits, established practices, rules, laws, standards, which affect agent behavior and interactions among agents (Malerba, 2002). The changes in the management of data rules, the incentives created by open data on the public or tourism authorities and actors have induced deep transformations.

These institutional changes have been very prompt as the formalization of the many dispersed initiatives towards openness dates from the 2007 Sebastopol meeting on Open Government Data. The effective implementation of the principles enacted in the meeting dates from the election of President Barack Obama in 2009, followed by initiatives of the government of David Cameron.

Indeed the January 21, 2009, several memorandums have been signed by the new elected president Barack Obama on open government and transparency. “My Administration is committed to creating an unprecedented level of openness in Government. We will work together to ensure the public trust and establish a system of transparency, public participation, and collaboration. Openness will strengthen our democracy and promote efficiency and effectiveness in Government”<sup>6</sup>. Directives to the heads of executive departments and agencies have followed, stating precisely the implementation of the policy; for instance, each agency shall identify and publish online in an open format at least three high-value data sets and register those data sets via Data.gov<sup>7</sup>. The dedicated site Data.gov, created in May 2009, has rapidly grown, up to 373 000 raw and geospatial datasets, in line with the tradition of dissemination of information and statistics prevailing in the USA.

In September, the US initiative has been followed in the UK by the creation of the ‘data.gov.uk’ portal. More transparency and more accountability are the two objectives of the UK open data agenda. According the Open Data White Paper (2011), “people can scrutinize local crime statistics, sentencing rates, school results, hospital infection and GDP outcomes”. The resulting applications have been very effective and successful. “Where does my money goes” values where and how taxes were spent (in health, education, justice, defense, environment...) depending of the wage earned, or the departmental spending for all the transactions over £ 25,000, and the relative distributions of

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<sup>6</sup> [http://www.whitehouse.gov/the\\_press\\_office/TransparencyandOpenGovernment](http://www.whitehouse.gov/the_press_office/TransparencyandOpenGovernment)

<sup>7</sup> [http://www.whitehouse.gov/sites/default/files/omb/assets/memoranda\\_2010/m10-06.pdf](http://www.whitehouse.gov/sites/default/files/omb/assets/memoranda_2010/m10-06.pdf)

expenditure in health, education, justice... by regions. The data from Police.uk on crime, sex offenders, detailed street by street, had 35 million of consultations the opening day. Another important commitment has been the public transport transparency, enabling the creation of many new services, applications and information for citizens and tourists. Transport, traffic and safety are the most spread applications.

In addition, the government has sponsored the creation of the Open Data Institute (ODI), opened in December 2012, and chaired by Tim Berners-Lee. The ODI will have the mission to assist the government and to support the activity of firms and academic institutions involved in the creation of services and innovation. This last objective, the take off of a market from the openness of data, is a pivotal issue of the policy.

The USA and the UK are by far the main precursors and actors of the open data movement. The idea on the re-use of public sector information to increase the commercial utilization of data is older. In 2003, the Public Sector Information directive (PSI, 2003/98/EC) intended to establish "a minimum set of rules governing the re-use and the practical means of facilitating re-use of existing documents held by public sector bodies of the Member States" (EC, 2003) to increase the commercial utilization of data, to promote economic growth, and specifically increase tourism. The PSI has been followed in 2007 by INSPIRE<sup>8</sup> is "an EU initiative to establish an infrastructure for spatial information in Europe that will help to make spatial or geographical information more accessible and interoperable for a wide range of purposes supporting sustainable development" (2007/2/EC). Nevertheless, the implementation of the directives in the member states have taken a long time coming compared to USA or UK.

In France for instance the government and the administration hold and publish masses of information. The access to administrative documents and reuse of public information is an enforceable right for the citizen since a law of July 1978! The French notion of PSI refers to data produced or received in a public service mission by the State, local authorities or all other public or private entity in charge of such a service. In 2005 the law of 1978 has been reinforced by a decree adapting the PSI directive; the openness of public data is compulsory, the data produced in relation to public missions can be (freely) re-used and the results marketed. But it is only in 2011 that a mission, Etalab, has

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<sup>8</sup> Infrastructure for Spatial Information in the European Community

been created to diffuse open datasets. Some 350 000 datasets are now available through the portal data.gouv.fr The French legislation can thus include firms with delegation of public services, and institutional bodies of tourism (tourism offices, tourism regional committees) in charge of tourism and travel information on their territory in the open data movement. These last bodies have tried to seize the challenges provided by openness to evolve. The firms have been more reluctant to open their bases, and have invented the concept of Open Service they opposed to Open Data (Lazard, 2013).

Private firms are not obliged to open their data. Some have nevertheless chosen to give an access to their bases. But the situation could evolve from an institutional point of view; as citizens can have access to the data produced from their taxes, consumers could have access to the data produced from their expenses, to improve their knowledge of the market and welfare. An important step is the program 'midata' launched in the UK<sup>9</sup>, to "improve information sharing between organisations and their customers; sharpen incentives for businesses to compete keenly on price, service and quality; build trust; and facilitate the creation of a new market for personal information services that empower individuals to use their own data for their own purposes" (p 4). 'midata' is the private equivalent of the open government data movement, encouraging firms to implement applications enabling consumers to use and combine data from many different sources, Different initiatives exist in the US, at the European Commission, and in many associations.

Finally, the best advocates of open data have been the local authorities. Different elements can explain this reality, the expected development of services towards citizens and tourists for attractiveness, economic development, In France Rennes has inaugurated to open data policy before the State, or even before citizens using OpenStreetMap and data they built themselves created geo located services for their areas. These initiatives are incentives for reluctant authorities to open their data as, whatever their decisions, equivalent data can be produced for a large number of services.

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<sup>9</sup> Department for Business, Innovation and Skills (2012), Better Choices: Better Deals, Report on progress on the Consumer Empowerment Strategy, December, © Crown copyright London

### *Knowledge bases and technologies*

The tourism industry knowledge bases are continuously evolving and renewed, governing the entry of new actors and new arrangements of markets and organizations. This process has been sped up recently by the emergence of disruptive technologies, from the evolutions of the web to the mobile technologies. The open data does not work all other things being equal, it will have to be analyzed within these other major changes, after a discussion on the basic choices facing data providers.

Different choices are possible for the providers of data. They can open well-targeted data corresponding to what they consider the main needs of citizens or tourists. Or they can open all the data available, whatever their nature, and associate the re-users to improve quality, find complementary data, adjust the policy from the download processes. Implicitly, the first option expresses wishes of control on the data, and predetermination of the uses. The second option matches the open data movement; the reusers can produce unexpected and innovative applications from data available from ages though linkages with other datasets. Linked data is the engine of the innovative process. The linked open data can be segmented in different types, covering organizations and activity (Lazard, 2013).

- referential data , covering geography (topography, road...), administration, demography,
- public infrastructure, cultural heritage, not changing overtime, usually precise and reliable;
- operational data, covering transports, environment, expenses, flows of tourists, evolving with the activity, and pivotal for the implementation of timely services;
- transactional data, covering digital footprints, data from parking, transports, usually produced by firms or entities with delegation of public services, that should be available as open data. Local authorities could condition markets with availability of data.

Open data can lead to job creation on both supply and demand sides. Digitization of paper documents or reformatting of datasets generate micro-works, startups and work for developers (Kaplan, 2012). Indeed, open data are assets, but assets need to be enabled. The portals of the governments or public authorities give access to the datasets posted online; application programming interfaces (API) can also be used to give access to the datasets and data structures.

The use of the API has been a major breakthrough regarding data. In 2005 the openness of the API of Google Maps has given rise to a lot of applications and mashups, i.e. applications that use and combine data from different sources to create new services, not necessarily in line with the raw data. The open data rests on this principle. A lot of applications have consisted in positioning public data on Google maps.

Google has indeed organized the whole public or private communities related to data, deciding to use geography to organize all the information, geographical or not (Lacombe et al., 2001).

The geographical organization of (open) data has matched another disruptive technological shock, the emergence of mobile technologies and the growth of smartphone applications. The combination of the two has deeply impacted the tourism industry, its organization and markets. Indeed, “the smartphone revolution has moved the Web from our desks to our pockets. Collective intelligence applications are no longer being driven solely by humans typing on keyboards but, increasingly, by sensors. Our phones and cameras are being turned into eyes and ears for applications; motion and location sensors tell where we are, what we’re looking at, and how fast we’re moving. Data is being collected, presented, and acted upon in real time. The scale of participation has increased by orders of magnitude” Tim O’Reilly and John Battelle, 2009 The percentage of US mobile phone that are smartphones is of 57 %; in France, the percentage of new mobile phones bought that are smartphones is 60 % in 2012, and it is growing steadily.(GFK institute<sup>10</sup>). The smartphone penetration is more important in UK, Italy, Germany than in France. The tablet market is also growing, and the surge of lower-priced devices is to increase the process<sup>11</sup>. Mobile Internet has dramatically changed the uses.

For the first time, the access to web sites has decreased in France, -1.7% in 2012 (Source AT Internet), and symmetrically the market and traffic of mobile applications is growing significantly, of 50 % in 2012 for many apps (Source AT Internet). The market for applications, following the creation of the innovative Apps Store has exploded, the apps being more user-friendly for people. The technological lockers going with the PC have disappeared.

Mobility and ubiquity have changed the uses of the Internet in the society, and even more in tourism. It was usual in the past to analyze the behaviors of tourists in three phases, Before – During – After the travel, During

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<sup>10</sup> <http://www.zdnet.fr/actualites/>

<sup>11</sup> <http://www.idc.com>



being the less developed. People were preparing the travel on the web, and posting advices when back. With the smartphone revolution and the geolocated applications, During is growing as the more relevant step, there is not more clear distinctions. The smartphones being localized, tourists more and more contact, visit, buy in site thanks to the applications and the mashups available for any activity, they can even prepare the travel with the same applications they will use in site. With geo-local search, social networking is the other side of the uses of smartphones, the advices are no more an After activity, comments, advices, photos, are posted in real time.

Location and context are thus the key words; the developments of technologies related to NFC, augmented reality, not tackled in this chapter, are to increase their importance.

Regarding smartphones geo-located data from cultural heritage, events, i.e. referential and operational data at least are necessary to implement useful apps for citizens and tourists. A lot of information are produced by public and local authorities, open data is an important element of the ongoing change.

### ***Organizations and network of actors.***

From governments to citizens or tourists, the open data movement renews the functions and arrangements of the actors of the tourism industry, and causes new entries able to cope with the evolution of the knowledge bases.

The tourism industry is moving towards more heterogeneity and diversity regarding knowledge bases, technologies and thus actors,. The main organizations and their interactions in the development of open data will be successively analyzed not for exhaustiveness, but to highlight the main changes in the industry.

### ***Cities and local authorities***

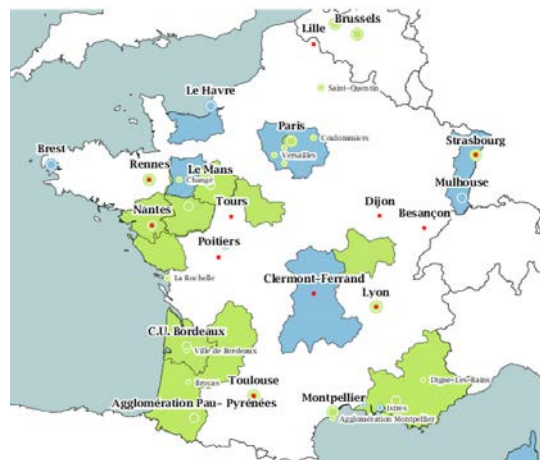
The open data movement is sometimes described as Open Data City. This is particularly true regarding tourism; the local authorities have transformed constraints into opportunities (Feige, 2013) fostering the development of new services and applications from the openness of their data. The local authorities, cities and regions have been among the most involved actors of the open government data.

Cities have been engine of development of the movement, particularly in France where they have been more reactive than the central administration. Again the local level is pivotal for innovation, wealth creation and the evolution of the tourism industry.

In 2010, Rennes and Kéolis, the carrier running the transport in the city, have being the first to open data and develop applications for mobility in the city. They have been followed by the Paris, Nantes, Montpellier, and regions of Saône-et-Loire, Loire Atlantique, Provence Alpes Côte d'Azur... For instance, Bouches-du-Rhône has created data.visitprovence.com. Datasets on hotels, restaurants, cultural settings and events, leisure parks, rental information..., can be used, modified, merged with others.

Tourism is the first industry concerned by open data, and mobility the main issue. In cities transport (bus, metro, bikes) and walk data are the more opened and reused to feed applications.

Open data platforms are gradually opened in the French regions, but the situation is still unbalanced. A map has been established by the association liberTIC shows the diffusion of the movement:



Already open In progress Citizen movements

Source: <http://www.opendata-map.org/map>

The inequalities of development can be qualified of Open Data Divide, equivalent to the digital divide of the last century. Data, information and applications have replaced the infrastructures. A two-speed tourism supply can result, areas endowed with mobile tourism applications, areas appearing as

vacant space regarding local real time applications. Cities have been engines in different countries. But the movement has been led by UK and USA cities, where most of the innovative uses have been invented, and the availability of data is the most important. They are related to administration and finance, crime incidents, but most are related to mobility and tourism. San Francisco, close to the Silicon Valley, has been among the most innovative. For instance, *Routesy* helps to find its way around the Bay Area's top transit systems, showing the closest stop or station, along with real-time prediction data to make sure to make it on time. *Walkonomics* is a web-app that rates and maps the pedestrian-friendliness of streets and urban areas by combining open data and crowdsourcing. How walkable or bikable is your street, neighbourhood or city is the topic of many apps? Or *Parkola* is an app that makes finding parking easy, with real time parking data. Or *SF Way*, with more than fifty apps in one package, for everything needed to live, work, play and visit in San Francisco; "useful for locals and tourists alike, SF Way will be your know all best buddy whenever you need it"<sup>12</sup>.

San Francisco has made an important organizational innovation, with the vertical integration of many apps and information for the whole city or area into one, avoiding searching among thousands of entries.

The other way round can be thought. There are today many cities involved in open data applications, for instance a lot of experience are gathered in PublicData.eu, and some times linked. For instance *Bike Share Map*<sup>13</sup> gives the location and status of the Bikeshare station from more than thirty cities in the world, Barcelona, Lille, Melbourne, Mexico, New York, Rennes, Rio de Janeiro, Seoul, Washington, Zhongshan..., in real time. In the linked data universe, datasets can be associated in relation to a specific purpose. Horizontal integration is the innovative development in this case.

### ***Institutional bodies, office cci tourisme***

Tourism information office, tourism institutional bodies, the French regional or departmental tourism committee (CRT, CDT<sup>14</sup>) are aware of the

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<sup>12</sup> <http://www.mysfway.com/>

<sup>13</sup> <http://bikes.oobrien.com/london/>

<sup>14</sup> Comité Régional du Tourisme, Comité Départemental du Tourisme,

importance of open data. Most of them are non profit associations<sup>15</sup> but they are in charge of the organization of the tourism sector, of the management and diffusion of the regional and local tourism information, which could be considered as a delegation of public service.

The offices are indeed displaying a lot of statistics and information on the profession (hotels, restaurants...) on their web sites, but the data are rarely accessible. Since the nineties they are endowed by the government tourism agency with specific tools to manage databases and websites, as well as subsidies when adopting a specific norm and format for the exchange of tourism data, a thesaurus gathering all the terms related to tourism. This process has led to system of information internal to the institutional bodies.

The surge of the Web 2.0, of the mobile applications, the use of API have obscured the visibility of their web sites. Their internal systems of information are out of date, actors like TripAdvisor or others open sites or applications, allowing comments have taken the lead, with a risk of diffusion of distorted information from the point of view of the profession.

The institutional bodies are convinced of the necessity to open their databases (Telecom Valley, 2011) and develop applications. The development of mobile internet and the appearance of the last generations of smartphones have triggered a huge growth of application markets; after the success of Apple's App Store, the other brands have launched their own apps stores, under their own operating system. The incompatibility of the different systems raises important problems when developing new apps as systems of translation does not exist.

The local tourism authorities have not always the capabilities or resources to invest in all the systems. The HTML5 developed by the W3C could be a solution, as it can easily handle the resources of the smartphones (geolocalization, camera...), and run under all the operating systems. But it seems that the manufacturers prefer to maintain their native applications and an important segmentation of the market<sup>16</sup>. For the government or local tourism authorities it is quite the reverse, interoperability between smartphones is both the assurance of a wider dissemination to users and of development of mobile services.

Open data should be the occasion to gather the different institutional bodies, committees, professional associations, sometimes in competition, in order to share and open the datasets able to favor the attractiveness of their area

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<sup>15</sup> Association Loi 1901 in France

<sup>16</sup> <http://www.proximamobile.fr>

(Lazard, 2013). They have indeed to face the challenge of radical changes in the knowledge bases, limited resources to allow a change of paradigm, and to implement new partnerships as the cities have built to re-use the data.

They will have also to define the relevant area the apps should meet, which has to match the needs of the mobile tourists, the relevant perimeter of their trips within the area more than institutional frontiers. It is certainly better to propose for instance one application than many different ones for micro areas or specific activities (Boulin, Fabry, 2012). Just as in local economic development, the relevant territory has to be determined endogenously from the resources involved in the local tourism project, to foster attractiveness. The mobile tourists are usually Mobile Free Independent Travellers, avoiding mass tourism to favor an individual approach of the trip, and needing real time information to enjoy their stays

### *Firms and markets*

The firms have played an important role in the open data movement, even for open government data. Not only because public owned firms have usually a delegation of public service, and should open their bases. But because the successful open data efforts are usually Public Private Partnerships (PPP), with ongoing agency engagement with users. The public providers of data have been reusers in partnership with specialized firms for the development of local applications for citizens and tourists, fostering attractiveness.

The firms and private bodies involved in the movement are very diverse, large and small, huge organizations or individuals.

The datasets opened by the governments are a main source, but thousands and thousands of datasets are available, often in different formats, difficult to merge and reuse. An ecosystem of innovative SMEs has grown which develop tools in relation with the outburst of data available on the web. These specialized firms, which transform heterogeneous sources in structured flows of data, turn out pivotal elements of the coordination of activities in tourism.

They are usually start ups and their market is related to big data, Data Publica, Qunb, for instance in France, or from 2010 large market places of data in the USA Data-market, Factual, Infochimps, Kasabi or Windows Azure Data Marketplace.

The leading firms of the web have also contributed the upsurge of applications, Google being the most important after the opening of its API and the multiplication of mashups. The use and reuse of the data can be free, semi open in the sense that all the data of the firm cannot obviously be obtained, and can be charged when the traffic resulting from the use is very important, though income produced by Google ads for instance.

Twitter, Facebook have also given a semi open access through dedicated API. As the firms use open government data, the destinations could use these data to adapt their strategies.

Indeed, these data from the social web are used to 'predict the present', i.e. to extract statistically from the flows of tweets, of the queries on Google, the trends related to such or such events. The evolution in real time of the tastes, the expectations regarding the destinations of tourists planning their holidays could help these destinations to adapt, their marketing or their policies.

The geo-location has really been the 'killer application' at the origin of the uses of open data.

Google is the first example. The other major one is OpenStreetMap (OSM), a collaborative project to create a map of the world completely free of charge and free of use. OSM has been a powerful incentive for the reluctant cities or firms in charge of public services to open their data. Indeed, crowdsourcing does not only allow to add elements on existing applications, it can also result in the creation of whole datasets, of mashups, of innovative services.

The data are collected from scratch by volunteers performing systematic ground surveys, and then entered into the OSM database. This has been the case of *Check my Metro* in Paris for instance, when the RATP (the public firm operating transport in Paris) was reluctant to openness, providing the map and the traffic. The application has been forbidden by the RATP, but very soon the firm chose to open its data and allow the reuse and development of applications. Again the situation has been very different in the UK, for example *London Live train map* for the London Underground by Matthew Somerville, showing all trains on the London Underground network in real time, has been developed in 2010.

The SNCF, the national state owned railway company, has also rapidly opened its datasets, to foster innovative uses. Innovation is the key word going with openness for many firms adopting this policy. For instance, the *Tranquillien*, an application allowing to control in real time the traffic and to

optimize its travel on the Paris transportation network (Transilien) results from the open data strategy.

The openness of the transport data has also been conflictual in many cities, but when the implementation of the services through OSM has been produced by volunteers, often for busses, the locks have been unbolt. The volunteers organize mapping parties, where a group of openstreetmappers map exhaustively an area, usually over a weekend. A mapping session consists of dividing the area between participants and mapping it, by car, cycle or walking.

Nevertheless the mapping parties are not restricted to conflicting situation; they are on the contrary an important vectors of the implementation of useful applications and services from the open data in cities and regions. In Rennes for instance, the datasets related to topography, pavement characteristics, have allowed developing Handimap.org, which traces itineraries for disabled people. The application has been duplicated in Montpellier.

The OSM are continuously enriched and updated by informed people proposing and sharing original walks, often biking related services, and also information on monuments, museums, non widely known characteristics of areas.

Incentives are also created to encourage developers to build useful applications from the datasets available. ‘Open data suppliers’ can also be ‘Open data appliers’, i.e. providers and users can be the same organization. Open data can make exchanges and cooperation easier between the different services of a city for instance. But the cities intend also that the resources invested to open data benefit to their areas, i.e. result in innovative, unexpected applications useful for the citizens, the firms, the tourists... They have built incentives, contests providing their raw data to ensure that the development of applications will benefit their own areas.

The first contest has been Apps for Democracy, organized by the city of Washington, D.C., now reproduced in many cities and many countries. The contest offers the datasets to use, among the open data available for mashups, and obviously a prize for the winner, which can result in spin off. The first Apps for Democracy contest featured 60 prizes, with a total of \$20,000 up. A lot of Apps are now available<sup>17</sup>, for instance, *OutsideinDC* which aims to make DC a more bike friendly city, informing on crime statistics along the lanes, or *tumble Safely* which help to find the best bars and a safe path to stumble home on. In

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<sup>17</sup> <http://www.appsfordemocracy.org>

France, the government has launched Dataconnexions on the same principle, and the regions or cities have launched Hackathons. In the regional site, most of the datasets are related to tourism (cultural heritage, events, museums, parks, walks and trips, camping cars areas....) and the hackathons benefit to the tourism industry.

Finally, as already underlined, the successful open data efforts are usually PPP, with ongoing agency engagement with users. Co-production and open innovation are the usual organizational designs adopted in these PPP, as in the partnership between Rennes and Kéolis, related the transports and mobility in the city, from buses to bikes. The data on the network of bicycle stations have been provided free of charge to developers from the data warehouse of 'Rennes Metropole', and many applications have been created, For instance *Locomote*, of the start-up Isokron, which gives the faster route related to its location and the situation of the networks of buses, trains, sharing bikes... Or *eo'City*, developed by another start-up, NewLC, giving in real time information on buses, bikes available in stations... Or the GFI *Tout Rennes bouge*, i.e. all the city moves, dealing on real time with all the dimensions of mobility in the city. The application has been further implemented in other cities, *Tout Nantes bouge* for instance. GFI is a large European group, involved in many projects related to open data in France, with the region Saone et Loire for instance, and apps EZ for restaurants, hospitality, cultural events... Mobility is always a dimension of the applications, large leading multinational groups have created dedicated department to deal with the open data developments, Veolia with Veolia transdev<sup>18</sup> for instance, which has developed Urban Pulse, an application providing all the essential elements needed to go out in the city, from transports to events, bars.... ,available in Lyon, Paris, New York, Rennes and other cities, and soon available in Marseille, Nice, Boston...

The economic activity caused by the open (public) data is important; it is nevertheless difficult to trace its market. For instance Washington affirmed that "the first edition of Apps for Democracy yielded 47 web, iPhone and Facebook apps in 30 days - a \$2,300,000 value to the city at a cost of \$50,000<sup>19</sup>; large figures are given in Europe, "estimates for the overall market size for public sector information in the European Union range from €10 to €48 billion, with a mean value around €27 billion" (Dekkers, *et al.* 2006), which seems over

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<sup>18</sup> The activity of transdev seems to decline, following the current reorganizations in Veolia

<sup>19</sup> <http://www.appsfordemocracy.org/>



estimated regarding the nature of the market. The market of public information has always existed, but regarding open data, the access is by definition hardly free. More than the market of, it is the market from data which has to be analyzed.

The applications from (local) government data do not generate important yields. The effects are important, but clearly indirect (Chignard, 2012). In cities, the PPP are built for local applications and have effects on welfare, quality of life, and environment. Data regarding public car parks have been for instance opened in many cities for apps giving real-time availabilities with direct effect on traffic, often congested by cars trying to park (Chignard, 2012). The effects of applications are important for attractiveness of the areas, quality of life, tourism, local development, but difficult to assess precisely. These data are also extensively used in mashups, to enrich (for free) with relevant information the applications of the private firms providing mobile services. These apps can be important for the competitiveness of firms, the hotel groups for instance, again indirectly. Nevertheless, the market of the applications and of big data is a growing one, producing an important turnover.

### ***Demand and concluding remarks***

The traditional basic importance of demand in tourism industry has grown with the Internet, and even more with open data. Tourism is an experience good, and systems of advices and signaling are necessary for the market to work. Consum'actors have emerged which take part to the coordination of the industry, from simple web pages in the last century, to involvement in social networks, TripAdvisor and other global entities. With open data, citizens are even creating the applications when the market is reluctant to work. Tourists can contribute, enrich the contents and give additional information.

Open data can be a vector for local authorities to promote their territory, adapt to the needs of tourists. The mobile technologies have deeply changed the tourism industry, from mass tourism oriented to individual behaviours. In mobility reliable real-time information always available is pivotal, for the tourists to find their way..The information interesting primarily the consumers in mobility, and thus the tourists, are finding restaurants and interesting spot around their position (87%), get information on the monuments, areas they are visiting (79%), receive mobile promotional coupons for surrounding activities

(77%), and get advices on itineraries matching their profile (76%) (Boulin, Fabry, 2012)<sup>20</sup>.

The behaviors are tremendously changing. Very interestingly for instance, Priceline's early data on mobile-enabled customers (Priceline.com, Sept 7, 2010) reveals that 58% of mobile device-enabled priceline.com customers were within 20 miles of their hotel at the time of booking, and 35% were within 1 mile of their hotel (Horwell, 2012). This suggests that those customers had already arrived at their destination before making their reservation. The leading hotel groups have already adapted their strategies to these radical changes in technologies and consumers preferences regarding booking. In 2008, Louvre Hotel has developed an application, Hotel for You, which allow to locate hotels around a position and to reserve very easily from the smartphone. Accor, IHG have followed with open data enriched applications, adding selected geo located useful information and services in the hotels areas to the booking mobile facilities (de Bast, 2011).

These changes could impact negatively a large part of the industry, becoming invisible because of lack of relevant mobile technologies and applications. Independent small hotels cannot afford the investments to adapt this new deal. Nevertheless, cooperation between local authorities, institutional tourism committees, professional associations, open data based PPP, allowing innovative mashups matching the tourists needs the local industry masters, could allow a sustainable process of adaptation. Indeed cooperation within the public and the private sectors (intrasectoral) and between the two sectors (intersectoral) is one of the condition for a tourist region to achieve competitive advantage (Crotts, Buhalis and March, 2000, Czernek, K., 2013). The continuous changes in the knowledge bases and quasi-instantaneous adaptation of the consumers deepen this necessary condition for the tourism industry.

The Information revolution is indeed radically reshaping the industries, tourism being certainly one of the most impacted. The growth spurt of the smartphones and their applications, the geo located and open data based mashups have given rise to a context-aware mobile tourist and a real time decision process for most of the choice to do. Clearly the open data movement has been not only a necessary condition of these evolutions, but often its cause. Incentives towards innovation reuses have been built by the public and local

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<sup>20</sup> CCM Benchmark, 'e-Tourism : chiffres clés, stratégie des acteurs et attentes des consommateurs', March 2012, quoted from Boulin, Fabry, 2012.

authorities, the institutional tourism bodies. The chapter has shown that all the attributes of the tourism system of production and innovation have been stirred up: renewed institutional rules, knowledge bases, actors, demand, and above all arrangements and interactions. This open data upsurge is not to slow down, even if reluctance to lose close control on data exist.

New facilities are created, but also new unbalances, between countries, USA and UK are forging ahead, within countries as well as within the tourism industry. New public policies will have also to be invented to face these data divides.

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## **SEASONALITY IN MACEDONIAN TOURISM**

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**Abstract**

The purpose of this paper is to examine presence and influence of seasonality on tourism development in Macedonia. The research is mainly covered by quantitative approach by employing several commonly applied indicators for measuring tourism seasonality, like: the Gini coefficient, the Seasonality Indicator and the Coefficient of Variation. Data was generated from the sample covering 1992-2012 in terms of tourist arrivals. The research results clarify existence of low-level seasonality patterns and indicate importance of its follow-up. The findings confirm that tourism flow distribution or concentration is not significant to tourism development. Both, academics and practitioners can find the results of the research useful since it disentangles the belief of having strong and notable high season during summer months. Additionally, this study may serve as a starting point for urging measures and activities for enhancing the up-to-date modest tourism development in Macedonia. Finally, the contribution of this paper is in the fact that it enriches poorly developed empirical academic work within this scientific area in Macedonia.

**Index terms:** seasonality, tourism, Gini coefficient, Seasonality Indicator, Coefficient of Variation

### **INTRODUCTION**

Regardless the level of economic development, each country is interested in tourism due to its various positive impacts. Generally, tourism contributes to economic growth and development, promoting international understanding and peace, improving living standard, stimulating local trade and industry development, protection of cultural heritage etc. [1]. Yet, country's development is often interrupted by seasonality which is noted as one of the most influencing factor for limiting continuous tourism enlargement. In this

respect, seasonality may be dictated by climate factor, such as temperature and sunshine, school or industrial holidays, the social scheduling of the society, accessibility or simply inertia through personal habits and so forth. So, one may understand seasonality as a phenomena that provokes incomplete and unbalanced usage of means necessary for economic development [2]. Moreover, combating seasonality and prolonging tourism season are important pillars of a sustainable and competitive tourism development. Generally, seasonality is a notable characteristic of tourism demand being strongly linked to it and cannot be ignored. Though tourism flows to particular destination are determined by a complex array of factors that influence and impact visitor behavior, seasonality is one of the most predominant features of tourism demand.

This research attempts to investigate seasonal patterns in tourism demand in Macedonia. In order to do so, the paper is structured in several parts. After the introductory part, Section 2 gives a brief literature review on seasonality in tourism. Section 3 provides background materials as a snapshot on tourism in Macedonia in the past two decades. The research design encompassing the methodology and research frame are posed in Section 4. Section 5 presents the main research findings and discussion, while the main conclusion remarks and future challenges are noted in last part. Generally, the contribution of this research is the attempt to quantify seasonality in tourism demand in Macedonia.

## **LITERATURE REVIEW**

There is a large body of literature which main thesis are that seasonality in tourism must be addressed in an in-depth-manner in order to be understand and quantified. Generally, seasonality is defined as systematic, although not necessarily regular, intra-year movement in economic time series which are often caused by non-economic phenomena, such as climatic changes and regular timing of religious festivals [3].

Seasonality in tourism is an issue that is recognized as an important concern in tourism research. It has been a subject of interest among researchers and academicians thus provoking continuous debates and argumentations on its complexity and widespread impact on tourism [4], [5], [6], [7], [8], [9], [10] and [11]. Yet, they all generally agree that seasonality is occurred due to temporary imbalance in tourism flows caused by three types of factors:

(1) Natural causes, like: sunny days, snow falls, insolation, climate, geographic location etc. [12], [13] and [14];

(2) Institutional/Cultural causes, like: religious and pilgrimage travel, availability of leisure time, workers' holidays, students' ferries, festival events etc. [13], [14] and [9]; and

(3) Other factors (social pressure, personal preferences, inertness etc.).

Although being studied in many different approaches, the seasonality is identified as temporal and spatial issue. Moreover, it is noted that this type of systematic variations may be present during the year, semester, but also in the frames of a month or a week, even in a single day [15] and [16]. Each of them may have positive or negative influence on tourism development.

If having negative consequences over tourism development, the researches pose the fact that seasonality may not be controlled [17], [18], [19], [20], [21], [22] and [23]. In this respect, they all refer to damaging influences in:

(a) Employment, like: part-time employment, social instability and insecurity etc. [13], [14], [24] and [25];

(b) Investments, like: high risks over law occupancy rate [13] and [9];  
and

(c) Environment, like: pollution, over crowding, xenophobia, criminal activity etc. [26], [27] and [28].

Thankfully to various methods for detecting seasonality, one may identify and introduce measures and activities in order to cope and overcome negative impacts on tourism. As the most commonly applied methods, the academicians note: extension of the season by introducing new tourist products immune to seasonality; application of positive pricing policy; developing business tourism, etc. [29], [30] and [31].

On the other side, there is a large body of literature that elaborates an approach that seasonality provokes positive effects as well, particularly in terms of sociology and ecology. Namely, after devastating high season, long and quiet period is more than welcomed especially for recovering the sources, and the local population as well [27], [32], [33] and [34].

## **BACKGROUND MATERIAL**

Additional insights regarding tourism flows by quarters are posted in Fig. 1. It presents number of tourists by quarters in 2012 in Macedonia, and in the World as well. So, in order to make an in-depth analysis regarding the inquiry of seasonality in tourism demand, we decomposed tourism flows by quarters. Fig. 1 poses that all quarters: Q1 (January, February and March), Q2

(April, May and June), Q3 (July, August and September) and Q4 (October, November and December) differ in tourism flows. One may visually conclude that Quarter 3 encompasses the largest quantum of tourists and travelers, thus representing the highest peak-point i.e. the high season.

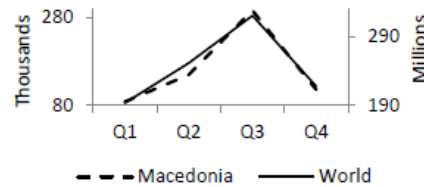


Fig. 1. Tourist arrivals in 2012, Macedonia vs. World

Fig. 2 visually presents tourism flows in Macedonia, in terms of tourist arrivals for the period 1992:Q1 - 2012:Q4. One may clearly note that the third quarter undoubtedly performs highest results when referring tourist arrivals. This is general conclusion for entire sample period. Summer months have extremely high performances even in 2001 which was the weakest year in tourism manner due to the war conflict in Macedonia. The absolute dominance of the Quarter 3 when tourism demand is the highest, may be explained with presence of multiple factors. Namely, in these months the usage of holidays and ferries is the highest (institutional factor), there is hot and sunny weather particularly in lake resorts (natural factor) and there is a manifestation of personal preferences and attitudes of tourists and travelers (other factors).

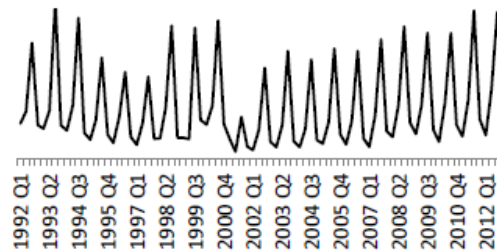


Fig. 2. Tourist arrivals in Macedonia by quarters, 1992:Q1 - 2012:Q4

Although at first glance the forth-mentioned data may refer to strong seasonality pattern, yet the in-depth analysis in addition points to opposite conclusion.

## METHODOLOGY

The research attempts to meet the following aims:

- (a) To gain in-depth knowledge regarding seasonal patterns of tourism in Macedonia;
- and
- (b) To empirically test and analyze the strength of seasonality in tourism demand in Macedonia.

The research is mainly covered by quantitative approach in order to meet the set objectives. In this respect, the analysis of seasonal concentration of tourism demand in Macedonia is done by computing the Gini coefficient (G), the Seasonality Indicator (SI) and the Coefficient of Variation (CV). The main variable applied in this research is the number of tourists on monthly basis during the period 1992-2012. Calculations are based on standard equations for G, SI and CV.

The Gini Coefficient is first developed and introduced in 1912, and since then it is one of the most commonly used coefficients for measuring inequality of revenues caused by temporary disorders. Moreover, the Gini coefficient is often applied as appropriate measure for expressing seasonality in tourism [35], [36], [37], [38], [39] and [31]. In this respect, different approaches are noted for calculating the Gini coefficient [40]. Its value spreads between 0 and 1, whereas bigger G represents bigger inequality i.e. seasonality in tourism, and vice versa. In this research, the Gini coefficient on yearly basis is calculated upon standard equation (Eq. 1).

$$G = 2/n \sum_{i=1}^n (x_i - y_i) = 2/n[(x_1 - y_1) + (x_2 - y_2) + \dots + (x_n - y_n)] = 2/n[\sum_{i=1}^n x_i - \sum_{i=1}^n y_i]$$

(1) Whereas:

$n$  denotes number of months;

$x_i$  denotes rank of the months (1/12, 2/12, ..., 12/12); and

$y_i$  denotes cumulative relative frequency of tourist arrivals in rank by ascending order.

The Seasonal Indicator is additional measure for quantifying empirically observed seasonality patterns in tourism. Most commonly is calculated as an inverse value of the Seasonality Ratio [41] and [11]. Its value ranges from 1/12 up to 1, whereas bigger SI represents absence of fluctuation during the year, i.e. seasonality in tourism, and vice versa. In this research, the SI is calculated upon standard equation (Eq. 2).

$$SI =$$

(2) Whereas:

$y_0$  denotes the average number of tourist arrivals per year; and

$y_n$  denotes the highest number of tourist arrivals in the particular year.

The Coefficient of Variation describes the fluctuation of tourists during the year. Moreover, it measures the spread of each series around its annual mean as a percentage of that mean. This indicator is particularly useful for comparing dispersion in data sets having different standard deviations and different means. It can take values beginning with zero. If the value is small, then the distribution is much homogenous and the average is much representative. Yet, despite the simplification in calculating it, it may be difficult to interpret the results appropriately [10]. In this research, the CV is calculated upon standard equation (Eq. 3).

SI =

$x_i$
1/12 = 0.08
2/12 = 0.17
3/12 = 0.25
4/12 = 0.33
5/12 = 0.42
6/12 = 0.50
7/12 = 0.58
8/12 = 0.67
9/12 = 0.75
10/12 = 0.83
11/12 = 0.92
12/12 = 1.00
Total = 6.50

Since the fractiles' rank are computed, the calculations proceed by obtaining further data. So, Table 2 presents cumulative relative frequency of tourist arrivals by ascending order on yearly basis ( $y_i$ ). Additionally, this table presents the difference between number of fractiles and the cumulative relative frequency in rank ( $\Sigma x_i - \Sigma y_i$ ).

Table 2. Computing data for G

Year	$y_i$	$\Sigma x_i - \Sigma y_i$	Year	$y_i$	$\Sigma x_i - \Sigma y_i$
1992	5.162265	1.337735	2003	4.655795	1.844205
1993	4.688712	1.811288	2004	4.773329	1.726671
1994	4.712432	1.787567	2005	4.818808	1.681192
1995	4.942154	1.557846	2006	4.805113	1.694887
1996	5.032522	1.467477	2007	4.704226	1.795774
1997	4.980468	1.519532	2008	4.799811	1.700188
1998	4.589051	1.910948	2009	4.844718	1.655282
1999	4.632997	1.867002	2010	4.816294	1.683706
2000	4.924533	1.575467	2011	4.790886	1.709114
2001	5.274685	1.225315	2012	4.877296	1.622704
2002	4.741342	1.758657			

The calculated values for G, SI and CV for the sample period are presented in Table 3.

So, with regards to the Gini coefficient, Table 3 poses that the values spreads between 0.2042192 and 0.3184915. The average value of G for the period 1992-2012 is 0.2772426. The data show that seasonality in terms of intra-year monthly variations in tourist arrivals is constant during the 21-year period. Due to fact that research calculations referring Gini coefficient are far below the margin of 0.5, one may conclude presence of very modest seasonality in tourism. Namely, the low value of G shows that current distribution of tourism demand for the sample period, has no meaning to Macedonia. So, the concentration in terms of tourist arrivals in Macedonia points to relative balance and equality. Thus, high peaks in July and August have not sufficient capacity and strength for serious influence with an in-depth manner.

Table 3. Gini coefficient, Seasonality Indicator and Coefficient of Variation of tourism demand in Macedonia, 1992-2012

Year	Tourist arrivals	G	SI	CV
1992	585699	0.2229559	0.472343998	50.2
1993	647728	0.3018814	0.386142628	69.8
1994	613154	0.2979280	0.420700397	66.4
1995	503837	0.2596410	0.435652202	56.5
1996	476205	0.2445796	0.479376555	51.6
1997	451871	0.2532554	0.484289328	51.1
1998	575080	0.3184915	0.410566145	68.9
1999	549630	0.3111671	0.397604952	67.5
2000	632523	0.2625779	0.438521215	58.2
2001	333308	0.2042192	0.482836746	42.5
2002	441712	0.2931096	0.395969593	67.0
2003	483151	0.3073676	0.410306776	69.2
2004	465015	0.2877785	0.412937033	64.7
2005	509706	0.2801987	0.418725355	63.6
2006	499473	0.2824812	0.425742853	63.0
2007	536212	0.2992957	0.410437525	65.3
2008	605320	0.2833648	0.432533320	61.1
2009	587770	0.2758803	0.441917711	59.3
2010	586241	0.2806177	0.447003108	59.1
2011	647568	0.2848524	0.450563580	60.1
2012	663633	0.2704507	0.473025000	56.3
average 1992-2012	542611	0.2772426	0.434628382	60.5

From Fig. 3 can be noted that all calculated values of G are similar, almost identical and approximately constant with small negligible variations (G has the lowest value in 2001 due to war conflict in Macedonia). This points to conclusion that during the entire sample covering a period over twenty years there was never any meaningful and strong seasonal patterns in tourism in Macedonia. So, the belief for having high tourism seasonality in Macedonia with significant characteristics, particularly in summer months, scientifically is proved to be groundless.

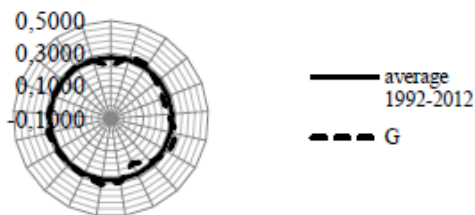


Fig. 3. Comparing Gini coefficient in Macedonia, 1992-2012

The graphical representation of the computed G values is visually posted in Fig. 4. In this line, the Lorenz curve assists in observing ‘the cumulated



frequencies in rank with the lowest frequency (winter month) to the left and the month with the highest number of tourists to the right' [10: 30]. From Fig. 4 is noticeable that the area between the Lorenz curves and the Line of equality is relatively small, thus pointing to relatively equal seasonal distribution of tourist arrivals during the year. Moreover, all calculated twenty-one Lorenz curves, each representing one year within the sample, are positioned relatively close to the Line of equality, which announces absence of seasonal concentration. Furthermore, the resemblance of the curves is obvious, which additionally confirm the forth mentioned and already discussed conclusions derived from Fig. 3 for constant, similar and low values of the G coefficient. confirm the forth mentioned and already discussed conclusions derived from Fig. 3 for constant, similar and low values of the G coefficient.

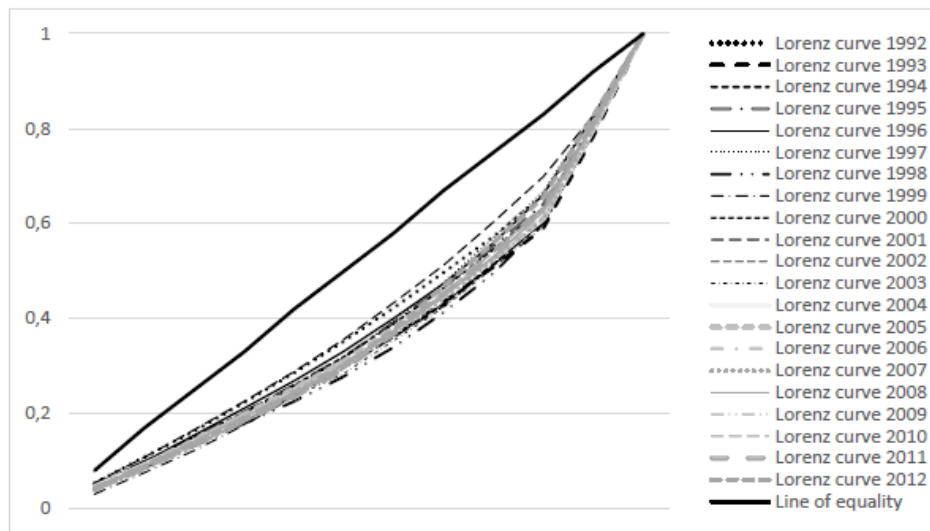


Fig. 4. Lorenz curve – Tourist arrivals in Macedonia, 1992-2012

Concerning the Seasonality Indicator, one may adhere from Table 3 that the calculated values for the sample period ranges between 0.386142628 and 0.484289328 noting an average value of 0.434628382. The SI has the highest value in 2001 due to war conflict in Macedonia. Since all computed data are far above zero, one may argue humble fluctuation within a year. Therefore, upon the calculations for SI, one may conclude the presence of fragile tourism seasonality in Macedonia.

Besides the G and the SI, the research encompasses data regarding the Coefficient of Variation. It is used in order numerically to measure stability of

tourism demand distribution in the sample period. Table 3 presents data on CV spreading between 50.2% and 69.8%. We exclude the value of 42.5% in 2001 since it is noted in times of war conflict. The average value of CV during the sample period is 60.5% which is far above the limit of 35-40% pointing to non-homogeneous distribution and conclusion that the average is no more representative. Furthermore, the data must be separated in components by groups depending on the variation of another group variables.

The research outcomes point to data that do not support the thesis for having strong seasonality in tourism in Macedonia. Consequently, we disentangled the attitude of having strong high season during summer, but rather modest results in tourism development. Yet, one may find positive impulse in increased presence of foreign tourists, particularly in the past two years, as well as in encouraging forecasted values. Namely, upon a medium-run estimation of foreign tourist demand, it is expected an increase of 17% until 2014 [42, 53].

## CONCLUSION

This paper aims to recall the importance of seasonality as one of the major and profound limits for tourism development. In this respect, a brief overview is presented on reasons for the most examined negative effects of tourism seasonality. Additionally, some approaches referring positive impacts due to seasonality have been noted.

In the same time, the research attempts to clarify the difference between registered peaks in third quarter in each year, and the presence of seasonality. Namely, statistical data regarding tourist arrivals really do present largest figures, but it must not be generalized and interpreted as strong and powerful seasonality in tourism flows. On the contrary, this only indicates that in Quarter 3 exist cumulative influence of all factors that provoke extended concentration and increased demand. Such situation includes: acceptable and favorable weather conditions; extensive insolated days; usage of vacations and ferries; personal preferences for summer season etc. Furthermore, this research notes that this kind of supportive factors are not common only for Macedonia, but are rather noted in the world as well.

The paper presents the research findings upon the main aim of the empirical investigation. So, in order to investigate seasonality in tourism demand in Macedonia, the basic variable used in the calculation is tourist arrivals on monthly basis. The sample spreads over two decades, from 1992 to 2012. The research outcomes gave a scientific clarification for having moderate

seasonality patterns in tourism in Macedonia. Moreover, the findings point to fact that distribution i.e. concentration of tourism demand in terms of tourist arrivals, is humble and has no substantial meaning to Macedonia. Since the sample period covers a time-frame of two decades, the research results indicate that seasonality in tourism never had profound effects at all since the independence of Macedonia until today, but rather to talk about permanent modest tourism development.

In order to address and overcome such modest results, one may argue introducing different strategies:

- (a) Differential pricing (seasonal/promotional pricing; group booking offers etc.);
- (b) Diversified attraction (changing the product mix);
- (c) Market diversification (determination of optimal segment mix);
- (d) Facilitation by the state (loans or subsidies; tax concession; legislative initiatives; partnerships etc.).

Generally, this research found out that theoretical presumptions for existing seasonality with meaningful patterns, particularly in summer months, is groundless. Hence, this empirical analysis in a scientific manner rejects such attitude and disentangles the presence of having seasonal concentration in tourism in Macedonia with substantial influence. So, the up-to-date modest tourism results must not be addressed to seasonality as strong and limiting factor for tourism development in Macedonia, since there is no such. Although the use of simple technique can be helpful in some contexts, the research may be enhanced in future work by employing advanced methods. Due to fact that this is first attempt empirically to test seasonality in tourism demand in Macedonia, this paper gains additional importance and contribution.

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## **INNOVATIVE MANAGEMENT OF CAMPING ACCOMMODATION**

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### **Abstract**

Camping Management in Europe face challenges in choosing strategies for a stable future development. New innovative camping products and services could potentially create a new camping demand. Trends in the camping market are returning to the core camping values and redesign of camping services, as the response to the maturity of the existing camping product especially in the Mediterranean area. The purpose of this paper is to define the trends in European camping while focusing on camping accommodation and to explore the features of new camping demand in the mobile homes sector as a new innovative type of camping accommodation. In this article, basic features of the European camping tourism have been outlined, main trends in the development of the camping product such as glamping and mobile homes accommodation defined and the comparison between the guest profiles in mobile homes and "typical" camping guests presented. Furthermore, the paper contains the customers' view on the main Croatian competitors in the Mediterranean, more specifically in the mobile homes sector. Moreover, competitiveness and return on investment in mobile homes in one of the campsites have been described. Due to the lack of official statistics on the mobile homes overnights in Croatia, the number of mobile homes in Croatian camping has been researched. It is estimated that overnights in mobile homes make up 12, 04% of all camping overnights in Croatia. Due to innovative camping management and accommodation in camping, the process of transformation of classical open-air accommodation in campsites into camping or holiday parks with innovative accommodations has already started. Through glamping and mobile home accommodation, traditional campsites are transforming into camping resorts.

*Keywords:* camping accommodation, glamping, mobile homes, competitiveness.

## **INNOVATIVE MANAGEMENT OF CAMPING ACCOMMODATION**

Turn-of-the-century camping is characterised by some important changes. Camping becomes a lifestyle choice of a modern camping guest who chooses camping not out of personal financial constraints, but out of conviction and perceived need.

Camping tourism in Europe, especially the one related to the concept of mediterranean resort tourism has reached the phase of maturity . In order for camping to be able to contribute to the overall tourism competitiveness of

Europe, a strategic turnabout is necessary directed towards raising competitiveness of the camping industry through innovation.

This article is interested in the new and innovative forms of camping accommodation which permanently enrich the camping service and offer an innovative diversity of camping experience. We deliver the results of the research on glamping“, mobile homes and features of camping demand for mobile homes.

We predict an upward trend in the demand market for camping accommodation, especially for mobile homes. Larger and more comfortable mobile homes the trend. Further changes in the structure of camping accommodation units are expected, in the direction of more mobile homes in relation to open-air camping accommodation units. Innovative camping management is expected to manage changes of the camping product by embracing a quality mix of accommodation units and introducing innovative forms of camping accommodation.

## **FEATURES OF EUROPEAN CAMPING TOURISM**

Strong motives for a return to and stay in the nature have led to the development of camping as a form of tourist accommodation for guests with privately-owned or rented camping equipment. Camping tourism today plays one of the most important roles in the development of European tourism competitiveness and camping service is one of the most significant segments of the overall European tourist offer. Over 15% or 353 million of all European tourist overnights in the so called “collective accommodation establishments” (Eurostat, Applying the Eurostat Methodological Guidelines in basic tourism and travel statistics, 2013) have been recorded precisely in campsites (Eurostat,



Occupancy in collective accommodation establishments: domestic and inbound tourism, 2013). Citizens of the European Union have undertaken 23 million camping holidays out of which one third has been in their homeland. (Eurostat, Occupancy in collective accommodation establishments: domestic and inbound tourism, 2013). In 27 EU countries, there are altogether 26,344 campsites (Eurostat, Capacity of collective tourist accommodation: establishments, bedrooms and bed-places, 2013).

After surviving a sales crisis in the last years, the European market for camping vehicles has been slowly recovering in the segment for motor homes. Germany is the most significant market for camping vehicles and in the first quarter of 2013, it experienced a decline of -5,8% in registered number of caravans whilst there was a rise of +3,5% for motor homes (Marktzahlen: Neuzulassungen Freizeitfahrzeuge in Deutschland, 2013).

Camping is an important economic branch in Europe which generates nearly 400 million overnights and which makes up the majority of accommodation units in some countries. In the light of the goal of making European tourism the number one tourism in the world, the European camping tourism as a strong element of European tourism, has to improve its competitiveness and strategic planning. Under strategic planning we understand an “outlook into the future in which the current and estimated future state is analyzed, a general direction is established as well as the means and resources by which a global future is to be achieved.” (Weihreich & Koontz, 1998, p. 168). At the same time, the geographical Mediterranean is a traditional camping destination which is entering a phase of maturity or even stagnation and fall in its life cycle. In turn, its decreasing market segment is making place for newly popularised destinations such as the coasts of Montenegro, Bulgaria or Romania (Ivandić, 2006).

The financial crises in several European countries, rising gas prices and general travel costs increases have had a strong impact on the demand for camping. The demand is now turning towards alternative systems of camping accommodation, whereby camping equipment is no longer bought but rented in the campsite itself. The result is that the growth of the European camping industry and tourism is increasingly dependant on innovative solutions in the camping equipment and camping accommodation for rent.

This growing trend represents a possible strategy for the exit from the mature phase of mediterranean camping tourism and indicates that potential exits are found in the strategy of differentiation and innovation. Innovation in

camping tourism is a response to the complexity and instability of our environment.

### **TRENDS IN THE DEVELOPMENT OF EUROPEAN CAMPING MARKET**

The current changes on the European camping market are reflected in the changes in camping styles and in the implementation of new business models. European tourist megatrends are the following:

- Globalisation of camping industry bringing about change in technology, liberalisation of products and services and increased mobility
- Demographic changes and the ensuing “grey hair” tourism
- Sustainable development movement which appreciates human capital and celebrates natural and cultural resources
- Accessibility of information – internet, search engines, mobile telephones, GPS navigation and digital TV increased the accessibility and transparency of information
- Personification - creating a tailor-made camping product for an individual and not for a target group is becoming a challenge for management in camping
  
- Sustainability – Camping tourism can offer its contribution to this trend by developing in a sustainable and environmentally-friendly fashion. Innovativeness in ecology is seen as a challenge for campsites across Europe.
- Health and wellness – Taking this trend into account presents a solution to the seasonality of camping tourism and make campsites attractive destinations throughout the year

These global trends have a large impact on the trends within the camping tourism industry, which is heading towards differentiation and discovering new market segments. It is a time of adaptability but also of rejuvenation. It is a time for a change in public opinion of camping and its positioning in the trendy area of „upscale leisure“ tourism.

Currently, two main new trends are identifiable in the development of camping:

1. "7 RE-TRENDS" – trend of return to camping values

2. „NEO CAMPING“ - trend of developing new differentiated types of camping product

TABLE 1  
7RE-TRENDS of camping products

<b>1. REJUVENATION</b>	<b>Rejuvenation of the camping product but also of the body and soul</b>
<b>2. REGENERATION</b>	Renewal of the camping equipment and service, regeneration of the body and soul
<b>3. REFAMILYSATION</b>	Camping as a return to the family and family cohesion
<b>4. RECONNECTION</b>	Camping as a way of re-establishing bonds with family and friends
<b>5. REDISCOVERING</b>	A rediscovered beauty and value of camping
<b>6. RETURN TO NATURE</b>	Camping as part of the “return to nature” movement
<b>7. RETURN TO LUXURY</b>	Return to the comfort, allusion to the historical European travels of the rich

The second current trend in the development of camping tourism is the so called „NEO-CAMP“, a phrase which implies novelty and a new camping concept and is related to sustainability of camping tourism.

New camping refers to sustainable and luxurious camping. Kohler (2011) refers to this new megatrend as „neo-ecology“ and emphasizes the special impact and „popularity of the LOHAS movement, the so called „green customers“ who have contributed to the general interest in green forms of vacation in the nature such as camping.

In accordance with the processes of differentiation and specialization, there is a growing number of campsites exhibiting a high degree of specialization in either equipment or service. Some of them are eco-camps, children’s camps (mini, midi teens), thematic camps, technological camps, campsites for pets, sports camps, organic camps and others.

Camping is entering a stage of a promotional offensive. In order to reach younger generations, it is becoming „cool" (Cool Camping: The very best campsites in the UK & France). The demand is becoming increasingly diverse: camping for the lovers of camp fire, camps with fantastic views, camps in forests, at the sea, luxurious campsites on lakes, sleeping in retro caravans and others.

In the second and third decade of our century, the following differentiation trends will form part of innovative camping management:

- **Glamping** – introducing new and innovative types of accommodation (Gypsy Caravan Company)
- **Camping as retreat** – camping as retreat from everyday life
- **Extreme camping** – camping as an adequate base for extreme sports activities
- **Cocooning camping** – camping as a run to safety from the outside world
  
- **Family togetherness** – camping as an ideal family vacation,
- **Garden Eden Camping** – camping as an experience of “heaven on Earth”
- **Naturism, LGBTIQ camps and sex camping** – naturism as a return to nature, segmented camps for target groups of same sexual orientation or sex camping as part of naturist camping

One of the most important trends among the main trends of camping development is the trend of luxury camping or „glamping", which is driving the "mobilehomisation" of European campsites. They are introducing an ever larger number of mobile homes into the campsites, either in the form of bungalows or prefabricated houses.

### **GLAMPING – COMPETITIVE CAMPING ACCOMMODATION**

Glamping is a word composed of the words glamorous and camping, hence referring to luxurious camping. The tourism industry has developed a product which allows guests to have a pleasant, comfortable and palatial camping experience under the free skies (Whitney, 2011). Glamping is often referred to as camping with 5 stars (Latza, 2011). It is a form of tourism for the wealthy (Let's go Glamping, 2008).

The pioneers of glamping were posh members of the British high society who travelled to safaris and stayed in luxurious tents. Today's copies of those tents are equally posh and usually consist of luxury bathrooms, de luxe bedrooms, a TV, a kitchen, wi-fi equipment and others. It has become popular to rent such luxurious equipment throughout United States of America where KOA campsites are reporting an increase of sales of 26% last year alone (www.koa.com, 2012).

The largest glamping web portal in Europe, www.goglamping.net, is offering the largest choice of glamping accommodation in Great Britain (97 unit) and France (37 units).

Glamping is growing at the fastest rate in Great Britain. The magazine The New York Times has delivered an article on glamping (Conlin, 2012 ) and there is a growing number of websites dedicated to the promotion of glamping (Eurocamp: Urlaubsideen: Glamping).

Glamping as a trend of "neo-comfort" is contributing to the renewed interest of tourists for camping, it is creating a new trend of luxurious camping and playing an important role in the promotion of camping as a form of tourism. Glamping is expected to play a decisive role in the renewed attractiveness of camping. It is expected to attract guests who love spending time in the nature, but need to maintain the same degree of comfort that they are used to.

Glamping is beginning to unite the best of camping and the best of hospitality (Glampinghub: Why Glamp?): extraordinary environment and time in the nature with the comfort of a luxurious hotel. At the same time it is eliminating some of the push-factors of camping such as the discomfort and the perceived unpleasantness of tenting. Glamping has therefore started a new trend in the camping industry by opening up opportunities for attracting entirely new guests, while at the same time encouraging returnees to give camping another chance.

Entrepreneurs are interested in glamping as a way of offering their campsites an "extreme makeover" (Carter, 2011) and choosing glamping as their strategy of competitive advantage for further growth. One of the leading mottos of glamping: "Where nature meets luxury" (Rogers, 2011) could mark a new chapter in the global growth of tourism by uniting the best features from the camping and hotel industry.

## **MOBILE HOMES – TRANSFORMATION OF CAMPS INTO HOLIDAY RESORTS**

Mobile homes are the latest in the sequence of mobile camping equipment innovations (after tents, camping homes and caravans). In the category of mobile accommodation units, they offer the highest level of comfort. Mobile homes belong to the mobile camping equipment according to the Regulations (Pravilnik o razvrstavanju, minimalnim uvjetima i kategorizaciji ugostiteljskih objekata kampova iz skupine "kampovi i druge vrste ugostiteljskih objekata za smještaj). Research shows that in 2012 in Croatia there were 2.396 mobile homes owned by campsites (all of which have been installed in the last 10 years) and another 4.414 mobile homes owned by partners. (Cvelic Bonifacic, 2012, p. 284).

Mobile homes have become an important aspect of camping competitiveness from several perspectives:

- Quality perspective: high quality form of accommodation
- Financial perspective: Investment into a pitch onto which a mobile home will be installed as well as the purchase of the mobile home show a very short return on investment
- Marketing perspective: The market for mobile home guests is equal to the market for hotel, apartment or holiday resort accommodation.

Further growth of the mobile home market is expected in the direction of larger and more comfortable mobile homes. Currently on the market, mobile homes the size of 50m<sup>2</sup> and 60m<sup>2</sup> can be found and lodging in a mobile home is comparable to the lodging in a bungalow. Apart from the concept of mobile homes for rent within campsites, residential mobile homes are increasingly entering the market, which is as of yet unregulated with respect to this new model of housing.

## **FEATURES OF CAMPING DEMAND FOR MOBILE HOMES IN CROATIA**

The profile of mobile home guests in Croatia, their travel habits, expenditure and relationship to the destination and the camp have so far not been documented. The first research in Croatia was conducted exclusively among mobile home guests in Croatian campsites during the year of 2010 and it delivered interesting results, especially when compared with the features of camping guests using privately-owned camping gear.

The research was conducted via oral questionnaires in Croatian campsites on the Adriatic coast among guests occupying mobile homes during the months of July and August of 2010. The response rate was 137 out of altogether 150 distributed questionnaires. The data was split into three regions – Istria, Kvarner and Dalmatia with 53%, 20% and 27% respectively.

The study has yielded the following results:

- Average age of mobile home guests is 41,8 years which shows that mobile home guests are on average younger than the classical campers whose average age is 46,8 years (Cvelic Bonifacic, 2012, p. 176)
- 78% of mobile home campers have a high or higher education degree whilst classical campers are on average less educated with 62,4%
- Majority of campers live in cities of up to 10.000 inhabitants, with 68.4% of campers living in cities of more than 100.000 inhabitants. Contrary to the established opinion that campers usually come from extremely urban areas, this research shows that guests primarily come from cities of less than 10.000 inhabitants. Mobile home campers, on the other hand, come from urban areas i.e. from large to very large cities.
- Among classical campers, 40,9% receive a monthly salary of less than 2.000 EUR whilst the equivalent figure for mobile home guests is 26,1%. 73,8% of these guests enjoy a monthly salary of over 2.000EUR in relation to only 59.8% of campers with open-air camping equipment. 39.1% of mobile home campers have a salary exceeding 3.000 EUR per month whilst the figure for other campers is 34,25%.
- Majority of mobile home guests are officials or civil servants (26,5%). This proportion is 5% higher than among alternative campers (20,6%).
- Guests who hold junior or senior management positions are better represented among mobile home guests than other campers (15.7% and 12.4% respectively in comparison to 9.1% and 9.5% among campers)
- In conclusion, the study shows that overall 70% of mobile home guests are either officials, junior managers, senior managers, entrepreneurs or freelancers. In relation to other campers, the proportion of highly paid occupations is significantly higher whilst the proportion of pensioners is negligible.

Primary motives for choosing Croatia as destination have proven to be repose and relaxation. In all regions, these motives are identified by nearly a quarter of surveyed guests.

The top three motives – repose, natural beauties and leisure are decisive for 55% of mobile home guests, not differing significantly from other campers (53,35%).

It was of particular interest to survey travel booking patterns among mobile home guests. Although two thirds of campers occupying mobile homes tend to book their accommodation directly (69,2%), a significantly larger proportion of them choose the option of booking through a travel agent in comparison to other campers. 27,8% of mobile home guests therefore book through travel agents, whilst this percentage amounts to only 6,6% among campers in more traditional forms of camping accommodation. A large number of individual (as opposed to group) reservations are visible in the Kvarner area (over 80%) Campers in mobile homes were given the opportunity to rate the importance of certain aspects when choosing the actual campsite. Results have shown that the key value is put on the general quality of the campsite, followed by the quality of the destination (referring to cities or towns and not states) whilst a relatively small percentage of guests identified price as a decisive factor (less than 10%).

A further strand of this research focused on the traveling habits of campers. Whilst among „real“ campers , two thirds chose to stay exclusively in campsites during their holidays, a significant three quarters of mobile home guests tend to opt for various forms of accommodation outside of campsites. This research result points to the fact that mobile homes attract new types of guests which traditionally didn't spend holidays in campsites alone. As an example, in the Kvarner area, 80% of interviewees varies between types of tourist accommodation.

A research of the alternatives to camping accommodation chosen by mobile home guests has shown that the favourite alternatives in all surveyed regions are hotels and apartments.

This research clearly shows that camping management needs to take account of the fact that camping guests staying in mobile homes easily replace the campsite with a different form of tourist accommodation such as a hotel or an apartment. At the same time, this is an opportunity for the management of competitiveness, whereby various forms of accommodation can be offered in campsites.



## **COMPETITIVENESS OF INVESTMENT INTO MOBILE HOMES**

Not only has the mobile home business introduced new economic activities, but it has also carved a new path for camping services. Research on the number of mobile homes in Croatian campsites has shown that 12% of all camping overnights are recorded precisely in camping mobile homes. The ownership of mobile homes can either be in the hands of the campsite management or the one of the numerous touroperators.

Travel agencies and tour operators most frequently do business with campsites on the basis of a negotiated flat-rate for the rent of an accommodation unit. The average flat-rate price per unit, as confirmed in a survey of 30 Croatian campsites, is between 2,500 and 3,000EUR. In some cases, depending on the location, this price is up to 100% higher than the profit made from more traditional methods of camping where the guest is the owner of the camping equipment. In turn, we have simulated the economic feasibility of investing into mobile home pitches for the installation of tour operator- owned mobile homes based on the following parameters:

- Flat-rate price of 2,500EUR (excluding VAT) per pitch
- Average price of building a mobile home pitch 25,000 kn
- GOP 51,6%

The above calculation demonstrates that the return on investment is 28,3% or approximately 3 years. Internal rate of return (IRR) amounts to 22,6% whilst the index of profitability is 1,52.

Profit made from the rent of privately owned mobile homes is dependent on the quality of the campsite, the location of the mobile home within the campsite, the attractiveness and spaciousness of the mobile home exterior, the size of the mobile home and its furnishing. Depending on the politics of price and the occupancy rate, profits from renting privately owned mobile homes can be 8.000EUR or more. As the purchasing price of mobile homes starts from 15,000EUR per mobile home and over, return on investment is again relatively fast. The actual return on investment is of course conditional upon the opportunity cost of the location. In the case of a location which has previously not been used, ROI can amount to 40%.

In conclusion, mobile homes are a new challenge for achieving competitiveness in the camping industry. The difference in the cost of investment into a camping pitch as opposed to a mobile home pitch is negligible provided that the pitch is already equipped with all the necessary infrastructural facilities. However, in comparison, the return on investment into mobile homes

is a lot more significant, even when mobile home pitches are rented by tour operators. The results of this research lead us to conclude that increasing the number of mobile homes is proportional to a greater economic success of a campsite, an improvement in quality and a contribution to the competitiveness of Croatian camping.

## CONCLUSION

The European market for camping reveals a lot of potential for a further competitive growth of the European camping product. Innovation and differentiation are the key strategies for escaping the phase of maturity seen especially in Mediterranean camping industry.

Whilst researching European megatrends and features of the European camping tourism, we identify new trends governing the market which are encompassed by the concepts of „7 RE-trends“ and „Neo-camping“.

The single most important trend in the development of camping tourism is the increasingly popular choice of luxury camping or „glamping“, as well as the choice of mobile home camping. These trends lead to a gradual transformation of campsites into holiday resorts. Further growth is expected in the market for mobile homes in the direction of larger and more comfortable mobile homes.

Our research of the main features of camping demand among mobile home guests indicates that these guests diverge from the classical campers. Results of this study point to the need for a rejuvenation of the camping product, whilst mobile homes offer one of the potential strategies for rejuvenation. In conclusion, mobile homes present a challenge on the path to achieving competitiveness of the camping service. The difference in the cost of investment into a camping pitch as opposed to a mobile home pitch is negligible provided that the pitch is already equipped with all the necessary infrastructural facilities. The return on investment, on the other hand, is significantly higher, even when the pitch is rented out to tour operators.

By employing a competitive management strategy and increasing the proportion of mobile homes in campsites, camping management is tapping into new markets of guests with new demands, habits and needs from the traditional campers. Acknowledgment of trends on the camping market, recognition of the features of mobile home guests and familiarisation with the economic aspects of

investments into mobile homes are necessary tools for a competitive development of the camping product.

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**PLAN FOR LOCAL INCLUSIVE DEVELOPMENT IN  
TOURISM: CASE STUDY OF MUNICIPALITY OF  
KONCE, REPUBLIC OF MACEDONIA**

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**Abstract**

Inclusive development is an important component in the creation of services of local communities. This applies in particular to regions that are located in areas that haven't experienced dynamic development in the past. The lack of such services leads to regression and permanent stagnation of possible development elements. The example of the municipality of Konce is showing that encouraging development can be suggested in the field of tourism services through a process of tourist valorization and organization of relevant actors in the area.

Therefore, it is necessary to conduct field research, surveying opinions of the key players and other concerned parties. These studies show that tourism can be an accelerator of natural and cultural heritage in the municipality of Konce. Through this process of regional research development priorities have been determined, which based on the organization and usage of human and other resources can stimulate the development in these regions.

*Keywords: Inclusive development, tourism resources, human resources, tourism development.*

***Introduction***

The municipality of Konce is located in the southeastern part of the Republic of Macedonia at a distance of 150 km from Skopje on the right side

of the road Radovish - Strumica. Konce is a typical rural municipality surrounded by Konecka Mountain and Smrdesnik or the municipalities Stip, Negotino, Demir Kapija, Valandovo Strumica Vasilevo and Radovish. Within the municipality of Konce included are 14 villages. The municipality of Konce belongs to the group of underdeveloped municipalities. It represents a typical rural region. The proximity of the municipality of Radovish provides intensive cooperation and collaboration, especially in the local and micro-regional economic development. In this sense, an important role has the collaboration with the municipality of Stip which belongs to the group of more developed municipalities. At the regional level, the municipality of Konce cooperates well within ZELS and the Eastern planning region. The municipality has at its disposal a significant number of natural and anthropogenic resources that can be put into operation of its dynamic development. The key priorities that the municipality should use are the clean ecological environment and the management of natural resources. Resources that are significant to highlight are the following:

- Rich vegetative content of different tree and grass species;
- Presence of different species of wild game;
- Littoral and coastal potential of the lake;
- Significant fish stocks;
- Quality drinkable water.

Furthermore, the municipality has a rich cultural heritage, given the fact that in the past it represented a medieval episcopal center. Konce was a medieval town that had its beginnings as a monastery complex and as a religious and administrative center. The monastery church is dedicated to St. Stefan dating from before 1366. The economic sector in the municipality is poorly developed. This is due to the fact that the dominant activity is agriculture, which is at a low level of development. The company "Eco milk" is an economic entity which achieves positive economic results and can represent the engine for future development of the municipality. This is due to the shown interest in this enterprise for involvement in other activities that are not in the domain of production and distribution of milk and dairy products. The non-governmental sector in the municipality is poorly active. This means that special attention should be given to the creation of development policies. The following NGO's can be mentioned:

- Association for hunting and fishing "Studeneč";
- Women Association "Konečanka".

So far the municipality has implemented public-private partnerships such as:

- Concession of the hunting ground Konce;
- Concession of the lake Mantovo for fishing activities (in progress).

However, the opportunities are widened specifically with the creation of the holiday settlement Mantovo, organizing and putting into function a part of the coastal area of Mantovo as well as the use of the water resources.

Studies have revealed several segments that could be in the context of accelerating the municipality's development. There are opportunities for cooperation in the domains of agriculture, tourism and cultural heritage protection as well as development of local infrastructure. The latter are formed as proposals with clear determined structure for implementation through training in the following:

- Indigenous private houses and interiors for rural tourism activities;
- Encouraging the development of religious tourism;
- Concession processes for evaluation in coastal and littoral areas of the lake Mantovo;
- Production and distribution of drinking water.

### **Methodology**

The municipality of Konce as a rural municipality covers an area that includes 14 settlements of which 6 villages are active and can be part of the development strategy. It represents a rare natural area with clean environment and has a large forest and water potential. The lakes Mantovo, Konce I and Konce II should also be mentioned as important potentials. Despite its rural character, the municipality of Konce shows developmental processes that in the last years stopped the process of immigration. That is an important indicator and opportunity for the return of the population in the municipality of Konce.

The municipality is active in international IPA projects such as *Culture in the function of development of Konce* in partnership with a municipality of the Republic of Bulgaria. The active municipal administration headed by the Mayor can be highlighted as the basic factor for development in the municipality.

Survey research within the determining the situation and development capabilities as well as the obtained primary parameters indicate the possibility

for determining specific projects and project activities in the community that can be implemented through social and other forms of public - private partnerships and opportunities for concession.

The *methodological approach* in the determination of development opportunities in the municipality relies on five relevant operational activities:

- Revision of the adopted strategies, plans and development programs in which have to be recognized the undertaken activities and development opportunities. The municipality has a strategy for local economic development, which is shared with the municipality of Radovich, but there is no specific strategy for social development. A separate document in this regard is an urban design document for the solar lake settlement - Mantovo. The municipality does not have adopted programs for the social conditions and demographic development. The same applies to the program for environmental development and protection.
- Analysis study on citizens' satisfaction with municipal services within the project for strengthening the public policies based on empirical indicators. The study on citizens' satisfaction with the municipal services within the project for strengthening the public policies is based on empirical indicators. It recommends screening of relevant local / regional / national private sector and civil society, which have a wide network, good reputation and are capable of mobilizing young people and other specific vulnerable groups. The study points to the need to generate social partnerships for inclusive service delivery as well as establishing cooperation for inclusive local development. Mapping of models (existing and potential) for social entrepreneurship can also be performed – corporate social responsible initiatives that can attract investments in a local context, supporting the development of the municipality through culture and tourism.
- Survey with a questionnaire conducted *face to face* with officials of the municipal administration and significant people in the business community as well as experts of the situation. In the municipality we conducted a survey on the stakeholders to be able to identify the significant advantages and disadvantages in the development of the municipality.
- Field surveys and visit of the development players in the community. In order specifically to determine the opportunities and to perform the



valorization of certain segments for development we selected field research activities which enabled us detailed defining and determining locations and objects for the development of the municipality.

- Reconciliation of the preliminary findings and initiatives by the expert team with the actors of the local social and economic development of the municipality. Within the mutual relations of the research team and the developmental actors it was required to harmonize the adopted research results with the planned developmental documents and actors' visions for local economic development.

### *Discussion*

It is important to mention the relevant local / regional actors from the private sector, public sector and non-governmental organizations in the municipality of Konce.

- *Local authorities* in the municipality have played an important role in its development through numerous implemented projects in the area of culture, spatial planning, tourism, then infrastructural activities such as water supply, sewerage, as well as construction and reconstruction of roads.
- *State institutions* also contribute to the development of the municipality, but there still are needed improvements, especially in the infrastructure. As planned activities by the state can be mentioned the reconstruction of the road Radovish - Konce, the planning of the road section in the area of Negotino as well as future projects for generating energy efficiency - using solar and wind energy.
- Within the *business community* as a potential development factor emerges only the form LLC "Eco milk", which at the moment conducts major economic activities in the municipality.
- As for the existing *non-governmental organizations* in the municipality, they possess very limited capacity to represent a more significant development factor in the municipality. The reason for this situation is detected in the poor educational structure of the population. Typical is the indifference by the people for activities within the non-governmental sector and the lack of economic initiative.

It could be concluded that the civil sector is at a very low level, it can even be said that some projects which were undertaken by the civil sector such as the “Project for national cuisines” are institutionalized through the municipality because the NGO lacks the capacity to implement them. The involvement of NGOs from the neighboring municipality of Radovish should be aimed at strengthening the capacity of NGOs in the municipality of Konce by introducing some forms of public - private partnership. That refers to the possibility of implementation of public - private partnership and putting it in the function for development of rural tourism in Konce with the renovation of an old farmhouse.

The church board of the St. Stefan monastery in Konce is in the process of registration as an NGO, which would be the implementer of the revitalization activities and putting into tourist operation of the monastery.

A successful example for concession is being realized through the hunting and fishing club "Studeneč" which is the concessionaire of the hunting ground Konce and the lake Mantovo

It should be noted that in the area of the municipality Konce between the relevant actors there is a partnership which is relatively weak and is implemented within the social sphere. There is no linkage between them into a network that comes down solely to the existence of opportunities that have realistic basis.

Within the mapping process of the potentials for inter-municipal cooperation, there is collaboration with the municipalities of Stip and Radovish especially with the municipality of Radovish where an unbreakable demographic, economic and development cooperation exists. That applies to the field of professional assistance for services within human relations.

Within the area of determining the possibilities for partnership and concessions through deinstitutionalized forms of partnership the municipality undertakes efforts for introducing the actors to social and public - private partnerships, but there are no realized models for them. Furthermore, communities are familiar with the opportunities for concessions and in this regard the municipality realizes concessions with state institutions in the field of mineral raw materials – such as limestone.

The *perspectives* can be determined

- Concessions for production and distribution of mineral drinking water;
- Concessions for the beaches of Lake Mantovo.

The municipality has an extraordinary level of interest in the concessions, but the barrier is the *legal limitations* which determine the concessions at a state level in most parts of the business activities.

It is necessary to raise public awareness in this sphere, because although the actors are familiar with *clustering*, yet they are being poorly implemented.

*Tourism* is the basis for the development but it is not defined. The main component of tourism development should be Mantovo, but the existing infrastructure does not comply with tourism development, because:

- There are no investments for realization of programs on the lake Mantovo within the tourism field;
- No valorization has been carried out in tourism terms and
- There are no entities in tourism and hospitality.

This points to the fact that no *categorization and systematization* of objects is carried out, there is no promotional activity within tourism although it is useful to create a mutual tourism offer.

Economic development to improve the skills of the population is poor, ie there are no activities for improving economic development in the area of *training activities*, or no requalification nor continuous learning.

The municipality needs to develop *rural and picnic* tourism. In that sense it was noted the presence of several old houses built in a traditional style and a monastery complex that can provide the basis for implementation of the initial forms of rural tourism by providing accommodation and provision of catering services. The lake Mantovo as an artificial reservoir offers opportunities for combining picnic and recreational activities in the function of development of tourism in the municipality of Konce. In addition to this goes the planned weekend-settlement Mantovo and other accommodation capacities projected with the detailed urban plan for the area. Public-private partnership can be realized according to the positive experiences from the concessions on the Ohrid Lake beaches. This means that partners can be found on the basis of a public appeal. The municipality would receive funds on the basis of concessions for the beach and increased numbers of visitors.

The rich natural resources and the remarkable water quality should be used for implying the economic activities based on the production and

distribution of *safe drinking water*. The concessions would be aimed at improving the economic and social conditions in the municipality

### ***Conclusion***

As a conclusion it is worth mentioning that several concrete projects with clearly defined participants in the public - private partnership have to be structured, with a clear defined timeframe and financial structure.

They would refer to the following activities:

- Private autochthonous houses and rural - commercial yards for rural tourism activities (location municipality of Konce);
- Stimulating the development of religious / monastery tourism by providing accommodation and catering facility in the monastery complex (location municipality of Konce);
- Concession processes in valorization of the coastal and littoral spatial sections on the lake Mantovo (location municipality of Konce - Mantovo).

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**IMPROVING THE TRUST IN THE SERVICES OF THE  
TOURISTS AGENCIES OF R. of MACEDONIA BY THE  
MACEDONIAN TOURISTS**

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*Abstract*

The appearance and development of the tourist agency makes the preparations for vacation significantly easy. Still, part of the tourists makes decisions these actions to be done by themselves. That is why the topic of this paper is focused on the satisfaction that comes from the services used and the trust that the Macedonian tourists have in the Macedonian tour agencies.

The attention is stressed on discovering the level of trust and which aspects of the gained service have appeared to be inappropriate, what is the satisfaction of the services that the agencies are offering before starting the tour and what is the experience after being part of a tour, and to find out the probability of joining an organized trip by a domestic tour agency depending on the service that the tourists got while using a tour. These questions are made with a goal to find the weak points of the services that the tourist agencies are giving, with a main goal to propose measures that need to be taken so that improvement of the trust in the Macedonian tourist agencies can be established, as well as a return customer to be achieved. To reach these goals a research on the opinion of 220 tourists was made, or more precisely Macedonians that have used the services of a domestic tour agency.

*Key words:* tourist agency, tour, service, tourists, consumer behavior.

*Improving the trust in the services of the tourists agencies of R. of Macedonia  
by the Macedonian tourists*

The need of the people to go out of their residential place and be part of a tourist activity has become more important with the dynamic way of living.

Whether it is vacation, recreation, fun, socializing, improving the knowledge, discovering new cultures or some other tourist activity, touristic traveling requires free time and money. The planning itself takes a lot of time.

That is why, to make the planning and preparing shorter and more easy, people are turning to the tour agencies. The tour agencies can make their choice, decisions and planning more easy for the individuals by offering prepared tourist arrangements. This way the choice is reduced to the previously prepared tourist arrangements, and to specific destinations that the agencies are offering, while the care for tickets for transportation, reservations, as well as the planning of the activities during the stay. One wanting to go on vacation can minimize ones worries by deciding on a specific tour, and let the tourist agency to do the rest.

While these advantages do exist some people are not always prepared to let their trust fully in the hands of a tourist agency. They may be skeptic about the services that they offer, to show they don't trust the agency, and they may even not try to go to more than one tourist agency. Some people, although they don't have enough time to arrange their trip, they would rather do it alone than to trust a tourist agency. That can be part of own or someone else's bad experience, or simply not having trust in the tourist agencies with no specific reason. Because of this the trust in the tourist agencies, as well as the satisfaction of the services used by one are the main topic of this paper.

### ***Subject and goals***

The main research subject of this paper is the trust that the users of tourist agency services have, as well as their level of satisfaction of previously used services. While doing so the focus is on the experiences of the Macedonian tourists which have used a tour arranged by a tourist agency in Republic of Macedonia.

This being said the main goal of the research is to determine the level of trust and satisfaction of the tourist with the arrangements that are being offered by the tourist agencies in Macedonia, with a goal to find the ways how these categories can be improved and increased.

For a more detailed analysis the following goals have been made:

- to determine what is the level of trust of the users and potential users in the services that the tourist agencies are offering;



- if there is distrust, than to determine which aspects of the tourist arrangements are being distrusted and what are the reasons for this distrust;
- to figure out why the potential tourist would become part of a tour and which are the services that will most probable be used;
- to see the satisfaction levels at the users of the services of the tourist agencies before they become part of the tour;
- to make visible the areas (services) of the tour that are satisfactory and those that are marked as unsatisfactory, compared to what the user have expected of the tour (because the satisfaction is correlated to the expectation); and
- to determine if the users of a tour arrangement would become a repeat user of the same services of the tour agencies.

### *Data analysis*

Because there are no previous researches on the topic of trust of the Macedonian tourists in the services offered by the domestic tour agencies, the approach of collecting data by questionnaires was taken. The questionnaire was consisted of 15 questions of closed type, systematically divided in two parts. The anonymity of the subjects was guaranteed so that more honest answers can be achieved. The main problem of the research includes the territory of whole R. of Macedonia, and therefore the field research was done by accidental choice of tourists in the city Ohrid (40% of the respondents) and by distributing the questionnaire through e-mail (60% of the analyzed questionnaires). A total of 108 persons answered the survey.

The first part of the questionnaire is about finding out the trust in the tourist agencies, which was meant for respondents that have doubts in the quality of the services that the agencies are offering. So 93% of the total respondents don't have complete trust in the tourist agencies, by which they qualified themselves to answer the following 2 questions. The first question is about which of the offered services by the tourist agency have they found suspicious in means of their quality. Largest part of the responders, almost 60%, are in fear that they won't be given all of the promised services in the tour (31%) and have doubts in the quality of the accommodation facilities that are offered (27%). The distrust is relatively small when it comes to the other aspects, with their individual participation of around 10%.

The following question is to determine the reasons why there is a distrust in the tourist agencies, or more precisely to determine the source of that distrust. 89% of the distrust comes from experiences, of which 50% comes from own bad experiences and 39% from others'. While the rest 11% are having doubt because they think that the agency is trying to cheat the customers by overcharging them.

The wish for someone else to take care of the total organization of the journey, while one will only pay is the most important motive for becoming part of a tourist arrangement with 45%.

Two also very important motives that were discovered are the low prices of the tours (20%) and that the worry before and during the tourist stay is low (23%). The other four motives influence is insignificant with only 12%.

When discussing the services that one consumer would use from a tourist agency, a conclusion can be made that almost all of the services that the agencies are offering are equally important: tickets (24%), reservations for accommodation (30%) and complete tour arrangement (32%), with the exception of transportation. When it comes to the choice of tourist destinations half of the respondents think that the choice is limited, while the rest of them think that there is a big choice (26%), or that the choice is very low (22%).

Most of the respondents (75%) think that the employees in the tourist agencies have partial knowledge of the services that they are offering. While 14% think that they have good knowledge, and 11% that think that they don't have enough knowledge of the services they offer.

The second part of the questionnaire was dedicated to discovering the satisfaction levels of the services that have been already used. This part was answered only by respondents that have been part of tourist trip organized by a tourist agency -78% of the respondents. Partial satisfaction of the services used dominates the general opinion within  $\frac{3}{4}$  of the respondents that were part of a tour. The participants were asked to give opinion on which aspects of the tour they were satisfied, and which weren't. The tour guide and the hotels in which the guests were accommodated, as well as the transport vehicle and the meals that they got were mentioned as aspects which produced most pleasure. While the displeasure came from not complying the itinerary and the additional services, followed by the tour guide, hotel, meals and transport vehicle.

The tour guide in 55% of the tourist arrangements has known the language of the visited country. When it comes to comparing the expected and service received the tour wasn't able to fill the expectations in 62% of the

respondents. What was of a specific interest at the end was whether the participants, considering the quality of the services that they got while using the services of the tour agencies, would become part of a similar trip and vacation.

Largest part of 52% would use a tour arrangement again, of which 19% would ask service from another tour agency, not from the one that they have bought their previous service. The rest, 48% are not sure if they would use this service again from a domestic tour agency.

### *Conclusion*

The fact that only three percent of the respondents have absolute and full trust in what the tourist agencies are offering and promising is very concerning. To add to this is the fact that most of this distrust comes from previous experiences, whether they are own or from other people, which also means that the distrust isn't ungrounded but it comes from something that did or did not happen, which produce this dissatisfaction at the users of the tourist agency services. This is very important because when the dissatisfaction comes from experience, but not a usual doubt, than the reasons for a distrust can be precisely identified and also can be removed, which will increase the level of trust in the tourist agencies.

Therefore the first thing to do is to find out which aspects of the tourist supply the potential users of a service don't trust. The critical services with less trust are the quality of the accommodation facilities that the tourist agencies are presenting and the doubt that the tourist won't get all the services that are stated in the tour. the first step toward overcoming this situation can be the tourist propaganda. The touristic propaganda is one of the main activities that attracts the potential tourists to use the services of one agency. That is why the tourist agencies should put lot of attention to the truthfulness of their propaganda messages and the standards that they are creating in front of them. Messages that include services that the tourist agency can't include in their arrangement, who are presented as part of the tour, should be avoided. In this case the disappointed of the tourist is inevitable even before booking the tour with the agency.

This also means that he will try the services of another agency. That is why it is much better that in the propaganda messages not to introduce services that the agency considers its weak sides, rather than introducing it as a main attraction just because it is believed that that attraction will sell the tour.

It should also be considered that the tour agencies may not be aware of the quality of the services they are offering (for example a hotel with 4\* according to the foreign standards is offered while in reality this hotel has 2\*).

Because of this the tour agency should check the quality of the services that they are offering before putting the tour on the market. This means that the tourist agency should test their tour arrangement by sending a team of employees, by which they can confirm the real quality of the services that are offered by the collaborators of the agency on the spot. If this is done the agency can firmly stand behind the quality of the offered service, simultaneously improving the trust of the potential user. Also the more conventional methods shouldn't be forgotten, like having a book of impressions in which the users of their services can describe their satisfaction level. This method can also be made by e-mail.

It is very important for the tour agencies to be aware of which of their services are more likely to be demanded. This is important so that the offer of the other services can be improve, and that the interest for them starts growing as well. In this research that kind of services are the transportation services. That is why the agencies should include this services more often in their offer and to pay bigger attention when they are giving this services, especially while planning and implementation.

The tour agencies should have knowledge of what attracts their users of services to be part of a tour arrangement. The basic reason that attracts them is the fact that some else is organizing their vacation. This is in correlation with the third most important reason, the organized traveling (from tickets to arriving). That is why it is significant to be very careful and thorough when planning and organizing a tour. The agencies should be aware that the user of their tour who will notice disorganization during the realization of the tourist arrangement, will, most probably, not use other services of that agency. The big importance of a good planed itinerary comes from this need, as well as the obligation to respect it. The prices are another very important factor for being part of a tour arrangement and using other services of a tour agency.

The potential tourists are expecting the total price of the services of the tour agency to be less than the total sum of the individual services that they would get if they organized the same arrangement by themselves. This is why the tour agencies should take care that the price of the tour is lower than the one that the tourist would get if they went on the trip by oneself.

Before checking the satisfaction from using a tour arrangement, the potential visitors are coming in the tourist agency where in contact with the employees they are getting the first impressions of the agency and its services. This contact and the capability of the employees can be crucial in the process of decision making to use the services of that particular tour agency.

The results of the research show that the managers of the agencies should take care for additional training and informing their employees. This way, and by improving the first impression that the employees are creating, the quality level and the trust as well can be increased. The employees of the agencies that are in direct contact with the potential tourists should know the most important thing about the services that the agency is offering, and if they are asked something that they may not know, than they should ask the guest to wait till they check for the information.

If the tour agencies are willing to increase the sale, they should take care of increasing they offer. The limitation of the offered choice probably is part of the previous experiences from already realized tours, but the data from the research shows that the tourists are ready to try something else if it is included in the tours that the agency is offering. That is why the agencies should put new touristic arrangements that will include some unusual or unconventional destinations (for the Macedonian market), by what the attention of the potential tourist will be held and the chances of becoming an actual tourist increase.

The following part of the questionnaire was meant for those respondents who have previously been part of a tour arrangement organized by a tour agency from the R. of Macedonia. The goal of these questions was to determine the level of satisfaction, to find the areas that are causing this satisfaction, as well as the main reasons of dissatisfaction. The general conclusion is that the respondents were partly satisfied with the service during the tour arrangement, while only two individuals were fully satisfied.

The domination of the satisfaction caused by the hotel in which the tourists were accommodated is very important, because the accommodation (besides the food and the traveling) is one of the main services in a tourist activity. This positive trend should be kept, and the same should be pointed out because like that the distrust in the quality of the accommodation facilities can be avoided (this was pointed as the second most distrusted service before buying and using a tour arrangement). Therefore this data, from this research, if made public or being transferred to the potential tourists can be an important reason for increasing the trust in the tour agencies. The low level of distrust in the tour

guide, shown in the answers of the second question, is confirmed with the high level of trust shown by the participants in a touristic arrangement organized by a domestic tour agency.

The situation is worst when it comes to respecting the itinerary, that is supported both by this being a low level satisfaction factor and high level of dissatisfaction. Once again this proves that the travelers would like everything to go according to the given itinerary, which confirms the main reason of buying a tour arrangement –organization. Even the smallest change in the itinerary can produce dissatisfaction with the whole tour. The tour agencies should try to make the itinerary as precisely as possible, stating the time of departure, breaks and living a specific touristic destination, event, manifestation etc. Of course absolute following and preciseness of the itinerary is impossible because of the many factors that are out of reach of the tourist agency.

That is why this should be predicted, and give an empty space by adding time to the length of each activity, more than their precise calculations.

The equal number of satisfied and dissatisfied participants with the meal quality can be classified as a negative trend, because the food is a fundamental tourist need. Therefore the tour agencies, although can not directly influence the quality of a meal, they can choose the restaurant or the hotel in which the tourist will consume it, as well as make the decision of the food that will be served. To increase the satisfaction the tourist agencies should pay more attention to this activity.

The satisfaction of a person depend a lot of one's expectations. The more the product or service is complying his expectations the more the level of satisfaction will be. This is proven by our research when comparing the 62% of respondents whose expectations were not met by the tour, with the 72% of partially satisfied customers with the quality of the service gained while on the tour. This points out that the largest part of dissatisfaction comes from the high expectations.

To increase the trust and satisfaction, the tour agencies should present their service as it is.

Before make a reservation for the tour, the potential tourist should be inform about all the aspects of the tourist arrangement, all of the services included, as well as the quality that can be expect from them, the personal that will be accompanying them, as well as their knowledge and capabilities, the characteristics of the transport vehicle etc. This way the tourist can place his

expectations at a more achievable level, and these real expectations can be achieved during the tour.

The dissatisfaction determined so far results in a low probability of being part of a tourist arrangement, especially a tour organized by an agency whose services has been used. This conclusion proves that the suggested measures so far need to be implemented as fast as possible, so that the trust in the tour agencies will be increased. That would also mean an increase at the pleasure within the users of the tour arrangements.

As a general conclusion it can be said that the trust of the Macedonian tourists in the domestic tour agencies is on a low level. Although this is a bad situation, it can be easily improved by following the measures described in this paper. These measures will also contribute to the satisfaction of those who are using the services of the agency, eventually leading to a return customer and increased trust.

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## **CONSTITUTION OF TOURISM GEOGRAPHY IN FUNCTION OF ESSENTIAL TOURISM PROCESSES**

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### *Abstract*

Tourism is a phenomenon that arouses interest among different scientific disciplines. One of the disciplines in this regard, which has an outstanding importance, is tourism geography. Tourism - geographical studies are among those who begin to pave the road of scientific interest in this matter. However, in the tourism - geographical literature the treatment of the subject of study is different. It is therefore necessary to indicate the constitution of this scientific discipline and on that basis to determine its place and role in the system of scientific study of this area. Investigation of the constitution allows not only determining the historical context of scientific research, but also to clearly establishing the importance of development of tourism geography in the discovery of the laws and regularities between tourism and the geographical environment. Without constitutional considerations it is not possible in a sustained way to expose the problems that arise from these relationships. Through the constitution it is possible to establish the place and importance of tourism geography in the system of sciences.

*Keywords: tourism, geography, constitution, development, research.*

### *Introduction*

Tourism is one of the most remarkable phenomena in human historical development. It occurs and develops in certain conditions. The main feature is its complexity. This means that it is necessary to study scientifically these peculiarities. In this context a special place occupies the spatial dimension. The tourism need arises in certain premises, and to satisfy it, it is necessary to

overcome a certain space. It is fulfilled in a specific geographical environment in which there are tourism values as its constituent elements.

Given that geography is the most complex science of space on the earth's surface, and that the geographical environment can be most comprehensively studied by geography, it is called upon to solve scientific problems in this sphere.

Spatial dimension of tourism is most remarkable. Because of this, geography first began dealing with the tourism phenomenon.

Hence, a specific aspect of the study of tourism that should be marked as spatial is differentiated. This aspect together with other aspects allows resolving the issues that determine the complexity.

Tourism development is simply not possible unless previously a geographical study of space is made. Based on these studies, forecasts of developments in the field of tourism arise. They are closely related to determining the tourism value of the elements located in the geographical environment. Thus, it establishes an axiological concept in the tourist-geographical study of the space in which tourism need arises to the space in which it is satisfied.

The geographic space is highly heterogeneous. On that basis specific spatial units can be differentiated that will be used for tourism development. It is simply not possible any geographical environment to be conducive to tourism development. Only certain spatial units with attractive motivational values can be put in this function.

The elements of geographical areas in which there is no attractive-motivational basis are in a position to encourage tourists and potential tourists to engage in this activity. Also, certain elements of the geographical environment make it possible to overcome the space as a necessary component of tourism (Marinoski, 2006).

Investigation of the constitution of tourist-geographical research is in the context of these professional and scientific issues.

### ***Methods and data***

Investigation of the constitution requires following the development of tourism and development of tourism geography. It involves historical research context which refers to the functional character and does not treat the problem

on historical basis. This means using the *historical method* as a method that allows the events and relationships to be viewed in a developmental sense.

The constitution of the tourism - geographical researches involves comparative approach of previous treatments of the subject of scientific interest in this area and it is therefore necessary to put the problems in these relationships. The *comparative method* allows corrective terms of treatment and optimal location of the problems dealt with this scientific discipline.

Based on the indicators of research it is provided collating and sorting the constituent content in the tourism - geographical studies, so that a *systematic method* is of crucial importance.

Modern method in this regard is the *method of spatial relations and distances* which provides the functionality of the findings for the constitution of the relations between tourism and the geographical environment.

### ***Structure and development of tourism and geographical studies***

Tourist-geographical studies are based on theoretical and methodological approach that allows discovery of scientific truth. This means that this approach provides a precise domain of scientific interest, and also includes the study of rationality and scientific design (Gareth, Williams, 2002). The development of each scientific discipline consists of levels of development. Thus tourist-geographical studies are contained within this context. Tourism geography as a scientific discipline has its own roots and development characteristics. The appearance and development of scientific research have its own stages in which the scientific knowledge is developed. In this sense we can point out the following stages:

- Travelogue;
- Migration;
- Destination;
- Integrated.

### **Travelogue literature as essential tourism stage-geographic research**

Tourism geography has its beginnings in travelogue literature. Firstly, just some phenomena have been described. Beautiful and attractive areas have been subject to observation and description. This means that this stage provides the spatial distribution of elements of the local environment. Travelogue

literature allows gaining not only the knowledge about the basic environmental characteristics but also about specific phenomena and relationships that may be of interest to readers and visitors. Specific description of interesting regions includes a recommendation for those who are willing to travel. Travelogues attract those people who have not visited the regions which are described with them (Vasović, 1985).

The use of travelogues did not stop even when the tourist-geographical science was in an advanced stage of development. That is why the treatment of travelogues in this sense is of great importance for the development of scientific thought of tourism geography.

Observational-descriptive stadiums in the development of tourist-geographical research, is characterized by the identification of certain phenomena contrasted with phenomena belonging to related scientific fields which this study is correlated with. That is why it represents a favorable platform for the analysis of tourist phenomenon in spatial terms.

### ***Migration stage***

When the descriptive study is determined, the stadium for research of the tourist phenomenon as a migration occurrence follows. Increase in the number of participants in the tourism activities that are moving in a given period of time, shows the problem of overcoming space. Tourism represents a very dynamic phenomenon in the geographic space, which is why mastering of space represents an undeniable component of its definition. Tourists, who are mastering space, are practically migrating. This is the most essential characteristic of the tourist phenomenon. This feature, which is a part of the tourism complexity, actually represents a tourist migration.

*Tourist migration* is a spatially-geographic based phenomenon that is different from other types of migration phenomena. This originates from the fact that tourism is quite different from similar phenomena in the society and not just in the modern surrounding but also in the context of genetic evolution. Differences are observed both in qualitative as in quantitative terms. Permanent migration, such as resettlement and colonization, are caused by force, or to find better working and living conditions. Exoduses are characteristic during war, natural disasters and cataclysms or during epidemics and disasters. People leave permanently their place of residence because of such emergencies. Permanent

emigration is usual in economically devastated areas, where there are simply no conditions to live and work. Also, due to marriage or employment, people decide to settle permanently in areas which are located away from their places of birth.

Because of professional obligations, like military service or education, people undertake *temporary migration movements*. Such are economic migrations. These include migrations for earnings and seasonal grazing of cattle, known as rancher migration. In these cases evident changes are made in the environment for existential needs (Jovicic, 1981).

Tourist travel is such a migration that meets the recreational and cultural needs. This means that it has essential meaning with dominant secondary needs. Tourist migrations are migrations which include "adventure" for *pleasure* or traveling by the participants' own wish. These characteristics also possess only the religious migrations. However, given that religion is an integral part of the culture it can be included into the migrations that include satisfying these kinds of cultural needs. On this basis, traveling from places of residence to the pilgrimage places, represent tourist migrations, because they are spiritual pleasures. Contemporary religious movements have an organizational and tourism consumption meaning. Tour operators show a great interest in this type of tourism trends for possible profitability. That is why they are different from related religious trips with historical context.

It can be concluded that the tourist migrations are the only migrations for pleasure and not by force.

Tourism at this stage of knowledge is treated as a tourist migration with organizational and time restricted characteristics, which reflects its qualitative dimension.

Quantitative characteristic of this migration is its massiveness. It is believed that due to the number of participants in the tourism movements in the world, it can be seen as the largest temporary migration form not only in the present time, but in historic terms as well. Mastering space for recreational and cultural satisfaction represents a civilized form of obsession in most parts of the world. It is estimated that around 4 billion or about 2/3 of the worlds' population are included in domestic and international tourism movements.

Based on these characteristics, at this development stage tourist geography is consisted as a science of tourism movements.

### *Destination stage*

The destination stage of development of tourist-geographical studies is a stage in which elements of the geographical environment have prevailing meaning. Scientific interests for attractive geographical areas represent advanced forms of tourist-geographical studies because they deal with detection of reasons for overcoming space. Tourist-geographical studies at this stage of development include valorization components. This establishes a special relationship in the study of the tourism phenomenon. It relates to the treatment of natural and anthropogenic components as values to which tourism activities are directed (Hall, Page, 2006).

Also, this stage includes scientific interest that is related to receptive and capacity factors and their association with attractive amenities. Tourist-geographical studies are focused on the study of spatial entities such as sites and places, regions and national territories. Tourist space is determined by whether it holds possibilities for the formation of tourist offer and whether the space is recognizable by tourist characteristics.

### *Integrated stage*

From the analysis of the previous stage, it can be concluded that tourist-geographical studies permanently develop. Description of spatial entities can not lead to scientific exactness although they have contributed in defining the problem of interest.

Also, tourism can not be reduced only to the movement, although it is undeniable that mastering space is the basic component of tourist activities. Tourism can not be reduced to an attractive-receptive sphere of the geographical space. It takes place in a broader geographical area. There is an evident relationship between the appearance of tourist needs and geographical environment, such as the movement is in interaction with the geographic characteristics of the region.

According to this, the tourist-geographical study can not be superficial and one-sided but complex and essential.

Contemporary development levels of tourist-geographical studies imply deeper penetration into the tourism and space phenomenon for the purpose of discovery of their essential characteristics. Geographical environment represents a complex relationship and interdependence of elements of organic and

inorganic origin. They appear as factors that influence the tourism phenomenon. Based on the characteristics of elements of the geographical environment that is related to the tourism phenomenon is determined by its essential character and forms through which it manifests (Marinoski, 2002).

Tourism is becoming an integral part of the geographic environment. It is therefore important to ascertain that the tourist-geographical studies are in a role that allows defining and differentiation of these connections and relations, and discovering their characteristics, such as in terms of interactivity, as well as connection to other phenomena. Based on this composition and development of the scientific thought, tourist and geographical theories are established, which in practice show great justification for their applicability.

### ***Tourism geography in the system of sciences***

Constitution of tourism geography as a scientific discipline, in addition to determining the theoretical and methodological framework of study, includes the refinement of its place in science. In this context it is necessary to consider the following conclusions (Marinoski, 2006):

- relation between tourism geography and other disciplines;
- tourist geography as tourism and geographical discipline;
- division of tourism geography.

### ***Relations between tourism geography and other science disciplines***

Tourism geography is related to many scientific disciplines. These relations impose a multidisciplinary approach of tourism study in a certain space. Simply said, modern science does not recognize isolation and exclusiveness. Tourism geography requires knowledge of other scientific disciplines, as it helps other sciences. That's the only way it can reach the scientific truth. The relation of tourism geography with other scientific disciplines should be examined through two spheres. The first sphere is a combination of sciences which focus of interest are issues that are related to tourism and the other is a sphere of geographical knowledge or interest focused on issues and problems of the geographical environment and its elements (Such cooperation tourist geography derives from the unity between tourism and spatial values).

***Relations between tourism geography and other disciplines with a subject matter related to tourism***

Given the complexity of the problems of spatial elements of geographical environment and tourism of the scientific discipline whose subject matter touches on tourism, a special place have taken the following:

- Economics;
- Sociology;
- Psychology;
- Medicine;
- History;
- Ethnography and Ethnology;
- Archaeology;
- Number of Arts;
- Informatics;
- Ecology.

*Economics* are among the group of sciences that have made a great contribution of enlightening characteristics of this phenomenon. Studying the economic impact of tourism mobility, character of tourist traffic, achieved economic results of tourism expenditure, tourism's impact on other economic and other activities and characteristics of tourism in the context of overall economic development are just a few fields that allow the detection of the relationship between the geographical environment and tourism. Based on these findings there is space for judging the distribution factors, elements and impacts of tourism in the area which is of basic importance for the geographical treatment interaction.

*Sociological studies* provide knowledge about social relations in tourism in the geographic environment. Tourism geography, based on this knowledge, can make conclusions about social characteristics and different units. Social relations in tourism have very important influence on the geographic environment. On the other side, tourism affects the social processes in the geographic environment so it is necessary to have a mutual corporation between tourism geography and social disciplines.

*Psychology* is a scientific discipline that examines the motivations and behaviors of tourists. Based on their wishes and needs, tourism geography can perform an evaluation of the spatial elements that can enable an appropriate choice by tourists. The tourism-geographical studies should provide



comprehensive tourist offer based on demand which occupy an important place for tourists' affinities, which are the subject of study of psychology and specifically the psychology of tourism.

*Medical studies* are very useful in detecting the laws arising from the relationship between tourism and the geographical environment. Such are the studies concerning the impact of the elements of geographical environment on the health of tourists and on the potential tourists. Fatigue, exhaustion and absence of recreational opportunities are the reasons that tourists visit a particular environment. Also, medical studies are focused on the qualities of the geographical environment for recreational, health-tourism purposes. The medical science provides answers to the questions to what altitudes respond to the treatment of illnesses, how the climate impacts on the health status of people, what are the effects of the flora, what is the health significance of water and so on. This knowledge of the tourist geography allows indicating the benefits of tourism development in a particular environment. Medical science gives optimal parameters for the development of health and recreational activities in geographical space.

*History* allows realization of certain events and personalities that have meaning for people. Historical events attract tourists, and they are related to space. The geographical environment that has a comprehensive history represents an environment that is convenient for tourism development. Tourism geography uses this knowledge to make it possible to perform the evaluation of anthropogenic tourism values in a particular environment. Of particular importance is the cultural history, because cultural and historical values are often the basis of tourism development, and tourism geography is interested in their spatial distribution.

*Ethnographic and ethnological studies* are in close relation with tourism geography. Namely, they are such studies through which scientific knowledge is obtained for the overall creation in a particular geographical environment. The folklore is a special tourism value that deserves tourism activation. Tourism geography is able to identify opportunities for using these values in tourism through the prism of their spatial distribution and functionality.

*Archaeological studies* occupy a similar place in the scientific interest of the tourism geography. Archaeological artefacts and sites are attractive tourism values. Therefore, tourism geography, using the knowledge of this science, performs appropriate tourism valorization. Through the tourism valorization it is possible to activate the archaeological values.

Tourism geography uses *artistic creation* as an integral part of the tourism area. Numerous buildings, sculptures, fountains, paintings, theatrical and musical performances are important for tourism development. Their value and spatial distribution can not remain outside the domain of tourism and geographical interest.

Tourism geography is also related to modern sciences such as the *computer sciences*. Through information technology it establishes the GIS process. It has significant application in the interpretation of the tourism phenomena, since it enables virtual presentation of the elements of tourism within the geographical environment.

*Ecology* is one of the most modern sciences. It is a science that studies the relationships between the elements of the environment. Because of the fact that the nature of the environment determines the emitting of the tourism activity and that without preserved and enhanced environment it is not possible to develop tourism, ecology occupies a special place in these studies. Due to the symbiosis of the elements of organic and non-organic origin that have affected the dominant existence of tourism in the geographical environment, ecology and tourism geography are in an unbreakable bond.

### ***Relations between tourism geographical disciplines and geography disciplines***

Tourist geography is showing relations with natural geographic, socio-geographical and general geographic disciplines.

From the ***natural-geographical*** disciplines tourism geography achieves a special relationship with the following disciplines:

- physical geography;
- geomorphology;
- climatology;
- hydrology and hydrography and
- biogeography.

*Physical geography* is also a science that in the geographical environment interprets the effects of endogenous and exogenous forces. Most of these have appeared attractive tourist-motivational properties. Tourism geography is able to evaluate these values from a tourism point of view, so it is referred to the cooperation with the geographical discipline.

*Geomorphology* is the science which studies the landscape. The landscape however, is a very important element of the geographical

environment. Geomorphology provides information about the appearance and distribution of relief and relief forms and for its genesis and evolution. These findings are very important in the process of tourist valorization. Relief in the tourism development has a dual meaning. It alone represents an attractive-motivational factor, also affects other elements of the geographical environment. It is therefore an extremely important relationship that exists between geomorphology and tourism geography.

*Climatological studies* have multidimensional significance in interpreting the relationship between the geographical environment and tourism. Climatic conditions are the basis of tourism development. The values indicate the climate of health and recreational assumptions. Geography tourism uses the climate studies in the evaluation process not only to determine the value of the climate globally, but also to determine the characteristics of individual climatic factors and elements for the purpose of tourism development in the geographic environment. According to the climatological research tourism geography is able to determine the optimal values for development of tourist activities and to determine the spatial distribution of geographical units suitable for tourism development.

*Hydrological and hydrographical studies* have similar meaning for the tourism geography. Qualities of aquatoriums and their spatial distribution allow the tourism geography to perform evaluation that will guide to the optimal tourism activities. Studies of the waters allows for tourism geography to designate the most suitable geographical areas for tourist development. Water as a tourist value is observed through the prism of attractive-motivational factor, but as an element of geographical environment which is closely related to its other components. The water is the basis for the development and survival of tourism in the geographic environment.

*Bio-geographical studies* are necessary to determine the values of flora and fauna as a factor for tourism development. Based on the characteristics of specific bio-geographical factors and elements and their spatial distribution, tourism geography can perform tourist valorization. Hence the tourist geography and biogeography are made on mutual cooperation.

*Demography and geography of the population* are closely related to tourism geography. Their relationship is more dimensional. Tourism geography use information on the scope and structure of the population in the emitting area to determine the spatial distribution of segments of tourism demand. With this, an opportunity is arising for guiding tourists to the appropriate geographical

environments. Also, studies of demographic characteristics of receiving population are of great importance for tourism geography. Based on these findings, the assessment of the acceptability of tourism in the receptive geographical environment and future development are closely related. Tourism, among other components that it possesses also represents a specific migration.

Demographic studies are related to the geography of tourism in the area of the scope, frequency and types of tourism operations, also through the impact of tourism on the receiving population in the geographic environment.

*Urban geography* is a scientific discipline that examines the characteristics of urban areas and nuclei and their spatial distribution. These areas have a double significance for tourism. These are geographical areas from which they are recruiting tourism customers and may be environments with its cultural and historical values and trade opportunities to attract tourists. Therefore, tourism geography and urban geography have mutual cooperation in the domain of relations between tourism and urban-emitting geographic area, so in the receptive tourism environment.

*Rural* and tourism geography cooperate in the field of interpretation of the relationship between tourism and rural agrarian area. Rural environment is increasingly attractive for tourists, so the findings for the structural elements are necessary to the geography of tourism in the tourism valorization. Also notable is the interest of rural tourism development as a basis for cooperation between these disciplines.

*Traffic* and tourism geography find mutual interest for cooperation in the knowledge of the degree of relatedness between the space where tourism need is created and the space in which this need is met. Traffic geography points to the manner and means of managing space as well as their distribution in the geographical environment. These findings provide the tourism geography to determine the spatial units for developing tourism.

*Economic geography* is a scientific discipline that examines the economic processes in the geographical environment. Cooperation with tourism geography is accomplished in the area of influence economic resources located in the geographical environment, have on tourism. The economic geography knowledge, the tourism geography uses in the process of evaluation and planning for tourism development as well as in studies related to the spatial functionality and determining the direction in the performance on the tourism market.

*Political* and tourism geography spots are noticeable. This stems from the fact that the nature of political relationships largely depends on the level of tourism development in a specific geographical environment and population mobility. Political geography sheds light on relations between states and political associations and provides information on the translocation of the states in this context. It assists the tourism geography to pinpoint geographic national-territorial units which are suitable for guiding tourism offer. Furthermore, these findings suggest opportunities for tourism development linked with the political stability.

Tourism geography is related to *general-geographical* disciplines such as:

- Cartography and Geography.

*Cartographic* approaches are explained as a necessary methodological framework in tourism-geographical studies. Hence, the tourist geography and cartography have a wide space for mutual cooperation.

*Regional-geographical studies* are of complex nature. They cover all elements of individualized spatial unit. Because many of the elements of this complex contain an attractive tourist motivational value, they are part of tourism interest in geographical science. Tourism and regional geography base their allegiance to the numerous relationships within the geographical space as a whole.

### ***Division of tourism geography***

Tourism geography as a scientific discipline with its own structure is permanently evolving. That is one of the reasons for its sustained position in the scientific system. New contents and a broadened field of interest lead to new levels of tourism geography studies. In contemporary conditions, based on this development, a certain division of tourism geography is recognized. Due to such a division special disciplines within the science have been created.

Having in mind the range and character of the scientific interest, tourism geography can be divided into the following:

- General;
- Regional;
- Applied.

### ***General Tourism Geography***

General tourism geography studies the theoretical and methodological issues about status categories, definitions and differentiations, as well as typological and functional relations. It is a science which studies the basis of global geographical relocation of tourism and its interaction with the geographical environment as a general basis of development and the practical development issues on a global level. Hence, general tourism geography is characterized with a distinct fundamentalism in its study.

### ***Regional Tourism Geography***

Regional tourism geography reveals scientific laws which are drawn from the relationship between tourism and the geographical environment in separate parts of space. This discipline has a destination approach in investigating tourism. It studies tourism in certain regional frames: sites, places, regions, state territories, continents or the Earth as a whole.

### ***Applied Tourism Geography***

Applied tourism geography is a scientific discipline which aims to provide knowledge of the contents in specific elements of the geographical environment. When locating beach areas, trim trails, amusement parks, etc., it is necessary to apply tourism and geographical knowledge. These findings are necessary to provide spatial and urban planning in certain tourist-geographical environment. Therefore, it is an approach for application in research of the relationship between tourism and the geographical environment. Thus, this approach in studying the relationship between tourism and a determined geographical environment is applicative.

### *Conclusion*

Given that tourism geography examines the relationship between tourism and the geographical environment, it appears that its place belongs to the system of tourism and geographical sciences.

Tourism geography belongs to the sciences in the field of tourism because it reveals the fundamental laws of the tourism phenomenon in space. The study of tourism belongs to several disciplines. They are: sociology of tourism, tourism economics, psychology of tourism, tourism law and other disciplines. Their common research interest is tourism. Each of these disciplines studies this phenomenon from their point of view. Tourism geography in the system of tourism science is located parallel to these disciplines, and its aspect of the study is the spatial.

Unlike the clearly defined place of tourist geography in the field of science to tourism, its place in the system of geographical sciences is treated differently by these theorists. These approaches depend on the treatment of the tourism phenomenon. Geographers that observe tourism in terms of its determination of the natural environment, locate tourism geography in the natural-geographical disciplines. On the other hand, treatment of tourism as a social phenomenon suggests that it is a socio-geographical discipline. But it should be noted that tourism geography examines the complex relationship between the geographical environment and tourism. They contain intertwining of natural and social phenomena. So it should not be treated either as a purely geographical or socio-natural-geographical discipline.

Treatment of tourism as a tourist migration suggests that tourism geography should belong to the geography or demography of the population. However, this approach is unilateral because tourism can not only be reduced to movement and to nominate it as a tourist movement. It is evident in this case its subjectivity outside this framework.

Some authors treat the tourism phenomenon as an economic activity. From this view, they determine the tourism geography as part of the economic geography.

But it is clear that tourism is not just an economic activity, although it is not excluded. It is a phenomenon with considerable social, psychological, legal content and spatial characteristics. Accordingly, this shows that its place within the economic geography is disputed.

According to other authors, tourism geography is a branch from general geography. In their researches they tend to detect universal and special characteristics between tourism and geographical environment which are of very heterogeneous nature.

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- CONSTITUTION OF TOURISM GEOGRAPHY IN FUNCTION OF ESSENTIAL TOURISM PROCESSES



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**CULTURAL ASPECTS ACROSS DISCOURSES:  
POLITENESS STRATEGIES IN HOSPITALITY  
INDUSTRY DISCOURSE**

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*Abstract*

Although communication practices, processes and experiences are central aspects of tourism studies, this is relatively unexplored area of study. It is only very recently that experts of linguistics have turned their attention to the language of tourism. The research of discourses in tourism reflects the interdisciplinary aspect of the objective in this paper - on the one hand, tourism, as a significantly important and strong agent and channel of globalization, and on the other hand, the ethnography of communication, with its basic principles present in the tourist communication. Both disciplines, joined together, at the same time reflect change and transition, thus growing into treasures of different discourses since the existence of tourism.

The accent is put on differences and similarities of both cultures that have their own realization through language interactions, where the subcultures and individual variables that motivate people to speak as they do, are deeply integrated. An attempt to separate them is not possible or desirable, especially for the fact that their interrelations are culturally interwoven.

The differences of analyzed tourism discourses are due to the fact that the cultural systems of both languages are organized differently. Differences appear in the cultural norms and cultural assumptions and the social mechanisms of competency appear to be culturally specific.

The register of language interactions that are part of the speaker's competence in both English and Macedonian do not reflect only natural logic of language, or combination of natural logic and historical accidents, but they also reflect cultural logic, encoded in the language.

Key words: culture, tourism discourse, cultural differences.

## **INTRODUCTION**

Many hospitality training programs available nowadays to advanced students in ESP courses focus on culture and cross-cultural communication skills. The context of culture is an important frame within we interpret the reality and organize our experience. Katan emphasizes that culture maybe viewed as a commonly shared mental model or *map of the world* (1999:17), consisting of beliefs, values and cognitive environments which affect the behavior and identify individual persons. Cross-cultural understanding is of considerably great importance when ESP courses are taught. It has been widely recognized that moving across cultures actually means communicating not only with foreign visitors but also dealing with foreign social and cultural systems. Functioning successfully in academic, business or other professional settings always understands adjustment to cultural variations in social relationships.

In the hospitality industry, human resources represent an agent of the uttermost importance. Education for the hospitality industry, further upgrading, professionalism, together with a change of the mentality in the service encounter i.e. communication culture, assume an exceptional significance within quality standards improving strategies. Future hospitality industry employees, represent the base for a further development in tourism - a complex phenomenon requiring an interdisciplinary approach towards professional training. ESP students being professionally trained should gradually become aware of strong relationship that exists between linguistic communication and culture and realize that social behavior depends on socially prescribed norms which differ from one country to another.

According to Prichard, (2000:239),the ultimate goal of ESP professionals is to ensure pragmatic success in communication. In developing awareness of the needs and concerns of ESP students, teachers should consider teaching matters beyond teaching the language. The author is definite that the answer is clearly affirmative because most tourism and hospitality English courses, especially those designed for advanced learners, often focus on such areas as polite requests, apologies, expressing regrets, etc. In these areas behavioral strategies and techniques play important role.

Students should be made aware of socio-cultural contexts in which communication occurs, culturally-influenced behavior, the impact of different cultures on their languages. Therefore, cultural awareness raising and cultural instruction should play an important role in advanced ESP courses. No one

involved in teaching ESP is likely to argue for cross-cultural understanding and multicultural diversity, but some may question the relative emphasis to be given to cross-cultural as opposed to target or local culture components in course design. The main teaching/learning aim should be mastering spoken communication, as tourism is actually a human exchange in which it is extremely important to communicate respecting and understanding the tourists' different cultural values in order to create reliability and trust.

One of the most important task in the ESP teaching process is the students' cross-cultural awareness. Foreign language teachers should bear in mind that they are actually teaching operators in direct contact with customers a very complex art of how to "manage, interact, negotiate and compromise with people of different culture backgrounds and at different levels of communication. "(Yu, 1999)

#### ***CROSS-CULTURAL ASPECTS IN VERBAL COMMUNICATION***

Wierzbicka, (1985: 145-178) beliefs that different cultures find expression in different systems of speech acts, and that different speech acts become entrenched, and to some extent, codified in different languages. Thus, in interpersonal communication where English is used as a means for transmitting the message, there are cultural differences with respect to how and what type of directness is expected from participants in a particular situation. Failure to anticipate the communication, a problem may occur in unwilling social incidents which may leave native speakers of English hurt and offended. For instance, the English use of the imperative is mostly used in commands and orders, instructions and directness for the benefit of the addressee, which implies that there is a heavy restrictions on the use of the imperative in English. Katan (1999:215-221) notes that "...*the imperative is a sign of extreme urgency or lack of politeness.*" Macedonian politeness strategies are not alone among European languages in differing from English in this sense. According to Wierzbicka (1985), these differences in the degree of directness ...*would also apply to Russian, Serbian, Croatian, Spanish and many other languages. It is English which seems to have a particularly rich system of devices reflecting a characteristically Anglo-Saxon cultural tradition.*

Consequently the speech act *Book a double room* will need further 'softening'. While the possible context-bound variants of this request in Macedonian would be *Ќе ве молам да резервирате една двокреветна соба,*

*Можам ли да ве замолам да резервирате една двокреветна соба,* the English language offers a wide range of lexical and grammatical options depending on the learner's awareness of the degree of indirectness required:

Can/could you book a double room, please?

I was wondering if I could ask you to book a double room?

I wonder if I could ask you to book a double room?

Do you think I could possibly ask you to book a double room?

If it's not too much trouble, do you think I could ask you to book a double room?

The mechanisms the English use to express their feelings, opinions or ideas is acquired at very early age. Therefore, students of English should learn how to deal effectively with this typically English rich system of devices reflecting their cultural tradition which tolerates individual idiosyncrasies and peculiarities, which respects everyone's privacy.

Goodale (1987) identifies lexico-grammatical devices that can be used to convert direct statements into culturally appropriate tactful messages. He notes, for instance that the dogmatic tone of many statements can be cushioned by simply adding *I'm afraid*, to make clear that you recognize the unhelpfulness of one's response or comment. Thus, introductory phrases such as *To be honest ...*, or *Frankly...* may be used to warn the listener that disagreement follows, while the grammatical negative *not* used with a positive word, for instance, *not very comfortable* instead of the obvious negative counterpart *uncomfortable*, makes any suggestion more open and negotiable.

According to Wierzbicka (in Katan, 1999:215), the English indirectness seems to be "*related to core English values of freedom, respect for privacy, principles of negative politeness and not wishing to impose.*" Thus, EFL students should be strongly advised to avoid direct contradictions and learn to split direct disagreement into stages, although this might not be the way they map the various options when using their mother tongue:

Explanation	Possible options
Starting a conversation	I wonder if I could book an all inclusive tour. I'd like to book an all inclusive tour.
Checking for understanding	Did you say something about .... Could you possibly repeat ....
Showing tactful redirecting	Isn't there any other tour you would like

	to book, madam? Why don't you have a look at our promotional brochure first?
Offering	We could offer much better arrangement

One of the often used communicative mechanism in hospitality industry are requests.

Requests can be realized with a variety of constructions. In Macedonian three moods can be distinguished: indicative, subjunctive and imperative.

Depending on the context all three moods can be used in expressing requests. As morphologically rich and at the same time being functionally flexible, imperative mood is very often used for everyday requests in Macedonian, for instance: *резервирајте ми за четири особи една маса до прозорец*; (Make a reservation for four by the window). Subjunctive interrogatives are also used for requests as they make it easier for the addressee to provide a negative response. For example, *Кога би можеле да не сместите во поубавиот хотел*; (If you could possibly accommodated us in the more beautiful hotel?). Within hospitality discourse, subjunctive interrogatives occur in both formal and informal contexts when there is high level of cooperation. A common everyday conversational means of requesting in Macedonian is the present indicative interrogative as in *Ќе одиме на разгледување на градот*; (Do [can] we go city sightseeing? A possible explanation for this use is that the present indicative interrogative expresses a degree of certainty and present reality, whereas subjunctive and modals express uncertainty and distance. For contrast, in English, imperatives are considered the least polite constructions when compared to declaratives and interrogatives. (Leech, 1983:119).

One of the most common mitigating devices used with requests in Macedonian hospitality discourse is the use of diminutives. Diminutives are formed by adding special suffixes (e.g.—*енце*, *-ичко*, *-елценце*, *--уле*) to nouns and adjectives (e.g. *хотел* [hotel] / *хотел-че* [hotel.dim]). Multiple suffixation is also possible (e.g. *кафуле* [café] / *кафуленце* [café.dim+dim]). Even though their prototypical function is to indicate smallness, diminutives in hospitality settings are used extensively to indicate affection, endearment and informality.

This is especially the case in restaurants where it is not uncommon to hear people asking for or offering *сиренце* (cheese.dim), *винце* (wine.dim),

*пржени компирчиња* (fried potatoes.dim) etc. Speakers may freely decide whether to use diminutives or not and use them only in relatively informal contexts. (Terkourafi, 2004:266). It seems as if the diminutive strategies in hospitality discourse were developed for the purposes of expressing informal, positive politeness.

### ***INTERCULTURAL COMMUNICATIVE COMPETENCE***

So far, in the analysis of the speech acts in the hospitality discourse the stress was put basically on the Anglo-American cultural values, which are reflected through the English language. This should not lead to a conclusion that the speech acts in L1 reflect certain cultural values, whereas the speech acts realized in the L2 reflect only the absence of these values. It is completely understood that the speech acts completely reflect those values that are a characteristic of the L2. For instance, the speakers of English may think that the speakers of Macedonian through the way they communicate reflect dogmatism, insufficient interest for their interlocutors in the speech interactions, inflexibility even a tendency to be too indiscrete, curious, etc. On the other hand, having in mind the speech acts of the speakers of English, the speech acts used by the speakers of Macedonian can be defined of missing cordiality, spontaneity, and directness.

As for the differences in the speech acts in both compared cultures the analysis show that even though there exist literature on speech acts where English communicative strategies are often interpreted as manifestation of universal *natural logic*, or *a universal logic of conversation* (Gordon and Lakoff, 1975) the analysis have shown that such certifications are too ethnocentric. The specific speech acts in English which are pointed out to universal principles in expressing politeness, have shown to be linguistically and culturally specific. In the English language there are no universal rules of politeness, nor specific rules of politeness when communicating with a guest, but rather there is a difference between communicative strategies in the English language and the reflected cultural values in it.

The hospitality industry with its specific services is an arena of cultural clichés and cultural misunderstandings. It is of great importance to know the cultural norms and the language used by the hospitality personnel when communicating with foreign guest. However, if the attitudes in the speech acts of the native speakers of English reflect what is ‘normal’, ‘natural’, are widely



accepted, a successful intercultural communication among the speakers of different cultures cannot be realized. If a speaker of Macedonian tries to use simple imperative constructions in the English language will be marked as impolite and rough communicator. The same speaker may be defined as uncooperative and insufficiently intelligent when not being able to offer a reply to a well elaborated indirect addressing by the speakers of English. On the other hand, too loud expression of emotions for instance, when a customer is complaining or the use of direct forms of address, for the speakers of English can be considered as insulting and irritating.

It is obvious that future challenges in hospitality education are calling for re-examining the methodology of teaching intercultural communication. According to Hymes, (1964) the ability to understand the speakers who come from different national cultures does not rely only on communicative competence but on the consciousness that the cultural meanings and values incorporated in the foreign language are specific for each national culture.

Hospitality students who learn foreign languages should become aware of learning how to understand the cultural differences and cultural relativity. Learning foreign language begins with a change towards applying the *intercultural communicative competence*. The cultural mirrors of the source culture and culture – target which are incorporated in the speech acts can offer great contribution not only in the methodology of foreign language learning but for the participants themselves in the hospitality industry.

### ***CONCLUSION***

The differences in the realization in the speech acts in the category of polite requests reflect the connection with the different ways of evaluation cultural values in both cultures such as cordiality, hospitality, spontaneity, directness, intimacy and affection in contrast to indirectness, distance, tolerance and antidogmatism, individualism, which as such are reflected in the hospitality discourse.

Globally, this is a reflection of the Anglo-Saxon social matrix in contrast to the Byzantine social matrix. On the one hand, the English language and culture come from a long-time existing capitalist society, in comparison to the Macedonian language and culture upon which the long years of socialist system of existing left traces. The differences in the speech acts in the hospitality discourse in English and Macedonian are due to the fact that the cultural systems

of both languages are organized differently which means there are differences in the cultural norms and cultural assumptions, and the social mechanisms of competence appear to be culturally specific.

Speakers of a given culture very often and much more are exposed to the influence of a foreign culture and ever since before, as a result of the demand of their profession or as a result of the socio-economic makes which contribute towards the ethnic profile of a country being quite picturesque. In that colourful field of different cultures, traditions, languages and dialects, insufficiently informed person can very often experience a cultural shock, thus confronting diverse influences on a daily basis. Therefore, the systematic study of the cultural phenomenon in general and specially studying the specific a nation's cultural conventions the guests encounter becomes an integral part of the modern educational system. The information offered through this approach offers better penetration in one's own culture. The importance of multiculturalism is seen in overcoming the ethnocentrism which is a needed precondition for living in a multinational and multicultural society.

Cultural aspects can be easily detected in the usage of politeness strategies in hospitality discourse. The role of learning politeness strategies has to be highlighted, as a powerful cognitive tool fundamental to further enhancing the second language learner's ability to cope with this specialized verbal characteristic in hospitality industry discourse. The analysis indicated the close interplay between social (extra-linguistic) and structural (linguistic) factors shaping the linguistic idiosyncrasies of English and Macedonian politeness strategies in hospitality industry discourse.

The analysis showed that there is an extensive use of derivational diminutives in Macedonian communicative strategies as a tool to express the politeness of involvement, especially in hospitality situations as offering coffee, food. English strategies form this domain mostly rely on indirectness and usage of mechanisms for expressing indirect requests.

It has been argued that the awareness of cross-cultural differences concerning politeness strategies may be exploited as a valuable teaching resource for classroom interaction and as a springboard for further enhancing of the adult learners' communicative competence in subject specific fields.

In the area of cross-cultural encounters misinterpretation of politeness strategies may occur if cultural variables are not respected. EFL learners, especially those pursuing advanced courses should be taught to develop 'sensitivity' when using English as a means of communication.

In the light of these cross-cultural considerations, there is a pressure on the ESP teachers to include cultural information in their courses so that students can have proper functioning in professional settings.

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## **NEW LEGISLATION FOR CATEGORIZATION OF HOSPITALITY OBJECTS 1 IN MACEDONIA**

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Maja Georgieska, MA**

### **Abstract**

Tourism and hospitality industry is one of the main branches of economy and its development. Contribution of these activities in economy depends of many factors, and one of main factors for its development can be done by taking law measures by state and local municipalities. Macedonia in the last several years is truly dedicated for tourism and hospitality development a lot, and with set of measures done on national and also on local level this is more achieved. It is very obvious and very optimistic beside worldwide crises that in Macedonia, in tourism and hospitality, numbers and parameters show increasing values. Very important thing in this chain is categorization of hospitality objects. In 2012 new legislation for categorization of hospitality objects was passed. Categorization and its proper implementation under European and world standards must be done. This paper analyses and focuses on general trends in tourism and hospitality in Macedonia, and on the process of categorization of different objects and standards for categorization as well. All this is done analyzing of the newest data for this process which will show the real image of the position and state of tourism and hospitality industry in Macedonia.

*Key words:* Categorization, hospitality, legislation, implementation

## **MAIN PART**

### **Introduction**

Significance of tourism and hospitality development for Macedonia is very important, for its whole economy and development as a state. This is put as one of top priorities of Macedonian economy and political system. In the period of last several years, set of measures are taken for achieving this goal even on

economy and on legal field. New Strategy for Tourism Development for 2009 – 2013 was adopted, laws related to tourism and hospitality was amended several times, and new rulebook for categorization of hospitality objects was passed. Also decreasing of VAT for tourist visits and spent overnights from 18% to 5%, is one of the most efficient measures. Then, giving subsidization for tour-operators for taking foreign tourists in our country is also very essential instrument for tourism development. Increasing of number of tourists and overnights than previous years, numbers of foreign tourist are increased, and all this must be taken with big courage and big satisfaction.

Some weaknesses in the process of categorization were revised in some cases and amended and new categorization was adopted in 2012.

### ***General trends in tourism and hospitality industry in Macedonia***

Situation with tourism and hospitality development the best can be shown with presentation of data for number of tourists and overnights. Below, Table 1 shows number of tourists and number of nights spent in Macedonia for period 2008-2012, both for foreign and domestic tourists and totally. Numbers show that from 2008 till now number of total tourists has increased from 605 320 in 2008 to 663 633 in 2012, which is good signal, but more must be done to achieved goal - number of 1 000 000 tourists per year. In the structure, for number of domestic tourists has decreased from 350 363 in 2008 to 312 274 in 2012, which is not good sign because bigger tourism and hospitality development should be achieved through increasing of domestic tourism and hospitality and more measures should be taken for attracting domestic tourists, such as decreasing of prices for domestic tourists. Numbers for foreign tourists show different situation, which give more satisfaction, from 254 957 in 2008 to 351 359 in 2012, i.e. almost 100 000 plus. This fact is very optimistic and tells that measures for attracting foreign tourists gave better results in practice, but certainly more should be done also in this structure. Numbers for nights spent in totally show decreasing from 2 235 520 in 2008 to 2 151 692 in 2012, and this shows that tourism and hospitality stakeholders should make more interesting destinations and programs for attracting tourists to stay longer in Macedonia. In the structure, bigger decreasing is shown in domestic tourists nights spent almost 310 000 difference, from 1 648 073 in 2008 to 1 339 946 in 2012, and maybe that is the results of global crisis, prices, no incomes, and also habit of Macedonian people to travel especially to the neighboring countries, and

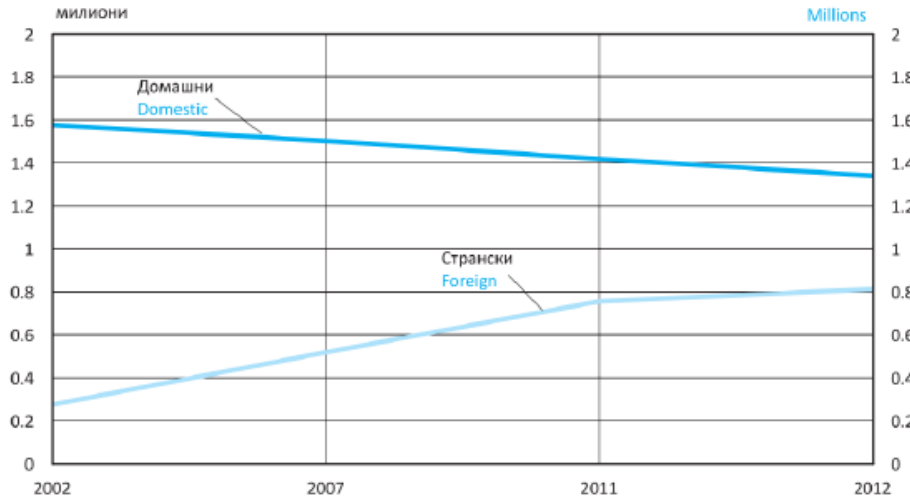
unfortunately not in Macedonia. But tourism is a global trend and that is the essence of tourism to travel and spent money abroad. Numbers of nights spent of foreign tourists show opposite trend, form 587 447 in 2008 to 811 746 in 2012, almost 300 000 plus, which is very significant for income and also for bigger promotion. With that fact in the future it can be expected increased income and development.

Table 1. Number of tourists and number of nights spent in Macedonia period 2008-2012 - Source: Statistical yearbook of the Republic of Macedonia, 2013

Year	Number of tourists			Number of nights spent		
	Total	Domestic	Foreign	Total	Domestic	Foreign
2008	605 320	350 363	254 957	2 235 520	1 648 073	587 447
2009	587 770	328 566	259 204	2 101 606	1 517 810	583 796
2010	586 241	324 545	261 696	2 020 217	1 461 185	559 032
2011	647 568	320 097	327 471	2 173 034	1 417 868	755 166
2012	663 633	312 274	351 359	2 151 692	1 339 946	811 746

Picture 1 below, shows numbers of nights spent in Macedonia for the period from 2002 till 2012. From that it can be seen that number of nights spent of domestic tourists from 2002 till 2012 rapidly decreased. From almost 1,6 million in 2002 to 1,3 million in 2012. Very different situation is for number of nights spent of foreign tourists, from 300 000 in 2002 to 800 000 in 2012. And that is general trend in Macedonia.

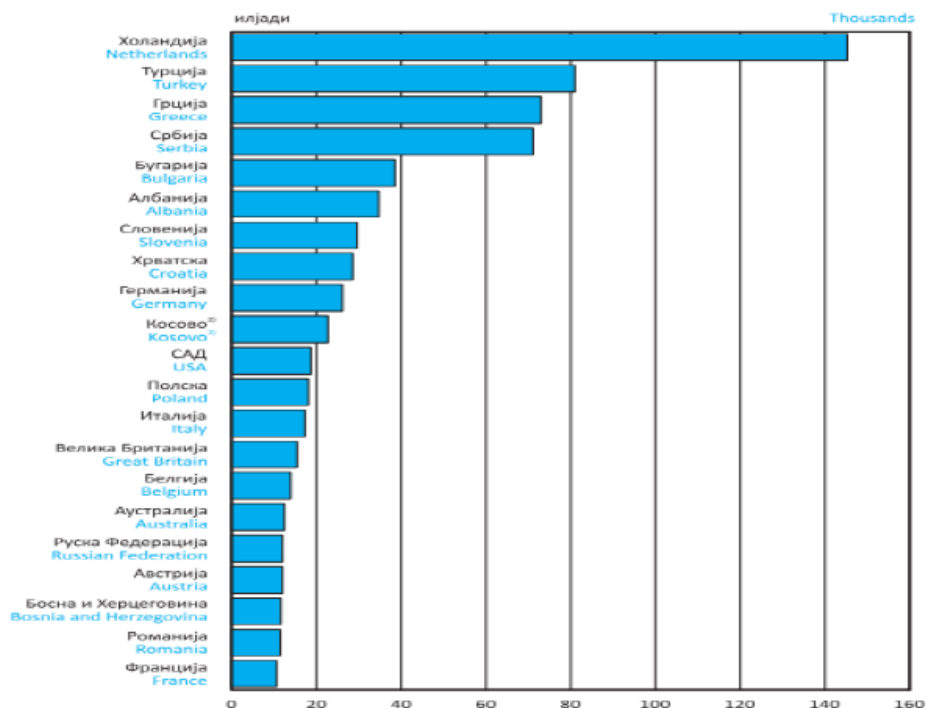
Picture 1. Number of nights spent in Macedonia from 2002-2012  
Source: Statistical yearbook of the Republic of Macedonia, 2013



Further paper is focused on analyzing different numbers of foreign tourists by structured data shown in Picture 2.

Picture 2 Nights spent by foreign tourists by country of origin in 2012  
 Source: Statistical yearbook of the Republic of Macedonia, 2013





From picture 2 above it can be seen that the leading number of foreign tourists is represented by Netherlands with almost 150 000 nights spent. Second is Turkey with more than 80 000, then follows Greece and Serbia with almost same numbers of approximately 70 000. Numbers of nights spent from tourists from Bulgaria, Albania, Slovenia, Croatia, Germany and Kosovo varies from 40 000 to 20 000. And then with less than 20 000 nights spent follows USA, Poland Italy, Great Britain, Australia, Russia, Austria, Bosnia and Herzegovina, Romania and France.

Measures for subsidization give results it is obvious, but more should be done on attracting especially tourists from neighboring countries in the future, and this is related a lot unfortunately in Balkan mainly with the political situation.

In Picture 3 below, it can be seen comparison of number of tourists in Macedonia, by statistical regions for two periods from 2007-2009 (green color) and 2010-2012 (blue color). And it can be concluded that in 7 regions numbers are increasing except in southwest region where number is decreased.

Picture 3. Number of tourists in Macedonia, by statistical regions comparison 2007-2009/2010-2012 Source: Statistical yearbook of the Republic of Macedonia, 2013



Legislation for conditions for categorization of objects for performing hospitality activity Legislation for categorization of hospitality objects is represented by Rulebook for conditions for categorization of objects for performing hospitality activity, which is derived from Law for hospitality activity. This rulebook is a by-law act and it was passed by the Minister of economy in 2006, but also changed and amended in 2012. Hospitality objects are divided into different categories depending on arrangement and equipment and service quality. Different categories are marked with different number of stars. The classification of objects into categories and labeling categories are carried out as follows:

1. Hotels - hotels, motels and boarding houses in first, second, third, fourth and fifth category, adequately with five, four, three, two and one number of stars.
2. Hotel settlements in the first, second and third category with three stars (high comfort), two (comfort) and one (standard).

3. Tourist apartments in the second, third and fourth category with four, three, two and one number of stars. Tourist apartments from first category are marked with five-star and are called tourist residences.
4. Camps in the first, second, third and fourth category with four, three, two and one number of stars.
5. Houses, flats and rooms for issuance in the first and second category with two stars (comfort) and one star (standard).
6. Restaurants in first, second, third and fourth category with four, three, two and one number of stars.

Categorization of objects is performed out separately for each object. Blocks and whole of objects have the same category. Outbuildings have the same category as the hotel where they belong. Outbuildings with four and five stars should provide services for breakfast in the object. Specific deviations out of the Rulebook for categorization can be approved if less than 10% of the criteria which are required for appropriate category is not met and if the Commission decides that deviations do not affect the quality of services for the required category by the applicant.

New amended rulebook gives new standards for Categorizations of hotels, motels, pensions, and categorization of camps. Categorization for camps is giving from 1 to 4 stars, and also that is regulated in new passed Law for auto camps in 2013.

For hotels, motels and pensions new Rulebook gives new standards and conditions, in accordance with EU practice, and that is very good and qualitative step forward. There are provisions for structure and equipment. That is related with size of facility, minimum rooms,

Entrances, reception hall, security room and information desk, lifts, guest rooms and space for serving-only for objects which serve lunch and dinner, common sanitations - in terms of capacity of building expressed by the number of places, stairs and hallways, heating, cooling, electric lighting of the common spaces, telephone standards, items for distance communication, signal items for calling of staff, safes for storing valuables, additional content of accommodation facility as swimming pools, as additional or mandatory content, gym (fitness), spa - wellness centers, parking lots and garages – only for objects which are accessible with vehicles, radio and TV items, making and equipment in rooms for guests, Minimum space of rooms, including Pre-room, bathroom and balcony, rooms for invalids (obligation only for new objects which are built after the entry into force of the rulebook and bathrooms in the rooms. Also there

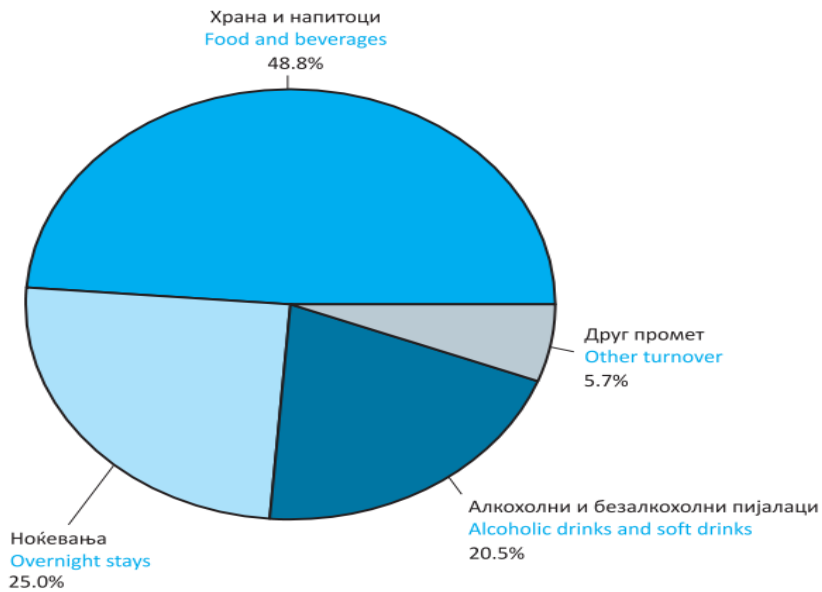
are provisions for different Services such serving of main meals (lunch, dinner), other meals, drinks and beverages in spaces for serving, then serving food, drinks and beverages in rooms, looking of staff-clothing. Very important is provisions for knowledge of foreign languages of head, director, manager, owner of the object and staff which communicate with guests. Also there are standards for changing of bedding and towels in the rooms and bathrooms, cleaning and arranging of rooms, laundry and ironing of guest's clothes, cleaning of shoes, sale and available of newspapers, domestic and international, daily and weekly.

Table 2, and Picture 4 below show different parameters for hospitality units in the Republic of Macedonia period 2008-2012 and also on picture it can be seen structure of turnover in hospitality trade and services in Macedonia for 2012.

Table 2. Different parameters for hospitality units in the Republic of Macedonia period 2008-2012 - Source: Statistical yearbook of the Republic of Macedonia, 2013

Year	Number of hospitality business units	Beds in hospitality trade and services, private rooms and vacation facilities	Employees	Turnover of hospitality trade services in thousands denars
2008	2 035	69 097	11 400	8 125 392
2009	1 967	69 561	12 039	7 636 016
2010	1 914	69 102	12 250	7 352 408
2011	1 950	69 737	12 308	7 816 343
20 12	1 079	70 287	9 797	6 662 162

Picture 4. Turnover in hospitality trade and services in Macedonia for 2012 Source: Statistical yearbook of the Republic of Macedonia, 2013



In Table 3 is shown process of categorization of different objects in period from 2010-2012, and these data give very significant image of the position and state of the process of categorization.

Table 3. Hospitality business units by type according to the categorization in the Republic of Macedonia period 2010-2012 Source: Statistical yearbook of the Republic of Macedonia, 2013

Type of unit	year		
	2010	2011	2012
Hotels-total	124	136	143
Hotels*****	9	10	10
Hotels****	19	21	23
Hotels***	25	34	39
Hotels**	41	41	41
Hotels*	30	30	30
Boarding houses	2	3	3
Motels	9	8	13
Overnight lodging houses	10	13	9
Spas and sanatoriums	5	5	5
Workers' vacation facilities	24	20	17
Children and youth vacation facilities	15	15	14

Eight camps are yet uncategorized because it will be done with the process of implementation of new law for auto camps			
Houses, vacation apartments and rooms for rent - total	2	2	2
Uncategorized accommodation establishments	48	42	46
Restaurants, garden restaurants and summer gardens	287	283	159
Milk bar and similar facilities	146	140	36
Cafeterias	42	40	35
Student cafes and canteens	4	15	16
Barrooms	150	147	64
Night club, dancing club, cabaret	9	11	7
Stand-up bars	163	135	63
Coffeehouse, snack bar, aperitif bar and other similar facilities	287	308	161
Pastry and ice-cream shops	104	110	38
Beer house	2	-	-
Tearooms	57	51	13
Grill houses and other similar facilities	106	113	45
Pizza house and similar catering facilities	75	77	46
Inn and public kitchen	85	113	28
Kiosk and other similar facilities	138	143	97

### *Implementation of licensing and categorization*

Until now the implementation of the licensing and categorization is unsatisfactory, but now with new standards for categorization there has been a hope that it will be better.

A national classification system is primarily a marketing tool which can also be used as a development tool to raise standards which in the long run can enhance the sector. It is not a negative for the industry. A classification system can therefore only be successfully implemented where there is a good

understanding and partnership between government authorities and the private sector of the tourism and hospitality industry.

It is desirable that the categorization assessors are well trained with a hospitality background that it should be more private sector inclined as advisers rather than as government inspectors.

It is recommended that classification be confined to accommodation. Tourists do not tend to seek information on restaurants prior to arrival in a destination. Restaurant selections are usually based on local recommendations, independent guides, visitation and appearance. While restaurants are classified in a number of destinations this is usually done by non- statutory bodies such as commercial food guides or automobile clubs. These can be totally subjective in the application of the system and can be selective on the restaurants they include and exclude. A statutory system cannot be so selective and would have to base its judgments on objective as well as subjective elements.

The subjective elements are the dominant elements in restaurants as the basic product is the food and service and the quality of these. The ambience, atmosphere and general environment are equally important to the guest satisfaction level and are even more subjective. The assessment of the subjective elements requires highly experienced assessors with a detailed knowledge of food preparation, presentation and service and, as mentioned above, freedom from statutory impositions. The safety issues in hospitality are covered by hygiene, health, fire protection implemented by the appropriate authorities.

With new standards of categorization it will be achieved categorization criteria to exclude subjective elements in the process but the best factor for assessing that is time, and time will show that standards are good or not.

### ***Conclusion***

From all above mentioned, it can be concluded that:

1. Numbers of tourists show that the trend form 5 past years is increasing in total. Increased is number of foreign tourists but decreased is the number of domestic tourists. In the terms of nights spent there is a little decreasing in total, but increasing number of nights spent of international tourists, but huge decreasing of nights spent by domestic tourists. Although it is an objective to increase the length of stay of leisure tourists, it is likely that this will be offset by an increase in shorter duration business trips. Also domestic tourism must be more developed and set of measures should be taken in this direction. Aim

should be a slower increase in domestic registrations and overnights of about 3 % per annum in the medium to longer term.

2. The number of international tourists shows that sweeping first place is reserved for dutch tourists, which is very good, but number of tourists from neighboring countries should be increased.

3. Process of new categorization for hospitality objects, will give more effects in direction of attracting new tourists from new countries, improving tourism quality, of infrastructure, of tourist products, of tourist services. New categorization eliminates at most subjective factors for categorization and set measures of standards for that. Also very significant is the fact that this process should be established with big attention in order not to cut and spoil present tourism infrastructures and early and present investments in tourism. For improving of process of categorization it should have trained and experienced inspectors which have the ability to give advice and guidance to operators/agents - the inspectors are usually recruited from hotel management and personnel. With new categorization for sure tourism and hospitality will be more developed and also tourism and hospitality industry, state and municipalities will have bigger income of that.

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NEW LEGISLATION FOR  
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**THE DETERMINANTS OF NON-LIFE INSURANCE  
DEMAND IN CENTRAL AND SOUTHEASTERN  
EUROPE. AN EMPIRICAL PANEL INVESTIGATION**

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*Abstract*

The main purpose of this paper is to identify determinants of the demand of non-life insurance in 16 countries in Central and South- Eastern Europe (CSEE). We use fixed-effects panel model for the period 1998 - 2010 allowing each cross-sectional unit to have a different intercept term serving as an unobserved random variable that is potentially correlated with the observed regressors. We use two measures as a demand for non-life insurance: non-life insurance penetration non- life insurance density. The research results show that GDP per capita, number of passenger cars, gini coefficients, level of education and rule of law are the most robust predictors of the use of non-life insurance. Private credit, inflation, trade, population density, control of corruption and government effectiveness do not appear to be robustly associated with non-life insurance demand.

*Keywords:* non-life insurance, demand, Central and South- Eastern Europe countries.

*Introduction*

The non-life insurance sector plays a critical role in financial and economic development, over the last few decades, as provider of financial services to consumers. By introducing risk pooling and reducing the impact of large losses on corporate sector and households, the insurance reduces the

amount of capital that would be needed to cover these losses individually, encouraging additional output, investment, innovation, and competition. By introducing risk-based pricing for insurance protection, the insurance sector can change the behaviour of economic agents, contributing to the prevention of accidents, improved health outcomes, and efficiency gains.

Finally, the sector can also improve the efficiency of other segments of the financial sector, such as banking (e.g., by enhancing the value of collateral through property insurance, and reducing losses at default through credit guarantees and enhancements) and capital markets.

The growth of non-life insurance was not on the equal level, not only among industrial countries and developing countries, but also there is a difference between developing countries. For example, in 1999 non-life insurance density in Western Europe countries was 594.4 USD it reached 1803 USD in the 2010, while in Central and Southeastern Europe was 31 USD in 1999, it reached 60.9 USD in the 2010, leading to a huge unexploited market in Central and Southeastern Europe countries. In some developing countries such as Slovenia, the non-life insurance density in 1999 was 300,6 USD, and it reached 928,9 USD in the 2010, while in Ukraine was 5.6 USD in 1999, it reached 52 USD in the 2010. The large disparity across the countries in the non-life insurance development raises questions about what causes this variation and thus what are the determinants for non-life insurance consumption. A number of authors have proposed a variety of different socio-economic and institutional factors as possible determinants of non-life insurance consumption.

This main contribution of this paper is to understand what drives the non-life insurance consumption within a sample of 16 Central and South-Eastern Europe (Albania, Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Slovak Republic, Slovenia and Ukraine) for the period 1998 - 2010. As a measure of non-life insurance demand we use: non-life insurance penetration (non-life insurance premiums in relation to GDP) and non-life insurance density (non-life insurance premiums per capita). We apply linear country specific fixed effects panel data regression model with common coefficients across all cross-section members of the panel. We have chosen fixed effects in each of two models for capturing the effects of unobserved variables that are potentially correlated with observed regressors.

The paper is organized as follows. Section 2 highlights literature on empirical findings relevant to the demand for non-life insurance. Section 3

presents methodology and data, which we incorporate in the analysis. The results of the empirical research are given in section 4. The paper finishes with some concluding remarks and suggestions for the future work that are outlined in section 5.

### *Literature Review*

Despite the critical role that the insurance sector may play for financial and economic development and reasonable evidence that the sector has promoted economic growth, there have been few studies examining the factors that drive the development of the insurance sector. Moreover, the bulk of the existing empirical research focuses on the growth of the life sector, with, as most frequently cited papers, (Beck & Webb, 2003; Browne & Kim, 1993; Outreville, 1996; Li et al., 2007). The dependent variables for the vast majority of models were the life insurance density and the life insurance penetration. Explanatory variables that have been shown to significantly impact on life insurance demand are GDP per capita, inflation (real, anticipated, or feared), development of the banking sector, institutional indicators (such as investors protection, contract enforcement, and political stability). Variables that appear to have a borderline impact includes education, old and/or young dependency ratio (ratio of the population above the age of 65, or below 15, to the number of persons age 15 to 64), urbanization, size of the social security system, life expectancy, and market structure.

Sherden (1984) was first to focus on the sensitivity of non life insurance purchase. In a cross-sectional analysis of consumption patterns limited to automobile insurance in 359 townships of the state of Massachusetts in 1979, (Sherden, 1984) finds that the demand for motor insurance is generally inelastic with respect to price and income, and that the demand for comprehensive and collision coverage increases substantially with increased population density. Beenstock et al. (1988) using an international dataset (12 countries over a period of 12 years) to examine the relationship between property liability insurance premiums and income, found out that marginal propensity to insure i.e., increase in insurance spending when income rises by 1\$, differs from country to country and premiums vary directly with real interest rates. Thus, again the consumer decision and his/her initial wealth status are significant factors when short run or long run consumption of insurance is considered.

Based on a cross-sectional logarithmic model of non-life insurance penetration of 55 developing countries, Outreville (2000) confirm the (Beenstock et al., 1988) main result of income elasticity greater than unity. The level of financial development is the only other factor found to significantly impact non-life insurance.

Browne et al. (2000) study 22 OECD countries from 1987 through 1993 and focus on the premium density of two lines of insurance: motor vehicle (usually purchased by households) and general liability (normally bought by businesses). Panel data analysis demonstrates that income (GDP per capita), wealth, foreign firms market share, and the form of legal system (civil law or common law) are significant factors to explain the purchase of the two types of insurance. Per capita income has a much greater impact on motor insurance than on general liability.

Esho et al. (2004) expand the work of (Browne et al., 2000) by using a larger set of countries, and by introducing the origin of the legal system and a measure of property rights in their model. Dummy variables, characterizing the English, French, German, and Scandinavian legal system origin, are found to have an insignificant effect. Results show a robust relationship between the protection of property rights and insurance consumption, as well as a significant effect of loss probability and income. Esho et al. (2004) also include one of Hofstede's dimensions, Uncertainty Avoidance, as a proxy for risk aversion. They find a marginally positive relationship and conclude that culture does not seem to play an important role in non-life insurance demand.

Park et al. (2002) examine the impact of culture on insurance pervasiveness, defined as the combined penetration of life and non-life insurance. Four of Hofstede's cultural dimensions are included in the panel regression analysis in addition to GNP, socio-political stability, and economic freedom. Nakata and Sawada (2007) test a semi-parametric model including per capita income, population, the Gini coefficient, financial development, and contract enforceability. The coefficients usually have the expected signs but only the contract enforceability variable is significant.

### *Data and Methodology*

For our research we focus on factors that determine demand of non-life insurance in 16 countries in Central and South- Eastern Europe (Albania, Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania,

Macedonia, Moldova, Poland, Romania, Slovak Republic, Slovenia and Ukraine) over the period of 1995 - 2010. In order to get more observations we used annual panel data. Following similar approach that nearly every single international comparative study uses insurance density and penetration as dependent variables, we use these measures as a demand for non-life insurance. These variables have the advantage of being easily available, annually, for a large number of countries. A disadvantage of density and penetration rates is that they add up premiums across various lines of insurance. In some countries motor insurance is the dominant non-life policy, while other nations emphasize more liability insurance. Aggregate premiums result in a loss of information, reducing the likelihood that significant explanatory variables will be discovered. Density and penetration measure slightly different effects. Penetration measures non- life insurance consumption relative to the size of the economy, while density compares non- life insurance purchases across countries without adjustment for the income. Countries with high GDP will spend more on insurance in absolute terms, as they have more assets to protect. Therefore, we expect a very high correlation between insurance density and GDP – indeed one of the reasons for the lack of research in determinants of non-life insurance may have been a belief that purchases are driven by wealth and little else. Penetration measures relative insurance consumption, as the overall wealth effect has been removed through division by GDP per capita. It measures how wealth is allocated to insurance in relative terms: two countries with similar GDP per capita may exhibit different insurance consumption patterns, an effect captured by penetration and not by density. For this reason we consider penetration to be our primary variable, and use density only for robustness checks.

Factors that we use as control variables, which may explain the demand of non-life insurance, include the following:

- Economic: GDP per capita, private credit, inflation, number of passenger cars per 1.000 people, gini coefficients and trade;
- Demographic: population density, level of education;
- Institutional: rule of law, control of corruption and government effectiveness.

Table 1 Descriptive Statistics					
Variable	Mean	Median	Minimum	Maximum	Std. Dev.
Non-life insurance penetration	1.73947	1.700009	0.330000	4.77000	0.871134
Non-life insurance density	143.319	5.183004	0.321000	27.0330	5.46853

GDP per capita	6.76988	5.7000	-0.300000	106.200	21.8586
Private credit	45.2684	4.900002	-3.70000 -	316.800	27.0337
Inflation	10.9187	59.000	29.0000	523.000	125.449
Number of passenger cars per 1.000 people	256.550	19.80003	7.30000	42.7000	7.77204
Trade	20.7416	0.0000	23.0000	45.0000	4.93403
Trade	31.1435	87.00009	32.0000	136.000	31.4075
Gini coefficients	8.7225	3.0000	72.0000	108.000	7.39828
Population density	91.6890	0.288396	-1.29645 -	1.25710	0.697522
Education level	0.148598	0.233865	1.17549	1.19454	0.550696
Rule of Law	0.136778	0.495400	-1.08974	1.19800	0.554840
Control of Corruption	0.383309				
Government Effectiveness					
Source: Authors calculations					

Data are obtained from various sources. Non-life insurance penetration and non-life insurance density are obtained from Sigma, Swiss Re Economic Research & Consulting, Swiss Re, Zurich and national insurance associations. Education is obtained from EdStats, World Bank. Gini coefficients is obtained from World development indicators (WDI) database and NationMaster. GDP per capita, private credit, inflation, number of passenger cars per 1.000 people and trade are obtained from World development indicators (WDI) database. Rule of law, control of corruption and government effectiveness is obtained from Worldwide Governance Indicators. Table 1 presents the descriptive statistics for all the variables used in the regressions.

**Economic Factors.** All previous studies, whether devoted to life or non-life insurance, conclude that income, measured as GDP per capita, is the most important factor affecting purchasing decisions (Fortune, 1973; Campbell, 1980; Beenstock, Dickinson & Khajuria, 1986; Lewis, 1989; Outreville, 1990). Beck and Webb (2003), (Ward & Zurbruegg, 2000; Beenstock et al., 1988) point out a positive relationship in industrialized countries between national income and non-life insurance spending. Browne et al. (2000) analyzes general liability and motor vehicle insurance in OECD countries, and finds a significant positive relationship between premium density and GNP per capita. Additionally, (Esho et al., 2004) examines developed and developing countries between 1984 and 1998, and finds a strong positive relationship between national income and the non-life insurance premium. Outreville (1990) and (Ward and Zurbruegg, 2002) strongly emphasize that the insurance industry, through risk transfer, financial intermediation, and employment can generate externalities and economic growth. The larger levels of income create a greater demand for non-life insurance to safeguard acquired property. We expect income to have a strong, positive impact on non-life insurance demand.



Financial development should have a positive effect on the non-life insurance sector, and this effect could operate both from the demand and supply sides. For example, commercial banks expanding into mortgages and other personal loans (e.g. cars) could require the purchase of non-life insurance to approve these loans. Likewise, the greater availability of private fixed income instruments allowing higher spreads for insurers could motivate them to offer non-life policies at more attractive terms and increase sales of non-life products. It is not surprising, therefore, that most studies show a positive and significant effect of financial development. We also hypothesise positive correlation with non-life insurance demand.

The next two are also economic variables which examine the non-life sector. We include the number of passenger vehicles per 1,000 inhabitants, because most countries require at least third party liability insurance (comprehensive car insurance is usually voluntary but also common in many countries). We also consider trade activity, the sum of import and export activities as a fraction to GDP (trade), since trade often relies on the availability of marine, cargo, and liability insurance.

The next economic variable that we used in our research is the inflation rate. It is used to account for monetary discipline. It is expressed by the GDP deflator (annual percentage). For non-life insurers, unanticipated inflation leads to higher claims costs, thereby eroding profitability. Inflation is often accompanied by rising interest rates, which reduce the value of return guarantees. Rising inflation can have a negative effect on demand, and may lead policyholders to cancel their policies as well as increasing costs for insurers. In the case of deflation, or if very low inflation persists, interest rates tend to fall. With this variable, we expect a negative correlation with non-life insurance demand.

The standard model of insurance demand specifies the demand function as a function of the premium (price) and the 'initial wealth' rather than income. It is well known that the optimal proportionate coverage is decreasing (constant) in the initial wealth if DRRA (CRRA)<sup>1</sup> when the initial wealth and the loss exposure are proportionate with each other and the loading factor is strictly positive, because the optimal insurance coverage choice problem can be reformulated as a static portfolio choice problem (Schlesinger, 2000). Since it is most likely that the preferences of the people exhibit DRRA or CRRA, the wealth elasticity of insurance demand should not be greater than unity as long as the loss exposure (insurable) is proportionate with the wealth level. But not only

the level and size of the wealth but also the wealth distribution within a country may have an impact on the aggregate insurance demand; the aggregate insurance demand should be smaller when the wealth inequality is larger. To control this we use income Gini coefficients (Deininger & Squire, 1996). Hence, the theory predicts that the aggregate insurance demand is smaller when the income Gini coefficient is higher. With this variable, we expect an ambiguous correlation with non-life insurance demand.

**Demographic Factors** The level of education positively affects the demand for life insurance for several reasons. Namely, the primary motive for purchasing insurance is risk aversion to avoid loss. Schlesinger (1981) demonstrates that an individual with a higher loss probability, a higher degree of risk aversion, or a lower level of initial wealth, will purchase more insurance. Mayers and Smith (1990), believe that closely held firms are more likely to purchase insurance than firms with less-concentrated ownership for the same reason that an individual purchases insurance—risk aversion. Mayers and Smith (1990) further indicate a supposition that a company does not exhibit proper risk aversion, because risk aversion is not so obvious to the corporate purchasers of insurance. As stated previously, even though risk aversion could not perfectly explain why consumers would buy insurance, it is still an important indicator. Although risk aversion is a “rational” motive for an individual’s purchase of insurance, unfortunately, it is difficult to measure. According to the discussion of (Browne & Kim, 1993), in general, a higher level of education may lead to a greater degree of risk aversion and greater awareness of the necessity of insurance. Nonetheless, (Szpiro & Outreville, 1988) proved the negative correlation between the level of education and risk aversion. They deemed that higher education leads to lower risk aversion, and that, in turn, leads to more risk-taking by skilled and well-educated people. When (Browne et al., 2000; Esho et al., 2004) were discussing non-life insurance; they also took the level of education as a proxy for risk aversion.

On the other hand, the more people are involved in education process, the less labor force is presented on the market, therefore reducing overall GDP of the country. Therefore, education is hypothesized to be ambiguous related to non-life insurance demand. As an indicator of the level of education across countries we use tertiary gross enrollment ratio defined by the UNESCO Institute of Statistics as the total enrolment in tertiary education, regardless of age, expressed as a proportion of the eligible school-age population. measure a country's level of education by its.

**Institutional Factors.** Political and legal stability is important for a vibrant and growing non- life insurance market. The more stable is the legal system and, therefore, a political system in the country the higher is the willingness of contracting parties to initiate the business relationships.

To measure these institutional factors, we use three different indicators.

To measure property right protection, we use rule of law index, provided by the The Worldwide Governance Indicators. This index reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. The legal system in force in a country may impact the development of insurance, as it specifies the liabilities of those responsible of damage, and defines the business environment of insurers (Browne et al., 2000). For instance, the United States leads the world in per capita consumption of liability insurance. The American legal system may be a contributing factor, by encouraging Americans to over-consume property-liability insurance (Syverud et al., 1994). Browne et al. (2000) find the legal system to be a significant factor in the development of non-life insurance. Esho et al. (2004) also investigate the impact of the legal system, but find it non-significant after controlling for income and property rights. Recently, (Park et al., 2010) showed that the use of a Common Law legal system is the most important determinant of toughness of bonus-malus systems in automobile insurance. Therefore, it is hypothesized a positive relationship with non- life insurance consumption.

To measure perceptions of the extent to which public power is exercised for private gain, we use control of corruption index also provided by the The Worldwide Governance Indicators. This index, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Countries with little political and investment risk are more likely to have developed insurance markets, as the financial environment is more conducive to foreign investment, and financial contracts such as insurance policies are easier to enforce. As a measure of political stability, we use Government Effectiveness index indicator compiled by the The Worldwide Governance Indicators. He reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

These two institutional factors are measured in units ranging from about -2.5 to 2.5, with higher values corresponding to better governance outcomes.

Given the cross-sectional and time-series data, we use country specific fixed effects panel data regression model with common coefficients across all cross-section members of the pool. The general equation to be estimated using pooled least squares is:

$$y_{it} = \alpha_i + x_{it}\beta + u_{it}, \quad (2)$$

where  $y_{it}$  is a dependent variable,  $x_{it}$  is a vector of independent variables,  $u_{it}$  is a scalar disturbance term,  $i$  indexes country in a cross section, and  $t$  indexes time measured in years. Since the error terms  $u_{it}$  are potentially serially correlated and heteroskedastic, we propose an autoregressive process of first order:  $u_{it} = \rho u_{it-1} + e_{it}$ , where  $e_{it}$  is white noise. Model incorporates White's consistent covariance matrix (White, 1980), for dealing with heteroskedasticity.

Given the hypotheses specified above, we construct two separate panel data regression models. The models are different since non-life insurance demand is represented by two different dependent variables: Insurance penetration and insurance density.

The specifications of the models to be estimated are as under:

Model 1

$$\begin{aligned} (\text{non-life insurance penetration})_{it} = & \alpha_i + \beta_1(\text{GDP per capita})_{it} + \beta_2 (\text{private credit})_{it} + \beta_3 (\text{inflation})_{it} + \beta_4(\text{number of passenger cars per 1,000 people})_{it} + \beta_5 \\ & (\text{trade})_{it} + \beta_6(\text{population density})_{it} + \beta_7(\text{education level})_{it} + \beta_8(\text{gini coefficients})_{it} + \beta_9(\text{rule of law})_{it} + \beta_{10}(\text{control of corruption})_{it} + \\ & \beta_{11}(\text{government effectiveness})_{it} + u_{it} \quad (3) \end{aligned}$$

Model 2

$$\begin{aligned} (\text{non-life insurance density})_{it} = & \alpha_i + \beta_1(\text{GDP per capita})_{it} + \beta_2 (\text{private credit})_{it} + \\ & \beta_3 (\text{inflation})_{it} + \beta_4(\text{number of passenger cars per 1,000 people})_{it} + \beta_5 (\text{trade})_{it} \\ & + \beta_6(\text{population density})_{it} + \beta_7(\text{education level})_{it} + \beta_8(\text{gini coefficients})_{it} + \\ & \beta_9(\text{rule of law})_{it} + \beta_{10}(\text{Control of Corruption})_{it} + \beta_{11}(\text{Government Effectiveness})_{it} + u_{it} \quad (4) \end{aligned}$$

Before running the regression an Im, Pesaran and Shin, panel unit-root test, which is based on the Dickey- Fuller procedure was employed to test the stationarity of the variables in order to avoid the spurious regression. Im, Pesaran and Shin denoted IPS proposed a test for the presence of unit roots in panels that combines information from the time series dimension with that from the cross section dimension, such that fewer time observations are required for the test to have power. Since the IPS test has been found to have superior test

power by researchers in economics to analyze long-run relationships in panel data, we will also employ this procedure in this study. IPS begins by specifying a separate ADF regression for each cross-section with individual effects and no time trend:

$$\Delta y_{it} = \alpha_i + \rho_i y_{i,t-1} + \sum_{j=1}^{p_i} \beta_{ij} \Delta y_{i,t-j} + \varepsilon_{it} \quad (5)$$

where  $i = 1, \dots, N$  and  $t = 1, \dots, T$

IPS use separate unit root tests for the  $N$  cross-section units. Their test is based on the Augmented Dickey-fuller (ADF) statistics averaged across groups. After estimating the separate ADF regressions, the average of the  $t$ -statistics for from the individual ADF regressions,  $t_{it}(p_i)$ :

$$\bar{t}_{NT} = \frac{1}{N} \sum_{i=1}^N t_{it}(p_i \beta_i) \quad (6)$$

The  $t$ -bar is then standardized and it is shown that the standardized  $t$ -bar statistic converges to the standard normal distribution as  $N$  and  $T$ . Im, Pesaran and Shin (1997) showed that  $t$ -bar test has better performance when  $N$  and  $T$  are small. They proposed a cross-sectionally demeaned version of both test to be used in the case where the errors in different regressions contain a common time-specific component.

The results of the unit root test are presented in Table 2. While the null hypothesis of the unit-root was rejected for two of the thirteen variables, and they are stationary at their levels I (0); the obtained results indicate that there was a unit root in non-life insurance penetration, non-life insurance density, GDP per capita, private credit number of passenger cars per 1.000 people, gini coefficients, trade, population density, level of education, rule of law, and control of corruption. To solve the problem of non-stationarity, the series were differenced at first level I(1).

Table 2 Panel Unit Root Test – Im, Pesaran and Shin (IPS)		
Variable	Im, Pesaran and Shin Test	Order of Integration
Non-life insurance penetration	-1.36	I(1)
	-0.74	I(1)

Non-life insurance density	-0.65	I(1)
GDP per capita	-0.99	I(1)
Private credit	-2.50***	I(0)
Inflation	-0.91	I(1)
Number of passenger cars per 1.000 people	-1.36	I(1)
Trade	-1.10	I(1)
Trade	-1.02	I(1)
Gini coefficients	-1.30	I(1)
Population density	-1.42	I(1)
Education level	-1.80	I(1)
Rule of Law	-2.00**	I(0)
Control of Corruption		
Government Effectiveness		
Note: *, **and***indicates test statistic is significant at the 10%, 5% and 1% level.		
Source: Authors calculations		

### *Empirical Results*

The models used in this study have been introduced at the end of previous chapter. In this section, we present original results and interpretations concerning both of the observed models.

**Non-life insurance penetration.** Main regression results from non-life insurance penetration across countries are presented in Table 3. In column (1), only economic variables were used. As we expected, number of passenger cars per 1.000 people is positively and statistically significantly associated with non-life insurance penetration in all models. The coefficient in first column implies that a 1-percent increase in number of passenger cars per 1.000 people is associated with a 0,20 percentage points increase of non-life insurance penetration

The regression confirms our expectation that gini coefficients is negatively and statistically significantly associated with non-life activities as well. The results for this variable are confirmed in all four columns. This mean that, a large middle class in analyzed countries may result in less individuals being able to purchase non- life insurance than a less equal distribution with a larger upper class.

GDP per capita is positively, but not statistically significantly associated with non-life insurance penetration in all three models. Although this variable is not statistically significant, according from prior studies, the results suggest that the higher the income is, the more they would purchase insurance.

The value of private credit, produces an expected positive sign and can be an important source of growth in the insurance industry but it was found to be insignificant in all models. Although the results of the regression showed that value of private credit is statistically insignificant this variable may be a crucial factor in increasing demand for non-life insurance. This might be due to the fact that a more developed financial institutions can increase competition with other financial sectors, especially insurance companies. This assertion is particularly appropriate for banking-type products offered by insurers. The cooperation between the two sectors in CSEE countries is still in its initial stage. The mentioned cooperation is known as bancassurance – expressed in acquiring the existing life and non-life insurance companies by banks or, what is more common, selling of insurance and banking products mutually through bank branches. The upward trend for this kind of services is justified by the positive experience of Western economies.

As we expected, inflation is inversely related with non-life insurance penetration in all models. Therefore, macroeconomic stability plays an important role in the development of non-life insurance market. But, the relation between inflation with the demand proxies does not corroborate with earlier studies and not affect significantly in non-life insurance penetration in the selected countries

Trade produces an expected positive sign, suggesting that more open countries accumulate more insurance assets, but is not significant in this model. This suggests that some forms of car-related insurance are more asset intensive than trade-related insurance. This could explain why trade does not enter significantly.

Column (2) includes demographic variables, population density, and education level. The adjusted R-square increases by 7%. We find that the population density is not significant for non-life insurance penetration. The result from education variable in column 2 and 3 means that the higher the level of education, the greater the demand for insurance. The regression coefficient was strong statistically significant This corresponds to the prior research of (Browne and Kim, 1993), which showed that a high level of education leads to high risk aversion and these people would buy more insurance.

Column (3) covers institutional factors rule of law, control of corruption and government effectiveness but drops demographic variables population density, and education level.

The results in these column indicate that out of our three indicators of institutional quality only rule of law is positively and statistically significantly correlated with non-life insurance penetration. The coefficients on both the control of corruption and government effectiveness are insignificant. This can be interpreted as lack of evidence that these supply side determinants are important.

Column (4) summarizes the full model that includes all variables. The inclusion of all variables does not change the fact that Number of passenger cars per 1.000 people and Gini coefficients are the most important factors that determine the demand for non-life insurance in the analyzed countries. Both variables are statistically significant at 1% level. Of the remaining variables only education level, rule of law and government effectiveness are significant at 5% level. All others variables was statistically insignificant.



Variable	(1)	(2)	(3)	(4)
Constant	0.025 (0.81)	0.029 (1.04)	0.023 (0.783)	0.027 (0.99)
GDP per capita	0.015 (0.62)	0.010 (0.46)	0.011 (0.53)	0.008 (0.414)
Private credit	0.002 (0.577)	0.001 (0.446)	0.002 (0.610)	0.002 (0.486)
Inflation	-0.001 (-0.674)	-0.001 (-0.722)	-0.009 (-0.565)	-0.001 (-0.628)
Number of passenger cars per 1.000 people	0.002 ** (2.12)	0.003*** (3.193)	0.001*** (1.467)	0.003*** (2.55)
Trade	0.006 (0.766)	0.003 (0.5013)	0.004 (0.602)	0.001 (0.223)
Gini coefficients	-0.037*** (-4.235)	-0.033** (-4.116)	-0.037*** (-4.102)	-0.033*** (-3.892)
Population density		0.001 (0.803)		0.003 (0.155)
Education level		0.033*** (2.954)		0.027** (2.601)
Rule of Law			0.382*** (3.394)	0.240** (2.163)
Control of Corruption			0.202 (1.167)	0.208 (1.147)
Government Effectiveness			-0.373 (-2.364)	-0.330 (-2.109)
Observations	190	190	190	190
Adjusted R-square	0.43	0.59	0.48	0.71
Durbin-Watson	1.843	1.807	1.812	1.787

Note: \*, \*\*, and \*\*\* indicate significance at the 10%, 5%, and 1% levels, respectively. Numbers in brackets show t-values.  
Source: Authors calculations

**Non-life insurance density.** The results in Table 4 indicate that the GDP per capita, number of passenger cars per 1.000 people, gini coefficients, education level and rule of law explain the variation in non-life insurance density across countries.

Variable	(1)	(2)	(3)	(4)
Constant	-0.522 (-0.138)	0.223 (0.068)	-1.120 (-0.289)	-0.458 (-0.136)
GDP per capita	20.055*** (7.151)	19.303*** (7.356)	20.135*** (8.228)	20.174*** (8.286)
Private credit	0.133 (0.249)	-0.0143 (-0.034)	0.159 (0.360)	0.058 (0.159)
Inflation	-0.044 (-0.695)	-0.083 (-1.279)	-0.043 (-0.659)	-0.088 (-1.204)
Number of passenger cars per 1.000 people	0.292** (2.746)	0.552*** (4.381)	0.077 (0.686)	0.295** (2.085)
Trade	0.542 (0.576)	0.131 (0.165)	0.787 (0.844)	0.213 (0.262)
Gini coefficients	-3.100*** (-2.767)	-2.336** (-2.336)	-3.322*** (-3.153)	-2.822*** (-2.845)
Population density		0.200 (0.854)		-0.165 (-0.629)
Education level		5.526*** (4.327)		4.576*** (3.961)
Rule of Law			78.322*** (4.812)	58.160*** (3.769)
Control of Corruption			8.538 (0.496)	11.208 (0.629)
Government Effectiveness			-21.780 (-1.337)	-12.707 (-0.808)
Observations	190	190	190	190
Adjusted R-square	0.69	0.74	0.73	0.76
Durbin-Watson	2.04	1.94	2.08	2.01

Note: \*, \*\*, and \*\*\* indicate significance at the 10%, 5%, and 1% levels, respectively. Numbers in brackets show t-values.  
Source: Authors calculations

These results are very similar to the ones obtained for non-life insurance penetration, so that in the following we will concentrate on the differences.

Non-life insurance density increases with GDP per capita. This result is larger and statistically significantly than for non-life insurance penetration and is the more robust variable in the regression. Even when we includes demographic and institutional variables, we find that the GDP per capita enters at the 1% significance level. This finding is consistent with the differences between the two indicators of non- life insurance consumption, as explained in section 3.

As in the case of non-life insurance penetration, the number of passenger cars per 1.000 people, gini coefficients, education level and rule of law can explain variation in non-life insurance density across countries. Countries with more passenger cars, higher education level, less equal income distribution and more effective rule of law spend more on non-life insurance than other countries. The private credit, inflation, trade, population density, control of corruption and government effectiveness cannot explain variance in non-life insurance density.

### *Conclusion*

This paper analyzed the determinants of non-life insurance consumption in a panel regressions sample of 16 countries over the period 1998-2010. We used two different indicators of non-life insurance, non-life insurance penetration, non-life insurance density.

Consistent with previous research, we find that non-life insurance penetration and non-life insurance density increase with higher per-capita income. But, we find that GDP per-capita is statistically significantly in non-life insurance density, while this variable is not statistically significantly in non-life insurance penetration. This finding is consistent with the differences between the two indicators of non-life insurance consumption.

From the economic variables the analyses show that private credit has a positive but not significant effect on non-life insurance demand. In our opinion bancassurance will continue growing in the CSEE region. Although, bancassurance is in its initial stage in CSEE countries, the tendency towards its growth is observed due to increase in consumers' crediting activity of the banks. Inflation appears to have negative influence on non-life insurance demand, but is not statistically significant. This result could be the secondary effect of the shifts from financial to real assets that are observed in high inflation environments.

Trade produces an expected positive sign, but is not statistically significant. This suggests that some forms of car-related insurance are more asset intensive than trade-related insurance.

The regressions for the non-life insurance penetration and non-life insurance density show that the number of passenger cars and gini coefficients are the most important economic drivers of the non-life insurance demand.

From the demographic factors we find that higher level of education lead to a higher non-life insurance penetration and higher non-life insurance

density. This finding suggests a need for elevating the education level of population. It would be useful to enhance the understanding of financial products presented on the market and possible benefits from using them by potential consumers. Whereas other demographic factor, such population density, do not have robust link to non-life insurance demand.

The results from institutional factors underline the importance of rule of law in non-life insurance penetration and non-life insurance density. The coefficients on other institutional factors such the control of corruption and government effectiveness are insignificant.

The results of this paper that the Central and South- Eastern Europe countries are regarded to be a highly potential region with dynamic and fact-growing insurance markets. Taking into account the impact of insurance development on economic growth (Ward & Zurbruegg, 2000; Webb, Grace & Skipper, 2002; Arena 2008) the increase of non-life insurance sector should be viewed as inevitable part of stable economic development. In the future research when more data become available, would be useful to take a much bigger sample in terms of countries and periods, which will lead to a greater understanding and knowledge of determinants of non-life insurance demand.

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# **ANALYSIS OF SOME PARAMETERS OF CRITICAL ILLNESS INSURANCE IN THE REPUBLIC OF MACEDONIA**

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## *Abstract*

Critical illness insurance is still in its infancy in the insurance market of Republic of Macedonia, but slowly begins to occupy a significant place. As the information about this type of insurance are still scarce in the local market, our experts can closely follow the rapid development of this type of insurance in foreign markets and use their experiences.

Critical illness insurance (CII) typically pays a lump sum benefit based on the first diagnosis of one of a number of specified critical illnesses. A Critical Illness product can take a form of a stand-alone contract, but the most common form is an additional benefit rider of the life insurance policy.

Currently, the coverage for critical illness in Republic of Macedonia is offered by two companies. The first company that started selling this kind of product in the local market is Kroacia Insurance-Life (the product was named Kroacia Premium). Then Grawe Insurance also introduced Critical Illness coverage (the product was named Grawe Ellite).

In this paper is made an analysis of certain parameters that influence the development of Critical Illness Insurance.

Keywords: Critical illness, analysis, insurance

## *Introduction*

Critical illness insurance is a part of the long-term health insurance. In the literature can be found under various names such as: Critical illness

Insurance, Dread Disease Insurance or as Living Benefit (reimbursement for health insurance). The payment can be made only if the insured person suffers from some pre-defined diseases. The compensation is given as a lump sum or as multiple payment.

The Association of British Insurers (ABI) (1999, gave the definitions of the basic and the additional conditions that fall under the category of critical illness, the definitions of the additional conditions that are part of the long-term health insurance for critical illness and also the circumstances that do not apply these types of insurance. The basic conditions always include: heart attack, stroke and cancer. The first two reasons, according to the data of the State Statistical Office of Republic of Macedonia are grouped into diseases of the circulatory system. These diseases cause the death of more than 57% of the total number of deaths for all years in which data are available (2005-2011). Deaths caused by neoplasm (cancer) account for more than 18% of the total number of deaths in 2011 and according to their percentage share, they are the second biggest cause of deaths after the diseases of the circulatory system.

Additional conditions that are covered with the Critical Illness Insurance are: reconstruction of the aorta, replacement or reconstruction of heart valves, benign brain tumor, blindness, coma, deafness, loss of limbs, loss of speech, and disorders of motor skills before a certain age, palsy and paraplegia, Parkinson's disease before a certain age, terminal illness and third degree burns. There are certain exclusion for this type of insurance: aviation, acquiring disease due criminal activities, use of narcotics, violation of medical recommendations, risky sports and recreation, HIV / AIDS, self-injury and participation in war or civil unrest. As in the life insurance and long-term health insurance, there are different rates of premiums for different categories of persons and different age of commencement of insurance. For example, smokers pay higher premiums for health insurance compared to non-smokers.

### ***Some analysis on statistical data of critical diseases in Republic of Macedonia***

In this paper we've made some analysis about critical diseases in Republic of Macedonia, by the data taken from Official Statistical Yearbooks for the neoplasms and diseases of the circulatory system. These data are presented in Table 1.

Table 1: Statistic data of the number of deaths per year and causes of death



Year	Total number of deaths	Total number of deaths caused by neoplasms	Number of deaths (males)	Number of deaths (females)	Total number of deaths caused by neoplasm (males)	Total number of deaths caused by neoplasm (females)	Total number of deaths caused by disease of the circulatory system	Total number of deaths caused by disease of the circulatory system (male)	Total number of deaths caused by disease of the circulatory system (female)
1991	14,789	2,207	8,233	6,556					
1992	16,022	2,225	8,930	7,092					
1993	15,591	2,310	8,758	6,833					
1994	15,771	2,510	8,780	6,991					
1995	16,338	2,508	8,954	7,384					
1996	16,063	2,660	8,866	7,197					
1997	16,596	2,794	9,076	7,520					
1998	16,870	2,962	9,156	7,714					
1999	16,789	2,887	9,211	7,578					
2000	17,253	3,051	9,327	7,926			9,670.00		
2001	16,919	3,061	9,313	7,606			9,543.00		
2002	17,962	3,129	9,891	8,071			10,236.00		
2003	18,006	3,238	9,832	8,174			10,185.00		
2004	17,944	3,194	9,650	8,294			10,307.00		
2005	18,406	3,212	9,815	8,591	1,946.00	1,266.00	10,756.00	5,332.00	5,424.00
2006	18,630	3,419	10,000	8,630	2,051.00	1,368.00	10,932.00	5,509.00	5,423.00
2007	19,594	3,524	10,344	9,250	2,096.00	1,428.00	11,311.00	5,523.00	5,788.00
2008	18,982	3,521	9,972	9,010	2,134.00	1,387.00	10,885.00	5,281.00	5,604.00
2009	19,060	3,673	10,040	9,020	2,219.00	1,454.00	11,031.00	5,373.00	5,658.00
2010	19,113	3,705	10,168	8,945	2,218.00	1,487.00	11,069.00	5,501.00	5,568.00
2011	19,465	3,552	10,204	9,261	2,181.00	1,371.00	11,526.00	5,563.00	5,963.00

Source: Official Statistical Yearbooks of the Republic of Macedonia

Based on the data given in Table 1 a regression analysis of the number of deaths was made. The calculation of the correlation between the data series of the number of deaths caused by neoplasm and the total number of deaths gave a correlation coefficient of 0.95. It is a high and positive correlation, which means that as the total number of deaths increases, so does the number of deaths caused by neoplasm. However, the share of deaths caused by neoplasm in the total number of deaths varies from year to year and it can be noted that the 14.9% share in 1991 increased to 19.38% in 2010, and in 2011 reached 18.24%. Thus, it can be seen a slight increase in the number of deaths caused by neoplasm in relation to the total number of deaths.

Most deaths in the Republic of Macedonia (for the period 1991-2011) are caused by diseases of the circulatory system (in 2011 the percentage was more than 59%). The second biggest contributor of deaths is cancer (neoplasm).

Based on the value of the correlation between the number of deaths caused by neoplasm and the total number of deceased persons regression analysis is made, in order to create a model for mortality caused by neoplasm. Table 2 provides estimates from the regression analysis of the number of deaths caused by neoplasm. The independent variable is the total number of deaths. Table 2: Regression analysis of the number of deaths caused by neoplasm in relation to the total number of deaths

Dependent Variable: X  
 Method: Least Squares  
 Date: 10/28/12 Time: 18:56  
 Sample: 1991 2011  
 Included observations: 21

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2415.382	400.1250	-6.036570	0.0000
Y	0.312854	0.022971	13.61950	0.0000
R-squared	0.907086	Mean dependent var	3016.286	
Adjusted R-squared	0.902196	S.D. dependent var	473.9641	
S.E. of regression	148.2257	Akaike info criterion	12.92574	
Sum squared resid	417446.4	Schwarz criterion	13.02522	
Log likelihood	133.7203	F-statistic	185.4908	
Durbin-Watson stat	1.420216	Prob(F-statistic)	0.000000	

In the model is used a constant C. According to the values of t-statistics and to the probability of rejecting of the ratios, it can be concluded that the constant C and the independent variable Y are statistically significant. From the values of R-sqr it can be concluded that the model describes more than 90% of the movement of the original time series. What is questionable in the model is the value of Durbin-Watson statistic that indicates whether the model has serially correlated residuals or they are a series of white noise. The value of this statistic should be around 2, so we can conclude that the residuals have no serial correlation of the first degree. To examine the independence of residuals, it was made a correlogram of the squares of residuals, from which we obtained the values given in Table 3.

Table 3: Correlogram of the squares of residuals

Date: 10/28/12 Time: 19:41  
 Sample: 1991 2011  
 Included observations: 21

	AC	PAC	Q-Stat	Prob
1	-0.149	-0.149	0.5354	0.464
2	-0.098	-0.123	0.7813	0.677
3	0.030	-0.005	0.8058	0.848
4	-0.080	-0.091	0.9869	0.912
5	-0.090	-0.120	1.2300	0.942
6	0.092	0.040	1.5030	0.959
7	-0.086	-0.092	1.7561	0.972
8	0.003	-0.020	1.7564	0.988
9	0.198	0.169	3.3372	0.949
10	-0.033	0.029	3.3844	0.971
11	0.000	0.044	3.3844	0.985
12	0.000	-0.008	3.3844	0.992

From the data in Table 3 it can be concluded that the residuals are not correlated and that this model of regression can be used as a valid model for analysis.

There is a difference in the percentage share of deceased by genders in the total number of deaths caused by neoplasm, but also in the total number of deaths caused by diseases of the circulatory system. In the category of deaths caused by neoplasm the average share per year for the period that is taken under consideration is 60% for males and 40% for females. In the category of deaths caused by diseases of the circulatory system, the participation of male and female in the total number of the deaths is approximately uniform (50% with 50%).

When the premium rate is calculated, men as a more risky category should pay a higher amount of premium for the coverage of the disease cancer, compared to women. This is not the case in the category of diseases of the circulatory system.

This two analyzed causes of death (neoplasm and diseases of the circulatory system) participated with 74% in the total number of deaths in the Republic of Macedonia in the year 2005. This percentage share increased to 77% in 2011.

Table 4 provides data of the average age for male and female in the Republic of Macedonia for the period 1994-2011.

Table 4: Average age for male and female per years in Republic of Macedonia

Year	Average age (male)	Average age (female)
1994	32.20	33.50

1995	32.30	33.70
1996	32.50	33.90
1997	32.70	34.20
1998	33.00	34.50
1999	33.30	34.80
2000	33.50	35.10
2001	33.81	35.45
2002	34.30	35.70
2003	34.50	36.00
2004	34.80	36.30
2005	35.10	36.60
2006	35.40	36.90
2007	35.70	37.20
2008	35.90	37.50
2009	36.20	37.80
2010	36.40	38.10
2011	36.70	38.30

According to the data in Table 4, the population in the country is getting older year by year. The average age of male in the last 16 years increased for more than 4 years and for female for around 5 years. These data suggest that as years pass the average premium for Critical Illness Insurance will increase, because there will be more older persons insured compared to young and less risky persons. According to the data of the State Statistical Office of Republic of Macedonia, the life expectancy for female is higher compared to the life expectancy for male (during the period 2009-2011 the life expectancy for female is 76.96 years, and for male 72.72 years).

Additionally, an analysis of the variance of different genders is made. Also was made an analysis of the similarities and differences in the predisposition to certain critical illness by gender. The available data of deaths caused by neoplasm (period 2005-2011), and of deaths caused by diseases of the circulatory system (period 2006-2011) were re-analyzed. Contingency tables for both genders were made. The values of chi-square distribution, Pearson coefficient of contingency, the value of the correlation between the series and of the R-value were calculated. Table 5 gives the statistics for the analysis of deaths caused by neoplasm.

Table 5: Analysis of the differences in the predisposition to disease neoplasm by various genders

Chi	Pearson	Correlation	Df	p-value
3.488	0.012	0.86	6	0.012

The value of chi-square test is quite small, less than 10.645 which is the limit value for 0.1 significance level for 6 degrees of freedom. The correlation between the values of the series is high, indicating a connection between the two series. Thus it can be concluded that there are no significant differences in the predisposition to disease neoplasm by various genders.

The results of the analysis for deaths from diseases of the circulatory system are given in Table 6.

Table 6: Analysis of the differences in the predisposition to diseases of the circulatory system by various genders

Chi	Pearson	Correlation	df	p-value
14,569	0.015	0.338	5	0.966

The value of chi-square test is 14.569 and is higher than 9.236, as is the limit for 5 degrees of freedom and a significance level of 0.1. The degree of correlation is quite low, and the p-value is high. It indicates that there are differences in the predisposition to diseases of the circulatory system by different genders.

### *Conclusions*

Diseases on circulatory system and neoplasms are the main reasons for mortality on global level, and also in the Republic of Macedonia. According to the analysis made on statistical data we have created identification (regression) model which can be base for further analysis towards calculations of proper premium for insurance of dread diseases.

The number of dead patients counted by different sex, shows that there are some differences towards the risks of some dread diseases, and if we want to create appropriate model we should make different model for different gender. Man and women takes different degree of risk, and that should be considered in the model of premium calculation of the critical illness.

The average age, and the expected duration of life, for both genders is increasing, which gives us information for ageing of the population and it evokes increase of the premium for dread diseases. This is also a reason for further analysis and appropriate inclusion of stochastic and other quantitative methods in calculation of premium.

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## **INSURANCE FRAUD AS A FORM OF FRAUD ABUSE OF INSURANCE**

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### *Abstract*

Fraud is a classic crime against property directed against property in general, or against property rights and interests, and is one of the oldest crimes. Besides being one of the oldest crimes, fraud particularly is characterized for developing countries that are characterized by transition period. The focus of fraud does not lie only in property damage in the area to another, but in deception, bringing another to fallacy (rightly says: "I do not mind that I damaged, I am mind that I am fallacy!") Insurance fraud as a specific form of fraud, has two forms of execution, and when it is destroyed or impaired subject in order to collect insurance or second form with causing bodily harm, damage or similar purpose or just by showing fictitious proper medical documentation in order to collect insurance. Insurance fraud as a criminal case can occur in combination with deliberate damage of property or asset and intentionally causing bodily injury with the same purpose, payment of insurance.

That specificity of these frauds was inspired to write this paper, such asplastic example that would be an analysis of the "Wiper" conducted by the Ministry of Internal Affairs, which is associated with insurance fraud related rigged accidents, which involved and police officers. The action will be analyzed in terms of the overall revealing process, as principle of case studies, measures taken, as well as any criminal proceeds obtained perpetrators.

*Keywords: fraud, insurance fraud, damages property, bodily injury, insurance company*

### *Introduction*

A basic principle in the performance of the insurance activity is the principle of truthful disclosure of facts which are relevant to the activation of insurance: the insured event was occurred, damage etc.. Without strict rules and procedure determining the facts, the area of insurance, which is of great importance for the economy and the financial security of the individual, would be turned into a region of massive fraud in which through insurance companies, real damaged will be all contributors or reinsurance funds. Action of execution is destruction or damage subject. This is a secured object, for example, the burning of the house the offender previously secured. For the existence of the act is not need to offender to charged damages from the insurance company. Suffice it to destruction or damage to the subject has been done with that intention (intention here is subjective element of illegality (Kambovski V. 2003: 332).

Basic features of the property insurance are the following: the risk covered by insurance may be carried on a person's property (damage to objects), the purpose of insurance is compensation that is caused by the occurrence of a risk therefore no one on base of insurance can not enrich or to get over the damage, the insurance rights may only have the person who at the time of causing all the damage had material interest not to cause the damage. While such the basic features of insurance of persons are: the risk covered by insurance may be carried on person (insured or insured person), and it can threaten the existence, integrity, health and working capacity of the individual. Personal goods exposed of risk not have material value, the purpose of insurance is compensation (human good can not be estimated in money) and therefore the compensation of insurance shall not affect the amount of damage.(Angeleski M. 2008:136) Insurance fraud is a specific form of fraud and is associated with a particular area in the financial sector, which is insurance. This offense Macedonian legislator ranks in the property offenses, but in the area of criminal activity, manner of execution, criminal motives, status and characteristics of offenders is included in the group of economic - financial crimes.

Insurance fraud is a non-violent crime perpetrated by offenders who with fraudulent way are gaining illegal profit which is paid as cash compensation or insurance premium from the insurance company, based on the request for payment supported by facts. Exactly the facts or evidence are crucial in terms of determining the type and amount of insurance premium which is dependent upon the insurance contract (policy) and certainly presented facts or



evidence. To get insurance premium in a criminal way needs displaying fictitious documentation which is prepared, verified by competent persons at which insurance company bows to faith. Perpetrators skillfully use their knowledge, professional experience, but above all powers and authority in their affiliation and performing criminal activity for obtaining high yields of criminality. Insurance is a business where are turned a lot of money, and that money are alluring to people inside (the insurance companies), but for those on the outside who are able (are in situation) to come illegally to some of the money that was turning in this business. What connect people throughout history and today are: interest money, power, functions etc.. And interest definitely spans and perpetrators of criminal acts of economic - financial crime, which have unique criminal purpose of obtaining criminal proceeds by exploiting their status characteristics, professional experience, knowledge in their professional activities. However, to obtain high yields of crime insurance, it is necessary criminal linking and acting of the perpetrators of several areas (points) in order to deliver a successful criminal realization on the long period of time, and of course involvement in criminal activity and conversion to other persons order to protect them from detection and prosecution. Perpetrators of criminal acts with elements of insurance fraud act independently in pursuit of a criminal offense and extracting high insurance premium, or acting in organized groups and criminal organizations, long-term, planned and coordinated in order to perform multiple crimes, extracting the more insurance premiums, but criminal activity and protect them from detection and prosecution. Protection from detection and prosecution is necessary for criminal activities extended period of time, and draw many and high amounts of insurance premiums, which as criminal proceeds are shared on offenders involved in criminal realizations according to the criminal role and involvement in criminal conversion. Or it could mean to someone directly staged event (that is its criminal role) and another just signed (but his signature is very valuable and he gets most of the criminal proceeds), but the distribution of prey crime is done by the criminal group pre-agreed rules.

Insurance fraud is associated with other criminal offenses of abuse of power and authority in forging business documents, and it makes complex the crime situation and is a complex problem to research the relevant law enforcement authorities in terms of getting initial operational information and clarification process and providing evidence of criminal acts, to bring perpetrators, their criminal role and the type and amount of criminal proceeds.

The subject of this paper is the study of criminal behavior with elements of insurance fraud, the way of criminal activity , the way of organizing and criminal activities of offenders through the analysis of criminal cases from the practice of studying the link of this crime with other crimes in the area of misconduct.

### *Insurance fraud*

Insurance fraud is a non-violent crime that falls in the area of property crimes in the area of economic - financial crimes. Deceit (fraud) is a classic crime against property, directed against property in general, or against property rights and interests and is one of the oldest crimes. However, its emphasis is not only in property damage in the area to damage another, but in deception, bringing another wrong (rightly says: 'I do not mind that I'm damaged, I am sorry that I'm screwed up! ') . Hence, in addition to property as a fundamental object of attack, there is another, larger facility to protection and security that is in the legal and mutual trust as its premise(Kambovki V., 2003:325). Fraud is a complex crime and fruitive action of a few, first of misleading the victim with various skills of Cheater - offender, then the appropriation of another's unlawful gains. Scams are massive crimes like the terms of,, the specialty of the perpetrators "and regarding the means of exercising and the means and methods, but there are specific types of fraud that have been known in criminalistic practice, but in recent years increasingly more are represented the criminal behavior which are involving organized criminal groups with divided criminal roles and involvement of officers and officials entity and by way of performance and methods that are used are included in the grouping of economic - financial crimes. In criminal behavior making - falsify official documents, abusing official position and powers in certain professions and jobs, and what is alarming is damaging on the legal entities which, " pay to be damaged. " This would mean that their employees on which provide the paid, work contrary to the regulations and rules of procedure and decision. These include insurance fraud in which mandatory "is involved employee of insurance company, insurance agent or members of the Commission in determining the extent any insurance and type and amount of damage and the amount of insurance premium.

Angeleski M. (Angeleski M., 2008:117) for scams ascertained that are contact crimes committed in immediate contact between victim and offender and fraud committed on distance. Most often it is called immediate crime, which

from the time of ripening of criminal conception to realization, relatively speaking, going through several stages as follows:

- Selecting the victim and its., process "to gain confidence in trickster;
- Agreement between the offender and the victim;
- Misleading the victim and
- Inflicting damages to the victim.

Scams such criminal behavior an ample number of ways of performing, but they are differentiated from classical frauds in specific areas of fraudulent activity and properties and professional experiences of the perpetrators - fraudsters. That after which differentiate scams and communication between perpetrator (perpetrators) and victims, but it is especially a problem when the victim is not physical entity, and the victim is an institution represented by natural persons with special status properties (official, responsible people), but the victim in the criminal situation in the role of perpetrator or helper, a facilitator in the crime situation. In practice often found saying " who to keep us from the guards" and the scams is saying " how to protect from the ringer that is in us and with us " it is our security - confidence.

Insurance fraud as a specific property crime is included in the group of economic - financial crimes under the definition of this term in many ways. In literature, in fact, encountered three groups definitions set out three aspects of economic – financial criminality as: causes and conditions that affects it in this criminality, motives and characteristics of offenders; manifestations and forms, methods, measures and actions in the process of discovering, clarification and proving.

**The first perspective** regards the economic - financial crime such offenses where the motive is the offender's financial gain (Fagan and Freeman: 1999). Thus, the term of this crime is understood as any offense with which one or more person in an illegal way intended to acquire financial gain, for example, abuse of power and authority, smuggling and illegal manufacture, breach of statutory regulations, tax evasion, computer crime, misuse of social assistance.

**The second perspective** focuses on offenses that on the offender has successfully provided financial gain (Chamlin and Kennedy: 1991). A variation of this view defines economic crime as crime where victims are exposed to economic damage. Typical victims are individuals, groups or organizations, and wider groups that may be indirectly affected by these offenses. This is the case when the offense crumbles or impairs the commercial efficiency of normative

business practices and negative consequences have expanded and the people that was not originally intended endurance damage from offense (for example, in the case of computer hacking, insider trading in exchange transactions).

**The third view**, said that the processes that lead to criminal behavior are the same as those that lead the buyers on the market. This understanding includes the views of economists presented since 1960 -'s. The most true claim is that of Gary Becker (Gary Becker) who writes of neoclassical or economic approach to explain the crime. According to him, people choose to perform criminal acts, using the same analysis of the cost - benefit (cost benefit) that are used in daily business operations: the decision to do the crime was the result of normal, rational calculation based on the assessment of the benefit of getting ture the benefits to be obtained by performing a crime (Gruevska & Drakulevski, 2008:616).

Insurance fraud by way of criminal activity, the motives of the perpetrators can rightly say that is an offense in which criminal offenders are realize high yields with good criminal organization and planned and coordinated criminal conversion, analyzed by the previous attitudes of theorists who study particular economic - financial crimes.

**Insurance fraud** (Arts. 250 of the Criminal Code of the Republic, Fig. Gazette, no. 37/96 and 19/04) is a crime committed in cases where the offender with the intend the insurance company to pay insurance, destroys or damages an item which is insured, or where the offender intended the insurance company to pay insurance in case of physical damage, bodily injury or impairment of health, will cause such damage, injury or impairment of health. Envisaged is a liability for legal entities.

There are two forms of execution of insurance fraud, when is destroyed or damaged item with the intent to collect insurance or second form, the infliction of bodily injury, damage or similar with purpose or just by showing fictitious proper medical documentation in order to collect insurance. Insurance fraud as a criminal case can occur in combination with deliberate damage of property or asset and intentionally causing bodily injury with the same purpose, recovery of insurance (eg, intentionally caused or staged accident where damage is reported motor vehicle and heavy bodily injury to passengers). It is illegal acquisition proceeds benefit through obtaining compensation insurance contrary to the contractual clauses, or damage to the insurance company. „ Disrespect "of contractual clauses reflects the inventiveness and skill of the insured and cheat (Angeleski M., 2008:134).

Insurance fraud occurs in intentionally causing the ignition , destruction of products and goods, but what is worst of these frauds is criminal conversion through good prospect crime, organized crime division of the roles and involvement of those who are supposed to protect property insurance companies - their insurance agents.

*Example of unresolved cases of practice for the good organization of the perpetrators and, "good alibi" at the direct perpetrator, namely in 2004 is reported a fire in the warehouse and workshop for producing food for domestic animals - animal feed. Upon the application of fire and upon exiting the field insight team, to the investigators were suspicious behavior to the owner of the facility during the inspection. Instead of being "concerned" to clarify the case, was interested when the final minutes to take the insurance money. Included is the Inspector of economic - financial crime to help clarify the case. Made insight into the insurance documents and documentation of supplied machines "reportedly in the fire burned completely. " It was found that the acquisition of machinery and raw materials for about 30 000 euro, after only two days are insured to "cousin", on the owner, and after only two weeks erupts the fire. But the owner has "good alibi" was in a disco in Ohrid. Alibi is confirmed by recordings of the cameras in the club. Included is the team with the polygraph, testing does not give any results, the owner (suspect) is "cold". Experts can not fully reveal the origin of the fire and what caused (found traces of flammable liquid bottle), but the damage is so great that according to their analysis there are and "something else". But it remained in doubt.*

*After several months, the owner have received the insurance money and immediately began to work. Under certain knowledge machinery and equipment had been taken elsewhere, and in the object put in some other machines that burned. The insurance company was not interested in the full resolution of the case. And there is the suspicion that something is going on in the insurance company, that an employee rather than to protect the interests of the company, working on damage insurance company, and for your own personal interest. Or as they would say old "wounds dog to bites you"*

### ***Criminalistic investigation of insurance fraud***

„Criminalistics exist and there where are not pending criminal proceedings. Criminal ways, unlike procedural actions are taken before the initiation of criminal proceedings" (Vodinelik V., 1995:159). The role of

criminalistic and criminalistics approach is crucial because without criminalistic investigation, there is no criminal investigation. Criminalistics contributes to detect crimes and to find the perpetrators, who will be tried in a criminal case based on the evidence provided in the criminalistic investigation with using legal methods, techniques and actions.

Criminalistic investigation is a process or system which has to be applied in resolving criminal situations through the application of measures and activities and a continuous and connected process of action and coordination between operational and investigative authorities in order to fully clarify the criminal cases by providing relevant evidence secured through legal procedures and procedures by „**case studies**“ method of investigation of criminal case in full, with interest and proving of all committed crimes which are the perpetrators and their relationship and responsibility for specific crimes committed criminal behavior and their role in crime case.

The discovery of criminal cases with elements of insurance fraud and other crimes associated with them means patiently and complex search for truth and its setting in the pretrial (pre and criminal procedure. Collecting and defining the facts and circumstances that are relevant to the discovery and clarification of a criminal event, and finding, capturing and detaining the sanction of the perpetrator of such offense, an abstract logical thinking and action within the criminal system - tactical (or operational) activity and the criminal procedure or within the criminal proceeding as a single process. „Deciphering “of all information relating to a criminal event is a good knowledge of the functioning of all segments of the insurance system, knowledge of specific ways and methods of criminal activities (criminal manipulation), disrespect or disregard the law, bylaws or procedures by the involved perpetrators for which the criminalistic should be specialist oriented and trained. Planning as a method to combat contemporary forms of criminality, are elaborates and E Kube (Die Polizei, Eisbaden, br. 3/87 : 77) noting that this fight can be run in two ways: one is spontaneously dominated empiricism and voluntarism, and the second is based on a system where planning as an expression of conceptual strategy comes to full expression, and the grounds for such planning is based on scientific findings. Planning is a dynamic process and aims to select the most efficient and most economical way to search for crime and criminal - procedural relevant circumstances of the criminal event.

Stereotypical approaches to planning can be adversely affect the conduct of the procedure, because a one criminal - planning solutions in one case may prove expedient, and in another case as effectively.

Planning is supplemented or changed depending on the tactical situation. The planning phase begins when Criminal - operating officer will have general indications of a criminal event, event and continues with the criminal - methodical, forensic – psychological and logical plan. Planning allows you to discover and highlight objective – subjective circumstances of the crime and to determine the responsibility of the perpetrators, and to determine future goals of general and specific prevention in a planned, programmed and content rich prophylactic activity of elastic and durable operational character. "The collected material, moral and psychological clues that through appropriate versions eliminatory methods are perpetuate the belief of the existence of organized criminal attack, an starting operations material planning a whole series of operational - tactical measures (particularly discrete) and investigation (legal) actions "(Angeleski M., 2008:11).

The successful fight against organized economic - financial crime with elements of insurance fraud leads to the necessity of criminal conduct in operational strategy. Operational crime strategy is not random set of operational - tactical measures, investigations and special investigative measures, but it is global, comprehensive or not exist at all. Its essence is to raise well above the tactical processing of each individual case and focus on the creation and application of complex operational - tactical measures to completely eliminate crime or its suppression as a total complex. "The lack of proper operational strategy reflected in the organization (structure enforcement officers), who knows just under criminological specialization based division of offenses, and not by groups of organized crime network (Vodinelik V., 1993:19).

The new strategy involves criminal offensive in every way. Information can no longer be supplied randomly. They must be collected systematically before to "appear" reasonable suspicion of specific criminal acts, and that means inside and criminal environment around it.

Based on these clues, or versions, of the existence of network crime with elements of abuse, you have to organize operational - tactical actions at the operational behavior of the police and other public bodies such as the Financial Police, Customs, etc.. who in their jurisdiction have discovery, disclosure and proof of organized crime with elements and abuses of insurance fraud.

Insurance fraud not differ in terms of how we found out about crime or criminal situation of more related crimes where the perpetrators were able to fool more people from one or more places in the country. Scams often reveal the charges filed by the corrupted people, but should not neglect other ways of finding out who is identical to the classical forms of fraud, such as public speaking, media, operational work of police officers, and More recently as an important source of initial information are the offers of a variety of online products and goods, and in some cases and offer of the services.

Preliminary information are subject to operational review of police operational workers in specific cases in order to provide relevant data and collaborate with other state agencies and customs administration when it comes to goods and products imported from abroad and cooperation with insurance companies to detect insurance fraud. Initial reports by checking the records and documents of state bodies and institutions damaged or legal or natural persons giving us direction for further checks or performing planning and implementation of the measure insight into business documents and then comparing the overall provided documentation.

Elucidating and proving are a quite important segments in the study of insurance fraud. Often, solving a complex and planned process of applying operational – tactical measures and investigations, and in some situations in order to provide evidence to initiate and conduct special investigative measures.

The inspection of documents is a measure which is commonly used and is made available in the documentation of the production, supply or sale of goods and products that are subject to fraudulent buyers. But this measure is necessary in insurance fraud, and to determine the facts in the documents pertaining to a specific case that is the subject of a request for funding of insurance. As long as there are types of insurance, so there are types of insurance fraud, and the evidence for these frauds are found in documents such as insurance policies, minutes of the incident (accident, fire, theft, assault), and documents made an assessment of damages committed by accident).

In the clarification of insurance fraud, operational workers need to focus particular attention to the clarification and possible participation or involvement of multiple offenders in a complex criminal case. Often this is planned and organized crime cases in which actors of crime occur entities of insurance companies and doctors - experts, lawyers, police and of course the actors - perpetrators of the incident. Most important is elucidating the incident, if it really happened, whether it fictional case, concealing another crime or planned



crime with the purpose of criminal proceeds in the form of insurance premium. As evidence you need to provide all records, contracts of insurance, medical documentation, and all documents that indicate crime and data carriers for suspects in the role of officials or persons performing activities of public interest.

*Example: A few years ago is reported a case of severe burglary at a pharmacy, which is reported damage of about 30 thousand euros. In resolving the difficult theft, operational workers became suspicious in behavior damaged applicant who insisted that quickly be drawn the report of the performed insight . The report is important for applying for compensation from the insurance robberies. Are requested Cooperation with operational employees of the Department of Economic Crime, which conducted the review the documentation stated that no invoices for purchased pharmacy products up to the amount of the reported damage, Reporter does not know how to pinpoint precisely which products are stolen, becoming more confusing in keeping the conversation with operational employees from economic crime. Analyzed documents, or policy of insurance was concluded that the insurance policy is concluded before 15 days, applies only to the detriment of theft, most of the premium is the amount of the reported damage. After all these elements are made operational checks for the entire entry of products in pharmacy, insurance documentation, and checks of contacts of applicant with people from the insurance company, and other operational checks, and obtained information that applicant - damaged already charge with more people - money-lenders, and insurance agents is a close friend who wanted to help.*

*After complete clarification and documentation of the case by providing all relevant evidence is filed criminal charges for the owner and manager of pharmacy insurance fraud, and insurance agent for abuse of position and power.*

*Macedonian police in cooperation with the prosecution implement operational action "wiper" in which case a criminal investigation with insurance fraud, fraud, abuse of official position and authority, forging documents and aiding celebrated, in which criminal acting police officers, doctors and other people. The operational action arrested 17 former and current policeman the department for inspection of traffic accidents, and a total of 57 suspects. Disclose a fraudulent scheme that was applied and expanded with new doers continuously four years. The criminal structure is involved and lawyers and agents from several insurance companies. The operational action*

*plan is coordinated and implemented since 2007 and applied special investigative on traffic accidents that took almost the same people they were planned on their territory where they were,, traffic policeman" who in turn, agreed with insights team about preparing false applications, and doctors gave findings and opinions on the basis of fictitious injuries, and certainly not acting agents control requirements and fictitious documents and approve payment of high amounts of insured premiums.*

*The investigation found that some of the individuals involved in arranged accidents are complained of alleged injury which was called and ambulance and secured it with medical documentation of injuries and the National Insurance Bureau was requested payment of pecuniary damage. In one of the fake accidents one of the participants for alleged violations took with him a person had previously incurred physical injuries and took him to the surgical clinic. There has been an executive summary in name and name of participant covered accident. Thus supplied medical documentation of serious bodily injury. This medical documentation despite the damage to the vehicle, he was paid and non-pecuniary damage. The current investigation documented 13 fake accidents that involved pocketed or attempted to acquire money. Scheme false accident was beginning so that cheaters first secured and prepared cars damaged parts to participate in the tuned car accident. Then arranged vehicles as previously occurred accident and emerged from 192 to report. Then insights team came out on the scene. The police, though, and should be able to determine that it is arranged accident because the sketch and the photos are not noted traces of realistic accident that happened with these damaged vehicles, and turned a blind eye after inspection concluded alleged circumstances of the accident and signed the minutes. Then it was used to record the insurance companies and bore applications for compensation of damages hull - insurance of vehicles, insurance liability insurance, material and immaterial damages, which were later paid damages.*

### **Conclusion**

Insurance fraud is fraud offenses that offenders are gaining high crime rates in the name of compensation or pecuniary or non-pecuniary damage. Perpetrators are organised in their criminal conversion, meaning that law enforcement should act organized and coordinated in order to obtain the relevant initial operational knowledge to streamline discovering work aimed at

determining the facts and circumstances involved offenders, especially for people who abuse their powers and thus contribute to the full realization that crime is reduced to recovering monetary compensation from insurance companies. Insurance companies as damaged by this crime should be more cooperate with the police in order to strengthen the prevention of criminal behavior. But their active role or 'watchful eye" you should have at any suspicious payment of insurance premium, especially as the weather is questionable elements of the insurance contract and the resulting consequence or event basis for payment in respect of insurance, then as one of the important clues or something that should be seen as a signal is excessive spending of funds, especially their insurance agents.

What should be particularly important research and criminological characteristics of criminal law enforcement situations with elements of insurance fraud in order to build a strategy for successfully handling the process of discovery, clarification and proof of these crimes, but special attention should be paid to detection, security and confiscation of criminal proceeds and property acquired by performing criminal acts. Road money in most situations reveals all perpetrators involved, it is the easiest way to identify all the perpetrators involved, and thus helping the courts in pursuit of good criminal proceedings by imposing appropriate criminal sanctions and measures for the confiscation criminal proceeds, as a message to future offenders, however criminal gained money and not their property and there are confiscated.

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## **AUTHORIZED ECONOMIC OPERATOR – CHALLENGES**

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### *Abstract*

International trade is a crucial driver for economic well being and prosperity. The global trading system is vulnerable to terrorist threats that could severely damage the entire global economy. To ensure continuous economic growth, it is necessary to provide an environment that allows trade to function in a secure, efficient, cost effective and reliable way. Customs Administrations are in a unique position to provide increased security to the global supply chain and contribute to socio-economic development through revenue collection and trade facilitation. In response to this trend, the World Customs Organization (WCO) adopted an international framework (“SAFE Framework of Standards to Secure and Facilitate Global Trade”) in 2005. Pillar Two of the WCO SAFE Framework provides global standards for launching an Authorized Economic Operator (AEO) program. Under the AEO concept, the mission of the Macedonian Customs has been increasingly focused on ensuring security in the international supply chain, thus contributing to a safe and secure society. At the same time, it has been focused on facilitating legitimate flow of goods through providing trade facilitation measures to the operators who are compliant with the supply chain security standards. This paper reviews the core AEO concept, assesses its linkages with trade facilitation and analyzes the role of the Customs Administration in this process. The goals of this study are to analyze the AEO concept, especially in the custom’s operating environment in the Republic of Macedonia. To achieve the goals of this study, quantitative and qualitative data collection methods were used.

*Keywords:* Authorized Economic Operator (AEO), trade facilitation, customs, SAFE Framework

*Authorized Economic Operator - Challenges of The Macedonian Customs*

Today, international trade is conducted in a very complex constellation. In this regard the role of the Customs administration has changed a lot. Customs administrations are now expected, among other responsibilities, to provide balance between security of international supply chains and trade facilitation. In response to this trend, the World Customs Organization (WCO) adopted an international framework (“SAFE Framework of Standards to Secure and Facilitate Global Trade”) in 2005. According to the WCO, as of 01.03.2011, 164 out of 177 member nations had expressed the intention to implement the SAFE Framework (WCO, 2011). Pillar two of the WCO SAFE Framework provides global standards for launching an Authorized Economic Operator (AEO) programs. Pillar two of the SAFE Framework has been of continued interest to many WCO members as they move to implement the Authorized Economic Operator (AEO) programs. Republic of Macedonia has launched the AEO pilot on 01. 07. 2009, but hasn’t launched the AEO program yet.

#### ***SAFE Framework AEO***

SAFE Framework is a set of voluntary standards which most WCO Members have agreed to comply with. According to the WCO, as of 01.03.2011, 164 out of 177 member nations had expressed the intention to implement the SAFE Framework (WCO,2011).

The SAFE Framework is organized into two pillars: Pillar 1 -- Customs-to-Customs partnerships and Pillar 2 -- Customs-to-business partnerships. The total number of standards is seventeen, with eleven in Pillar 1 and six in Pillar 2. Pillar 1 emphasizes the harmonization of advanced electronic cargo information requirements on inbound, outbound, and transit shipments and the use of a consistent risk management approach to address security threats: analysis of the information to determine whether the shipment is high-risk in terms of national security. The facilitative aspect of this process is that a shipment deemed to be a low-risk need not be scanned or physically inspected.

Pillar 2 is built on Pillar 1 and it recommends a process where Customs administrations validate the businesses that comply with security requirements as AEOs. The cargo of such businesses will generally be deemed low-risk under the procedures of Pillar 1. Pillar 2 encourages the establishment of ways for Customs to identify businesses that consistently demonstrate commitment to comply with Customs regulations and security procedures as AEOs.

The SAFE Framework defines an AEO as a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with WCO or equivalent standards for supply chain security. AEOs include manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses, and distributors (WCO, 2005). The SAFE Framework establishes the following six standards for AEO programs:

Standard 1: Partnership. AEOs engage in self-assessment—measuring their internal policies and procedures against security standards and best practices to ensure that they provide adequate safeguards against the compromise of their shipments and containers until the shipments are released from Customs control at destination.

Standard 2: Security. AEOs incorporate program-defined best practices for security into their business practices.

Standard 3: Authorization. The Customs administration, together with representatives of the trade community, designs validation processes or quality accreditation procedures that offer incentives to businesses because of their status as AEOs.

Standard 4: Technology. All parties maintain cargo and container integrity by using modern technology.

Standard 5: Communication. The Customs administration regularly updates the security standards and supply chain security best practices defined in the AEO program.

Standard 6: Facilitation. The Customs administration works cooperatively with AEOs to maximize security and facilitation of the international trade supply chain originating in or moving through its Customs territory.

Although the SAFE AEO relates to operators in the context of supply chain security, the basics come from the WCO's International Convention on Simplification and Harmonization of Customs Procedures, known as the revised Kyoto Convention, adopted in 1973 and revised in 1999.

In 2006 the WCO developed a new section within the SAFE Framework called AEO Conditions, Requirements and Benefits, to further develop the AEO concept. This new section provides more detailed information on how to establish an AEO program, especially the conditions and requirements for customs, the process by which customs should validate and authorize AEOs, and the benefits that should be provided to AEOs (Mikuriya, 2007).

### *Analyzing the AEO concept in the Republic of Macedonia*

**Legal framework** - Until 2008 in the custom's operating environment in the Republic of Macedonia there was no comprehensive legal framework or regulation at national level that provided for trade facilitation and security through the use or implementation of AEO's. The absence of a national policy on AEO's positions compliant traders with those that were not compliant didn't show any benefits for being compliant. Development of a comprehensive legal basis at national level conferring the powers on the Customs administration to create customs-to-business partnerships was necessary. In this regard on 04.01.2008 the Assembly of the Republic of Macedonia adopted a Law on Amending and Appending the Customs Code. The Amendments provided legal basis for introduction of the Authorized Economic Operator Concept, being part of the process of approximation and harmonization of the national legislation with the Amendments to the Customs Code of the European Union 648/2005. A further step was made by adopting Amendments to the Customs Code Implementing Regulation. The Amendments to the Regulation aim to make the part of the Customs Code concerning the introduction of the Authorized Economic Operator concept operational.

**Procedure for granting the AEO certificate** - Customs authorities of the Republic of Macedonia, if necessary in consultations with other competent authorities in the domain of security and finances, will grant the status of Authorized Economic Operator to every economic operator registered in the customs territory of the Republic of Macedonia (Customs Code, 2008). An Authorized Economic Operator will benefit from facilitations with regard to customs controls relating to safety and security and from simplifications provided for, under the customs regulations. The status of Authorized Economic Operator will be recognized by the customs authorities of the Republic of Macedonia, without prejudice to customs controls in accordance with the rules and conditions laid down in the Customs Code. Based on the recognized status of AEO, and provided that the requirements relating to a specific type of simplification are fulfilled, Customs authorities will grant approval to the Authorized Economic Operator to benefit from that simplification.

According to the provisions of the Customs Code Implementing Regulation there are three AEO certificate types:



1. AEO certificate for customs simplification, intended for economic operators who want to benefit only on the basis of customs simplification
2. AEO security facilitation, provides facilitation of customs controls when importing and exporting goods to or from the customs territory of the Republic of Macedonia
3. Full AEO security facilitation plus customs simplification

In general, depending on the type of certification, operators can benefit from trade facilitation and simplification, reduced waiting time and faster clearance of the goods.

**Application for an AEO certificate** - Application for an AEO certificate shall be made in writing or in an electronic form in accordance with the specimen set provided with the Customs Code Implementing Regulation. The application will not be accepted in any of the following cases:

1. the application does not comply with the corresponding provisions of the Customs Code Implementing Regulation;
2. the applicant has been convicted of a serious criminal offence linked to the economic activity of the applicant or is subject to bankruptcy proceedings at the time of the submission of the application;
3. the applicant has a legal representative in customs matters who has been convicted of a serious criminal offence related to an infringement of customs rules and linked to his activity as legal representative (Customs Code Implementing Regulation, 2008);

**Conditions and criteria for granting AEO certificate** - The Authorized Economic Operator status shall be granted to the economic operator that meets the following criteria:

1. complies with the customs requirements for execution of customs formalities and acts appropriately in accordance with the customs formalities,
2. is not a person posing greater risk,
3. has an efficient system for managing commercial and, where appropriate transport records, which allows appropriate customs controls,
4. is solvent for the type of authorization, where necessary, and
5. applies appropriate safety and security standards for the type of authorization, where necessary (Customs Code Implementing Regulation, 2008).

The record of compliance with customs requirements referred is appropriate if over the last three years preceding the submission of the application no serious infringement or repeated infringements of customs rules have been committed by any of the following persons: the applicant; the persons

in charge of the applicant company or exercising control over its management; if applicable, the applicant's legal representative in customs matters; the person responsible in the applicant company for customs matters (Customs Code Implementing Regulation, 2008). If the applicant is registered less than three years preceding the submission of the application, the customs authorities assess the compliance of customs requirements based on information available to them. To enable the customs authorities to establish that the applicant has a satisfactory system of managing commercial and, where appropriate, transport records, the applicant should fulfill the following requirements:

1. maintain an accounting system which is consistent with the generally accepted accounting principles applied in the Republic of Macedonia where the accounts are held and which will facilitate audit-based customs control;
2. allow the customs authority physical or electronic access to its customs and, where appropriate, transport records;
3. have a logistical system which distinguishes between domestic and non-domestic goods;
4. have an administrative organization which corresponds to the type and size of the business and which is suitable for the management of the flow of goods, and have internal controls capable of detecting illegal or irregular transactions;
5. where applicable, have satisfactory procedures in place for the handling of licenses and authorizations connected to trade policy measure, if necessary;
6. have satisfactory procedures in place for the archiving of the company's records and information and for protection against the loss of information;
7. ensure that employees are made aware of the need to inform the customs authorities whenever compliance difficulties are discovered and establish suitable contacts to inform the customs authorities of such occurrences;
8. have appropriate information technology security measures in place to protect the applicant's computer system from unauthorized intrusion and to secure the applicant's documentation (Customs Code Implementing Regulation, 2008).

The conditions relating to the financial solvency of the applicant are met if his solvency can be proven for the past three years. Financial solvency means a good financial standing which is sufficient to fulfill the commitments of the applicant, with due regard to the characteristics of the type of the business activity. If the applicant has been established for less than three years, his financial solvency will be judged on the basis of records and information that are available.

The applicant's security and safety standards are appropriate if the following conditions are fulfilled:

1. buildings to be used in connection with the operations covered by the certificate are constructed of materials which resist unlawful entry and provide protection against unlawful intrusion;
2. appropriate access control measures are in place to prevent unauthorized access to shipping areas, loading and storage areas;
3. measures for the handling of goods include protection against the introduction, exchange or loss of any material and tampering with cargo units;
4. procedures are in place for the handling of import and export licenses connected to prohibitions and restrictions and to distinguish these goods from other goods;
5. the applicant has implemented measures allowing a clear identification of his business partners in order to secure the international supply chain;
6. the applicant conducts security screening on prospective employees working in security sensitive positions and carries out periodic background checks and ensures that its staff concerned actively participate in security awareness programs (Customs Code Implementing Regulation, 2008).

**The need of adopting an AEO program in the Republic of Macedonia** - To achieve the ultimate security and facilitation goals of the SAFE Framework, Customs administration of the Republic of Macedonia must adopt a transparent and forthcoming attitude in the area of Customs operations that can be further modernized, adjusted and improved to the benefit of the international trade community. Customs should proactively consider ways in which they can, based on their current or projected resources, assist the trade to complete their business in the most effective way possible. The international trade and transport communities have experience and knowledge that can benefit Customs administrations in the management of their facilitation and security responsibilities. The private sector should take advantage of this opportunity to forge new and appropriate alliances with Customs, to assist Customs administrations with their security-related mandates.

In order to garner and keep private sector support, it is necessary that there be a clear statement concerning what is entailed in being an AEO. There must be a common understanding of the conditions and requirements of AEO status, which should be specifically enumerated in detail in national AEO program. Even more fundamentally, as a first step, there must be clear presentation of the tangible benefits to be realized by participation in the AEO

program. The Macedonian customs recognizes the urgent need to stimulate trade and increase the level of voluntary compliance by providing operators that fulfil pre-determined requirements and standards with tangible benefits through the AEO Program. An appreciation by the private sector of the benefits which may be provided by the Macedonian Customs administration, as well as the benefits of active participation in efforts to strengthen global supply chain security, is a critical element in the private sector being able to justify the additional costs incurred in the process of enhancing existing security measures. Clear and tangible benefits will help provide a needed incentive to businesses. This requires the Macedonian Customs Administration to set up appropriate institutions as a framework to deliver the AEO Program.

It is clear that the Customs administration of the Republic of Macedonia will face certain challenges in starting up AEO program. An AEO Pilot was launched on 01.07.2009 and according to the Compendium of AEO programs, Republic of Macedonia should launch an AEO program by September 2013 (Polner, 2011). Now is the time to raise the global profile of Customs as a major player in securing the economic and physical well-being of the nations they serve by protecting the flow of trade throughout the global supply chain. In this regard, the AEO Program should aim at supporting the following trade issues:

- Elimination of non tariff barriers
- Improving the security and other restriction to trade
- Enhancing the Customs cooperation, and
- Simplifying and harmonizing of trade documentation and procedure in line with the Revised Kyoto Convention.
- Ultimately increasing trade growth, foreign investments and competitiveness

The policy will strengthen the provision of national and regional security in the international trade supply chain. It will ensure economic, financial and social benefits by easing the business flow through reduction of the business turnaround time.

One of the major benefits for businesses applying for AEO status is mutual recognition. Every country that has launched or is about to launch an AEO program aspires to conclude mutual recognition agreements with its major trading partners. In April of 2013, the Macedonian Customs Administration as chair of the Subcommittee on Customs and Origin of CEFTA organized a conference on the possibilities and ways of creating a program for AEO CEFTA compatible with EU.

The SAFE Framework defines mutual recognition as an “action or decision taken or an authorization that has been properly granted by one Customs administration is recognized and accepted by another Customs administration.” The SAFE Framework also states that “mutual recognition can be a means to avoid duplication of security controls and can greatly contribute to the facilitation and control of goods moving in the international supply chain” (SAFE 2011, pp 49-50). As of June, 2012, WCO research reflects that 19 mutual recognition agreements have been concluded and 11 mutual recognition agreements are currently ongoing (Polner, 2011, pp 8).

### ***Conclusion***

Customs administrations continue to enhance the security and facilitation of the global supply chain by implementing WCO international standards. A core element of this is the Authorized Economic Operator - AEO programs that are based on the SAFE Frameworks Pillar II and Revised Kyoto Conventions authorized persons provisions. The emphasis placed on the implementation of the AEO concept provides an opportunity to minimize costs, facilitate trade and thus create potential for the increase in revenue collection.

In the Republic of Macedonia there is a regulation for the introduction of the Authorized Economic Operator, but this concept is not implemented in practice yet. In the custom’s operating environment, Macedonian customs should actively work on implementing of this concept. In this regard, the Macedonian customs administration has to work on strengthening its capacity to assess the credit risk of the economic operators and customs procedure and to have positive impact on the economic operators to feel the benefits of this concept. Establishing of the AEO concept necessitates introducing certain control systems to ensure that the clearance will not allow abuses. Establishing the AEO program continues to be a priority for the Macedonian customs administration. The AEO program will therefore serve as a starting point for implementing trade facilitation initiatives that drive economic development of the Republic of Macedonia.

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**THE SITUATION WITH INSURANCE OF CROP  
PRODUCTION IN THE REPUBLIC OF MACEDONIA  
AND THE EU MEMBER STATES AND THE USA**

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*Abstract*

Crop production takes place in the open field, exposed of numerous risks and disasters, with damages that are often caused by action of natural forces. A risk caused by weather, man is not always able to forecast and control. In Republic of Macedonia insurance of agricultural production is a little present because of major risks and consequently high premium rates. Some countries in the European Union and the United States the insurance at farmers stimulate with the subsidizing insurance premiums. With insurance in agricultural production is allowed damage to be a compensated financially.

Keywords: risks in crop production, the need for agricultural insurance, the consequences of non-insurance, high damages in agriculture signal for an urgent need for insurance and involvement of states in subsidizing insurance premiums.

*Introduction*

Agriculture as one of the important industries takes place outdoors, it is exposed to certain risks that could cause major damage. Risks in agriculture are the result of exposure to the production of many natural disasters that often times, the man is unable to predicted and controlled. By the insurance of agricultural production is provided compensation for damage, and thus financial balance. Risks in crop production (crops and fruits), occur as a result of the occurrence of certain natural factors affecting agricultural production itself, such as the occurrence of hail, torrential rains, erosion, floods, snow drifts, fires, storms and dry winds, early autumn and late spring frost, etc.

### ***Risks in agricultural insurance***

Risk in agriculture is a danger that can occur in crops, fruits, which occurs under the influence of certain objective and subjective factors<sup>21</sup>. Due to the influence of certain natural factors, the production process in agriculture is at risk. Risk, often times, appears as an integral part of agricultural production. Risks in agricultural production caused some damage to crops, fruits and animals, which mostly affect the height of the financial result. It is very important to take care of identifying, measuring and controlling risks i.e. to perform risk management. In recent years, it is a necessity for normal crop production, maintenance of its own property of legal entities and private farmers in the agricultural sector, and the possibility of creating more profits in agricultural production. Risk represents future, uncertain event, occurred as a result of the influence of certain factors and natural disasters, which can cause damage in various crops and fruits adverse economic consequences. Damages in agriculture, which are result from the impact of certain insured risks, create liability of insurance companies to compensate or pay damage. Risks in agricultural production, which is the subject of insurance, must meet the following requirements: to exist a possibility for the occurrence of possible damage in agriculture, the damage to be of economic nature, to exist uncertainty of occurrence of risk for crops, fruits and animals with no impact on the will of the insured, to not always occur at the same time and space, it can be repeated and to exist possibility for statistical monitoring.

#### ***Taking preventive measures to protect crops and fruits of natural disasters***

Crop production is carried out in an open space, where production is subject to many risks from natural disasters that man is not always capable of predicting and controlling. The main objective of farmers is to identify potential risks that causing some damage to crops, fruits and animals, and take immediate preventive measures to be put into operation, to prevent or remove the reasons that causes damage. Risks that arise in crop production are result of occurrence of certain natural elemental factors, among which are: the occurrence of hail,

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<sup>21</sup> Tihomir Jovanovski, Ph.D: „Economics of insurance“, EMK, 1997 p. 54

torrential rains, erosion, floods, snow drifts, fires, storms and dry winds, early autumn and late spring frosts, drought, high temperatures, fire and others<sup>22</sup>.

The fight against these risks and adverse weather events, can be done in two ways: a) by prevention, which enables measures and activities for prevention and non-occurrence of damages, or if they occur to achieve the reduction or mitigation the harmful consequences through prevention and b) by taking indirect measures, especially through insurance, which should provide compensation for damages.

### *Need for insurance of agriculture*

The term security means providing funds (fund formation) by joining multiple entities in order, the occurrence of certain damages to compensate (cover) by deploying them on multiple subjects<sup>23</sup>. Insurance is based on the principle of solidarity pooling, based on a voluntary or compulsory basis, mediated by specialized organizations. Through insurance in agriculture, damages arising out of agricultural crops and fruits are reimbursed from the fund, set up from the investments of the insured. Insurance in agriculture is done on a voluntary basis. The essence of insurance in agriculture consists in compensation the damage of crops and fruits incurred as a result of the risks and dangers that are ever present in agriculture. Due to the nature of the production cycle, damages in agriculture, mostly, cause interruption of the production process. The extension of the production process requires considerable financial resources that can be provided through reimbursement of damages by way of insurance. Insurance in agriculture make legal and natural persons in the field of agriculture (insured) that are mutually connected and affected by specific hazards and risks to their properties (crops, fruits, animals). By paying a premium for insurance, they are providing funds for compensation of damage in agriculture. Insurance is composed and by insurers that are legal entities (insurance companies), which after the conclusion of the insurance contract and the payment of premium are obliged to pay damages to the insured. Agricultural insurance is a contractual relationship and are governed by a contract.

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<sup>22</sup> Petar Ganchevski: „Theory and practice in insurance activities “, NID „Mikena“ Bitola, p. 541

<sup>23</sup> Tihomir Jovanovski, Ph.D: „Economics of insurance“, EMK, 1997 p. 24

### *Insurance of crop production in agriculture*

Losses in crop production are usually caused by natural disasters and risks, and man is not able to always predicted and controlled. Therefore, to protect production occurs insurance of production, through which allows damage to be compensated financially.

Insurance of crop production can be basic and additional. Basic insurance of crop production covers insurance of damages from risks: hail and storms followed with hail, fire or lightning strike during not harvested crops and fruits. Additional insurance covers damages caused by risks: flood, ice or storm, occurred without the hail. Additional insurance of risks is always conditioned by prior agreement for basic insurance risks insurance.

### *Premiums and tariffs on agricultural insurance*

Insurance of crops and fruits in every insurance company is regulated by special laws for ensuring crops and fruits. To regulate relations with insurance and fruit crops, the insurance companies have established insurance terms, among which are the following:

- 1 ) General conditions (rules) to ensure crops and fruits, which regulates the general principles of insurance and
- 2 ) Specific conditions (rules) to ensure the crops and fruits, which regulates the specifics in insurance of certain crops and fruits from certain risks. Premium of insurance in agriculture is a sum of money paid by legal entities and individual producers in agriculture due to the insurance of the crops and fruits of the insurance companies, or the price of the risk of the insured property. The insurance premium is always correlative dependence with the risk in insurance, which actually means as much greater risk, as the higher the premium<sup>24</sup>.

On the amount of premium in agriculture affect several factors, of which most important are: the degree of likelihood of risk, the average magnitude of

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<sup>24</sup> Jelena Kochovikj, Ph.D and Predrag Shulejickj, Ph.D: „Insurance“, Economics faculty, Belgrade, 2002 p. 68

the damage, the amount of insurance, term of insurance and interest rate of financial assets.

The tariff of the insurance premium (premium rate) in agriculture is a set of premium rates, in a kind of insurance, or in all insurances that any insurance company carries out for insurance in agriculture<sup>25</sup>. The tariff of the insurance premium, also represents a price list of premium for insurance and determines the price of risk insurance in agriculture. Tariff of insurance contains general and specific conditions (principles) for insurance of crops and fruits, based on which a policy and a contract of insurance are prepared. Tariff of premium consists: tariff groups, according to the type of risk in agriculture, tariff items of groups or classes of sensitivity of cultures and classes of risk crop.

#### ***General and special conditions for insurance of crops and fruits***

Relationships in crop and fruits insurance, in principle, any insurance company regulate by special rulebook for insurance, which regulates the general conditions (rules) for insurance and general principles of insurance of crops and fruit, determined on the basis of previously issued business decisions. Based on the contracts of insurance, primary liability of the insurer due to occurrence of damage, (insurance case) is to make compensation and payment of damages i.e. insurance. The timing of the start of the obligation for payment of damages is determined by the insurer, depending on the type of crops and fruits and the type of damage and the stage of development of crops and fruits<sup>26</sup>.

Subject of insurance of crops and fruits in specific conditions in a plant production is the yield or all parts of the plant, that having a basic use value. Non-fruiting orchards and vineyards as well as crops that once have already been damaged by the risk that the insured, can not be the subject of insurance. With this in mind, the subject of insurance in crop production can be: crops, fruits, meadow grasses, herbs, ornamental plants, orchards, vineyards, young orchards and vineyards before fruiting, fruit, vine and forest planting material, young forest crops with 6 years age, plaiting willows, reeds, etc. Insurance of crops and fruits in plant production is carried out by groups of insured perils or risks that could cause some damage to agricultural production itself.

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<sup>25</sup> Jelena Kochovikj, Ph.D and Predrag Shulejikj, Ph.D: „Insurance“, Economics faculty, Belgrade, 2002 p. 225

<sup>26</sup> Petar Ganchevski: „Theory and practice in insurance activities “, (Insurance of crops and fruits) NID „Mikena“ Bitola, p. 543

### *Tariffs of insurance premium of crops and fruits*

Tariff of premiums or premium rate for insurance of crops and fruits, is a set of premium rates in a kind of insurance crops and fruits or all insurances, which performs an insurance company. Each insurance company sets its own rates for insurance, applying for insurance of crops and fruits, which use general and specific conditions for insurance of the following risks:

- a) Primary Insurance of crops and fruits of risks: hail, fire and lightning and
- b) b ) Supplemental Insurance of crops and fruits of risks: storm, flood and spring frost .

Tariff of insurance premiums on crops and fruits consist of tariff groups according to the type of hazard and risk, and elements of tariff groups respectively, under which tariff classes are divided into groups:

- a) the sensitivity of culture class, which is established on the basis of reliability and sensitivity to the culture of risk and ensures and
- b) the hazard class, which is determined by the dependence of territorial units and settlements in the area where it is insurance. The class of risk is determined based on the technical result obtained on the territorial unit, as the relationship between paid claims and written technical premium for more years for the territorial unit.

Tariff for Insurance of crops and fruits consist of tariff groups that covers following types of insurance<sup>27</sup>:

- Insurance of crops and fruits of risk from hail, fire and lightning;
- Mass insurance of tobacco, hops and cotton of risk: hail, fire and lightning;
- Insurance of crops and fruits of storm risk;
- Insurance of crops and fruits of flood risk;
- Insurance of crops and fruits from spring frost risk;
- Insurance of crops and fruits of risk loss of seed quality;
- Insurance of crops and fruits of risks in greenhouses;
- Insurance of fruit trees and vine trees;
- Insurance of crops and fruits after the harvest or vintage;
- Insurance of fruits and table grapes from risk of losing quantity and quality etc.

Allocation of cultures by class of sensitivity of the culture is based on

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<sup>27</sup> "Tariff and insurance premium of crops and fruits," Manuals of company for insurance" QBE - Macedonia AD and Company for Insurance "Vardar

the reliability and sensitivity of the culture to risk which ensures. Distribution of the area in classes of risk, is based on the degree of danger in the area of individual risks.

Unlike the previous insurances , tobacco is the only strategic crop, in which production and acquisition is regulated by the Law of Tobacco. Subject of insurance of tobacco is tobacco leaf from the following basic hazards or risks: hail, fire and lightning. In a separate contract, tobacco leaf is ensuring from flood risk, followed by the hail, the risk of storm and flood and fire risk in dry tobacco to until transfer the tobacco to the buyout.

### ***Insurance of crops and fruits in the Member States of the European Union and the United States***

Insurance system of crops and fruits in the member states of the European Union is one of the instruments in fight of the farmers with risk. Insurance system is compatible with the market structure, risks and production which cover, as well as the degree of penetration of the state in insurance market.

The European Union started with the development of new systems of agricultural insurance, as they are in North America. The development of such insurance system is in conformity with the Common agricultural policy of the EU.

European Union treats the agriculture as “plant outdoors” exposed to risks that more or less reflect in the production and working results of agricultural holdings<sup>28</sup>.

The main feature of the insurance market in the USA is establishing a community of risk (pool). Community of risks include risks that are facing most individuals and that by paying the premium create Fund, which later is used for the payment of damages to those individuals of the pool who have suffered damage. More accurate is to say that it is the insurance companies sell insurance policies to different persons with less perfect related risks, with total indication of the insurance is less risky than the risk of each individual. It is because the

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<sup>28</sup> Prof. Dr. Mario Njavro and grad. Eng. Agr. Marin Vidic "Insurance of crops and fruits in the EU and the USA"

probability of damage to all insured at the same time is very rare. So, insurance diversify non-systematic or unrelated risks in community of risks<sup>29</sup>.

The insurance of crops and fruits in the United States by state agency for risk management conducted 22 programs for insurance that covers the value of the production of over 40 billion dollars in insured 90 million acres of land and over 100 agricultural productions.

Among the ten most important productions include: corn (12 million US \$), soybeans (7 million US \$), wheat (4 million US \$), nurseries (3 million US \$), cotton (2 million US \$), citrus (1 million US \$), potatoes (0.9 million US \$), tobacco (0.8 million US \$), lemon (0.7 million US \$) and sugar beet (0.6 million US \$).

All insurance programs in agriculture are led by Agency for Risk Management (Risk Management Agency-RMA). RMA was established in 1996 and is part of the Ministry of Agriculture and managed by the state Insurance Corporation of crops (Federal Crop Insurance Corporation). RMA determines premium quotas, subsidies to insurance, develop new products and offers reinsurance to private insurance companies.

### *Involvement of states in subsidizing insurance premiums*

An important feature of the insurance system is involvement of the state through various forms of subsidizing insurance premiums. In some countries the insurance premium is subsidized, while some are heavily subsidized. EU does not affect the amount of subsidies paid by its members, but the EU Commission in 1993 adopted some ceilings of subsidies on agricultural insurance from public funds. Thus, in Table 1 is given subsidies (co-financing) of agricultural insurance in some EU Member States and the Republic of Macedonia.

Table 1 – Participation in subsidizing of insurance premiums in some EU countries compared with R. Macedonia

<b>Countries</b>	<b>Subsides in insurance in the field of</b>	<b>the amount of subsidies in terms of premium</b>
1. Spain	orchards and vineyards	from 38-45%
2. France	- subsidies from risk of hail - subsidies for viticulture - subsidies in fruit	from 20-30% 20% 21%

<sup>29</sup> Prof. Dr. Mario Njavro and grad. Eng. Agr. Marin Vidic "Insurance of crops and fruits in the EU and the USA"



	production	
3. Italy	from 20-30%	
4. Germany	orchards	
5. The Netherlands	Subsidizing premiums	
6. Austria	Subsidizing hail	25%
7. Macedonia	Plant production	Up to 30%

From the above table it can be seen that the share of insurance premiums ranges from 20% (France) to 45% (Spain). Republic of Macedonia for the first time in 2008 set aside funds to subsidize insurance premiums in the amount of 30% of the premium. Percentage of insured areas from risk of hail is in: Belgium 12%, Slovenia 18%, Spain, France, Italy 50%, Austria 57%, Switzerland 70%.

#### ***Involvement of the Republic of Macedonia in subsidizing insurance premiums***

Republic of Macedonia recognizing the risks that occurred in agricultural production causing huge damage on it, in the same time keeping in touch with European trends in terms of aid given to farmers by subsidizing insurance premiums, the Programme for Financial Support of Agriculture provides certain funds to subsidize insurance premiums of certain crops in agriculture. For this purpose, several years ago by the Government is provided financial assistance amounting to 30 % of the insurance premiums that subsidize. But the interest of the farmers was still low for insurance of their crops and fruits.

Realizing the lack of interest of farmers in order to stimulate interest in ensuring agricultural crops and fruits, the Government in its Programme for Financial Support of Agriculture for 2013, financial assistance in subsidizing insurance premiums for agricultural crops and fruits increase of 60 % . Under this program determined is the maximum area that will be subsidized due to an insurance in agriculture. Thus, subsidized premiums may have farmers that will ensure maximum up to 10 ha of vineyards and orchards, 2 ha of vegetables, tobacco 2 ha, 20 ha of cereals and 100 beehives.

#### ***Status of insurance in the Republic of Macedonia***

In order to increase the volume of insurance on agricultural production, and simultaneously use the funds to subsidize agriculture, the Agency for Financial Support of Agriculture signed a Memorandum of Understanding with the Association of Insurance and brokerage companies that provides insurance

brokers to be mediators between farmers and insurance companies, which will result in an increasing the number of farmers who will ensure the yield. Financial support for subsidizing insurance premiums for 2013 is 35,000,000.00 MKD to cover the cost of insurance of agriculture or the insurance premium. Such support is projected to rise to 70 or 80 % of the insurance premium to revive the cooperative movement in the country.

Despite this financial aid offered to farmers to subsidize insurance premiums for their crops and fruits, however the insurance situation is not satisfactory. Thus, according to the Agency for Insurance Supervision, for now only four insurance companies in the country offering agricultural policies. Of the 100,000 registered farmers, only 1,500 are insuring their crops and fruits. In them, the highest number in Kavadarci 340, which is further followed by Resen 250 and Negotino 200 farmers. In the structure of insurance the most are insured the vineyards of about 350 ha, further 270 ha of apples and wheat on about 210 ha. Insurance is relatively small in relation of agricultural area, agricultural producers and the opportunities afforded by the program for financial support in agriculture by subsidizing insurance premiums.

From the given table can be concluded that agricultural insurance in the Republic of Macedonia is only 1.2 % in total insurance, which indicates that the risks in agricultural production are very large, and the insurance companies are often reluctant to provide insurance of agricultural production, or if they do it, they do it with a high premium rates that affect dissimulating for individual farmers and legal entities engaged in agriculture to ensure their production.

### *Conclusion*

1. Risks in agricultural production is a future, uncertain event, occurred as a result of the influence of certain factors and natural disasters, which can cause various damages to agriculture and adverse economic consequences.

2. Damages that can occur in crop production are result of certain factors and risks, which affect the production. In livestock production damage may result from risks: deaths and forced slaughter and dangers of accidents. For continuing of the production process are required considerable financial resources that can be provided through reimbursement of damages by way of insurance.

3. Providing crop production from occurrence of certain risks and providing of damages is done through: prevention, repression and insurance .

4. New forms of insurance in agriculture occur after 1981 particularly among individual farmers and through collective security based on cooperation agreement, payment the part of the premium by the cooperative organizations, and performing organization, acquisition and processing of agricultural products.

5. Large and unpredictable risks in agriculture in previous years, and higher premium rates significantly lowered interest in ensuring agricultural production, such as insurance companies and the farmers .

6. Insurance system of agriculture in some highly developed countries in Europe is such, that uses stimulation for insurance by subsidizing insurance premiums, but the scope of insurance expressed through agricultural areas remains limited.

7. Although the agriculture in the structure of GDP of the Republic of Macedonia is 12%, still insurance in agriculture in the country in total premium paid for insurance in the Republic of Macedonia is only 1.2 %, suggesting that the risks in agricultural production are very large, and insurance companies often avoid performing insurance of agricultural production, or if they do carry a high premium rates that affect dissimulating for farmers and legal entities engaged in agriculture to ensure their production.

8. Despite 35,000,000.00 MKD provided by the Government and by subsidizing 60 % of insurance premiums, the insurance of agriculture is not satisfactory .

9. In order to increase the interest of farmers to ensure their crops and fruits is necessary for continuing informing the agricultural producers what are the effects that can be achieved with insurance, especially by relevant institutions such as Ministry of Agriculture, Forestry and Water Management, Agency for motivating the development of agriculture, farmers' associations and insurance companies.

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**INSTITUTIONAL INVESTORS AND THEIR IMPACT  
ON THE LOCAL STOCK MARKETS IN SMALL  
DEVELOPING ECONOMIES**

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**Conference track: Finance**

**Abstract**

The objective of this paper is to empirically examine the institutional investors' support in developing stock markets in small economies. In particular, there is a large amount of literature exploring the interaction between pension reforms and the development of the local capital market. Some of them examine the institutional growth promotion in the larger CEE countries, but none of those focuses on the Macedonian institutional investors and their impact on the local stock market development.

Macedonian financial market is mostly dominated by the banking sector. Unlike other institutional investors, the assets of the mandatory fully funded pension funds have increased over the years. However, this did not have a significant impact on the domestic capital market growth.

The main goal of this policy-oriented paper is to elaborate the fact that the growth of the institutional funds assets is not the single condition for developing the local stock markets and that the existence of efficient, developed capital markets is a condition for pension reforms success in the long term. The conclusions will be drawn based on the selected CEE countries' data statistical analysis. According to our paper's goal, the following policy recommendations emerge: i) allowing the pension funds to invest in more risky assets: domestic investment funds, venture capital companies, non-listed companies satisfying certain criteria and ii) motivating initial stocks' and corporate bonds' offerings and government long term bonds issuing.

**Keywords:** institutional investors, investment funds, pension funds, capital market development, small developing economies

**JEL classification:** G10; G23

### *Introduction*

The financial systems in all developing countries have been strongly dominated by the banks. Even the banks have been the most important financial intermediates until recent time, a substantial increase in the number of institutional investors occurred in the financial structures of developing countries. Among institutional investors, privately-managed, defined-contribution pension funds (henceforth pension funds) have played a crucial role across countries. The importance of institutional investors for national economies can be determined by the size of their asset holdings relative to GDP. Pension funds and insurers are major investors in a large number of developed economies, with assets representing over 60% of GDP in some OECD countries. In non-OECD countries, institutional investors are less developed, but there are some important exceptions such as South Africa and South America, which have well-developed pension fund and mutual fund industries. The total assets of solely pension funds have risen in the emerging countries by more than 140 percent between 2002 and 2012, accounting for 29,754 billion of USD in 2012 compared with 14,740 in 2002.

These institutions, according to the theoretical and empirical evidence, have significant overflow on the financial system. Based on the experience of the developed countries has documented the beneficial role of institutional investors in supporting the development of the securities markets and related infrastructure in these economies (Davis, 2000; Velury and Jenkins, 2006).

These institutions has contributed to the financial progress of the developed countries and because of the importance of well-developed financial markets for financial stability and economic growth, the recent growth of institutional investors in the emerging countries raises the issue of its role in the financial systems of these economies.

For some decades, the developing countries have tried to incite the development of their local capital markets. In spite of this effort and initiated macroeconomic and financial reforms, the securities markets in these countries have remained relatively immature.

The results from recent studies indicate that institutional development exerts a robust and significant impact on the securities markets' growth in the developing countries. The findings state that institutional investors contribute to the greater activity of the emerging capital markets and this effect is a result of higher demand for the local securities induced by these institutions. In particular, the results suggest that the pension reform has contributed significantly to the institutional development and stock market growth in the CEE countries. Switching from "pay as you go" pension systems to fully funded pension systems increases demand for stock market instruments in those countries. The experience from the most advanced and developed fully funded pension systems in Latin American countries contributed to a significant growth of the local markets. After the initiation of fully funded pension systems in the CESEE countries, some positive trends have occurred, accompanied with a development of other types of institutional investors (mutual funds and insurance companies). But, does this work in the small economies? There are few studies on how successfully the institutional growth promotes the development of the local securities market, with focus on the larger CEE countries. Though, none of the studies accounts for the Macedonian pension funds and their impact on the local stock market development. In this paper, we evaluate an empirical link between recent institutional assets' growth and stock market performance in Macedonia, in contrast to selected developing countries.

Macedonian financial market is dominated by banks, while the securities' market remained small during the entire transitional period. The experience and the recent theoretical and empirical studies have shown that the institutional growth can be very beneficial, especially for the local nonbanking financial systems. Macedonian mandatory pension funds have entered their seventh year of operation and they became the most important, even the only institutional investors on the domestic financial market. Local mutual funds have entered very late on the securities' market, during the pre-crisis year and because of that they have lost their opportunity to realize a satisfactory growth. As the single institutional investors on the domestic securities' market, even with their net asset value of Euro 343.5 millions in 2012, it seems pension funds have not made a significant impact on the growth of the Macedonian stock market until today.

At present, the mandatory fully funded pension fund assets are growing rapidly and they are a significant factor for increasing the demand for long-term securities. However, they mostly invest in domestic government bonds - even

the long-term characteristic of their liabilities allows them to invest in equities that provide higher return than bonds, but this is currently lacking. One of the reasons for such pension funds conservative investment policy at the beginning of the mandatory fully funded pension system is the restrictive government regulation of the pension fund's portfolio structure. The other possible reason could be the lack of investment opportunities in the form of deep and liquid market instruments on the local stock market.

Because of the short period of operation of the Macedonian mandatory fully funded pension funds, the application of econometric models would not give credible results. Descriptive statistics will be used, and the development of the nonbanking financial institution will be measured by calculation of the ratio of the total institutional assets to GDP, and to total financial assets, over the period of 2006- 2012. The development of the domestic stock market will be measured by the stock market capitalization to GDP; the liquidity, by stock market value traded to GDP; and the market depth by the bond market capitalization to GDP. The results will be compared with the data for some CEE countries taken from the existing studies.

### **Literature review**

Institutional investors have grown strongly in the past few decades, not only due to the overall expansion of financial sectors relative to GDP, but also because of a boost in their share of total financial claims (Davis, 2000). Because of pension funds and other institutional investors long-term orientation, and also because they are managed by professional investors, according to Vittas (1999) they have the potential among other to exert pressure for greater market integrity and modernized trading facilities and encourage more robust financial regulation with positive demonstration effects for other financial sectors. Catalan, Impavido, and Musalem (2000) find that, apart from factors including macro-stability and legal rights, the size of the institutional investor bases positively affects stock market development. This outcome is consistent with Black (2000), who argues that as long as the developing countries do not develop the appropriate domestic institutional structure and "core capital markets institutions", they will not be able to develop their local securities markets. The findings in the research of Hryckiewicz, A. (2009) seem to suggest that a poor institutional structure was responsible for the weak performance of the capital markets over the last decade.



The very important functions of institutional investors mentioned in the recent economic literature are: attracting and transferring financial resources, risk controlling and encouraging the financial innovation. Blommestein (1997) have approved that strong institutional investors seem to be a precondition for the development of liquid securities markets with sophisticated financial vehicles. Other researchers (Vittas, D.,1998, Davis E. P, 1995 and Blommestein, H.,1995) have the same understanding of these functions that lead further to a development of the capital market by increasing liquidity and stock market capitalization, reducing the price volatility, providing more efficient assessment of assets, diversifying the financial instruments and increasing the financial stability. Other effects of developing the institutional investors' activity: diminishing the trading and issuing costs on the capital markets on which they act, have been found by different economists along the time, (Burtless, G.,(1998), Hansen, R. and Pinkerton, J. (1982), Iglesias, A. (1996), Vittas, D.,(1998).

Within the institutional investors, pension funds have a central position due to their significant and growing assets and liabilities payable on a long term that assumes that they can finance the economy on a longer run. Therefore, as per Catalan, M. et al (2000), the pension funds, next to the insurance companies, hold an important role in the development of domestic capital market in comparison with the other categories of institutional investors (investment funds and banks). The reasons of that is, as De Ryck (1998) have stressed, that pension funds transform the savings into long term investments and no other investors, institutional or private, reach these figures in volume and duration. Even with the assumptions that the total savings in the economy do not increase since pension savings crowd out other household savings, the accumulation of pension fund assets is expected to potentially promote depth and liquidity in the capital markets because of the different investment behavior between households and pension funds. With accumulating assets and the longer-term nature of their liabilities, pension funds have incentives to invest more in illiquid and long-term assets that yield higher returns, and thus provide a long-term supply of funds to the capital markets (Davis, 1995). Some authors (Dayoub, M. and Lasagabaster, E., 2007) refer to their positive effect on the capital markets, for developed and less developed, still the influence being somewhat diminished for the latter. Other (Catalán, M.,2004; Vittas, D.,, 1998; Davis E. P., 1995) emphasize the impact of the pension funds' trading operation on the deepening of domestic bond and equity markets, and increasing the liquidity of these markets. The next

influence of pension funds is on asset management increased specialization by the pension funds managers, leading also to improved corporate governance required by the market, as pointed out by Walker and Lefort (2002).

A number of relatively small, still developing countries had created stock exchanges, starting in the mid-1980s. Between 1980 and 2005, fifty-eight countries created exchanges, but not all of them are successful. There are a few studies claiming that developing countries will not be able to create local securities markets at all. For example, Eichengreen and Hausmann (1999) claim that the emerging countries are not able to develop the domestic bond markets on their own because these countries are not able to borrow abroad in its own currency and/or to take on long-term debt in its domestic currency, possibly because of their unfavorable macroeconomic and fiscal history. Even the fundamentals of the emerging markets improve; some developing countries will still not develop their local stock markets as the advance at the same time generates the movement of domestic capital to international stock exchanges.

Although, most of the empirical and theoretical studies have particularly neglected a beneficial role that the institutional investors may play in the financial development; there is still an open question are they the only reason for successful stock market growth in emerging economies, especially in small ones. Some researchers (Catalan, Impavido, and Musalem, 2000) have used quantitative models for measuring the impact of pension funds on capital markets, but the overall literature is still pretty thin. Because of the small size (from 6 to 9 years) of time period observations their findings might be uncertain. To assess an empirical link between the recent growth of institutional investors in the emerging economies and stock market performance, we use comparative analysis and linear correlation coefficient on the sample of six SEE developing economies: Macedonia, Bulgaria, Croatia, Romania, Serbia and Slovenia within the period of 2006-2011. Our attitude is that, these countries constitute a great testing ground on this relationship because despite the fact that they started their transition process under similar macroeconomic and institutional environments and that all of them had to develop their financial markets from scratch, the current size and structure of their domestic financial systems differ significantly between these economies. Furthermore, some of these countries have experienced a significant growth of their institutional sectors recently but its velocity and characteristics has been different. The capital markets growth in those countries demonstrates diverse stage of development, too.

*Institutional investors and financial development in selected SEE countries*

Besides the notable success in creating financial infrastructure for market economies, most financial markets outside the banking industry have remained for a very long time almost nonexistent. Introduction of pension reforms have improved the development of the nonbanking financial institutions in the SEE financial structures. Moreover, the accession of the CEE countries to the EU creates a favorable regulatory infrastructure that aids the development of non-banking sector (Hryckiewicz, A. 2009).

Table 1 presents the importance and the development of the financial intermediaries in the financial structure as relative to the size of the economies of six CEE countries.

Table 1. Size indicator of financial structure (as a multiple of GDP)

Country and measure	2006	2007	2008	2009	2010
<b>Bulgaria</b>	40.38	49.69	63.68	na	na
Finance institutions depth					
Mutual fund assets/GDP	0.61	1.51	0.47	0.56	0.68
Insurance companies assets/GDP	3.39	3.6	3.68	4.08	4.15
Pension fund assets/GDP	2.93	3.85	3.32	4.62	5.66
<b>Croatia</b>	53.84	57.77	61.58	66.93	68.28
Finance institutions depth					
Mutual fund assets/GDP	6.45	10.74	3.42	4.14	4.66
Insurance companies assets/GDP	6.87	7.4	7.45	8.33	9
Pension fund assets/GDP	5.72	6.94	6.82	9.14	11.3
<b>Macedonia</b>	25.78	29.95	37.2	42.58	43.52
Finance institutions depth					
Mutual fund assets/GDP	-	0.01	0.01	0.04	0.04
Insurance companies assets/GDP	1.77	1.73	1.61	1.51	1.49
Pension fund assets/GDP	0.39	0.86	1.22	2.13	2.94
<b>Romania</b>	21.23	27.98	37.72	39.99	39.41
Finance institutions depth					
Mutual fund assets/GDP	0.2	0.23	0.16	0.7	1.06
Insurance companies assets/GDP	2.44	2.82	2.91	3.29	3.27
Pension fund assets/GDP	na	na	0.24	0.56	0.92
<b>Serbia</b>	27.32	29.74	35.55	43.05	45.85

Finance institutions depth					
Insurance companies assets/GDP	2.86	3.1	3.19	3.66	3.92
Pension fund assets/GDP	0.01	0.13	0.17	0.26	0.33
<b>Slovenia</b>					
Finance institutions depth	59.09	na	80.26	91.81	93.86
Mutual fund assets/GDP	na	8.46	4.06	5.26	5.78
Insurance companies assets/GDP	11.39	13.77	12.31	14.42	15.35
Pension fund assets/GDP	1.42	1.78	1.3	1.64	1.93

Source: World Bank. 2012. *Global Financial Development Report 2013: Rethinking the Role of the State in Finance*. World Bank, Washington, DC

Table 1 show that the financial structure, measured trough financial institutions depth (bank private credit to GDP) and the value of financial claims of institutional investor sectors (mutual funds, insurance companies and pension funds) relative to GDP, has grown in the period of 2006 to 2010. The fastest growth is noticed with pension funds assets in all reviewed country, especially in those with mandatory funded pension system (Bulgaria, Croatia, Macedonia and Romania).

### ***Model and Data***

We are interested in the outcome of the latest institutional investor's enlargement on the domestic stock markets growth. The dataset consists of a panel of observations for six transition market economies: Bulgaria, Croatia, Macedonia, Romania, Serbia and Slovenia for the period of 2006 -2011.

Regarding the size of the non-banking institutional sector, we define institutional investors' assets as a sum of the assets of pension funds, insurance companies (both life and non-life) and investment funds measured at the end of the year for each economy during the period of 2006-2011, because of the start of Macedonian pension funds' operation in 2006, as the most sizeable Macedonian institutional assets. The data comes from the World Bank statistics for countries' financial development and consist of Bank private Credit to GDP and mutual funds, insurance and pension funds assets to GDP

Most data on institutional investors' assets and stock market development come from the World Bank Database and are complemented by the national sources. Indicators of are retrieved from Database on Financial

development and Structure  
([www.worldbank.org/research/projects/finstructure/database.htm](http://www.worldbank.org/research/projects/finstructure/database.htm)).

For research phenomena of financial development we will use measurement provided by Goldsmith till 1969 in his researches about connection between financial and economic development. These measures, after they are accepted by contemporary economists, Ross Levine and Robert King (1993), are also doing with same connection that “indicators of the level of financial development - the size of the formal financial intermediary sector relative to GDP,.... - are strongly and robustly correlated with growth, the rate of physical capital accumulation, and improvements in the efficiency of capital allocation”. That is the value of financial assets of financial intermediaries in terms of GDP.

For the comparative analysis among selected SEE Stock Exchanges and worldwide-developed Stock Exchanges we use two measures of stock market development: stock market capitalization in relation to GDP and turnover velocity of the stock market. The data come from World Bank Development Indicators. All of these measures have been broadly applied in the empirical financial development literature (Levine and Zervos, 1998; Rousseau and Wachtel, 2000; Lazarevski and Mrsik, 2013)

To measure the level of stock market development, we utilize stock market capitalization as a percentage of GDP, and total value of shares traded as a percentage of GDP, which presents the matching of market size by trading. Davis and Hu (2008) take the ratio of pension fund assets over GDP as a proxy for funding of pensions.

For measuring the local stock market capacity to respond to the need of growing pension funds assets we use the market capitalization as a measure for the size of domestic stock market and pension fund assets.

To analyze the impact of the recent development of the institutional investors on capital market growth in the selected SEE countries we use correlation coefficient for measuring the association of the market development and pension funds assets growing for the period 2006-2011.

### ***Results and comments***

Despite the significant growth of the institutional investors in selected developing countries, the banking sector still play the main role in financial industry. It almost completely dominated the domestic financial sectors. The

strongest increase in institutionalization has occurred in the countries with the mandatory pension systems. The size of institutional investors has correspondingly have risen relative to GDP much more than that of banks.

Concerning the size of the institutional sector in absolute terms as well as the growth of the individual institutions, the pension funds have grown faster than other types of institutional investors over the long-term. Table 2 illustrates the size of the individual institutional investors of the six SEE countries.

Table 2: SEE Stock Exchange Development 1996-2011 (Market capitalization / GDP)

Country	1996	2001	2006	2011
Macedonia	2.2	1.3	16.7	5.9
Serbia	0.0	0.0	37.6	18.3
Croatia	12.7	14.4	58.2	34.9
Slovenia	3.1	13.9	39.0	12.8
Bulgaria	0.1	3.6	31.1	15.4
Romania	0.2	5.3	26.7	11.8

Source: World Bank Database

As one can see, the stock markets in those SEE countries grew significantly over the last 15 years, despite the sharp decline as result of the latest financial crises. However, all presented values are far below the levels of the well-established market economies the total world stock exchanges ratio is 68.8%, while in the EU is 52.7% in 2011 and at the end of 2011, the capitalization of chosen SEE stock markets amount only 0.15% of the world stock market capitalization. According to this market indicator during the whole overviewed period Macedonian Stock Exchange has been the least developed market comparing with matching stock markets.

Table 3: SEE Stock Exchange Development 1996-2011 (Trading volume / GDP)

Country	1996	2001	2006	2011
Macedonia	0.0	1.4	3.0	0.5
Serbia	0.0	0.0	4.6	0.7
Croatia	1.0	0.5	3.7	1.5
Slovenia	1.9	3.9	2.6	1.0
Bulgaria	0.0	0.5	4.5	0.5
Romania	0.0	0.6	3.5	1.8

Source: World Bank Database

This indicator shows very low trading volume and overvalued stock prices. All observed countries have completed extremely low liquidity level

during the examined period, comparing with world average ratio of 97.7% and 19% in Poland, 14% in Hungary and 7% in Czech stock exchanges.

Table 4: SEE Stock Exchange Development 1996-2011 (Trading Volume/Market Cap.)

Country	1996	2001	2006	2011
Macedonia	0.0	177.1	22.4	2.0
Serbia	0.0	0.0	16.3	3.7
Croatia	12.8	3.9	8.7	4.1
Country	1996	2001	2006	2011
Macedonia	0.0	177.1	22.4	2.0
Serbia	0.0	0.0	16.3	3.7

Source: World Bank Database

The results from assessing the liquidity related to the stock market capitalization show low liquidity on the selected stock markets with exceptions in some periods. The highest turnover ratio in 2011 is 12%, while the world stock exchanges ratio is 133.4% in the same time.

Table 5: SEE Stock Exchange Development 1996-2011 (Nr. of listed companies)

Country	1996	2001	2006	2011
Macedonia	2	2	43	32
Serbia	-	7	1111	1322
Croatia	66	62	183	209
Slovenia	21	38	100	66
Bulgaria	15	399	347	393
Romania	17	5141	2478	1267

Source: World Bank Database

The numbers of listed companies on all examined exchanges increased during the period of 15 years, and Macedonian stock exchange still have the smallest number of listed companies comparing with the selected exchanges. 16

Table 6: Pension fund holdings compared with the size of domestic market\* 2011

Country	2011
Macedonia	59%
Serbia	n.a.
Croatia	32%
Slovenia	13%
Bulgaria	32%
Romania	8%

Source: author's calculation, data from national regulators and local stock exchanges

\* Market capitalization

Some of the selected countries have higher pension assets ratio relative to the size of financial markets (except for Romania, because of the latest involving in pension reform and Slovenia, which has only voluntary pension funds) in G10 countries, where aggregate pension fund assets currently represent more than 20 per cent of equity market capitalizations. The explanation for such result is the low stock market size in examined countries, because from the other side the pension fund assets in this countries are still much under the 10% of GDP, comparing with OECD weighted average asset-to-GDP ratio of 72.4% of GDP in 2011.

Table 7: Selected SEE Pension Assets/Capital Market Correlation

<b>Country and Ratio</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>Correl.</b>
<b>Bulgaria</b>							
Market capitalization ratio	31.1	51.7	17.1	14.6	15.2	15.4	-0.48
Turnover ratio	19.6	34.2	10.8	5.0	5.1	4.1	-0.60
Net pension funds assets/GDP	2.9	3.9	3.3	4.6	5.7	6.1	
<b>Croatia</b>							
Market capitalization ratio	58.2	111.2	38.5	41.2	41.9	34.9	-0.39
Turnover ratio	8.7	8.6	7.4	5.4	4.1	4.1	-0.96
Net pension funds assets/GDP	5.7	6.9	6.8	9.1	11.3		
<b>Macedonia</b>							
Market capitalization ratio	140.3	127.0	77.8	93.6	84.1	5.9	-0.87
Turnover ratio	22.4	26.5	8.8	7.0	4.6	8.3	-0.75
Net pension funds assets/GDP	0.4	0.9	1.3	1.9	2.9	3.5	
<b>Romania</b>							
Market capitalization ratio	26.7	26.5	9.7	18.5	19.7	11.2	-0.41
Turnover ratio	16.0	20.8	11.3	7.5	5.4	12.0	-0.54
Net pension funds assets/GDP	0.0	0.2	0.5	0.9	1.3		



<b>Serbia</b>							
Market capitalization ratio	37.6	61.4	25.5	28.7	25.2	18.3	-0.49
Turnover ratio	16.3	14.6	6.9	4.7	2.2	3.7	-0.94
Net pension funds assets/GDP	0.0	0.1	0.2	0.3	0.3		
<b>Slovenia</b>							
Market capitalization ratio	39.0	61.2	21.6	24.0	20.1	12.8	-0.71
Turnover ratio	8.8	12.3	6.9	8.7	2.6	6.5	-0.50
Net pension funds assets/GDP	1.6	1.8	1.9	2.6	2.5	2.9	

Source: authors' calculation, data from World Bank Database, national regulators and local stock exchanges

The negative correlation between market capitalization ratio and turnover ratio from one side and net pension funds assets ratio in the other side suggest that despite the growing institutional investors size in all selected SEE countries, but still much lower than in some much developed CEE countries, there is no contribution to the development of the securities markets in these countries. One conclusion might be that the other issues, such as: macroeconomic fundamentals, financial liberalization, better corporate governance mechanisms and well-developed banking sectors are inevitable for development of the securities markets in the developing countries (Hryckiewicz, A. 2009). The other proposition put attention on the pension fund industry that will have an increasing influence on financial market, because of it raising assets in the overcoming period.

### *Conclusion*

According to the results from our analysis based on the selected CEE countries' data we can make some conclusions about the institutional investors' support in developing stock markets in small economies. The capital markets growth in those countries show diverse stage of development. The accession of the selected CEE countries to the EU creates a favorable regulatory infrastructure that aids the development of non-banking sector. The banking sector still plays the main role in financial industry. Introduction of pension reforms have improved the development of the nonbanking financial institutions in the SEE financial structures, especially in those with mandatory funded

pension system (Bulgaria, Croatia, Macedonia and Romania). The size of institutional investors correspondingly has risen relative to GDP much more than that of the banks.

Having in mind the limited size of domestic stock markets in relation with constantly growing institutional investors, in particular the pension fund assets, in almost all reviewed countries, some measures are needed for improving the stock market capacity and its attractiveness for institutional investors. It can be accomplished by encouraging initial stocks' and corporate bonds' offerings and government long term bonds issuing. Further, to provide substantial investment opportunities for pension funds, the policymakers might release the investment policies and allow investment in more risky assets: domestic investment funds, venture capital companies and non-listed companies that meet certain criteria.

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## **IMPLEMENTATION OF STRATEGIES IN THE SERVICE SECTOR**

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### **Abstract**

Management pervades all aspects of modern society. To understand the essence of management science it is necessary to understand the concept and division of management to its segments.

Managerial activity is related to decision making in business and the decision can not be reached without the previously adopted strategies. The strategy is seen as a process that changes in accordance with changes in the environment both internal and external. In that sense, it can not be expected from the organization to achieve the objectives if they do not comply with the requirements of the environment.

The adoption of strategic decisions is related to the top management. It creates a new strategic leverage, increase the value of the organization. Strategic decisions have long-term consequences in the process of creating and making decisions that are crucial to the organization.

Creating a strategy is related to the vision, or the future expectations of the organization. Factors related to the present determine future decisions. Once the strategy is formulated, it means nothing if it is not implemented and realized. Of course, the process of formulation and implementation is followed by the monitoring and control process, before, during and after the implementation of the strategy.

Like other organizations, the tourist organizations also need to have a vision of what they want to achieve, at what time and in which competitive conditions, goals to set (strategic and operational), and to define the mission through which it will carry the rendered vision and meet its goals.

*Keywords: strategy, vision, decision-making, implementation, tourism.*

## *Introduction*

In order to determine the concept of management, it is necessary to understand the management activities and the role they play. No matter if management permeates all aspects of modern science and the economy, it is often presented the lack of understanding of management functions. In addition, it is necessary to understand the term Management and its classification to subsystems.

This classification could be observed from two aspects, the aspect of control function (the goal whose realization is closer to managers) and management roles (the way in which a certain result comes from). No matter which of the two approaches managers give priority, the synergy of both approaches is necessary for practices. Balancing the demands of efficiency and effectiveness is the most important part of management activities.

Management activities are related to business decisions, and they are not possible unless you have adopted a strategy or strategic option. Strategy can be understood only if it was seen as a process, subjected to change in accordance with the identified opportunities and benefits, as well as positive aspects and pitfalls and dangers, as well as weaknesses of the organization. It is in the process of constant change in the environment (internal and external), to react in an appropriate way to recognize the advantages and shortcomings of the environment, and with all the proposed use what is best for the organization. The organization can not expect the accomplishment of objectives, if the area of activity does not comply with the requirements of the market environment. At the same time in relation to the environment it occupies an active or passive approach. Active means aggressive approach to the market, in terms of adjustment or deviation. Passive attitude means isolation and ignorance.

As the position of the organisation changes due to the changes of events in the environment, either due to changes in the strategy of the organization, it must always listens and follows the changes that occur in the environment. In that way it will be able to adequately respond to the challenges of the environment, foreseen and unforeseen circumstances, and to specified its relation to them in the right time. Strategic management is based on above mentioned performance, which focuses on the capabilities of the organization and its limiting factors.

Company has to continuously deal with the demands of the major categories of existing and potential customers, as it is one of the basic conditions

of their existence. The requirements are numerous, discontinuous, varied and complex.

Strategy is being viewed as a systematic approach to the main and increased responsibilities of general management, positions and connections of the organization with its environment, in a way that will ensure its controlled success and provide safety of surprises.

### *Discussion*

Given the fact that environment is dynamic organizations must be ready at any moment to respond to the new situation and challenges. With a variety of information (should be able to choose the right information, the ones that are most important for business decision making) and leader's visionary abilities (vision is the foundation of a good strategy that is implemented through an appropriate mission), the organization is able to cope with many predictable and unpredictable challenges. On that way it requires the possibility to improve the position on market in terms of increased competition.

Strategic decisions are related to the highest levels of management in the organization. These are the ones that create new strategic leverage and increase the value of the organization.

These are decisions that have long-term consequences, and in the process of creating and making these decisions need to be extremely careful. Access to quality information and visionary foresight and planning and implementation of possible decisions made are the basis of good strategic options.

Understanding the essence of strategy assumes the scenario that would encourage managers to think about the adopted business strategies and future business strategies. This understanding of reality inevitably leads to a process that begins with the identification of strategic opportunities, and a starting point in the implementation of the selected strategic options. Creating a strategy is related to the vision, or to the expectations for the future. This means that factors related to the present determine future decisions.

For any management team it is simply a challenge to produce a large number of options, because in that way one can benefit by choosing the best strategic option. In this set of possibilities which were considered, the management team is expanding its horizons far beyond the capabilities already addressed within their organizations. In considering these options strategists are

imposed on certain issues: the possible opportunities that were available to the organization; whether some of the unconsidered strategy would be able to subsequently engage in the existing one. Consideration of these issues will provide suitable information base for the selection of appropriate strategies or strategic options.

By defining preferred strategy or strategic option begins the process of its implementation. Without the use of opting strategies adopted strategy makes no sense. Prerequisite condition for the implementation of the strategy is the information resource. Their role is twofold. Firstly, in the concentration of the different roles of the organization, stability, coordination, integration, and secondly in improving the behavior and organisation or provision of more quality size. Implementation of the strategy requires complex control effort, which is being implemented through the planning, organization, implementation and control of a large number of activities (creation of organizational structure, allocation of resources, the establishment of an internal administrative support systems, providing strategic leadership). In order to implement the chosen strategy it is necessary to specify the authority and responsibility, to spot and set the targets, provide a system of co-ordination and management of the overall implementation process.

For strategies it is very important to get information for timely action obtained through the management information systems. The decisions made by the governing bodies are in the field of business strategy. The success of the decision making is reflected in the existence of complex data and information that are substantially related to the resolution of specific problems. This emphasizes the ability of those who make decisions to choose the right information, to be well understood and used properly.

There is no common theory of decision-making, so there is no common opinion between theoreticians and practitioners how decisions are being made. The obtained knowledge and experience can not be ignored in making decisions. They are new and therefore represent the obscure for those who decide and they are not easy to make. These are not trivial decisions, but they are of great importance.

The concept of program is very important because the goal of information systems is to provide clean programming decisions (salary calculation in accordance with the respective agreements, government regulations, etc.). As the company's operations consist of a series of management decisions, it is more often the tendency to apply quantitative



models, which would easily overcome problems in modern decision-making.

Planning and control are processes that are closely intertwined. The plan must be controlled, and it can be controlled only what is planned. Strategic control is an essential part of strategic management, which not only verifies what we achieved, but also produces modernization and refines the process of strategic management in order to innovate. Top management must be innovative in terms of the formulation of a special system of strategic control and information system that can be adjusted. From a wide range of information, which are sent within the established information system to different levels of management, the information necessary for top management are distinguished, that generate synthesize and integrate management information base, which it supplies important information for strategic control and audit.

Service companies in the process of transforming inputs into outputs provide services to those who are interested in these services.

To meet the needs of clients or users it is not necessary for the people who provide them to only known process of service delivery, but also to have the ability to understand customer needs and to satisfy them. Further on we will focus on tourism as part of the service industry.

The business enterprise has plenty of critical factors that affect not only the efficiency of business processes and management, but also the identification of activities that should be done. The resulting success factors arise, which are related to a wide range of marketing activities in the company. We should not ignore the success of other business strategies. The critical factors are reflected in:

- Real-increasing number of tourists and tourist traffic;
- increasing the number of services;
- increasing the volume of services;
- keeping opportunistic costs;
- increasing productivity of staff and resources involved;
- adding value and package deals for tourists.

On the basis of the critical factors the global service goals, that can be quantified, are being determined. From such global formulated goals the operational goals are derived. Both goals are subjected to change and adaptation to the specific conditions depending on what is a priority, and what market conditions are important and imposed in a particular situation. The process of tourism management itself is not simple and easy. This is what makes this economic branch no different from other economic branches. The factors that

have a crucial impact on tourism businesses, significantly vary by region. By this we mean, first of all, the competitive environment, which significantly affects the positioning of tourism enterprises. This is exactly what the market is necessary to identify, with all its resources, on the basis of extensive internal and external review. Travel companies need to have a vision of what they want to achieve and in what time period, what their priorities are, what are their goals and how to implement them, how to implement and enforce formulated and adopted strategy. Competitive advantage can be achieved in several ways. The most common is the possibility of obtaining a competitive advantage on the basis of achieving lower costs, or through differentiation.

It is necessary to consider the future of tourism as a service in the overall context. That context includes: networked economy, the global crisis and the crisis scenario. It is realistic assumption that due to the reduction in real money demand and purchasing power it is expected stagnation in tourism. There is a chance, especially in the development of regional tourism, of course, relying on well established tourist destinations. Elite tourism will continue to be interesting only for those with deep pockets, who are not affected by the crisis and the recession in the world.

Generally speaking, the key factor is not tourist offer but the travel demand. Favorable fact is that the tourist offer can not be adequately substituted.

Structure of the global economy creates a dynamic of competition between business entities and business areas and regions where they are located. Competitiveness in the global networked economy depends on the ability of national and supra-national institutions to manage the growth strategy in those market segments which are under their jurisdiction, including a competitive advantage in the global market for companies that are expected to serve the interests of the people in their territory, creating job places, increasing employment and income.

Global economic crisis has started this event in the financial sphere through non-performing loans of companies, especially the disability of population to return the loans. States reacted by rescuing the financial sector, but the main problem of running real demand remains unresolved.

## **Conclusion**

Service activity is seen in the context of the economy as a whole issue. In the harsh conditions of competition persist only ones with the strategy

implemented in the right way, and the control system to react if necessary. They see the strategies as a process, and are ready to change it at any time, unless there is a need.

Good managers have a vision that they know to transform into real and specify the goals, strategic and operational. Business strategy is being brought by top management, thanks to generated and synthesized information that are the basis of management decisions.

Service process management is not simple. The factors that inevitably affect the service activity are linked and depend on environmental influences. In doing so, we think of the competitive environment that significantly affects the positioning of service companies. The possibility of gaining a competitive advantage on the basis of achieving lower costs or through service differentiation is mostly stand out. Service companies in the process of transforming inputs into outputs provide services to those who are interested in these services. In tourism organizations business there are many critical factors that influence decision making, and the management process. These factors are mainly related to marketing activities of the organization.

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# **THE IMPORTANCE OF TECHNOLOGY FOR MICRO INSURANCE ORGANIZATIONS**

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## *Abstract*

Microinsurance is insurance for low income people and is present mostly in developing countries. It is a new term, but not a new concept and the main feature which distinguishes from conventional insurance is the low premium level. The scope of this paper is to discuss about the technology adequate for implementation in insurance organizations that serve poor customers market. This paper is trying to explain the relationship between technology and microinsurance. In order to gain greater knowledge about the main research problem, qualitative desk research was conducted.

The research results show different technologies available for implementation in microinsurance organizations and technology contributes for expense reduction and thus offering low premiums to policyholders. The main hypothesis which states that technology is of great importance for microinsurance organizations is confirmed.

Having in mind that microinsurance is still not introduced in the Republic of Macedonia, this paper will initiate its implementation.

*Keywords:* microinsurance organization, technology, innovation, poor people.

## **Technology - A Key for Microinsurance Company Success Introduction**

Today, there are so many poor people in the world. Its high number creates a huge poor people market. It is an untapped market with big potential for investing.

“Today’s poor customers will be tomorrow’s wealthier ones”. (Renato, R., Martin H., Lukas, A., Stephan, W) Poor people are facing with different risks in their everyday lives. They don’t have stable financial resources and are very vulnerable. These people use many different strategies for risk management, but the best one is microinsurance. Microinsurance is insurance for the poor, or insurance for low income people. It appeared during the last decade and is most developed in India. Microinsurance is typical for developing countries where poor people live but also for developed countries where international microinsurer can be found.

The main difference between microinsurance and conventional insurance is the low level of premium. The only way the premium can be low is by reducing administrative costs. The cost can also be reduced by implementing innovative technology.

There are different types of technology solutions adequate for implementing in microinsurance organizations. Some of them are intended to be used for client interface, some for data processing and some are for management decisions. Selection of technology solutions must be done through a careful analysis of the business needs and specification of the system requirements.

This paper is an attempt to explain the relationship between microinsurance and technology. The first section defines microinsurance, its features and role. The second section explains the meaning of technology for the organization that serves poor people market and its role in reducing administrative costs. This paper is ending with conclusions drawn from the conducted research.

### *Discussion*

Microinsurance is a new term which is dating from the last decade. It is an insurance for the poor or low income people that is typical for developing countries and countries in development. There are many different definitions for this term which depend the time and the way the term “micro” is explained. The first definitions don’t incorporate all aspects of today microinsurance activity. In some definitions the term “micro” refers to poor insurers or to a subject that offer microinsurance or the offered product features.

The term microinsurance is defined for the first time in 1999, by David Dror, who said that ““micro” refers to the level of society where the interaction

is located, i.e. smaller than national schemes, and “insurance” refers to the economic instrument”.

(Dror & Jacquier, 1999) The guru of microinsurance, Craig Churchill defines microinsurance as “protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved.” (Churchill, 2006) Microinsurance is a financial service by the government and an insurance market business subject which protects the most vulnerable category of people in the society, for adequate return in order to sustain and improve their financial condition from one side, and providing financial interest for those who offer microinsurance services and achieve national development from the other side.

Microinsurance is a new term but an old concept. Its beginnings can be found in the IX and XX centuries. The industrial life insurance from 1880's is evidence for that, offered by Prudential Life Assurance Society in Great Britain and Metropolitan Life Insurance Company in USA. (A brief history: Microinsurance Network, 2012) The role of microinsurance is poverty reduction. Poor people face with different type of risk every day. They are very vulnerable and aren't able to deal with these risks.

Risk exposure results with substantial financial losses that will impoverish them furthermore. The largest contribution in poverty reduction has the World Bank which cooperates with the governments of the poorest countries. In accordance with that, the United Nations Organization has set “Millennium Development Goals” by 2015 covering eight commitments. The first commitment includes eradication of extreme poverty and hunger in the world<sup>30</sup>. According to World Bank research, around 4 billion people are living under \$ 4/day, which includes 2.6 billion people living under \$ 2/day.

Microinsurance is most developed in Asia where two thirds of the poor are insured. The most growing countries are India and Bangladesh followed by China and the Philippines. In America the most developed microinsurance markets are: Brazil, Mexico, Colombia, Peru and Africa as well as the East European market which is vast but mostly untapped. (Meyer, 2012) The main features of microinsurance are:

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<sup>30</sup> <http://www.un.org/millenniumgoals/>

Target market	<ul style="list-style-type: none"> <li>• Low income individuals</li> <li>• Extremely limited insurance awareness / knowledge</li> </ul>
Product market	<ul style="list-style-type: none"> <li>• Simple product design with easy-to-understand features</li> <li>• Community or group pricing: limited actuarial data</li> </ul>
Marketing and distribution	<ul style="list-style-type: none"> <li>• Innovative distribution with multiple tie-ups</li> <li>• Usually sold as combined product through microfinance institutions</li> </ul>
Underwriting	<ul style="list-style-type: none"> <li>• Simple underwriting practices (often no screening): small sum assured</li> <li>• Simple policy language with minimal or no exclusions</li> </ul>
Administration	<ul style="list-style-type: none"> <li>• Irregular premium payments, by cash or bundled other products</li> </ul>
Claims handling	<ul style="list-style-type: none"> <li>• Simple and quick claims turnaround process: limited documentation</li> </ul>
Asset management	<ul style="list-style-type: none"> <li>• As per regulatory norms or investment rules of the risk-carrier</li> </ul>

Source: Swiss Re Economic Research & Consulting

Today, developing countries increasingly accept new technology. These countries should be a fertile ground for technology innovations in order to succeed. “In today’s world, neglecting technology is a big mistake”. (Meyer, Visions of the future of microinsurance, and thoughts of getting there, 2008) We all live in technology revolution times. Revolution is a dramatic and wide-reaching change in conditions, attitudes, or operation<sup>31</sup>. The traditional role of technology is reduction and redistribution of costs. (Gerelle, 2012) Consequently, the main role of technology implementation in microinsurance organizations is financial inclusion of low income people through cost reduction. Its other roles are: contract enrolment, faster and easier premium collection, claim processing, direct communication between insurers and microfinance organization, back up of insurers’ information, data processing, fraud control, marketing, administrative costs reduction and good management decision making. All these roles are related with the main purposes which are meeting customers needs and achieving positive results of the microinsurance organization.

Microinsurance organizations must have a lot of customers because of the small premium they offer. Technologies are of greater interest of such organizations due to the large data they hold related to its customers. Innovative

<sup>31</sup> <http://oxforddictionaries.com/definition/english/revolution>



technology and efficient infrastructure are going to be key factors to the low income people access to insurance.

In order to expand, microinsurance organizations must keep the total cost on a very low level and technology is the only way that makes this possible. If microinsurance companies want to overcome the challenges inherent to the poor people market they must rely on innovative technologies. Today every company, thus microinsurance companies, must manage their operation with proper technology. The return on technology investments is immeasurable and any success without such IT contribution isn't imaginable.

Introducing technology in organizations is a "stress test", but it must be considered that new technologies give many opportunities. Microinsurance business need technology that: (Fuller)

- supports efficient and effective business processes;
- supports all required product areas and processes;
- facilitates good quality customer communication and service;
- is fast enough, robust and reliable;
- is flexible to respond to new/changing needs;
- provides easy and clear access to business data;
- is available at the right cost to the organisation.

From the conducted research study by Microinsurance Innovation Facility at International Labour Organization and Consultative Group to Assist the Poor – CGAP Microinsurance Working Group, the following technology classification can be shown:

Customer interface		Transaction processing		Data analysis & processing	
Distribution channels	Front-end tools	Connectivity layer	Production layer	Enterprise layer	Support layer
Microinsurance unit	Paper	Data entry & transfer	Regional PCs or midrange		Knowledge capture

<b>Microfinance</b>	Computer	Shipping of data	computers		Knowledge transfer
<b>TPA</b>	Point of sale terminals	Internet	Hosted it services	National data centers	Human resources
<b>Partners including Cooperatives</b>	Smart cards	Wireless networks		Enterprise integration	Purchasing
<b>Banks</b>	Cell phones	Proprietary networks	Client management		Other applications
<b>Hospitals</b>		Security	Portfolio management	Statutory reporting	Consulting
<b>Pharmacies</b>	Biometric devices	Authentication	Client identification	Management reporting	Training Development
	Rfids				Integration Other services

Source: International Labor Organization, Microinsurance Paper No. 2, 2008.

Technology can be classified also from another aspect. According to the technology users, there is the top management technology; the operating management technology as well as the customers and staff interface technology.

Microinsurance can be delivered through different delivery channels including Banks, Microfinance Institutions, Post Offices, Hospitals, Cooperatives that have their own information processing methods and procedures. The most common used technology at the client interface level is paper. In almost every country having original documents is a legal requirement and computers are used for generating that paper documents. Smart cards are personal information records that serve for electronic payment. This technology usually combines with point of sale terminal which is a computer terminal used in shops to output and input data at the point where sales are being transacted. Biometric devices are used to recognize clients automatically and the most common biometric technology is fingerprint recognition. Mobile devices are used for remote connections and will become a replacement for the combination of smartcards and Point of sale terminals. (Gerele & Berende, 2008) Another type is transaction processing technology. One component of this technology is used for transferring entered data in a secure way. The other component serves for data processing and client and portfolio management.

Data analyses and processing technologies link microinsurance with conventional insurance and other financial institutions. This technology must ensure meeting customer needs and support sustainable business in the long run.

### *Conclusions*

The main conclusion is more than clear. Technology reduces the administrative costs and enables low premium offer, something that is of great interest for microinsurance organizations.

Every microinsurance organization must investigate which technology platform to implement.

Also, they must reorganize its internal business process by incorporating management information systems.

Technology facilitates collecting of premiums and payment of claims. Also, it enables poor people in remote areas to get microinsurance.

Having in mind the range of the problem presented in this paper, numerous of additional questions can be further investigated that will increase the depth of the analyses in this paper.

Because in the Republic of Macedonia microinsurance is still not being introduced, it will probably take a period of experimentation and dialogue between companies, regulators and customers in order to introduce microinsurance and implement technology, properly and successfully.

The importance of technology for microinsurance organizations 10

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**THE ROLE AND PLACE OF LOGISTICS IN  
GLOBALIZATION: THE CASE OF BULGARIAN  
EXPORTING ENTERPRISES**

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*Abstract*

Logistics is driving the globalization processes as one of their key enablers but on the other hand globalization makes the companies' logistics systems more complex and leads to increased costs for the activities associated with the management of materials and information flows. The aim of the paper is to outline the role of logistics in globalization processes and to reveal its place in the export activities of the Bulgarian manufacturing enterprises. Using empirical data, collected on the basis of personal interview, the place of logistics will be analyzed through the following: 1) The companies' consciousness of the importance of logistics for the competitiveness; 2) Logistics aspects of the driving forces for exporting; 3) Logistics aspects of export barriers. Significant differences in estimates are examined between two exporter categories in terms of companies' size. Conclusions are drawn about the logistics aspects of the conditions that determine the success of the export activity.

*Keywords:* logistics, globalization, export driving forces, export barriers.

**The Role and Place of Logistics in Globalization Processes: The Case of  
Bulgarian Exporting Manufactures  
Introduction**

Logistics receives an increasing attention as a research domain. In practice the application of the methods for the integration of material and information flows also expands. In addition, the globalization of businesses encompasses more and more enterprises and places in the foreground a number of specific issues, which complicate the logistics systems. For this reason the

interest towards international logistics has been continuously growing. Solving the complex problems arising from the global environment reveals opportunities for improving the competitive position of companies not only on the international but on the domestic markets too.

Bulgarian exporting enterprises are also confronted with the factors generating risks and uncertainty such as longer geographical distances, political changes, currency fluctuations, inflation, and natural disasters. These factors significantly influence logistics costs. What's more, the accession of Bulgaria to the European Union is an incentive for the Bulgarian companies to apply new management approaches and strategies. Meeting the high requirements of European customers for short lead times and reliable service is important for sales volumes and leads to the formulation of different logistics packages resulting in an optimal balance between costs and customer service levels.

These issues raised the research interest that lies at the root of the present paper. Its aim is to analyze and assess the role and place of logistics in globalization processes and mainly in the international activity of the Bulgarian exporting enterprises. This will allow the evaluation of their readiness to function in an environment of globalizing markets and rising competition.

### *The role of logistics in globalization processes*

Logistics is driving the globalization process as one of its key enablers but on the other hand globalization makes the companies' logistics systems more complex and leads to increased costs for the activities associated with the management of material and information flows. The long international order cycles increase the in-transit stocks and the cycle stocks on both sides of the links. The consequences of the typical uncertainty are higher safety stock levels in the international logistics system, which serve as a buffer against the risk of shortages. The alternative of safety stocks are costly stockout situations and unsatisfied customers. All of these lead to a considerable increase of transportation costs (especially for transoceanic shipments), stock holding costs, handling cost (palletizing, containerization, multiple handling operations), stockout and obsolescence costs. The geographical dispersion of logistics activities contributes also to the increase of the costs for warehousing, packaging and labeling, which should be adapted to most of the international markets.

The long and unreliable order cycles, additional documentation, cargo insurance and the involvement of more participants in the logistics processes

lead to higher levels of logistics costs borne by the companies with international business activities. Traditionally logistics costs have been a barrier for exporting or importing. To some extent they still are since international logistics costs represent on the average 25-35% of sales value against 8-10% for domestic logistics costs. The capability to manage international logistics activities in a way that minimizes these costs for the desired customer service levels has become one of the leading factors for achieving competitive advantage.

Logistics in the global environment is based on the systems approach, which is expressed in viewing as one system the materials and associated with them flows moving through all the phases of production and distribution (from the sources of supply to the final customers). This global systems approach involves the following:

- Integration of the inbound, internal and outbound material flows, including the integration of the international material flows with the domestic ones.
- Integration of logistics with other functional areas – production, marketing, finance.
- Inter-organizational integration of the global material flows, which requires the involvement of the foreign suppliers and customers, participating in the supply chain.

The integration of all processes related to the production and delivery of products to the customers in the global supply chain is not an easy task. Successful global logistics implies the implementation of logistics management principles and methodologies which remains a challenge for companies having in mind the complex flows of goods and information. Nevertheless a number of leading companies have achieved that, if only in relation to a definite number of participants in the supply chain. Important prerequisites for successful global logistics are the advancements in global transport and communication systems which have decreased significantly the transportation and communication costs during the last century and at the same time have increased the transportation and communication speed.

The sophisticated logistics systems lead to a larger number of market opportunities and supply sources for the companies since they decrease not only the variable but the fixed logistics costs too through the sharing by multiple companies of the warehousing and other services offered by transportation platforms and logistics centers. As a result companies are constantly enlarging the geographical scope of the purchasing, production and distribution on a

continental and global level and this has become one of the leading trends for the last 35 years.

The role of logistics in globalization processes can be also viewed on a macro level. The efficient logistics systems allow a geographical region or a country to make use of its comparative advantage coming from the production specialization. Due to these systems the total production and logistics costs for delivery of the products, as well as their quality, are on a more favorable level in comparison with the costs and quality for the same products produced in other countries. The fact that the effective and efficient logistics systems are the basis for the global trade and production increases the role of logistics in the world economy.

### *Methodological issues of the research*

The assessment of the place and role of logistics in the international activity of the Bulgarian exporting companies is done on the basis of data collected through personal interviews using questionnaires with predominantly structured questions. The research includes 94 production companies performing export activities. 58.6% of them represent the light industry, 17.2% - the heavy industry, 8% - the high technology sector, 4.6% - mining and the rest represent other industries including telecommunication, agriculture and construction. Concerning the number of employees 86.8% of the respondents are small and medium enterprises (SME).

The place and role of logistics in the international activity of the Bulgarian exporting companies is considered in three aspects: the companies' consciousness of the role of logistics for the competitiveness; logistics aspect of the motives for servicing international markets; and logistics aspects of the export barriers. The aim is to research in general the logistics aspect of the conditions which determine to a great extent the success of the international efforts. Since these aspects are qualitative attributes, the methods for their assessment includes the development of 5-point scales, measuring these attributes. Then the means of the responses are calculated corresponding to the extent of consciousness of the role of logistics as well as the influence of the motives and barriers for export. Significant differences in estimates are examined between two exporter categories in terms of companies' size – large enterprises (LE) and SME.



### **Companies' consciousness of the role of logistics for the competitiveness**

The understanding of companies' perception of logistics as important or unimportant for the competitiveness is essential in two directions: first, to assess the place that logistics takes among other management concepts and practices, which have emerged and gained popularity for the recent years; and second, to determine the conformity between the consciousness of the role of logistics and its real place in the export practice.

Fig.1 shows that the respondents perceive logistics as an important part of the strategy for improving the competitive position. Nearly 2/3 of them (62%) define it as an important competitive advantage (scores 4 and 5). The mean of nearly 4 (3.7) and the absence of statistically significant differences between large enterprises (LE) and SME reveal their unanimity concerning the essential contribution of logistics to competitiveness. Half of them (51%) export on the average 44% of their production volumes to Central and Western Europe, where the service standards for timely and reliable delivery are definitely high (95-98%). Around 24% and 20% export to Russia and North America respectively ¼ of their production volume and around 12 % export to China, the Near East and South America respectively 18%, 15% and 9% of their production volume. These markets are at comparatively great distances which leads to increased logistics costs not only for transportation, but for holding inventory, packaging (due to the usage of sea transport predominantly), warehousing in the intermediate nodes of the logistics system, and multiple handling operations. Nevertheless, the comparison with results from a research of German and Chinese companies (leading world exporters) shows that for 90% of them logistics is of key importance since the customers require high service levels concerning the logistics activities and their reliability (Straube, Ma, & Bohn, 2008, p.13) . This means that not a small part of the Bulgarian companies (37% against 10% of the German and Chinese ones) underestimate the importance of logistics service as a factor, which directly influence the purchase decision of the customers perceiving the physical characteristics of the products together with their availability, lead time and other aspects of the service. In fact, the considerable competition on most of the international markets results in higher customers' expectations for better logistics service at lower costs.

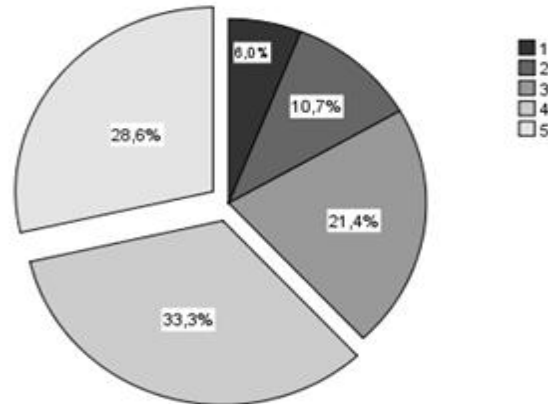


Fig.1. Shares of respondents perceiving in different extent the importance of logistics for the competitiveness (1- not important, 5 - of great importance).

***Logistics aspect of the motives for servicing international markets***

The assessment of the motives directly related to logistics amongst other motives provides a very good understanding of the role of logistics for companies' management. The leading motive for exporting, defined as such by over 70% of the enterprises, is the opportunity for additional profits and growth, having in mind the small size of the national market and especially the limited growth perspectives due to the economic crisis (Table 1). This motive is followed by the existence of capability for easy products adaptation. Around 60% of the enterprises having highly assessed the importance of the last motive export to Eastern European countries which have similar socio-cultural characteristics as our country's ones.

Table1. The importance of the motives for servicing the international markets.

Motives	Responses 4-5 (%)	Mean	Groups	Group's mean
Opportunity for additional profits and sales growth on foreign markets	72,5	4,0		
Capability for easy product adaptation to foreign markets	45,6	3,2		
Closeness to foreign markets**	45	3,1	SME	3,4
			LE	2,6
Presence of logistics capabilities	43,8	3,0		
Products' uniqueness	36,7	2,8		
Decrease of market risk	35,4	2,8		
Low sales on the domestic market**	33,8	2,7	SME	2,9
			LE	2,2
Saturation of the domestic market	32,5	2,7		
Increased competition of the domestic market	29,1	2,6		
Decrease of protection barriers on foreign markets	25,3	2,5		
Economies of scale**	21,5	2,4	SME	2,7
			LE	1,9
Decrease of inventory	29,1	2,4		
Export activity of domestic competitors	23,8	2,4		
Unused production capacity**	23,8	2,3	SME	2,5
			LE	1,7
Favorable currency fluctuations	16,5	2,1		
Government incentives for export	19,2	2		
Accidental orders from abroad	3,8	2		

The next two motives are purely logistics in their nature – closeness to the foreign markets and presence of logistics capabilities (45% and 43,8% of the enterprises consider them as very important). As we saw, not a small part of the researched companies service the European markets and their closeness is assessed as a significant factor which decreases the complexity of logistics activities and the corresponding logistics costs viewed traditionally as an export barrier. This is of paramount importance for SME which assess this motive higher than LE do. However in all cases internationalization of the business is followed by complication of the logistics system and the necessity to integrate the domestic and international logistics processes, which imposes the development of international logistics capabilities.

Other areas assessed higher by the SME are the low sales on the domestic market, the unused production capacity and the opportunity to realize economies of scale. The saturated Bulgarian market makes SME strive to enlarge their customer base and realize economies of scale resulting in reduced production and distribution costs and improved competitiveness. On the other side, however, companies with constant excess in capacity have to reassess the effectiveness of their capital investments. This excess also shows that SME were

hit harder by the economic crisis than LE and seek to realize economies of scale through exporting.

### *Logistics aspects of the export barriers*

Seizing the opportunities for additional profits and sales growth on foreign markets is not always without hindrance since servicing these markets requires a new approach for doing business directed to surmounting the difficulties related mostly to the increased competition. This part of the research aims to outline the factors which hinder export and the place of the logistics barriers among them. Table 2 reveals that only 4 of totally 28 potential barriers are assessed with or a little bit over 3 and all of them are external for companies – ineffective national export promotion programs, red tape in public institutions, payment delays from foreign customers, lack of government assistance in overcoming export barriers<sup>32</sup>. 1 Three of them are related to the impeding role that the government can have in export (from the companies' point of view). In literature the government's role is considered to be a critical aspect of the managers' attitude towards internationalization no matter whether it is expressed as an incentive or as a demotivating factor.

The share of the companies considering whichever of the remaining barriers as effective does not exceed 35%, i.e. the researched Bulgarian companies generally consider none of them as a substantial challenge, including the ones which have logistics nature as high logistics costs, long lead times, logistics difficulties in export, complex export documentation, and low quality of the export package. At the same time logistics difficulties, connected with the export process are one of the most highly rated in the literature (Katsikeas, 1994, p. 44).

Table 2. The importance of the barriers for export

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<sup>32</sup> Scales are used from Katsikeas, 1994.

Barriers	Responses 4-5 (%)	Mean	Groups	Group's mean
Ineffective national export promotion programs	43.8	3,1		
Red tape in public institutions	45.0	3,1		
Payment delays from overseas customers	41.2	3,0		
Lack of government assistance in overcoming export barriers	42.5	3,0		
Strong international competition	40.5	2,9		
Lack of export marketing research*	42.5	2,9	SME	3.1
			LE	2.4
Difficulty in identifying capable overseas distributors	34.6	2,7		
High cost of capital to finance exports*	35.0	2,7	SME	2.8
			LE	2.2
Insufficient information about foreign markets***	30.5	2,6	SME	2.9
			LE	2.0
High logistics costs	27.2	2,6		
Lack of personnel qualified in exporting**	31.2	2,6	SME	2.8
			LE	2.1
Inadequate promotion in export markets**	30.5	2,6	SME	1.4
			LE	1.1
Ineffective communication with overseas customers	29.6	2,6		
Lack of competitive prices**	32.5	2,5	SME	2.7
			LE	1.8
Insufficient production capacity	28.4	2,4		
Long lead times	22.5	2,4		
High protective barriers on overseas markets	28.8	2,4		
Logistics difficulties in export	18.8	2,3		
Lack of "experts" in export consulting**	28.8	2,3	SME	2.6
			LE	1.7
Complexity of export documentation requirements	17.5	2,3		
Unfavorable currency fluctuations**	20.0	2,3	SME	2.5
			LE	1.6
Poor organization of firm's export department	22.5	2,3		
Inability to after sales service the overseas markets	25.0	2,3		
Management focus on domestic markets	20.0	2,3		
Lack of understanding of the foreign business practices	21.2	2,2		
Difficulty in meeting importer's product quality standards	18.5	2,1		
Poor quality in export packaging	17.5	2,0		
Poor product design and style for export markets	13.8	1,9		

The very likely explanation of these different estimations is the closeness to the markets, the elimination of the customs procedures after Bulgaria's accession to the EU and the declared possessed logistics capabilities, perceived as a stimulus for exporting by more than a half of the researched companies. However, it has to be taken in mind that they may have overestimated their own logistics capabilities (this overestimation is noticed by the author in other of her research works when companies were asked to assess their capabilities) and underestimated the significance of the logistics barriers

(especially the international logistics costs). This explains to some extent the larger share of the Bulgarian exporting enterprises which do not view logistics a source of competitive advantage.

The figures in Table 2 show some statistically significant differences between the assessments of SME and LE. Some of them are related to the lack of an export marketing research on the export market, insufficient information about the foreign market, and inadequate promotion in the export market, all of which are conceptually interconnected and concern the information/communication with the foreign markets. Obviously SME perceive the existence of more problems of this kind with the foreign markets in comparison with LE. The last usually have better preparation and organization of the export activities and can therefore handle better the increased requirements for information exchange which characterize the export processes and especially the establishment and development of relationships with foreign distributors.

SME perceive also as higher barriers the lack of personnel qualified in exporting and the lack of “experts” in export consulting, both of which lead to smaller capability for organizational and management adaptation to the more complex export processes.

The high cost of capital to finance export and the lack of competitive prices on the foreign markets are definitely interconnected and reveal the negative effect of the first barrier on the price levels of the products exported by SME due to a mixture of external, uncontrollable influences and absence of the necessary capabilities.

Finally, the unfavorable currency fluctuations are also estimated higher as a barrier by SME in comparison with LE. This external economic factor affects costs and price levels, which are defined in the foreign markets’ currencies and their unfavorable fluctuations have an effect on the international competitiveness. Obviously LE perceive this as a smaller problem due to the existing capabilities and knowledge for using financial mechanisms to protect themselves against currency fluctuations.

### *Conclusion*

The analysis and assessment of the role and place of logistics in the international activity of the Bulgarian exporting enterprises lead to the following basic conclusion: Undoubtedly logistics has a great significance for the

successful internationalization but a large part of the Bulgarian exporters think they already have the necessary logistics capabilities which allow them to overcome the inherent logistics difficulties. The barriers for export are considered to be predominantly external factors (the government, the customers) and are not sought in the internal capabilities of the companies. Meanwhile over 40% of the companies consider as a barrier the high competition on foreign markets. Although SME understand that they lack the necessary capabilities for achieving competitive prices, they underestimate the potential of the integrated management of the export logistics activities to contribute to that aim. Following the example of the leading global companies in the world, for which the integration of activities such as transportation, warehousing, inventory management, order processing and etc. is a key success factor, the Bulgarian exporters should pay greater attention to international logistics costs and service levels in order to make use of the advantages that motivate them to export and increase their competitiveness on overseas markets. This entails the question to what extent the logisticians are organizationally and methodologically integrated in the internationalization process. The unexpectedly high logistics costs very often outweigh the advantages stimulating the export and therefore threaten its success. The careful examination of the feasibility of alternative logistics systems (frequency and size of deliveries, mode of transportation used, subcontracting and etc.) leads not only to lower logistics costs but to the development of a considerable competitive advantage through providing high service levels which are hard to be copied.

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## **CONVERGENCE OF THE FINANCIAL SERVICES INDUSTRY IN IMPERFECTLY COMPETITIVE FINANCIAL MARKET**

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### *Abstract*

What is wrong with the theoretical display of demand creation and consumer choice of financial services? The answer is the assumption that we surely know prices, income and other variables that take place in that circumstances. But, in reality, the subjects have to choose and make decisions under conditions of uncertainty.

In practice that is "solved" with the convergence and regulation of financial services.

Convergence as a feature of globalization has strongly affected the sector of financial services. In that sense, banking companies, insurance companies and other investment financial institutions are functionally directed toward mutual cooperation.

In this paper we understand financial convergence in accordance to the recommendations of the OECD as a term for all forms of mutual relations of banks and insurance companies as providers of financial services on the one hand, and the applicants for all types of financial products, on the other side.

Initially we perceive the levels of convergence between banks and insurance companies: 1) the level of products, 2) the level of financing, 3) the level of investment, 4) the level of financial products distribution, 5) institutional level and 6) the regulatory level. That opens space to form two theses: 1) whether the business in banking and insurance fully merged or it further remains different and 2) whether the regulation should be the same or different (special) for banks and insurance institutions.

In addition, regulation of insurance companies and in banking is analyzed by its two aspects: 1) internal supervision, which has microeconomic character and has a goal to provide corporate risks management in a frames of

financial corporation operations and 2) regulation by specific regulatory bodies which has a macroeconomic character and is associated with macroeconomic goals such as: monetary stability, growth and development, etc.

*Key words:* demand, asymmetric information, convergence, financial services, risk.

### **Demand, consumer choice in a field of financial services, risk and asymmetric information**

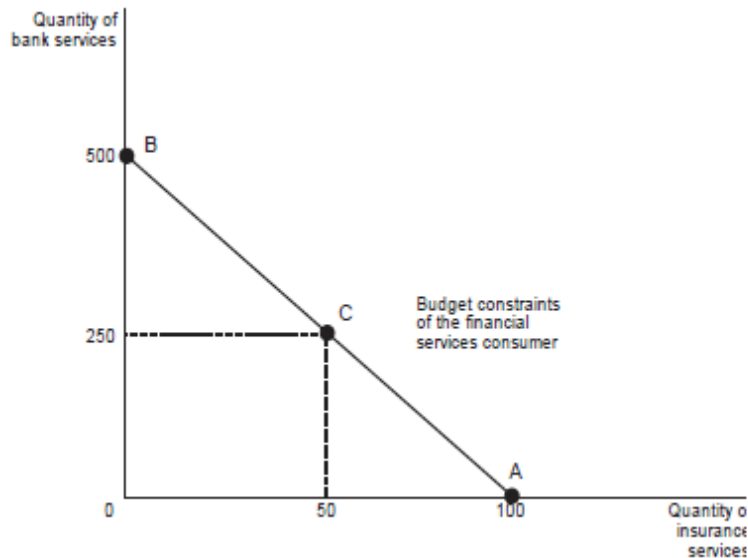
The theory of consumer choice seeks to uncover and explain the factors that determine the consumers behavior (in this case of financial services). Modern economics considered that the theory of consumer choice stems from four basic assumptions that in the same time can be determined as fundamental elements that explain the behavior of the consumers:

- First, among the various available financial services (monetary or insurance), the consumer who has limited income, always choose those services that maximize his own pleasure;
- Second, the taste of the consumer allows him to classify, evaluate and combine various financial services (to save, to undertake currency and interest risk from savings, to ensure the savings by forming financial portfolio or to insure savings); (Enterprises and individuals take loans for investments in business or for building houses and are planning to pay them using their future incomes. Incomes in the future are unsure, because the profit or wages in the next period may increase but they may decrease too. It is also possible business bankruptcy or the individual to remain jobless. In any case, making decisions is risk connected. The assumption here is that the subjects has an ability to calculate the risk perfectly and to remove it completely in the frames o their choice and preferences for financial products on financial markets. Later we will see that in accordance of the theory of asymmetric information that is not always like that. The difference is that here we are talking about savings and insurance in direction of maximization of the consumer surplus, and later more we will talk about savings or insurance in a sense of uncertainty of the risk – and all in accordance with probability, expected value and risk propensity).

- Third, the consumer has a given and a limited income;
- Fourth, the prices of financial services that can be purchased are previously given and known.

Budgetary constraints are limiting to the consumer packages that consumers can afford. The consumer buys packages of financial service 1 and financial service 2. The more he purchases a service 1, the less of service 2 can afford. The set of all possible scales (combinations) that accurately depleting a consumer income at a given market price is called the line of the budget. (Figure no. 1.)

**Figure 1. Budget constraints of the financial services consumer**



Preferences are variations (individual satisfaction or benefit) of the consumer which allow him to rank the possible combinations of financial services within a given income and prices of those goods and services. Consumer shares his budget under the influence of his preferences.

The economic theory takes four simple features of comparing consumer preferences which allow him to divide the budget:

- *completeness*, which allows the consumer to rank all possible combinations of financial services;
- *"as more as better"*, assumes that the services are desirable, and that in the case of two same services, better is that one that can be easily find;

- *transitivity* means that if you want service A more than service B, and service B more than service C, then certainly you will want more the service A than service C. Also, if A is equally attractive as B, and B as C, follows that A is equally attractive as C;
- *convexity* implies a mix of financial services that are more preferred than the extremes (risk diversification).

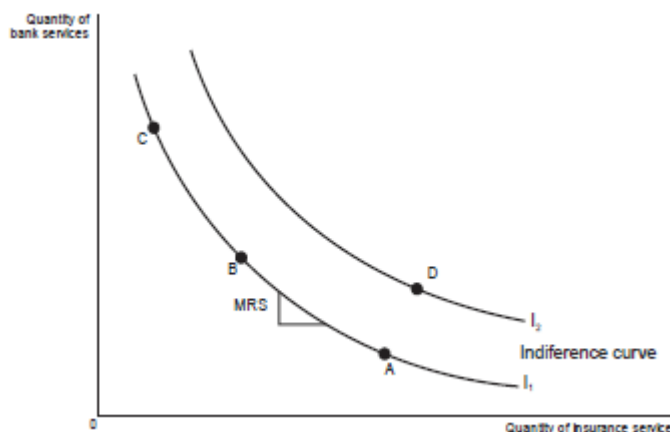
Consumer preferences allow him to make choices between different packages of financial services (monetary or insurance).

Indifference curve is a curve that shows the consumer packages that provide the consumer the same level of satisfaction. That curve is a set of combinations that are equally attractive.

Figure no.2 shows two of many indifference curves of the consumer. The consumer is indifferent between combinations A, B and C, because they are all located on the same curve.

Predictably, if the consumption of insurance services of the consumer is reduced, as an example from point A to point B, the consumption of banking services must be increased in order to remain the satisfaction of the consumer. If consumption of insurance slipped back from point B to point C, the quantity of used bank services must again be increased.

**Figure 2. Preferences and indifference curves of the financial services consumer**



Slope at each point of the indifference curve is equal to the rate for which the consumer is willing to replace one good for another. This rate is called the *marginal rate of substitution* (MRS). It can be noted that because the

indifference curves are not straight lines, the limit rate of substitution is not equal at all points on a given indifference curve. The rate for which the consumer is willing to exchange one service to another depends on the quantity of services that he/she already uses. That means, the rate for which the consumer is willing to exchange insurance for savings or credit depends on whether he is more willing to be insured or more saves (or use credit for investments), which in turn depends on his willingness to accept risk and his desire for savings or investment.

What is wrong with this theoretical review for demand creation and consumer choice of financial services? The answer is our assumption that prices, income and other variables we know for sure. But, in reality the subjects have to choose and make decisions under conditions of uncertainty. That means they have to calculate probability of events occurrence or to face the risks in decision making. In that sense an action for risk reduction have to be taken – i.e. risk diversification ("Do not put all eggs in same basket"), insurance and appraisal of the value of the right information.

We all know that in a market economy all these activities can be made to the financial markets. But the problem occurs immediately - financial markets are not perfectly competitive, which means that there is asymmetric information, so there is a problem in market signaling.

Asymmetric information is one of the essential segments emphasizes the importance of financial intermediation. Epitomized by *negative selection* and *moral hazard* as a lack of information before and after the transaction, asymmetric information is a factor for more significantly greater relative share of indirect financing of the economy. Intermediary or indirect financing, which involves the activities of financial intermediaries is more important than the direct funding, i.e. the collection of funds directly from lenders in financial markets (Mishkin S. Frederic, 2006, 171). Asymmetric information is an essential element that determines the financial structure, and analysis on how the problems of asymmetric information affect economic behavior is so called *agency theory*.

Type of intermediary	Value of assets (billion \$, end of the year)								
	1970	1980	1990	2002	2008	2009	2010	2011	2012
<b>Deposit Institutions (banks)</b>									
Commercial banks	517	1.481	3.334	7.161	13.417	13.419	13.582	14.693	15.058
Credit unions	18	67	215	553	814	792	871	906	959
<b>Contractual savings institutions</b>									
Life Insurance Companies	201	464	1.367	3.269	4.411	4.824	5.176	5.340	5.613
Companies for non- life insurance	50	182	533	894	1.287	1.377	1.374	1.396	1.445
Pension funds (private)	112	504	1.629	3.531	4.595	5.443	6.143	6.302	6.636
State and local pension funds	60	197	737	1.895	2.311	2.722	2.949	2.873	3.194
<b>Investment intermediaries</b>									
Financial companies	64	205	610	1.165	1.912	1.663	1.630	1.610	1.534
Investment funds	47	70	654	3.419	5.274	6.921	7.873	7.871	9.324
Investment funds on market	0	76	498	2.106	3.757	3.259	2.755	2.643	2.650

Table 1. Major financial intermediaries and value of their assets

Adjusted according to Z.1 Financial Accounts of the United States  
(<http://www.federalreserve.gov/release/Z1/LevelTables>;  
<http://www.federalreserve.gov/releases/z1/current/annuals/a2005-2012.pdf>)

Through it sets up the thesis of influencing of the negative selection on the financial structure through so-called *problem of blemish* or buying "*cat in a sack*". Due to the inability of individual investors to establish a clear distinction between good companies in which they would invest with high expected profits and low risk and bad companies with small expected profit from investment and high risk, they would pay only the price of securities reflects the average quality.

Having in mind that the companies that make the securities offer have very precise information about its operations versus investors, those that work well will not want to sell their securities at an average price which means their understatement, and on the market they will offer only securities whose individual value is below average, i.e. those overrated. Individual investors realize that these are securities with poor quality and decide not to invest in them, leading to limited efficiency of financial markets.

The second major segment of asymmetric information refers to as moral hazard dilemma of choosing between debt and equity contracts, i.e. determines

the choice of the company about whether to come up for additional funds through debt or through equity deals.

Moral hazard as a problem of asymmetric information which occurs after the execution of financial transaction also answers some questions that determine the financial structure and indicates the importance of financial intermediation and state regulation of financial markets and the importance of collateral in debt contracts. The basic problem of asymmetric information on investments in equity securities known as *principal - agent problem* stems from the separation of the management and control from the ownership of the company.

Namely, if the managers are owners of an insignificant part of the company they work for, they are actually agents of the owners i.e. of the shareholders (principals) who own most of the company. That such a separation leads to moral hazard so that managers (agents) that control operations can happen to act in accordance with their interests and not for the interests of owners of shares (principals) and be less motivated to increase profits than owners of the company i.e. major shareholders. This problem arises only because the owners do not have any information about the intentions of the managers and cannot prevent unnecessary costs or defraud, i.e. stems from the existence of asymmetric information. Moral hazard exercises its influence on a market debt securities also, and thus on a structure of the market of debts and on a financial structure in general. Given that debt securities are contractually determined to carry fixed interest and repayment of a principal value for a specified period, the borrower keeps the profits that eventually would have achieved with their venture, and it motivates them to take riskier investment projects than lenders would like. The ability to fail invested assets due to the high risk taken by the borrower or the possibility that he achieve high profit from his risky investment (where the lender has not any extra bonus unless previously agreed fixed interest), discourages the lenders in a possible greater involvement in these markets.

The existence of asymmetric information on financial markets that are causing problems of negative selection and moral hazard obviously reduces the efficiency of the functioning of those markets. In the multiplicity of possible solutions to solve those problems can be stated: private collection and selling information, state regulatory measures that lead to the increase of information on financial markets, emphasizing the importance of collateral and net value in debt contracts, establishment of restrictive clauses in contracts, etc.

The overall findings of these events and movements in world practice suggest the conclusion that they lead to increasing the role of financial intermediaries in financing activities of business entities. Below follows a systematic review of the problems of asymmetric information and possibilities for solving them as a moment that significantly determines the structure of financing the economy.

<b>Problem of asymmetric information</b>	<b>Possible solutions</b>	<b>Answer of the question No.</b>
<b>Negative selection</b>	▪ Private collection and selling information	1,2
	▪ Government regulatory measures to increase information	5
	▪ Financial Intermediation	3,4,6
	▪ Collateral and net value	7
<b>Moral hazard in ownership relations (principal – agent problem)</b>	▪ Gathering information: monitoring	
	▪ Government regulatory measures to increase information	1
	▪ Financial Intermediation	5
	▪ Debt Contracts	3
		1
<b>Moral hazard in debt contracts</b>	▪ Net value	
	▪ Setting up and implementation of restrictive clauses	8
	▪ Financial Intermediation	3,4
<b>List of questions or statements:</b>		
1. <b>Stocks are not the most important external source of funding.</b>		
2. <b>Securities traded are not the main source of funding.</b>		
3. <b>Indirect financing is more important than direct funding.</b>		
4. <b>Banks are the most important external source of funds.</b>		
5. <b>The financial system is strictly regulated.</b>		
6. <b>Only large, well-known companies have access to securities markets.</b>		
7. <b>Collateral in debt contracts is paramount.</b>		
8. <b>Debt contracts have numerous restrictive clauses.</b>		

Table 2. Problems of asymmetric information and possibilities for their solution (Mishkin S. Frederic, 2006, 187)

Therefore in practice there is a process of convergence of specific areas of the financial industry - that is the way to relative asymmetric information and they have microeconomic character, and are caused by costs, revenues and profits of the entities of the financial markets. On the other hand, the state wants to relative asymmetric information and doing that by the regulation of financial entities operation and financial markets operations.



Therefore, below we talk about convergence of the financial services industry.

***Convergence of the financial services industry and the impact of insurance and banking***

Convergence as a feature of globalization has strongly affected the sector of financial services. Functionally, banking companies, insurance companies and investment institutions are directed to cooperation. The process of convergence flattens the work of supervisory entities in the relevant financial sectors, it is getting closer and common, but it does not mean that they should merge. Business in the financial services industry remains fundamentally different in certain sectors, therefore the solution lies in promoting the integration of supervisory bodies within the separate financial sectors internationally, which will allow coordination of cooperation at national and international level.

Here we will take financial convergence into consideration under the recommendations of the OECD as a general term for all types of mutual relations of financial providers and applicants of all types of financial products and services. Convergence occurs at several levels: 1) at the level of products, 2) at the level of funding, 3) at the level of investment, 4) at the level of distribution of financial products; 5) at the institutional level and 6) at the regulatory level (Bebear, C., 2002, 45-65).

At the *product level* we see that banks and insurance companies offer more and more competitive products, and the question is only when these differences in products in banks and insurance institutions will disappear. For example, even life insurance in the household sector was taking a form of savings, as banks do with deposits.

At the *financial level*, it is easy to recognize that financial markets play the role of space for expanding the activities of banks and insurance companies. Before all, they give more flexibility and liquidity for core businesses of banks and insurance companies.

Financial markets allow development of the process of securitization, for the banking credits and for the insurance policies too – helping them in a liquidity maintaining.

At the *level of investment*, financial markets and asset management are becoming strategically important for both - banks and insurance companies. In

particular, insurance companies recently developed a very active investment strategies based on the optimal portfolio strategy, unlike previous times when they have invested their financial reserves exclusively in government bonds.

This kind of changed behavior was determined by the requirement for financial risk support on the side of the assets in the balance sheets of insurance companies. By investing more assets in stocks insurance companies enables risk sharing and extracting more value from their assets. Thus, the behavior of insurance companies become close to that of banks in relation to monitoring the aggregate risk caused by the fluctuations in financial markets.

At the *level of distribution*, banking networks are being used more and more as channels for distributing the products of insurance companies. For example in France, 60% of the distribution of life insurance and 8% of non-life insurance goes through banks.

At the *institutional level*, convergence is very well known and can be seen in public.

In recent years we have seen the appearance of broad financial conglomerates formed by different types of financial institutions: banks, insurance companies and investment institutions.

At the *regulatory level*, regulators and supervisors are confronted with very similar or identical questions and answers in insurance, banking and investment activities. In all three sectors they want to protect users of financial services, prescribing similar standards for supervision of companies, regardless of their sector of activities: a) complete information and transparency for products sold by companies, b) risk diversification in order to reduce the possibility of concentrating the risk c) coverage of assets with liabilities and so on.

However, contrary to the above convergence between financial services, business remains basically different, especially between banks and insurance companies.

The first difference is that banks generally face financial risks (market risk, liquidity risk and credit risk) while insurance companies face with widespread real risk (insurance of life, health, property, personal and commercial risk) unified with financial risk (transferred via short time gap between payment of premium and loss event). So, the specifics of insurance lie in the concentration of risk on the side of liabilities in the balance sheet, while the concentration of occurred risks in the banks is on the asset side of the balance sheet.

The second difference is that, unlike insurance, banks create liquidity on their assets.

Money for lending comes primarily from deposits. In other words, funds invested by economic agents are needed copy for lending that expands to those economic agents or their borrowers, i.e. on that way we have monetary creation. Insurance companies do not create money, they just transfer money that already exist and are enabled by policyholders. Duties of insurers, in a form of paid premiums of policyholders, are used to cover possible losses or for their financial investing.

A third difference is that the insurance sector proves to be weaker source for system risk (i.e. risk of infectious liquidity risk), than the banking sector for several reasons. First, the liquidity that insurers injected into the economic system is a transfer that results from the earlier creation of value of the policyholders, unlike the liquidity which banks pumped into the economy and which is not the content of previously created value. Consequently, the market failure of the insurance company has a potential impact only on the policyholders, while the insolvency of the bank has a potential impact of a vast number of individuals, not just to its customers, which will follow the flap. Second, deposit owners in banks can raise their deposits from banks at which time they want, or after the insurance without any penalty for it, unlike policyholders that with some difficulties and with higher costs can break the contract of insurance.

All previously stated does not mention that the regulation in terms of globalization is complex. Today, three possible solutions are actual: 1) solution promoted by the French authorities about the existence of different sectoral regulatory bodies, but close to each other as they could learn and have benefit from different experiences, 2) solution promoted by the European Commission for establishment of new supervisory level based on close and confidential cooperation between supervisors (European Union member countries from the beginning of the Integration formation in 1957 started with formation of the common market for insurance, in a frame of the agreement for free flow of people, goods, services and capital, in a intension for fully elimination of all possible barriers. However, the real liberalization of insurance started with so called White paper in 1985 and its political consequences, The Unique European contract from 1986.), and 3) establishing a single regulatory body competent for the three financial sectors, whose proponents are Great Britain, Germany, Netherlands, Switzerland, USA and Japan.

As for countries in transition, globalization affects segments of the financial system but it is a different level of complexity of structure as compared to developed countries, and also within the group of transient economies. The same goes for the regulation of the elements of the financial system.

The formation of different types of non-banking financial institutions increases the level of financial intermediation in the national economies of these countries. By creating a more complex structure of the financial systems of transitory countries, there is the need for a new approach in the implementation of the regulatory function i.e. introduction of consolidated supervision. Namely, it is pronounced the trend of formation of banking groups and financial holding companies with participation of non-bank financial institutions.

Independent exercise of supervisory function by specified regulatory bodies (e.g. supervision of capital market, supervision of insurance companies, supervision of investment and pension funds, bank supervision) within their scope often complicates the work. Hence, effective execution of the regulatory function of all segments of the financial services industry, involves the establishment of good cooperation between separate regulatory bodies, based primarily on information exchange and implementation of the joint supervisory controls – i.e. making framework for consolidated supervision.

### ***Insurance of business risks in the financial services industry using financial market instruments***

The problem of complexity of the financial market where the convergence partially tries to ignore the risk by combining financial products, on a microeconomic level is resolved through financial derivatives.

In every national economy, financial system represents an area in which there is a trading with free financial funds. What actually happens is an exchange of financial resources that are aimed at bridging the time gap between current and future spending of the funds.

From that kind of trading there is a benefit for the surplus subjects, whose incomes exceed their current expenditures, and also for the subjects who are deficient, whose incomes are less than their current costs. As surplus or as deficient economic subjects may be entities from all sectors in the economy – householders, corporations, state.

The structure of the financial market contains of several types of entities that act on it.

These globally can be divided to: 1) primary financial entities and 2) secondary financial entities.

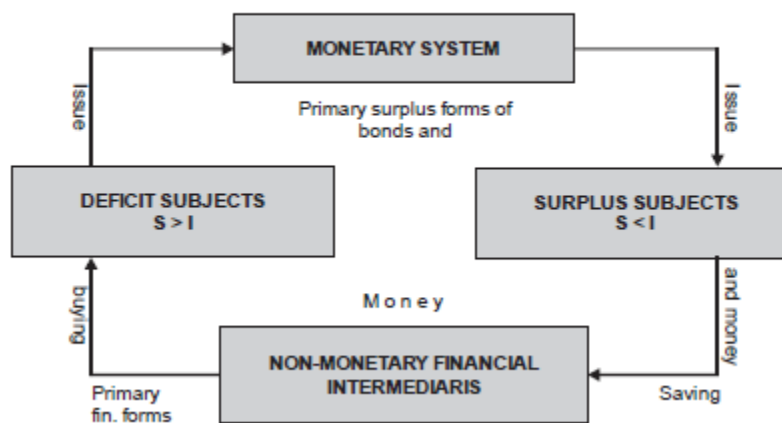
Primary financial entities are composed of enterprises, population, state and international corporations.

Secondary financial entities are composed of numerous financial institutions as intermediaries on the financial market, and they are known by the name financial intermediates.

Feature of financial institutions is that their basic potential is financial instruments.

Core business of financial institutions is concentrated on posture and operations with financial instruments. Basic financial institutions are banks and credit funds (other financial institutions).

Figure 3. Financial intermediation



Financial institutions collect funds (concentrate them) in the form of deposits, as deposits on transaction accounts, by taking loans, by issuance of securities, by buying capital share, by payment of fees, by selling insurance policies etc. Those collected financial funds financial institutions are placed in the form of loans, in a form of buying securities on financial market, or by investing in real investment projects. With those operations, most financial institutions appear as financially intermediaries.

Separate sectors of national economy use different instruments in realizing their international financial transactions. All these instruments may differ according to the term (short-term, medium-term and long-term), according

to their marketability (some can be sold on financial markets and some not), and according to the currency that follows (some are denominated in domestic currency and some not). Table 3 shows the main instruments for international financial transactions in major sectors of the national economy.

Domestic economy sectors	Instruments of the financial transaction
Enterprises	<ul style="list-style-type: none"> <li>- trade loans from foreign supplier</li> <li>- bank loans and credits</li> <li>- trade securities</li> <li>- bills of exchange and bonds</li> <li>- loans from foreign affiliates</li> <li>- stocks</li> </ul>
Banks, insurance companies, and other financial institutions	<ul style="list-style-type: none"> <li>- deposits of foreign residents</li> <li>- trade securities</li> <li>- bills of exchange and bonds</li> <li>- loans from affiliates</li> <li>- stocks</li> <li>- insurance policies</li> </ul>
State	<ul style="list-style-type: none"> <li>- treasury bills</li> <li>- bills of exchange and long-term bonds</li> <li>- inter-state loans</li> <li>- interstate economic help</li> <li>- Loans from international financial organizations – IMF, World bank (IBRD), Bank for international settlement (BIS), and other</li> </ul>

**Table 3. Financial instruments**

Enterprises enter into fiduciary-debtor relations with foreign companies, and in certain situations and with foreign banks. Economic entities issue some trade securities, which in interaction with banks turn into instruments of international payments (letters of credit, remittances, etc.). Banks and other financial institutions dealing with the collection of foreign capital using various forms (deposits, financial and credit arrangements, etc.) which are in a function of export and import of commercial entities. Governments and national

authorities are financially involved indirectly through banks. They also used several forms of financial transactions in their relations with foreign countries.

Just in terms of innovation in financial markets, securities which are traded receive categorization of simple and derivative securities. *Simple Securities* offered earnings based only on the status of its issuer (interest on bonds or dividends on the shares in accordance with the profitability and solvency of the issuer). In spite of them, *derivative securities* depend on additional factors relating to prices of other assets that in fact they are based on (the payment of stock options in dependence of the price of basic stock pack, etc.).

The term financial derivative is a *general expression for securities that are derived from other securities, or securities which value is determined by the value of other securities.*

For example, the price of the option for the bought currency depends on the currency exchange rate, or option for the purchased shares is a financial derivative which value is determined by the value of the shares in question. Institutions emerge as regulators of financial markets are more consent that the financial derivatives dangerously undermine the markets of the original financial instruments that serve as a basis to the financial derivatives.

The most important representatives of financial derivatives are: futures, options, swaps, warrants, convertibles, rights etc. There are views that grouped derivative financial instruments in a different way. For example, financial derivative instruments may be divided into: a) forward - based derivatives, within frames include: futures contracts, forward contracts and swap contracts, b) optional derivatives (option - based derivatives) which include: traditional options (call - put options), swap options (options on swaps) and options for reducing the movement of interest rates and c) exotic derivatives that represents a new forms of financial derivatives with complex features of payment. This type of financial instruments which also develops with the greater development of financial markets, give to investors a variety of forms for protection from financial risk. Exotic derivatives, most often occur in the form of options, including: barrier option - an option that begins to exist, or goes off in specific conditions, binary options - all or nothing options - option in which payments are made only when comes to the occurrence of insured event and multifactor (rainbow) option - an option that is based on various indexes or on a leading securities.

In modern terms, financial derivatives as financial contracts whose payments are based on the execution of a previously agreed activity are part of the economic environment.

They can be issued on the basis of money, goods, debt, debt of a company, mortgage housing, shares, interests, and based on a combination of any of stated items or the like.

Despite the mentioned categorizations, their general categorization distinguishes (a) optional and (b) forward contracts. Can be listed on stock exchanges or privately traded. Options give buyers the right but not the obligation, at some time to buy or sell certain assets after fixed price, where price is determined (usually small) percentage of the underlying value of assets subject to the option. Forward contracts at its side commits parties (buyer and seller) to trade certain assets at pre-defined fixed price at a future date. Such fixedness determines price risk as for the seller of the assets in question, and for the buyer too, depending on the movement of prices in that interval. Speculations arising from such activities in a form of potential earnings for one side, i.e. for the side with more detailing analytical assessment (i.e. one that will "guess" the market trends) are only one aspect of the use of derivatives.

Significant aspect of their use is referencing to the possibility that they are used as an instrument for protection against market risks.

In order to conclude, can be mention. Besides the classical options to insure against the risks facing companies, today are more important place belongs to financial derivatives, by which companies can be insured against adverse movements in market variables. The use of derivatives by financial markets, the firms without mandatory classic insurance in insurance companies can protect themselves from unfavorable changes in foreign exchange, credit risk and business risk.

### *Conclusion*

Financial markets are not perfectly competitive, which means that there are asymmetric information on them, so there is a problem in the market signaling. Therefore in practice comes to the process of convergence of the specific areas of the financial industry – and that is the way to relative asymmetric information and they have microeconomic nature, i.e. caused by costs, revenues and profits of the entities on the financial markets.



Liberalization of financial innovation on financial markets in recent decades causes strong growth, causing great quality accommodation. The traditional separation of banking and insurance industry is increasingly narrowing. In fact, banks and insurance companies (and all other financial institutions) adopted a new approach in the business known as bankinsurance in order to achieve an integral approach to financial markets.

Global changes occurring in the financial systems of countries and in the conduct of financial flows in general, introduced major changes in the forms and functions that perform as banking, and non-banking financial institutions. The basic tendency of change is aimed at accelerating convergence of all institutions offering financial services and acceptance of innovations from each other. This tendency is often accompanied by changing the legal framework in the sphere of finance and opening the possibility of different financial institutions to offer financial services that previously were not inherent to them. Such changes create conditions for increasing the number of strong competitors in the financial system are closing banks from all sides and lead to a reduction in their relative participation in the system, in favor of increasing the participation of non-banking financial institutions. The tendency of reducing the participation of banking institutions through their approach to nonbanking institutions or vice versa is realized in a way that today's banks and their competitors offer a wide range of similar financial services, the daily enriched with new ones. Such *universalization* of financial services, entities that offer them, and ways that are offered (through the Internet, smart cards, etc.) significantly facilitate the daily activities of their customers. Overall it provides an opportunity at once and on a one place to realize all the financial activities, which in turn leads to the so-called universal banking (in the USA and Great Britain), allfinanz (in Germany) or bancassurance (in France). In that sense can be differentiate more contemporary trends in a banking and non-banking financial sphere and in the financial system in general, that reflect their universality and convergence. In this sense, particularly stand out as worth to emphasize globalization and internationalization of financial institutions; regulation, deregulation and re-regulation of institutions in the financial system; the role of the state on financial markets in the contemporary global environment; reducing the role of financial intermediaries, i.e. disintermediation; changes in the organization and functioning of financial institutions imposing by the technological revolution; the emergence of numerous financial innovations for differentiation of financial

products; phenomenon of securitization as a substantial financial innovation; financial engineering and the like.

This is about risk management of financial corporations, insurance companies or banks during they are trading with financial products: the management process by the management structure, with microeconomic objectives - influence of risk on the profits of the insurance or banking corporation.

The problem of complexity of the financial market where the convergence of business trying to ignore the risk by combining financial products on a microeconomic level is resolved through financial derivatives.

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## PROFESSIONAL LANGUAGE COMMUNICATION IN THE GLOBALIZED BUSINESS WORLD

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*Abstract:*

This article presents the topic on the linguistics especially on the language for specific purposes and multilingual business communication. From the linguistic point of view different perspectives are illuminated: professionalization of foreign languages in international environment, as well as the question of language skills in international companies and the transfer of foreign lexemes to the certain professional field. Although English language is the business language in many areas, the German language and other foreign languages should not be neglected in any case. Moreover, playing in the "globalized world of work" the intercultural communication and the intercultural skills play a key role.

*Keywords:* business communication, foreign languages, intercultural skills.

***"Professional languages influence the linguistic progress spiritual and cultural wealth of the nations"***

Today the professional languages are an integral part of the modern technical and industrial society. Professional languages - apriori are in function of the progress, the development of certain professions, they act as a sign of identity and belong to a certain area, thus serving as a means of identifying, establishing and maintaining relationships among professionals, firms and even whole nations and civilizations, too.

The aim of this paper is the development of the professional language in tourism, enrichment, expansion, modernization of tourism terminology,

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improving the language teaching of professional language in tourism, as well as improving the linguistic content of technical texts in the tourism propaganda.

***Current trends in the linguistics of languages for specific purposes (LSP)***

If only we understand that, today, the lexical fund of a modern language is largely composed of multilingual professional terms, it is enough to get a real impression of how much importance has the language for specific purposes for the modern world.

Linguistics of languages for specific purposes (LSP) is a young branch that deals with the study of languages for different purposes or for occupational purposes and it includes:

- The impact of LSP on the general language;
  - The problems with bilingual and multilingual terminology;
  - The tendency for international terminology with desire for faster convergence to international standards;
  - LSP as an important tool and source for the most current scientific information.
- Multilingual professional and general languages have the same task, i.e. to enable and provide linguistic communication.

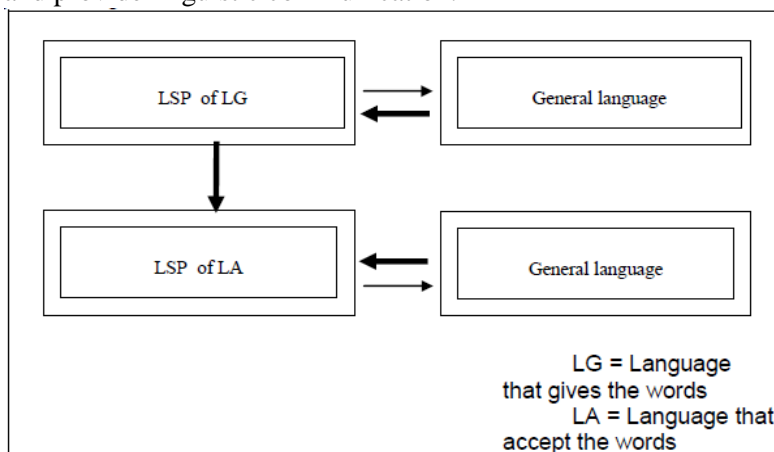


Fig. 1 Intralingual and interlingual borrowing<sup>3</sup>

The table of the mutual borrowing and upgrading between general and professional language shows intralingual and interlingual borrowing and it is abundantly clear that there is fluid between the professional language and the general language (intralingual) but also that the impact of the languages lexical

fund (LSP of LG), entering the professional language of German and Macedonian (interlingual) is huge.

### ***The term LSP***

Because it is a fairly new field in the linguistics, firstly, it is necessary to define the term 'professional language'. The linguist Hoffman, who is considered as the founder of the professional language, gives the following definition: "Professional language (LSP) - it is a whole of all language resources used in the communication in a professional field, in order to facilitate understanding between people of the area".

The scientific language knowledge of Hoffman today offers more aspects in defining and describing the professional languages:

1. Professional languages are part of the overall system of general language.
2. There are different technical languages, because there are various professional fields.
3. Professional languages differ from one another.
4. Professional language is the medium among trades, science and the world.
5. Communicative i.e. functional aspect demonstrates again the assumption that not only a professional language can not restrict other professional languages, but in the professional language we can differentiate various communicative levels.
6. Professional language is a tool that has been designed to a greater or lesser group of specialists, competent and professional people, in order to be able to understand the professional working with other professionals of the same field, and with representatives of other disciplines.
7. Professional language is a relatively small part of reality (in comparison to the universal instrument of general language).
8. Professional language allows both precise and economical communication.
9. Professional language is a complex area of language use.
10. Professional language has its own characteristics in various professional communicative situations and shows internal differentiation.

### ***Differentiation of professional languages***

There are a few (basically appropriate) models of vertical and horizontal stratification of the professional language, which indicate that there is not

actually a specialized language, but more specialized languages. With the differentiation of occupations the languages differ too, and the languages in these areas are shown with the following figure:

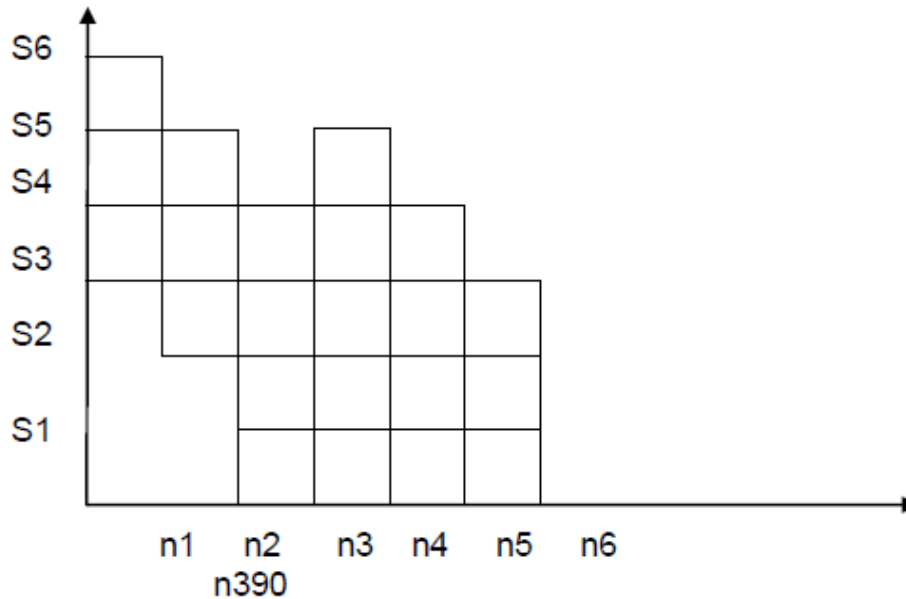


Figure 2: *Horizontal and vertical stratification of professional language*  
*S = differentiation of occupations n = number of specialized languages*

*S* ја означува диференцијацијата на струките додека со *n* се означуваат стручните јазици во хоризонтално раслојување. Бројот на стручните јазици се проценуваат на над 390. Бројот на стручните јазици се зголемува, иако згаснуваат некои стари стручни јазици, на пример стручните јазици на занаетите, но се појавуваат нови стручни јазици на информатиката, телекомуникацијата, космонаутиката.

*S* denotes the differentiation of occupations while *n* designates professional languages in horizontal stratification. The number of professional languages is estimated over 390. The number of professional languages is growing, although some of them die, such as the old professional languages, but new languages such as the professional language of science, telecommunications, and cosmonauts, occur.

### ***The professional language in tourism***

The tourism is a striking heterogenous phenomenon, a term quite abstract but at the same time very specific. The tourism is a classic industry and includes a wide range of economic sectors (hospitality, transport, trade, etc..). It is not a medical branch, but includes a series of medical aspects (health tourism), it is not a branch of the culture, and rarely it is combined with it.

The tourism is a young science, which depends on other sciences, such as economics, economic geography, sociology, history, whose terminology is widely used in professional languages in the field of tourism. But the tourism as an independent science has its own tourist terminology. The professional language in the tourism in Germany is formalized and verified by the contract according to which the organized tours are performed, which further develops systematically and theoretically by creating professional and educational profiles in secondary schools, universities and academies and the tourism continues today with the steep rise in professional publications of this area.

Taking into account the research of professional occupations in other languages, the professional language in tourism is:

- internal language used for communication and understanding between all parties participating in the communication in tourism.
- Professional language is not homogeneous as a whole.
- It is broken down horizontally and vertically.
- It is economical.
- It is clear.
- Standardization of terminology is under development as well as the tourist activity.
- It seems that anyone can understand the language in tourism. (Maybe that is the reason why no one showed the same interest to study it in the linguistics of professional languages so far).
- Professional language in tourism is based on common language and the language of several economic and non-economic activities that are related to tourism.

### *Linguistic features of professional language*

To what extent the linguistic features will be represented, primarily depends on the type of technical texts: tourist offer, popular scientific text, presentation, food lists, prospectuses, business correspondence etc.

### ***Morphological characteristics of professional language***

Professional language in tourism in German as well as in Macedonian language has its own grammatical system: verbs are conjugated in the same way, nouns are said to decline by the same principle, the valence rules for verbs apply in standard and in professional language as well. But here it is about more specific grammatical resources that give special mark of professional language: the presence of a larger number of nouns, verbs, functional verbs, complex words, abbreviations.

### **Lexical characteristics of professional language** **Terms - basic lexical feature**

What immediately falls into the eye in every professional language is the existence of the specific linguistic units, i.e. the number of terms.

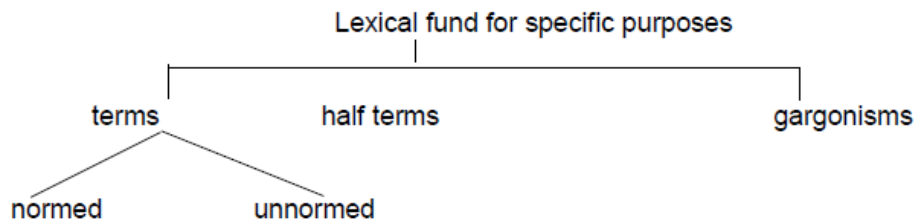
### ***Terminology - the core of professional language***

The terms can not formulate a text themselves, although they are recognized as contextually autonomous resources. The terms must first meet the basic principles established internationally. In this regard the term is:

- univocal,
- short,
- easily speakable,
- instigator in word formation,
- neutral.

The terminology is a system of scientific and technical terms that make up the core of the professional vocabulary. The professional lexical fund is divided into the following subgroups:





Picture Nr. 2. Lexical fund for specific purposes

Picture Nr. 2. Lexical fund for specific purposes

As shown in the above figure the professional lexical fund consists of regular and irregular terms. In science terminology, the scientific institutions examine this phenomena at universities, academies and national and international institutes too.

In the processing of international terms, often some cultural and national differences appear, so many times in some countries international norms undergo numerous changes and additions, while in other countries they are taken unchanged or with translation equivalents.

International standardization is carried out by the International Organization for Standardization (ISO), with headquarters in Geneva, which has the task to harmonize the standardization according to national requirements of the respective country. In addition to various institutions for standardization of terminology, an important contribution to international terminology work has the International Information Centre for Terminology (Infoterm) in Vienna. German standardization institute (DIN) deals with and organizes the national standardization of professional languages in Germany, while the MANU runs the project "Macedonian scientific and technical terminology" since 1971, which has covered many professional terminologies in the field of medicine, sociology, biology, chemistry, forestry, economics, technology so far, but, tourism terminology has not been processed yet.

### *Vocabulary in tourism in the German and language*

Here are the essential topics covered in this paper, which contain the core of the professional language in tourism compared to lexical systems in German and Macedonian. Lexical fund in tourism is an integral system of

lexemes that are meaningfully related to each other. This system is in constant fluctuation among the large number of semantic fields in tourism:

- Staff in tourism,
- Accommodation facilities, other restaurants,
- Hospitality,
- Gastronomy,
- Marketing,
- Tourist and business,
- Payment Operations,
- Animation,
- Management etc.

### *The Composition of lexical fund in tourism*

The Lexical fund is a dynamic, open and multi-functional system. Lexical fund and structure of a language represents the total number of words in a given language.

Primary specialized lexical fund of professional language in tourism makes up:

- General, verified vocabulary.
- Specialized technical tourism terminology.
- Specialized vocabulary of other sciences and arts.

Summarizing the condition of professional lexical fund of the tourism we can come to the conclusion that specialized professional lexemes that occur in professional language in tourism, in terms of the professional language of natural science, are a minority, but as far as the foreign words in the professional language are concerned, in vocabulary of tourism prevail lexemes of different languages.

### *The trends of word formation in professional languages*

The word formation is a living process of forming new words in the language, and word formation, as a part of the science of language, studies the process. In professional language communication, there are other priorities compared to everyday communication, so other models for word formation are preferred. The word formation in professional language leads to structures which have to preserve systematicity of professional language.

### ***Productive wordformation models in professional language***

Professional language is not different from the general or default language only by its extensive and specialized vocabulary but also by its extensive use of certain models in word formation. One of the most typical model is the union of word groups in one word.

### ***Complex words in lexical fund in tourism***

Compound words are more clear than other word groups.

The increased volume of complex words may indicate the following reasons:

1. The growing need for appointment,
2. The impetus to linguistic differentiation,
3. Impetus toward clarifying,
4. The impetus to linguistic economy,
5. Tendency to style.

A number of complex words in professional language belong to the hybrid words that include words or word groups from the language giver and words and word groups from the language recipient:



### ***Borrowing lexemes from professional language***

An important and indispensable part of the lexicon of professional language in tourism are the loanwords. They are living witnesses to contacts with other nations, whose lexical richness is received in their own country. The loanwords act as a mirror of cultural and professional exchange and thus also reflect society's attitude towards innovations that happen.

### ***Multilingual component of the professional vocabulary in tourism***

According to Vandruscka "Every language is a conglomerate of languages." Professional languages in tourism in German and Macedonian are

also not monosystems which is confirmed with the following systematization of professional lexemes:

- a) international vocabulary,
- b) the words with English origin,
- c) words with the French, Latin, Italian, Greek, etc. etymological origin.

As no other professional language, the language in tourism has a multilingual and multidisciplinary component. This feature is seen as positive and "cute" appearance, i.e. as a phenomenon that not only contributes to the enrichment of lexical fund but helps to bring nations together.

### ***Internationalisms in professional lexical fund***

Many people of the world (especially professionals) have agreed to the request the professional terminology - if it is a science owned by humanity, and it is - to be unique or at least equal to the maximum in the world.

In recent decades there has been a strong internationalization and globalization in all spheres of life. International words as special and important group of vocabulary in tourism have great significance, function and use in tourist operations. The internationalization of tourism terminology neither undermines the national language nor it undermines the sovereignty of the national language and country. As in our case, it is the internationalization of professional lexemes in tourism that enable preservation of cultural values, and therefore the national language.

### ***Lexemes of English language***

England and France are the countries where tourism has firstly occurred and developed, and as a consequence the English and French have the greatest influence on the professional lexical fund in German and Macedonian. The English language reaches its climax in the 20th century in all areas of work and life, hence tourism. The socio-political and economic changes of the nineties came to a real surge in English loanwords in tourism, and some words are especially frequent both in German and in Macedonian language: tour operator, business, businessman, broker, dealer, leasing, marketing management, standby (standby arrangement) holding. They are especially intrusive with the graphics solutions (often with Latin alphabet) and with elements of the English language, the various posts of hotels, the restaurant and other service providers. So it could

be said that English loan words here today, according to the breadth of their use, are not only a need in the social communication, but fashion as well.

The culture of ancient Greece and Rome had an impact on all nations in Europe. And all the nations of the Indo-European family were more or less under the domination of Greek and Latin for several years. There is a lexical fund with the Italian, Hungarian origin registered as well.

The extent and intensity of foreign influence on the professional language in tourism is different, depending on the area. While the English language leads with the number of words in the professional language in tourism, in aviation or science, French leads in gastronomy, while German has great influence in the professional language in the automotive industry or engineering.

### ***Foreign words and Loanwords in the professional language***

Foreign words are words taken from other languages, that are not fully integrated with the language recipient speaking orthographically and sometimes phonologically.. Loanwords according to the abovementioned linguists are words that are adapted into the language, and no longer feel that they are of foreign origin, while foreign words are defined as words that in some cases are insufficiently adapted and integrated regarding the language and spelling.

Filipovic defines foreign words as words that retain the phonemic elements which makes them different from the native words. The use of such words, or loanwords:

- Facilitates communication, and
- Contain special nuances that native word doesn't have.

### ***Conclusion***

Scientific-linguistic study and contrastive analysis of the professional language of tourism in German and Macedonian language will greatly contribute to specific solutions for the lack of words which is taken into consideration when teaching a foreign language. If the teaching process is conceived on the principles of contrastive analysis and processes of educational and didactic nature, learning German will be easier and tourism, primarily the international one, will be more successful .

Given the impact of professional languages on linguistic progress, spiritual and cultural heritage of the people, the role of professional language in our country is not sufficiently reflected. This tradition could contribute to linguistic theory and pragmatics in the professional language. Linguistics of professional languages has narrow field of research, to be able on its own to monitor the overall correspondence between science, profession and language. Having that in consideration, the science of professional language needs help from other professional and scientific fields.

Eminent linguists in Europe and the world have long time been engaged in research of professional languages, and we believe that the results, practical examples and suggestions initiated here are of particular importance for studies of professional languages in the country and will challenge other more detailed research in the field of applied linguistics and linguistics of professional languages.

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## **GEOTOURISM AS A CONTEMPORARY AND SUSTAINABLE TYPE OF TOURISM**

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*Abstract*

The contemporary concept of creating and development of geotourism and geoparks is due to the expanding environmental awareness among tourists and providers of tourist services during the last decade. The development of this type of tourism based on sustainability, conservation and enhancement of cultural and natural heritage in established geoparks as protected areas has spread in many destinations around the world and represents an outstanding opportunity for creating an attractive tourism brand. This will enable the destinations to attract tourists who pursuit quality services and products on one hand, as well as to facilitate the protection of tourist resources from excessive exploitation and devastation from the saturation that occurs during the concentrated and short tourist season. This however, is achieved only by diverting the strategic developmental directions of tourism towards new more sustainable forms. Linking geology and tourism is a relatively new idea for tourist destination development. Opposed to eco – tourism, which puts the focus on the protection of natural resources on one hand, geotourism on the other hand, not only protects but also stimulates the improvement of the overall natural and anthropogenic heritage through an integrated networking cooperation of all involved stakeholders.

*Keywords: geotourism, geodiversity, geoparks, sustainable tourism, tourism brand.*

*Introduction*

Contemporary knowledge of tourist flows and demand for tourism products shows changes in the development directions of the tourism industry. Tourism demands become more sophisticated while choosing a travel

destination where tourists can meet their needs, is becoming unpredictable. There is a need for given regional units, and even countries, to develop specific recognizable brands through which all providers of tourism products and services would have a joint appearance on the tourism market. Creating a tourist destination with its own individual offer that is based on sustainable tourism development can be seen in the contemporary concepts of creating and developing geotourism activities and geo - parks. The relative unfamiliarity of the Republic of Macedonia as a destination for foreign tourist clientele, as well as the fact that it is an area which abounds with a rich diversity of natural and anthropogenic heritage, represents an extraordinary opportunity for creating a branded destination, and in that sense to develop geotourism activities on its territory. Geotourism and the creation of geo – parks represents a program of networking and strictly controlled development encouraged and supported by UNESCO through the European Geopark Network. Contemporary research shows that tourists are becoming more interested in studying the geology of the Earth.

Evidence for this is the expansion of the European and Global geo – park networks with new members each year.

### *Values of geodiversity*

Geotourism is based on the values of abiotic environment. Specifically the basis of this selective form of tourism is geodiversity. Geological diversity is the diversity of geological, geomorphologic and soil forms and phenomena. It contains their constituent elements, relations, characteristics, interpretations and systems. The issue for the importance of its conservation and management is being brought up.

In order to determine the tourism value of geodiversity, first it is needed to identify the different values that geodiversity can have for man and the importance of preserving it.

These values can be used in tourism terms. The division of the values of Earth resources according to Bennett and Doyle is as follows<sup>35</sup>:

- Indigenous value;
- Cultural value;
- Aesthetic value;

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<sup>35</sup> **Bennett, M.R. & Doyle, P. (1997)** *Environmental Geology*, **Wiley, Chichester**



- Economic value;
- Functional value;
- Scientific and educational value.

**Indigenous value** is determined by the ethical beliefs that given resources are important simply because they are what they are, rather than for what they might be used by man.

Specifically, the value in the foreground puts diversity of nature, despite its utilitarian value. This value manifests difficulties for its correct definition because it involves ethical and philosophical dimensions about the relationship between society and nature and that have changed through history and in different regions.

**Cultural value** is the value that is given by society on certain aspects of the physical environment that have social significance. Included are:

- Folkloric value;
- Historical -archeological value;
- Spiritual value;
- Value as sense for the surroundings.

As examples for the individual cultural values that are important to tourism, numerous spatial entities on the territory of the Republic of Macedonia can be considered.

Thus, folkloric value is shown in numerous sites in the republic. As an example for it can be mentioned the Devil's Wall near Sveti Nikole which exact origin has not been yet determined.

Initial estimations are that it has been created naturally by erosion. It is important to say that there exist many legends which make it an attractive locality for tourists, and measures for its future protection are needed. Interesting to mention as another important example in the Republic of Macedonia is Kuklica, in Kratovo, which is a geological reserve and famous for its stone pillars that resemble dolls. Around them exist many legends that give a mystical dimension of the site. Despite these beliefs it has been proved that they were formed as a result of natural erosion processes. The diversity of volcanic rocks led to the creation of such interesting formations. Besides the so called stone dolls, fossil remains of petrified wood have been found in this area, similar as in the geo - park on the island of Lesbos and the vicinity of Chemnitz - Germany. Therefore, Kuklica belongs to one of the three existing locations with petrified trees.

Historical - archaeological value manifests diversity and uniqueness in the entire spatial region in this part of Europe. There are numerous examples in the Republic of Macedonia for the existence of the first civilizations in Europe through numerous prehistoric archeological sites.

Until today more than 4.000 archaeological sites in this region have been excavated. As an example in the Republic of Macedonia where in the past locals were using natural materials that were found in the immediate vicinity of their residence, represent the buildings and homes built in the Reka - Miak region, where the builders became renowned for their specific building techniques and mastery. As another example for successful using the morphology of the area of living by ancient civilizations specifically can be mentioned the construction of the megalithic observatory Kokino that can even be mentioned among the most important and one of the oldest ancient observatories in the world with more than 3800 years old. It is believed that even it was considered and used for various religious rites and ceremonies.

All human societies attach spiritual or religious significance to the natural environment.

Legends and stories about the genesis of man are associated with Earth and its geological forms and phenomena. Thus, a large number of natural sites have been considered sacred, where people can communicate with their spirits and gods. In Macedonia religion and beliefs have deep roots.

Examples for holy sites in Macedonia exist many. It is believed that most churches are built in places that before the emergence and expansion of Christianity in this region had a great spiritual importance. Thus, there exist more than 2500 churches and monasteries in Macedonia. Other important holy places in Macedonia that were used in the distant past and still are considered religious sites are: Cocev Kamen, Lesnovski Crater, a large number of cave churches and so on.

Many of today's societies feel a great connection with their physical environment and manifest connections which are based on the values in cultural and economic terms.

*Aesthetic value* of geodiversity is a less tangible concept. It refers to the existence of aesthetically attractive - motivational elements of the region. This includes visual, auditory and olfactory appeal. Aesthetic appeal can be derived from the great diversity of macro and micro landforms. The entire territory of the Republic of Macedonia is recognizable for its outstanding values which are characterized by aesthetic features.

From an *economic perspective* there exists an endeavour to determine the financial value of the environmental elements. Mineral resources that have economic value can be divided into: mineral fuels, industrial minerals, metals, precious and construction minerals etc. There also could be included fossils, alternative energy sources, as well as soils and landforms. In Macedonia, one of the most significant mines is the Alshar mine, which is important for its mineral Lorandite which is a mineral of thallium and is very rare in the world. It is being used for scientific purposes. The mineral antimony can also be found in the mine. Macedonia is the only place of rubies in Europe. Most can be found in the surroundings of Prilep, and that mostly in locations that are used for exploitation of high quality marble. It must be mentioned that still these findings are underutilized, since they are being sold on the European and global markets as the less valuable mineral corundum. Other important finds are the findings of gypsum in Macedonia, in the Debar region, which is in third place in the world, for its purity, but has also not been used enough. There also have been found numerous fossils of skulls such as of rhinos and mastodons near Veles, fossils of giraffes, rhinos and deers near Delčevo. Near the village of Old Istevnik remains of mastodon have been discovered and in the village Oresani, Skopje - fossil remains of mammoths. It is believed that the richest fossil areas in Macedonia are in Tikveshija, Veles - orizarski and Valandovo areas.

The economic value of geodiversity through geotourism can determine the existence of certain facts. *First*, there is an increase of the tourists traveling to destinations where alternative and sustainable forms of tourism are being developing, and which include a diversity of geological and geomorphologic forms. Numerous recreational activities like skiing, speleological tourism, glacier climbing, canoeing, climbing, etc., can only take place in specific landforms and geological environments. *Second*, in many regions of the world geological / geomorphologic forms that exhibit a degree of attractiveness are under conservation. Often they are located within national parks or declared as monuments of nature and natural rarities, which are protected from degradation. During the last decade numerous specialized geo - parks for this purpose have been created. Local geological activities and partial tourist products are being developed in those specialized parks. These activities will attract tourists (fossicking, geological trails, visiting museums, visitor and educational centers, etc.).

**Functional value** of geodiversity consists in the value and significance that soils, sediments, rocks and landforms have in the environmental systems (physical and biological).

This value can be divided into *utilitarian* value of geodiversity for man if they are being considering in the places where they have been found without their extraction from the Earth; and value in terms of *providing substrates, habitats and abiotic processes* that allow balance of the processes of the physical and ecological systems.

**Scientific and educational value** is perhaps one of the most important values. Namely, for determining other geodiversity values, it is necessary to study the physical environment in order to be adequately valued and used. Geological and geomorphologic studies are necessary for the development of geotourism activities in given areas. Inventory, valorization and categorization of various forms must have a primary importance when planning their inclusion in the tourism offer. Geotourism activities are largely based on providing educational information to tourists. Geotourists themselves exhibit greater knowledge of geology and geomorphology as scientific fields unlike in the past.

### ***Beginnings and development of geotourism***

Geotourism manifests its analog phenomena that may date back to ancient times. Man has been fascinated by various geological and geomorphologic phenomena, forms and processes which he began to visit outside of the place of residence. Thus, we can say that the first organized visits to these values began in the XVII century. Specifically, the first geoconservation activities associated with visiting of caves (Baumannshölle in Germany in 1646). Consequently, the discovery and attainment of caves can be considered as the first analog phenomena of geotourism. Modern lifestyle has led to increased interest in engaging geotourism activities that has started to occur on a global scale. It can be said that abiotic environment has attracted people since distant times, but only in the last few years, geotourism attractions have become more attractive. This is primarily due to the development of global environmental awareness, combined with the uncontrolled development of mass tourism. Additionally the influence on the study of geology as a science in the educational process should also be mentioned, as well as the promotion of geological concepts through mass media. Geological interpretation emerges as the initiator for awaking the interest of people to visit the newly discovered

values. The contemporary form of geotourism as a selective tourism type occurs almost at the same time as the first modern tourist trips. That is, the first tourist trips include elements of geotourism and occur simultaneously with the development of industrialization and transportation (railways).

The preconditions for the emergence and development of modern geotourism can be determined.

*First*, it was the research and promotion of geological phenomena which helped to increase the interest in people to see and visit those places to see and visit. *Second*, after developing interests by the tourists, the willingness to engage in these tourist movements which had the aim to visit the natural areas untouched by human influence has occurred. At the beginning only the people coming from higher social classes could afford this. As the *third* phenomenon for the development of modern geotourism are considered the development of communication and transport links with these areas which enabled people a relatively easier and faster accessibility.

### ***Defining and determining geotourism***

When defining geotourism, numerous difficulties in the professional and scientific community can be encountered. Geotourism considered as a system consists of three subsystems.

Specifically, these subsystems are: **forms** (landscapes, landforms, sediments, rocks, fossils), **processes** (tectonic, abrasive, climate, erosion, accumulative) and **tourism** (attractiveness, accommodation, package - tours, interpretation, promotion, management) that are being balanced into harmony and accordance, during the performance of geotourism activities. As a spatial entity where successfully all three subsystems of geotourism are being accomplished are the declared geoparks. Geodiversity and geoconservation represent the resource basis for the development of geotourism within the officially declared geo - parks. Unlike the treatment by the *Travel Industry Association* of the United States of America, where geotourism is being equated with geographic tourism in a given area that includes all the natural and cultural values that make the destination distinctive, the *European Geoparks Network (EGN)* treats the matter in a different manner.

Namely, geotourism represents a segment of the activities undertaken by the geopark within its confines.

The sublimed definition of geotourism would be: *Geotourism represents a contemporary niche form of tourism with specific interest that is being developed in a given area because of its geodiversity values (the sum of geological, geomorphologic and soil phenomena, processes, relations, characteristics, interpretations and systems), combined with other natural (biotic) and anthropogenic values; facilitates geoconservation through sustainable development, interpretation and promotion of these values in that area, which generates benefits for the local communities.*

According to the above said, the essential features that distinguish geotourism as a separate tourism form can be determined. These geotourism elements contribute to the establishment of this tourism type. Thus, it involves given interdependent components that must be present in order to develop authentic geotourism. There exist five key *principles* that are fundamental to geotourism<sup>36</sup>:

- *Geologically based*

Geotourism is based on the Earth heritage with a focus on its geological forms and/or processes. Unlike ecotourism that depends on the natural environment where it is being developed, geotourism can be developed in natural as well as in urban environments. Resource basis of geotourism is the abiotic environment or the geomorphologic and geological heritage. It is actually the central motive for visiting those areas. A given area must abound with aesthetic and / or significant scientific and educational values if its aspirations are to be declared as an official geopark in the European (Global) Geopark Network.

- *Sustainable*

Geotourism supports economic sustainability, causing benefits to local people as well as geoconservation. The adequate management of geoparks should create a balance between the usage of these resources on the one hand, and conservation on the other. It assumes an assurance that the type, location and level of geotourism exploitation not cause any damage to the geological features of the surrounding areas, especially in the natural settings.

- *Geologically informative*

The education for landforms and their processes, as well as geo - interpretation are important tools in creating positive geotourism experiences.

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<sup>36</sup> **Dowling, R. K. (2011) *Geotourism's Global Growth, Article, Geoheritage***

Geotourism attracts people who show interest in interacting with the environment in order to expand their knowledge, awareness and concern.

- *Creates local benefits*

Involvement of local communities not only creates benefits for the communities themselves and the environment, but also improves the quality of the tourist experiences. Locals can be involved in various geotourism and geoconservation activities such as providing educational activities, provision of services, facilities and products. The benefits of geotourism development can be financial - the revenues from geotourism activities in an area can be used to finance geoconservation projects.

- *Satisfaction of tourists*

Positive experiences of visitors and tourists of the geotourism activities are necessary for long-term development of this tourism type. In this regard it is worth to mention the importance of visitors' and tourists' safety during the visit. Geo-interpretation should be of high quality and should correspond to the category of visitors. Geotourism experiences should match or even exceed the realistic expectations of visitors.

### ***Parallels between geotourism and ecotourism***

There exist different positions in the scientific and professional public towards what actually geotourism is. Often it is equated with ecotourism, but it should be emphasized that it exhibits other characteristics that differentiate this type of tourism as a separate one. There can be identified several similarities and differences between ecotourism and geotourism:

- Namely, the two forms of tourism occur in a natural environment. However, geotourism can even be developed in an urban and industrialized environment.
- Ecotourism encompasses natural values in a given area (flora and fauna, combined with cultural heritage), while geotourism has its main focus towards the abiotic (geological and geomorphologic) values, which can be combined with other natural and anthropogenic values.
- The main focus of both forms of tourism is placed on sustainable development. Ecotourism has a general approach towards tourism development, while geotourism can be specified on a strictly defined area – a geopark.

- Ecotourism and geotourism initiate protection and conservation of natural values. The difference of geotourism is that it aims towards protection, and the main focus is even enhancing and improving the values, in order future generations equally to enjoy them.
- Both forms are directed towards generating benefits for the local population and have unlimited growth potential.
- In both types of tourism educational activities are included, but in geotourism they play a relatively more important role and have a more centralized position in the tourist offer.

### *Conclusion*

In the contemporary and complex market environment which is characterized by high competitiveness, regions that offer tourism products and services begin to consider themselves as complete areas and destinations with a defined brand and distinctiveness. Unlike in the past when there existed individual offers of partial products by individual service providers within the mass tourism, in recent years supply has shifted towards providing complete service packages which are created for specialized and defined tourist clientele. In these conditions the Republic of Macedonia is still a relatively unknown destination for foreign tourists. The affirmation of such types of tourism which are based on sustainability, conservation and enhancement of anthropogenic and natural heritage by the domestic population represents a modern phenomenon and need. The specialization of the contemporary tourism offer with complementary elements, the joint performance at the tourism market, the emergence of sustainable niche tourism forms as well as the involvement of all stakeholders in the tourism developmental processes, begins to occur also in our country where diverse opportunities for tourism development can be identified, and in that sense also the development of geotourism.

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## **FINANCIAL REPORTING BY SEGMENTS OF THE HOTEL INDUSTRY**

**Irina Mirceska, MSc**

### **Abstract**

Today, the managers need quality information derived from various financial reports. This information can be used internally or externally and is usually divided into segments. Segmented reporting is done on the individual parts of the business entity (hotel, motel, etc).

This research examines the USALI reporting as one of the standards that deals with the above. That is usually done through operating segments which enable the segmented reporting. USALI, in conjunction with the concept of operating segments, deals with centers of responsibility. USALI being a standard, implies the need for any hotel company to accept only one way for classification, organization and presentation of data elements from the internal results.

USALI thus eases making the summary of the financial statements, making them easily comparable and harmonized in accounting within the hotel industry.

Keywords: USALI, hotel industry, summary statement

### **Financial reporting by hotel industry segments**

#### **1. Framework of reporting under the responsibility centers**

Within the business entity there is a different management structure. The main users of accounting information are managers at different levels (top, middle and low level managers).

Whether they are working for external or internal users (of accounting information), the managers are in need of a quality information that is mainly derived from financial reporting. A careful need is required in order to follow the business transactions that are measured by revenue, expenditure and property values at different levels of reporting. In this context, we will explain the need

for reporting in segments of the corresponding individual parts of the business entity (hotel, motel ..).

Center of responsibility is a sub-unit led by a manager who is responsible for achieving one or more goals<sup>37</sup>. Reporting by segments is done by splitting the company to its constituent parts (or segments), as well as reporting and providing information on each of them. A segment can be operational, business or a geographical whole. A segment is part of an enterprise that is not a legal entity but only has a reporting feature. The accounting must provide an estimate for monitoring and presentation of relevant revenues and expenditures by segments. These revenues and expenses target only the segments where the segment manager can influence his decisions and to carry out planning and control.

### 1.1 Types of responsibility centers

There are five major types of responsibility centers: costs centers, discretionary centers of expenditure, revenues centers, profit centers and investment centers.

**Costs Center** – is a segment of a company that creates costs. Cost is an organizational part of the business system in which accounting performs planning and recording of created costs. The control and manager responsibility are performed by comparing the actual costs with budgeted control. These costs controlled by default managers

The Costs in cost centers can be controlled and uncontrolled.

**Revenues centers** - are a segment of a company whose budget performance is measured primarily by its ability to create a certain level of revenues where one can exercise a control of revenues. (This is usually done by the accounting department that will performs planning and records revenues incurred. Managers of these organizational parts of the company have decision making powers and are responsible for the occurrence of revenues since they have no direct control over the costs.

**Profit centers** - are the responsibility centers whose budgetary performance is measured by the achieved difference between revenues and expenses.

These are the centers that create costs and revenues and that exercised control

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37 Kosarkoska D., Management control-Kontroling, Faculty for Tourizam and Hospitality, Ohrid, 2010, pg.59

over them. A profit center is a unitary whole with a high degree of autonomy of management. The management of the profit center has rights and responsibilities in making business decisions that relate to:

- Planning of costs and expenses and realization of production programs
- Sales of goods and services
- Making profit

Within a profit center the defining costs and expenses are made. The profit center manager is responsible for costs and revenues that impact and realize business. The success of a profit center is measured by profit. Accounting responsibility is needed to prepare reports containing information about the results of each profit center and the impact of managers on its performance. The reports are compiled in the form of internal income statements and are presented to the top management.

**Investment center** – a center of responsibility whose budgetary performance is measured by profits from investments. This is a responsibility center with the highest degree of autonomy that occurs in enterprises with a high degree of decentralization and exercise costs control, revenues and investments. Managers of investment centers as stated before have control of the costs and revenues and on investments. Their success is measured by the rate of profitability of investments and other indicators. These indicators usually take into account the amount of capital engaged as a rate of return on investment assets (ROI-Return of Investments).

Investment Center of responsibility may be a part of an enterprise that is sufficiently independent for it to be able to bind to engaged assets and expenses of financing. This control is to be exercised over the rate of ROI or residual income. Here, the responsibilities and managers powers are not only for making decisions that determine their profits, but also powers for type and quality of investments.

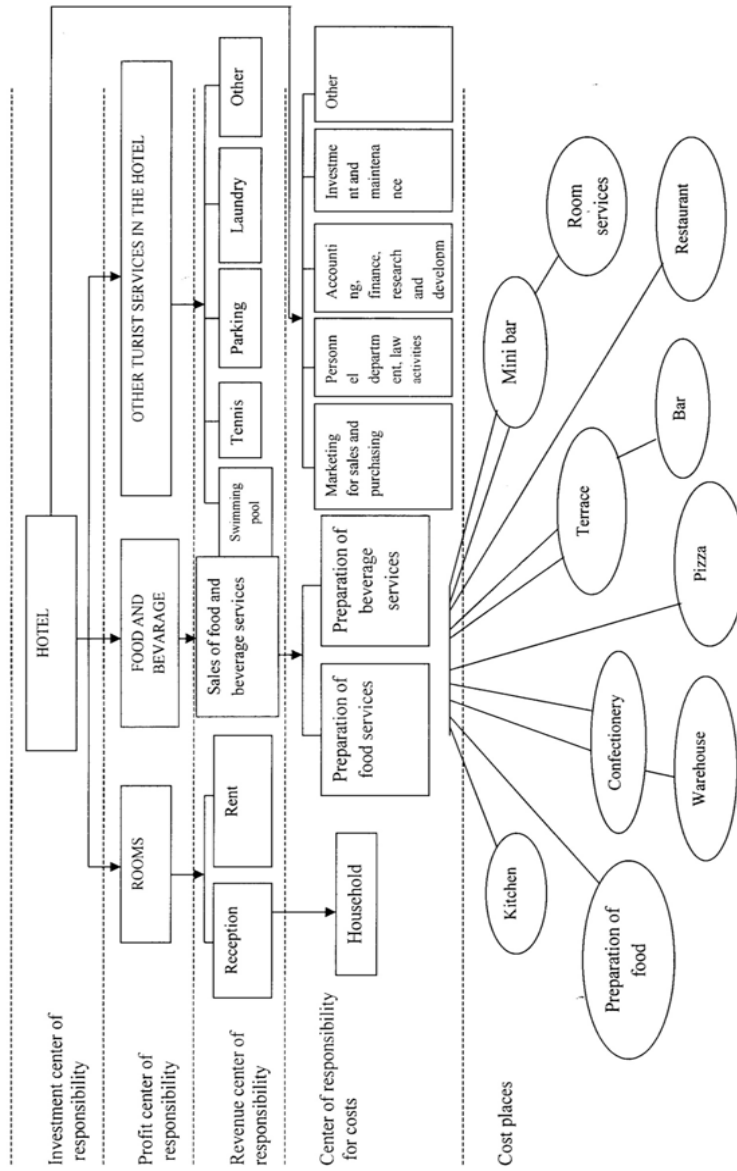
Figure 1<sup>38</sup> shows the three basic types of responsibility centers in hotel company: costs, profit and investment centers. Each highlighting different level of responsibility.

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<sup>38</sup> Persic M., Jankovic C., Menadzersko racunovodstvo hotela – Opatija, Hrvatska zajednica racunovoda i financijskih djelatnika, Zagreb, 2006.

Picture 1 A model of a hotel organizational structure for the responsibility centers

TYPES OF RESPONSIBILITY CENTERS



## **2. Process notification of responsibility centers through the USALI system**

The USALI system (Uniform System of Accounting in the Lodging Industry) is designed to provide accounting information for internal results of the hotels. It is based on a unique system of identifying, recording, classifying, organizing and publishing data value expressed in a way that can be externally compared. This system is the first successfully organized approach for introducing single accounting responsibility in the hotel industry and in other related areas<sup>39</sup>.

The reporting through the standards of USALI is usually done through "operating segments". These often have the character of responsibility centers. Operating segments appear as a parts of the hotel business system with no legal basis. They are an individual unit which provides information on relevant costs, revenues and realized periodic result. This implies the need for any hotel company to accept a standard way of classification, organization and presentation of data from internal result. This is the standard system of USALI which is based on 13 standardized reports<sup>40</sup>:

- Schedule 1 – Rooms
- Schedule 2 – Food and Beverage
  - Sub-schedule 2-1 – Food
  - Sub-schedule 2-2 – Beverage
- Schedule 3 – Other Operated Departments
  - Sub-schedule 3-1 – Telecommunications
  - Sub-schedule 3-2 – Golf Course and Pro Shop
  - Sub-schedule 3-3 – Health Club / Spa
  - Sub-schedule 3-4 – Parking Garage
  - Sub-schedule 3-x – Generic Other Operated Departments
  - Sub-schedule 3-xx – Minor Operated Departments
- Schedule 4 – Rentals and Other Income
- Schedule 5 – Administrative and General

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<sup>39</sup> <http://www.hotelworldnetwork.com/financing/10th-edition-usali-features-changes-1669>

<sup>40</sup> "Uniform system of Accounts of the Lodging Industry", Tenth Revised Edition, American Hotel & Lodging Association, New York, 2006

- Schedule 6 – Sales and Marketing
- Schedule 7 – Property Operation and Maintenance
- Schedule 8 – Utilities
- Schedule 9 – Management Fees
- Schedule 10 – Rent, Property and Other Taxes, and Insurance
- Schedule 11 – House Laundry
- Schedule 12 – Employee Cafeteria
- Schedule 13 – Payroll-Related Expenses

### **3. Types of statements according USALI system**

The aforementioned reporting statements that are prepared in accordance with the USALI system are summarized and presented in a summary report. The preparation of this summary report is based on previously devising daily, weekly and monthly reports.

The main goal of the *daily reports* of management of all hierarchical levels is to provide decision making relevant data from the daily achievements. The *weekly reports* for the expected result are a significant set of data structure for the projected monthly revenue, expenses, and other night's monthly performances. Finally, the monthly reports include all relevant costs by departments and areas of expenditure and their associated variable costs. When the 13 reports of daily and weekly performances are completed, the monthly summary report is produced.

### **4. A model of creating a monthly summary report though the USALI standards**

The development of a model for internal reporting is also based on USALI standards. It takes into account a given hotel company and it is first required to establish an overall organizational structure. This is then divided into individual segments (centers of responsibility), each containing an adequately prepared report for that department. Produced reports are allocate to the revenue, cost and profit reports, which will then constitute a basis for the preparation of a summary report of the investment center.

The model of internal reporting is based on the following four steps in making a monthly summary report:

- 1 Define the *organizational structure* of the investment center of responsibility. This is the starting point for reporting segments based on



USALI standards, where it is necessary to have adequate separation of cost, revenue and profit reports.

- 2 Include, all incurred costs and revenues in a single *database* of internal calculation, which should be based on USALI standards.
- 3 Compile *reports on individual segments* within the framework of the Investment Center of responsibility.
- 4 Prepare a *monthly summary report* on the realized results in a given hotel as an investment center of responsibility.

Table 1 shows an example of making a summary statement within the given hotel using the elements of the aforementioned steps.

The summary monthly statement for the partials result of the hotel

THE SUMMARY MONTHLY STATEMENT FOR THE PARTIALS RESULT OF THE HOTEL						
Number of Statement	DEPARTMENTS	NET INCOME	EXPENSES OF SOLD PERFORMANCES	EXPENSES FOR WORKING	OTHER КОНТРОЛАБ ИЛИ EXPENSES	RESULT
<b>OPERATED DEPARTMENTS</b>						
1	Rooms					
2-1	Food					
2-2	Beverage					
3-1	Telecommunications					
3-x	Generic Other Operated Departments					
<b>Total from Operated</b>						

departments						
<b>UNDISTRIBUTED OPERATING EXPENSES</b>						
5	Administrative and General					
6	Sales and Marketing					
7	Property Operation and Maintains					
8	Utilities					
Total from Undistributed Operating Expenses						
<b>RESULT OF DEPARTMENTS</b>						
10	Rent, Property and Other Taxes, and Insurance					
<b>EBITDA</b>						
	amortization					
Result from the sale of property						
<b>EBT</b>						
	Income tax base					

	provided					
<b>PERIOD NET RESULT FOR THE HOTEL</b>						

### Summary

The goal of this paper is to show the importance of the Unified accounting system which is applied in the hotel industry. Also to show the modern concepts that are applied for better keep track of all events through USALI system. It will lead to getting the final summary of the overall investment center or hotel as a whole. By applying the USALI system the full financial statements within the given hotel are created. These statements are based on a unique system of identifying, recording, classifying, organizing and publishing value expressed data that can externally be compared. This preparation of reports under a single system of accounts in the hotel industry will allow getting the financial statements that enable harmonization of accounting from theory to practice.

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**RESEARCH ON SATISFACTION IN THE  
WORKPLACE AND MOTIVATION OF EMPLOYEES  
IN THE TOURIST FACILITIES IN THE  
MUNCICIPALITY OF OHRID**

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*Abstract*

In today's modern operating (businesses) of tourist facilities, the management of human resources includes several areas of interaction between management and employees, from planning, recruiting, providing salaries and awards, to maintaining schemes for promoting the system and even annulling an agreement with the staff. But the fundamentals of each tourism capacity is the ability for quality organization and constantly increasing profits, and that means, reliable employees who are satisfied with their work and always open for learning and upgrading their knowledge through theoretical and practical education. In addition, in many tourist facilities there are employees who are dissatisfied with the work and want to leave, which directly affects the capacity and their previously invested resources, which leads to negatively operating capacity. The basics of proper management with the human resources are through control and maintenance of the satisfaction of employees to help the facilities in their operating and to increase the profit, which can show the efficiency and efficacy of the tourism capacity.

In this study, through the method of survey on random samples, we will try to explore how employees experience their work, are they satisfied with the same, and whether they notice that the management of human resources is applied.

Keywords: tourist facilities, human resources, motivation, employees, Municipality of Ohrid.

## ***MAIN PART***

### ***Introduction***

Proper human resource management can be realized through controlling and maintaining employee satisfaction, to help increase the profit and for them to operate healthy, which would show the effectiveness and the efficiency of the tourism capacity. Job satisfaction and motivation of employees are one of the most researched topics in the field of human behavior in all organizations and in tourist facilities as well. The reason for this is certainly a popular belief that a happy worker is both highly motivated and productive employee and the organization's success can be achieved with satisfied employees. But there are employees who, despite being satisfied with their salary, don't have an opportunity to advance in their career and have high expectations. The subject of this research study is an examination of the job satisfaction and motivation of employees in tourism facilities in the Municipality of Ohrid, direct examination on the existence of management of human resources in tourism. The aim of the research is to determine whether the management of human resources is applied in tourist facilities, whether employees are satisfied with their job and what motivates them to continue to work.

#### ***Definition of the satisfaction on the workplace and motivation of employees***

##### ***Definition of the satisfaction on the workplace***

In order to determine the employee satisfaction on the workplace, the most important thing is to determine their attitude towards their work. This standpoint is called satisfaction on the workplace, and can be briefly defined as "cognitive, affective and judgmental reactions of the employees to their work". Job satisfaction is a complex approach which contains a number of assumptions and beliefs about the work (cognitive component), feelings about the work (affective component) and evaluation of the work (evaluative component). As an important theoretical definition for evaluating job satisfaction, is taken that of John Locke, or Lock's theory of value. According to this theory, job satisfaction exists to the degree to which people are satisfied with the result of the work and

an employee who achieves more results will have better value and more satisfaction. Impact on the satisfaction doesn't just have the amount of the reward, but the type of the reward as well, or whether the prize matches the effort. According to Lock's theory, employees who have small salary don't have to be satisfied if their salary is not the most important factor for evaluating job satisfaction. A simple example of this would be a creative, young employee in tourist facility who has the permission to create something new, to participate in training, to gain practical experience and to advance his career; this is what motivates employees to go ahead and to contribute to increase the profit.

On the total job satisfaction affect has the imbalance or deviation from expectations of satisfaction in relation to certain aspects of the work, but not the amount of satisfaction that comes of itself. So, in order to determine the satisfaction, we must consider the employee's expectations regarding the work. In addition, people tend to link the levels of satisfaction, viewed from several aspects, with the levels of discrepancies between expectations and satisfaction. Organizational factors which determine the job satisfaction.

**1. Work performed independently by the employees** - Employees are happier when they are challenged to complete activities in a workplace using their brain, than when they have to perform simple and routine work. Three are the characteristics of the challenge of the workplace:

- Allowing employees to work on different tasks
- Giving freedom of acting on the job

Providing feedback towards the employees regarding the performance of the task that was given to them.

**2. Application of the rewarding system** – there is an unwritten rule that the larger the amount of the salary, the more satisfied are the employees with their job, but we must know that, it's more important to define the system of a correct salary allocation, than the amount of the salary itself.

**3. Pleasant working conditions** – it would be logical to state that the better the working conditions are, the higher the employee satisfaction is, and the most important thing is that it's not enough to provide only physical conditions, but also to have positive atmosphere and to feel accepted. In this way the employees will perform their tasks more effectively and more efficiently, thus achieving better performance.

**4. Collegiality** – the social environment is an important factor in evaluating the satisfaction in the workplace. For example, employees are satisfied with their work when they're working with colleagues with whom they have good or very

good personal relationship and if there is a pleasant social atmosphere in the workplace, and this particularly refers to employees who are not interested in career advancement. Collegiality also refers to the relation with the superior leader or manager, and if the employee has good relationship with the manager, the latter will often reward him, will observe his work, building a better relationship with him. Besides the great social culture, great impact on collegiality also has the national culture, or the country where the work tasks are performed.

**5. Organizational structure** – large number of studies show that there is greater satisfaction among employees if the organization is more decentralized, which gives opportunity to participate in the decision-making regarding the everyday activities. This would be quite logical, but we must consider the possibility of a certain cultural limitations because the decentralization can be a possibility for employee satisfaction, but only if they have presuppositions and expect that the power can be as evenly as possible distributed within the organization. This can be achieved in national cultures that have low power distance, whereas in cultures with high power distance, employees don't expect their opinion to be respected and to be involved in the decision-making in the workplace.

Personal factors that determine the job satisfaction

**1. Achieving harmony between personal interest and work** – satisfied with the work are those employees whose personal profile, knowledge and skills they possess fully meet the needs of the workplace. In this case the employee feels that the job allows him to express his personality, to express his knowledge and his skills, and the connection between the ability and the requirements in the workplace will lead to better results, better prizes and of course to greater satisfaction.

**2. Work experience and age** – older employees and employees with more work experience tend to be more satisfied with the work and the workplace, than those with less work experience in the specified place. This doesn't happen just because the employee in time becomes better and better at the job, provides better results and is often rewarded; here we can see the cognitive components. Even those who initially weren't satisfied with the job, if they stay longer in the same workplace they will convince themselves that they are satisfied with it.

**3. Position and status** – the higher hierarchical level of the employee, the more pleased he is with the work he's performing, which means that he has bigger income, possesses certain status symbols, more power, social influence and respect in certain circles.



**4. Total life satisfaction of the employee** – the overall life satisfaction of employees reflects positively on the workplace, and vice versa, job satisfaction has a positive effect on life satisfaction.

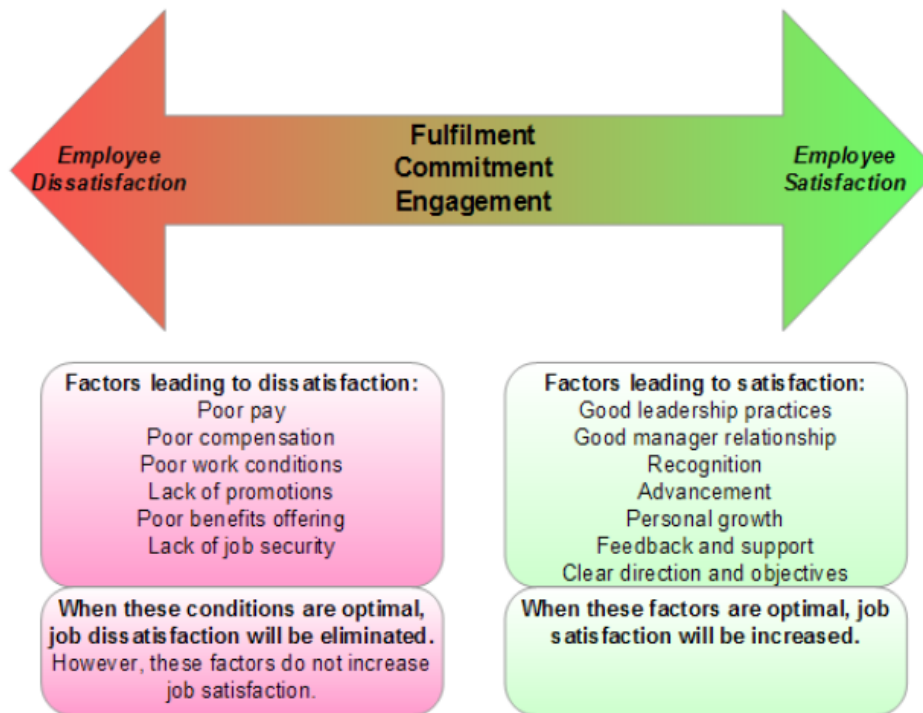
*Effects of satisfaction in the workplace*

Satisfaction by itself isn't a goal that should be achieved and it doesn't apply only on productivity, but also on some other phenomenon in the organization or in the tourist facilities, such as absenteeism and fluctuation.

The employee satisfaction from their workplace has three main effects:

**Satisfaction and productivity** – there are several reasons why there isn't a strong and direct relationship between job satisfaction and job productivity. First of all there is a great possibility for other factors to affect the productivity, not just the satisfaction of the employees, since in many organizations there is a technology where the worker has little impact because the technological process determines the speed of the work. Secondly, satisfaction or dissatisfaction of workers can affect productivity. The increase in productivity causes improved performance, and thus increases the rewards for the employees and the satisfaction. The satisfied worker will not only be productive, but will also create better atmosphere in the workplace and will positively affect other employees.

Scheme 1: Schematic view of satisfaction in the workplace, Source: Field, J. "Job Satisfaction - Model for retention", USA, 2008



- **Absence from work** – practice shows that satisfied employees are less absent from work, but the reasons for that may be of different nature, for example fear of losing the job. Some employees even take responsibilities for their colleagues or clients.
- **Fluctuation** – the rate of fluctuation is higher in organizations with high employee dissatisfaction, than in those with low degree of satisfaction, but in this case there are many mediator variables that can complicate the relationship. Disgruntled employees remain on the position because there is no other choice, or nowhere to go. That would mean that the correlation between satisfaction and fluctuation is affected by economic conditions such as the level of unemployment in a country and it's a lot easier to quit the job for those who are generally satisfied with their life,

but not with their work, than those who are dissatisfied with the life and the workplace in general.

***Motivation as a measuring factor of job satisfaction and motivation of employees in tourist facilities***

The people, their needs, motivation and satisfaction are becoming the focus of the management of human resources in every tourism capacity, because it realizes that human capital is the main weapon of competitive advantage and ability on the global tourism market. The human brain is a complex psychological system that has many tools to increase motivation. The influence of human resources should be understood as a process in which each activity and function plays a crucial role in building a successful and healthy tourism capacity. Managers must represent the link between the employees and the organization, and they must perform their function under the management of human resources, thus achieving completeness of the system, satisfaction of the employees and also the goal of the organization. One of the main tasks of the management of human resources within a tourism capacity is defining the objective policies and reward system, and the condition for that is a better knowledge as possible and understanding of the motivation of the employees.

The system of rewarding and motivating can't depend only on the behavior of the individuals, but also on the attitude of the managers. The system of incentives for tourist facilities must contain three types of relationships that are essential for its functioning and its development:

1. Employees have to be drawn into the system and they have to stay in it
2. Employees must perform their duties and responsibilities with pleasure
3. Tourist facilities must develop creative and innovative activity, with the purpose of developing the same

In order for the motivating system to function in practice, a good combination of financial and non-financial factors of motivation is needed, which will allow satisfaction of various human needs.

**Financial compensation** – appropriate material reward is necessary, but is not a sufficient condition for developing a broad motivational base within the organization. In the developed economic systems the non-pecuniary compensation it's becoming more important, while in our country the number one motivation factor is the salary and the reason for that is primarily because of the different economic conditions, culture and inheritance of function.

Assembling the system of motivation, there are certain rules and managers of tourist facilities must adhere to them:

1. It must be put an emphasis on teamwork performance and reward as part of the overall success of the organization
2. Distribution of bonuses must be simple
3. Manager salaries must be high, but they should be the first on the list of reduction and lowering in case of bad financial results.

The reward system can be on individual level according to the complexity of the job, working conditions, success bonuses, commissions and advancement, and it can also be on level of the organization according to the influence of the employees in the company's profit, stock ownership, team and group bonuses.

**Non-financial compensation** – the system of motivation of employees with financial compensation must contain nonfinancial character because the aim is to meet various human needs. Needs shouldn't be just material, but also social and psychological, and knowledge and creativity are being the basics for efficient and successful modern organization. Motivational basics must be extended with a group rewarding system, which except material compensation, includes other factors of motivation – establishing a goal, making decisions, autonomy and responsibility, forming of the work, collaboration, flexible working time.

***Empirical research on job satisfaction and motivation of employees in tourist facilities in the Municipality of Ohrid***  
*Methodological aspects of empirical research*

The previously presented theoretical elaboration and practical examples define the job satisfaction and the motivation of employees in tourist facilities, the parts that determine how they are measured and the factors influencing them. The main tasks set in the research are determination of the existence of management of human resources in tourist facilities in the Municipality of Ohrid, determination of the main motivations of employees and determination of the ways of employment. Besides this, the main hypothesis that has to be proven, is the assumption that the management of human resources in tourist facilities in the municipality of Ohrid is on low level, and the sub-hypothesis are salary as a unique motivator, with what the tourism capacity wants to satisfy its employees and the recruitment of staff takes is done in a completely incorrect

way. The lack of relevant statistical support that could show the current situation and the lack of regional and national indicator to measure the satisfaction and motivation of employees, are an obstacle for further analysis and comparison.

In an attempt to analyze job satisfaction and motivation of employees in tourism facilities in the municipality of Ohrid, and to determine the level of representation of management of the human resources, an empirical – survey (questionnaires and informal interviews) was conducted. The results of this survey show the standpoint of the activities that initiate immediate carriers of tourism.

### *Content of the questionnaire*

The questionnaire contains a series of related questions, which are easy to answer and don't take much time from the respondents. It covers current concepts that can accurately define job satisfaction and motivation of employees. The questionnaire contains two main parts:

- **Part 1** – General information – gender, age and how long you are employed at the current job position.
- **Part 2** – the second part contains views of respondents on job satisfaction and motivation of employees.

### *Analysis of the results of the survey*

In the survey conducted in the municipality of Ohrid a total of 33 randomly selected employees in tourist facilities, such as hotels, motels, restaurants, camps, café bars, apartments and tourist agencies, were included. The survey was voluntary and was conducted during July 2013. The filling was carried out separately, so that there wasn't any technical error in their filling. Survey results are processed and displayed with descriptive and analytical statistical methods, and the results are presented in tables and graphs.

The collected data are analyzed with their mutual calculated Pearson's correlation, and individual results are tested with Student T- test. Tables and charts are taken from Output's statistical software "SPSS for Windows 20th".

Table 1 – Descriptive statistical parameters according to gender about the attitudes for job satisfaction, managers and fear for the workplace, Source: SPSS output

	Gender	N	Mean	Std. Deviation	Std. Error Mean
How afraid you are that you will lose your job?	Male	13	3.23	1.48	.41
	Female	20	4.30	.80	.18
How satisfied are you from the manager of the tourist center?	Male	13	3.23	1.17	.32
	Female	20	4.15	.93	.21

Table 2 - T-test about gender the attitudes for job satisfaction, managers and fear for the workplace, Source: SPSS output

		T-test for Equality of Means						
		t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
							Lower	Upper
How afraid you are that you will lose your job?	Equal variances assumed	-2.506	31	.018	-.92	.37	-1.67	-.17
	Equal variances not assumed	-2.389	21,703	.026	-.92	.38	-1.72	-.12
How satisfied are you from the manager of the tourist center?	Equal variances assumed	-2.693	31	.011	-1.07	.40	-1.88	-.26
	Equal variances not assumed	-2.386	16,623	.029	-1.07	.45	-2.02	-.12

Diagram 1

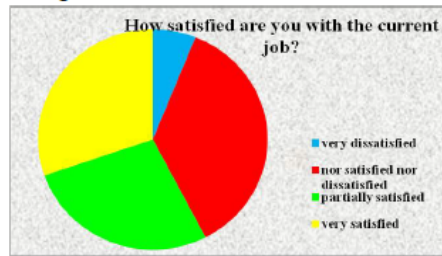


Table 3 - Table display of diagram 1

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Very dissatisfied	2	6,1	6,1	6,1
Nor satisfied	12	36,4	36,4	42,4
Partially satisfied	9	27,3	27,3	69,7
Very satisfied	10	30,3	30,3	100,0
Total	33	100,0	100,0	

Diagram 2



Diagram 3

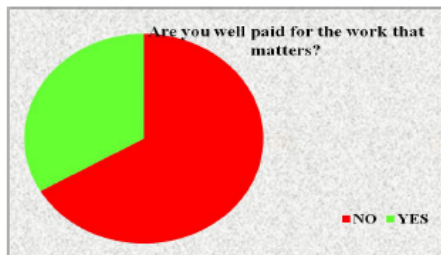


Table 4 - Table display of diagram 2

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Very dissatisfied	3	9,1	9,1	9,1
Partly unsatisfied	6	18,2	18,2	27,3
Nor satisfied Nor dissatisfied	9	27,3	27,3	54,5
Partially satisfied	8	24,2	24,2	78,8
Very satisfied	7	21,2	21,2	100,0
Total	33	100,0	100,0	

Diagram 4

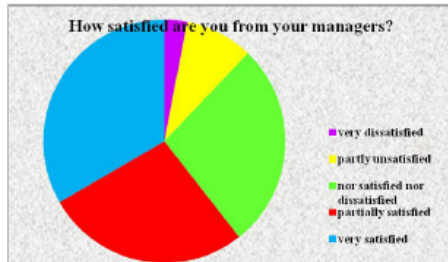


Table 5 - Table display of diagram 4

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Very dissatisfied	1	3,0	3,0	3,0
Partly unsatisfied	3	9,1	9,1	12,1
Nor satisfied Nor dissatisfied	9	27,3	27,3	39,4
Partially satisfied	9	27,3	27,3	66,7
Very satisfied	11	33,3	33,3	100,0
Total	33	100,0	100,0	

Diagram 5



Table 6 - Table display of diagram 5

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Very dissatisfied	1	3,0	3,0	3,0
Partly unsatisfied	1	3,0	3,0	6,1
Nor satisfied Nor dissatisfied	12	36,4	36,4	42,4
Partially satisfied	9	27,3	27,3	69,7
Very satisfied	10	30,3	30,3	100,0
Total	33	100,0	100,0	

Diagram 6

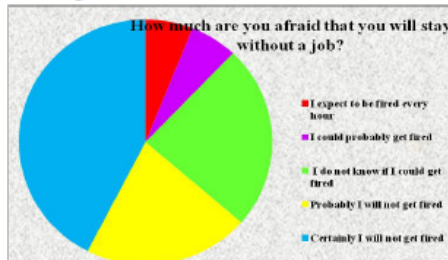


Table 7 - Table display of diagram 6

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid I expect to be fired every hour	2	6,1	6,1	6,1
I could probably get fired	2	6,1	6,1	12,1
I do not know if I could get fired	8	24,2	24,2	36,4
Probably I will not get fired	7	21,2	21,2	57,6
Certainly I will not get fired	14	42,4	42,4	100,0
Total	33	100,0	100,0	

Diagram 7



Diagram 8

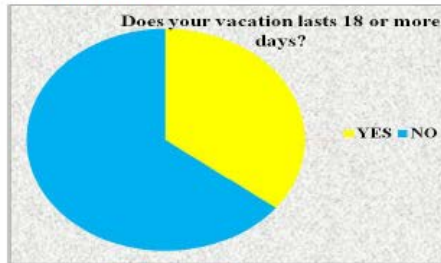


Diagram 9

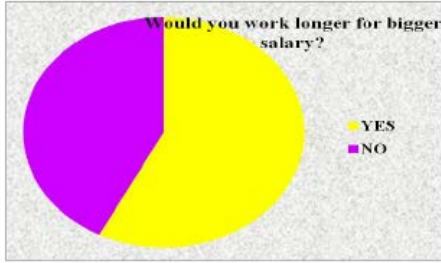


Diagram 10

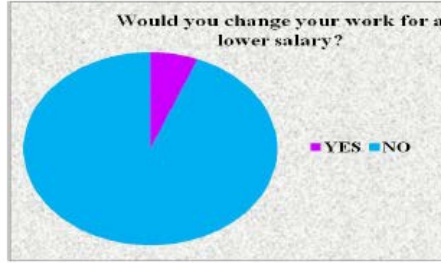


Diagram 11

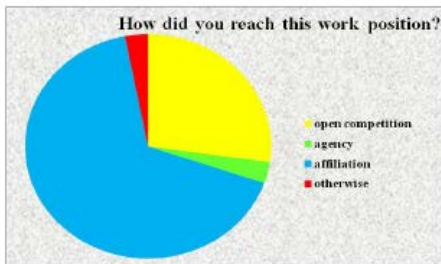


Table 8 - Table display of diagram 11

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Open competition	9	27,3	27,3	27,3
	Agency	1	3,0	3,0	30,3
	Affiliation	22	66,7	66,7	97,0
	Otherwise	1	3,0	3,0	100,0
	Total	33	100,0	100,0	

**Brief discussion**

1. If we look at the correlation of gender and other questions in the questionnaire, it's interesting to show the correlation between the genders and the satisfaction of employees with the managers, where women are accepted much better as a managers, and are more confident in their jobs. On the other hand, men like to work as long as possible in their workplace for a bigger salary, without even advancing in their career.



2. We can state with certainty of 95% that genders have different views on satisfaction in the workplace, on the managers and on the fear of losing the job.
3. For the question “Are you satisfied with the current job” there is a huge positive correlation with the question “Are you satisfied with your manager”. Based on this we can conclude that employees identify their work with managers and it can be seen a significant association between job satisfaction and salaries, which helps us conclude that salary is the only motivator for employees. Noticeable is the high negative correlation between job satisfaction and the desire to work as long as possible to earn more.
4. The question how much are the examined employees satisfied with their salary is closely related to the job satisfaction, the managers, the duration of holidays, but there is a clear negative correlation in the desire to work for higher wages.
5. Subjective satisfaction related with employees is also closely associated with job satisfaction, salary, relations with colleagues; there is increased safety for staying in the workplace and there is reduced desire for more work for higher salary.
6. The satisfaction with the cooperation with colleagues in the workplace it’s negatively associated with the fear that you can stay without job, but it’s positively correlated with satisfaction with the managers who manage tourist facilities in which the survey was conducted.
7. The sense of security in the workplace, despite the offered answers in the question, gives us negative correlation with the length of vacation and with the desire to work for more money.
8. The answer to the question: “Does your supervisor or manager harass you”, is negatively correlated with satisfaction with the managers in the workplace. The duration of the vacation is strongly correlated with many other issues such as length of service, satisfaction from the salary, satisfaction on the job position, lack of fear of dismissal and salary level.
9. The desire for a better job with longer working hours is closely but negatively related to the attitude of the managers towards the staff, with the satisfaction on the job position and the salary, but also with the security in the workplace. Small number of the respondents employed in tourist facilities have said that they would go to another job for smaller salary, but those are the employees who haven’t established good relationships with their colleagues or have aversion towards the job.

10. From the last table 8 we can observe that 66.6% of the surveyed employees found their job pulling some strings or through friends or relatives, which shows the true picture of employment opportunities in tourist facilities, as well as the possibility for development in the management of human resources in the surveyed facilities where the surveyed individuals work.

### *Conclusion*

Based on a survey of the satisfaction on the job position and motivation of employees in tourist facilities in the municipality of Ohrid and on the analysis and elaboration of the results, we can conclude that employees in tourist facilities define their salary as main motivator for the satisfaction on the job position, which proves the first hypothesis. Further, another factor that determines satisfaction and motivation is the duration of the vacation, while relationships with colleagues aren't that important but are in a close correlation with the managers' influence.

The asked questions "Would you work more for better salary?" and "Would you change you job position for smaller salary?" are in closely related to each other and the dissatisfaction in the workplace, the manager's influence and the money are related to the desire to work for higher salary, but that relation is reducing and even at times it doesn't exist when it comes to lower salary, so because of that employees stay at their job positions although they are dissatisfied and poorly motivated.

What is surprising and stands out of the general picture is gender imbalance, in other words, less satisfaction from the relation with the managers and salary occurs among males and they are willing to constantly change their job position; females on the other hand appear to be more secure for their workplace. The last question reveals that almost 2/3 of the employees found their job pulling some strings or through from friends or relatives, thus confirms the second hypothesis that recruitment of staff is done improperly.

According to the survey, as a general conclusion, we can state that no one cares about the satisfaction on the job position and motivation of employees in tourist facilities in the municipality of Ohrid. The management of human resources is on low level because managers impose the salary as a basic motivator to their employees, and employees accept that. In terms of other types of motivation there isn't any significant change, and the main benefit appears the legally guaranteed vacation. The data that 2/3 of the employees found their job

pulling some strings, speaks of the care of the management of human resources in each of the surveyed tourist facilities. Finally I would like to emphasize that although the sample taken for the study is small, the results are interesting and it would be good to repeat it after a certain period of time on a larger sample.

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## **FINANCING EFFECTS AND ANIMATION IN TOURISM**

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**Tanja Angelkova**

### *Abstract*

[The effects of animation on the demand side are also reflected in increasing contacts, intensifying communicability intensification of tourist movements, increase mood and more. Effects animation by offering side are multifaceted. Indirect effects presents us in increasing the visit, gaining reputation and so on. Direct economic effects are also reflected in increasing outboard consumption.]

*Keywords:* animation, tourism, financing effects

### *Introduction*

The main objective of each activity is achieving positive financial result. Effects of animation in tourism demand side are also reflected in the increase of contacts, intensifying communication dynamics of tourist movements, increase mood and more. Animation effects in the tourism side of the tourist offer multifaceted. Indirect effects present us in increasing attendance, gaining reputation and so on. While the direct economic effects are also reflected in the increasing outboard consumption. Thus, the effects of animation in tourism can

be classified in three groups: direct (economic) effects, indirect effects (effects of anticipated pleasure) and social effects (reputation of the destination).<sup>41</sup>

### **Direct (economic) effects**

Direct effects such effects are translated into the amount of money, ie as a financial result. It should be noted that any activity that is undertaken should be financially worthwhile, because otherwise it would not be realized. In this connotation in the animation, the creator of the program should be conceived program in such a way, it could be profitable. Effects expected in the general management are grouped into two groups:

- Revenue from the sale of tickets for sports and recreation, cultural and entertainment animation activities and outings and walks like animation activities and
- Revenue from the provision of catering and other services.<sup>42</sup>

Besides the direct economic effects, can often be realized and indirect effects. In this context, may be mentioned the following:

- Animation activities that are free, and whose goal is attracting visitors for a future content that will contribute to the immediate economic effects;
- Animation contents that are charged directly
- Animation activities that are not charged, but the financial effects are expected in payment of other services.

Characteristics of these economic effects according to PhD. ZdenkoCerovic:

- Their easy quantification;
- Measurability;
- Quick Control
- Records of results<sup>43</sup>

### ***Indirect effects (effects of expected pleasure)***

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<sup>41</sup> Cerovic, Z., (1999), "Forms valuation effects animation in tourism, animation in hotel and tourist offer", Croatian Association of Hoteliers and Restaurateurs, Opatija, 140

<sup>42</sup> Cetinski, V., (1988), "Animation - Quality that pays off", Economic Journal Zagreb, no. 6/88, Zagreb, 65.

<sup>43</sup> Cerović, Z., (1999), Ibid, 141.

As it is mentioned above, one of the objectives of the holders of the tourism offer is the satisfaction of desires, interests, preferences and needs of the visitors. Tourists need to achieve this goal, because it is the reason that visitors traveled to a facility, resort or country, ie because they choose its Animation program, among numerous and similar programs that are offered to the tourist market. The main feature of these effects is that economically measurable, but are the result of successful organization and professionally created Animation program that increases the pleasure of visitors and direct manner:

- Motivation of visitors in the selection of the tourist destination;
- Again coming to the visitors in the resort;
- Arrival of new guests;
- Extension of the tourist season;
- Better occupancy capacity and after the main season
- Better occupancy of tourist content, changing the structure of your visitors and tourist consumption.<sup>44</sup>

Meet the wishes and needs of visitors care makers animation programs. This order is very important because satisfied guest will certainly use other services, plans to re-arrival at the facility, resort and tourist country, and the most important thing is that the client will make a positive personal tourist propaganda. Developers animation, you must always take into account the quality of the programs, ie must be guided by the principle of "value for money", which means that its quality and value must be equivalent to the money that the visitor has paid. Namely, there should be a correlation between these two categories. If the ratio breaks down, in which case the effects of the animation would be certainly negative.

#### ***Social effects (reputation of the destination)***

Effects of animation, to a greater or lesser extent have their impact on the wider community ie societies the state as a whole. That is the reason that satisfied visitor back again in the tourism object, place and country. State economic effects animation in tourism should be viewed from a direct aspect, ie through effects that are realized through increased taxes, tourist taxes, utility taxes and other financial instruments that are measurable.

According to PhD. Mato Bartoluchi factors that affect the economic effects of the offered animation programs offered visitors to the area a tourist

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<sup>44</sup> Ravkin,R., (1989), "Animation in tourism", Založba, Ljubljana – Zagreb, 70.

destination or through various forms of manifestations that are performed in facilities narrower or wider area, place, city or country :

- Motivation;
- Retention of visitors during bad climatic conditions;
- Extension of the tourist season;
- Expansion and segmentation of the tourism market;
- Tourist consumption caused by the greater physical effort and physiological loads;
- Raising the level of satisfaction and emotional urge to return to the same tourist destination
- Personal tourist propaganda.<sup>45</sup>

The previous can be pointed out that the need to support not only those animation programs that are profitable, but those programs that currently do not carry the financial result, but the results are expected in the future. The need to foster an awareness of local government and the state as a whole to assist management activities of the holders of tourist offer in realization animation programs, through various forms of activities. It is known that the benefits of animation programs directly has the tourist offer, but also the resort and the state as a whole. This is because satisfied visitors will return again in the same tourist destination, thereby creating a positive image for the country. The main objective is to increase tourism demand and consumption, as well as the economic effects of all subjects participating in the creation of the tourism product of a particular country.<sup>46</sup>

### ***Funding animation in tourism***

Like any activity, and the creation and implementation of animation programs is related to costs. For this purpose, it is good to know management costs arising for the successful implementation of the programs, income, ie sources for financing of animation and overall financial result. In terms of cost, I can distinguish the fixed and variable costs. Fixed costs is characteristic that they do not change depending on the volume of activity, and performance per

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<sup>45</sup> Bartoluci, M., (1984), "Evaluation of medical program and early active holiday aimed at improving the health and humanization of life and work," Faculty of Physical Education - Zagreb, Zagreb, 196

<sup>46</sup> Čavlek, N., (1997), "Germans wary of traveling", Croatian Tourism Magazine no. 4/97, Zagreb, 30.



unit program shrink. Management of these costs can not directly act. In the group of fixed costs include the following:

- Salaries animation organization;
- Depreciation costs of stationery and equipment;
- The cost of a permanent tourist propaganda;
- The cost of renting space or equipment;
- Depreciation;
- Costs for lighting, heating, cooling;
- Transportation costs and
- Other costs.<sup>47</sup>

Variable costs are those costs that vary depending on the rise and decline of visitors. After guest these costs are constant and price animation service will be tied to the relationship between instrumental realization and variable costs. In the interest of management is to engage more visitors, fixed costs per unit to be smaller, while variable costs are not tied to the number of agents but have a strong influence on the price. In animation programs often suffer from the following variable costs:

- The cost of equipment that is spent per visitor;
- Salaries animators engaged in the execution of programs;
- Costs of Kahlo, smashing, scattering over the planned and related animation programs;
- The cost of decoration;
- The cost of specific goods and souvenirs;
- Transportation costs for the program and
- Other variable costs.<sup>48</sup>

Full cost recovery and achieving positive financial result, ie profit, it is necessary holder touristic offer to provide adequate income. Financing of animation can be from a variety of sources including:

- The assets of the investments;
- By means of tourist propaganda;
- Calculate the selling price of services (accommodation and other arrangements);
- By direct charging while using the contents of the animation and
- Other sources (eg, grants, gifts, etc.).<sup>49</sup>

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<sup>47</sup> Peršić, M., (1990), "Elements of the economic evaluation of results achieved animation in tourism", Animator, UAT Bulletin no. 1, Opatija, 14

<sup>48</sup> Cerović, Z., (1999), Ibid, 146.

Efficient cost management, financial experts say that the best method is broke - Ivan - Analysis (Break-Even-Analysis), i.e for each Animation program to determine the threshold of viability. That is actually the point of covering the costs (breaking point), which equate total revenue and total cost, which management gets information about the transition from a program of area loss in the profit zone. According to PhD. Zdenko Cerovic by this method is determined:

- Minimum number of visitors, ie, minimum turnover to be achieved to cover costs;
- Optimal operations to cover all costs of animation;
- It is possible to determine the total and limit costs and
- Planned profit, ie financial results which will stay for tourists.<sup>50</sup>

### ***Concluding Remarks***

In order to meet the interests of the visitors first need to motivate them to visit a particular country, place, object or to use a particular service. In this context, the process of animation consists of three phases. The first stage is preparation. It covers everything that precedes an activity through information, tourist propaganda initiative, demonstration and so on. This phase has its effect before the performance of the tourism trip. Affect the decision to place the tourist stay. The second phase is the content and the need to match the desires, needs and preferences of visitors. Animation program itself should have sports and recreational, cultural and entertainment content and picnic. The third phase covers the effects. The effects of animation on the demand side are also reflected in increasing contacts, intensifying communicability intensification of tourist movements, increase mood and more. Effects of animation are by offering multifaceted. Indirect effects present us in increasing the visit, gaining reputation and so on. Direct economic effects are also reflected in increasing outboard consumption. But the success of the animation, its management, primarily depends on the work of professionals - animators. The animation must be run specialized animators with specific character traits and solid pedagogical education.

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<sup>49</sup> Cickovski, A., (1987), "Promotional activities in the hotel, catering and tourism", University of Bitola, Faculty of Tourism and Hospitality - Ohrid, Bitola, 214.

<sup>50</sup> Cerović,Z., Ibid, 148.

Accordingly, it can be concluded that the management in animation should always have information on the relation between costs and revenues, ie need to send the item ROI, because only thus can't speak for the effective and efficient implementation of animation programs.

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## **OPTIONS THE DELIBLATO SAND FOR THE DEVELOPMENT OF SPECIFIC FORMS OF TOURISM**

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### Abstract

Modern tourists looking for a specific accommodation, otherwise the contents of the destination that will satisfy his needs. But most of all looking for a healthy environment. The South Banat is able to respond to the needs of modern tourists thanks to the special nature reserve Deliblato sands, located close to major urban centers, and on the other hand is far from the bustle of the city, factories, pollution. Because of the diversity of flora and fauna the Deliblato sands was declared nature reserve.

However, in this large expanse of 35.000 hectares, following levels of protection, it is possible to organize interesting events that would serve as an incentive for the development of special forms of tourism.

The objective of this study is to draw attention to the nature reserve Deliblato sands and its importance in creating specific content that could increase tourist demand for specific forms of tourism.

Sleeping in nature, bird watching, hiking, collecting herbs, schools in nature, stargazing, are just some of the activities that can be practiced in this nature reserve, which would contribute not only to the development of specific forms of tourism, but would increase the demand for visits to the Deliblato sands.

In this way it could be and to increase people's awareness on the protection and the importance of nature, especially the nature reserve, occupying their attention, and not giving them time to start a fire, throw trash and broken trees.

*Key words:* the Deliblato sands, specific forms of tourism, tourists, the South Banat, nature.

## ***INTRODUCTION***

Changes in the modern world, were affected by changes in tourism demand. Modern tourists looking for interesting content, shorter and more frequent trips, has a need for a new experience. Environmental pollution, noise and stress are just some of the reasons that drive the demand of tourists to those places with untouched nature in which tourists with interesting content, can experience peace and tranquility.

Increased demand for tourist accommodation facilities irregularly shape, healthy environment, the new facilities at the destination, are something that gives a chance for the development of specific forms of tourism development in Serbia.

The Deliblato sands is the area that offers great potential for the development of different forms of specific forms of tourism.

In this paper we explore possibilities the Deliblato sands and real development in regard to specific forms of tourism.

## ***CHARACTERISTICS OF THE DELIBLATO SANDS***

In the south-eastern part of the Pannonian Plain, is the largest continental European sandstone, which is caused when the Pannonian Sea swollen. It is situated between the Danube and the western slopes of the Carpathians. It covers an area of about 35.000 ha. Its length is about 354 km wide and 11 km (Study of the Deliblato sands 1998). The Deliblatsko sands extends in the direction towards the south-west. It is situated between the settlements Deliblato, Mramorak, Vladimirovac, Banatski Karlovac, Grebenac, Kajtasovo and Dubovac. The only permanent settlement is Šušara. The Special Nature Reserve covers the municipalities of Alibunar, Vršac, Bela Crkva, Požarevac and Pančevo (Study of the Deliblato sands 1998).

While in Europe there are still a few sandstone the Deliblato sands has a particularly great year and interdunes depression. Additional specificity the Deliblato sands provide interesting ecosystems- sandstone, meadow- steppe, forest and forest-steppe, forest, which contributed to the formation of a rich variety of flora and fauna.<sup>51</sup>

For the Deliblato sands are characteristic mineral water. Tests have shown that these waters are the characteristics of spa water. Well testing showed the presence of iodine (10-15 mg/l), strocijuma (12-35 mg/l), barium (over 10 mg/l),

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<sup>51</sup> Identifikacija potencijala za razvoj turizma na području SRP Deliblatska pešćara, 2010/2011, str.23.

metabolic acid 22-23 mg /l, hydrogen sulfide and sulfur (5-12 mg/l). All of these components, according to the European standards exceed the lower limit of healing (Milosavljević i drugi, 1994).

Thanks to the phenomenon such as sandstone, created special environmental conditions, diverse habitats and wildlife.

Flora of the Deliblato sands has about 900 plant species, of which a large number of rare and endangered plants among which the Banat and steppe peony, *Rindera Denko* snake's head fritillary and violet, which are local endemics, and 20 orchids that are on the Red List of Flora of Serbia (Study of the Deliblato sands 1998).

In this region the dominant is herbs, which is wild and grow in large areas. In the area of Deliblato sands dominated forests of poplar, alder, oak, ash, locust, red and white pine forests of walnut, ash, birch, larch and lime.

In the Deliblato sands there are two strict reserves, sixteen genetic reserves and six natural monuments ([www.vojvodinasume.rs](http://www.vojvodinasume.rs)).

Wildlife of the Deliblato sands is extremely versatile and makes it about 200 species. In the inner area of sands was registered about 167 species of birds, among which are the most endangered birds in our country as well as Europe and the world, birds of prey, including busy with many rare species, such as the Banat falcon, imperial eagle, eagle and many others there are also the world's red List (Study of the Deliblato sands 1998).

As part of a special nature reserve live and various types of wild game deer, roe deer, pheasant, badger, quails, doves, etc.

"Law Deliblatska sandstones, hunting law and other legal acts, most species of wildlife is protected except the wolf, fox, skunk, common, hooded crows, magpies and jays"<sup>52</sup>

According to the values of the ornithological nature reserve has about 171 nesting birds, which puts him in first place in importance in Serbia ([www.vojvodinasume.rs](http://www.vojvodinasume.rs)).

„Due to the great wealth of wildlife, this area has always attracted hunters from Europe that have made it to this part of the hunt extremely well developed”<sup>53</sup>.

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<sup>52</sup> Romelić J., Košić K., „Pravci reafirmacije turističkog lokaliteta Devojački bunar u Deliblatskoj peščari”, *Zbornik radova Departmana za geografiju, turizam i hotelijerstvo* 39/2010., page 111.

<sup>53</sup> Krejić Ž., „Rating Competitiveness of tourist destination in the example of Pančevo”, *International Journal of Business Tourism and Applied Sciences*, 2013., page 21.

### ***SPECIFIC FORMS OF TOURISM IN THE DELIBLATO SANDS***

The Deliblato sands is an area that is very accessible to the tourist industry because it has an attractive, traffic and less receptive factors. Close to major centers is important for the tourist industry, which is supported sands distance from Belgrade airport, which is only 50 km, 150km of Novi Sad, Vršac, 24km, 25km Pančevo, 30km Bela Crkva ([www.vojvodinasume.rs](http://www.vojvodinasume.rs)).

"Since the Deliblato sands has a very different offering, and the fact that it has limited accommodation facilities, there is the possibility of performing at the massive segments of demand"<sup>54</sup>. Based on the data of the World Tourism Organization (WTO), which show that the retention of tourist destinations in short, we can conclude that Deliblato sands the right location for the development of specific forms of tourism.

*Ecotourism* is a form of tourism that is based on nature, and has great potential for development in the area Deliblato sands. Activities that can be practiced in the area of active sand walks, observation of flora and fauna, nature study, collecting herbs, stargazing. Because of the specific forms of relief, tourists who favor ecotourism can use bicycles as a means of transport but also horses and donkeys. The relatively poor accommodation offer in this area, it should not be a problem for this type of tourist. Sleeping in nature, in tents, or in modest housing in the household is what will meet the needs of this type of tourist. The hosts should be willing to cooperate and to offer interesting content but take the opportunity to sell products in addition to accommodation handicrafts.

One of the activities that you love to exercise ecotourists in the Deliblato sands in and around bird watching, also known as *birdwatching*.

*Sport tourism* has the potential for development within the Deliblato sands. However, its development has been limited due to the lack advekatnih field of sports. In this regard, we can speak of the formation routes to compete in the fast walking or running, that is, the organization dedicated riding school or sports tournaments as needed.

*Rural tourism* can be an important complement to other forms of tourism in the sandstones. Since there are only permanent settlement Šušara which lives mainly Hungarian population, who cherish their customs and traditions, but also

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<sup>54</sup> Identifikacija potencijala za razvoj turizma na području SRP Deliblatska peščara, 2010/2011, page 47.



engaged in viticulture and winemaking, the village should be seriously considered when it asked tourist offer the Deliblato sands.

*Volunteer tourism* has great potential for development in this area. This type of tourism involves longer retention of volunteers in nature tives, mainly from two to four weeks and practicing volunteer activities related to reforestation, development of roads, garbage collection and related activities. However, except for a one-day campaign "Let's Clean Serbia", this area in the recent past did not volunteer camps, as well as groups of tourists who want to get involved and develop volunteer tourism.

*Nautical tourism* can be developed on the Danube and the Danube-Tisa-Danube Canal, which are under strict protection and driving boats, speed boats, canoes, etc.

*Business tourism* is now the only potential for its development in this area. Close to city center, 50 km away from the airport "Nikola Tesla" in Belgrade, relatively good transport links and a slightly worse receptive factors currently present a significant potential for business development and organization of congresses, conferences, seminars, round tables and similar events. Business events in nature would be of great importance, especially for the business man who works hard and is stressed out most of their time.

Despite the existence of a real potential for the development of *health, adventure* and *cultural tourism*, there is currently no indication of their development. When it comes to a health tourism, we can say that there is not adequate infrastructure for its development. When it comes to adventure tourism, we can talk about different forms this type of tourism, but most of the activities would endanger the flora and fauna and especially make noise. Cultural tourism could be a supplement to any other type of tourism, and I could not possibly be a tourist offer in this area because, despite the existence of certain cultural objects, it is the Deliblato sands that is rich in natural rather than anthropogenic values.

*Hunting tourism* is the only type of tourism that has been developed for many years that there is travel demand. The Deliblato sands has a specially designed home to hunters, and special guides through the woods to the hunting grounds. This is the only type of tourism that has developed in this area and has information about the number of tourists/ hunters in sandstones.

Table 1. shows the number of hunters per year in the Deliblato sands. From this table we can conclude that the number of foreign as well as domestic tourists increased over time.

*Table 1. Number of hunters in the Deliblato sands*

<b>Lovna sezona</b>	<b>Broj stranih lovaca u peščari</b>	<b>Broj domaćih lovaca u peščari</b>
<b>1996/1997</b>	----	11
<b>1997/1998</b>	4	26
<b>1998/1999</b>	3	42
<b>1999/2000</b>	11	54
<b>2000/2001</b>	8	42
<b>2001/2002</b>	26	50
<b>2002/2003</b>	27	56
<b>2003/2004</b>	62	76
<b>2004/2005</b>	86	94
<b>2005/2006</b>	16	98
<b>2006/2007</b>	49	85
<b>2007/2008</b>	78	79
<b>2008/2009</b>	50	110
<b>2009/2010</b>	53	77
<b>2010/2011</b>	70	203
<b>2011/2012</b>	58	213

*Source: Izvor: Krejić Ž., „Rating Competitiveness of tourist destination in the example of Pančevo”, International Journal of Business Tourism and Applied Sciences, 2013., Vol.1 No.1 January - June 2013 str.21.*

In addition to hunting tourism, based on the research in the area of the Deliblato sands we can talk about the existence of excursion tourism which was particularly pronounced during the May holiday, and weekend tourism, home owners who practice in this area.

The school in the nature as a form of ecotourism, held at the Čardak site which has accommodation facilities.

### **CONCLUSION**

Based on a survey of the distribution of specific types of tourism in the Deliblato sands can be concluded that in addition to excursion and weekend tourism, hunting tourism, bird watching, these other listed specific types of tourism are the potential for a future development.

However, tourism organizations in the South Banat, as well as other organizations involved in the development of tourism in Vojvodina and Serbia, does not aim at activating these types of tourism and bringing tourists to the area Deliblato sands. Within these specific types of tourism is of great importance for the area of Deliblato sands would be the activation of volunteer tourism.

This would be all the actions carried out maintenance and cleaning of sand, raised people's awareness of its importance, but also the opportunity for those who want to stay longer in nature and contribute to its preservation.

The introduction of new facilities that do not harm nature and its value would increase the attractiveness of the area as Deliblato sands.

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## **IMPLEMENTATION OF THE PERMACULTURE DESIGN SYSTEM IN RURAL TOURISM DEVELOPMENT**

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### *Abstract*

Tourism is a dynamic phenomenon which always manifests itself in a space that has to have a certain attraction for tourists to visit. The quality of the space depends mostly on what kind of impact it will have on tourists and the extent to which tourists will visit it.

Selective forms of tourism, such as the rural tourism, are alternative forms of mass tourism and can contribute for environmental protection and its improvement.

The sustainable rural tourism is any form of tourist development or activity which respects the environment, ensures long-term conservation of natural and cultural resources, and is socially and economically acceptable and equitable.

Agri-tourism is one of the forms of rural tourism and is the crossroad of tourism and agriculture. Agri-tourism describes the act of visiting a working farm or any agricultural, horticultural or agribusiness operation to enjoy, be educated or be involved in activities.

Permaculture (permanent agriculture) is a conscious design and maintenance of agriculturally productive ecosystems which have the diversity, stability and resilience of natural ecosystems.

The philosophy behind permaculture is one of working with, rather than against, nature. Permaculture aims to create sustainable human environments.

This paper points the opportunity for implementation the permaculture, as a design system based on ethics and sustainable design principles, in the rural tourism development. That will be good opportunity for environmental protection, for attracting more aware tourists and for achieving competitive advantage on the tourist market place.

*Key words: rural tourism, agri-tourism, permaculture, eco-villages*

*Didn't I tell you you are a fish do not go to dry land for I am the deep sea.*

Rumi

### ***Why Sustainable tourism?***

Tourism is a dynamic phenomenon which always manifests itself in a space that has to have a certain attraction for tourists to visit. From the quality of space it depends what impact it will have on tourists and the extent to which tourists will visit it.

The mass tourism creates many negative effects on the natural environment, such as depletion of natural resources and pollution, unplanned construction of buildings that are in disharmony with the nature, disrespect of various programs related to nature conservation, reduced environmental sensitivity of tourists and indigenes etc. Hypertrophied development of tourism causes huge spatial - environment wounds to the environment, which are especially dangerous in the long run.

Selective (alternative) forms of tourism, such as rural or agri tourism, are some kind of alternative to the mass tourism and they contribute to protection and improvement of the environment. Nowadays, there is a pressure to develop tourism forms with a sustainable focus, helping to fit in with the local environment and ensure its preservation. There are many factors that influence the development of sustainable tourism forms, such as a higher level of ecological awareness, many legislative regulations, the activities of many environmental interest groups and organizations etc.

The philosophy behind alternative forms of tourism - which advocates an approach opposite to mass conventional tourism – is to ensure that tourism polices should no longer concentrate on economic and technical necessities alone, but rather emphasize the demand for an unspoiled environment and consideration of the needs of local people.<sup>55</sup>

Many of the tourists are "consume" the nature and thus make negative impact on the natural elements and ecosystems as a whole, creating a so-called alteration (change and deterioration of natural resources and environment).

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<sup>55</sup> Fennell D. A. (1999), *Ecotourism – An Introduction*, London, p. 9

That's why there is a need for cultivating eco aware tourists which must have an ethical values and environmental attitudes and awareness.

Eco aware tourists acquire new experiences by actively and directly participating in the destination's way of life, and by protecting and fostering the destination's environmental integrity and biodiversity.

***Eco tourism, Green tourism, Rural Tourism and Agri tourism - forms of sustainable tourism***

**Ecotourism** is a kind of alternative tourism which cooperates with nature and implies a return to nature. It is a form of tourism which emphasize responsible travel to natural areas that protects the environment and improves the well-being of local people.

Ecotourism deals with living parts of the natural environments and focuses on socially responsible travel, personal growth, and environmental sustainability. Ecotourism typically involves travel to destinations where flora, fauna, and cultural heritage are the primary attractions. Ecotourism is intended to offer tourists insight into the impact of human beings on the environment, and to foster a greater appreciation of our natural habitats. An integral part of ecotourism is the promotion of sustainable use of biodiversity such as recycling, energy efficiency and water conservation. It contributes for conservation of biological and cultural diversity through ecosystem protection.

The persons who take part in the ecotourism must have an ethical values and environmental attitudes and awareness. Eco aware tourists acquire new experiences by actively and directly participating in the destination's way of life, and by protecting and fostering the destination's environmental integrity and biodiversity.

**Green tourism** is a form of ecotourism. It is low-impact tourism with an eye toward protecting the environment and culture of an area. Green usually means nature, life, safety, nonpollution, environmental protection, etc. While eco tourism seems to be targeted at the certain group of population who are keen on learning about natural environment through travelling experiences, green tourism seems to be targeted specifically at urban dwellers by suggesting a style of spending one's holiday in country-sides, placing an emphasis on recovering

from the daily stress by staying close to the nature.<sup>56</sup> Green tourists have critical attitudes towards environmentally unsound consumption practices and wish to incorporate this awareness into the way they travel.

**Rural tourism** is a form of tourism which enables tourists to reunite with nature and the culture of the destinations, and that it has impact on the economic and social recovery of the rural areas and cause conservation of the environment and spreading of local cultures. It contains all the activities which may be carried out in a rural environment and which attract visitors because of their traditional features and because they are different from their usual lifestyle.

Visitors may interact with nature practicing various activities, such as horseback riding, sightseeing, fishing, hunting, mountaineering, agro tourism, cultural tourism, wine tourism, health tourism, etc.<sup>57</sup>

Rural tourism is the act of leaving the urban environment and traveling into the rural regions, for the purpose of experiencing and enjoying the natural beauty, the agricultural diversity, the quaintness of small towns, the cultural richness; and to escape the pressures of urban lifestyles in order to have pleasurable experiences and improve the quality of life.<sup>58</sup>

Rural tourism is essentially an activity which takes place in the countryside. It is called rural tourism mainly because of the fact that even though tourists' choice may not be backed up by the willingness of participating in agrarian lifestyle, but they spend time in a rural area and interact with the locals who derive benefits from those activities.

Rural tourism helps to sustain, and even to stimulate agriculture, but in most cases it refers to conventional agricultural methods which are not

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<sup>56</sup> Mitani S., *Green Tourism, Environmentally Sound Rural Tourism in Japan: Recommendations for Improvement of*

*Japanese Green Tourism Practices*, Maastricht Graduate School of Governance, Master of Science in Public Policy

and Human Development, Thesis, p. 6

<sup>57</sup> <http://nazelena.blogspot.com/2012/01/permaculture-and-rural-tourism.html>

<sup>58</sup> *Rural Tourism and Agri Tourism, A Practical Approach to Niche Tourism*,

Funded by the Ontario Ministry of



sustainable at all. So rural tourism can be a great opportunity for development of agriculture that will apply knowledge derived from permaculture.

**Agri tourism** involves any agriculturally-based operation or activity that brings visitors to a farm or any agricultural, horticultural or agribusiness operation (especially when local producers are no longer economically competitive otherwise) and includes a wide variety of activities, including buying fresh picked products direct from a farm stand, picking fruit, feeding animals, or staying at a B&B on a farm. It is a form of tourism where agriculture and tourism intersect. It is similar to ecotourism except that its primary appeal is not the natural landscape but a cultural landscape. Agri tourism is a one of the forms of rural tourism. But whether we call it agri or rural tourism, it doesn't matter. They are both forms of educational and entertainment tourism.

The tourists who take part in agri tourism usually are agriculturally oriented tourists who are from the farm, from agri-businesses or who have retired from agricultural enterprises of some form and who want to see how the others do it. They can also buy or sell products, while at the same time might visit both agricultural and non-agricultural sites and attractions.

People have become more interested in how their food is produced. They want to meet farmers and processors and talk with them about what goes into food production. They also want to take some part in that process. Permaculture can offer that.

### *What is permaculture?*

Permaculture is a design system and a way of life based on ecology and ethics. The term was coined in 1976 by Australian ecologist Bill Mollison and his student David Holmgren as a contraction for permanent agriculture and has been expanded to mean permanent culture, for food production is only one of many activities needed for healthy, sustainable environments for humans.<sup>59</sup>

Permaculture (permanent agriculture) is a conscious design and maintenance of agriculturally productive ecosystems which have the diversity, stability and resilience of natural ecosystems.<sup>60</sup> It is the harmonious integration of landscape and an interdisciplinary practice focusing on sustainable food production,

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<sup>59</sup> Mollison B. and Slay R.M. (1994), *Introduction to Permaculture*, New Edition, Tyalagum, NSW: Tagari Publications

<sup>60</sup> Mollison Bill, (2002) *Permaculture, A Designers' Manual*, Tagari Publications, Australia, Permaculture Institute

energy-efficient building, recycling, waste treatment, land stewardship and workable social structures and economies.

Permaculture design is a system of assembling conceptual, material and strategic components in a pattern which functions to benefit life in all its forms.<sup>61</sup> It is used to shape the living space by the example of functional ecosystems in nature. Permaculture's fundamental principle is to design with nature and to working with, rather than against, nature. In designing with nature, rather than against it, we can create landscapes that operate like healthy natural systems, where energy is conserved, wastes are recycled and resources are abundant.<sup>62</sup> Permaculture aims to create sustainable human environments; to meet the basic needs of people in accordance with the natural flow, depicting the variety, driving balance, abundance and sustainability of nature and to reduce human ecological impact. It is consciously designed landscapes which mimic the patterns and relationships found in nature, while yielding an abundance of food, fibre and energy for provision of local needs'.<sup>63</sup> Permaculture creates environments that are healthful and nurturing for the humans and other species inhabiting the site and that are sustainable in their use of natural resources.

### *Permaculture principles*

Permaculture principles are brief statements or slogans that can be remembered as a checklist when considering the inevitably complex options for design and evolution of ecological support systems. These principles are seen as universal, although the methods that express them will vary greatly according to place and situation. These principles can be divided into ethical and design principles.

The ethical principles of permaculture are:<sup>64</sup>

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<sup>61</sup> Ibid, p. 36

<sup>62</sup> Mollison B. and Slay R.M. (1994), *Introduction to Permaculture*, New Edition, Tyalagum, NSW: Tagari Publications,

p. 72

<sup>63</sup> Holmgren David, (2004) *Essence of Permaculture*, Holmgren Design Services

<sup>64</sup> Mollison Bill, (2002), *Permaculture, A Designers Manual*, Bill Mollison, Tagari Publications, Permaculture

1. Care of the earth: Provision for all life systems to continue and multiply;
  2. Care of people: Provision for people to access those resources necessary to their existence;
  3. Fair share (setting limits to population and consumption): By governing our own needs, we can set resources aside to further the above principles. Permaculturists generally regard the following 12 design principles:<sup>65</sup>
    1. *Observe and interact*: By taking time to engage with nature we can design solutions that suit our particular situation.
    2. *Catch and store energy*: By developing systems that collect resources at peak abundance, we can use them in times of need.
    3. *Obtain a yield*: Ensure that you are getting truly useful rewards as part of the work that you are doing.
    4. *Apply self-regulation and accept feedback*: We need to discourage inappropriate activity to ensure that systems can continue to function well.
- 10 Mollison Bill, (2002), *Permaculture, A Designers Manual*, Bill Mollison, Tagari Publications, Permaculture Institute, p. 2
- 11 *Permaculture - Peak Oil - The Source of Permaculture Vision and Innovation*. Holmgren.com.au.
5. *Use and value renewable resources and services*: Make the best use of nature's abundance to reduce our consumptive behavior and dependence on non-renewable resources.
  6. *Produce no waste*: By valuing and making use of all the resources that are available to us, nothing goes to waste.
  7. *Design from patterns to details*: By stepping back, we can observe patterns in nature and society. These can form the backbone of our designs, with the details filled in as we go.
  8. *Integrate rather than segregate*: By putting the right things in the right place, relationships develop between those things and they work together to support each other.
  9. *Use small and slow solutions*: Small and slow systems are easier to maintain than big ones, making better use of local resources and producing more sustainable outcomes.

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Institute, p. 2

<sup>65</sup> *Permaculture - Peak Oil - The Source of Permaculture Vision and Innovation*. Holmgren.com.au.

10. *Use and value diversity*: Diversity reduces vulnerability to a variety of threats and takes advantage of the unique nature of the environment in which it resides.

11. *Use edges and value the marginal*: The interface between things is where the most interesting events take place. These are often the most valuable, diverse and productive elements in the system.

12. *Creatively use and respond to change*: We can have a positive impact on inevitable change by carefully observing, and then intervening at the right time.

***Eco-villages as an ideal place where permaculture principles can be implemented***

Eco-villages are communities which are living in balanced harmony with itself as well as nature. Eco-village can be define as a human-scale full-featured settlement in which human activities are harmlessly integrated into the natural world in a way that is supportive of healthy human development and can be successfully continued into the indefinite future.<sup>66</sup> It is a settlement in which all the major functions of normal living (residence, food, manufacture, leisure, social life, commerce) are plainly present and in balanced proportions.

The eco-village is a comprehensible microcosm of the whole of society. In the ecovillage all the humans are equal between each other, but they are also equal with all other forms of life and they ate not dominate over nature, but rather find their place within it. Eco-villagers use material resources in a cyclic way; recycle all solid waste from the village; use renewable energy sources; they composting organic waste and avoid toxic and harmful substances; build in ways that have a minimal impact on the land and the local ecology etc. The consciousness of the villagers would include the planet as a whole in their identity – an identity that keeps in mind how everything that occurs in the village affects the whole earth. Eco-villages are distinctly postindustrial and post-agricultural phenomenon.<sup>67</sup> All mentioned above suggests that in eco-villages there are best conditions for implementing permaculture (and most of them implement it) and also for including them for sustainable tourism development.

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<sup>66</sup> Gilman Robert, (1996), *The Eco-village Challenge*, Context Institute

<sup>67</sup> Ibid.

Permaculture as a design system implemented in rural (sustainable) tourism development Permaculture as a design system based on ethics and design principles which can be used to establish, design, manage and improve all efforts made by individuals, households and communities towards a sustainable future can find an application in the development of any previous mention forms of sustainable tourism, especially in rural or agri tourism. There are many conventional agricultural methods which are implemented in rural or agri tourism which are not sustainable and not ecological at all (for example using pesticides or herbicides in agricultural treatment, GMO seeds or using monoculture gardening).

If the tourism and permaculture can work in concept with each other, rather than independently, the resulting niche market can be very productive and effective. Permaculture as a sustainable design system implemented in agri activities it is a good basis for development of rural tourism and it would be a great opportunity for tourists who will engage in this kind of tourism, at the same time to enjoy, to educate, to participate actively, to consume what is produced on organic way by applying permaculture concept and therefore to make positive environmental imprint.

Rather than weak strategies to encourage green purchasing, permaculture addresses the issues by reintegrating and contacting the production/consumption cycle around the focal point of the active individual nested within a household and a local community. It must be taken some actions for educating and training people involved in this form of rural tourism. That's why is very important to establish cooperation with national and local organizations (government, touristic, agri and permaculture organizations), as well as travel agencies to promote this kind of rural tourism.

Republic of Macedonia has a rich collection of authentic, cultural, traditional and natural resources and products to offer serious opportunities for the development of the rural and agri tourism. "Kalen" and "Zelenata Arka" as Non-Governmental Organization (NGO) from Skopje, Republic of Macedonia and Sintesa+" as a company for Sustainable Development offers services for permaculture gardening and farming platform and for nurturing ideas and practices for responsible ecological behavior. There are also some individuals from Macedonia who implement permaculture principles in their gardening. But there are not any serious efforts for implementing them (especially not for rural tourism development) instead of conventional agri practices for food production, which are not ecological and then not sustainable. That's why it is important to

educate rural population about the benefits of permaculture design system for themselves as well for attracting more aware tourists.

### ***Conclusion***

The design of the new paradigm for tourism is based on the understanding and the management of the basic flows of life: air, water, solids and particles, food, waste, sound, light, money and human beings. Tourism in the past and in the present equates with excessive water and energy consumption, destruction of natural habitat, unhealthy food offer, standardized and thus predictable experiences. Because not all of the forms of sustainable tourism are sustainable and ecological at all, permaculture as a design system offers many opportunities for implementation of many sustainable and eco-friendly projects. This projects will conserve diversity and the rural population must have recognized agro biodiversity as valuable and worthy for protection.

Whether we are tourists or not, we must know that the environment is not separate from us: we are inside it and it is inside us; we make it and it makes us. Without caring for the Earth we as people cannot survive. There is a vision for humanity, a way of being with each other and ourselves that doesn't harm or pollute; that empowers and allows people to be the best they can.

For the environment, permaculture can restore and protect ecosystems, increase biodiversity and preserve and regenerate human fundamental resources of life, soil, water and trees. As permaculture said, everything on the planet is connected and all of our actions have ripple effects globally. We must work with nature rather than against it – we can assist rather than impede natural elements. Because the Earth is living organism, able to self regulate, evolve and sustain the multitude of life upon it.

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## **INTERNAL AUDIT IN BANKS IN RM AMID THE CHANGING BUSINESS ENVIRONMENT**

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### ***Abstract***

Internal audit occurred as a result of the need in modern operating environment to introduce its own form of surveillance in order to examine the system of controls performed by all employees as part of their duties, to discover the effectiveness of these controls, poor points of their operation and to propose measures for their elimination. The main mission of internal audit is to assist managers in the effective exercise of their responsibilities in making decisions about the business and its development by supplying them with analyzes recommendations, suggestions and information. Internal audit primarily serve management in order to obtain reasonable assurance that the policies and procedures adopted by the bank's management for regular and effective running of the bank consistently enforced.

In this research paper will be presented perspectives for the development of the internal audit profession in the Republic of Macedonia.

*Keywords:* internal audit, banks, financial statements, financial analysis

### **Introduction**

In the contemporary operating environment, intense and fast-changing technology, global connectivity of business entities, the introduction of new organizational forms in financial institutions, as well as greater openness of economies, led to changes in economic concepts that entities implement in their operations. The new reality often brings new needs, require understanding of the new realities, needs of the risk analysis, needs of the analytical prediction of assumptions to solve problems that would eventually occur in the future.

### ***The need for internal audit***

This dynamic system introduces the need for strengthening, flexibility, adaptation, effectiveness and efficiency of the processes that need to control, to direct and review. The conditions of work are changing by the hour. Today's managers have a new task to be a step ahead of its competitors. The new way of working, where responsibility in every well organized system borne by individuals, imposed the need to implement the review process, and how the external as well as internal, in any real company, in the conduct of a process and before and after completion of the process.

When discussing about the audit should be noted that this may be the greatest innovation in the process of development of business in the last century. Audit as a tool, skill, ability, general, getting new meanings.

Internal audit, as a segment of the audit, is an independent and objective activity for assurance and consulting designed to add value and improve the operations of the company. It helps the bank as a financial institution in achieving its objectives, mainly through systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and management processes. In this context, the internal audit is function within the company (bank) for continuously and systematically evaluate risk and offers reasonable assurance for efficient and effective achievement of objectives.

Support that internal audit provides for managerial, concerns of compliance between the adopted policies and procedures with applicable laws and standards, and it provides management with a set of analyzes, evaluations and helpful information for studied conditions of the internal controls, accounting system and control environment. In certain situations, internal audit occurs as a consultant for certain subject matters, so that management gets support in decision making in the company.

Internal audit is conducted by people - auditors, bank employees and subject of this review is always very detailed. In fact, internal audit covers all stages of the process of reproduction and business functions to discover inner reserves in terms of economy and efficiency and to reveal and punish all internal fraud and abuse in operation.

The benefits that expected from the implementation of internal audit, starting from the efficiency, effectiveness and economy of the banks, then, compliance plans and procedures in the organization with the legal and normative regulations, to professional and competent opinion on the situation in the bank, especially guidelines for improving processes in it (given by internal auditors), managers need to consider when require their services and will submit a report to Management and Supervisory Board for review, analysis and evaluation.

Although internal audit of historical perspective is older than external audit, however, in the Republic of Macedonia, it is implemented as a system only in the financial sector (banks), public and insurance companies. However, the issue of internal audit in banks is still little research and even less implemented in macedonian reality.

Given the scope and complexity of the tasks, functions and powers of internal audit, it can be said that its status should be established as a separate service banks in the country.

New changing conditions of work of internal audit is not only led to a change in its paradigm, but the definition is changed which, in the highest institution for internal audit in the world, the Institute of Internal Audit as follows: "Internal auditing is an independent and objective assurance activity and consulting, designed to increase value and improve business processes. It helps them in achieving planned goals, introducing systematic disciplinary approach to evaluating and improving the effectiveness of risk management, control and process management. " Activities to be covered in modern internal audit function, placed in three groups: (Table 1). It gives this answer the question: What is the main reason for the use of internal audit in companies that are market-oriented? Internal audit focused on the economy, efficiency and effectiveness in operation, is known by the term "audit 3E", although to this analysis, according to recent research, and external influences include the fourth "E", in addition to the full scope of internal audit.

Although in Macedonia have legislation establishing internal audit in banks and other financial institutions, however, internal auditors must comply

with all current international legislative frameworks in carrying out their activities and to observe professional ethics and responsibility of internal auditors promoted by Institute of internal auditors, IIA.

### ***Banking Law in the Republic of Macedonia***

According to the Law on Banks in Macedonia, the Supervisory Board shall establish an internal audit as an independent organizational unit of the bank.

The Internal Audit Department performs continuous and complete audit legality, regularity and efficiency of the bank.

The Internal Audit Department carries out its activities in accordance with the principles and standards for internal audit

- Code of Ethics at the bank
- Policies and procedures of the service.

People in the Internal Audit just work of the service. At least one of them being an authorized auditor. Bank employees are obliged to persons or employees in service Internal Audit to provide all documentation and provide all the necessary information.

### ***Annual plan of the Internal Audit in Banks***

As a any other work, operational and business unit audit service should develop an annual plan which will encompass all activities, workload, pace and means of operation. The annual report of the company, assess the work of this office, although often this assessment is based on the opinion of external auditors on the internal audit service.

The Internal Audit Department shall prepare an annual work plan of the department, approved by the Supervisory Board. The annual work plan shall contain: • the subject of review - A description of the planned revision in certain areas and • layout of the controls during the year - The planned duration of the controls.

The Internal Audit Department shall immediately inform the supervisory board and management board, if the control determines:

- disregard of standards for risk management because it is likely to deteriorate the liquidity or solvency of the bank and

- that the board does not comply with regulations, general regulations and internal procedures of the bank.

### *Audit reports*

Besides control function, internal audit is tasked to perform certain preventive function mainly to protect the interests of the bank and ensuring its ongoing development. It is implemented by submitting the audit report to management who makes the decisions in the bank. For the purpose of internal audit, internal auditors perform audits and prepare reports that will provide professional assessment of the revised systems and processes, and systems of financial management and control, in which will be listed all irregularities, inconsistencies and shortcomings for the needs of the managers of financial institutions.

Each bank should organize its internal audit function, that should contribute to a more efficient, more economical and more effective working. Therefore the bank should consider the opportunities and needs for defining the size and hierarchy of internal audit service. When the bank implementation the internal audit, first, to establish the audit plan, which must be in line with the overall strategic plan and current plan of the bank, then execute the test conditions in the bank and the results can be compared with the planned set sizes and finally, to compile internal audit report. The audit report shall be submitted to the management, supervisory board to show the real conditions in the bank, to define problems and to provide guidelines for removing errors and omissions, and to give meaning to the improvement of the whole.

The reports that provide internal audit to higher hierarchical levels in the bank, just refer to the operation being controlled and monitored by the end users of these reports - managers. Due to the need to ensure the relationship of dependence of the directors of the bank, internal auditors, organizational belong to the management of the joint Assembly as the highest decision-making body, the Supervisory Board and the bodies established by the Assembly. The reports should be submitted to these bodies to management.

### *Table*

Activities
-Test the operation of the accounting system and internal accounting controls
--Examination of financial and other data for needs of management
-Examination of economy, efficiency and effectiveness in the operation and functioning of financial audits and special examinations of banks for specifically management's request

Table 1. Activities of modern internal audit function

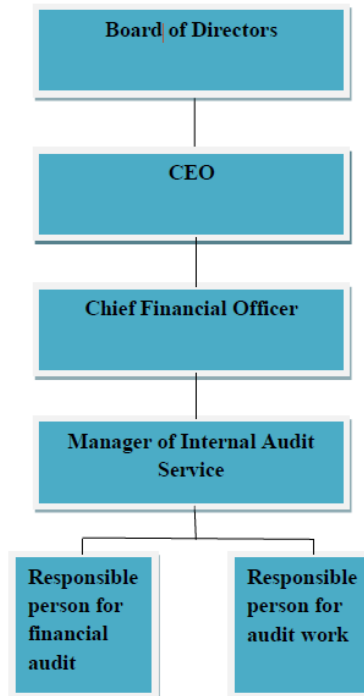


Table 2. Model the organizational structure of the internal audit service in RM

*Conclusion*

The subject to internal audit research is particularly challenging in developing countries, such as Macedonia and, above all, because relations are established between internal auditors and managers. Namely, from the foregoing, it can be concluded that the function of internal audit, special inspiring, especially if you bear in mind that in developed countries it is implemented for years, and here exists only in banking, insurance and public sector, while implementing in the companies is very weak or rarely present. The Auditors in Macedonia have a tough task to break through the road and make positive changes to their management, monitoring, updating and correction system.

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## **INVESTMENT FUNCTION OF THE ECONOMIC ENTITIES – RISKS AND OPPORTUNITIES**

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*Abstract*

The latest economic crisis that has hit the world economy left more or less repercussions on almost all national economies. Economic policies are now faced with developing strategies to overcome consequences and to intensify economic development. The realization of the economic development has a multidimensional character and multiplicative effects. Investments are the key category in direction of overcoming the stagnation indicators in certain economy areas. They represent an economic category that converts free funds and excess cash (savings of households and firms) into tangible and intangible capital assets, that means investments are conversion of savings into equity funds. The need for investment requires differentiation of the real estate versus financial estate, first of all for understanding investments in financial instruments and effective diversification of the economic entities portfolio. Analysis of investments for its part necessarily requires reviewing of the ratio and correlation between the undertaken risk and the expected return on investments as one of the criteria for assessing the investments efficiency. Regardless of the form of long-term investments, there is a need for their planning and evaluation of the effects.

Having in mind different risk types arising from the economic entities investment function, this paper elaborate two most common subtypes including: the risk of investing in securities, and the risk of investing in real investment projects (corporate risk). This type of risk is the possibility or probability for any economic entity to suffer adverse material - financial effects due to changes in the prices of securities in its portfolio or because of depreciation on real projects

that are invested. Various economic entities have different exposure to this risk kind, primarily due to: the type of the economic entity and the scope of its involvement in operations with securities and investments in projects, the role and the position of the entity on the financial markets; the portfolio quality and differentiation (government and municipal securities, securities or projects in more or less risky companies, etc.). Usually risks that make direct connection with portfolio risk are credit risk, liquidity risk and interest rate risk.

*Key words:* development, investment function, portfolio risk, securities, corporate risk.

### ***Introduction***

Investments are economic category that free and excess cash, savings of households and firms turn into tangible and intangible capital goods. That is, investments are *conversion of savings into capital funds*. Instead of savings to be spent on current needs *today*, they are intended for production consumption, for construction of new capital goods of which is expected to get bigger effects in *the future* than it was invested in the past. So, the essence and meaning of investment is engaging the savings and other free resources of households and businesses to create new or to renew and expand existing capacities and objects.

The basic principle is that sacrifice which is done today by investing some funds, in the future can not just be return the invested funds, but also to achieve earnings or profit.

So, savings (S) of income (Y), is the part that remains after meeting the personal and public consumption (P) which is converted to investment (I), (I=S). Accordingly, *investments are nothing else but savings which are transformed into working capital or fixed capital goods in a certain time period*.

The relationship between savings and investments, or the portion of income (Y) which turns into savings (Save), and savings (S) into investments (I) can be presented as follows:

Income (Y) - Savings (S)	Income (Y) - Savings (S)
$Y=P+S$ $Y=P+I$	$Y=P+S$ $Y=P+I$
$P=Y-S$ $P=Y-I$	$P=Y-S$ $P=Y-I$
$S=Y-P$ $I=Y-P$	$S=Y-P$ $I=Y-P$
$I(Y-P)=S(Y-P)$	$I(Y-P)=S(Y-P)$

Y - Income; P - consumption; S - Savings; I – Investments

When analyzing the distribution of the elements of gross domestic product (GDP) will see that of all elements only savings not appear on the market, but are transformed into investments, and investments are converted into new capital funds. The bigger the GDP is, the bigger the savings are, thereby increasing the investments or investments in capital funds, in tangible and intangible goods. If that happens of course depends on the totality of the economic system and the overall economic relations, of the household's interest to convert savings into investments and so on, which can positively affect the economic development. If there is a lack of domestic accumulation for investments, the solution can be find in borrowing from other countries that have excess of savings.

In conditions of market economy, the role and the influence of state on the economy is limited. The state *does not interfere directly* in the investments decisions of the managers, but seeks to influence *indirectly* and intermediary through the instruments of other policies. The state creates conditions for discretion deciding and action of the economic entities, but by taking measures and instruments of economic policy seeks to indirectly influence the direction of private investments to the goals and objectives or priorities for development for which the state is interested.

In market conditions, when the economic entities themselves make the decision where to invest, they often require a persistent analysis projects with such a rate that the ROI will be higher than the interest rate which can get investing their funds in the bank or over interest rate they pay for if investing in this project need a bank loan. One of the basic analyzes that economists dealing with investment make is exactly the analysis of the *coefficient of investment efficiency*. Broadest understanding of the investments efficiency is based on their *general effects*. Investments encourage economic growth, employment, exports, consumption growth and so on. But efficiency is expressed *specifically* by specific ratios including: marginal ratio of investment efficiency and marginal capital coefficient.

### ***Risks of investing in securities***

Formation of a portfolio of securities of the economic entities have realized for different purposes and tasks, among which mostly for liquidity management and management with the excess of free funds, for the realization of interest income or capital gains, etc. To determine an appropriate strategy for

dealing with securities, allocation of funds and proper evaluation of the results of work with securities, the manager must previously quantify the objectives of the policy of the operations with securities.

In almost all developed financial systems and in the financial systems of countries in transition institutional investors (insurance companies, pension funds, mutual funds, investment funds, investment banks, etc.) and other economic entities form portfolio of securities as a form of investment of the temporarily free funds. With this feature though they realize socio - economic goals, they realise individual goals too, in the sense of increasing their profitability. A substantial part of the assets that are temporarily free, can be placed on the financial markets and the marketing of such funds subjects tend to make a profit in at least the amount of the average interest rate earned on the capital market. The placement of funds is directed in three main directions:<sup>68</sup>

- buying real estate or direct approval of mortgage and other loans;
- buying securities; and
- depositing cash in banks and other depository financial institutions.

The placements of the funds can be short-term (up to 12 months) and long term (over one year). The maturity structure of the placements is determined by a number of factors, primarily by the function and purpose of temporarily free funds, by the existing maturity structure of the placements, by the requirement to maintain liquidity in the future and by the need to maintain and increase profitability. The types of securities in which the funds can be invested in short or long term are different and have different risk and return for the investors, and the selection of those which will enter into the portfolio is determined by several elements. Finding the own needs and financial possibilities manager needs to decide for securities that will best meet the needs of the economic entity. In this regard, among numerous criteria that can be used can be specified:

- Risk of payment of interest and principal (credit risk);
- Interest rate risk (the risk of changes in market interest rates);
- Risk of maintaining the purchasing power of the investment (inflation risk);
- Liquidity risk, and
- Returns that can be derived from the security.

The risk that the purchaser of the securities took on in the sense that the debtor is unable to pay the interest and principal (*credit risk*) in different

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<sup>68</sup> D-r Jelena Kocovic & D-r Predrag Sulejic, *Insurance*, Belgrade, 2002, pp. 200  
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securities is different and depends mostly on the fact who is the issuer of the relevant security. Starting from government securities as non-risk or minimum risk and following the gradual classification performed by specialized institutions, investors need to assess the degree of risk of the respective securities and profitability of its purchase.

During the investing in securities other risk that has significant influence is the risk of a possible change in interest rates (*interest rate risk*). Having in mind that interest rates affect both the interest income in securities with variable income and on the market value of the same, the increase in interest rates on the money market and on the capital market at the same time realize a double impact: on the one hand that means growth in interest income from securities with variable yields, and on the other hand means declining of the market value of certain securities and vice versa.

Purchasing power of the investment of funds and its maintenance as a risk for investments is particularly expressed in terms of monetary instability and inflation (*inflation risk*). However, this risk is less in assets whose yields are expected to rise than in funds that bring fixed income.

*Liquidity risk* in the sense of possessing securities comprises in the inability to transfer them in cash on the financial market in the short term, so for such securities are said to be risky in terms of liquidity, i.e. marketability. Such securities either can not be sold or can be sold at a much lower price, because they have a high liquidity risk.

### ***Risk - return ratio, effective portfolio***

Taking into account the aforementioned risks, during making decision to invest in certain securities financial manager must make decisions that will take into account the amount of risk and the rate of return or profitability of the investmen. This means that the risk assessment does not imply recommendation to invest or not to invest in a particular security, but allows determining the price of securities in terms of risk and profitability that result from it. In fact, the risk assessment indicates the level of risk when investing in certain securities, by which the investor is facilitating understanding the quality of the borrower and making investment decision on the basis of much higher awareness. In addition,

the fact that the expected yield must not be realised is indisputable. Accordingly, the risk can be presented as a possibility of de returns on investment. Mathematical determination would mean that the risk of investing in securities is greater as much as the higher the standard deviation is and the possibility that deviation to happen. A simple graphical presentation of the previous findings can be presented as follows in the following figure. It shows the possibility of investing in two different financial instruments, securities A and securities B.<sup>69</sup>

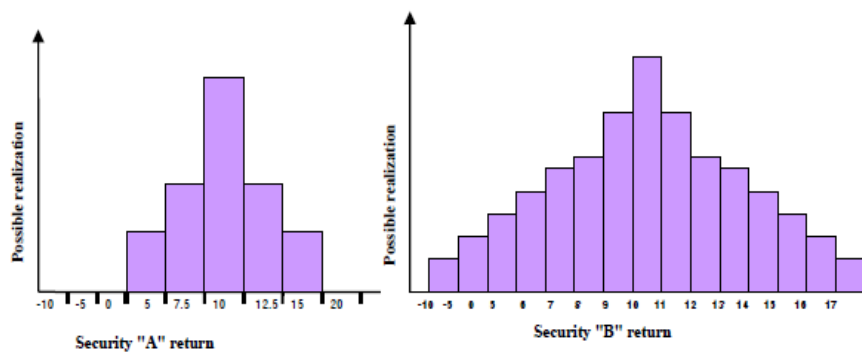


Figure 1. Investing in securities with different standard deviation<sup>70</sup>

What is obvious from the previous review is that the security “A” is more risky than security “B”. Although rational investor is mainly guided by the risk and the possibility of a negative return on investment in a particular security, however in order to quantify the risk and to use the obtained result have to be taken into account the total deviation of the actual from the expected return. Through the example that follows possible expected annual returns of investing in certain specific security are assumed, and distribution of probabilities of their occurrence can be calculated by simple parameters, among which the most important are:<sup>71</sup>

- Expected return on investment in certain securities, which is average measure, and
- Standard deviation as a measure of the deviation of the realized return from the expected return.

Probability (Pi)	0,05	0,10	0,20	0,30	0,20	0,10	0,05
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<sup>69</sup> James C. Van Horn, *Financial management*, Mate, Zagreb, 1992, pp.38

<sup>70</sup> Siniša Ostojić, *Insurance and Risk Management*, Data Status, Belgrade, 2007, pp.104

<sup>71</sup> Siniša Ostojić, *Insurance and Risk Management*, Data Status, Belgrade, 2007, pp.105

Possible outcome (expected return) (R <sub>i</sub> )	-0,10	-0,02	0,04	0, 03	0,14	0,20	028
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Table 1. Schedule of probabilities of expected annual returns on specific securities  
(hypothetical example)

Taking into account the aforementioned hypothetical data for a specific security (eg. A common share), the probability  $P$  and the possible outcome or expected return  $R$ , as well as the total number of possible outcomes  $n$ , the expected or average value, i.e. return is calculated as the sum of all multiplications of the probability and the corresponding adequate return:

$$\bar{R}_i = \sum_{i=1}^n R_{ix}P_i$$

or, according to assumed data in the table, expected return would be:

$$\bar{R} = -0,10 \times 0,05 - 0,02 \times 0,10 + 0,04 \times 0,20 + 0,03 \times 0,30 +$$

$$0,14 \times 0,20 + 0,20 \times 0,10 + 0,28 \times 0,05$$

$$\bar{R} = 0,09 \quad \text{i.e. 9\%}$$

The standard deviation of the expected value is calculated simply by calculating the variance, that is:

$$\sigma^2 = \sum_{i=1}^n P_{ix}(R_i - \bar{R}_i)^2$$

or, according to our hypothetical example,

$$\sigma^2 = 0,05 \times (-0,10 - 0,09)^2 + 0,10 \times (-0,02 - 0,09)^2 + 0,20 \times (0,04 - 0,09)^2 + 0,30 \times (0,03 -$$

$$0,09)^2 + 0,20 \times (0,14 - 0,09)^2 + 0,10 \times (0,20 - 0,09)^2 + 0,5 \times (0,28 - 0,09)^2$$

$$\sigma^2 = 0,00703$$

$$\sigma = \sqrt{\sigma^2}$$

$$\sigma = 8,38\%$$

This means that the extent or magnitude of the probability distribution of possible returns is a degree of uncertainty for the investor. Thereby, the

probability distribution with low standard deviation from the expected value shows slight latitude and a high degree of certainty for achieving the specified event. But, the distribution of probability with a high standard deviation in relation to expected value indicates a high degree of uncertainty regarding the potential return on that investment. But it should be noted that the represented expected value is simple arithmetic average which is suitable as a measure of central tendency of the distribution of probabilities. In this case the average return is calculated as the product function of the return which is realized every year and its probability, and it should be used geometric average of the annual return, so the previous formula will be rewritten in:

$$\bar{R} = \sqrt[m]{(1 + R_1)(1 + R_2)(1 + R_3) \dots (1 + R_n)} - 1$$

where  $m$  is the total number of years and marks the  $m$ -th root, and  $R_i$  is the return on investment in a particular year. In this way we get an average compound growth rate of wealth from beginning to end, i.e. from 0-th time point up to  $m$  time point.<sup>72</sup>

In any case, previously reasoned simplification of investment in a separate security is not found in practice. No single investment can be perceived, that is assessed independently of other assets. The investment activity of any economic entity and any particular investment must be observed through the effect of risk-return ratio on the overall portfolio of securities.

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<sup>72</sup> With regard to risk measurement, following papers can be identified:

Lawrence S. Ritter, William L. Silber, Gregory F. Udell, *Principles of Money, Banking and Financial Markets*,

Addison Westley, New York, 1996, pp.219

Gordon J. Alexander, William F. Sharpe, Jeffery V. Bailey, *Fundamentals of Investments*, Prentice Hall, New

York, 2000, pp.7-15



Hence the need of “building”, i.e. making efficient portfolio<sup>73</sup>, that means constellation of securities which one part will increase the return on a given risk level and the other part will reduce the risk on a given return level. But in this case also must be found a suitable form for risk measurement, in other words for measurement of the deviation among the actual and the expected return on all securities that comprise the portfolio. Thus the expected (average) return on a portfolio that consists of two or more different securities can simply be calculated as follows:

$$k_p = \sum_{j=1}^n w_j x k_j$$

where  $k_j$  is the expected return on the  $j$ -th security,  $w_j$  represents the share of the total money amount invested in the purchase of such security, and  $n$  is the total number of securities in the portfolio. From the mathematical quantification of the expected return on the portfolio follows that that return is a weighted average of expected returns of the securities that comprise the portfolio.<sup>7</sup> However, the risk of the portfolio is not a simple weighted average of the standard deviations in relation to the expected returns of individual securities.

This means that the risk of the portfolio does not depend solely on the riskiness of the securities that comprise the portfolio, but also depend on the mutual ratio of these securities.

Rational investor can separate securities into couples which are mutually weakly dependent, and thereby reduce the relative risk. In fact, it is the essence of diversification which is a combination of several types of securities which reduces their relative risk.

Following is a simple calculation of the expected return and standard deviation of the probability distribution of possible returns for two securities. Doing that, the first hypothesis is that the amounts invested in the two securities are equal, which is 50% of the total investment is in the security A and 50% in the security B. Than we have to calculate the expected value (average value) and standard deviation from the expected return for the portfolio which is comprised of securities A and B. In columns (1) and (2) are represented the predicted returns on securities A and B for the next 5 years, based on using some of the methods of market analysis and forecasting. In the column (3) is calculated the

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<sup>73</sup> Lawrence J. Gitman, *Principles of Managerial Finance*, Addison Wesley, New York, 2003, pp.226

return on the whole portfolio as a result of the anticipated return and 50% invested amount of money on both securities. Column (4) is the sum of the amount received. Following the calculation of the expected return of the portfolio of securities using the pattern:

$$\bar{k} = \sum_{j=1}^n k_j \times P_j$$

where:  $k_j$  is the return of  $j$ -th security,  $P_j$  is a probability of occurrence of  $j$ -th outcome, and  $n$  is a number of observed outcomes.

Average return is calculated by using the form:

$$\bar{k}_p = \frac{\sum_{j=1}^n k_j}{n},$$

and after that follows the calculation of the standard deviation from the expected returns of the portfolio of securities, based on the following formulas:

$$\sigma_k = \sqrt{\sum_{j=1}^n (k_j - \bar{k}_j)^2 \times P_j} \quad \text{or} \quad \sigma_k = \sqrt{\frac{\sum_{j=1}^n (k_j - \bar{k})^2}{n-1}}$$

year	predicted return		Calculating the return on the portfolio	Expected return on portfolio ( $k_p$ )
	Security "A"	Security "B"		
	(1)	(2)	(3)	(4)
2013	6%	14%	(0,50x6%)+(0,50x14%)=	10%
2014	8%	12%	(0,50x8%)+(0,50x12%)=	10%
2015	10%	10%	(0,50x10%)+(0,50x10%)=	10%
2016	12%	8%	(0,50x12%)+(0,50x8%)=	10%
2017	14%	6%	(0,50x14%)+(0,50x6%)=	10%

Table 2. Expected return, expected value and standard deviation from the expected return on a portfolio of securities "A" and "B" (Hypothetical example)

Based on these data, the expected value of the return on the portfolio is:

$$\bar{k}_p = \frac{\sum_{j=1}^n k_j}{n} = \frac{10\% + 10\% + 10\% + 10\% + 10\%}{5} = \frac{50}{5} = 10\%$$

A standard deviation from the expected return of the portfolio is:

$$\sigma_k = \sqrt{\frac{\sum_{j=1}^n (k_j - \bar{k})^2}{n-1}} =$$

$$\sqrt{\frac{(10\% - 10\%)^2 + (10\% - 10\%)^2 + (10\% - 10\%)^2 + (10\% - 10\%)^2 + (10\% - 10\%)^2}{5-1}} =$$

$$\sigma_k = \sqrt{\frac{0\%}{4}} = 0\%$$

Zero value of the standard deviation from the expected return of the portfolio should not be surprising because in all the assumed years the anticipated expected return of the portfolio, i.e. its average value is exactly 10%. This means that every year have no deviation among the expected and real return, so it is quite understandable why the final result, that is the standard deviation from the expected return is 0%. The risk of the portfolio of securities is an essential part of the work of portfolio managers, so they must pay special attention on it.

### ***Corporate risk***

This risk kind of the economic entities can be treated as a subspecies of the former, i.e. risk of investing in securities if they invest in projects in other subjects or government projects through financial markets i.e. through the purchase of their securities. The basic points to which have be putten attention are *period of maturity*, *liquidity* and *risk*. Investors mostly prefer buying attractive securities (marketable securities) which allows them flexibility and leave space on hesitating which is very convenient on their investment performances.

Having in mind that this risk was already discussed in the previous section, here the emphasis should be placed on the possibility of investing in real

investment projects and the risk occurs. Investment projects are invariably risky ventures and are such as a "victim" in the present for the effects for which there is a "hope" that will occur in the future. A future in turn is full of uncertainties and insecurities and imposes dilemma to the investor on acceptance or rejection of the projects under consideration as alternatives. Thereby introducing abstraction that in this respects it is irrelevant the way that investment is realized (through the financial markets or outside of them). Relationship that is considered here concerns the correlation risk - return and length of time in which they are expected, considering the generally accepted rule that investment denar available at present is worth more than at any point in the future.

The need to make the right decision in terms of investment of own funds or available funds provided by external sources in projects with lower risk and lower return or projects with higher risk and return, requires the need for identification and quantification of the risks that may arise. Therefore it is necessary to assess the effectiveness of the investment project for which purpose a whole methodology is developed within the investment management. The methodology includes economic - financial analysis of the investment project, projecting of the flows of expected returns, calculation of expected liquidity, and calculation of criteria by which cost-effectiveness is measured, and adjustment of the estimates of risks that can be expected to occur. The use of numerous investment criteria for making the investment decision, investment criteria that are based on the concept of the time value of money (the period of return on investment, average rate of return on investment, etc.) and criteria based on the concept of time preference of money (net present value of the project, profitability index of the project, internal rate of profitability of the project, etc.) are conducive to investment decisions, but do not take account of the riskiness of the projects evaluated. In their application usually starts from the position that all projects are with equal risk or risk free which not fit the reality. Therefore, it is necessary to be used methods based on the above, but which must contain the settings of risk and its incorporation into the decision model. It is about of application of mathematical methods and models for business decisions that belong to the categories of models for decision making under conditions of risk and decision making under uncertainty. In this case, it can not be discussed about the application of so-called deterministic models of decision making or models of decision making under conditions of certainty. Decision making under conditions of risk is characterized by the fact that the decision maker know only

the probabilities for different alternatives. The models on the decision in terms of risk must include also the calculation of risk in solving a problem.

They are called *stochastic models* or *simulation models*. Models of decision making under uncertainty are models in which decision making takes place under conditions of uncertainty, because the decision maker has not the opportunity to determine the probability of occurrence of a certain event. These models mainly fall into the area of game theory.<sup>74</sup>

Projecting the costs and revenues of the project normally is based on assumptions and predictions that must not be effected and that must be considered as probable and not certain.

The number of factors that can derail the expected cash flow in uncertain future contains a wide range of elements and basically speaking the deviations of actual sizes are greater as longer is the projected operating period of the project and the bigger is the amount of investment. Ultimately, the failure of some large investment projects due to the abstraction of some of the risks can lead to illiquidity, insolvency or even bankruptcy of the economic subject. In particular we are talking here about so-called *risks of business* that can be considered as: risks of technical-technological progress, market risks and risks of changes in the structure of the cost. The analysis of such risks must include the factors that cause them where external factors reflect the impact of changes in system conditions and measures of economic policy and the investor can not influence them, but just need to diagnose them and adapt to them; and internal conditions that reflect the impact of changes in variables of the project. These variables are under the direct control of the investor, but in any case it is a need for a great skills and knowledge in order to manage them.

The risk of investment in real investment projects can be determined as a possibility the project not be able to meet the criteria on profitability, in a sence of for example that the net present value of the project is not greater than zero ( $NPV > 0$ ), the internal rate of cash flows is not greater than the cost of

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<sup>74</sup> Igor Brajdić, *Mathematical models and methods for business decision making*, Faculty for tourism and hotel

management, Opatia, 2006, pp.8

capital ( $ISP > k$ ) and as uncertainty of cash flows caused by some degree of their variability. About the projects for which we are speaking here, i.e. in projects where the investment is in real goods the risk most often comes from operating flows, which in turn depend on a number of variables that make implications for sales volume, sales prices, operating costs and similar to them. Despite this, initial investments have a great degree of certainty; they are made in the present and are with a degree of reliability. Therefore the concept of facing the risk of investing in real investment projects spanning multiple approaches on adaptation of the projects to the risk. Anyway, the starting point is the present value of the project, but not the net present value, but the present value of cash flow because investments are undisputable and certain. Because of that, the risk analysis refers to the expected net inflows in the future. Thus the inclusion of risk means to the projected net returns to be seen as the hope on expected returns, rather than as a certain amount. The application of the concept of probability of occurrence of the *expected returns* means they have to be seen as a product of the projected volumes of the net – returns and estimated probability to occur. The calculation of the value of expected returns is not the end of this procedure, but it involves determining the standard deviation on individual projects in order to conclude which project is less risky, particularly if there are projects that exclude each other.

Although the basis of the procedures on adjustment of the projects to the risk means determining the present value of the project, and not the net present value, one of the options for assessing the risk of the investment project is: (1) to calculate *breaking point of cash flows*, i.e. cash flows that will meet the criteria  $NPV > 0$  and  $ISP > k$ ; and (2) to assess the probability that the cash flows of the economic subject shall be equal or exceed the amount of the breaking point. In this, *the breaking point of the cash inflows can be defined as a level of cash flow that is required on a project to be considered as acceptable*, i.e.:

$$NPV = CF_t \times IV_{n,k\%} - I_0 \geq 0.$$

or,

$$CF_t \geq \frac{I_0}{IV_{n,k\%}} = BP.$$

where: *CF*- Cash Flows, *BP*- Breaking Point, *I*- Investment

However, breaking point (BP) shows only the minimum level of cash flows that have to be achieved to meet the eligibility requirement of the investment project, but does not show the variability of cash flows. For this purpose can be used procedures for adaptation of the net revenues flows to the risk, and the need for adjustment of the discount factor, as the second element of which depends the volume of the present value of the project requires the need for application special procedures for adjusting the discount rate to the risk. In the two mentioned procedures can be used more available methods, and as often applied can be specified:

1) *Methods of adjustment of the net revenues flows to the risk;*

The determination of net inflows as the difference between the sales incomes and the outflows for the engaged factors mean projection of the individual elements of the cash flow and coverage of the certain levels of the key variables that determine their amounts.

Therefore, adjustment of cash flows to the risk can be done by including of the possible changes in key variables that determine the amount of the variability of cash flows. Among the multitude of theoretical methods that provide such an opportunity, as a practical most applicable, with solid analytical results in the investment decision can be stated:

- Method of sensitivity analysis;
- Method of scenario analysis, and
- Method of simulation analysis.

2) *Method of adjusting the discount rate to the risk (adjusted rate);*

Much practical approach to include risk into investment projects is adjusting the discount rate to the risk, because risk is involved by the volume of the discount rate and the discount factor is a function of the discount rate and discount period. Therefore, the basic setting of this method is that the risk is increasing function of time, a theorem which theoretically can not be fully defend in all cases of investment, but this method is widely used in practice, mainly because of its simplicity in implementation. The essence of this approach is that the discount rate is added by risk premium.

3) *Other practical methods for quantification of the risk;*

Risk as a phenomenon that follows the investment for a long time has been the subject of theoretical elaborations in the scope of business finance, financial management and investment management. In the frames of the mentioned disciplines, besides the mentioned basic methods, and in order to proper risk management, some other methods are developed.

Among them can be distinguished:

- Method of decision tree analysis;
- Method of Monte Carlo simulation;
- Method of matrix game theory;
- Method of threshold ROI;
- Method of evaluation of the time-out of the project etc.

### *Conclusion*

Investments directly affect economic growth, i.e. the growth of gross domestic product, so it is important in the investment policy to be taken care primarily for performance, despite attempts to provide the necessary scope and structure of investment required when there is so much sacrifice of current consumption. Investments are directly related to the development of the financial system, i.e. financial institutions, financial markets and financial instruments. The determination of the position and role of the financial system in the economy imposes the need for division of the financial versus real estate, as a parallel of the real and monetary categories. Despite repeated confrontations in modern macroeconomics in direction of the underlying sources for instability and its recommendations for balancing, it is clear that real factors are those that make "real" wealth, and monetary i.e. financial factors are their faithful companion and a form of aggregate expression. The material wellbeing determined by material capacities i.e. by the amount of products and services that can be produced depends primarily of *real estate* of the national economy, i.e. of: land, objects, machinery, equipment and knowledge that can be used to produce products and services. Despite such real property, there is *financial assets* i.e. securities in the broadest sense of the word. In fact it is a sheet of paper on which certain values are written, or even for electronic value records which conventional are valued due to certain reasons, but that does not directly determine the production capacity of the economy.

The most essential form for determination of this property form is that it is a demand for the part of the income generated by real estate. The essential distinction between the real and financial assets is actually another phenomenal form of the difference between real and monetary categories, and is about that the ownership of financial assets is the criterion for allocation of revenues or income realized by the real estate. Another dimension of financial assets



represents the delay of current consumption through the purchase of various securities.

This form of financial assets for its buyers, on the other hand, i.e. on the side of the sellers is an obligation (for interest, principal, dividends, etc.), so by netting of the two sides remains only the real estate as net wealth of the economy. Land, buildings, equipment, machinery and other manufacturing real goods are financed from the financial assets of the surplus entities in the economy.

The need for emphasis of the financial assets in the analysis is justified by a range of good reasons for that purpose, while must not lose sight of the fact that the success or failure of financial assets that are invested exclusively depends on the performance of the underlying real estate. In any case, the financial assets are inevitable element for the functioning of developed economies. This distinction actually makes the essence of portfolio creating by the individual or institutional investors. This is the initial step in the evaluation of individual securities and risk management on specific markets. Knowing the forms of financial assets, the mutual relation risk-return and successful valuation of financial assets is the initial step of decision-making in the process of investing. Investments in financial assets opens the opportunity for achieving real estate, and financial assets by its side and the markets on which it is traded exercise more important roles in the economy including: planning of consumption; risk allocation; separation of ownership from management.

Planning of the consumption provides an opportunity for time "moving" of the consumption from periods in which entities spend less than they earn towards the periods when these trends are opposite set. The distribution of risk relates to its measurement at different investment options and choice of a combination that fits the propensity or aversion to risk. Separation of ownership from management of large companies as an opportunity arising from ownership of financial assets provides a stability to the companies that could not be achieved by one owner and dispersion of risk among numerous owners or creditors.

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**THE IMPORTANCE OF THE SERVICE SECTOR FOR  
THE BANKING INDUSTRY. THE CASE OF  
MACEDONIA**

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***Abstract***

The aim of this paper is to elaborate the importance of service sector in the Republic of Macedonia and the financial support that is received from the banks. The services sector represents more than two-thirds of economic activity and four-fifths of growth in recent years in OECD countries. In Macedonia the service sector represents around 30% from the economic activity which is indicator for the level of development of the economy. Further liberalization, removing product market barriers still limiting competition in various sub-sectors, allowing more FDI are factors that are indicated by experts that can contribute for further development of the service sector. The service sector has more than 40 % share in the total credit exposure of the Macedonian banking system, and the efficiency of this sector has indirect influence of the safety and soundness of the banking system. The share of the service sector in the credit activities of the banks is larger than its share in the economic activity. This is mainly due of the lower risk of this credit portfolio, whose average riskiness is below the industry sector and agriculture. The conclusions about the further indirect contribution of the service sector for development of the banking industry will be drawn based on the comparative analysis with selected OECD countries.

Keywords: service sector, banking industry

***The importance of the service sector for the banking industry. The case of  
Macedonia***

The development towards the „Service Society” has long viewed to be just an academic vision but has already become a reality to a large extent. The

expansion of output and trade in manufactured goods constituted the engine of growth of the past century. Although developed countries pride themselves on their global technological lead in many industries, still simple analysis shows that manufacturing has long taken the back seat to services industries, in terms of both output and employment. In OECD countries, the services sector represents more than two-thirds of economic activity. Almost 70% of employed persons in the EU27 worked within the service sector in 2011, compared with 62% in 2000. Reflecting the long-term trends in employment structure, net job creation is occurring almost exclusively in the service sector. The growth of existing service industries, the development of new services – not least in light of technological, demographic and other trends – and increased internationalization suggest that the service sector will continue to increase in scope and intensity.

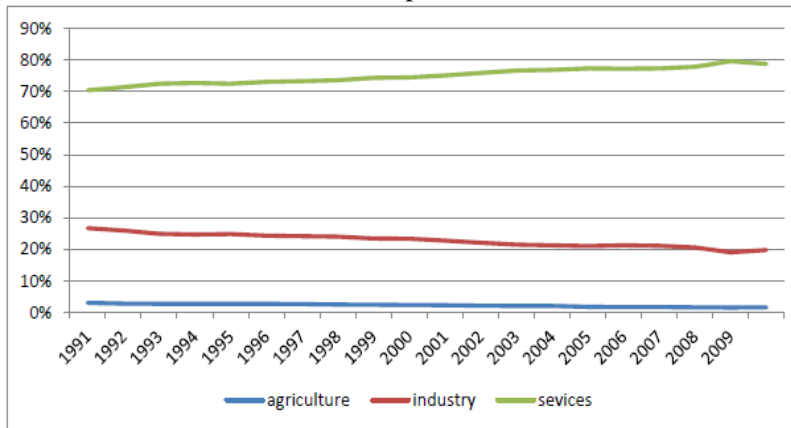
In Eastern European countries, the importance of the services sector for GDP and employment has substantially increased since the beginning of transition and accounts presently for more than half of the economic activity in those countries (World Bank, 2006). Future development of these countries, in which belongs Macedonia, depends on further development of the service sector and its efficiency. An efficient services sector also has indirect consequences for economic growth through the efficiency of other sectors in the economy. The development of the service sector also will have positive influence on the development of the financial sector. Further development in this sector will mean increase lending on the companies and employees in this sector and growth of other financial activities which will strengthen the banking industry also.

### ***The importance of service sector in EU and Eastern European countries***

The analyzes of the importance of the service sector will be done by historic analyzes of the structural changes of the economies in Europe. One way to look at the structure of an economy is to compare the shares of its three main sectors—agriculture, industry, and services—in the country's total output and employment.

If we analyze gross value added in EU 15 (Figure 1), more than clear is that services are dominant sector with more than 70% of the total gross value added. Also the trend is evident. The share in gross value added on service sector continues to increase.

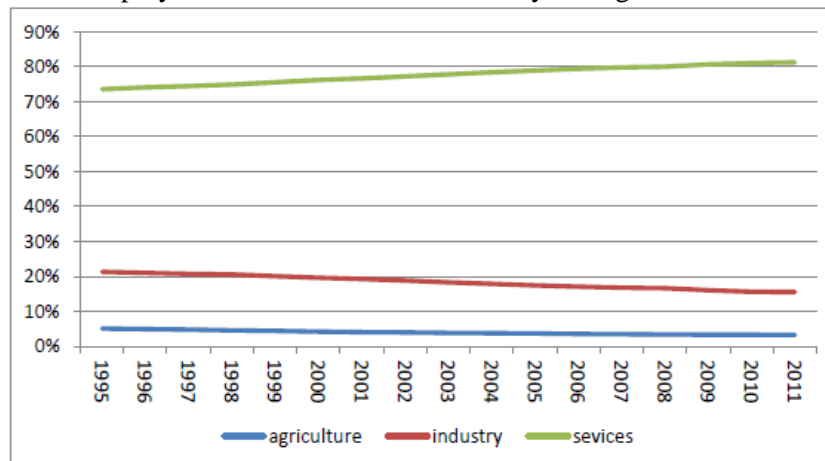
Figure 1. - Gross value added at current prices in EU 15



Source: European Commission, Economic and Financial Affairs, AMECO

The same conclusion can be drawn if we analyze the importance of services for labor market (Figure 2). Above 70% of the total number of employed in EU 15 is due to the service sector. Employment trends are rather closely related to output trends, so that a similar picture emerges for the increase in the share of services in total employment. In recent decades EU Member States have experienced a significant change in their employment structure in favor of service-sector employment, with a concomitant reduction in the share of jobs in industry and agriculture.

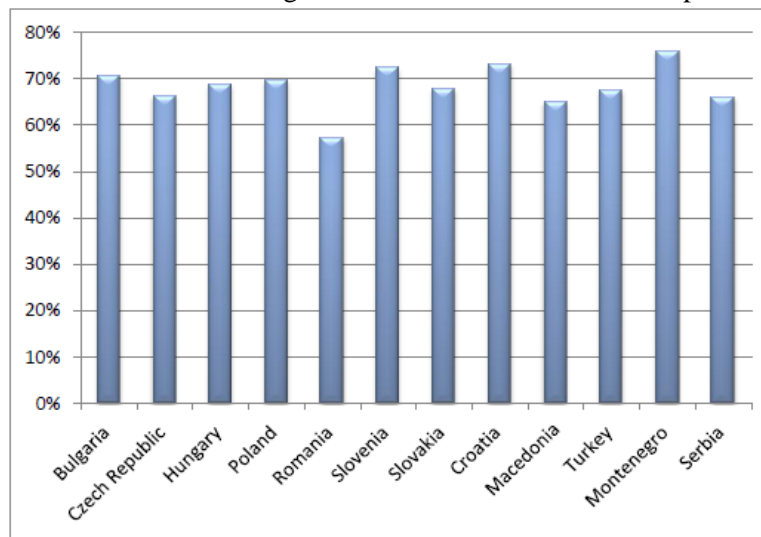
Figure 2. - Employment share of services, industry and agriculture, EU15



Source: European Commission, Economic and Financial Affairs, AMECO

A little different picture of the importance of services will be received if we analyze EU 27 countries. There are significant differences of share in gross added value and employment in the service sector in new and old EU countries. In Eastern Europe countries in which are included some of new EU Countries, the share of service sector in GDP is smaller than in developed EU countries (Figure 3).

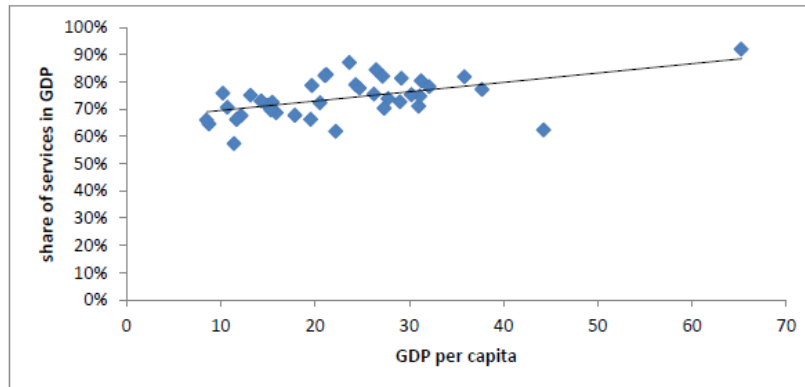
Figure 3. - Share of services in gross value added in Eastern Europe countries



Source: European Commission, Economic and Financial Affairs, AMECO

This can be explained by the level of economic development. Countries with bigger GDP per capita have more developed service sector and vice versa (Figure 4). So in new EU countries there is still place for development of the service sector which can be confirmed by faster growth in service sector than in the old EU countries.

Figure 4. - GDP per capita and Share of services in GDP in EU countries



Source: European Commission, Economic and Financial Affairs, AMECO

### **Determinants of development of the service sector**

Dominant and still growing importance of service sector and the differences between countries put in place the question what are the main drivers for service sector developments. A lot of scholar hypothesis and empirical analyzes to answer this question are present which can be aggregated in two basic views. According to Clark (Clark, 1957) the increasing demand for services is the driving force of services growth. So Clark explains the growth of the service sector with shifts in income elasticity of demand.

More common explanation for service sector growth is linking this growth with the level of economic development of a country. This connection is straight forward, more developed economy has stronger service sector and vice versa (Francois and Reinert, 1996). Of course stronger service sector accordingly will impact with appropriate level of development in it. Other view of the growing importance of service sector links the growth with supply side (Baumol, 2001). According to Baumol the productivity growth is faster in manufacturing than in services demand for services. But because the wages are rising equal this will result with reallocation of employment to lower productivity sector. In long term, according to this author, the productivity will slow down and reverse process will follow.

One of the most recent and extensive study on this field is done by Maroto (Maroto, 2009). According to him the growth of the service sector can be explained by changes in production factors, changes in productive systems, changes in markets and changes in the institutional system. These changes are

related to factors such as information and communication society, globalization and demographical and territorial changes. Among these factors, some stand out: integration between goods and services, which has increased the intermediate demand for business services; the interrelation between new technologies, innovation and services; the importance of human capital and qualifications (particularly in advanced services) and specialization; the role of international trade and investment; and finally, through its regulations and institutional changes, the role of the State in the economy.

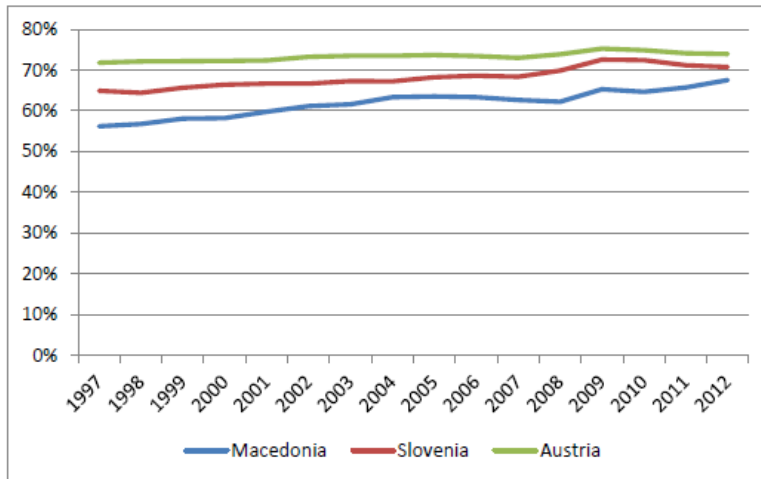
### ***The importance of the service sector for the banking industry in Macedonia***

From the empirical evidence of developed countries is more than clear that share of services in gross value added and employment will increase parallel with GDP growth. This will have proper impact on the banking activities. In order to predict the influence of growth of service sector, we will use the current data for exposure to service sector and default figures. Comparison will be made with Slovenia as one of the "new" EU countries and Austria as developed EU country, about the share of exposure towards service sector and its trend and about default figures. First we analyze the importance of service sector for the economy and the trend of growth for our country, Slovenia and Austria.

As we can see from Figure 5 the trend of services in gross added value is upward in Slovenia, Macedonia and Austria. Still, the share of services in Slovenia in gross added value is bigger for 4 % than in Macedonia which can be explained with the higher GDP per capita. The gross added value from service sector in Austria is higher from Slovenia and Macedonia but the trend of growth is slower. This means that to some level the share of service sector in gross added value grows faster and after that the growth is slower.

Figure 5. - Gross added value in sample countries

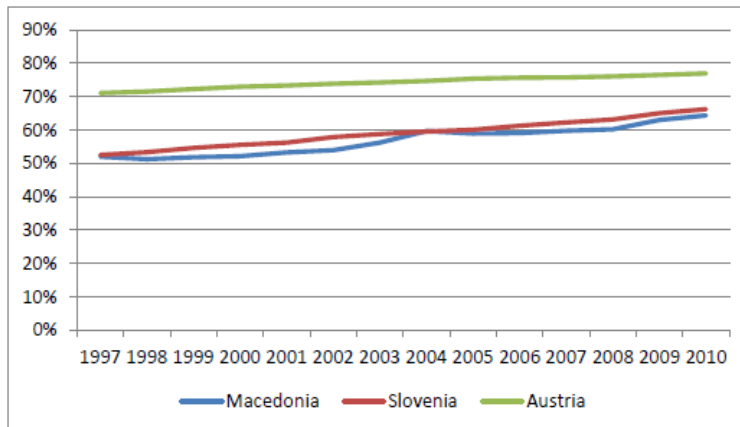




Source: European Commission, Economic and Financial Affairs, AMECO

Regarding the number of employees, the trend in Macedonia and Slovenia is very similar and the share of number of employees in the service sector is almost the same (Figure 6). The main difference between the sample countries is the unemployment rate. In Macedonia the unemployment rate according to State statistical office is above 31% and in Slovenia the level of unemployment is around 13%. What is unknown is the share of employees in service sector if the level of unemployment in Macedonia is similar to Slovenia.

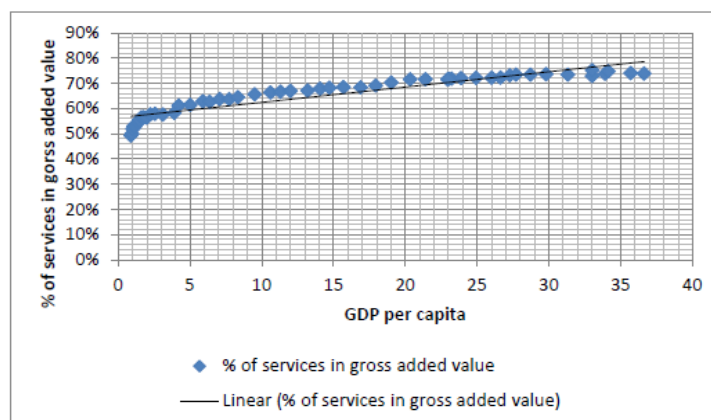
Figure 6 - Employment share of services, sample countries



Source: European Commission, Economic and Financial Affairs, AMECO

The share of employees in service sector in Austria is quite above than Slovenia and Macedonia. This is another confirmation that the level of economic development is excellent predictor of the share of service sector in gross added value and employment. As can be seen the correlation is almost linear, and as the growth of GDP per capita slows the % of service sector in gross added value maintain the same level (Figure 7).

Figure 7. - GDP per capita and Share of services in gross added value in sample countries



Source: European Commission, Economic and Financial Affairs, AMECO

Another aspect that must be analyzed, in order to assess the impact on service sector development is the level of financial intermediation and characteristics of banking sector.

The level of financial intermediation in Republic of Macedonia is still on the lowest level relative to some countries from the European Union, the EU average and the Euro zone average including Slovenia (Table 1). Of course the level of financial intermediation is determined by the level of development as the share of service sector. This leaves space for further deepening of the financial intermediation with parallel enhancement of the service sector.

Table 1-Level of financial intermediation  
Table 4

Country	Assets/GDP	Loans/GDP
Romania	75%	43%
Poland	88%	57%
Lithuania	98%	72%
Slovakia	86%	49%
Hungary	136%	79%
Bulgaria	112%	78%
Czech rep.	117%	58%
Slovenia	153%	102%
Estonia	155%	114%
Latvia	161%	70%
Cyprus	822%	341%
Malta	721%	373%
EU	334%	141%
R.Macedonia	72%	44%

Another important characteristic of Macedonian banking system is the high level of concentration. CR5 and CR3 show high concentration in all market segments. Two-thirds of total assets of the banking system is concentrated in three banks, while seven of total sixteen banks occupy the less than 3% of total assets of banking system. So the credit capacity of the three systemic banks is one of the factors for service sector development.

Table 2. - CR5 and CR3 in banking system of Macedonia

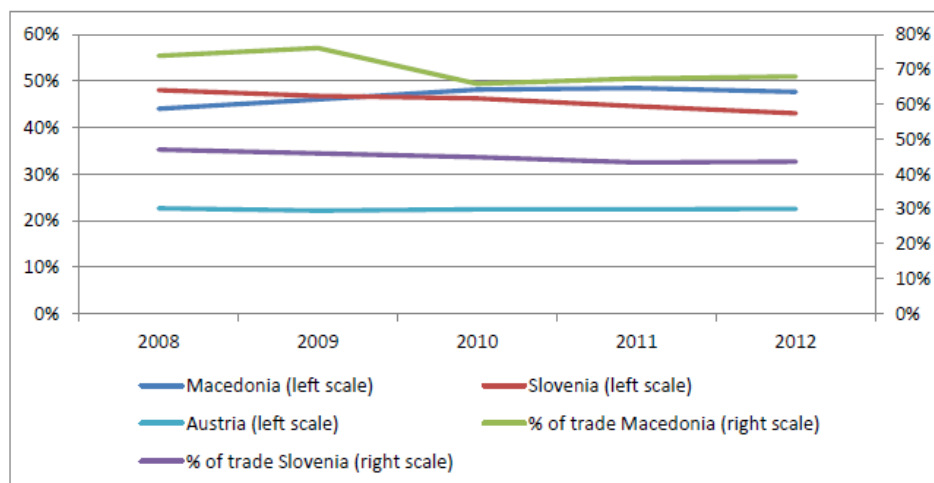
		Year	Total assets	Loans do individuals	Corporate loans	Deposits on individuals	Corporate deposits
CR5		31.12.2010	77.2%	79.3%	81.1%	84.9%	83.3%
		31.12.2011	76.6%	78.8%	81.7%	82.9%	83.5%
		31.12.2012	74.5%	79.2%	79.9%	81.0%	82.1%
CR3		31.12.2010	66.0%	68.6%	69.2%	76.7%	62.5%
		31.12.2011	64.0%	67.7%	67.4%	75.0%	57.5%
		31.12.2012	61.7%	67.1%	65.6%	72.9%	59.9%

Source: NBRM

The analyze of the importance of the service sector for the banking industry will be conduct based on the share of loan portfolio in this sector. The share of loan portfolio on service sector will be compared with Slovenia and Austria in order to conclude further developments in the future. Another important aspect is the default rate of the service sector which of course will influence on the determince of banking industry to support it.

The comparison between Macedonia and Slovenia shows that the loan portfolio of service sector constitutes around 40% of total portfolio in selected countries (Figure 8). The trend in these two countries is different. In Macedonia the loan portfolio share increase and in Slovenia decrease but still the differences are minor.

Figure 8. - Share of service portfolio in sample countries



Source: European Commission, Economic and Financial Affairs, AMECO

Further analyzes shows big differences in the exposure towards service sector. Almost 70% of the service sector portfolio on Macedonian banks is due to wholesale and retail trade and in Slovenian banking sector this figure is 44% (Figure 8). In Austria the share of service sector portfolio is twice as smaller and is around 23%. The difference in the share of service loan portfolio probably can be explained by the level of economic development. More developed economy has developed industry which needs credit support. Also the industry sector is more financially extensive and bigger credit support is needed. In deficiency of strong industrial sector who can export its goods, Macedonian banks are turned towards wholesale and retail trade sectors. So it is expected with growth of GDP per capita to increase the loan portfolio of industry and in the same time to decrease the share of trade sector portfolio in total service portfolio. The main conclusion is that further development of the economy will result in growth of loan portfolio of industry sector and smaller growth in service sector portfolio. But this growth in service sector portfolio will be accompanied with structural changes and decline of the exposure towards wholesale and retail trade sectors. Another key factor, except slightly developed industry, for big share of service sector portfolio is its quality. As can be seen from Table 3 wholesale and retail trade has the smallest rate of default from all the other sectors and what is more important the rate is almost unchanged. This is important fact for the difference of share of this sector in Macedonia with the other sample countries.

Table 3-default rate by sector in Macedonian banking system

Sector	31.12.2008	31.12.2009	31.12.2010	31.12.2011	31.12.2012
Agriculture, forestry, fishing, mining	10.8%	9.1%	9.3%	16.1%	11.8%
Manufacturing	8.5%	10.8%	12.3%	13.5%	14.1%
Electricity, gas, water	0.3%	0.3%	0.2%	0.4%	14.5%
Construction	6.2%	4.1%	4.0%	5.7%	11.0%
Wholesale and retail trade	5.5%	5.2%	5.0%	5.8%	6.3%
Transport, storage	2.5%	5.5%	4.8%	5.8%	7.8%
Accommodation facilities and catering services	0.7%	4.2%	4.6%	24.1%	30.4%
Information and communication	1.0%	1.0%	0.7%	2.0%	6.3%
Real estate services	2.1%	1.5%	2.1%	8.4%	7.4%
Professional scientific and technical activities	4.5%	1.3%	3.7%	0.1%	9.7%
Other sectors	4.3%	6.8%	4.1%	3.5%	3.2%

Source: Report on Banking System of the Republic of Macedonia of 2012, NBRM

The analyze of loan portfolio in Slovenia shows riskier portfolio than in Macedonia (Table 4). The same conclusion can be made for the service sector too. The biggest part of the portfolio which is in trade in Slovenia also is one of the less risky. Also the economic crises in which is the country had not so much influence as in the other sectors. The same conclusion can be brought for Slovenian banking system that wholesale and retail trade is one of the healthiest sectors for lending and can be used for explanation of the bigger share of this sector versus Austria. The other service sectors in Slovenia are more risky than the average of banking system and are very sensitive of economic conditions but their share in total service sector portfolio is small.

Table 4 -default rate by sector in Slovenian banking system

Sector	31.12.2008	31.12.2009	31.12.2010	31.12.2011	31.12.2012
Agriculture, forestry, fishing, mining	6.2%	5.5%	5.8%	9.4%	15.4%
Manufacturing	3.8%	6.3%	9.2%	11.4%	15.7%
Electricity, gas, water	1.3%	0.8%	1.5%	2.2%	3.8%
Construction	3.0%	7.7%	19.5%	49.9%	62.2%
Wholesale and retail trade	5.1%	5.1%	13.6%	11.8%	14.2%
Transport, storage	2.6%	1.9%	6.5%	11.3%	13.7%
Accommodation facilities and catering services	3.6%	7.9%	6.6%	14.5%	23.2%
Information and communication	1.4%	1.8%	23.2%	25.5%	29.5%
Real estate services	2.1%	4.8%	10.3%	17.3%	24.0%
Professional scientific and technical activities	5.1%	7.6%	17.7%	20.3%	19.9%
Other sectors	3.5%	2.2%	2.7%	5.0%	8.3%

Source: Stability of the Slovenian banking system in 2012, Banka Slovenije

In short and medium term is certain that the lending activity towards service sector in Macedonia will be directed towards trade. In medium term and long term if there is economic development and GDP growth, the share of trade portfolio will decrease and the portfolios of other service sectors will grow. The

small default rate of service sector gives good ground for further lending activities in other segments of the service sector.

### *Conclusion*

The development towards the „Service Society” has long viewed to be just an academic vision but has already become a reality to a large extent. The service sector is dominant one, with more than 70% of the total gross value added in EU 15. Also the trend is evident. The share in gross value added on service sector continues to increase. Also above 70% of the total number of employed in EU 15 is due to the service sector. Employment trends are rather closely related to output trends, so that a similar picture emerges for the increase in the share of services in total employment. The share of service sector in the economy is highly positive correlated with the level of economic development. Countries with bigger GDP per capita have more developed service sector and vice versa.

As we can see from Figure 5 the trend of services in gross added value is upward in Slovenia, Macedonia and Austria. Still, the share of services in Slovenia in gross added value is bigger for 4 % than in Macedonia which can be explained with the higher GDP per capita. The gross added value from service sector in Austria is higher from Slovenia and Macedonia but the trend of growth is slower. This means that to some level the share of service sector in gross added value grows faster and after that the growth is slower.

The service sector with 67% share in gross added value is dominant in Macedonia too. Regarding the number of employees, the trend in Macedonia and the other sample country Slovenia is very similar and the share of number of employees in the service sector is almost the same. The main difference between the sample countries is the unemployment rate. In Macedonia the unemployment rate according to State statistical office is above 31% and in Slovenia the level of unemployment is around 13%. What is unknown is the share of employees in service sector if the level of unemployment in Macedonia is similar to Slovenia.

Regarding the loan portfolio, the comparison between Macedonia and Slovenia shows that the loan portfolio of service sector constitutes around 40% of total portfolio in selected countries. The trend in these two countries is different. In Macedonia the loan portfolio share increase and in Slovenia decrease but still the differences are minor.

Further analyzes shows big differences in the exposure towards service sector. Almost 70% of the service sector portfolio on Macedonian banks is due to wholesale and retail trade and in Slovenian banking sector this figure is 44%. In Austria, as developed EU country, the share of service sector portfolio is twice as smaller and is around 23%. The difference in the share of service loan portfolio probably can be explained by the level of economic development. More developed economy has developed industry which needs credit support. Also the industry sector is more financially extensive and bigger credit support is needed. In deficiency of strong industrial sector who can export its goods, Macedonian banks are turned towards wholesale and retail trade sectors. So it is expected with growth of GDP per capita to increase the loan portfolio of industry and in the same time to decrease the share of trade sector portfolio in total service portfolio. The main conclusion is that further development of the economy will result in growth of loan portfolio of industry sector and smaller growth in service sector portfolio. But this growth in service sector portfolio will be accompanied with structural changes and decline of the exposure towards wholesale and retail trade sectors.

Another key factor, except slightly developed industry, for big share of service sector portfolio is its quality. Wholesale and retail trade portfolio in Macedonia has the smallest rate of default from all the other sectors and what is more important the rate is almost unchanged in time. This is important fact for the difference of share of this sector in Macedonia with the other sample countries.

In short and medium term is certain that the lending activity towards service sector in Macedonia will be directed towards trade. In medium term and long term, if there is economic development and GDP growth, the share of trade portfolio will decrease and the portfolios of other service sectors will grow. The small default rate of service sector gives good ground for further lending activities in other segments of the service sector.

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## **SENIOR LIFE INSURANCE IN THE REPUBLIC OF MACEDONIA – STATE AND PERSPECTIVES**

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*Abstract*

Life insurance market in the country in 2013 is comprised of five insurance companies, four of which deal exclusively with life insurance.

The life insurance in the country from 2009 until today achieved steady growth in total premium.

Life insurance in the country in the true sense of the word is immune to the global economic and financial crisis.

In future an intensive tense must focus on society and especially life insurance companies of the need to update the citizens life insurance.

Insurance companies should discover the perception of potential customers that is, the broad range of products, types of insurance that are the most attractive.

Within the research technique is applied to the survey. As an instrument for collection of information and data, an integral Questionnaire is used in accordance with identified problems, set goals and objectives. The questionnaire is made of two parts. In the first part of the questionnaire there are standard questions relating to socio-demographic and economic variables. In the second part of the questionnaire formulated questions that relate to the views of consumers of insurance are used. In response to several questions a respondent gives the rankings.

According to the principles and rules of statistical analysis, for true results to be achieved of this research, it is necessary to poll a minimum of 250 respondents. In order to increase the representativeness of the samples, while taking into account the cost-effectiveness and costeffectiveness (cost and time) 536 respondents have been interviewed Life insurance is designed as the most

reliable form of protection economic the insured or the survivors of serious financial loss that may be caused during the occurrence of unforeseen circumstances: premature death and working ability (loss of working capacity).

Life insurance, which provides economic and social security, in accordance with their individual needs and financial strength of the insured or his or her family, are accomplished and function of accumulated capital.

In this study we wanted to examine the similarities and differences that affect socio-demographic factors and economic volume of contracts for life insurance. Based on existing knowledge and set of research problems, we explore our basic hypothesis: that the level of demand of life insurance as a result of the age of the population (among other numerous economic, social and organizational determinants). Hence, the goals and objectives of the research of our basic hypothesis is split into more auxiliary hypotheses.

**Index terms:** Life insurance, Insurance companies, Survey, Age groups of respondents.

## *INTRODUCTION*

Today in this modern market conditions of work and life, when the global financial crisis has penetrated deeply into the structure of the economy and erode, life insurance has grown significantly in the country, even in world terms.

Unlike some countries in the region where saw some stagnation and downward trend in the development of life insurance in the country gross premiums written grew. In this year (2013), life insurance continued to rise. Gross written premium in this segment had the highest relative increase (20.3% or 101 million, in 2013), which is mainly due to the low starting point of this segment of the insurance sector. This segment has the highest potential for future development, especially for new prospects to connect with life insurance products of bank credit and the emergence of new entities providing services right life insurance.

Table No. 1-Gross premium agreed - life insurance for the period of 2009-2012 years at 000 Euros

Insurance company	2009	Index 2009/2008	2010	Index 2010/2009	2011	Index 2011/2010	2012	Index 2012/2011
„QBE Macedonia“	358,5	/	242.0	/	186.2	/	130.3	/
Croatia insurance	1.844.5	124,33%	2.229.2	120,86%	3.268.0	146,59%	3.964.2	121,30
Grawe insurance	2.688.3	115,95%	3.293.2	122,50%	3.973.5	120,66%	4.315,1	108,59
Uniqa Lajf AD	/	/	/	/	218.9	/	661.6	302,29
Winer Lajf-Wiena					434.5	/	654.4	150,60
<b>Total</b>	<b>4.891.3</b>	<b>112,8%</b>	<b>5.764.4</b>	<b>117,84%</b>	<b>8.081.2</b>	<b>140,19%</b>	<b>9.725.7</b>	<b>120,35</b>

Source: - Insurance Bulletin of the Republic National Insurance Bureau, 2008 and 2012, Skopje  
- Report on the scope and content of the insurance, Supervision Agency Insurance, 2009, 2010, 2011 and 2012, Skopje

The data convincingly indicate constant growth premium of life insurance and also the constant increase in the share of the total premium of insurance in the country.

According to the indicators of the tabular display (Table. 1), it is evident that the life insurance company Grawe for the reporting spell permanently occupies a dominant position in the market for life insurance in the country and the high 44.4% (2012).

In future time intensive spell must focus on society and especially life insurance companies of the need to update the citizens' life insurance. The need for life insurance also can be said is that economic need, which means that a concrete and rational. The exceptional role is changing perceptions about offering life insurance. The perception is slowly changing, but not the intended speed. The reasons are numerous and a bit of that life insurance companies do not enunciate readiness for greater investment in media advertising and public in the promotion of their products, because the investment in the early years are not effected satisfactorily. Namely, break even in life insurance usually accomplished by the past 6 or 7 years.

The survey of the views of the users in this study utilized a descriptive research<sup>75</sup>. The field research was conducted with the technique formally structured communication. Structured communication between examiners (interviewers) and respondents (respondents) was conducted by questionnaire.

### ***RESEARCH FUND AND DATA PROCESSING***

1 The subject of the research were problems concerning the perceived needs of a specific population (age group), their views and opinions on the difficulties encountered in the system, decisions and actions they take, etc.

2 Survey of life insurance is conducted in Ohrid region, respondents were chosen random. We expect that this sample would be appropriate to generalize the results of the survey and to get an answer to the posed problem and hypothesis.

The collected data is processed by mathematical-statistical methods and procedures. The order of their application is determined by the methodology of scientific research. It is important to determine the timely elimination and inclusion of certain features that ensure a quality analysis of the research.

Ordering data according to Lankester in contingency tables<sup>76</sup> aims to find the subtle connection as well as the nonparametric size, and to prevent

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<sup>75</sup> The subject of the research were problems concerning the perceived needs of a specific population (age group), their views and opinions on the difficulties encountered in the system, decisions and actions they take, etc.

<sup>76</sup> Table of contingency is composed of two columns with two features: rating when choosing Life insurance and age of

the applicant. Both also include two modalities. Marginal amount represents the total number of marks. Through

contingency table can be seen that with age from 31 to 40 and from 41 to 50 years, while in empirical data prefer life

insurance experience and Supplemental Insurance of persons from accidents with life insurance, but theoretically

„loss“ of information. Thus, based on the frequencies real number joins in each class. Subordinates result has a normal distribution  $N(0,1)$ , that is, the topic is normalized.

The copying of data from a lower scale to a higher scale, so to mark a subordinate normal distribution  $N(0,1)$  allows the procedure which in conjunction with the scale of proportions. On the basis of what is exposed, it is seen that the scaled data it is possible to be applied multivariation analysis of variation (MANOVA), discriminative analysis, Roj-t test and other indicator procedures and methods.

By finding the ratio of discrimination separate characteristics are separated which determine the specification of the group and features that should be excluded from further processing, thus reducing the observed area.

Assessing the homogeneity of the group and distance between them (Mahalanobis-this) is achieved with a precise analysis of the observed occurrence.

In addition to multivariant univariant procedures in analyzing the collected data, coefficient of discrimination, Student-t test of proportions are used.

Based on the estimation of the distance between homogeneous groups, a distance among the groups is specified. In the next step of the dendrogram, the mentioned grouping is presented. It allows, based on allocated properties, to determine which groups are close and which are not.

The above procedures are designed to identify the characteristics of each group, the homogeneity of the groups and the distance among the groups in terms of the defined feature, in order to derive reliable and accurate forecast.

To accept the initial hypothesis the critical value  $p = 0,1$  will be used. I That is, if  $p > 0,100$ , there is no reason not to accept the initial hypothesis. For rejection of the initial hypothesis, two bases of knowledge will be used. When  $0,10 > p > 0,05$ , an alternative hypothesis is accepted for increased risk of closing,

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obtained frequencies are not identical. But to be considered table as statistically significant differences between the

theoretical frequencies is necessary to evaluate the different statistical tests. These are: Hi-kvadtat test, Pearsonov test,

G-test, test and Bernard Fischer test.

when  $p < 0,05$  an alternative analysis is accepted and it is said that there are significant differences.

### **RESEARCH RESULTS AND INTERPRETATION**

In this survey we wanted to examine whether there are significant differences between the independent feature age (life expectancy of the individual) in reference to depending marking towards savings (the insurance).

Goals are defined by the following research tasks:

- To determine the frequency independent (age) compared to the dependent (affinity-saving insurance).
- Determining the differences and similarities, that is, the influence of independent variables on the dependent ones,
- Identifying the characteristics and homogeneity of independents in terms of dependent variables to determine the distance of dependent and independent variables.

The survey of life insurance is done in Ohrid region, a sample of 536 respondents, who have the following structure:

Half of respondents

- 277 males
- Females 259
- Total 536

Age of respondents:

- Age 1 to 30 years, 129 subjects
- Age 2 from 31 to 40 years 267 subjects
- Age 3 from 41 to 50 years, 330 subjects
- Age 4 years and over 51 237 respondents

Table No. 2-Number (n) and percentage (%) representation of respondents by sex

	Female	Male	Total
No.	259	277	536
%	48,32	51,68	100%

From the table it is evident that the research is conducted in a statistical sample of 536 respondents. The structure of the sample is comprised of two groups (female and male). According to the number, slightly more males present with 277 respondents (51.68%), compared to 259 respondents (48.32%).

Chart. 1-Structure of respondents by sex

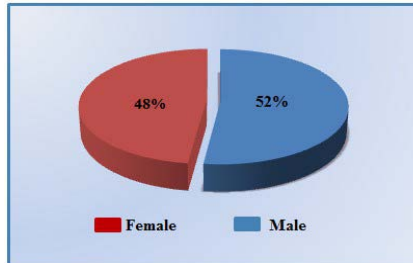
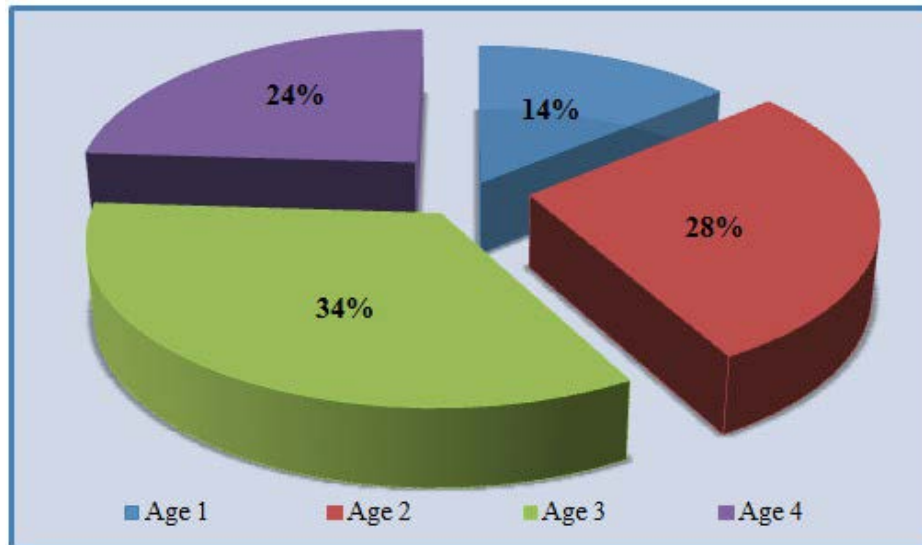


Table No. 3-Number (n) and percentage (%) of respondents representation by topic „What age group do you belong to?“

	Age 1 (30 g.)	Age 2 (31 to 40 g.)	Age 3 (from 41 to 50 g.)	Age 4 (51 and over)
No.	73	151	181	131
%	13,62	28,17	33,77	24,44

In Table. 3, the total number of respondents, the most typical age group is age group 3 with 181 (33.77%) respondents, followed by age group 2 to age 151 (28,17%) p = 0,074 respondents age 4 and age with 131 respondents (24 44% p = 0,007). Age group 1 is the least present. to age 73 respondents (13,62% p = 0,000).

Chart. 2



In further analysis we exclude the independent variable marriage (married/married, unmarried/single) because the changes are roughly similar to the variability in female and male.

Independent variable amount (the amount of personal and family income) is also excluded from further analysis because it is very similar (correspond) to the level of professional qualifications.

Thus, regardless of complete anonymity, the respondents to this question are not completely ready to respond honestly and in this way the collected data are unreliable. Much more reliable data on income (revenue) of consumers/users can be obtained from secondary sources (Institute of Statistics and Economic Chamber of Macedonia).

Given the different socio-economic and demographic characteristics of respondents, we only describe (our inner) profile consumer/user of the target market segment (market life insurance).

Profile insured a description of the relevant properties of the average user of the products and services of life insurance.

Analysis of research of arranged life insurance groups in certain age limits.

In this part of the research an analysis is conducted of the survey of life insurance by age, the age of the respondents.

Given the purpose of research, methodology and procedure established hypothesis in this part of the study, an analysis of the respondents' views is run. The sample of 536 respondents is divided into 4 sections (age) by age groups as follows: group 1 (30 years), group 2 (31 to 40 years), group 3 (41 to 50 years) and group 4 (51 and over). In this chapter we determine the existence of similarity, That is, the difference between groups in all or individual characteristics of the respondents' views. The procedure of analysis is carried out of the question: „Would you use the increase of your revenue FOR“, and there are four solutions including: savings. (insurance), tou. tr. (tourist trip) buy.lux.(buying luxury products), other.

Table 4 shows the prevalence of individual levels of the views of respondents in the age groups of age (strs) the number (n) and percentage (%) values.

Table No. 4-The ratio of respondents to the question



	Saving		Tourist travel		Luxury buying		Other	
	No.	%	No.	%	No.	%	No.	%
Age 1	29	39,2	29	39,2	4	5,3	11	15,5
Age 2	63	41,7	39	25,8	19	12,6	30	17,9
Age 3	86	47,5	44	24,3	7	3,9	44	24,3
Age 4	63	48,1	21	16,0	6	4,6	41	31,3

savings. - insurance tourist travel - buying luxury products - other

In Table 1 it is evident that the question „Would you use the increase of your revenue FOR, the age“ age 1 is equal representation of „saving“ and „tourist travel“ consisting of 29 respondents (39.2%) out of 73 where the number is significantly larger than the emergence of position „left“ 1 subjects (15,5%  $p = 0,17$ ), „luxury buying“ 4 cases (5,3%  $p = 0,00$ ).

Chart. 3-Structure of the features according to age



Analysis of differences between different age groups in terms of attitudes about the question is perceived that there is a difference in the attitudes of respondents from group 1 and group 3 the question „Would you use the increase of your revenue FOR“ tourist travel (tourist trips) in group 1 29/73 (39.72%) higher than group 3 44/181 (24.31%). According to this, the hypothesis is rejected because  $PH4 p = 0,69$  and an alternative is accepted.

Based on previous observations of samples from 536 subjects, in accordance with the method MANOVA, discriminative, Roy-t test and t-test and evaluation of the coefficient of discrimination, the question of respondents „Do you increase your revenue would used the „ON“ logic can be derived

characteristics for each of 4 groups. When  $p < .1$  analysis and MANOVA discriminative (0.04) for this feature can say that there is some difference between the groups, there are dismissed both hypotheses PH1, PH2 and adopt alternative PA1, PA2. This means that among some age groups in terms of the attitude of respondents „Do you increase your revenue would use the „ON“ (ages 1,2,3,4) there is a significant difference, even among them there is some tightly defined border.

Based on the table of the analysis by MANOVA and coefficient of perceived discrimination that is observed reduced space. The greatest discrimination among characteristics of the question „Does increasing your income would use it for?“<sup>77</sup> (With a coefficient of 1.537 discrimination).

Characteristics of age group 1

The question „Would you use the increase of your revenue FOR“. Percentage of tourist travel greater than group 3 (39.2%, 24.3%) and group 4 (39.2%, 16.0%), which means more prone to tourist trips from groups 3 and 4, while the rest less than 4 group (15.5%, 31.3%).

Characteristics of age group 2

The question "Does increasing your income would use it for?" Percentage of luxury buying greater than group 3 (12.6%, 3.9%) and group 4 (12.6%, 4.6%), which means that this age group tends to buy luxury products, while the rest is less from group 4 (17.9%, 31.3%).

Characteristics of age group 3

The question „Would you use the increase of your revenue FOR“. Percentage of tourist travel lower than group 1 (24.3%, 39.2%), and in luxury buying less than group 2 (3.9%, 12.6%) which means that the most prone to saving.

Characteristics of age group 4

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<sup>77</sup> Among other were asked the following questions: Do you think about signing a contract for life insurance?, Who is

the most adequate way of communicating with insurance companies for customer service from life insurance? (the line

right rank from 1 to 6) What kind of information from your insurance is the most important? and insurance companies

provide enough information about their services.

The question „Would you use the increase of your revenue FOR?“ Percentage of tourist travel lower than group 1 (16.0%, 39.2%), and in luxury buying less than group 2 (4.6%, 12.6%), while the rest is greater than group 1 (31.3%, 15.5%) and group 2 (31.3%, 17.9% ) which means that this group is prone to saving or insurance.

Table No. 5-Homogeneity of age groups to question the relationship

	m/No	%
Age 1 (30 years)	35/73	47,94
Age 2 (31 to 40 years)	57/151	37,75
Age 3 (from 41 to 50 years)	128/181	71,72
Age 4 (51 and ove)	103/131	78,63

Defining the characteristics of respondents indicate that in terms of the attitude of respondents „Do you increase your revenue would use „FOR“ the group 1 is less homogeneity (47.945%) for 35 of the 73 have the characteristics of their group. In group 2 has 57 of the 151 respondents who have the same characteristics as their group homogeneity and 37,748% which is still lower than group 1, in group 3 homogeneity (70,718%) is significantly greater homogeneity because 128 of the 181 respondents have characteristics like their group. In group 4 homogeneity is highest (78,626%) for 103 of the 131 respondents have the same features.

Table No. 6-Distance (Mahalanobis) between age groups and position of Respondents „Would you use the increase of your revenue FOR“

	Age 1	Age 2	Age 3	Age 4
Age 1	0,00	0,05	0,00	0,32
Age 2	0,05	0,00	0,32	0,00
Age 3	0,00	0,32	0,00	0,20
Age 4	0,32	0,00	0,20	0,00

S calculated Mahalanobis-distances between age groups in terms of the attitude of respondents „Would you use the increase of your revenue FOR“ and based on the results shown in Table 6 can be said that the smallest distance between group 3 and group 1 (0,00) while the most distant age groups 3 and 2 (0,32).

Table No. 7-Grouping according to age groups in terms of attitudes about „Whether increasing your revenue would use „ON“

level	of familiarity	
Age 1	Age 3	0,00
Age 2	Age 4	0,00
Age 1	Age 2	0,36

Based on the dendrogram shown we notice that most closely are groups 1 and 3 with distance 0.00, and the largest difference is between groups 1 and 2, a distance 0,36.



### **CONCLUSIONS**

Based on the analysis, it is confirmed that:

- The age group 1, more prone to tourist trips, is more inclined to communicate through the presentation in the enterprise, when selecting an insurer (insurance company) trust the recommendation of close people, prefers concluding with insurer (in their representative).
- Age group 2, is inclined to buy luxury products, the leaning is towards immediate educational presentations and programs on TV and radio, with a choice of insurer has in mind safety and tradition, prefers concluding at home.
- Age group 3, the most prone to savings, preferred in press, the choice of the insurance company pays most attention to the size of the protection offered by companies and tradition prefers concluding at home.
- 4 age group and this group is less prone to saving prefers communicating through the press, the choice of insurer relies on personal experience, and equally preferred signing the insurance contracts at home and at the insurance companies.

For this purpose out is descriptive (quantitative) investigation using modern methods and principles through scientific research in all phases of the research project: from problem identification, setting goals and objectives of the

research, setting up hypotheses, defining key variables, designing the research, creation of research instruments, sampling from processing to analyze the collected data.

In the process of analysis used in modern mathematical-statistical methods: manytypes analysis variable (MANOVA), discriminative analysis, Roj-t test and Student-t test. This analysis wanted to give a framework for insurance companies to implement marketing winning market segments.

In the Republic of Macedonia there is no life insurance company that has prepared a program to ensure the elderly, people in the third age. The mentioned program or types of insurance are focused on the population of the age group between 50 to 80 years of age. There is a need on the part of the population, which was not covered with the available types of life insurance, or as a result of age limit they were not able to be insured. After all, no doubt on the horizon is a new target for insurance companies. The senior insurance is characterized by simplicity in making an insurance, because it is carried out without health questionnaire and without reference to medical examination.

Also, insurance is lifelong, but payment of the premium is 85 years later than the insured. So, insurance lasts till the end of life, it is only void in case of death.

The market for life insurance will be secure and stable future if we realize the anticipated scenario which involves European orientation, additional investments in infrastructure programs in the country, development of capital markets, attracting foreign capital, job creation and continuation of reform processes in pension and disability insurance.

From all these facts it is obvious that this way of saving a granite pillar of stability for each national economy and should be encouraged as it is encouraged in the EU countries and in the developed world.

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## **THEORIC ASPECTS OF NON EQUILIBRATION OF BALANCE OF PAYMENT**

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### *Abstract*

Balance of payment has a significant interest for the international community, because it shows the transactions of a country with “the world”. It is a difficult enterprise to pretend to analyze in a detailed way the problems of balance of payment. The aim of this study is to show the full evidence of the problems related with the construction, interpretation and use of statistics to external balance of payments, and also to show the way how they may be limited. We are tried to create a generalizing paper using the following methods: The manual to statistics of payment balance, the reporting system of international transactions (Albania Central Bank), Finance Ministry, Statistics Institution (INSTAT). The study structure handles: 1. The problems of external balance of payment, 2. High trade deficits and other factors that have influenced it. As a result, there have to be improvements on the strategy that people, who think for the expansion and the improvement of Albania economy, follow. This strategy has an important impact on the transparent problems of payment balance, because we founded an unsustainable increase/decrease of the actors that play the key role in Albanian economy. We can conclude for some macroeconomic indexes that testify for the stabilization policy of the country and that these factors directly or indirectly have influence on balance of payment.

**Key-words:** *Balance payment, transactions, trade deficit, equilibration, strategy, problems, statistics, methods.*

The developing history of the national balance of payments is not too early; it dates back to the period 1920-1930. The cause for compiling the balance of payments, became The Depression of the 30s.

Central Bank is the responsible institution for compiling the balance of payments statistics in Albania. The balance reflects international transactions of goods, services and capital movements. The balance of payments is a statistical statement that systematically summarizes (for a specific period of time) the economic transactions of a country with the world that surrounds it.

The primary purpose of payments balance is to facilitate the analysis of transactions consequences and other changes in the economy of a country. It reflects the transactions of a country with the "world". The main components of the balance of payments are "the current account" and "the capital account". The Current account serves to measure in general lines, the international trade balance of a country. Its key component are trade balance (export-import cargo), import-export services, factor income. While Capital account serves to measure short- and long-term capital investments of a country including direct foreign investments and investments in securities.

**The first category** includes transactions in goods, services and income between residents and non-residents. (Current account.)

**The second category** includes financial transactions, which represent claims and liabilities of residents to non-residents. (Capital account)

**The third category** refers to balancing items for the sake of double registration system. (Current account.)

### *Problems facing balance of payments*

High trade deficits are financed not only by capital inflows, which have undoubtedly played an important role, but financing opportunities have been very large within current account itself, through remittances. Remittances are mainly analyzed in terms of their methodology measurement.

In this chapter are treated all the main indicators that are analyzed in the balance of payments such as : current account, export-import cargo, trade

balance, credit services, debit services, credit income , debit income, private transfers, state transfers ,direct investments, portfolio investments, other capitals , errors and omissions, general balance, stocks and their change. Also it is discussed about the factors that determine the outcome of the balance of payments, which are: inflation percentage, interest rates, exchange rate and employment.

Although the methods of data collection used (such as those based on reporting forms as well as surveys), are in accordance with the guidelines of IMF Manual, the data they provide are not always sufficient to afford a large coverage. Thus, the problem always remains the collection of information to the private sector concerning some services, flows of liabilities, remittances, direct foreign investments, etc.. Also we will treat the regulatory mechanisms of the imbalance and how to find a way to turn the balance of payments in the optimal parameters.

1. The problem of payments balance deficit.

- It serves to really recognize the situation of a country from the economic, financial and monetary point of view.
- It helps to recognize the ability of a country to pay its obligations to third parties.
- Helps to know the stability of the national currency in abroad exchanges and the trends that may have the performance of exchange rates compared to other countries.
- Helps to understand the possibility of the country development .

"The balance of payments is always balanced but this is not the sign of the balance of payments equilibrium." In simple terms of accounting , the balance of payments will always be balanced because it is based on dual registration; so both sides of each transaction are recorded: in credit with positive sign and debit with negative sign. Credit is an entry for a transaction that reduces domestic assets or increases the country's obligations. A debit is an entry for a transaction that increases the domestic assets within a country or reduces the country's obligations. If the balance of payments is always balanced then how can exist this deficit or surplus? When all the items of payments balance are included then it is true that an overall deficit or surplus is not possible.

Factors affecting in international commerce or in indicators of balance of payments with the outside, thus reflecting a deficit in the balance of payments are:

a) Inflation

A relatively high inflation rate in one country compared to other countries, makes goods of this country less attractive for domestic and non-domestic consumers, and this has resulted in lower exports of a country and higher imports, and a lower surplus of the current account. The opposite happens if we will have a relatively low rate of inflation.

b) National income

A relatively large increase of national income in a country compared to other countries is expected to cause an increase in demand for imports and may be the cause of a lower surplus of the current account. A relatively low growth of national income would have an opposite effect.

c) Exchange rates

A weak currency of a country can make its products less expensive for other countries and other countries products more expensive. It is expected a growth of this country's exports, while its imports will be reduced.

d) Governmental restrictions

When the government of a country imposes new restrictions (barriers) on imports, by sure it will fall the quantity of imports of this country and this makes possible an increased country's trade balance. While if other countries impose restrictions on imports for that country then the balance of this country is reduced.

Macroeconomist do not believe that the trade balance deficit is a natural phenomena, good or bad one. They believe that trade deficits are harmful when countries undertake currency controls such as fixed or stabilized rates of the exchange rates. They argue that fixed rates do not allow the market to naturally correct current accounts problems. In a country there is a deficit in the balance of payments if assets reserves fall or if claims of foreign monetary authorities are increased. If the current account problems become unstable and not-continues, Friedman says that the market itself will correct any problem, so the currency value will increase or decrease in time to encourage or not encourage imports in favor of exports and then otherwise in favor of imports when the currency takes effect (is estimated). He and other macroeconomist highlight that a large trade deficit is a sign that the currency of this country is strong and desirable. Citizens of this country also benefit from the possibility of choosing between a lot of goods and with a lower price than if the currency would be weak and the country would experience a trade surplus. According to Milton Friedman a trade deficit simply means that consumers buy and enjoy a lot of

goods with low prices, and on the other hand a surplus means that a country exports the goods that its citizens did not consume and enjoyed while paying high prices for the goods they consumed.

The balance of payments deficit can not continue indefinitely but should be corrected. There is a pressure on the balance of payments and sooner or later re-equilibrated policies should be undertaken. A country has a surplus of the balance of payments if a country's reserve assets grow or claims of foreign monetary authorities of a country fall down. This balance of payments with surplus is imbalanced, however, this country is not obliged to undertake corrective action as may happen in a country with deficit which sooner or later will correct the deficit. Imbalance will be reflected by a flow outside of the monetary reserves of gold, convertible currency, a withdrawal from the IMF, introduction of private capital or short-term official capital. A situation may be that when a country does not have a deficit in the balance of payments but the country has high unemployment, higher than in other countries. If policies would be carried out to bring the economy to full employment, then the demand for imports will rise and then the country would be deficit. A country has two ways to finance its deficit:

- Reducing its activities in relations with other countries
- And by borrowings ,so increasing the obligations in relation with other countries.

In IMF terminology the deficit years of a country in equilibrium are temporary and if appropriate monetary and fiscal policies are implemented this deficit will be corrected or perhaps even by short-term loans from the IMF or advice from it.

Credit entries reflect resources while Debit entries show uses. Credit entries are equivalent to actual sales while debit entries represent the actual purchase. Capital entries represent an element (article) a credit which may be long or short (sale or export). A capital flow (outflow) represents a debit entry (purchase or import).

All transactions of payments balance accounts are grouped in three main accounts:

- Current account
- Short-term capital account
- Long-term capital account

Current account includes all collections and payments that do not create a new capital claim or remission of a capital claim that has existed before.

Long-term capital account includes all funds transfers made for the purposes of permanent long-term investment. This account is the investment sector of the balance of payments.

Short-term capital account comprises all the changes in the balance of gold, foreign bank balances, short term debit and credit.

The final result of payments balance is always zero. Imbalances and adjustment concept comes from considerations of particular parts of the balance of payments such as:

- The trade balance
- Current account
- Base balance
- The total flow of currency

It is important if this deficit is temporary or permanent. If it is temporary it can be financed by borrowings or by reducing its activities with other countries while if it is permanent, adjustment and interference is needed to decrease and balance it.

A surplus / deficit of the current account is simply a result of the decisions of private individuals to save or not. In absence of international transactions, the principals of compared advantages and the operation of free competition would prevent chronic structural problems that may arise in the balance of payments.

Imbalance in the current account is a result of imbalance in private sector plus those state and budget. The deficit will be financed by borrowing from abroad. The capital account surplus will result as a consequence of borrowings from abroad. Individuals would decide to take loans or can quite happen that the rest of the world does not want to give the loans and the process will continue otherwise. So the imbalances of payments balance are simply manifests of individuals' desires to consume now or later. The deficit is the result of a surplus in investments over savings or it may appear as a flow of state expenses over taxation (income that provides tax) and the role played by governments or financing institutions. The financing institutions act as an intermediary between those who want to save and those who want to borrow.

The deficit is the result of a discrepancy between aggregate demand and supply in economy. A second reason for this deficit is the price distortions in the economy. The balance of payments deficit could be related to a revaluation of the real exchange rate that comes as a result of the policy to keep fixed the nominal exchange rates while inflation is still high.

## 2. Nature and types of payments balance deficit.

The payments balance data are important for monitoring the monetary and financial developments and to assess the country's policies at national and international level. A full statement of the balance of payments facilitates the macroeconomic analyses in the following aspects of the economy:

- The revenue performance;
- Orientation to the outside world;
- The link between trade in goods and services and direct investment flows;
- International banking transactions;
- Developments in the financial markets;
- The external debt situation of the country.

Developments in the balance of payments are mutually connected with developments in foreign exchange. Movements in exchange rates have a direct effect on the performance of foreign trade and investments and consequently in the balance of payments position of this economy. On the other hand, the general position of the balance of payments exerts its influence on the exchange rate and other macroeconomic variables. In the statement of payments balance, transactions are grouped into three major accounts that are: current account, capital and financial account, reserves account. In principle, the current account, the capital and financial account have to balance each other and the balance must be zero.

### *The main indicators analyzed in the balance of payments*

**Current Account** is the sum of the differences between credit and debit of goods, services and income with government and private transfers.

**The export and import of goods.** Both these items are assessed with the value of goods plus transport services up to the borders of the exporting country.

**The trade balance** expresses the difference between the export and import of goods.

### *Services*

**Credit services**, represent collections of transactions services. These incomes derive from the export services.

**Debit services** represent payments for transactions of services. These are payments for imports of services.

**Revenues** include:

1. Income from work of seasonal workers and other non-residential employees (for example native embassy staff)
2. Income and charges that come from the possession of foreign financial assets and liabilities to nonresidents.

**Credit income** represents collections from the work of seasonal workers and investments in foreign financial assets.

**Debit revenues** represent payments for the work of non resident seasonal workers and from increased payments of liabilities to non residents.

**Remittances** express the difference between credit and debit of private transfers. In these are included shipments from denationalized and other transfers.

**State transfers** express the difference between credit and debit of state transfers in technical assistance, in cash and goods and other state transfers.

**Direct investment** represent respectively the net flows of direct investments abroad and foreign direct investments in the country. As direct investments are considered all those investments, where the foreign investor owns 10% or more of the voting shares of the company.

**Portfolio investments** represent net flows of transactions between residents and non-residents in securities of property (of any maturity) such as company shares, debt securities, money market instruments and financial derivatives.

**Other capital** represent net flows of all other transactions between residents and non-residents in assets and other financial liabilities not included in direct investments nor in those of portfolio investments.

**Net errors and omissions** is a balancing category necessary to provide the equalization of all debit and credit entries in the balance of payments. This item reflects the arithmetic differences with opposite sign between debit and credit.

**The overall balance** is the balance sum of current account, capital account, financial account, errors and omissions item.

**Reserves** include exchange assets immediately usable by foreign monetary authorities and also they exert their control for direct financing of payments imbalances abroad.



**Use of credit and loans by IMF** includes loans from IMF excluding here the uses for reserve position tranche of the member country. This item includes purchases and loans under agreement with the IMF.

**Total change in reserves** is the change of Central Bank's gross reserves.

Factors that condition the outcome of the payments balance (affect aggregate demand and supply) and they are:

Among the factors affecting the results of the balance of payments are: the percentage of inflation, interest rates, exchange rates and employment. A medium-term rate of growth with an average between 6 and 8% seems achievable, provided that structural reforms continue and monetary policies to be oriented towards stability. If convergence will be based on a growth rate higher than the average of recent years this process will be accompanied by a current account deficit higher than before. This deficit will be the result of growth caused by the high volume of imports needed to bridge the gap between consumption and private savings. However, this somewhat risky strategy will work only if it is supported by monetary and fiscal policies which aim to increase domestic savings and exports in medium and long term.

The impact of inflation on the balance of payments

The monthly rate of inflation has converged towards the floor of informal goal about 2-4%, allowing for an interpretation of domestic currency strength as a reflection of an extremely tight monetary framework. Achieving and maintaining price stability is not an objective in itself but merely a way of encouraging growth and finally ensuring high standards of living. High inflation has a dependency against exchange rate and thus also in the values of the balance of payments accounts.

The impact of interest rates

Efficiency of financial markets is crucial in establishing macroeconomic stability by balancing private savings and investments. By influencing interest rates and credit limits, a central bank can control the process of adjusting supply to demand by stabilizing the demand, affected by inflation at a given level of unemployment. High interest rates and credit restrictions, make investments more expensive and savings more attractive. So economic demand falls down because companies can invest less and families can spend less. In a situation of a low financial development, interest rates in the banking sector does not necessarily reflect the balance between investments and savings but are directed to credit rationing and the fear of the opponent choice. A higher interest rate

could worsen the quality of the loan portfolio and will result in lower profits if not transferred to the client. Lower volumes of credit given to the private sector and the high level of cash in circulation shows that even if the interest rates changes will soon pass, real effect on demand and prices should be somewhat limited.

#### Impact of exchange rates

By using exchange rates, the currency of each country is evaluated in relation to other countries currency. This enables their exchange in order to facilitate international transactions. The values of most currencies, due to market and countries forces may vary in time. If the currency of a country begins to rise in value against other currencies value, the current account balance of this country should be reduced if all other factors remain unchanged. By strengthening currency ,the exported goods of a country become more expensive for importing countries. Consequently, the demand for these goods will fall. In small open economies like Albania ,the function of the exchange rate is more sensitive to the quantity of transactions, assets and liabilities in foreign currency. The Official high transfers and remittances from Albanian emigrants represent the majority of capital flows. Effect of balance, i.e. the effect of exchange rate changes on net value of companies with liabilities in foreign currencies (and assets) may cause an adverse effect on demand.

#### The impact of employment

A situation may be that when a country does not have a deficit in the balance of payments but this country has a higher unemployment than in most other countries. If this country undertakes policies to bring the economy to full employment, then the demand for imports will increase and the country will undergo a trade deficit (current account).

When analyzing the performance of world trade and payments with outside, these factors should be considered:

- Price per unit
- Exchange rate
- Neo-protectionist trends

Generally all countries try to boost their exports by increasing production, improving quality and reducing cost and price. Developing countries are achieving better results through two priority directions:

(1) some of them have based industrial development relying on domestic demand and particularly in branches of industry that use raw materials that exist in this country . Although these branches have arisen initially to replace imports,

with time, they have established manufacturing capability on domestic needs and consequently they also export goods to satisfy the needs of other countries. (2) another group have implemented a development strategy based on exports and by encouraging traditional sectors and high intensity work. The labor force with low price constitutes a key factor of development in these countries. In the majority of these countries, an important role have played even the multinational corporations. Through their investments they realize capital transfers considered as very important for development. In countries with trade deficit, governments undertake initiatives to promote exports. These policies, often positive ones, find reaction from other businesses that see them as opportunities for violation of competition law and trade international agreements.

### ***CORRECTION OF TRADE BALANCE DEFICIT***

Some simple methods to correct the deficit of the trade balance can be developed by reviewing some of the factors that affect this balance. Any kind of policy that increases foreign demand for domestic goods and services will improve its trade balance. Application from outside can be increased if prices are free, considered from the importing country perspective. A free exchange course can correct imbalances in international commerce. The deficit in the trade balance of a country indicates that this country is spending more money on buying foreign products than is receiving from its exports to other countries. Because its currency value (to buy foreign goods) is sold in large volumes than it is the foreign demand for its currency, as a result its currency value must fall. This decline in value should lead to increased foreign demand for its goods in the future. Although this theory may seem logical, in practice it is not always so. Instead, it happens that a country's currency remains stable or it can be assessed even when the country registers its deficits in its commercial balance. Why a weak local currency is not the perfect solution?

Even if the currency of a country weakens, not necessarily its trade balance improves and this happens for the following reasons:

a) The competitor counter prices

When a country's currency weakens, the price of its goods become more attractive to foreign customers and many foreign companies lower their prices to be competitive with the societies of that country.

b) Impact of other weak currencies

Currency is not said to weaken against all currencies at the same time. Many transactions are fixed in advance and can not easily adapt to changes in the last minute. Foreign importing companies, in the moment when the US dollar falls, may have a preference for U.S. companies, but can not stop immediately the relations with suppliers in other countries. Over time they can start to benefit from the decline of the U.S. dollar by importing from US if they believe that the weakness will continue. As a result of the depreciation of the dollar, the U.S trade balance may worsen for some time and can improve only when foreign and U.S importers react immediately to changes in purchasing power caused by the dollar decline.

c) Trade between companies

One reason why a weak currency does not always mean improvement of the trade balance, is that importers and exporters that have the same owner, have unique relationships. Many societies buy products produced by their subsidiaries according to a relationship called "trade within inside." Trade between these two parties continues despite exchange rate movements,so the impact of exchange rate movements on trade within the inside.

Changes in exchange rates of major countries currency affect our economic lives. Within a country, progressive inflation reduces purchasing power. While among the countries ,changes between exchange rates may give effects within a few days. Depreciation of the dollar against Euro shows that for an American tourist is more expensive to buy German or French goods.

3. Balance of payments problems by the International Monetary Fund (IMF)  
To promote global economic stability through multilateral cooperation, to IMF was given a mandate to oversee the international monetary system and to monitor economic and financial policies of 185 member countries. IMF surveillance provides specialized assessment to economic and financial developments (global or regional ones). It gives advice about threats to stability and economic growth. In this way IMF helps the international monetary system to serve its primary purpose by providing a framework that facilitates the exchange of goods, services and capital between countries and maintains a good growth. IMF provides technical assistance in its core areas of expertise such as: macroeconomic policies, taxation policies and administration of tax revenue, expenditure management, monetary policies, the exchange rate system and macroeconomic financial statistics.

This international financial institution(IMF) considers the following reasons as the one that affect the balance of payments problem:

1. Expansionist policies of demand.
2. Distortions in cost and price.
  - a. in regard to exchange rates
  - b. other prices and wages.
3. Exogenous causes
  - a. decrease in the volume of exports
  - b. deterioration in terms of market.
  - c. not economic
4. Problems with external debt service.

By analysing all these factors we can say that:

1. An expansionist policy in demand can affect in the outcome of the balance of payments. So by increasing demand for goods and services, domestic exports will be reduced because goods will be required within the country, something that will lead to increased imports of other foreign goods.
2. Distortion in cost and price. We can declare lower prices for goods or lower wages of the workers than the actual one, because of their taxes. These two factors indirectly affect the balance of payments.
3. Exogenous causes. The decline of the exports volume will bring an increased surplus. Deterioration in market terms, i.e. a deterioration of the competitive position would bring flexibility in prices, import growth, reduction in export and consequently decrease of the surplus, thus changing to the outcome of the payments balance.

There are other not economic reasons such as: social causes etc, that affect in payments balance.

4. Problems with external debt service. A bad management of external debt, its use towards unproductivity, failing to pay in proper time, (i.e. deepening), will bring a deepening of deficit and presents us a balance of payments with deficit.

4. The symmetric and asymmetric external shock  
 The assessment made by the IMF to the balance of payments problems have led it to group the causes of these deficits into two major groups: - The internal, resulting from the policies clash pursued by the governments of individual countries

- Exogenous shock.

Exogenous shock (exogenous causes) can not lead to imbalance of payments balance if there are symmetrical effects in all countries. Exogenous shock is both asymmetric and symmetric.

An obvious example of an exogenous shock which has an asymmetric impact is

1) The increase of oil price.

Oil exporting countries experience an increase in income and as a result a current account.

The second source of imbalance in payments balance is 2) Clash of national policies. If some countries are pursuing a deflation policy in order to reduce inflation, while a country that has no desire (whatever the reason), to follow this policy but will foster its economy in front of a global recession, will experience a deterioration of the trade balance with the rest of the world as it will increase the demand for imports while other countries tend to reduce the demand for imports. This imbalance can be eliminated by movements in exchange rates. The flexible exchange rates do not adjust the balance of payments without cost, governments often seek to manage exchange rates. Under these circumstances it is necessary to coordinate policies.

For problems of the balance of payments with the outside it is present even the **Structuralism school** of thought. They argue that the deficits of these countries are structural problems associated with development. These countries traditionally export primary goods with low price and elasticity in income demand. At the same time their imports include goods with low price of demand elasticity but often high elasticity of income.

### *Regulatory mechanisms*

Automatic adjustment mechanism of payments balance is the combination of both monetary and fiscal policies. Automatic adjustment mechanism is an automatic process of returning the imbalance. (Large diagram) It addresses two aspects of the balance of payment: When the balance of payments is deficit and when it is surplus.

When the balance of payments is deficit there are two ways to reduce the deficit: 1) Reduction of aggregate spending and 2) Retraction of the money supply. These two in a chain form, will bring retraction of income and reduction in price increased level, due to a lack of money in the market. Automatic adjustment mechanism under the regime of fixed exchange rates is a function of aggregate spending and the money supply, both of which operate in the same direction and both influencing the economy through the price and income mechanisms. These indicators may appear in the form of a diagram as follows:

Aggregate expenses ► Income

Aggregate expenses ► Price

Cash Offer ► Income

Cash Offer ► Price

In a summary, the mechanism of automatic adjustment of the payments balance is the combination of both monetary and fiscal policy.

Government policy ► Income, Price ► Balance of payments.

Two types of instruments are likely to affect the level of economic activity. They are Monetary policies that influence the economy by controlling the money supply by the Central Bank and Fiscal policies that influence the economy through changes in government revenues and expenditures.

**Automatic adjustment mechanism under the regime of floating exchange rates.** Everything that causes a balance of payments deficit under fixed exchange rates would result in depreciation of currency while everything that causes a surplus will bring an appreciation of currency. An increase in the exchange rate generally tends to displace the demand toward national goods and not toward foreign ones thus improving the current account. A displace(shift) of demand, increases the demand for the country's traditional exports and on the other hand it will increase the volume and price of these exports, causing so a currency appreciation of the country. On the contrary, a shift that indicates a reduction in traditional exports or a slump in major markets could undermine the performance of exports and will reduce the currency value. The setting of limiting and restrictive measures in the flow of capital, increases the currency value. International economic events and government policies invalidate the exchange rate if there are:

- Direct intervention in the capacity to produce and export.
- GNP growth in the country compared to that of the outside world, thus stimulating imports more than exports.
- Higher prices in the country compared to prices in other countries, thus hindering the country's ability to compete in both domestic and foreign markets.
- Reduction of interest rates in the country vs. those of outside world, thus stimulating a flow out and discouraging short-term capital inflows.

All policies and adverse events will assess the local currency. The currency of a country that is experiencing a significant technological progress is likely to be assessed. A deep increase in governmental spending or money supply, or both of them will stimulate the economy and increase GNP, and also would lead to the reduction of currency exchange value. A lower inflation rate in the country than outside would appreciate the exchange rates in the

country. By floated exchange rates the government has no direct responsibility for reconciling the balance of payments. It is the market which will provide the necessary balancing mechanism.

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## **IMPACT OF IT TECHNOLOGY ON RISK ASSESSMENT IN INSURANCE COMPANIES**

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### *Abstract*

Timely retrieval and processing of data concerning risk assessment is the key to the success of an organization or individual parts of which this kind of information is important in the work. This especially refers to insurance companies to perform their essential function of risk transfer offer their clients a great number of insurance services. Information system in the insurance company helps faster and simpler collection of information, their proper processing and presentation of reports with reliable and accurate information for decision making.

This paper presents the results of research of the influence of information systems on the risk assessment conducted with survey method on employees in the insurance company. The study was specifically singled out and analyzed the results obtained in the group dealing with actuarial analysis for insurance companies.

We will show that the development and implementation of information systems in the assessment of risk from the point of business performance insurance companies, in order to strengthen their competitive advantage in this segment.

**Keywords:** Information Technology, Insurance companies, information systems, risk assessment, actuarial analysis.

### ***Impact of IT technology on risk assessment in insurance companies***

Insurance is an important economic activity of each country, this is even more so if we consider its primary function, which is reflected in the compensation of damage to the insured person in insured case, in the amount provided in the agreement. The globalization of business and the development of information technology symbolizes the spirit of the modern age and have a large impact on all spheres of social and economic life, including the insurance of persons and property. The explosive use of modern information technologies in this area contributes to better quality of insurance companies. The use of achievement information provides faster data collection, processing using the latest analytical methods and presentation of the information obtained for the purposes of quality control and decision-making. This raised the need to assess the contribution to the development and application of information technology to improve efficiency in identifying, analyzing and assessing risk of adverse events, in order to increase the performance of a particular insurance company and increase its competitiveness in the insurance market.

In assessing the possibility and the probability of occurrence of adverse events, their frequency and scope, it is necessary to apply a number of mathematical and statistical methods to determine which premium and fees paid by insurers to policyholders in case of occurrence of the insured event. In this paper we will present the results of investigation about the impact of information systems on the risk assessment conducted survey method on the employees in the insurance company. The study was specifically singled out and analyzed the results obtained in the group dealing with actuarial analysis of insurance companies.

### ***Basic functions of Insurance companies' information system***

IT function in insurance companies is responsible for a wide range of tasks to be implemented with the help of information technology, and as such provides a creative contribution to the realization of its business processes. In terms of the IT business process security functions through the following activities: obtaining insurance indemnities and bookkeeping. Thus, the "Information System includes key business activities ranging from claims

handling for all types of insurance, through an analytical accounting and actuarial calculation of the general ledger, fixed asset management and costs of internal and external business reporting” [1].

Adequate information system for insurance is based on a standardized and centralized software package compliant with the legislation. Its implementation is necessary to achieve a stable, comprehensive, interactive, appropriate communication within the company (internal), resulting in reliable and timely information for decision making. Also, the creation of a unified database and based on its external reporting process is implemented successful communication with stakeholders outside the insurance companies (audit, the independent actuaries, insurers, public, etc.). Based on the above it can be concluded that the insurance company’s information system must be functionally complete, integrated and adaptable, because only this can be a good support in the realization of emerging business opportunities, business alignment with changes in legislation and provide an adequate response to new market demands in order to increase efficiency and satisfaction of the insured.

#### ***Implementation of information systems in risk assessment in Insurance companies***

Use of Information Technology for the Insurance Companies , and especially actuarial analysis has a long tradition dating back to the very beginning of the first use of computers in general [2]. Insurance companies were among the largest and most sophisticated users of IBM systems with punch cards back in the forties and fifties. However, the interest of Insurance companies and especially for the actuarial analysis dates back to before World War II so that the work of actuaries E. William Phillips, general manager of the Great Britain Manufacturers Life, published by the British Journal of the Institute of Actuaries in 1936, he suggests that actuaries needs to move from the decade in octal or binary number system to enable electronic processing of their calculations. This work has had a significant impact and channeled future use of computers for actuaries and insurance. One can say with certainty that it was the actuary that had much more use since the advent of new technology from the very beginning and the time when computers were very large and bulky machines, which had to be served by a very large number of people [3].

Risk assessment is essential and one of the most important activities of insurance companies. With actuarial analysis of the past data, current risk

assessments and the development of the models which can predict (projected) future events. Actuaries perform the following tasks:

- The calculation of premiums
- The calculation of tariffs
- The calculation of technical provisions
- Solvency Assessment – Calculation of the statutory solvency margin
- Control of the insurance company
- Reviews business policy and business plan (Part of documents required for registration of new insurance companies)
- Calculation of all kinds of provisions and reserves certification
- Development of tariffs for new insurance products
- Opinion on the annual financial report
- Responsibility for the investment activity

The main task of the actuaries is to calculate the resources needed to provide for future contingencies, so that the inflow and outflow of premiums for benefits is in dynamic equilibrium, using existing reserves. These calculations cannot work on a small sample, or on individual cases, but it is possible with the appropriate analysis of the acceptable sample and using developed models, to ascertain whether the level of damage would be greater than the premium or not, and to determine the level of reserves that has to be available to the company in order to maintain the solvency of the business [4].

### *Impact of information systems in risk assessment – survey results*

Research was conducted on a sample of 116 respondents in the various insurance companies in the Republic of Serbia during the period from January to March 2011 using survey methods [5].

Regarding the use of information systems of the company almost all respondents answered that they're its users, whether they're dealing with actuarial analysis or not. All of them who're performing actuarial analysis are using an information system.

#### **Table 1 The use of information systems**

			actuarial analysis		In total
			yes	no	
The use of information systems	yes	Respondents	26	77	103
		% of the actuarial analysis	100,0%	85,6%	88,8%
		% In total	22,4%	66,4%	88,8%
	no	Respondents		13	13
		% of the actuarial analysis		14,4%	11,2%
		% In total		11,2%	11,2%
In total		Respondents	26	90	116
		% of the actuarial analysis	100,0%	100,0%	100,0%
		% In total	22,4%	77,6%	100,0%
Fisher's Exact Test		p=0.039	p<0.05		

On the question whether they're using information concerning the degree of risk from the Information systems we obtained the following results:

Table 2 Using data from the information systems on the degree of risk

			actuarial analysis		In total
			yes	no	
Using data	yes	Respondents	22	51	73
		% of the actuarial analysis	84,6%	56,7%	62,9%
		% In total	19,0%	44,0%	62,9%
	no	Respondents	4	39	43
		% of the actuarial analysis	15,4%	43,3%	37,1%
		% In total	3,4%	33,6%	37,1%
In total		Respondents	26	90	116
		% of the actuarial analysis	100,0%	100,0%	100,0%
		% In total	22,4%	77,6%	100,0%
Fisher's Exact Test		P=0.011	p<0.05		

From the total number of respondents 63 % is using data from information systems about the degree of risk for certain types of insurance. A small number of them is doing actuarial analysis without using data from information systems regarding the degree of risk for certain types of insurance (only four of them).

The structure of the users of the data compared to those who're doing actuarial analysis is significantly different (Fisher's Exact Test  $p=0,011$ ). From this it follows that actuaries are dominantly using the data from Information systems for actuarial analysis.

To the question to evaluate satisfaction with the data provided by an Information system we obtained the following results:

Table 3 The satisfaction of respondents with the data provided by an Information system related to the risk assessment

			actuarial analysis		In total
			yes	No	
Satisfied with the quality of informations related to the risk assessment	yes	Respondents	18	47	65
		% of the actuarial analysis	69,2%	55,3%	58,6%
		% in total	16,2%	42,3%	58,6%
	no	Respondents	8	38	46
		% of the actuarial analysis	30,8%	44,7%	41,4%
		% In total	7,2%	34,2%	41,4%
In total		Respondents	26	85	111
		% of the actuarial analysis	100,0%	100,0%	100,0%
		% In total	23,4%	76,6%	100,0%
Pearson Chi-Square		$\chi^2=1.594$	$p=0.207$	$p>0.05$ n.s.	

Less than 60% of respondents declares that Information system that they're using provides sufficient information about the degree of risk related to a particular type of insurance. The distribution difference of answers among those doing analysis and those who don't is not statistically significant ( $\chi^2=1,594$   $p=0,207$  n.s.). 69,2% of the actuaries is satisfied with the data they get from the information systems 30% is not, which indicates to their need for improvements in order to obtain a better quality data.

While evaluating the quality of information related to the risk assessment we obtained:

Table 4 The assessment of the quality of information that Information system provides related to the risk assessment

			actuarial analysis		In total
			yes	no	
The quality of information related to the risk assessment	1	Respondents % of the actuarial analysis % In total	1 3,8% 1,0%	2 2,5% 1,9%	3 2,9% 2,9%
	2	Respondents % of the actuarial analysis % In total	4 15,4% 3,8%	6 7,6% 5,7%	10 9,5% 9,5%
	3	Respondents % of the actuarial analysis % In total	11 42,3% 10,5%	23 29,1% 21,9%	34 32,4% 32,4%
	4	Respondents % of the actuarial analysis % In total	8 30,8% 7,6%	35 44,3% 33,3%	43 41,0% 41,0%
	5	Respondents % of the actuarial analysis % In total	2 7,7% 1,9%	13 16,5% 12,4%	15 14,3% 14,3%
Pearson Chi-Square		$\chi^2=4.343$	p=0.362	p>0.05 n.s.	
In total		Respondents % of the actuarial analysis % In total	26 100,0% 24,8%	79 100,0% 75,2%	105 100,0% 100,0%
Average grade		Tested with t test	3.23±0.95	3.65±0.93	t=1.955 p=0.053 ns

All respondents are similarly evaluating the quality of information provided by the Information system related to the risk assessment for certain types of insurance ( $\chi^2=4,343$  p=0,362 n.s.). It may be noted that the ones who're dealing with the actuarial analysis are slightly dissatisfied with received information.

Average grades for the quality of information related to the risk assessment are in a group of actuaries 3.23±0.95 but the group that is not

working actuarial analysis  $3.65 \pm 0.93$  is on the verge of statistical significance ( $t=1,955$   $p=0,053$ ). The difference of the 0,4 in the average grade, where the actuaries gave a lower average grade and here also shows that their expectations from the Information systems are higher, which is why they gave a slightly lower grades.

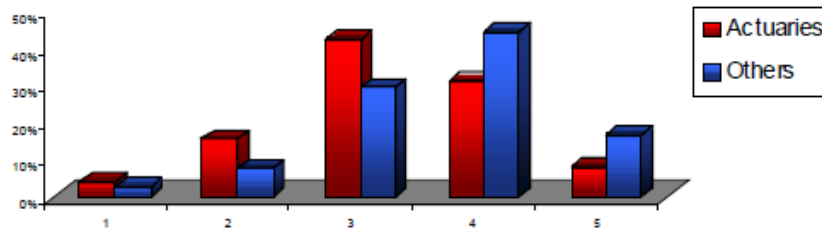


Figure 1 Evaluation of the quality of the information provided by the Information system related to the risk assessment for certain types of insurance

Table 5 Expectations of improving the information system by the respondents

			Actuarial analysis		In total
			yes	no	
Improving the Information system	yes	Respondents	21	71	92
		% of the actuarial analysis	80,8%	78,9%	79,3%
		% In total	18,1%	61,2%	79,3%
	no	Respondents	5	19	24
		% of the actuarial analysis	19,2%	21,1%	20,7%
		% In total	4,3%	16,4%	20,7%
In total		Respondents	26	90	116
		% of the actuarial analysis	100,0%	100,0%	100,0%
		% In total	22,4%	77,6%	100,0%
Fisher's Exact Test		p=0.538	p>0.05 n.s.		



The majority of users (80,8% of the actuaries and 78,9% of others) has expressed the expectation, actually, plans for improvement of the Information systems.

While using the correlation analysis there's been comparison of the results obtained by the certain questions.

Table 6 The results of the correlation analysis

Question	Spearman's rho	P
Use of the Information system	.191	<0.05
Use of data about the degree of risk	.241	<0.05
Quality data about the degree of risk	.199	<0.05

Correlation analysis (Table 6) established significant connection of the actuaries (working on a risk assessment) with the use of Information systems, using data of the risk degree for certain types of insurance and quality evaluation from obtained information.

### *Conclusion*

From the results showed in a previous section, it could be seen that almost all responders are users of Information systems. All of them, according to the tasks they're performing and in accordance to their activities and obligations, are participating in the processes and activities which contribute successfulness of one Insurance company. Without help and adequate information in daily work, they can't accomplish their assignments in a timely manner.

In assessing amount of help from the Information systems, actuaries expressed higher expectations, which is noticeable from the grades that were given. In the part of research that dealt with using data of the risk degree for certain types of insurance there is statistic significance which shows that actuaries are dominantly using data from Information systems for the actuarial analysis.

It's been showed that almost 30% of the actuaries aren't satisfied with the data provided by the Information system, that's related to the risk. This for sure is a signal to those who're in charge for the further development of Information systems in companies to pay more attention to that and find new ways for improvement. Also, in this regard some results related to assessment should be observed according to the help from Information systems in performing actuarial analysis. Average grade was  $3,04 \pm 0,77$  that induce us to the similar conclusion. This conclusion confirms also a big number of responders which answered about

their expectations for improvement of the Information systems. Their percent is about 80%.

Having in mind the existence of the direct connection between tasks related to the risk assessment and Information system in one Insurance company, and the importance of this information for it's successful management, we can confirm with certainty that promotion of the Information system and all activities targeted on raising his quality are desirable and necessary.

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## **EXPORT CREDIT AGENCIES WITH REGARD TO THE MACEDONIAN BANK FOR DEVELOPMENT PROMOTION**

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### *Abstract*

Financial institutions that are responsible for the financing and insurance of export credits are Export Credit Agencies. They can be state owned, private or with a mixed capital, whereby the state agencies can be organized as government agencies, departments of Central Bank, specialized banks, export-import banks etc. Different countries in the world have different specialty and organization of Export Credit Agencies that conduct their activities of financing and insurance of export credits.

In Republic of Macedonia the financing and insurance of export credits is conducted by one institution. The Macedonian Bank for Development Promotion-MBDP is organized according to the model of the development bank which is promoted by the German Development Bank (KfW) and which represents a dominant model in Europe, proven as a successful in almost all countries in central and eastern Europe. However, even despite all advantages that the insurance of export credits gives, according to the data of MBDP the insured Macedonian export does not exceed 1% from the total Macedonian export.

**Keywords:** *export credit, credit risks, export credit agencies, insurance of export credit.*

Each country has at least one export credit agency, but the most common is the case that there are two agencies, one of which is used for export financing, and the other for guarantees and insurance of export credits. Sometimes in some countries there may be a third agency that specializes in issuing guarantees for working capital before delivery of the goods.

In the last two decades in many industrial countries were established a private insurance companies for insurance of export credits, which rivaled the state programs, especially in insurance commercial and non-commercial risks in the short term. Most of the export credit agencies operate at least 60 years, and have accumulated significant experience in export credits, guarantees and insurance in managing. Almost all export credit agencies of industrialized countries were managed according to market principles to the late 60s of the 20th century when the production capacity of industrial countries essentially spread that contribute intensely and for increasing competition in export credits. Accordingly, export credit agencies began to lower interest rates, to extend the deadlines for repayment of loans, and grant loans to risky buyers to support exporters. At the same time, the portfolio exposure limits have been repeatedly extended, and as a result, at the end of the 70s, almost all export credit agencies of industrialized countries were too exposed to risk, with the most approved export credit especially in developing countries and their profit margins have been eroded.

Thus, they were not prepared to deal with the debt crisis in Latin America (first by Mexico and then in many other developing countries, which started in 1982 and lasted nearly a decade), followed by the collapse of the Soviet Union and Asian financial crisis. The result was the financial crisis, disorientation management and reduction of state support for export credit agencies in industrialized countries during the 80s of the 20th century. During this unstable period, most export credit agencies from developed countries gave up subsidizing exports exerted by extending low interest loans, stop coverage of risky transactions and began to calculate premiums in a manner compatible with the risk that take the insurance.

Government lenders pressure on the export credit agencies to reform their actions, brought new international agreements to limit the credit conditions and increased interest rates in line with the market levels.

Due to the gradual improvement of the economic conditions, stimulated by the great support from the World Bank and IMF, EU debt slowly reduced their obligations in respect of reprogramming debts to the Paris Club. So many export credit agencies from the industrial countries recovered financially in the early 90s and in the late 90s, was made an international agreement to increase premiums to cover the risk of the export credit agencies of industrialized countries, in order to eliminate the possibility of low premium to be used as a source of subsidy.

Among the export credit agencies of the industrialized countries, there are major differences in terms of their approach to insurance of export credits allocated to certain countries. Some export credit agencies have been criticized for excessive caution and diligence in covering risks and others are criticized for insufficient attention to the potential risks and doesn't undertaking the effective measures and methods to mitigate those risks. Some export credit agencies supported the exports in risky countries, only because their competition was doing the same. In industrial countries are established the first private export-credit insurers in the world: Federal of Switzerland, founded in 1906, Trade Indemnity of the UK, formed in 1918, and formed COFACE 1927. Other private export credit insurers have started their activities in Europe in 1930, as Nederlandsche Creditverzekering Maatschappij NCM from Netherlands and Hermes from Germany, but they often act as agents for the government. The same was the case in the United States from 1963 to late 80's, when private FCIA - Foreign Credit Insurance Association performed export credit insurance through the co-insurance and reinsurance of government export-import bank.

Since early 1990, the situation in private export credit insurers in industrialized countries has significantly changed, due to the fact that Export Credit Guarantee Department ECGD of UK sell their short-term export credit insurance to the NCM. In France, the majority of the shares of COFACE were sold to the private sector, and in Belgium NAMUR and COBAC (which were private) expanded their activities. In the United States, AIG - American International Group significantly increased its private activities, FCIA became independent from Ex-Im Bank (Export-Import Bank of the United States), and EIC - Exporters Insurance Company<sup>78</sup> launched a fully private insurance of

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<sup>78</sup> Export Insurance Company - Exporters Insurance Company offers significant innovation for exporters. EIC is

actually the first "captive" export credit insurance company that is owned by its customers-customers who have

the status of preferential shareholders. In return for a minimum investment of \$ 100,000 in shares of EIC, each

shareholder receives preferential permit a certain amount of free export credit insurance, depending on the

export credits. Since 2000 COFACE of France singled out as a leader in privatization and internationalization of export credit insurance. COFACE today has offices in Europe, Africa, Asia and North and South America. More than a third of collected premiums come out of COFACE in France, a firms recognize as a new kind of supranational insurer, reinsurer and quality supplier of credit information.

One of the principal factors and reasons for being emphasis trend of privatization and internationalization of export credit insurance, the growth and spread of multinational companies as exporters and importers. These ultra sophisticated companies require insurance of all kinds to optimize cost / benefit calculations and to minimize bureaucracy, especially the requirements of national origin, the minimum cash payments and favorable conditions for repayment of the loan. At the end of the 90 years of the 20th century, it was estimated that one-third of world exports was made by multinational companies to external parties, and other one-third to their subsidiary - foreign subsidiaries. Multinational companies are the main beneficiaries of the services of private export credit insurers such as COFACE and AIG to cover their exports, not only outside France and the U.S., but out of all places where they have their own production or commercial units.

Export credit agencies from developing countries offer the same types of export credits, guarantees and insurance programs as is the case in industrial countries. Developing countries usually begin by offering rediscount services, followed by programs to guarantee delivery before the goods and insurance of export credits after delivery of goods. The need of export credits, guarantees and insurance is closely related to the type of products that are exported from the importing country, the current and potential export markets and the number and size of firms that export or have the potential to export. Availability and capacity of the financial sector to provide adequate funding also affects the need and demand for export credits, guarantees and insurance.

Exporters from developing countries face many difficulties in arranging export financing, which often puts them at a disadvantage compared to exporters from industrialized countries. The main problems faced by exporters from developing countries are [1]:

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percentage of ownership. Thus, exporters, and banks of many countries preferential shareholders EIC, which

significantly expanded its operations in 1990

- The commercial banking sector is very conservative in terms of loan approval, offering short terms and high interest rates,
- Banks in developing countries is often with lack of experience, and are not sufficiently connected internationally, because we are not willing to grant export credits,
- Banks has a lack of a correspondents on certain markets or have limited credit lines available when connections are correspondent,
- Lack of reliable information for exporters and their foreign partners and markets, which limits the bank ability to support exporters
- Weak capitalization and a high level of problem loans among many banks exacerbates the possibility of approving new loans
- Problems in the balance of payments of some foreign markets exposes exporters of political and commercial risks that discourage the use of loans after delivery of the goods,
- Banks are not focused on export credits as operational specialties and classic international offering more banking services consisting largely of letters of credit and international documentary collection,
- Traditional lines of credit for working capital used to finance exports are required to be fully collateralized by cash, guarantees or property. We require personal guarantees, if such lender called multinational company guarantees may be accepted only if it is a solvency and well known company
- Specific financing needs of exporters are insufficiently recognized by the government and the private sector.

Export credit agencies from developing countries generally shown better financial performance than the export credit agencies from developed countries. Most of the export credit agencies of developing countries were profitable after the first few years of operation they have shown dynamic expansion, despite the adverse circumstances caused by unfavorable financial environment. There are numerous reasons why export credit agencies from developing countries show better financial results than the export credit agencies of industrialized countries [1]:

- Shorter credit terms,
- Determination not to subsidize exports,
- Great confidence in foreign assistance,
- Greater willingness to learn from the mistakes of others.

Export credit agencies from developing countries have better real risk exposure and shorter loan terms, as exports that finance and insure mainly focused on the industrial world.

Also, export credit agencies in developing countries cannot provide subsidized exports from their countries. We should not neglect the fact that the export credit agencies of developing countries pay much attention to the acquisition of knowledge and tirelessly strive to maximize professionalism at work.

Transition countries of Central and Eastern Europe and Central Asia were faced with many problems in the financing of trade, and the reasons for this are:

- High concentration of financial resources in several banks,
- Unstable financial position in many banking institutions for failure to bad debts
- High interest rates, and the predominant presence of short-term loans,
- Inadequate legal and institutional framework,
- Imbalance in the geographic coverage of banks
- Slow and inefficient payment system
- Lack of access to reliable and current information for exporters, importers and countries purchase
- Lack of trade finance instruments such as bank acceptances, and lack of experience of the banks and their customers in the use of documentary credit and documentary collection,
- Conservative attitude of banks in terms of risk taking,
- Inexperience of staff in the banking trade finance programs and procedures.

In order to overcome these problems, from the early 90s of the 20th century, most countries in Central and Eastern Europe and some countries from Central Asia established export credit agencies. The main reason for their action was to help the exporters to obtain more favorable financing either through state loans or through commercial banks backed by government guarantees. Export credit agencies in these regions differ considerably. For example, in Poland, and Latvia, the government has concentrated on the implementation of export credit insurance, and policies of this insurance are accepted as collateral by the local banks and thus enables exporters to obtain loans under preferential conditions.

The Czech Republic and Hungary, there are two types of government agencies, one for export insurance, another for export financing, and although



they are independent and have close mutual cooperation. So in the Czech Republic, Export Guarantee and Insurance Corporation (EGAP) insures export transactions, while medium and long-term export financing is the responsibility of the Czech Export Bank (CEB). In Romania, Slovakia, Slovenia, Kazakhstan, existing single government agency - export-import bank or export corporation which provides direct funding, government guarantees, and insurance against commercial and political risks.

In the Republic of Macedonia the financing and insurance of export credits is conducted by one institution, the Macedonian Bank for Development Promotion-MBDP.

However, even despite all advantages that the insurance of export credits gives, according to the data of MBDP the insured Macedonian export does not exceed 1% from the total Macedonian export. Contrary to the Macedonian exporters, their business partners in the countries from the region and Europe insure their export significantly more. For example, the Slovenian Export and Development Bank (SID Bank) annually insures around 20% from the Slovenian export, the Croatian Bank for Reconstruction and Development insures around 7% from the Croatian export, and the Serbian SMECA insures around 15% of the Serbian export, and additional 13,3% are supported by the second Serbian institution for insurance and financing of the export- AOFI [2].

The Macedonian Bank for Development Promotion is organized according to the model of the development bank which is promoted by the German Development Bank (KfW)<sup>79</sup> and which represents a dominant model in Europe, proven as a successful in almost all countries in central and Eastern Europe.

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<sup>79</sup> The first promotion bank in the world is the German development bank (Kreditanstalt Fur Wiederaufbau-

KfW) formed in 1948 with a seat in Frankfurt. The promotion banks from the develop countries are the Japan

Development Bank and the Korean Development Bank, and from the countries in CEE: the Hungarian

investment and development bank, the Bank for the development of Lithuania, OPTIVA-Bank for development

of Estonia and the Croatian bank for Reconstruction and Development.

The mission of the Macedonian Bank for Development Promotion is to support the development of the Macedonian companies through insuring means from financial sources and promotion of the Macedonian export. The basic task of the Bank is to promote the development through financing investments of small and middle enterprises, support of the source and providing credits and donations from abroad and in 2001 MBDP introduced the trade credit insurance and with it took over the role of the national Export Credit Agency.

According to the Law on Establishing of MBDP<sup>80</sup>, the Status, the Credit Policy, the Policy for Promotion of export and other business acts, MBDP fulfils the following activities:

- Financing of the production aimed at export with credits approved for identified inflows of export,
- Financing for starting of work and development of small and middle trade companies, through middle-term and long-term credits,
- Insuring and reinsuring of identified inflows of export against commercial risks, on short term,
- Managing and administration of foreign credit and donation programs.

The Macedonian Bank for Development Promotion, since the beginning of the 2001 started insuring the export demands against commercial and political

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<sup>80</sup> Macedonian Bank for Development Promotion AD Skopje is the only development bank in the Republic of

Macedonia founded with a special Law on Establishing the Macedonian Bank for Development Promotion on

May 21st, 1998 (Official Gazette of RM No. 24/98, 6/2000, 109/2005 and 130/2008). In 2009, a new Law on

MBDP was adopted (Official Gazette of R.M. No. 105/2009) aimed at improvement of the Bank position and

the specific role MBDP has as a development bank in the banking industry and in the economy of the Republic

of Macedonia.

risks. A fund has been set aside by the state which is managed by the bank, and which is intended for insuring against political risks. MBPR insures the short-term export credits against commercial risks on a commercial base, by reinsuring the private sector. With the insurance policy of short-term export credits against commercial risks, the insurer, for a specific insurance premium, accepts the responsibility to compensate the damage originated from the insured persons' inability (the seller- exporter) to claim his demands from the foreign buyer. The subject of insurance is export credits with a collection period for the demands of 180 to 360 days, against the following commercial risks [3]:

- insolvency of the foreign buyer- bankruptcy, special type of executive procedure according to which from the property of the company (the foreign buyer) all creditors are settled, i.e. the debtors' liabilities are paid.
- suggested nonfulfilment of the liabilities- when the debtor (the foreign buyer) does not fulfil its obligations for a longer period, i.e. does not settle the debt (the demands) in the extended deadline as of the day of the submission of the demand.

The policy for export insurance against commercial risks on short-term, covers a portfolio of buyers or single transactions and MBDP pays a compensation of 90% of the amount of unsettled demands within the frames of the approved credit limit for the insurance.

The insured persons request a credit limit for each buyer in the amount that is approximately equal to the maximal amount of the open unclaimed demands of the buyer. For the purpose of reducing the risk in its working and in interest of solvency, the Macedonian Bank of Development Promotion executes the activities of commercial insurance on the grounds of the concluded contract for reinsurance with a specific national export credit agency- member of the Berne Union, before it starts concluding insurance contracts with the potential insured persons. With the purpose of broadening the scope of insurance in respect of risks, MBDP includes in the insurance also the non-commercial risks through contracts of optional insurance and reinsurance in investments with high creditworthiness and rating in the field of insurance and credit risks.

The Macedonian Bank of Development Promotion issues policies for insurance of export transactions whose values is not lower than 5.000 Euros, and the maximal amount of the insurance of single foreign buyer is not over 3.000.000 Euros. These limitations of the insurance value are aimed at rightful allocation of the support of the export; however the bank can retreat from the

prescribed values in specific individual cases, i.e. when the source of specific products is strategically significant for the country. Therefore, the bank can make an agreement for insurance of the export credit with an amount lower than the prescribed minimum or not higher than the established maximum amount. In respect of the coverage percentage of the export credit, the bank shall cover, i.e. will compensate 85% to 100% of the damage, which is the result of commercial and non-commercial risks. The amount of the damage will depend on the reinsurance contracts, and the disbursement of damage will proceed according to the established procedure of the reinsurer [4]. The premiums that MBDP is claiming from the insured persons, the exporters are defined according to the tariff which is applied for insuring against commercial and non-commercial risks, established and accepted by the reinsurers. If the processing of the individual requests for insurance demands additional activities, such as establishing of the credit rating, analysis of the financial reports from independent financial institutions etc., the provision will increase proportionally to the increase of the expenses for the processing of the insurance request. The methodology for determining the premium rates is appropriate to the methodologies used by the Export Credit Agencies, members of the Berne Union [5].

The Macedonian Bank for Development Promotion during the fulfilment of the activities in respect of the insurance of short-term export credits against commercial and noncommercial risks applies<sup>81</sup> and follows the General requirements for insurance in compliance with the reinsurance contracts. The insurance policy against commercial and non-commercial risks of the Macedonian Bank for Development Promotion is based on:

- the basic concept of the macroeconomic policy and interests of the Macedonian exporters for the presence on the permanent markets and conquering new markets,

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<sup>81</sup> In its operation, the MBDP applies the rules and agreements of the Berne Union (for example, defining of

export goods and services, start of the insurance, period of insurance etc.), as well as rules of OECD (duration of

export credits, minimal premium rates, insurance deadlines etc.), of the European Union and MIGA.

- insuring long-term investments and investment activities of the Macedonian businessmen, as well as insuring investments and direct foreign investment in the Republic of Macedonia in cooperation with the World Bank and MIGA.
- cooperation with the competent ministries, diplomatic representatives in the Republic of Macedonia with other countries, cooperation with the National Bank of the Republic of Macedonia and the Economic Chamber of Macedonia, for establishing and monitoring of the existing markets and gradual introduction to new markets that interesting for the Macedonian exporters.

MBDP should offer the Macedonian market more specialised policies, guided by the practical needs of the exporters and the financial institutions in our country. The current position of MBDP according to which, and on the grounds of the former reinsurance contract with a renowned export credit agency, it accepts the credit risks in the insurance, can be improved significantly. By studying the national export credit insurance systems of other countries, MBDP can use the experience and follow the example of specific Export Credit Agencies in respect of the policies that they are offering to their exporters.

Good example is also the Czech Export Credit Agency EGAP [6], which offers several types of policies, especially useful are:

“Policy E”- Insurance of bank attested documented letter of credit. This policy covers the commercial and political risks that can lead to partial and total nonpayment according to the requirements of the documented letter of credit, with which the bank – confirmer of the letters of credit can bear loses. In the insurance with policy E, the role of insured party can be taken by the bank that confirms the documented letters of credit, and the insurance premium is usually paid in advance in the full amount.

“Policy D”- Insurance of buyer’s export credits against risks of nonpayment of debt.

This insurance covers the credits approved by the bank of the exporter of the foreign buyer or the bank of the buyer, for a period longer than a year. This type of insurance protects the banks or the other financial institutions against risk of nonpayment of debt by the foreign buyer or his bank. The insurance Policy D is always prepared on an individual base by respecting the specific characteristics that related to the export activity.

“Policy V”- Insurance against risks of breaching the export contract, because of the importer’s fault. By insuring the production risk, the exporter is

protected against losses (production costs) that can come as a result of the termination of the export contract because of importer's fault, before the goods are delivered or because of the political, financial and macroeconomic situation in the country of the importer. The Policy V is always formulated on individual grounds, taking in consideration the specific characteristics of the export contract. The insurance premium is paid in advance, in one installment. The insured party is the manufacturer i.e. the exporter of the goods, but in case when with the insurance policy, the right of compensation is transferred in favor of a third person (usually the bank that finances the manufacturer), the damage compensation is paid to the specified person.

“Policy Bf”- Insurance of short-term export credits of the seller, financed by the bank.

Insured risks are the risk of nonpayment of the claim because of political and commercial risks, and the insured party is the bank. The insurance contract issued by the Export Credit Agency should be signed by the insurer, the insured party and the exporter. The exporter with his signature obligates himself to compensate every damage that the insured party is to suffer because of the payment of reimbursement to the bank, in case the obligations are not fulfilled because of his fault. The insurance premium is usually paid in advance, in one amount.

Additionally to the listed policies of the Czech Export Credit Agency EGAP, also good examples are the specific policies of the Hungarian Export Credit Agency MEHIB [6]:

“Policy CF”- Insurance of unsettled claims of the factor. Through this policy, the bought debts are insured by the factoring companies and the financial institutions with a maximum credit period of 360 days. The insurance is against commercial risks, such as insolvency and delayed payment, also additional insurance against political risks can be offered. With the Policy CF the whole amount of claims bought off by the factor is covered.

“Policy G”- Insurance of the production risks. This policy covers the risks in the period before the delivery of goods, i.e. during their production. The policy is issued for short-term and long-term export transactions and serves as a warranty for the banks, in cases where they finance the production intended for export. The insurer, on the grounds of the Policy G, is obliged to compensate the damage in case the agreed export sales are not fulfilled.

The Polish export credit agency KUKE offers a policy which insures the costs connected to the market research and it is available to the domestic

entrepreneurs, which plan to start or develop the export of domestic goods or services. The insurance insures against failure in the process of concluding export contracts with the trade partners of foreign markets, whereby KUKE covers 65% of the achieved costs. A similar insurance program has the OeKB from Austria, which offers insurance for conquering new markets, and with the policy the export promotional activities of small and medium enterprises on the markets outside of EU can be covered. The insurance is limited to 346.000 Euros pro activity, and the coverage percentage is limited to 65%. The insured party shall be reimbursed if the expected growth of the export on the whole market is achieved.

Having in mind that the exporter in Macedonia have a poor knowledge of this protection instrument for their foreign exchange claims (the export credits), it is necessary for a specific policy to be offered, through which specific interested parties will very easily recognize their interest in appropriate protection against credit risks. In the future MBDP should offer support through the issuing of policies, not just for the exporters, but also for other financial institutions that participate in the implementation of one export transaction.

Additionally to insuring export credits, MBDP has the task of providing favourable and long-term financing sources from domestic and international sources (such as the World Bank and the European Bank for Reconstruction and Development), and the secured assets are later placed through commercial banks that execute the whole credit process, they take the credit risks and realise the credit. It is important to emphasise that the financial products of MBDP are offered according to the market conditions, and are realised through commercial banks in the Republic of Macedonia. The banks involved in the realisation of the projects of MBDP receive a status of “banks- participants in the MBDP programs” and through a framework agreement they define the mutual rights and obligations. By following the basic principles of the development banks, MBDP only supplements the offers and services of the commercial banks in the Republic of Macedonia in those areas that they are not interested in being involved. In order to have an approach on the international markets of capital and credits under favourable conditions, MBDP should respect the international rules for working of the promotional and development banks in the world. Also the Law on Establishing of MBD determines that the approval of projects will be conducted according to international principles of free trade and competition, as well as the rules of the World Trade Organisation.

The programs of MBRD for financing the export are represented through the following financial products [7]:

- export credit financing - working capital for pre-shipment export finance and working capital for bridging the period between export and collection of payment from the foreign buyer;
- credit support to SMEs - permanent working capital and investment financing from various fund sources: ICL-Revolving, MBDP, EIB-Revolving, EIB-50 million euros, EIB-100 million euros;
- credit support to agriculture and agroindustry - primary production, processing and export - through commercial banks or directly through MBDP;
- micro financing - micro and small scale enterprises, individual entrepreneurs, handicraft shops, private merchants, market counters, and other micro and small scale entities;
- financing energy projects - energy efficiency and renewable energy sources;
- loans for reducing unemployment - creation and preservation of jobs and self employment financing;
- loans for accommodation facilities - micro, small and medium-sized enterprises, with registered office in the Republic of Macedonia, for purchasing, building and adaptation of small accommodation facilities not exceeding 70 beds and having up to 3 stars standard.

These credits are mainly approved in order to strengthen the competitive position of the exporters, especially the net exporters. The potential users of assets from the credit programs of MBDP from domestic asset sources are:

- For the export credits - the trade companies that are oriented toward export, which show solid results in the working, which have concluded contracts for export and which are privately owned with over 51% and have a net foreign exchange effect in the export;
- For investment credits - the small and medium enterprises, which have a short business history or are newly founded, show solid results in working and are privately owned with over 51%.

The potential users of the credit program assets of MBDP provided by foreign sources are mainly the small and medium trade companies. In principle, the financial support is primarily intended for trade companies which provide higher degree of finalisation, technological innovations and development, new



work places that are competitive with the domestic and foreign market, export oriented trade companies or trade companies that reduce the import dependency.

The efficiency of MBDP in specific programs can be improved and therefore it is necessary to introduce new programs or modifications of the existing, according to the claims of the business community, by using the positive experiences of the countries that are the closest to our country's level of development. Additionally, in the next period the government must work on recapitalization of Macedonian Bank for Development Promotion, which will increase its authority, whereby they are considering the possibility for the bank to have authorization for project investments, insurance of middle and long-term claims, as well for direct financing without using the business banks as mediators. The possibility for the bank to directly allocate the assets to the final users - exporters, would mean assets with lower interest rates, as well as simplification of the procedure for approval of assets.

### *Conclusion*

Export Credit Agencies can be state owned, private or with a mixed capital, whereby the state agencies can be organized as government agencies, departments of Central Bank, specialized banks, export-import banks etc. Different countries in the world have different specialty and organization of Export Credit Agencies that conduct their activities of financing and insurance of export credits. Therefore, in the developed countries there are usually two institutions for the support of export, one of which is responsible for financing and the other for insurance of export credit and issuing export warranties, which even though at the beginning they were founded as state, today most of them are private property. In the developed countries the private capital, that in the beginning of the 90's in the 20th century starting penetrating the short-term insuring of export credits from commercial and noncommercial risks more and more, is a competitor to the export credit agencies.

In the developing countries, there is usually one financial institution - Export Credit Agency, which conducts both the financing and insurance of export credits. Also, it should be mentioned that in the developing countries there is almost no private market for insurance of export credits. Whereby in the developing countries, the Export Credit Agencies are organized as one institution that both finances and insures the export credits, it plans and manages, in a rational manner, the funds and state assets intended for promoting

national export. Because the Export Credit Agencies in the developing countries do not have big financial capacity and potential for accepting all credit risks, very often they make the reinsurance with famous and renowned Export Credit Agencies in the world. Such is the case of Macedonian Bank for Development Promotion - MBDP which has contract for reinsurance and within its frames it insures the export credits against credit risks.

In the Republic of Macedonia the financing and insurance of export credits is conducted by one institution, the Macedonian Bank for Development Promotion-MBDP.

However, even despite all advantages that the insurance of export credits gives, according to the data of MBDP the insured Macedonian export does not exceed 1% from the total Macedonian export.

The insurance of export credits is very important, i.e. it is an essential component of the system for export crediting, because without an appropriate insurance against commercial and non-commercial risks, the creditors are not prepared and do not accept to finance the sales of credit goods. Coming from the need to support the exporter of our country, MBDP should offer the Macedonian market more specialised policies, guided by the practical needs of the exporters and the financial institutions in our country. The current position of MBDP according to which, and on the grounds of the former reinsurance contract with a renowned Export Credit Agency, it accepts the credit risks in the insurance, can be improved significantly. By studying the national export credit insurance systems of other countries, MBDP can use the experience and follow the example of specific export credit agencies in respect of the policies that they are offering to their exporters.

Also, the exporters from the Republic of Macedonia think that the export of the country is not appropriately handled and followed by the state and private finance institutions. They demand that adequate forms of financial support to be found, especially for the big business deals, for which the offer of the business sector is very small. According to them the state should redefine the role of the MBDP and make it a serious partner to the export business entities. The exporters of MBDP expect to receive a support through middle-term and longterm financing of export credits, because the commercial banks usually approve the shortterm assets and with relatively high interest rates.

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## **THE SIMPLIFIED CUSTOMS PROCEDURES (SCP) APPLICATION IN SERBIA**

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### *Abstract*

Traditional customs procedures in Serbia are too complicated and mostly based on the usage of the lots of paper documents, thus creating high costs and consume time. The Customs Administration in Republic of Serbia has recently started to apply electronic declarations in customs procedure, but the number of customers which use this opportunity is still limited. Though, the number of companies which use Simplified Customs Procedure (SCP), such as Simplified Declaration Procedure (SDP) and Local Clearance Procedure (LCP), is even the less. The presented research reveals and discusses opportunities and obstacles of SCP and its inclusion into current customs clearance system in Serbian environment. This new procedure enables the company to declare goods paperless, by using Information Technologies (IT) and without (unnecessary) shipping the goods to local customs office for clearance procedure. Application of this new treatment provides new opportunities and may have both positive and negative impacts on business community and overall national economy. The presented research explored how simplified customs procedure impacts the stakeholders in international trade in Serbia, through the analysis of legislation,

administration, and current clearance procedures. Two examples are used to get insight into the effects of SCP in companies which use it more than one year. Findings of this paper might be of the interest to different participants involved in international trade (policy makers and executives in the company export-import sector, customs agents and freight forwarders, transporters, national authorities, etc.). Future research should concern with further, more comprehensive analysis of quantitative data about the impact of new procedure on business effects in most companies authorised for simplified clearance of goods.

*Keywords:* Goods clearance, Simplified customs procedures, E-Customs in Serbia

### ***The Simplified Customs Procedures (SCP) application in Serbia***

#### ***Introduction***

The globalization of markets has created the need for facilitating the smooth flow of goods, services and funds. Complicated, slow and costly customs procedures are a major obstacle to sustainable operation of a modern supply chain.

Customs procedures should be carried out for the goods that are imported or exported, from the customs territory of the Republic of Serbia. Normal customs procedures in Serbia are complicated and based on the usage of paper documents, thus creating high costs and consume time. With the development of Information and Communication Technologies (ICT) it became possible to simplify normal customs procedures and make them more efficient.

The Simplified Customs Procedure (SCP) enables the company to declare goods paperless, with the obligation to submit subsequent documents for verification. Goods declared for export is directly shipped from company's premises to the border customs, as well as the goods for import customs procedures is directly delivered from the border customs to company's premises without shipping the goods to the local customs office. Application of this new treatment can have positive and negative impact on the business community and national economy. Therefore, the aim of this paper is to identify main impacts of SCP and to reveal and discuss opportunities and obstacles of such procedure application in Serbian enterprises. Quantitative and qualitative data for the

purpose of this paper are collected by quick questionnaire survey in companies authorised for simplified procedures application.

### ***Research background***

The first customs' responsibilities have been the collection of customs duties and the safeguarding. Later, the customs law and customs regulations have been applied due to customs protection on domestic economy of the country (Stankovic, 1987) and to collect the comprehensive information about international trade on the territory of custom system. Today, the key functions of customs authorities can be resumed as (developed from Elmane-Helmane et al., 2012):

- Safeguard function - to protect domestic producers from foreign competition, to support domestic businesses by giving them various privileges, thereby contributing to the development of entrepreneurship; to protect the national economy and citizens from the classical or conventional smuggling prohibited goods; to protect the health of citizens.
- Legal merchandising function – to support the international trade and increase the efficiency of international flows of goods, people and vehicles/ships/planes.
- Statistical/information gathering function - a function for recording data on foreign trade volumes for analysis;
- The fiscal function – to collect taxes in the budget by the customs authorities.

The customs procedures can be simplified, or even eliminated in customs unions, such as European Customs Union. It was founded on the basis of an international agreement between the States, with the aim of eliminating customs barriers and the establishment of a single customs territory, establishing the unique customs law and customs tariffs, union of customs border, as well as full freedom of trade transactions and exchanges within such territory (Vilus, 2008). However, international trade to non-members of the Customs Union is carried out with different customs procedures. These customs procedures are time and costs consuming and modern development of ICT provides simplifying opportunities for such procedures.

The term Simplified Procedure (SP) exists due to EU legislation and the Customs Code (EEC, 1992) of the European Union allows three types of SP (ECA, 2010):

- The Incomplete Declaration,
- The Simplified Declaration Procedure (SDP), and
- The Local Clearance Procedure (LCP).

The Incomplete Declaration is process that requests no formal authorisation in contrast to SDP and LCP where The Rules for Simplified Procedures (EEC, 1993) point out the mandatory authorisation for such procedures implementation.

The advantages of simplified procedures application (CEC, 2003; HMRC, 2013) are: Accelerated release of goods; Electronic declaration submission; Reduction in costs for each process automated in the quest for the paperless environment; Increased responsiveness of the customs administrations; Increased transparency, predictability, co-operation and uniformity in interactions with customs administrations and systems; General reduction in the costs of doing business; New business opportunities for customs agents and clearing houses; Improved collection of revenues as a direct result of the preceding; more efficient allocation of human and other resources.

The use of simplified procedures can bring multiple benefits but there can be some obstacles in such customs procedure application. Therefore, further effort in this paper will focus on SCP application in Serbia and determination of opportunities and obstacles of simplified procedures application for companies, countries economy and Customs authorities.

### ***Overview of Customs system in The Republic of Serbia***

Serbia is a developing country and currently is non-member state of the European Union. Legal framework governing customs procedures in Serbia is consisted of the *Customs Law* (Official Gazette, No 18/2010), the *Customs Tariff Law* (Official Gazette, No 62/2005, No 61/2007, No 5/2009), related by-laws and applicable *Free Trade Agreements*. The legislation and customs tariff and procedure are highly compatible with EU. The Republic of Serbia is also a signatory to the many multilateral and bilateral agreements related with international trade with countries in Europe and wider (with EU countries, CEFTA countries, EEA countries, Russia etc.). The executive body that implements the customs policy of the Republic of Serbia is Customs



Department. The Customs Administration of The Republic of Serbia officially has 51 border crossing (Figure 1): 9 customs points (including six administrative crossings with Kosovo and Metohija), 8 local border crossings, and 34 full border crossings.



Figure 1. Organization of Customs Administration in Serbia (Carinarnice, 2013)

### *Traditional customs procedures*

Goods brought into the customs territory, from the time of their entry, are subject to customs supervision and may be subject to customs control by the customs authority. In road transport, goods are presented to the border customs authorities immediately after they have entered the customs territory of the Republic of Serbia. The person bringing the goods into the customs territory, or the person responsible for the carriage of goods, has to declare the goods and

shall, without delay, convey them by the route specified by the customs authority and in accordance with its instructions to:

- The customs office or to any other place approved by the customs authority; or
- A free zone, if the goods are to be brought into that free zone directly:

A customs declaration (as a request to place goods under a customs procedure) is lodged by a declarant to the customs authorities, with all necessary documents used in international trade (e.g. Bill of lading, Certificate of Origin, Commercial Invoice, Convention des Marchandises Routières – CMR, Packing List and Transit document, TIR carnet, etc.). Domestic goods declared for an export, outward-processing, transit or customs warehousing procedure shall be subject to customs supervision from the time of declaration acceptance until it leave the customs territory, or it is destroyed, or the declaration is invalidated.

### ***Simplified Customs Procedures (SCP)***

In response to recent growth of international business and national economy from year to year and in compliance with the legal framework governing customs procedures, the government has launched a project to simplify customs clearance procedures in Serbia. The new *Customs Law* (Official Gazette, No 18/2010) enables better and wider use of the concept of simplified procedures, because it has introduced the terms such as authorised economic operator, authorised consignee and authorised consignor. In The Republic of Serbia there are two types of Simplified Customs Procedures (SCP) available for import and export:

- Simplified Declaration Procedure (SDP) from October 2010, and
- Local Clearance Procedure (LCP) from June 2011.

The essence of SDP is the usage of invoice as customs declaration. After the goods arrival at the border the invoice is submitted with other documents which are required for the customs procedure. Further, simplified declaration is formed and the goods can be released for free circulation or can be exported. In some cases (if required) the inspection of goods is performed at the border customs office. For collection of customs duties holder of the authorization sends additional declaration once in a week.

In contrast to the traditional (regular) procedure, LCP in import implies that transport vehicles with the importing goods are sent from the border directly to the premises of the authorised company (Figure 2). Then, notification of

arrival is electronically forwarded to the customs office in the form of a simplified declaration and the Customs decide whether or not it wants to carry out an inspection. Goods can be immediately released for free circulation if there is no inspection. Otherwise, the Customs agent has to start the inspection within the 120 minutes.

In export LCP goods are shipped from their premises with prior filling the electronic accounting document in the form of a simplified declaration. If there is no need for inspection goods can be shipped after the confirmation of simplified declaration acceptance or 30 minutes upon declaration submission. In order to pay customs debt supplementary declaration for all goods in international trade shall be submitted weekly and monthly.

Customs agent controls if the company meets all the requirements of *Regulation on customs approved treatment of goods* (Official Gazette, No 92/2010) in order to obtain an authorisation to perform a LCP. Up to now, 23 companies are authorised to perform LCP, while a mass popularisation and education have been carried out with the help of the Serbian *Chamber of Commerce*. Around 180 companies currently use the SDP for customs clearance.

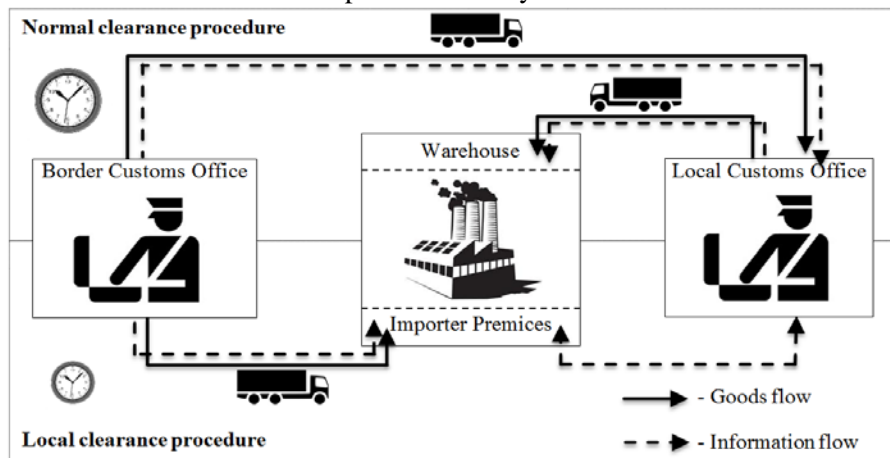


Figure 2. Goods and information flows in normal and simplified import customs procedures

### *Opportunities and obstacles of Simplified Customs Procedures*

Application of SCP creates new possibilities with consequent positive and/or negative impacts on companies operation. In order to understand its impact on companies, we have conducted a survey by quick questionnaire. The questionnaire was designed using both open and closed questions, where the closed questions are used to gather quantifiable data, while the open questions are used to gather additional qualitative information. The questionnaire had 14 questions formed to obtain basic information about the company, kind of customs procedures in company, benefit potential of new customs procedures and general impression of the impact of the SCP on the company.

The questionnaire survey was conducted in two big companies with authorisation to perform SCP. Questions were answered by employees responsible for implementation of customs procedures, which are employed in the company before the customs procedures simplification.

The most common goods in foreign trade for the first company (Company A) are raw materials for furniture manufacturing and furniture finished product, and for the second (Company B) PVC flooring, laminate flooring, parquet flooring and carpets. Both analysed companies perform SCP from year 2012 and the basic reason for introducing SCP is faster and more efficient clearance of goods. Company A submits around 3500 declarations and Company B around 2300 declarations for total foreign trade in one year. Company A is authorized for LCP, while company B is currently authorized for both LCP and SDP.

Survey results showed that both companies had little investments to obtain authorization, both significantly reduced transportation costs, the costs of customs warehousing are at the same level as they were before the simplification of the procedure, and the customs procedure is carried out much more efficiently in both companies. Regarding other costs reduction, companies report different experiences, or one of them has not the available data. For example, SCP in Company A reduced storage and handling costs, while in Company B these costs are not changed. The costs of information infrastructure (hardware and software) remained at the same level as before introducing SCP in one company, while another one could not estimate the change. However it should be noted that both companies already had a well-developed ICT support. Also, training of employees to efficiently perform simplified procedures did not required major investments. It was an unexpected answer that the quantity of paper documents stored is not changed in one company despite the procedure simplification, while

another company at least could not estimate any change (missed answer); that could be a room for further SCP improvement.

Simplified customs procedures negatively affected the cost of maintenance and/or construction of additional facilities for the SCP implementation in one company. However, both companies are very satisfied with the overall results of implementation of SCP.

Based on expected impacts of simplified procedures and questionnaire results we brought conclusions about implementation of these procedures in practice on micro- and macro-economic level in Serbia. Table 3 gives an overview of perceived opportunities and obstacles in our research.

Table 3. Overview of opportunities and obstacles of SCP application on micro and macro level

	<b>Opportunities</b>	<b>Obstacles</b>
<b>Companies</b>	<ul style="list-style-type: none"> <li>• Eliminated custom terminal costs, reduction of the operating costs, fuel consumption and environmental pollution</li> <li>• Significantly time reduction for custom procedure</li> <li>• Shorter lead time, which increases overall transport efficiency and allows better vehicle utilization</li> <li>• Minimized (eliminated) costs for customs warehousing for companies that do not have their own customs warehouse</li> <li>• Allowed goods clearance on weekends and public holidays with prior notification</li> <li>• Paperless business operation during goods movement, and minimized paper usage after the flows</li> <li>• Indirectly improved the competitiveness of products in the market</li> <li>• Raised efficiency of the business operations, and set up high quality internal controls in companies</li> </ul>	<ul style="list-style-type: none"> <li>• Often problems with Internet connection</li> <li>• Non-applicable for import of certain categories of goods which are subject to border inspections</li> <li>• SDP can be applied only to goods that is easy to determine tariff position, origin and value (gravel, sand, coal, building blocks, etc.) and it is not intended for high-risk goods (e.g. weapons) or goods whose value is difficult to determine (e.g. Chinese origin goods)</li> <li>• Complicated procedure to become the authorised company, or change the details of agreement</li> <li>• Problems with control out of working time</li> </ul>

<b>National economy and Customs</b>	<ul style="list-style-type: none"> <li>• More dynamic development of the economy and acceleration of capital flows due to the faster goods flows and less complicated customs administrative procedure</li> <li>• Step forward in harmonization of Serbian legislation and practice with the European Union legislation</li> <li>• Contribution to increased interest of foreign investors</li> </ul>	<ul style="list-style-type: none"> <li>• High costs of further implementation (ICT infrastructure, education etc.)</li> <li>• Lack of experience</li> <li>• Discrepancy between the legal framework and business praxis</li> <li>• Limitation on big companies and certain groups of goods</li> <li>• Risks related with significantly less controlled flows– around 5% of declarations in LCP is checked by customs organs</li> </ul>
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### *Conclusion*

SCP is widely applied in EU countries and the comprehensive measures have been overtaken to apply the same system in the Republic of Serbia. The Customs system of Serbia is described and this paper analysed traditional and simplified customs procedures application. The research results reveal the opportunities and obstacles for SCP application through overall customs system and quick questionnaire survey.

According to our research conducted in companies which have already introduced SCP, the simplified procedure brought them the clear opportunities. Contemporary ICT and new customs procedures allowed faster and less complicated international goods exchange with reduced costs and time for movement. Still, it seems that the companies which have introduced the SCP, didn't monitor appropriately the indicators where they could expect the positive effects. Their reports on specific problems related with introducing new procedure, supported with quantified negative effects is a precondition for the most effective implementation of SCP in the future. The Customs agency shall interact with the customers of SCP and so continuously improve the implementation measures. This reaction should be both, reactive (solving operative problems) and proactive (on panels, seminars etc.).

The results of this paper may be of the interest for different participants involved in international trade (policy makers and executives in the company export-import sector, customs agents and freight forwarders, transporters, national authorities, etc.). However, only two important companies authorised for SCP are analysed in this paper and therefore further research should be focused on impact of simplified procedures application on business success of all authorised companies in Serbia. Future research should also include possibilities of new concepts implementation (single window, trade facilitation, etc.).

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**AMOUNT, STRUCTURE AND EFFECTS OF FOREIGN  
DIRECT INVESTMENT IN REPUBLIC OF  
MACEDONIA**

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*Abstract*

The purpose of this paper is to provide an integrated overview of the inflow of foreign capital in the form of foreign direct investment in the country from its independence until the end of 2012.

In that sense, we analyze the volume of foreign direct investment from 1993 until 2012, their divisional structure and the structure by country of origin of capital and their share in the gross domestic product. According to data, so far the most attractive sectors for foreign capital is the service sector, and most of the FDI has European origin. Leading position in foreign investment countries have The Netherlands.

In order to present a wider picture for the amount of investment we compare the inflow in R. of Macedonia with the inflows in the surrounding countries. The data shows that R. of Macedonia according to the amount of inflow of foreign direct investment is on the bottom of the countries in Southeast Europe.

In order to see the effects of the foreign direct investment, effects are analyzed in terms of the added value of gross domestic product, the effects in terms of employment and the effects in terms of transfer of technology.

This paper analyzes the factors affecting the inflow of foreign direct investment and institutional framework in which their inflow performs.

Based on the given analysis the paper derives appropriate conclusions and recommendations that stand as challenges to the economic development of the Republic of Macedonia.

**Keywords** : *foreign direct investment, amount of foreign direct investment, divisional structure, R. of Macedonia, Macedonian economy.*

### **ВОВЕД**

Една од битните карактеристики на светското стопанство во последниве три децении е зголемениот обем на **странски вложувања**. Паричниот капитал во рамките на меѓународната економија може да се движи во три основни форми, и тоа: во вид на заеми, во вид на портфолио-вложувања и во вид на странски директни инвестиции (СДИ).<sup>82)</sup>

Во постојните процеси на глобализација, СДИ се појавуваат како примарен начин на транснационалните компании за освојување на нови пазари, а со цел за намалување на ризикот од работењето и зголемување на профитот. Едновремено, и земјите во развој се потешко доаѓаат до средства на пазарот на капитал и како решение на ова го гледаат привлекувањето на странски директни инвестиции. Со појавата на странските директни инвестиции земјите во развој добија можност за прилив на свеж капитал без ризикот кој го носат кредитните аранжмани, а инвеститорите можност за пласман на капиталот со остварување на поголем профит и поголем степен на контрола на ризикот.

Р. Македонија од своето осамостојување до денес е во постојан напор за привлекување на што поголем дел од светскиот капитал изразен преку СДИ. Недостатокот на свеж капитал за неопходните реформи на системот, создаде силно влијание врз формирањето на јавното мислење дека СДИ може да бидат решение за повеќето од проблемите со кои се соочува економијата. Сите македонски влади во нивните изборни програми ставале силен акцент на создавање на одржлива стратегија за промоција на земјата кај странските инвеститори. Тие сите играле активна улога не само во создавањето на правната основа, туку и во директните преговори со потенцијалните странски стратешки партнери во процесот на приватизација и потоа. Во последните години политиката на Владата е интензивно претставување на инвестициските можности на Р. Македонија преку „**роуд-шоуа**“ на инвеститорите низ целиот свет. Сето тоа

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<sup>82)</sup> Кикеркова, И.: *Меѓународна економија*, Економски факултет, Скопје, 2003, стр. 147.

резултирало со вкупно околу 3,75 милијарди евра на СДИ за период од 20 години.<sup>83)</sup>

### **ОБЕМ НА ВЛОЖЕНИ СТРАНСКИ ДИРЕКТНИ ИНВЕСТИЦИИ ВО РЕПУБЛИКА МАКЕДОНИЈА**

Од табелата бр. 1 може да се забележи дека странскиот капитал инвестиран во Р. М. во периодот од 1993 до 2012 год. изнесувал 4361,2 мил. САД долари.

До 2000 год. Р. Македонија била најмалку атрактивна економија во транзиција, дури и полошо рангирана од Албанија. Вкупното ниво на СДИ во тој период достигнало скоро 350 мил. САД долари. Поради слабиот прилив на СДИ, Македонија спаѓала во групата земји со ниско ниво на СДИ,<sup>84)</sup> односно анализирано по глава на жител, вкупните резерви на СДИ во Македонија. до 2000 год. изнесувале околу 170 САД долари. Во тој период, годишното учество на СДИ како процент од БДП, едвај достигнувало над два проценти, што било оправдано со зголемениот политички ризик и ескалацијата на кризата во регионот. За разлика од претходниот период, во 2000 год. приливот на СДИ драстично се зголемил и изнесувал 215 мил. САД долари, односно 6% од БДП.

Во 2001 год. е забележано најголемо учество на СДИ во номиналниот БДП на земјата, коешто изнесувало 13%. Вкупниот износ на прилив на СДИ во 2001 год. изнесувал 447,1 мил. САД долари, од кои најголем дел се однесуваат на продажбата на 51% од акциите на **Македонски Телеком** на унгарски *Матав* што е најголема странска директна инвестиција во Р. Македонија. Условите и амбиентот во кои се остварувала макроекономската политика на Македонија. во 2002 год. биле под силно влијание на пренесените неповолни состојби и проблеми од 2001 год. Политичко-безбедносната криза и воените дејствија присутни во 2001 год. условиле 2002 год. да биде една од најтешките за македонската економија. Од табелата бр. 1 може да се види дека нивото на странски директни инвестиции во Македонија од 2002 до 2005 год. е доста скромно.

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<sup>83)</sup> Kikerkova I., "Foreign direct investment outlook for the Republic of Macedonia", M. Antevski, ed., *Development Potentials of Foreign Direct Investment: International Experiences*, Institute of International Politics and Economics, Belgrade, 2011, p. 268.

<sup>84)</sup> EBRD, Transition Report 2000, EBRD, Brussels, 2000, p. 163.

Во 2006 год. СДИ значајно се зголемиле поради продажбата на дел од државниот монопол за производство на електрична енергија *Електростопанство* на австриската *ЕВН* и изнесувале 424,2 мил. САД долари, 6,52% од БДП. Во 2007 год. е регистриран најголемиот прилив на капитал во вид на СДИ во македонската историја, кога СДИ изнесувале 699,1 мил. САД долари, но сепак претставувале само 8,57% од БДП. Во 2008 год., исто така е забележано високо ниво на прилив на СДИ од 587 мил. САД долари. Во последните години приливот на СДИ е значително намален.

**Табела бр. 1. Годишен прилив на СДИ во Р.Македонија и % од БДП**

	Прилив на СДИ (во мил. САД долари)	Номинален БДП (во мил. САД долари)	СДИ како % од БДП
<b>1993*</b>	0	2550,19	0%
<b>1994</b>	24,0	3381,27	0,71%
<b>1995</b>	9,5	4449,37	0,21%
<b>1996</b>	11,2	4422,15	0,25%
<b>1997</b>	58,1	3735,31	1,55%
<b>1998</b>	150,5	3571,04	4,21%
<b>1999</b>	88,4	3673,28	2,41%
<b>2000</b>	215,1	3586,88	6%
<b>2001</b>	447,1	3436,96	13,01%
<b>2002</b>	105,6	3791,30	2,78%
<b>2003</b>	117,8	4756,22	2,48%
<b>2004</b>	323,0	5514,25	5,86%
<b>2005</b>	97,0	5985,80	1,62%
<b>2006</b>	424,2	6560,54	6,52%
<b>2007</b>	699,1	8159,82	8,57%
<b>2008</b>	587,0	9834,03	5,96%
<b>2009</b>	197,1	9313,57	2,11%
<b>2010</b>	211,0	9189,45	2,29%
<b>2011</b>	463,3	10166,12	4,56%
<b>2012</b>	132,2	/	/

Извор: Пресметано според <http://www.nbrm.mk/?ItemID=750FC531FC3D1B49B16440313562D400>

\* Не е забележан прилив на капитал во вид на СДИ во 1991-ва, 1992-ра и 1993-та год. во Р.М.

**Во 2012 година** во Македонија според податоците на НБРМ имало прилив на капитал од само 132,2 милиони САД долари странски директни инвестиции. Овој износ претставува пад на инвестициите од 71,5% во споредба со 2011 година, што според Народната банка се должи на големиот одлив на капитал од домашната економија. Иако владата за 2012 година, според економската програма очекувала странски инвестиции од 350 милиони евра, тоа не се оствари.

**Табела бр. 2. Вкупен прилив на СДИ во земјите од ЈИЕ до 2011 година (во мил. евра)**

Земја	Вкупни СДИ до 2011 година
Романија	68225,3
Бугарија	50591,33
Хрватска	27472,6
Србија*	10754,1
Албанија	6504,27
Црна Гора*	4740,61
Македонија	3649,83

Извор: Пресметано според <http://search.worldbank.org/all?qterm=FDI>

\* Забелешка: Податоците за Црна Гора и Србија се пресметани од 2007 до 2011 година

Според податоците од Светска банка прикажани во табела бр. 2, вкупните фондови на СДИ во Р. Македонија до 2011 год. изнесуваат 3650 милиони евра, со што Р. Македонија се наоѓа на дното од земјите во регионот на Југоисточна Европа според количеството на привлечен капитал во вид на СДИ. Овие поразителни резултати се предизвик за идните македонски влади уште понапорно да работат на подобрување на бизнис климата и во привлекувањето на странските инвеститори во земјата.

## **ГРАНСКА СТРУКТУРА НА СДИ ВО МАКЕДОНИЈА**

*Гледано од аспект на секторската дистрибуција*, најголем дел од вкупните фондови на странските директни инвестиции до 2011 година се насочени кон *услугите*, односно дури 49,44% од вкупните СДИ, 1804,44 милиони САД долари, а потоа следи производството со 36,09%, односно 1317,08 милиони САД долари.

Бидејќи инвестираните количини биле прилично мали, една поголема инвестиција значително можела да влијае на целата структура. Всушност, тоа и се случило во 2001 година кога *Македонски Телеком* бил продаден на унгарски Матав за 322,6 мил. САД долари, што е најголемата странска инвестиција во Македонија до 2001 година. Инвестираниот капитал во услужниот сектор во 2001 година изнесувал 574,4 мил. евра, 55,3% од вкупните резерви. Оваа инвестиција дала предност на услужниот сектор во споредба со производството и до денес претставува најатрактивен сектор за вложување на странските инвеститори. Сепак, производствениот сектор, производството на електрична енергија и гас и градежништвото постојано го намалувале јазот и заедно со земјоделството и рударството, создаваат речиси 50% од вкупните СДИ во 2011 год.

**Табела бр. 3. Економската структура на СДИ во Р. М. (во мил. евра)**

Дејности	1999		2011	
	Вредност	Учество во %	Вредност	Учество во %
Земјоделство/Шумарство/Рибарство	0,9	0,3%	30,93	0,85%
Рударство/Екстракција	0,7	0,2%	179,41	4,92%
Производство	222,1	61,7%	1317,08	36,09%
Електрична енергија/Гас/Пареа/	0,00	0,0%	232,94	6,38%
Градежништво	5,6	1,6%	84,90	2,32%
Услуги	124,9	34,7%	1804,44	49,44%
Неалоцирани економски активности	5,7	1,6%	0,13	0%
Вкупно	359,9	100%	3649,83	100%

Извор: Пресметано

според <http://www.nbrm.mk/?ItemID=DA0C2917D69DA2429B12A463EFE191C0>



Преземањата биле и сè уште се најчеста форма на СДИ во македонската економија. Некои гринфилд инвестиции биле реализирани во прехранбената индустрија и текстилната индустрија пред една деценија. Оваа структура, доживеа промена кога гринфилд инвестициите влегоа во индустријата за производство на механички производи. Двете странски компании во овој вид на производство – *Џонсон Мети* и *Џонсон Контролс* - оформија свои погони во индустриската зона Бунарџик. Нивното вкупно производство се извезува на странските пазари, што ги прави и двете стратешки важни за економијата како позитивен сигнал за потенцијалните странски инвеститори.

Исто така, *Џонсон Контролс* градат втора фабрика во штипската технолошка индустриска зона вредна 20 милиони евра, а во најава е и изградба на втор производствен погон во СЕЗ Бунарџик на *Џонсон Мети* вреден 60 милиони евра.<sup>85)</sup>

Со купувањето на дел од капацитетите за дистрибуција на електрична енергија од државниот монопол за производство на електрична енергија – *Електростопанство* од Скопје, од страна на австриската *ЕВН* во 2006 година, 10% од вкупните СДИ во Македонија преминале во производството на електрична енергија, гас и вода,<sup>86)</sup> сектор што во 2011 година е застапен со 232,94 мил. САД долари, односно 6,38% од вкупните СДИ.

### **РЕГИОНАЛНА СТРУКТУРА НА СДИ ВО РЕПУБЛИКА МАКЕДОНИЈА СПОРЕД ПОТЕКЛО**

**Во 2012 година** според статистиката на НБРМ, прикажана во табела бр. 4 вкупниот износ на СДИ во Р. Македонија изнесува 3750,12 милиони евра. Гледајќи во структурата на водечки земји инвеститори презентирани во табела бр. 4, очигледно е дека околу 90% од вкупните СДИ во Р. Македонија во 2012 год. имаат европско потекло.

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<sup>85)</sup> *Капитал*, Бизнис магазин бр. 659, 13 јуни, 2012, стр.28 и бр. 664, 18 јули, 2012, стр. 29.

<sup>86)</sup> Министерство за Финансии на РепубликаМакедонија, *Билтен*, Август 2009, стр. 30.

Десетте земји најголеми инвеститори учествуваат со 77,82% во вкупните СДИ, додека 15-те најголеми инвеститори учествуваат со 84,62% во вкупните СДИ во Македонија, додека во 2011 год. учествувале со 91,41% .

Табела бр. 4. Состојба на фондовите на СДИ во Р. М. по земји - 2011 и 2012 год. (во мил. евра)

Земја	2011		2012	
	Вредност	Учество во %	Вредност	Учество во %
Холандија	744,99	20,41%	729,55	19,45%
Австрија	416,76	11,42%	478,74	12,76%
Словенија	405,66	11,12%	374,39	9,98%
Грција	390,48	10,70%	388,16	10,35%
Унгарија	346,57	9,50%	335,16	8,94%
Сент Винсент и Гренадин	139,16	3,81%	68,23	1,82%
Франција	131,51	3,60%	130,36	3,47%
Швајцарија	126,40	3,46%	130,56	3,48%
Бугарија	120,29	3,30%	124,36	3,31%
Турција	117,23	3,21%	131,98	3,52%
Британски Девствени Острови	94,33	2,58%	94,9	2,53%
Германија	86,83	2,38%	96,01	2,56%
Хрватска	77,56	2,13%	80,04	2,13%
Србија	70,92	1,94%	70,19	1,87%
Италија	67,42	1,85%	74,01	1,97%
Останати	313,72	8,59%	443,48	15,38%
Вкупно	3649,83	100%	3750,12	100%

Извор: Пресметано според <http://www.nbrm.mk/?ItemID=DA0C2917D69DA2429B12A463EFE191C0>

**Во 2012 год. Холандија** била водечки странски директен инвеститор во Македонија, а нејзиниот инвестиран капитал до 2012 година изнесувал 729,55 мил. САД долари, односно нејзиното учество изнесувало 19,45% од вкупните фондови на СДИ во Македонија. Холандија е неприкоснована на првата позиција од 2009 година со инвестирањето во

транспортната комуникација и складирање. По Холандија, земја со најголеми СДИ во Р. М. е *Австрија* чиј капитал во 2012 год. е зголемен за 62 мил. САД долари во однос на 2011 год. и изнесува 478,74 мил. САД долари, односно 12,76% од вкупните фондови на СДИ. Најголем дел од тие средства се однесуваат на приватизацијата во снабдувањето со електрична енергија во 2006 год. На трето место се наоѓа Грција, пред сè благодарение на одливот на словенечки капитал во 2012 год. Грчкиот капитал во 2012 година изнесува 388,16 мил. САД долари, односно 10,35% од вкупните фондови на СДИ. Пред 2001 год. Грција била доминантен странски инвеститор во Р. М. со две големи инвестиции- првата во рафинеријата *ОКТА* и втората со преземањето на доминантната позиција во една од најважните комерцијални банки во земјава – *Стопанска банка АД Скопје*. Меѓутоа, по 2001 год. била поместена на второ место, зад Унгарија по продавањето на контролниот пакет на акции во *Телеком*.<sup>87)</sup> Во 2012 год. Унгарија е петти најголем странски инвеститор во Македонија со 335,16 мил. САД долари, што претставува 8,94% од вкупните фондови на СДИ. На овие *пет земји* припаѓаат 61,48% од вкупните фондови на СДИ, односно 2306 мил. САД долари, што ја прави Р. Македонија прилично зависна од капиталот на мал број земји. По нив следуваат Франција, Швајцарија, Бугарија, Турција и Германија.

### ***ЕФЕКТИ ОД СТРАНСКИТЕ ДИРЕКТНИ ИНВЕСТИЦИИ ЗА МАКЕДОНИЈА***

***Во Република Македонија*** странските инвеститори пројавиле најголем интерес за влез во компании кои биле во позиција на физички или државен монопол на домашниот пазар. Со цел да реализираат инвестиции во такви компании, повеќето од нив побарале дополнителни гаранции од Владата кои ќе обезбедат нивна доминантна позиција за одреден период на време и ќе им овозможи да ги направат своите инвестиции исплатливи и да им овозможи да ги реализираат монополските профити од локалните

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<sup>87)</sup> Kikerkova, I.: “Foreign direct investment outlook for the Republic of Macedonia”, in Miroslav Antevski, ed., *Development Potentials of Foreign Direct Investment: International Experiences*, Institute of International Politics and Economics, Belgrade, 2011, p. 276.

потрошувачи. Недостигот на интерес за инвестиции не само од страна на странски инвеститори, туку и од домашните, овозможил заинтересираните странски компании да се здобијат со локалните компании по цени далеку под нивната реална пазарна вредност.<sup>88)</sup>

### ***ЕФЕКТИ ПО ОДНОС НА ВРАБОТЕНОСТА***

Откако обезбедиле доминантна позиција на пазарот во Македонија, странските инвеститори не биле заинтересирани за правење дополнителни инвестиции и технолошки трансфери, ниту биле заинтересирани за ширење на бизнисот и отворање на нови работни места. Наместо тоа, тие тврделе дека македонските компании страдаат од превработеност и наскоро почнале со разрешувањето на веќе вработени работници. Во многу од стекнатите фирми бројот на вработени бил намален до речиси 1/3 по неколку години од влезот на странски капитал.

Сепак, компаниите со странски капитал вработуваат значителен дел од човечкиот капитал во земјата. Така на пример, во рамките на 100-те најголеми компании во земјата кои вработуваат вкупно 45.870 вработени, компаниите со странски капитал со 18.345 вработени креираат 40% од вкупниот број на работни места во овие компании. Во исто време државните компании, кои претставуваат 8% од 100-те најголеми компании во Македонија имаат 12.975 вработени и на тој начин создаваат 1/3 од вкупниот број на вработени во 100-те најголеми компании.<sup>89)</sup> Износот на остварената добивка по вработен во фирмите со странски капитал од првите 100 компании во земјата е 18.000 евра годишно. Државните компании од 100-те најголеми компании пак, реализирале само 1231 евра по вработен годишно.

### ***ЕФЕКТИ ПО ОДНОС НА ДОДАДЕНА ВРЕДНОСТ НА ОПШТЕСТВЕНИОТ ПРОИЗВОД***

***Најголемите 100 македонски компании-извозници*** во текот на 2011 година оствариле извоз во вкупен износ од 2,85 милијарди долари,

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<sup>88)</sup> Ибид, стр., 277-278.

<sup>89)</sup> *Капитал*, Бизнис магазин бр. 609, Капитал Медиа Груп, Скопје, 1 јули, 2011, стр. 15.

што е 64% од вкупниот извоз кој Македонија како држава го направила во 2011 година. Од друга страна, двата најголеми извозници Фени Индусти и Џонсон Мети направиле дури 23% од вкупниот извоз што државата го остварила во 2011 година.<sup>90)</sup>

Само четири компании во Македонија, Џонсон Мети, Фени Индусти, Окта и Арчелор Митал, сите со странски капитал, поединечно во 2011 година имале извоз поголем од 100 милиони долари, додека ниту една компанија со домашен капитал немала извоз поголем од 100 милиони долари.

На врвот на листата 100 најголеми извозниците за 2011 год. избила Џонсон Мети, со извоз поголем од 640 милиони долари, што е голем раст од над 150% во споредба со извозот кој британскиот гигант го имал во 2010 год. Само две години откако ја стартуваше фабриката за производство на катализатори во слободната зона Бунарцик, Џонсон Мети се најде на врвот на листата на најголеми извозници и создаде околу 14% од вкупниот извоз на земјата. Џонсон Мети истовремено е и втор најголем увозник во Македонија, по Окта, со увоз од околу 630 милиони долари, што значи дека нето-ефектот кон Македонија што го има од неговата извозна активност е околу 10 милиони долари.

Производителот на фероникел Фени Индусти паднал од долгогодишната лидерска позиција и во 2011 год. е втор на листата најголеми извозници во Македонија, со извоз од 381 мил. долари. Иако, извозот на Фени Индусти е зголемен за околу 20% сепак кавадаречкиот комбинат за фероникел паднал за една позиција. Окта ја задржала третата позиција на листата Топ 100 најголеми извозници. На истата позиција останала и компанијата Митал стил во Македонија, Арчелор Митал која се наоѓала на четвртото место. Од 100-те компании од листата Топ 100 најголеми извозници 59 се со домашен капитал, додека 41 компанија се со странски капитал. Компаниите-извознички со странски капитал во 2011 година имале близу 2250 мил. долари, што е 79% од вкупниот извоз кој го имале 100-те најголеми извозници, а кој во 2010 год. изнесувал 2,85 млрд. долари.<sup>91)</sup>

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<sup>90)</sup> [http://www.kapital.mk/mk/makedonija/82017/koi\\_se\\_najgolemite\\_100\\_izvoznici\\_vo\\_makedonija.aspx](http://www.kapital.mk/mk/makedonija/82017/koi_se_najgolemite_100_izvoznici_vo_makedonija.aspx)

<sup>91)</sup> Ибид,

### *Трансфер на технологија и know-how*

Компаниите со странски капитал ретко доживуваат подобрувања во нивните перформанси, што се должи на лошата донација на нови технологии и трансфер на важни менаџерски вештини и практики. Всушност, како што е наведено претходно, странските инвеститори во основа влегоа во услужниот сектор (вклучувајќи ги финансискиот и осигурителниот сектор) и со минимален напор и минимално подобрување на понудениот квалитет реализираа максимален профит со зачувување монополските цени за нивните производи на максимално одржливо ниво за македонските корисници. Повеќето корисници на македонскиот пазар се жалат дека речиси во секој сегмент на економијата, мора да платат европски цени или дури и повеќе за супстандарден квалитет на производите и услугите.<sup>92)</sup>

### **ЗАКЛУЧОК**

Иако е добро рангирана во 2012 година, како место за водење бизнис според Светска банка (23-та од 185 земји во светот), Република Македонија е една од најсиромашните земји во Европа, како и на Балканот, со моментален БДП од околу 10 милјарди американски долари. Растот на БДП е доста нерамножен. Во годините кога регионот и земјата се соочуваа со воени конфликти тој значително опаѓа. Посакуваниот економски раст и развој, како и модернизацијата и економското реструктурирање и покрај бројните реформи кои беа спроведени во изминатите две децении воопшто не се случија. Одолговлекувањето на приемот на Р. М. во НАТО и ЕУ има негативен ефект врз одлуките на мултинационалните корпорации да ги вложат своите средства во Р.М, и засега и т.н. роудшоуа , регулаторни гилотини , промотори и реклами во странски медиуми не дадоа позначајни резултати. Од Р. Македонија се

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<sup>92)</sup> Kikerkova, I.: "Foreign direct investment outlook for the Republic of Macedonia", in Miroslav Antevski, ed., *Development Potentials of Foreign Direct Investment: International Experiences*, Institute of International Politics and Economics, Belgrade, 2011, p. 278.

очекува да ја подобри и својата патна и железничка инфраструктура и поврзаноста со регионот.

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