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PROCEEDINGS

8th UBT ANNUAL INTERNATIONAL
CONFERENCE

26-28
OCTOBER

UBT Innovation
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INTERNATIONAL CONFERENCE ON
**MANAGEMENT, BUSINESS AND
ECONOMICS**



Proceedings of the
8th Annual International Conference

International Conference Management, Business and
Economics

Edited by
Edmond Hajrizi

October, 2019

Editor Speech of IC - BTI 2019

International Conference is the 8th international interdisciplinary peer reviewed conference which publishes works of the scientists as well as practitioners in the area where UBT is active in Education, Research and Development. The UBT aims to implement an integrated strategy to establish itself as an internationally competitive, research-intensive institution, committed to the transfer of knowledge and the provision of a world-class education to the most talented students from all backgrounds. It is delivering different courses in science, management and technology. This year we celebrate the 18th Years Anniversary. The main perspective of the conference is to connect scientists and practitioners from different disciplines in the same place and make them be aware of the recent advancements in different research fields, and provide them with a unique forum to share their experiences. It is also the place to support the new academic staff for doing research and publish their work in international standard level. This conference consists of sub conferences in different fields: - Management, Business and Economics - Humanities and Social Sciences (Law, Political Sciences, Media and Communications) - Computer Science and Information Systems - Mechatronics, Robotics, Energy and Systems Engineering - Architecture, Integrated Design, Spatial Planning, Civil Engineering and Infrastructure - Life Sciences and Technologies (Medicine, Nursing, Pharmaceutical Sciences, Psychology, Dentistry, and Food Science),- Art Disciplines (Integrated Design, Music, Fashion, and Art).

This conference is the major scientific event of the UBT. It is organizing annually and always in cooperation with the partner universities from the region and Europe. In this case as partner universities are: University of Tirana – Faculty of Economics, University of Korca. As professional partners in this conference are: Kosova Association for Control, Automation and Systems Engineering (KA – CASE), Kosova Association for Modeling and Simulation (KA – SIM), Quality Kosova, Kosova Association for Management. This conference is sponsored by EUROSIM - The European Association of Simulation. We have to thank all Authors, partners, sponsors and also the conference organizing team making this event a real international scientific event. This year we have more application, participants and publication than last year.

Congratulations!

Edmond Hajrizi,

Rector of UBT and Chair of IC - BTI 2019

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Understanding Impact of Professional Training on Work Performance

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Abstract. Because of fast changes in technology, work processes and legislation there is a need for faster preparation of work labor, however formal education is failing to prepare people within required time and skills that are required by labor market. This paper is analyzing training needs for businesses and available training that are offered by public and private institutions. For this paper, case of TAK, Kosovo Telecom and UBT was analyzed and findings are compared with training's that vendors are offering within UK and USA. In addition also findings from national Accreditation Agency where discussed, regarding professional schools.

Keywords: training; long life learning; just in time learning

Literature review

According to (McAllister 2014)

“Our society places a high value on education. It is still considered the gateway to success, happiness, and a long, prosperous life. To prepare us for reaching that lofty position, for the first 18 years of life, the primary emphasis is on developing well- rounded kids: learning the basics of math, biology, chemistry, art, civics, fitness, and playing well with others—the list gets longer with each passing year. In addition to the standard formal academics, parents invest their hearts, souls, evenings, and weekends to ensure that child” (p.11). However, as a result of short life of products, innovations and rapid changes in market formal education is not enough for employs since they need to permanently increase their professional capacities.

Companies value can be seen from financial reports and from financial balance sheets, however according to (Kutlay and Safakli 2019) “Employees and capital are the two most important inputs not only in production, but also in the finance sector” (p. 293) and in order to maintain and increase value of employees companies should invest on their capacity building. Many companies nowadays have their own Training and Development centers and some companies are subcontracting training services. Learning and training is an integral component to the development of any organization and according to (Austin 2015) “It should be evident that learning has always been an integral component of HRD, and it continues to be an essential aspect of Organizational strategies for promoting employee learning and development” (p.13). In a research conducted by (Bakar, et al. 2016) it is stated that “Human resource is the most integral part of the organization and therefore referred to human capital in organizations. Training is the process for increasing the worth of this important resource. Training can be referred to the technique used by the organization/manager to decrease the chances of mistakes and increase the knowledge and productivity of employees” (p. 467).

Over the past two decades, emotional intelligence (EI) has become a topic of interest for psychological, educational, and management researchers. Numerous organizations have sent employees to various EI training courses offered by management consultants (Yuan, et al. 2012) (p.1713) and EI is not lectured through formal education. In addition, role of professional trainings at civil servant performance was research topic for Suleimenova and Karamalayeva (2018) since they had concluded that “Under the current conditions in forming the corps of civil servants, the professionalism and competence of civil servants comes to be of paramount importance” (p.96).

Case of TAK

Tax Administration of Kosova, have its own training department and mainly it is training its staff on new legislation and in new working processes and procedures. However, when it comes to increasing professional capacities of its staff TAK is sending their staff to other institutions. In year 2017, 761 TAK staff members were trained in 53 different trainings. Table 1-show details of professional trainings for TAK.

Table 1. Organized Trainings for TAK staff

Training Institution	Number of delivered trainings	Number of participants	Number of training days
Tax Administration of Kosovo	24	664	70
American University in Kosovo -AUK / USAID	1	3	8
Business Kosova Centre-BKC	1	3	2
Centre of Excellence in Finance -CEF	4	11	12
OECD/CEF	1	2	5
Kosovo Institute for Public Administration	11	18	23
Ministry for Public Administration	1	4	1
OECD	5	10	25
Kosovo telecom	5	46	31
Total	53	761	177

Kosovo Telecom

Kosovo telecom have its own Training and Development Center, they offer training, and certification programs mainly for its staff. Offered trainings are in a field of IT, General Management, Customer Care and in field of Health and Safety.

Within 2018 in Kosov Telecom 7182.3 training hour were delivered or 1197.05 training days.(CCNA_MOD_1, CCNA_MOD_2,CCNA_MOD_4,CCNA_Scaling Network,CCNA R&S CN ,Linux I, Linux II,IT Essentials 1, Autocad,MS Project,Cyber Security, MS Excel per ATK, MS Excel për TK, MS Word 2016, Autocad 3D, MS Access, Windows 10, MS Project e, Outlook 2016) while for general management Kosovo Telecom had provided 373 training days for 297 people.(negotiation Skills, Project Management, Tema Building, Communication Skills, Dealing with difficult people, Meeting management)

UBT Higher Education

Within UBT professional trainings are offered in a field of IT, Management and foreign languages

In a period October 2018-October 2019 UBT had offered 17 professional training modules and 416 people were trained at UBT.

Table 2. Delivered training at UBT

Delivered Training
Administrative Assistant
Advanced MS Excel
ArcGIS- ArcMAP
Cobit 5
Cyber Security Operations
Digital Marketing
English Langauge
Found Raising
HR Management
IBM SAN
Introduction to programming
IPMA
IT Essentials
MS Project
Project Managment
Project Online

SPSS

Conclusion

Based on findings from literature and from TAK, UBT and Kosovo Telecom cases, conclusion is that formal education is taking long time to prepare one person for labor market, and there are two proposed solutions, Long-life learning and Professional Education.

However, concept of long life learning is relatively new concept in Kosovo, and for certain professions it is expensive, for example price for 5 days professional training in UK is equal to 1 year payment for bachelor degree in Kosovo, while concept of professional schools is not yet accepted by society in Kosovo, since until now there is not any job vacancy where employees are asking for professional education.

Regarding offered professional trainings in USA and in Kosovo, there is similarity since training and certifications are offered through different vendors like Microsoft, IPMA, OGC and CISCO.



Figure 1. Trainings that are offered in UK and USA

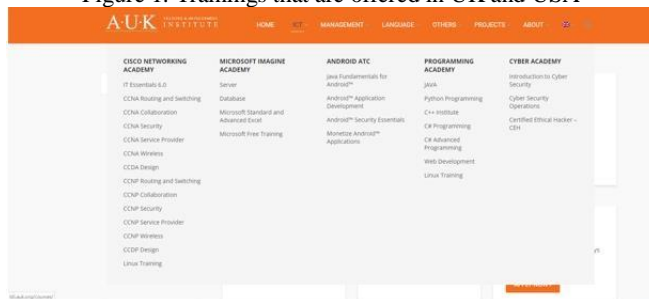


Figure 2. Trainings that are offered in Kosovo AUK TDI



Figure 3. Professional Education that is offered at UBT

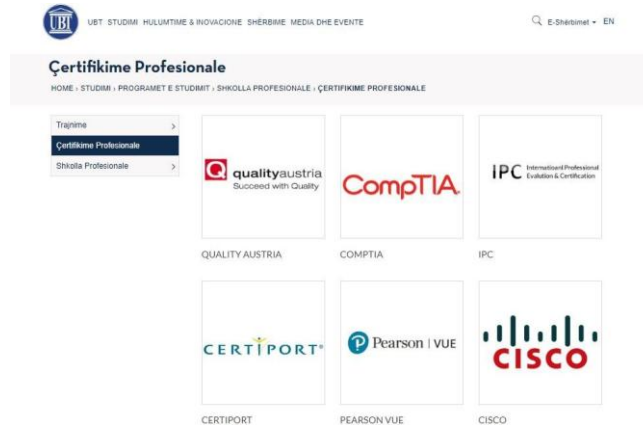


Figure 4. Professional Certifications that are offered at UBT

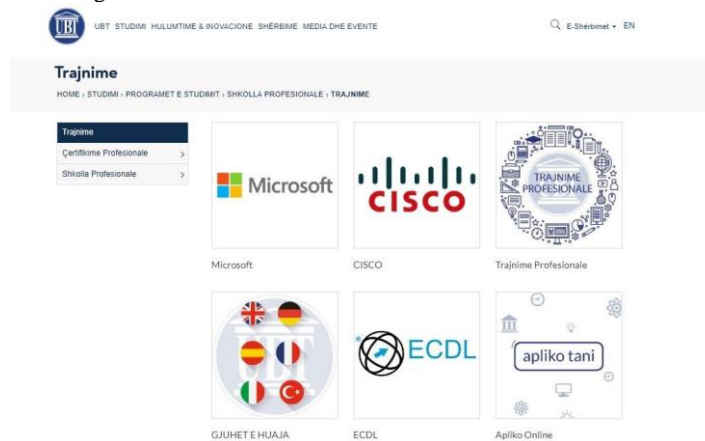


Figure 5. Professional Trainings that are offered at UBT

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Corporate Governance in Insurance Companies – need or trend?

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Abstract. In recent decades corporate governance is very actual topic, especially in financial institutions, and more and more investors and regulators in the insurance industry have insisted on establishing an adequate corporate governance system. But what exactly is corporate governance? Is it just a trend or a real need for the insurance companies?

Good corporate governance is undoubtedly necessary to maintain a fair, safe and stable insurance sector that will protect the interests of insurers, which in return will contribute to the stability of the financial system as a whole. The insurance industry, like other parts of the financial system, is undergoing a number of changes and that is why insurance companies need to have a stable corporate system in order to face changes easily and respond adequately to rapid sociological, technological changes and economic development.

The benefits of good corporate governance are unquestionable - they provide for greater competitiveness of insurance companies, increased efficiency and corporate results, greater company asset value and higher company reputation, all of which are important factors in the modern business environment.

Finally, it should be noted that corporate governance is not a once-established system, but a continuous process that needs to be constantly upgraded and improved. The market is the one that will evaluate and value the commitment of the insurance companies in the process of building an adequate system of good corporate governance in the long run.

Key words: Insurance, Corporate Governance, Investors, Company Reputation, Business environment

A word or two about corporate governance

In recent decades, corporate governance has been an actual topic, especially in financial institutions, and more and more investors and regulators in the insurance industry have insisted on establishing an adequate corporate governance system. But what exactly is corporate governance? The traditional definition of corporate governance refers to the relationships between management (top management), the board of directors, or the supervisory body, company shareholders, and other stakeholders, such as employees and their representatives. Corporate governance defines the structure through which the goals of the company are defined, as well as the means to achieve the goals and oversee the results achieved. [1]

As the term itself suggests, corporate governance is a system through which the insurance company is internally regulated. It is a complex system that incorporates many aspects of the business of an insurance company, such as:

- corporate culture and environment (values, ethics, establishment of a system for reporting employees' non-compliant behavior, etc.);

- corporate structure (board of directors, ie management and supervisory board, top management, company executives, business functions, etc.);
- basic documents and policies (internal acts, organizational structure rules, rules of procedure for the organs of the company, etc.);
- strategy, policies, procedures and controls (risk management, compliance with positive regulations, internal and external audit, financial reporting, etc.) and
- making decisions and taking actions related to the corporate culture, environment and structural framework, policies and controls.

In the broadest sense, corporate governance defines roles, obligations and responsibilities. It actually clarifies who is responsible and who has the legal power to act on behalf of the insurance company and under what circumstances. Corporate governance involves making decisions and taking actions in accordance with corporate logic, as well as an obligation to disclose them to stakeholders. A well-established corporate governance system gives insurance companies the opportunity to take corrective action in case of non-compliance with positive regulations or poor oversight, control and management. Hence, it can be concluded that corporate governance is the allocation and regulation of power and responsibilities in insurance companies, thus avoiding unnecessary concentration of power. Therefore, corporate governance is often referred to as a "check and balance" system, reflecting the fact that insurance companies need to be flexible in order to make timely decisions, while at the same time insurance companies need to be transparent and have adequate controls in place, systems and controls to guide management in the best interests of policyholders, shareholders and the company as a whole.

Corporate Governance in the European Union

European corporate governance history

European Union is developing a system in which effective and accountable companies report to responsible shareholders. This process generally started in 2000 and it is still ongoing. According to some authors and analysis, the process has been slow and predictable, taking into account the different corporate governance systems in all EU member states, their legal and political backgrounds, the divers' philosophical approaches to governance, the various ownership structure in the member states. [2]

Instead of adopting single rules for all EU member states regarding the corporate governance, European Union has established a principles- based comply-or-explain regime for member state-based corporate governance codes. But, despite of that fact, at EU level policy initiatives are ongoing, trying to improve the corporate governance along with the goal of promoting the larger macro goals of enhancing economic growth, reducing market inefficiencies, and particularly since the financial crisis, avoiding undue risk to the financial system and to European economies more generally. The different initiatives for regulating the corporate governance in European Union are focused on boardroom diversity, minority shareholders rights, increasing information flows, encouraging institutional investments, risk management etc. [3]

The expected and reasonably transparent approach to the European corporate governance policy process since 2000 arises from what tends to be a slow and thoughtful approach to policymaking. Usually, the process starts with the commissioning of studies; these studies then become consultative "Green Papers," which then are turned into "Action Plans," and then into specific Laws, Directives, or Recommendations in a process that can span several years. [4] The financial crisis had a deep impact in Europe on financial markets and economies, and the

effects are still present in some pores of society. Practically, the crisis led to a further review of fundamental principles and assumptions about corporate governance, including the premise of investor primacy.

In this context, the European Parliament established a corporate governance debate, raising broad issues of how corporate governance should reflect a company's social performance and its impact on employees, stakeholders, and civil society in general. This perspective can still be found in the European Parliament through its advocacy of enhanced employee rights and gender diversity as well as through building greater awareness of social, ethical, and environmental issues affecting companies.

In May 2017 European Parliament and European Council have adopted Directive (EU) 2017/828 amending the Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement. This Directive establishes requirements in relation to the exercise of certain shareholder rights attached to voting shares in relation to general meetings of companies which have their registered office in a Member State and the shares of which are admitted to trading on a regulated market situated or operating within a Member State. It also establishes specific requirements in order to encourage shareholder engagement, in particular in the long term. Those specific requirements apply in relation to identification of shareholders, transmission of information, facilitation of exercise of shareholders rights, transparency of institutional investors, asset managers and proxy advisors, remuneration of directors and related party transactions. The main reasons for adoption of this Directive is that financial crisis has revealed that shareholders in many cases supported managers' excessive short-term risk taking. Moreover, there is clear evidence that the current level of 'monitoring' of investee companies and engagement by institutional investors and asset managers is often inadequate and focuses too much on short-term returns, which may lead to suboptimal corporate governance and performance.

Separate of the formal public policy process, informal policies are focused on investor, company, and regulatory communities about the role of culture, behaviour, and ethics in terms of shaping responsible corporate governance and investment practices. This focus recommends less reliance on traditional features of corporate governance codes or public policies and raises questions about the extent to which policy initiatives can meaningfully address qualitative or behavioural issues, such as corporate culture and conduct risk, and the degree to which regulators can have confidence in the integrity of the system and be encouraged not to overregulate. [5]

Corporate governance issues in the insurance sector

The insurance sector as integral part of the financial industry is pretty much regulated and in the same time supervised sector. On the European Union level Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) was adopted. Although the main focus on this Directive are the capital requirements, governance issues are also essential part of it.

The 2008 financial crisis showed that financial institutions' corporate governance was unsuccessful mainly because of the excessive risk-taking, boosted by generous executive remuneration. In this scenario, the insurance industry has been less affected by the financial crisis in comparison to the banking system, although it was still partially involved in the derivatives turbulence. Along this decade various reforms relating to banks, insurance and investment firms have been enacted in response to the financial crisis. [6] The attention of the reforms in the European Union has been paid to the structure and functioning of the board, the risk management policy and internal control system, and the executive remuneration and supervision. [7] Still, at the core of the European reforms stands the idea of strengthening the role of the board to avoid excessive and imprudent risk-taking. In fact, the main goal of the

Solvency II directive is to ensure an adequate protection of policyholders and beneficiaries, also through a new risk management, financial reporting and corporate governance assessment. [8] From insurance sector point of view European legislation after the financial crisis clearly shows that the regulation of corporate governance goes beyond the traditional approach of company law, because the governance regime should ensure not only the “integrity of the market” to reduce the excessive risk-taking, but also the “investor protection” as far as the MiFID regime [9] is concerned and "policyholder protection" as far as insurance is regulated under the Solvency II regime. The focus on trust is even more apparent in insurance legislation. In fact, the main goal of the Solvency II directive is to ensure an adequate protection of policyholders and beneficiaries, also through a new risk management, financial reporting and corporate governance assessment. [10]

Corporate governance system in Solvency II Directive

As was already mentioned above, Solvency II Directive is a complex set of rules that aims to ensure adequate protection of policyholders. [11] One of that set of complex rules is focused on improving the corporate governance system in the insurance companies. The Solvency II Directive contains the most important topics to be regulated to ensure appropriate governance standards within insurance companies.

More precisely, the Solvency II Directive regarding the system of governance regulates the following issues: general governance requirements, fit and proper requirements, risk management, internal control and outsourcing. The “general governance requirements” aims at the implementation of an effective and proportionate system of governance, which provides for sound and prudent management of the business and sets out the implementation of written policies concerning the main functions of the undertaking (i.e. risk management, internal audit, internal control, outsourcing).

The mentioned governance requirements are further elaborated in the EIOPA Guidelines on the System of Governance and together with the Solvency II Directive they are addressed to the competent national authorities that should implement the provisions in the practice through appropriate measures. [12]

The Solvency II Directive requires all insurance and reinsurance undertakings to have in place an effective system of governance which provides for a sound and prudent management of the business. That system shall at least include an adequate transparent organizational structure with a clear allocation and appropriate segregation of responsibilities, as well as an effective system for ensuring the transmission of information. In line with corporate governance best practices, the EIOPA Guidelines put particular emphasis on the company’s organization referring, as usual, to four main areas: an effective system of governance (comprising risk), the internal control system, the organizational and operational structure and the decision- making process. [13]

One of the principles defined in the EIOPA Guideline is the duty of the administrative, management or supervisory body to be informed. The nature and structure of the administrative, management or supervisory body varies with the national company law applicable in the jurisdiction in which the insurance company is incorporated. The term “administrative, management or supervisory body” covers the single board in a one-tier system and the management or the supervisory board of a two-tier board system. According to the Solvency II Directive, the responsibilities and duties of the different bodies should be seen having regard to different national laws.

“Duty to be informed” principle means that the board has to interact “proactively requesting information from them and challenging that information, when necessary” with committees (if established), senior management and key functions. This means that directors have to behave proactively, not only to carry out the strict duty of monitoring. Indeed, directors not only have to check the information provided, but should also collect sensible information on their own. This solution could affect the general principle that directors can rely on officers’ information.

In this case, the liability area of non-executive directors would increase dramatically. But, on the other hand the Solvency II Directive does not make any explicit reference to a proactive behaviour, but it rather refers to, among others things, an effective system of governance and requires to set up an appropriate segregation of responsibilities. That's why some authors consider that it is questionable whether a too wide monitoring duty fits with effectiveness, and whether it allows to easily separate executive and non-executive tasks.

The second guideline from EIOPA Guideline refers to organizational and operational structure and its meaning in every insurance company. Both are necessary to ensure a proper flow of information among the company's different levels of hierarchy. In this regard, the organization structure determines the tasks and assignments, while the operational structure settles the way of performing the tasks. In recent times, organisational and operational structure are based on a cost and benefit approach. This is a fundamental change to the Solvency I directive, that was based on the 'one size fits all' principle. This new approach, on the one side, introduces more flexibility in corporate governance system of each company and, on the other side, increases the responsibility of the board, if compared to the previous regulatory framework.

Other principle set up in EIOPA Guidelines is the obligation to the company to review the system of corporate governance internally and periodically. The company have to determine the appropriate frequency of the reviews taking into account the nature, scale and complexity of their business and assign responsibility for the review to be documented as appropriate. Suitable feedback loops should exist to ensure follow-up actions are continuously undertaken and recorded. In order to allow an adequate revision of the system of governance, appropriate reporting procedures encompassing at least all key functions should be established. The responsibility for realization of this principle is on the administrative, management or supervisory body of the insurance company. In relation to key functions, EIOPA does not requires mandatory organisational structure of separate units focusing on risk management, compliance, internal audit and actuarial function.

The EIOPA Guidelines include some more specific requirements with reference to the four-eyes principle. As for the decision-making process, the four-eyes principle foresees that every significant decision is effectively taken by at least two persons "before the decision is being implemented" (Guideline 3). Significant decisions are decisions that are unusual or that could have a material impact on the undertaking (Guideline 3). The Guideline does not specify whether these two persons must necessarily be directors or not. Arguably, the second option is the most suitable, because the provision refers generally to "persons". Several situations could arise in practice, considering, for example, the case of two executive directors or (only) one executive director. In the first hypothesis, if the two executives are in charge of the business and take the decision jointly, there seems to be compliance with the Guidelines. By contrast, the case in which a delegation of different exclusive tasks is given to each director appears to be more problematic. Overall, it seems that in both cases, the question is whether the "two people rule" is aimed to ensure either a better level of competence or a better monitoring function. Considering that quite rarely an undertaking appoints two executives for the same area of competence and that the regulator is well aware thereof, it can be assumed that the goal of this principle is to ensure a better monitoring function.

Corporate Governance Structure of Insurance Companies in the Republic of North Macedonia

The basic legal foundations of corporate governance of insurance companies in the Republic of North Macedonia are set out in the Law on Trade Companies, the provisions of which define the frameworks within joint stock companies should regulate their corporate governance. The Law on Insurance Supervision through its provisions, as a *lex specialis* for insurance

companies, sets higher standards for the corporate framework which is quite logical considering the specifics of the insurance industry - covering economic, financial, corporate and other risks for companies, such as and covering different spectrum of risks for households and individuals. The highest body of insurance companies is the Shareholders Assembly. Shareholders exercise their rights at the Shareholders Assembly. Every shareholder has the right to participate in the Assembly and the right to vote from the moment of registration in the share book. The Assembly is the only forum where shareholders exercise their rights in insurance companies. The Assembly cannot decide on issues in the area of management, or in the area of managing the operations of the insurance companies that are within the competence of the management body. Only by way of exception can certain shareholder rights be granted to the Shareholders Assembly in the part of approving a deal with an interested party and a large deal.

Regarding the management structure of both regulations, the insurance company has the opportunity to choose between different management systems: the two-tier system, where the management and supervisory roles are played by two different boards - the management and supervisory board and the one-tier system, where the management and supervisory functions perform various members (executive and non- executive) within the same body - the board of directors. However, the ultimate goal of both systems is the same, no matter which system the insurance company chooses - to provide complete oversight of the operation and implementation of the company's strategy, as well as the proper management and execution of the decisions made. In doing so, both relevant laws clearly define the role and responsibilities of the supervisory and management body, precisely defining the conditions and qualifications that a person must possess in order to be a member of the management or supervisory board, which are his or her rights, obligations and responsibilities. Well-defined frameworks for members of the management and supervisory bodies are particularly important because in the insurance industry, members need to be able to understand the complex issues related to insurance business, actuarial, accounting, law, information technologies and claims collection. The insurance market imposes the need for the managing and supervisory body to be composed of members with integrity, relevant knowledge and experience. The quality of the individuals and their behavior, as well as the structure of all members of the managing and supervisory body, are as important to good corporate governance as the existence of appropriate structure and practices in the insurance company. Regarding the members of the companies' associates, another important characteristic that has been established in accordance with the relevant legal norms is their independence. Both laws set the minimum required for independent members and define the independence of members of the bodies. Insurance companies may also prescribe higher criteria for the independence of members from that established by the law, and in accordance with good corporate governance practices, it is expected that members of the company's bodies act objectively, independently to make conclusions and decisions in accordance with the interests of the insurance company. If there is a conflict of interest with the members of the management and supervisory body, and in such situations the members should act in accordance with the internal rules of conflict of interest.

The corporate legal framework of the Republic of North Macedonia provides an opportunity for the Board of Directors, or the Supervisory Board of the insurance companies, to form committees as their subsidiary bodies. This allows formation of smaller groups that will focus on and specialize in the specific area and thus help to increase the effectiveness of the boards. The most commonly established committee in insurance companies is the audit committee that provides oversight and control over financial reporting, internal controls, the effectiveness of internal audit, and recommendations in selecting an audit firm. Other committees that insurance companies may form are: nomination and selection committee, remuneration/remuneration committee, ethics committee, risk management committee, investment committee, data disclosure committee, corporate governance committee, human resources committee, strategic development committee, real estate management committee and a number of other committees.

An important role in the overall structure of corporate governance is played by both the management and the internal legal adviser (secretary of the insurance company). The role of the internal legal adviser is to ensure proper implementation of the regulations by the management and supervisory body, assist the chairman of the Board of Directors or the Managing or Supervisory body in organizing meetings and is responsible for relations with shareholders. Managers participate in the day-to-day running of the insurance company in accordance with the strategy of the company and the decisions made by management and supervisors. These persons are usually placed in a precisely defined area of business of the insurance company and need to have the appropriate knowledge, experience and skills to perform the assigned tasks and responsibilities. Specific to the corporate structure of insurance companies, unlike other companies, is the obligation to introduce control functions that undoubtedly enhance corporate governance. First of all, the Law on Insurance Supervision has more closely defined these functions, with a view to the stable and safe operation of the insurance company and the insurance sector in general. It is very important for insurance companies to properly understand the risks involved in their operations and the liabilities they incur. It involves a sound knowledge of the sources of risks, the types of risks, the characteristics, the internal relationships and the potential impact of the business, as well as the laws and regulations applicable to the insurance company and the employees involved in the risks. That is why it is important for insurance companies to have: [14]

- good and efficient mechanisms for identifying, evaluating, quantifying, risk control, mitigation and monitoring;
- appropriate strategies, policies and procedures to ensure compliance with internal strategies and policies, and applicable laws and regulations;
- adequate internal controls to ensure that risk management functions and compliance with regulations are complied with, and
- the internal audit function be able to audit and evaluate the adequacy and effectiveness of compliance with regulations, internal controls, and policies and procedures.

Controlling functions in insurance companies should be performed by persons with appropriate integrity, competences, experience and qualifications. These individuals should be able to demonstrate an appropriate level of knowledge and expertise in these areas and to meet professional standards. The independence of the holders of control functions is also a key issue and insurance companies can provide this in a variety of ways, such as direct reporting to the supervisory authorities by the holders of control functions and similar. According to the legislation of Republic of North Macedonia, as well as the practice of good corporate governance in insurance companies, the following are the control functions: internal audit function, actuarial function, risk management function and regulatory compliance function.

Conclusion

Good corporate governance is undoubtedly necessary to maintain a fair, safe and stable insurance sector that will take care of the good and protect the interests of insurers, which in turn will contribute to the stability of the financial system as a whole. The insurance industry, like other parts of the financial system, is undergoing a number of changes and that is why the insurance companies need to have a stable corporate system in order to face the changes more easily and to respond adequately to the rapid sociological, technological and economic development.

The benefits of good corporate governance are unquestionable - they provide for greater competitiveness of insurance companies, increased efficiency and corporate results, greater value for company assets and higher company reputation, all of which are important factors in a modern business environment.

Finally, it should be noted that corporate governance is not a once- established system, but a continuous process that needs to be continually upgraded and upgraded. The market is the one that will evaluate and value the commitment of the insurance companies in the process of building an adequate system of good corporate governance in the long run.

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Clustering -> Good or Bad idea!?

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Abstract. Clusters tend to be a key factor for a successful macroeconomic development and microeconomic business environment. Execution of cluster projects is one of the strategic objectives of many counties, as it contributes to the economic development of regions and increases the level of innovative development of enterprises which form a cluster. Cluster mapping efforts create a set of data and insights on economic activity across industries and locations.

With this paper we will try to present the advantages and disadvantages of being in cluster. All huge projects have obstacles and benefits, but in this paper we will try to summarize the facts of clusters, analyzing data from states in Balkan region and presenting some useful information for enterprises which are thinking for sector development opportunities.

Keywords: clusters, potential, benefits, investment, growth.

Introduction

The prospect of potential benefits from cluster initiatives for companies encourages government and other public actors to launch cluster promotion policies. In general, a well-developed concentration of related business promotes three important activities:

- Increase productivity (through specialized inputs, access to information, synergies, and access to public goods);
- Faster innovation (through cooperative research and more intense competition);
- New business formation (filling in niches and expanding the boundaries of the cluster map).

Cluster initiatives help regions govern their economic development and recruiting efforts. It also encourages communities to refocus their efforts on existing industries. Strong domestic cluster initiatives also assist the regions in attracting foreign investments. As leading platforms for their industries, clusters are able to attract national and international key players. In fact, foreign-owned companies can enhance the leadership of the cluster and contribute to its upgrading.

Throughout Europe, clustering of companies and R&D organizations is acknowledged as an effective tool for national and regional development. There are hundreds of cluster initiatives existing in Europe alone, aiming to foster innovation and internationalization of companies using collective actions. (Innovation & Environment Regions of Europe Sharing Solutions, 2012)

Some geographic areas have obvious natural advantages that result in cluster formation.

First, the cost of transporting goods is reduced when firms are located close to their customers or suppliers. Input suppliers can exploit economies of scale in large clusters of downstream firms who, in turn, benefit from timely delivery and lower inventory costs.

Second, when firms locate in a cluster, a pool of workers emerges, making it easier to hire new workers when labor demand increases and facilitating better matching of workers to jobs. Third, knowledge spillovers, in particular informal exchanges of ideas, are more likely when firms are in close geographic proximity. In a more dense concentration of economic activity, workers and entrepreneurs are more likely to learn from each other. Close proximity to competitors can facilitate information sharing or allow firms to engage in collective action to overcome common constraints such as contract enforcement. (Africa Growth Initiative, 2015).

Cluster advantages and disadvantages

As (Mazur V. V., Barmuta, K. A., Demin, S. S, Tikhomirov, E. A. & Bykovskiy, M. A., 2016) mention that studying the experience of developed countries shows that innovation clusters have a greater ability to innovate due to the following key advantages:

- Unlike traditional industrial innovation clusters represent a system of close relationships not only between companies, their suppliers and customers, but also to institutions of knowledge, including research centers, universities, and scientific research institutes. As a generator of new knowledge and innovation, they provide a high level of competitiveness. The innovation process includes suppliers and consumers, as well as companies from other industries, and as a result of inter-firm cooperation on R&D costs are reduced;
- Subjects of companies – participants of the innovation cluster, especially SMEs, are able to more accurately and more quickly respond to customer needs. Participants cluster facilitated access to the new technologies used in various areas of economic activity;
- Cluster structures create positive effects not only for the cluster association and its members, but also for the home regions: An increase in employment, the growth of wages and profits, intensification of entrepreneurial activity, etc (Press, 2006). Cluster structures provide economic growth for the region as a whole, not only for cluster members, improving the welfare of the entire population,
- acceleration of regional scientific and technological progress, improving the regional innovation system;
- The subjects of the firm in the cluster are under intense competitive pressure, which is exacerbated by the constant comparison of their own business activities with those of similar companies;
- Ability to coordinate efforts and financial resources to create new products and technologies, and output them to the market (Nafziger, 2012). Within the cluster, it is possible alignment of supply chain, from product creation to its production and to market;
- The establishment within innovation clusters mainly export-oriented products and technologies, i.e. intra-cluster competitive advantages are significant on an international scale;
- State participation in the formation of cluster strategies. If the initial clusters are formed only due to the “invisible hand of the market”, especially when upgrading TNCs in recent years, many governments began to “grow” their own initiative in the framework of public-private partnership, giving this process a tangible material and moral assistance;
- Creating a sustainable distribution system of new technologies, knowledge, products, so-called technological network, which is based on a joint scientific base;
- Ability to carry out internal specialization and standardization, minimizing the cost of innovation;

- The presence of the system of innovation clusters of flexible business structures – small businesses, competing in the production of creative ideas that allow grope innovative points of growth of the regional economy;
- Regional and local clusters of small firms provide a high degree of specialization in servicing a particular business niche, because it provides access to capital for industrial enterprises, other resources, and actively going exchange of ideas and knowledge transfer from scientists to businessmen. (Mazur V. V., Barmuta, K. A., Demin, S. S, Tikhomirov, E. A. & Bykovskiy, M. A., 2016).
- However, clusters are not an ideal element for the economy because the list of advantages may be continued by the list of innovation cluster disadvantages, as follows (Petrov, 2010).
- The excessive concentration of enterprises in domestic relationships and environmental conflict beyond the cluster may lead to technology obsolescence and decrease of their competitiveness in the domestic and foreign markets;
- The cluster's reserved character may cause the elasticity reduction of participating enterprises;
- The absence of competitors in an isolated cluster “destroys” the need for constant updating of the production and sales process;
- The uniqueness of each cluster leads to considerable complication of efficiency assessment of its functioning, because there is no opportunity for comparison with other clusters;
- The correlation between the entire cluster consequences and the performance of its each member (Mazur V. V., Barmuta, K. A., Demin, S. S, Tikhomirov, E. A. & Bykovskiy, M. A., 2016).

Research methodology

For the realization (accomplishment, implementation) of this paper we have used combined data, which were provided from European Cluster Collaboration and Cluster Observatory platform online, which monitor and report about the cluster effects. These data have been analyzed through statistical methods appropriate for discussion.

This research was completed from statistical data about Balkan countries, included in this research, being: Kosovo, Albania, Serbia, Northern Macedonia, Montenegro, Bosnia and Hercegovina, and Bulgaria. For this work the selection was done based on the logic of influence possibility, and further on the data were statistically tested. In this paper we have analyzed the number of clusters, in each country, the sectors in which the clusters were formed and the report to the GDP of 2018.

We assess that as a limitation to this paper is the lack (absence) of primary data, which we could not provide due to funds and the geographic inclusion the research has. If primary data were at our disposal, then we could do a confrontation of results between our primary data and the secondary data. The other limitation in this research is the lack (absence) of data on cluster employment for 2018. Therefore, for our analysis we have used the combined data which produced the results presented in this paper.

Data analysis

Based on the data provided from European Cluster Collaboration Platform (Online platform developed and funded by European Union), which we have selected only for 7 countries included in this research, being: Kosovo, Albania, Serbia, Northern Macedonia, Montenegro, Bosnia and Herzegovina, and Bulgaria, we have gained the data which have been presented in a tabellary form, in the following:

Table 1 – Evidence from selected states for cluster registered and GDP

	of	Republic Kosovo	Albania	Serbia	North Macedonia	Montenegro	Bosnia and Herzegovina	Bulgaria
Number of clusters ¹	1	2	24	3	4	4	22	
GDP per capita \$ ²	4193.6	5075.4	6880.5	5394.3	8226.6	6056.2	8651.1	

Authors' calculations

If we analyze these data, we can suppose that countries which have successfully created clusters in different regions within their borders, have a higher GDP. This comes as a result of their concentration (focusing) in the fields identified as priority to

1 <https://www.clustercollaboration.eu/cluster-list> 2 <https://tradingeconomics.com/>
 them. This identification has enabled them, apart from specialization, to increase also exports through adequate cluster policies. Based on the above table, it can be clearly seen that the Republic of Kosovo has the lowest GDP in the region, and that it has only one cluster registered. These data prove once more the relevance and the impact the clusters have in the economic development of the country, as priority points of each government, building up of knowledge and experiences in the field belonging to education institutions, as well as the increase of profit and specialization of enterprises in respective sectors.

	Republic of s	Albania	Serbia	North	Montenegr	Bosnia and Herzegovin	Bulgaria
Automotive -	-	-	2	-	-	-	1
Distribution and Electronic Commerce -	-	-	1	-	-	-	1
Communications Equipment and Services -	-	-	-	-	-	-	2
Furniture, Wood Products -	-	-	-	-	-	-	1
Aerospace Vehicles and Defense -	-	-	-	-	-	-	1
Environmental Services -	-	-	1	-	-	-	2
Transportation and Logistics -	-	-	2	-	1	-	1
Production Technology and Heavy Machinery -	-	-	-	-	-	-	2
Mechatronics and Automation -	-	-	-	-	-	-	1
Microelectronics and Embedded Systems -	-	-	1	-	-	-	1
Business Services, Information Technology and 1	1	1	1	2	1	1	1
Education and Knowledge Creation, Hospitality and	-	-	3	-	1	1	3
Electronic Commerce -	-	-	2	-	-	-	1
Electric vehicles industrial cluster -	-	-	-	-	-	-	1
Metalworking Technology -	-	-	1	-	-	2	2
Financial Services -	-	-	-	-	-	-	1
Construction Products and Services -	-	-	2	-	-	-	1
Agricultural Inputs and Services -	-	1	3	-	1	-	-
Textile Manufacturing -	-	-	1	1	-	-	-
Marketing, Design, and Publishing -	-	-	2	-	-	-	-
Crop & animal production -	-	-	2	-	-	-	-

Table 2 - Regional active clusters presented in sectors

Analytical Instruments Tourism

Authors' calculations

Analysing carefully the above presented graphic, we can see also priority fields, which the countries of our analysis have applied. Out of these data we can allude that the most successful cluster initiatives have been proved in the sector of Business service, Information technology and Analytical instrymtent, as well as Education and knowledge creation, Hospitality and Tourism. Since each country has its own unique characteristics and potentials as well, then the prioritisation of sectors depends on governmental strategies and distributions of funds per cluster.

If we deepen this analysis more, in each country separately, we can see that Serbia has the largest number of clusters being active, and distributed in several sectors. Out of the data

provided from the platform Cluster Collaboration we can see that the most appropriate sectors for the development of cluster have shown to be Education and Knowledge Creation, Hospitality and Tourism, followed by Agriculture inputs and services. Almost the same situation appears also with Bulgaria, which, in addition to these sectors, appears also with a slight expansion also in the field of Finances, Communications equipment and services, Production and Metalworking technology etc. We allude that the expansion of the cluster network in some sectors has been achieved thanks to the stimulating policies for investment and innovative approach, which the Serbian government has towards the businesses with development potential.

Quite another approach appears in neighbouring countries of Serbia, such as Kosovo, Montenegro, Northern Macedonia, and Bosnia, which have not shown very attentive in creation and implementation of cluster initiatives. It is numbered a concentration of clusters in these 4 countries in the field of Business Service, Information Technology and Analytical instruments, this due to the distinguishing competences the Balkan peoples have in these fields. However, it should be stressed that in relation to the European countries, these 4 countries have remained behind (marked time) in the cluster development and stimulation, and in cluster annual reports, they have appeared ranked at the bottom of the list.

A good news is that regardless of challenges, the initiatives for cluster creation are being developed on daily basis, and the main actors are benefiting a lot from this network, which represents a stimulation for further regional development.

Conclusion and recommendation

Kosovo, regardless of potentials it has, especially in the field of IT, mechatronics, tourism and agriculture, which are qualified as fields of strategic interest for the country, it faces social, economic, legal and political challenges. All these challenges have an important impact in creation of the climate for cluster development. Based on the features of its country, each country makes efforts to create stimulating policies for businesses. However, in countries in transition, this issue is more delicate, because the challenges are various, and very often it happens that the initiatives of innovative businesses, which are profitable for the country, extinguish just (exactly) because of the inadequate operation environment. An ideal formula is both the governments and the investors, as well as education institutions cooperate closely in order to create a unique platform, fulfilling the needs of the country and adapting the most innovative techniques in respective fields. However, practically, this situation is very disappointing, not because of the lack (absence) of initiatives, but because of challenges being present in many sectors.

For the accomplishment of a cluster, it is necessary also an experience in the adequate sector. Also this issue can be problematic, if as an initiative is not supported by the specialized education institutions. If we analyze Kosovo, in this case, from the presented table, we can see only one registered cluster initiative in the field of IT. Analyzing the requests of the sector, in the recent years the interest to study in this field has increased, and unique platforms have been created, which are promising for the country. It should be stressed the fact that Innovation Centre of Kosovo has given a special contribution in the support of startup in the field of IT and broader, as well as University for Business and Technology – UBT, which has stimulated the students to create innovative products and to present them abroad, at specialized conferences, fairs and workshops, and their results have been impressive both in presentation and in evaluation, gaining first places in many cases.

Since the geographic position is the main element based on which the first cluster relations are created, we allude that Kosovo fulfills (meets) this criterion completely. Being positioned in a strategic spot (place), in the centre of Balkan peninsula, bordering on countries like Albania,

Northern Macedonia, Serbia and Montenegro, and with a very close access to the Adriatic Sea, with an appropriate infrastructure, Kosovo is ready to develop its capacities, to increase the level of export through the accomplishment (implementation) of at least 4 clusters in the fields of strategic interest. This strategic position, as well as other ideal elements for the development of clusters would help the country in producing products of high quality, with advanced production equipment and minimum costs.

And as a conclusion, if we have a clear goal, an adequate division of works, a prepared team and an appropriate monitoring, then the cluster implementation in a respective sector is the key to the development not only of an enterprise, or a group of enterprises in a cluster, but also of the economy of the country, of increase of experiences and world representation in a dignified manner with qualitative products/services.

As main recommendations of the authors deriving from the results of this paper are the following:

- Increase of possibilities in specialized trainings in On Job training, increasing the cooperation between the education institutions and businesses, and urging innovation in the development of specialized programmes;
- Another important advantage which is promoted through clusters is the potential influence of the increase of spaces for the use of circulation economy;
- Urge creation and increase of potential of business societies within certain industries through clusters, whereby their lobbying force against the respective governments is increased
- Another priority is the potential increase and the facilitating of creation of relations between the similar clusters, in the region, considering the fact that on the Balkans we have great cluster similarities operating in different countries, which are geographically very close.
- Eventually, we should always take into consideration the level of implemented technology by the companies wishing to be an active part of clusters, because of the impact the technology nowadays has in doing business, and of the possibility of an easy access to the information of strategic relevance (importance).

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Alternative energy generation and its economic impact on developing countries: A case study of Albania, Kosovo, Montenegro, and Northern Macedonia

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Abstract. Energy as a comprehensive source of economic development has undergone transformation and is evolving into alternatives. Due to the concerns about pollution, energy generation is constantly seeking an alternative that is friendly to the environment, or at least with substantial lower harmful effects. This effort involves costs of investment, especially in developing countries. Investment in alternative, cost efficient and friendly environment energy is no longer the sole isolated objective of a country, thus it may involve several countries, especially neighboring ones to coordinate their efforts. This paper looks into the state and prospects of alternative energy in four small developing countries in the Balkans: Albania, Kosovo, Montenegro, and Northern Macedonia by analyzing their current producers, shortage and/or surplus of energy, sources, environmental costs, and the impact on their national economies. All this in a relatively small area of over 72 000 km² and 7.4 million inhabitants of four countries. A particular emphasis will be placed on comparative analysis of hydro-power and solar energy.

Keywords: developing countries, alternative energy, environmental pollution, economic impact

Introduction

Alternative energy to fossil fuels is not necessarily related only to the environmental concerns but also to the problem that coal, oil and gas reserves are declining from exploitation. But alternative environmental friendly energy such as from the hydro power plants, wind, biomass and solar have also their limitations. Despite being aware, poor countries are faced with the limitation of investment in the capacities of alternative energy. Rich countries on the other hand, would be more active in filling this gap in investment, but they go after profit which often meet with various regulations. Power generation, electricity in particular, which is still heavily dependent on fossil fuel with increasing consequences to the climate change, is now becoming regional and global concern due to its toll on the environment. Even in actual conditions, many countries are still interdependent in power supply. And so are the four small countries in the Western Balkans in electricity consumption as they sometimes face shortages and surplus. Some three decades ago, three of them (Kosovo, Montenegro, and Northern Macedonia) were part of one state (former Yugoslavia) and had their own electricity production capacities which also covered part of each other, but after became independent states and increased demand for consumption, they realized that regional cooperation and interdependence is still necessary. This interdependence is likely to be continued and expanded especially in reducing the fossil fuel based in favor of alternative energy. The group now includes Albania which has got around

90% of her electricity generated from hydropower plants. Northern Macedonia has also got a considerable share of total electricity generated from renewable sources, of which 35% comes from hydropower plants. The situation with Montenegro is more different as 54% of total electricity is generated from coal thermo power plants, and much more different in Kosovo where this share is as high as 97%.

Apart from their own objective for alternative energy, the countries in question are required to meet the framework for energy and climate of the European Union Commission (2017) to reduce the greenhouse gas emissions by 40% along with increasing the share of renewable energy by up to 27% until 2030. The framework stipulates that it is no longer a policy but is a binding requirement that must become reality. Although none of the countries taken in this article are member of the EU, the energy policy applies to them as they have considerable reforms underway by the EU support to which they are expected to become members. Meeting that objective will

depend on the current state of power generation in these countries and their planned investment. The biggest challenge will be for Kosovo which is already a large pollutant and is planning to build a new thermo power plant to fulfil her needs for electricity supply and export to the neighboring countries. While the prospects for three other countries are favorable of reducing the coal burned electricity generation, especially for Albanian and Northern Macedonia, it is uncertain how Kosovo will have to make efficient use of large reserve quantities of lignite. This article will explore to what extent increased alternative renewable energy can keep up the current pace of economic growth while reducing power generation from the non-renewable sources.

Literature review

Alternative energy is gaining a sharp attention among the policy makers and scholars. It has been a subject of interest as early as beginning of the 20th century, e.g. in Bell (1906), but it entered into a more intensive research since 1970s. The necessity for renewable energy has emerged not simply as an alternative, but more from the concerns of climate change and environmental degradation. The world still relies heavily on the fossil fuel energy, which the International Energy Agency – IEA (2017) estimated at around 80% of total energy. How long it will take by the current trend to replace the fossil fuel based energy with alternative sources? It requires enormous collaboration between different player and even countries, such as producers, regulators, suppliers, distributors and consumers, thus the demand for it not one sided. When would alternative energy fuel be able to fuel the entire economy? Barreto (2018) developed an endogenous growth model of interaction between fossil fuel and alternative energy substitution. It showed that as the former drops or is depleted and the latter has not yet picked up, the economic collapse will not happen.

Alternative energy has different implications for the environment from producer, consumer and individual consequences. The producer has its own objectives that are egoistic, i.e. to make profit or reap the benefits, the consumers value the nature, while perceptions by individuals depend on egoistic behavior by the producers – the stronger egoistic values, the greater individual consequences for energy alternatives (Perlaviciute and Steg, 2015). Apart from energy alternatives, many explore the alternatives in terms of existing non-renewable resources or their so-called optimal exploitation. Hart (2016) examined a model which showed that the prices of extracting the resources declines while the productivity increases in the medium run due to technological development. An intense and rapid exploitation of non-renewable resources leading to their depletion would then cause the prices of both resources and the energy to rise in the longer run. Sustainability in the long run is volatile to the challenge with renewable diversified energy. Berntsen and Trutnevyte (2017) by using multi-model showed that between

2035 and 2050 the Swiss electricity supply scenarios lack to predict the rise in demand for new renewable energy such as wind, biomass, geothermal and solar. Alternative energy growth is subject to social, economic and structural conditions. In order to better preserve environmental cause or diminish harmful effects from energy production, Gunderson *et al* (2018) propose collective-owned systems rather than individual whose combined hazard effect can be greater. However, this proposal would raise the costs of distribution, thus higher prices. Higher prices in turn become a signaling as an incentive for more power generation with renewable sources, among others, the producers will seek alternative ways to reduce the costs in order to become more competitive. The diversification through renewable supplies is mostly coming from already thermal generators which control majority, if not all, renewable supplies. Given this situation, the rising governmental policies to reduce non-renewable and increase renewable based energy, makes the companies to lower the price of the first and increase of the latter source when the demand is high in an oligopolistic market. However, as the diversification of energy portfolio lowers harmful effects to environment, it may be associated with welfare reducing (Acemoglu *et al* (2017).

Despite appreciation and the heavy focus of attention on renewable energy, a more recent study by Harjannea and Korhonenc (2019) warns about over ambitions of renewable and alternative energy. Apart from conceptual definition which may include a variety of renewable energy, sustainability is not guaranteed as it should take into account social, environmental and economic domains. Hydro power plants for example, can lead soil degradation, displacement of local population while economic benefits go and are accounted elsewhere. In any case, alternative energy to fossil fuels, in particular oil and coal, is expected to rise both in volume and share of total energy. The question is who would be investing in it, and does innovation play a crucial role. Private corporations run after profit, which implies that whatever source of energy to be sold to consumers, can be generated. An increased trend towards alternative energy makes the producers find the ways become competitive in the market. This depends on how innovative they are in

innovation, research and development. A study by Lin and Chen (2019) for a ten year period (2006- 2016) in China found that the price of electricity does not play a role in technological innovation for renewable energy in the short run, but it does so in the long run. Furthermore, investment in research and development in renewable energy has positive impact on economic growth, both in short and long run.

The bulk of the studies on renewable and friendly environment energy highlight the pressure from climate change as an alternative to alleviate the harmful effects of fossil fuels. The future of alternative energy will depend not only on available sources, but more on technological innovation which drives the competition to its generation and consumption. But the current trend of energy consumption on a global scale suggests that traditional or brown energy will still dominate over alternative green for the next few decades.

The case of Albania, Kosovo, Montenegro, and Northern Macedonia

As mentioned in introductory part, the four countries concerned have got a mix of electricity generation and consumption between coal thermo and hydro power plants. A report by the European Environmental Agency (2010) indicated that the Western Balkans as a whole had a higher share (21%) of renewable electricity than the EU-27 (14%). Yet, the hydropower electricity was insufficient and vulnerable to climate conditions which dictated it ups and downs. An update of the figures as of 2017, showed the following state of electricity generation and their main sources:

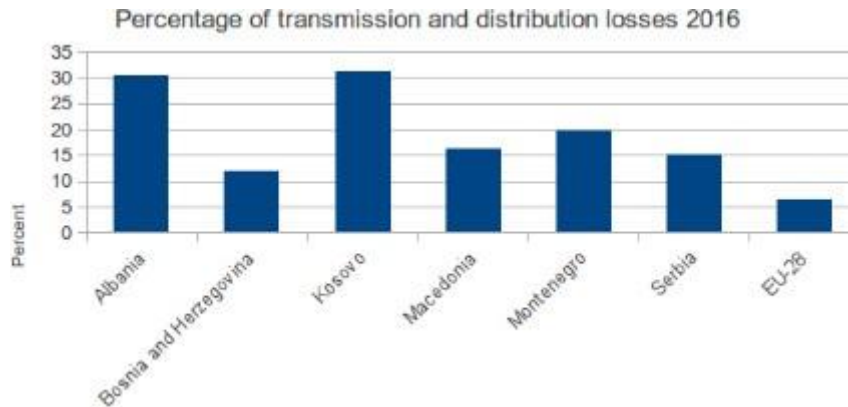
Table 1: Electricity generation in MW

Countries	Non-renewable	Fossil/Lignite	Renewable	Wind	Fossil gas	Fossil oil	Solar	Hydro	Total
Albania	97	97	1 835	-	-	-	-	1835	1932
Kosovo	800	800	35	-	-	-	-	35	835
Montenegro	880	880	72	72	-	-	-	-	952
Northern Macedonia	1 157	1157	733	36	-	-	17	567	1 890
Total	1777	2934	840	108	-	-	17	2437	3719

Source: European Network of Transmission System Operators for Electricity – ENTSOE (2018), “Statistical Factsheet 2017: Provisional values as of 4 May 2018”, Brussels: ENTSOE, p.4-6.

As the figures from the table above show, this part of the Western Balkans generates much of its electricity from non-renewable sources such as lignite, which accounts for as high as 96% in Kosovo. Yet, the perspective of this country in alternative energy in the face of rising demand for electricity consumption and prices remains limited as a new thermo power plant is planned to be constructed with a capacity of 2 100 MW through foreign investment. This is expected to make Kosovo self-sufficient in electricity generation and export a part of it, primarily to the neighboring countries which face shortages. Kosovo’s vast lignite reserves, which are amongst the largest in the world, has dictated the necessity to exploit this non-renewable resource. The environmental concern remains high. Montenegro too, has a similar situation with electricity generation like Kosovo as over 92% of its electricity come from thermo power plants with the remaining from wind. Coal fired plants remain with the largest share in total electricity production also in Northern Macedonia, but this country has got a larger share of renewable resources such as hydro power plants, wind, and solar energy which account for 39% of total. In terms of renewable resources, much of it or over 91% comes from hydro power plants. The hydro power plants which are free of greenhouse gas emissions are the primary and most dominant energy source in Albania. Only 5% of Albania’s electricity is generated by using the coal fired plants, or quite the opposite situation with Kosovo.

The countries in question consume more electricity than they are able to generate, thus facing a shortage for which it has to import. Import comes mainly from Bulgaria and Serbia, and sometimes between themselves when have larger capacities to produce. Before they go through the process of reducing the power generation from non-renewable sources such as coal, they first of all have to find alternatives how to eliminate shortages by increasing production capacities. This can be achieved by investing in new capacities, where non-renewable have more prospects of being used. It should be noted that shortage occurs more from the loss of electricity produced rather than underused capacities. The loss in transmission and distribution in 2016 reached as high as 32% in Kosovo and Albania.



Source: CEE Bankwatch Network (2018), “Western Balkans power sector future scenarios and and the EBRD”, Briefing 15 October, 2018, London: EBRD.

The loss in electricity during transmission and distribution is significantly higher than the average for the EU countries. While the necessity of focusing more on renewable resources and alternative energy is exaggerated, it appears that a more urgent task is to improve efficiency in transmission and distribution as this problem may be followed to alternative energy as well. Apart from the loss, a further concern is that not all electricity distributed is billed, thus a part of it though not significant, is theft. All these factors are causing the price of electricity to be relatively high. Therefore, these countries should first reduce the costs of distribution and better manage the current system of power generation rather than exaggerate the prospects of alternative energy, despite that on average, they stand with a better share (except Kosovo and Montenegro) of it than the EU. For instance, Albania is largely dependent on hydro power plants, but this is vulnerable during seasonal effects, especially during the hot days of summer when the level of water in power plants declines significantly and causes electricity shortages. In addition, this part of Balkans is currently rich in biodiversity and many species are listed as threatened at current stage. A more intensive use of available fresh water for power plants, is likely to lead some of the species to extinction.

In summary, as the literature maintains, non-renewable resources such as coal, which the four countries concerned rely for power generation, is harmful to the environment, while there is no much room for renewables to make any significant breakthrough and meet the demand for electricity consumption. Altogether, these countries depending on each other for import, are also importing from Bulgaria, and Serbia. The focus of attention to exploit more renewable resources without careful consideration for environment and biodiversity, can also have its negative effects in medium to long run. In the short run, this exploitation can have direct impact on local people and economy such as agriculture, livestock, irrigation, tourism, fishing, and sometimes even to the drinking water.

Conclusion and policy recommendation

The current state of energy for economic growth and development is largely based on fossil fuel. This is coming with direct harmful effects to the environment and climate change from gas emissions and with the concern that these non-renewable resources are being depleted. Renewable and alternative energy for economic growth that is being aggressively promoted and intensively researched is still far away from making a replacement to the current state of fossil

fuel on a global scale in the medium run. However, three out of four countries in this article will meet the target even before much of the EU countries, though this is not an assurance that environmental pollution on average will become smaller than elsewhere in Europe. The largest greenhouse gas emissions from thermo power plants remains in Kosovo which is planning to shut down one and build another plant, by which the fossil fuel such as lignite for electricity will further increase rather than decline. Montenegro also is also heavily dependent on non-renewable sources such as coal. Being largely, or may be entirely reliant on renewable sources of alternative energy like Albania from hydro power plants is far more better alternative if it is sufficient, but it is not. The four countries discussed in this article are complementary to each other with non-renewable (Kosovo and Montenegro) and renewable sources (Albania and Northern Macedonia), and that is why they both import and export electricity between them. During the summer Albania imports from Kosovo while in winter the other way around. However, that is still insufficient as they often have to import from elsewhere.

Alternative energy that is friendly to environment is promoted from the pressure of pollution arising from the thermo power plants relying on coal burning to generate electricity. Yet, this alternative is not without environmental consequences for the economy, especially for the biodiversity in this part of the Balkans which already has a lot to improve within the current state of energy generation. It is therefore recommended that these small countries focus more on

improving the transmission and distribution losses. This is more important and urgent rather than pursuing any policy for more radical development of alternative energy capacities without careful analysis on potential impact on the environment and the economy. In addition, the improvements in the current state of energy generation such as transmission and distribution, is the key also to future projects of alternative energy from renewable sources. The consumers may not care which source the electricity is coming from as they need it, as opposed to the government policies at the national level to reduce the share of non-renewable sources with renewable ones.

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One More Look at Money as a Human Invention

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Abstract. The article deals with the authors' reading on the genesis of money from commodity money to digital money and crypto currencies. The authors try to define the nature of money despite the diversity and changes of their forms. The determinants imposing expansion of geographical scope in the use of certain currencies are analysed. The authors think that there are different independent ways for the future (r)evolution of money. The first is the development of digital forms of certain powerful national currencies. The future of crypto currencies as real currencies, fulfilling all the functions of money, is questionable. But authors are convinced that gold – the classic form of money, will be eternal currency, but especially as a store of value.

Key words: Money, gold, international money, crypto currencies.

The nature and evolution of the forms of money.

There is no universally accepted definition of money because of its many forms and different being, even though they are at the center of economic life during different eras.

But most researchers accept that they are a means for bargain, that they facilitate commodity exchange and are a better alternative than barter [10]. Logically, the first evolutionarily form of money is **commodity money** – a natural successor to barter. The money used is cattle, salt, shells, mussels, certain stones, grain (barley, wheat), whale teeth, cocoa beans, alcohol, tea, tobacco ... The word *pecuniary* (monetary) is derived from the Latin *pecus* which means "livestock" – one of the many things used for money [11].

Gradually, because of their homogeneous nature, because of their value, durability, because of their small volume and the possibility of divisibility, **metals** are manifested as money. As such, in the very beginning of human history precious metals are used – gold and silver, and less often the base metals – copper, bronze, iron. Gold and silver pieces, gold or silver dust were also used as payment methods. [7]

At some stage, coin cutting begins to avoid the need to weigh the scrap metal or scatter dust. The practice of counting money is evidenced by the Old Testament – when buying his land, the prophet Jeremiah wrote: "I weighed him the money, seven- teen shekels of silver." (Jeremiah 32: 9) [9]

It is believed that the first coins appeared in China and in the ancient Lydian Kingdom (present-day Western Turkey) in the 7th century BC. The first kings involved in the minting were the Lydian king Aliat (in Sardis, the capital of Lydia) and his son Croesus [3], [6]. The first coins in Lydia, like the one discovered in Sozopol in the summer of 2014, were made from a natural blend of gold and silver known as *electrum*. Famous for his treasures, King Croesus replaced these coins with others that were made almost entirely of one metal – gold or silver. [9] For a long time, both, gold and silver are used in coin-cutting. The exchange between the two precious metals takes place in a proportion formed by the market or by law. Deviation in

this proportion from the actual value ratio of gold to silver leads to sharp fluctuations in prices, expressed in different monetary equivalents and to significant anomalies in monetary circulation. It happened in England in the 18th century. [10]

In addition to *valuable* money, with the development of coinage, the so called *billion* or exchange coins emerge. These are coins whose face value exceeds the real value of the precious metal contained in them. They are introduced for the purpose of obtaining income from the state treasure called *seigniorage* – equal to the difference between the face value of the coins and the cost of printing them.

In the 13th century, the first international coin appeared – the gulden, whose name means "gold coin". Guldens were minted simultaneously in many countries until the early sixteenth century, before their ever-increasing supply with reduced value began, and before they became silver. [7]

Since about 1800 there has been a natural transition to monometallism, in particular to the gold standard. Gold coin money circulated in monetary circulation until the outbreak of World War I – 1914.

It should be summarized that, back in antiquity, in addition to valuable money (precious metals), the inferior ones functioned successfully. Subsequently, the inferior ones are presented mainly through debt instruments issued by banks and governments, and in particular they are banknotes, treasury tickets (bills), bills of exchange, promissory notes, checks. The most used representative of credit money is *banknotes*.

Their name derives from a *bank note* – bank paper, bank bill, bank receipt... Specialized publications and dictionaries define them as exchangeable bearer records issued by the bank. [14] Banknote holders could always turn them into gold or use them as a means of payment. Initially, banknotes were issued by each bank, but in the 17th century, the first central banks were created in Sweden and England, and gradually the government centralized the issue of banknotes in order to control the money supply and the realization of monopoly income – seigniorage.

The classic thesis of identifying money with gold was valid until the outbreak of World War I, when the exchange of banknotes against the universal equivalent was terminated.

Even when gold was fully functioning as a universal equivalent, the beginning of the withdrawal of money from the rest of the commodity world and gold began. Then there is *paper money*, which is often incorrectly identified with banknotes. The two forms of money, however, have different origins, though their peculiarities are gradually eroded.

China is considered the birthplace of paper money. The first paper money was special receipts issued against valuables given in special warehouses or as evidence of paid taxes. In the 13th century, Genghis Khan freely exchanged paper money for gold, so counterfeiting paper money produced huge profits and was considered a terrible crime. By 1500, the Chinese government was forced to suspend the issue of paper money because of the difficulties associated with excessive issues and inflation, but existing Chinese private banks continued to issue. [3]

The process of withdrawing money from gold is painstaking, passing through the gold-bullion and gold-currency standard, which existed for a short time – from the beginning of the 1920s to the World Economic Crisis from 1929 to 1933. A currency that retains its relationship with gold, but fairly conditional, is the US dollar. Until 1971, it was partly convertible into gold only for official transactions by central banks of the IMF member countries.

So it naturally comes to the so-called *fiat* money – money issued by the government in the person of its central bank, which has no substantial value. They gain value through the process of exchange through the purchase of goods and services. The state, represented by the central (issuing) bank, regulates their quantity in circulation, maintaining their purchasing power.

The appearance of banks and the emergence of checks is the basis for the existence of *non-cash* money – money, such as a record in the account of a natural or legal person, which can easily be transferred in commercial transactions, on the basis of correspondent relations between banks.

As a result of the evolution of money these days, electronic money – money that can be "real-time" transferred from one account to another – emerges under the influence of non-cash payments and new information technologies. Their medium is an electronic payment instrument, most often a bank card.

Since the creation of the first digital currency, bitcoin, in 2009, there are nearly 3,000 **cryptocurrencies** today [16]. In essence, cryptocurrencies are a medium of exchange based on a decentralized peer-to-peer network. It is designed with the help of cryptography, which displaces the need for a central bank to validate and control transactions. Although research shows that the cryptocurrency market is valued at \$

856.36 billion in 2018 and is expected to grow by more than 10% over the next 5 years [12], in our opinion cryptocurrencies have the characteristics of assets used for investment and speculative purposes such as stocks, futures and other financial instruments. The significant volatility of cryptocurrency prices, as well as their non-acceptance in mass transactions, makes it impossible for them to perform the primary functions of money, and therefore the misappropriation as a form of money manifestation.

In parallel with the advancement of money under the influence of globalization and information technology, the reverse is also observed, although it is a minor phenomenon – the creation of **local money or parallel currencies**.

This money is used within a certain administrative-territorial unit (for example, a municipality). Local money has two genesis – political and economic [10]. One of the most successful local currencies was invented in 2003 by Christian Geller, an economics teacher at the Prien am Himsee in Bavaria, called *Himgauer*. [6] Other regional currencies are not convertible to the euro and their value is mainly that they can be used to pay for goods and services of certain companies. This is the WIR parallel currency used in Switzerland for 80 years. [2]

Local money achieves greater independence from government money and in many cases enhances the local economy and social cohesion. Some revolutionary authors even consider local money to be an effective way of reducing the influence of banks and large international concerns. [7]

Although it is difficult to give an accurate definition of money, we agree on a consensus between the two strands in economic theory – Keynesian and monetary, as well as the opinion of Keynesian-neoclassical synthesis that money is the most liquid asset, which at minimum cost of money and time fulfils its functions. Today, electronic technologies produce money and quasi-money in an abundance of forms, and public authorities seek to regulate them, both in order not to cause unpredictable and uncontrollable economic turmoil, and to maintain a monopoly role in monetary issue and monetary policy.

International money

An analysis of which money serves the international economic exchange is worth a place. These are:

Some national currencies with international functions;

Regional or global monetary units – supranational money.

During the period of the gold standard until the First World War, gold comprehensively fulfilled the functions of world money – universal means of payment, measure of value and universal materialization of public wealth. To a very limited extent, the role of gold as world money remained until August 1971, when Nixon announced the cessation of the US dollar exchange for gold. This breaks the last thin strand of gold as valuable money with the international monetary system.

The role of international money is already being fulfilled to one degree or another by the national currencies of the largest and most developed countries.

International money fulfils the inherent functions of money – a means of exchange, a measure of value and a means of accumulation, except in a wider territorial scope. The place and role of national currencies as international currencies can be represented by the so-called currency pyramid (Fig. 1).

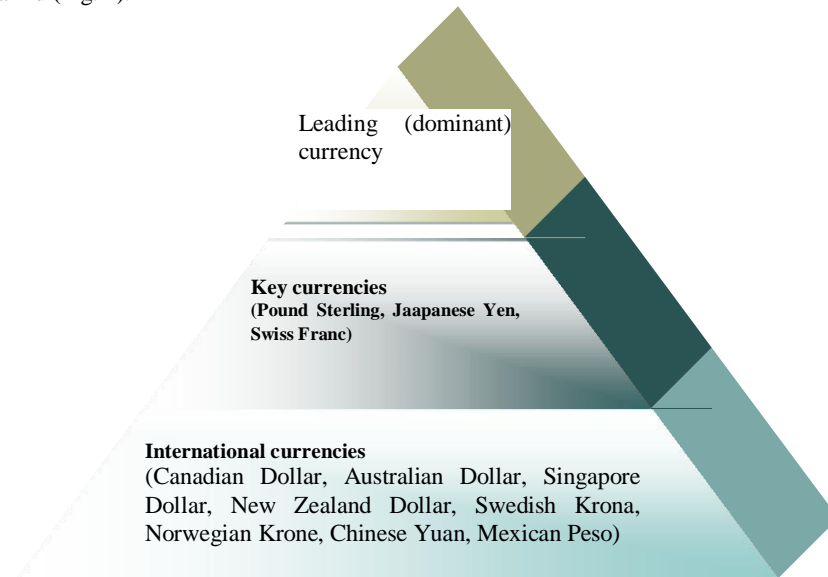


Fig. 1. Hierarchy of international money

At the top of the pyramid is the *dominant currency* (the leading or leader currency). Until the First World War, the British pound played such a role, but it gradually lost its position. After World War II, the dollar was the dominant currency for nearly half a century. With the advent of the common currency of the Eurozone countries, the euro, part of the dollar territory is taken away. With a considerable degree of condition, the euro can also be regarded as a leading currency (however it is supranational), but far behind the dollar. *Key currencies* fulfill all the functions of international money, but are inferior to the dominant currencies in terms of development and range. Such currencies today are the Pound Sterling, Japanese Yen and Swiss Franc. *International currencies* are most commonly used as a means of payment, and also at favourable opportunities – as a means of accumulation. This group includes Canadian and Australian dollars, Swedish and Norwegian kroner, Singapore dollar, New Zealand dollar. There is an increasing presence in the investment portfolios and instruments denominated in Chinese yuan and Mexican pesos, as well as increased use in payments of Chinese yuan and Russian rubles.

Countries whose currencies are in international positions earn serious income in the form of seigniorage. Even more profitable is the use of such currency to finance the deficit in the balance of payments of the issuing country, a situation known as "deficit financing without tears".

Supranational money is the product of trade and monetary unions. One of the most famous is the Hanseatic Monetary Union of the Free Cities of North Germany in the 13th-17th centuries. The Union builds and maintains a trade monopoly in the Baltic Sea, part of the North Sea and much of Northern Europe. The cities of Hansa have their own laws, and they provide each other with help and protection. The capital of Hansa is the city of Lübeck, located in northern Germany. Other cities are Hamburg, Bremen, Rostock. [13]

Modern supranational currencies are preceded by collective units of account that only function as a unit of account. The typical unit of account was the European Unit of Account (EUA), created in 1975 (March) by EEC Member States, formed on the basis of a currency basket. It inherited the unit of account in effect until August 1971, equivalent to the then gold content of the US dollar. Significant supranational currencies from the recent past are the European Currency Unit (ECU), the precursor to the euro, and the transferable ruble, the clearing currency of the member states of the Mutual Economic Assistance Council.

The most famous supranational currencies today are the euro, which replaced the ecu in 1999, as well as the currency of the International Monetary Fund – Special Drawing Rights (SDR), created in 1969. However, SDRs are primarily used in official transactions between IMF Member States regarding balance of payments issues. They are almost irrelevant to private commercial and financial transactions.

President Trump's foreign policy, strengthening the role of regional economic unions, including the Eurasian Union formed in 2015, as well as other international factors lead to an increase in the relative share of transactions in national currencies other than the dollar [8] and supranational ones. On the other hand, the volatility of the European continent and the restrictions on China's monetary policy contribute to preserving the rule of the dollar in the foreseeable future.

Instead of a conclusion ... Is gold international money?

As early as the end of the 19th century, JP Morgan said that "gold is money and nothing else!" [5] So is our opinion.

In accordance with the Jamaican Currency Agreements of 1976, which marked the beginning of the modern world monetary system, the use of gold as a means of payment and unit of account is prohibited. However, its function as a means of accumulation is retained, reflecting the ability of central banks to store the international monetary reserve as well in gold in the form of exchange standard bullion weighing about

12.5 kg and with a minimum purity of 995/1000. [10]

Many authors believe that gold will never lose its value, and are advocates of the thesis that, despite attempts to separate gold and money, this is impossible. Gold, unlike credit, does not depend on a third party. The non-standard economist Michael Morris points to the power of gold in the fact that "banks reject it so strongly and without reservation (gold – author's note) and do everything they can to prevent a new introduction of the gold standard ...". [7] Many investors, sometimes referred to as beetles (because of the golden color of the metal), prefer to own gold assets for "rainy days". [6]

The reasons for the leading place of gold in investment processes are: 1) it is easily traded, its price is not related to the movement of any currency and is accepted everywhere in the world; 2) retains its value even in the face of inflation, since gold deposits are limited; 3) does not carry the risk of bankruptcy, unlike the loan and its forms. Proof of the attractiveness of gold is the dynamics of its price and the fact that it always goes up in the face of war or financial crisis.



Fig. 2. Gold price for troy ounce
Source: <https://goldprice.org/gold-price-history.html>

There are also sceptics about the future of gold and its role in the international monetary system. They believe that gold is no longer its mainstay, as its price is often influenced by rumours or speculation. Moreover, gold pays nothing to its owners – interest or dividends, and is also expensive to store and transport.

Long periods of near-zero and even negative interest rates, as well as monetary missteps from developed countries that stimulate gold appreciation, [4] defy speculation about the diminishing importance of gold as an investment asset.

Despite the diversity of views, as well as the keen interest in new investment vehicles such as cryptocurrencies, gold is an inherent asset in the portfolios of an increasing number of individual and institutional investors, as well as the basis of multiple exchange traded funds (ETFs). Increasing political and economic uncertainty, as well as the new dimensions of globalization, necessitate a shift of the dollar to gold in the countries' gold and currency reserves. [1] But one thing is for sure – modern monetary systems are fundamentally different from previous ones, based on the gold link.

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Social aspects of Logistics - Social Logistics and Socially oriented Business Logistics

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Abstract. Logistics continuously expands its application areas. In modern conditions, there is a need to apply logistics in areas not related to its traditional applications such as military and business spheres, resulting in the identification of a third area with the name social logistics. For the purposes of this paper, a number of scientific approaches and methods have been applied, such as system approach, comparative analysis, critical analysis, synthesis and others. Social logistics aims to introduce a social (human) factor into the systems and to apply logistic principles and methods in solving the problems of society. Social logistics can be defined as a set of actions that ensure the effective functioning of social systems (such as a set of social phenomena, processes and subjects), applying the principles of logistics. Also important for social aspects of logistics is the development of socially oriented business logistics, which is based on the application of corporate social responsibility. The purpose of this paper is to explore the characteristics and importance of social logistics and socially oriented logistics, to define the concept of social logistics, and to outline its areas of application in the public sphere.

Keywords: social logistics, corporate social responsibility, social oriented business logistics

Introduction

Modern realities impose a new model of application of management science in areas beyond the traditional business sphere. This trend is particularly relevant for logistics. It originates in the military field, but in the 1950s it began its active application in the business. For decades, logistics as a science area of knowledge has been looking for opportunities to continually expand its application areas - from fragmented tasks to managing material and technical supplies to activities that integrate the entire supply chain management and management process of material production to the management of intellectual production. [14]

In today's conditions, the idea of applying logistics in areas that are not related, neither with the military nor with the business spheres, is urgently needed, as a result of which a third area with the name of social logistics is identified. Parallel to its development is the development of socially oriented business logistics, which is based on the application of the concept of corporate social responsibility.

The purpose of this paper is to explore the characteristics and importance of social logistics and socially oriented logistics, to define the concept of social logistics, and to outline its areas of application in the public sphere.

Defining the notion of social logistics

Social logistics aims to introduce a social (human) factor in the systems and to apply logistic principles and methods in solving the problems of society. [2] The first publications on the application of logistical principles to social processes emerged in the early 21st century, with social logistics gradually expanding its reach by addressing not only processes and flows at household level but also at city, regional and state level. For its part, the complexity of social flows raises problems, the solution of which requires the application of logistic rules and principles. The distinction between the three types of logistics - military, business and social - can be achieved on the basis of two criteria - rationality and a top priority of implementation. [15] (Table 1.)

Table 1. Distinctive features of major types of logistics

	Military logistics	Business logistics	Social logistics
Type of rationality	Organizational	Economic	Humanitarian
Priority of application	Safety	Profit	Quality of life

On this basis, social logistics can be defined as the art of managing socially significant material flows (and related information flows) in order to achieve certain spatial and temporal advantages necessary to ensure the proper functioning of society and to provide adequate quality of life.[10] Social logistics is also seen as a set of algorithms that regulate social interactions. In social interaction, the subject of interaction is defined as a social actor - an actor (individual or collective), while in social logistics the subject is always an individual. Social logistics can also be defined as a set of actions that ensure the effective functioning of social systems (such as a set of social phenomena, processes and entities), applying the logistics principles.[14] Social logistics can also be seen as a means of forming socially accepted behavior of individuals and legal entities.[1]

The concept of social logistics (logistics of social flows and processes) is related but not identical with the concept of socially oriented logistics (study of the problems related to the impact of transport on the environment, packaging, processing and reverse logistics). Unlike socially oriented logistics, social logistics does not consider logistics of material goods and services. In its essence - optimizing material flows, social logistics remains unchanged from the traditional view of logistics, but the specificity of its application in the social sphere imposes a new vision for its development.

The public sphere is a new field of application for logistics. The connection is logical, because practically all logistics activities are carried out with the participation of people, in the social sphere they directly or indirectly concern people and as a result they serve people. There is a need to take into account the needs and requirements of the individual, not just large groups of people (teams, staff in the enterprise, etc.), which also determines the role of logistics in the social sphere. Another reason for the development of social logistics is the growing tendency to achieve sustainable development, environmental protection and enhancement of corporate social responsibility.

The realization of social logistics in the public sphere requires active state intervention and building of the necessary logistic structures at the national, regional and municipal level, the appointment of logistics specialists and the use of the accumulated experience in the sphere of business logistics.

Social marketing and social logistics are inextricably linked and their interaction is imperative. Social marketing aims to persuade people to adopt a certain idea for their benefit or benefit to the environment, to give up bad habits, to consume goods and services that are useful for them. However, presenting the message in an effective communication campaign is followed by its perception and as a result a change in people's behavior. Implementing this change, however, requires the application of social logistics, which should create the necessary conditions such as space, time, staff, optimal costs and more to provide the idea, product or service promoted by social marketing. The aim of the interaction between social marketing and social logistics is to achieve a synergistic effect in the social system.

For the practical implementation of the interaction between social marketing and social logistics, it is necessary to develop marketing and logistics programs by the appropriate specialists when launching a social-oriented campaign in order to ensure the necessary degree of synchronization and coordination. This is the way to ensure that the ideas, products or services presented by the social marketing will be put into practice.

Areas of application of social logistics

The applications of logistics may change over time depending on the development of the three components - organizational, economic and humanitarian, defined according to the type of rationality (according to Table 1). The sum of these three components, interpreted as the ultimate way of thinking when making logistics solutions, however, should seek to achieve the maximum degree of satisfaction.

The main aspects of logistics in the social sphere are distinguished in those areas where logistics has a permanent effect.

Such is **urban logistics**, which is characterized by rising social requirements. The development of urban logistics begins with problems related to the supply of goods in the centers of major cities and the need for the private transport companies to be involved in the implementation of the city's delivery tasks for all consumers. Initially, the concept of "urban logistics" is not related to securing the well-being of the city, the standard of living or the development of the city, as the concept of "city" is considered in an architectural and economic context. However, it shifts to the spatial- social context of the city and on this basis "urban logistics" acquires a new, social sense. Urban logistics should be subordinated to the concept of integrated city flow management in order to streamline freight traffic in the city and position them in urban movements. The main task of urban logistics is the optimization of living space, which requires an adequate arrangement of the urban environment and the organization of public transport as a solution to the conflicts arising between "pedestrians - car - public transport - ecology". [14]

In current conditions, there is a tendency for the development of **social logistics in relation to crisis management**. [15] Crisis management is an extensive area of knowledge and application. Frequently, crisis management involves managing the crowd, transmitting specially prepared and processed information, and using physical coercion. Evacuation as one of the main forms of protection of the population in crisis situations requires, besides thorough planning and organizing, also all-round logistics. [9]

Logistics to maintain order in the public space also has a growing role. Law enforcement organizations, police, riot police, city authorities, and public organizations are involved in action to maintain public order. Their actions should, however, be coordinated and resources identified and delivered on time, in the required quantity and quality, and at predetermined locations. These objectives directly correspond to the basic essence of logistics - management of material flows, but are realized in order to protect society.

Sports logistics include not only the crowd of viewers and fans but also all material support for sports facilities, sports teams, nutrition, accommodation and more. On this basis, the logistics of sport are directly related to the organization of the transport and hotel industries. Together, they are part of urban logistics, logistics, and health logistics.

An important application of logistical principles is observed in the cases of **humanitarian aid and implementation of humanitarian operations**. Assistance is organized and conducted in accordance with some modified principles for supply chain management. Managing decisions mainly take into account the speed (timing) of the aid, its effectiveness (not in monetary terms, but the number and quality of the assistance provided) and human dignity. The management of logistics of humanitarian aid is extremely complex and important, resulting in the creation of organizations fully committed to the development of this problem. The training of logistics specialists in crises management and the organization of charity events started in Poland - for example, in the Higher School of Management and Administration in Opole, Poland, in 2009, a Master's degree program in Crisis Management and Humanitarian Logistics. [15] has been opened.

A basic component of **social logistics is logistics in healthcare**. It has a prominent humanitarian character. The link between the ability to provide assistance in a timely manner and the organization of the material flows that contribute to the provision of this assistance are the subject of research and analysis.

According to Rakovska and Stratieva, the supply chain management practices should also apply to hospital care establishments. On the basis of a hierarchical cluster analysis, three clusters of score are identified which, on the basis of assessments of these practices, are identified as "leaders", "developing" and "lagging" health establishments. Appropriate models and strategies for effective supply chain management in healthcare establishments can be applied on the basis of this classification. [13]

The logistics of blood resources, which can be defined as the logistics of blood supply management in the whole health system of one country, is one of the latest trends in logistics development. It is aimed not only at direct donor blood flow to a patient (through all chain elements), but also on optimization of stocks, based on group substitutability and the management of blood networks. [5]

The logistics of elections is extremely important as an element of social logistics. The organization of an electoral company requires major efforts, mainly on a national scale, but all important actions are carried out in the preparatory (local) and local (especially on the day of elections). Clarity, accuracy and speed are necessary features of democratic elections. In order to be secured, however, it is appropriate to apply the logistics approach.

Social logistics is entirely based on the logistic concept, but rather, instead of the economic system, the social system is considered, and the individuals and relationships between them are perceived as elements and related links in the logistics chain.

Socially oriented business logistics and corporate social responsibility

The concept of corporate social responsibility emerged in the late 19th and early 20th centuries as a result of the evolution of industrial society. With the establishment of the corporate structure of the economy, the responsibility of managers is gradually expanding in the social field. Their engagement is already affecting not only the shareholders, but also a wide range of stakeholders (customers, suppliers and the public). [4] Corporate social responsibility is a business philosophy that offers ethics and business to work together. Corporate social responsibility is a complex, multi- faceted socio-economic category that is constantly evolving

and enriching. At the heart of the idea of the new social contract is the understanding that the main role of each company is to create value, not only for the owners, but also for all stakeholders and society as a whole. Corporate social responsibility is the responsibility of the company for the impact it has on all the stakeholders on whom its long-term and successful development depends. [3] Corporate Social Responsibility affects many stakeholders and all companies. It relates to many aspects of the strategic external environment of a company and, if effectively implemented, can be a tactically differentiated competitive advantage in terms of value creation model and value proposition. [6]

The development of socially oriented logistics is based on the concept of corporate social responsibility. Socially oriented logistics can be defined as a mechanism for optimal allocation of primary (produced) resources, taking into account the effectiveness of their use in socially significant areas and the mechanism for planning the cyclical nature of the processing of newly created materials and products using new methods and technologies. [11] The more general definition of socially oriented logistics is that it is regarded as a special form of logistics activity, the results of which are expressed not so much with economic effect but with social effect in the form of socially significant consequences of such activity, as in most cases can become a major goal of its implementation. The relationship between these two effects - economic and social - and their priority are largely determined by the mission, goals, sources of investment and management of logistic structures with a social orientation. [7]

Socially oriented logistics is characterized by certain characteristics that shape its nature and social significance.

First is the focus of socially oriented logistics, mainly on the systemic and even planetary interests of humankind, which often only seriously harms their interests as a result of their daily activities, and especially in pursuit of economic effect, maximizing income, profit and profitability.

The second important feature of socially oriented logistics is the pursuit of social impact, not just economic effect. [8]

The essence of social-oriented logistics is based on the nature of the relationship between social and economic effects. The development of social-oriented logistics related to saving resources and recycling can have a major economic impact, which, in addition to addressing global environmental problems - with the assistance of countries around the world, is linked to the creation of industries that provide jobs to the population, income and supply of the world with secondary raw materials and semi-finished products from that raw material. In this way, socially oriented logistics can solve major economic problems in the future. [7] Developing the production of products and services in remote areas of the world with relatively cheap labor and natural resources is beneficial for many countries and regions that use these products and services, if the logistical costs of delivering them are economically viable. Logistics simultaneously implements interregional and interstate division of labor and contributes to the socio-economic and cultural development of remote and particularly backward regions and countries. When selecting logistic structures to carry out this process, the social dimension of these supplies should be taken into account, and on this basis their capabilities assessed and their activities and infrastructure stimulated.

In the field of logistics and transport, the need for corporate social responsibility is urgent. According to the European Commission, the transport industry is responsible for almost a quarter of Europe's greenhouse gas emissions. Therefore, it is particularly important for businesses in the sector to minimize their environmental footprint and take specific measures to address this serious problem. It is important to view corporate social responsibility not as an expense, but as an investment that will ensure the sustainability of the company.

The main benefits in this regard are: [16] improved corporate image that maintains a strong brand; the actions of a company can also benefit the industry as a whole.

In summary, the application of corporate social responsibility in the logistics industry can lead to improved financial and social efficiency and differentiation from competitors, rather than the traditional tools of price competition.

Conclusions

Social logistics is entirely based on the logistical concept, but rather, instead of the economic system, the public system is considered, and the individuals and their connections are perceived as elements and relevant links of the logistics chain. These applications of logistics are based on basic logistics and principles, but they have a specific social direction.

The purpose of managing material flows and the accompanying information flows in these areas is to achieve the desired social effect, which is measured by the degree of satisfaction of basic society needs.

The realization of social logistics in the public sphere requires active state intervention and building of the necessary logistic structures at the national, regional and municipal level, the appointment of logistics specialists and the use of the accumulated experience in the sphere of business logistics.

Current trends in logistics are aimed at developing it in a sustainable direction, which is to strike a balance between economic interests, on the one hand, and the environmental and social interests of the individual, society and the planet, on the other.

The development of socially oriented logistics is based on the concept of corporate social responsibility. Socially oriented logistics is based on the nature of the relationship between social and economic effects. A characteristic feature of socially oriented logistics is its sustainable functioning and development, although the associated costs are higher. The overall economic impact of this logistics is shaped not only by the direct marketing of logistics services, but also by the positive effects of socially significant transformations. The aim is to produce a social effect that can, in the long run, many times exceed the main economic effect and costs and to provide a greater image and competitive position of companies in the market.

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Globalization of banking business and risk management

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Abstract. Risk management is a vital component of internal control and refers to the process of identifying and analyzing risks in achieving the organization's objectives and in defining a suitable risk mitigation response.

This means:

- ✓ Identification of the risk
- ✓ Risk Assessment and Classification
- ✓ Assessing the organization's appetite for risk
- ✓ Prepare a Risk Response

Also, risk management should be reviewed and reported in order to monitor whether a risk profile is changing or not, to obtain guarantees that risk management is effective and to identify further action that is needed.

Typical problems related to risk management that are encountered are:

- Senior managers are not aware of the responsibility they have for implementing it and / or do not seem to want to implement it.
- Mid-level managers are afraid to apply risk management as they may not want to accept the risks / weaknesses in their current work arrangements.
- Where risk is managed, it is often implemented at the end of the internal control process, rather than at the beginning.

As risk management refers to the process of identifying and analyzing risks to the achievement of objectives, this management requires financial institutions to set their business objectives and then carry out a risk analysis to see if these objectives are possible realized. Risk management can be seen as a bridge between the control environment and the control of activities, since it is precisely on the basis of the risk analysis that internal controls need to be set up. If the risk analysis is done after the internal controls have been set up, then it is unlikely that these controls will be the appropriate ones to cope with the risks.

Key words: financial institutions, portfolio, liquidity risk, market risk, risk of banking exposure, country risk, operational risk.

Introduction

Banks and other financial institutions face various difficulties in their business. Bank risks are the potential of absolute or relative losses versus the expectations of banking business; they are features of bank management. Modern banking business is exposed to new risks which were unknown until recent times. By applying the new tools, techniques and strategies, and new banking products, adds additional number of risks. Uncertainty is further increased by interest rate changes, deposit fluctuation and reduced ability of credit return by borrowers, but also the influence of other factors such as deregulation, moral hazard and the entry of new banks outside

the traditional banking business. Due to the nature of their work banks are more and more exposed to great impact of various risks, and the impact of the risks is more rapid. In this context, financial institutions management is becoming more and more difficult due to uncertain circumstances they are facing now, in terms of economic, financial, and political impact.

Globalization of banking business and trends in mergers and acquisitions of large banks, force bank management to identify and quantify the important risks. Risk identification is the first step towards a successful banking business. The most significant risk threatening banking business, is estimated to be credit risk. In this we give special emphasis to this risk.

Credit risk is that a borrower will be unable to make a payment of interest or principal in a timely manner. This risk represents a permanent or temporary disability of a debtor to fulfill at the contracted time, in whole or in part, its obligations to the financial institution. Also, credit risk, besides loans, can be addressed to some other banking instruments such as securities, etc.

To eliminate the risk, or even reduce the level of risk to the extent that is acceptable to the institution, risks should be carefully analyzed and managed. To avoid these risks, the banking sector is necessarily obliged to promote an adequate credit management system, to do in-depth analysis and try to monitor them. Risk analysis should show the processes and key points of danger. Credit management system should propose measures and find solutions to eliminate or reduce the risk. Credit risk management represents a management project, which takes place consistently to monitor and assess the risk. The main purpose of banking risk management is to harmonize risks and rewards, and in this regard, the focus of bank risk management is the credit and market risk, which impacts solvency risk on bank as the main bank risk. Interest rate risk and currency risk are also included in the market risk, while the liquidity risk remains slightly sideways as more specific risk can be managed through financial markets, but provided they have high degree of solvency and credibility. Therefore, risk management in the banking system is intended to increase the solvency of the bank and simultaneously to maximize the rate of return on capital by risk correction.

Description of research methodology

We will try to present ourselves through the method of comparison with the knowledge of the studies carried out in relation to scientific research methodology and the ability to independently develop scientific-research work in relation to risk management in our country.

Here will be explored the basic notions of risk management, their role in the field of risk management. Local and foreign literature will be used for theoretical and practical study of the subject. Data cluster needed through data collection, regulation and processing methods. Comparative, comparative and synthesis methods, in the country's financial institutions, will be used for the study. Also, data from different financial institutions that their business will develop in the Republic of Kosovo will be used. Also, a survey will be conducted with a number of clients to try to figure out which are the most common factors affecting the quality of loan returns. Processing of these surveys will be done and they will be presented graphically in this paper.

In recent years - in current trends, financial institutions' business has undergone major changes under the influence of deregulation, which has enabled banks to offer different financial

services. Commercial banks provide a wide range of non-traditional financial services, including insurance, securities trading, pensions and similar services.

In Kosovo, all banks operating within the system of financial institutions have the status of commercial banks and microfinance institutions (MFIs).

The most common risk to financial institutions' business is the possibility that the borrowed or invested assets will not be returned, which would cause the bank losses. Many unexpected events may hinder borrowers from performing their obligations when they have expired, such as elemental disasters (floods, earthquakes, etc.). However, changes in the taste of consumers can also significantly affect the business and the fate of the enterprises.

To prevent and control losses due to non-return on borrowed and invested assets, financial institutions should have high credit rating standards, know the borrower and his business well, and have an active return policy hers.

Among the main objectives of the study are:

- a) Provide a definition of the basic principles of banking management.
- b) Harmonize policies and procedures with best practices from the country and region on risk management.
- c) The process of selecting scientific research methods.
- d) Proposals on how to implement and implement best practices, practices and standards for risk management

The risk management objective is that the liquidity criterion conflicts with that of profitability. Solving this dilemma is done by the financial institution by balancing the level of reserves with that of loans. That is why financial institutions are very cautious in earning profits. They do not aim for too high profits but profits harmonized with meeting the liquidity needs. Financial institutions should avoid appearing as bad choices and risk of conscience, otherwise they will not be profitable. For this purpose, the financial institution applies the following principles of loan management, principles that limit these two negative phenomena. The primary purpose of this paper is to analyze the impact of risk on the profitability of institutions providing financial services. Risk management plays an important role in the profitability of enterprises, as business outcomes are very closely related to how these financial institutions manage the risk. Enterprises can avoid risk for financial concerns if they manage to maintain their ability to meet their contracted interest obligations and capital payments to financial institutions.

In everyday life we face every day risks of different nature, to which we try to exercise the so-called "risk control", such as. road driving, car driving, job loss, price rises, natural disasters, thefts, scams, etc. Also, businesses in the process of developing their activity are associated with many risks, both internal and external, which risks which if not managed risk the achievement of business objectives. Therefore the purpose of this paper is to prepare to deal with events that may deviate from the realization of the objectives will enable the business to avoid, reduce, transfer or accept and manage the risk. In this regard, opportunities must be explored to apply strategies by which it prevents, detects or corrects the occurrence of an event that may jeopardize the achievement of its objectives.

Many financial institutions have different risk management practices, as well as many acts and regulations that need to be adapted to the all-acceptable risk management rules and principles that can be summarized at short notice.

- legislation;
- Standards and principles of risk management;
- Common risk management practices;
- Market capital rules;
- Access to reports (submission to national competent bodies);

For each country, domestic regulations are prevalent with regard to the preparation of financial statements, whether this is more pronounced or less pronounced.

Subsequently, an analysis will be conducted based on a concrete research on risk management in institutions providing financial services as well as assessments and conclusions based on the importance of contemporary risk management.

From the results obtained in this paper, it is alleged that the risk management mechanisms in the institutions that provide financial services, determine the factors that influence the risk increase in the Republic of Kosovo, and evaluate the effects as well as draws conclusions and recommendations.

Conclusions :

Credit risk management has always been under the on-going control of senior management. At this stage of advancement and complexity of the risk transfer mechanism, financial institutions should examine the basics of credit risk management and identify key priorities and challenges in the area of credit risk and problem solving. Worldwide experience has shown that poor credit quality coupled with poor credit risk management practices continues to be a dominant factor in bank failures and banking system crises. Information on a bank's credit risk profile and compliance with its management processes is essential in assessing market supervisors and market participants in terms of their terms, performance, and ability to survive in the long run. Information is important in assessing the health and safety of the banking system and financial institutions should coordinate activities related to identification and risk assessment that jeopardize the achievement of unit objectives and the establishment of a risk management system in proportion with its size as well as advising and giving instructions to other managers of other departments.

In order to manage the risk in the most professional way from the present discussion of this topic we have concluded that it should be done:

- Organization of Financial Institutions to Manage Risk
- Organization of Financial Institution Structures
 - Risk Management Committees
 - Risk Management Process
 - Types of risk
 - Credit policies
- Under the Committees
- Chief Risk Officer
- Control functions
- Central Crediting Department
- Assessing the Risk Function
- Credit management including problems in the credit process

- Audit Department

The system should ensure that the entity's structures will report regularly on the identified risks and actions taken as a response to the risk. The reporting line should be established in order to ensure that information on identifying and monitoring all risks is reported to senior management and all departments and units.

The monitoring also identifies which risks have become more threatening and lessened. In this way, not only ensures transparency and accountability for the entity's activities but also systematic reporting on the status of risks enables the unit's management to distinguish the priorities in dealing with the risks. The Strategic Management Group needs to verify how risks are managed within a financial institution.

Once they have identified all the strategic, operational and control objectives, managers under the direction of the underwriter must identify all the risks associated with each of the objectives (eg events that could come in risking the fulfillment of any objective, including the case when the odds are not utilized to their fullest extent). These risks can be internal (eg human error, fraud, system crash) and external (eg changes in legislation, natural disasters, etc.). It is essential that managers of all levels within the unit identify the risks associated with the respective objectives and report on them.

Leadership and no leading task can not exist without defining the goal and without determining the stages for its realization. Only for defined or defined purposes, the organization's actions can be oriented or directed, as well as risk management will only succeed when its principles are accurately implemented during the work, and at the same time the implementation of his will be successful.

From the first hypothesis we can conclude that the interest rate impact is evident, which is also argued by the processed data for this problematic.

Even for the second hypothesis, the correlation between seasonality and the return on time of annuities on a contractual basis was verified.

The third hypothesis has proved the impact of the waiting period on the quality of loan repayment

This paper illustrates and discusses the principles, importance, activities and implementation of risk management. This paper begins with the explanation of management principles, their separation and the definition of essential risk management features. Then, there is a clear insight into the importance of risk management, which has recently become a high profile, because rapid and timely risk identification provides significant benefits to the organization itself.

Recommendations

Taking into account the business environment of financial institutions, risk management has become "art" in itself. The major global banking crises, which recently hit the banking sector, although their impact was not immediate in our country, the recovery of these effects lasted longer. The experiences of the countries overcome by these crises should also serve us to create mechanisms and regulators for the protection of these situations, even if they hit us.

It is known that risks are caused by external factors such as strategic and internal risks, including human factor, programs, procedures, and so on. External factors influence the financial institutions' impact, while on internal factors, financial institutions have more opportunities to deal with risks. From this it appears that financial institutions need to create internal controls and be able to:

- Risk assessment
- Risk response
- Control Activities
- Monitoring

To support regular monitoring, senior management should establish an internal risk reporting system identified, according to the Risk Coordinator's guidelines, ensuring a timely, frequent (eg quarterly) and detailed reporting .

The system should ensure that the entity's structures will report regularly on the identified risks and actions taken as a response to the risk.

In risk management, they should identify the risks at the financial institution's overall level and at the activity level by asking the following questions:

- What can go wrong?
- Can we fail?
- What should work to achieve our goals?
- What are the assets we must protect?
- How could anyone get absorbed by spending units, departments, sectors?
- How could anyone or something (such as lack of energy supply or damage to a particular equipment) affect our activities and operations?
- How can we know if we are meeting our goals?
- What are the information we rely on?
- Which activities are more complex?
- Which activities are regulated?

Risk management implies not only identifying and assessing risk as well as identifying and enforcing appropriate controls, but also continuous monitoring and reporting on its terms. This helps to track the process if the risks are managed successfully, ie if the control activities have minimized the corresponding risks and if the endangered objectives are met.

Managing inattention (neglect) needs absolute. Each central unit should prepare and adopt a risk management strategy, which should be regularly updated (at least once every three years) and whenever the risk environment undergoes significant changes. This strategy should be prepared by the Risk Manager. The senior management adopts the risk management strategy. The Risk Manager analyzes and updates controls aimed at minimizing risk, at least once a year. The risk strategy defines how the unit moves towards risks and establishes the overall framework of the risk management process.

For this, any financial institution during its business needs:

- Adoption of a risk management strategy, which is regularly updated;
- Awareness of unit staff about the approved risk management strategy;
- Clear division of risk management responsibilities, including reporting for their fulfillment to the respective manager

The risk strategy after approval by Senior Management should be made available to employees and recognized by them. The risk strategy should clearly define risk management and risk management structures, how to address risks at the strategic level, program level and activity level; structures for monitoring and evaluating it; criteria for determining major risks; risk register mechanisms as well as criteria for risk measurement.

The risk strategy should also determine the unit's risk appetite at the strategic level. The risk appetite relates to the level of risk a unit is willing to allow (meaning to agree to be exposed) in accordance with its mission, vision and objectives at any time before deciding whether to intervene. Risk appetite is affected by the external and internal control environment, people, work systems, and policies. For the highest rated risks (most critical), a long-term action plan needs to be drawn up. Identified risks can be reduced or reduced by introducing appropriate control activities.

These checks may be:

- Preventive controls designed to reduce the likelihood of a risk occurring (such as division of duties,
- clear limits of authorized delegations, etc.);
- Corrective controls designed to correct unwanted results (such as when payments are made incorrectly);
- Management controls designed to guarantee the achievement of a certain outcome (such as safety
- measures, or health and life preservation requirements); or
- Inventory controls designed to identify instances when unwanted results have already occurred (eg, reserve controls, or assets).

Regarding the hypotheses set out for this paper, however, they should be well analyzed and the recommendation for the first hypothesis; The size of the interest rate does not affect the non-payment of the loans would be the harmonization of interest rates with the competition, so that the interest rates do not cause the delays of credit payments, because high interest rates directly affect in reducing revenue from business revenues and inadequate revenue after loan payments, our customers will not have limited investment opportunities and their businesses will fail. With the failure of their businesses, delays in loan payments will arise, and the delay will also have a direct impact on the reduction of creditors' profits (financial institutions). Second hypothesis: There is no direct link between seasonality and loan repayment, we recommend that annuity periods should be tailored to the borrower's payment options so that we do not create a delicate client but create flexible payment options according to the borrowing season of the funds. For the third hypothesis: The waiting period (grey period) has no impact on credit quality, our recommendations are too good to ensure that debtors create easier opportunities for their business in their businesses. This is the fact that if at the beginning of the loan or even if at a certain time period clients are enabled to pay the loan after a certain time period they will be able to initially invest in raw materials or even machinery starting the production they will be able to make the payments of contracted annuities much easier, ie by selling their products. Its impact is also in the field of agriculture, where the waiting period would help many clients both in crops and fruit trees, vineyards, animal husbandry, poultry (bird breeding).

One should never forget the fact that financial institutions are dependent on customers so it is their duty to create better opportunities for clients rather than creating barriers for customers. If you do not create the conditions for customers to make payments more favorable to them, then not only will they create problems for current loans, but will also lose them as a customer in the future as for their delays they will be categorized into the Credit Registry at the Central Bank,

and their categorization (categories A, B, C, D, E, W) will not allow our policies and procedures to finance these clients

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Cost Driver Based Internal IT Cost Allocation: A Case of a Medium-Sized Austrian Financial Service Provider

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Abstract. IT has a high share of the total cost at information processing companies. However, not simply minimization of IT costs is relevant, but also effective use of IT in a long term business perspective. Decisions on IT investments are made based on information about costs and benefits in general provided by controlling instruments. To identify direct and indirect costs of IT services, internal IT cost allocation is being used by the vast majority of companies, especially in IT-related industries. The allocation of shared IT infrastructure and overhead costs to IT services, as well as that of IT services to service recipients, is based on simplified allocation keys. Allocation keys are commonly built use-based, per employee or sometimes per revenue share. For internally provided IT services, those are often not relevant cost drivers anymore. As a consequence service recipients lack the means and incentive to control the actual costs and to optimize the benefit-cost ratio. Furthermore, allocated costs, especially for shared IT services, do not represent the real cost situation and product pricing and business cases, based on those costs, are not accurate. A major constraint in defining adequate allocation keys, is the effort to acquire data for building them. The question is, how to build allocation keys as accurate as possible in order to assign actual IT costs with reasonable effort. The paper at hand describes the internal IT cost allocation and its allocation keys based on main actual cost drivers by means of a case study at a typical medium-sized Austrian financial service provider. This approach yields a more accurate allocation of actual IT costs.

Keywords: controlling, IT cost management, internal IT cost allocation, allocation keys

Introduction

Information technology (IT) is one of the most important production factors and also an important cost factor in a sector based on intangible information services¹. To make IT costs transparent and controllable in general the controlling instrument of an internal cost allocation is being used [3]. A fair and equitable redistribution of expenditures to the units that gave rise to them, enables the calculation of the actual profitability of products or services [4, 5]. Depending on how much of the total cost of an IT service is identified and allocated, the basis for decisions is variable and product cost accounting and business cases yield biased results [6]. Directly or indirectly organizational objectives and decision-making can be affected. Cost identification and allocation have to be implemented in the right degree of detail to assign indirect IT costs to IT services as correctly as possible within reasonable time and effort. An important aspect to take into account are the allocation keys used to allocate indirect IT costs to IT services and service recipients. It is expedient to integrate relevant cost drivers [7, 8]. In this way, the cost recipient is able to control not only his offset, but also the real IT costs incurred and thereby to optimize the benefit-cost ratio [9].

Understanding cost drivers in IT is not always evident. Commonly, allocation keys for shared infrastructure are built based on the resource consumption or usage intensity, such as transaction volume, line items or database sizes. Nowadays, however, those are rarely cost drivers, except for extreme increases in usage intensity or extent, which raise jump-fixed costs to a higher level. Also allocation of overhead rates per employee is used frequently [7], which is not a cost driver oriented approach.

Thus, this paper focuses on the identification of main actual cost drivers and how allocation keys for shared IT services can be built alongside them.

Research Design

First, a review of current scientific literature on allocation keys in use at internal IT cost allocation systems is performed. In the following, to gain new insight exploratory re- search is conducted by means of a case study. This research methodology is appropriate because the area of interest is not readily distinguishable from its context, and this method covers contextual and complex multivariate conditions and not just isolated variables [10]. The specific case to be studied is a typical medium-sized Austrian financial service provider. This case is suitable for the research question, because it gives a positive example of the phenomenon of interest. Relevant data is well structured and accessible for the researcher. Documents, including IT controlling and internal IT cost allocation guidelines and IT service catalogues as well as KPIs and cost accounting data from 2006 to 2016 were analyzed. The author of this paper also actively engaged in the design and management of the internal cost allocation system by means of participant observation. This gives access to information about the real situation, which would not be accessible via other research methods. Available information from different sources over a period of 10 years facilitates data source triangulation and improves validity [11]. First, the organizational structure and the objectives for establishing internal IT cost allocation, set in 2006, are defined. This creates an initial position that is as close to practice as possible and covers contextual parameters, problematic domains and requirements. Thereafter, the structure of internal IT cost allocation, main actual cost drivers and allocation keys at use in 2016 are described.

Literature Review

IT cost accounting includes IT cost identification and IT cost allocation. Direct costs are identified and assigned to cost objects, such as IT services, projects or activities. Through internal cost allocation direct costs and overhead costs are allocated to cost objects and cost centers of business units or business processes.[5, 6] Allocation of IT costs to operating business units can be performed via overhead rates, without taking individual resource consumption into account (i.e., per employee, per revenue share) or via cause-based cost allocation, based on products, processes or activities [5]. To allocate IT costs, actual or budgeted rates and actual or budgeted quantities can be used [5, 6]. Prices can be set cost-based, market-based, based on strategic pricing or based on negotiation between IT department and business units [5]. Commonly full costs are allocated with prices based on actual costs and less frequent based on budgeted cost [3]. For allocation between support and operating departments there are direct allocation method, step-down method or reciprocal method utilized [6].

A cause-based internal cost allocation uses allocation keys derived from allocation bases to distribute costs to receiving cost objects or cost centers. Cost allocation bases reflecting cost drivers should be preferred [7, 8], because a change in the level of a cost driver causes a change

in the total cost of the related cost object [6]. Current scientific literature mentions allocation keys based on estimated or actual resource consumption, like volume or capacity (i.e., transaction volumes, number of data records, stored GB, processor time, network ports) and based on access (i.e., number of workplace devices, number of accounts for an IT service, number of dedicated servers, (tiered) flat rates) [5, 7, 9, 12].

A literature research at google scholar, IEEE and SpringerLink with the keywords 'IT chargeback', 'internal IT cost allocation' and 'IT-Leistungsverrechnung' for papers published within the past 10 years, shows only a few reference models [9, 13-17] and case studies [5, 12, 18] with reasonable level of detail. None of the found examples in current scientific literature gives a comprehensive description of allocation keys and cost drivers. Also Banker et al. [19] demonstrates the need for more empirical research regarding cost drivers.

Case study on Internal Cost Allocation

Organizational Structure

The case study company is a medium-sized Austrian financial service provider. The in-house IT department is organized as service center. It provides the management, development, procurement and operations of all IT services for business units and subsidiaries, including IT clients, IT infrastructure and applications. The IT department is accountable for the budget of IT services and IT projects. Cost control is carried out by the IT department on detailed level and by the controlling department on cost center level. Every two years the IT department, the executive board and main business units collaboratively update the IT strategy. IT objectives, IT architecture policy, process guidelines and operational policies are derived from the IT strategy. Those guidelines form the basis for the setup of the internal IT cost allocation.

Objectives and Structure of Internal IT Cost Allocation

The objectives for establishing an internal IT cost allocation were as follows:

- Facilitate IT department to be able to control entire IT costs and business units to be able to control IT costs of their used IT services
- Accurate input for product pricing, product line decisions and business cases
- Facilitate service recipients to control service components and service levels
- Set expectations for service providers and service recipients
- Monitoring and improvement of economic efficiency of IT expenses

The following constraints were set:

- Reasonable benefit-cost ratio concerning the effort for cost collection and allocation
- Consistent and coherent accounting guidelines
- Ad-hoc reporting on direct and indirect costs including capex, opex and internal effort of IT projects, IT clients, IT services and IT infrastructure

Given these objectives, an IT service catalogue and internal IT cost allocation were set up. Full cost accounting is carried out in the dimensions of cost types, cost centers and cost objects. Material costs, labour costs and capital expenditures (capex) are assigned to cost objects. Time reporting is used to identify employee cost on cost object level. Employees book every hour spent on a certain cost object and hours are multiplied with an hourly rate, which is

calculated based on production costs. There are three different hourly rates according to different positions of employees. Hourly rates are recalculated annually.

Allocation is implemented based on full costs, using reciprocal method with simultaneous equations. Direct IT costs are posted to cost objects, which are allocated based on allocation keys in several cycles to downstream cost objects and finally cost centers of business units and subsidiaries. In this process the sender cost object is credited and the receiver cost object or cost center is debited. The internal allocation is executed monthly, utilizing actual cost and yearly planned quantities.

There are cost objects on three levels:

- Level 1 IT services are directly visible for business units and, in case of a software, handled by end users. Those are business IT services, workplace IT services, consulting and IT projects. Business IT services are, for example, the core banking system, personnel management system and financial accounting system. Workplace IT services are, for example, end-user devices and mail accounts.
- Level 2 IT services are commonly not visible for business units and are not operated by end users. These upstream IT services are required for and used by level 1 IT services. Level 2 IT services consist of infrastructure IT services (i.e., identity management system, message transfer, file transfer) and IT infrastructure (i.e., server, storage, network, databases, data center).
- Level 3 IT services are overheads for IT management and organization (i.e., IT management, IT governance, IT controlling, IT risk management, further training, time reporting).

Level 3 overhead is allocated to level 2 infrastructure, which is allocated to level 2 infrastructure services and level 1 business IT services. Level 2 infrastructure services are allocated to level 1 business services and workplace IT services. Finally, level 1 business IT services, consulting services and IT projects are allocated to cost centers of the utilizing business units and subsidiaries (see Fig. 1). As a result, both directly posted primary and allocated secondary costs are visible on every cost object and cost center.

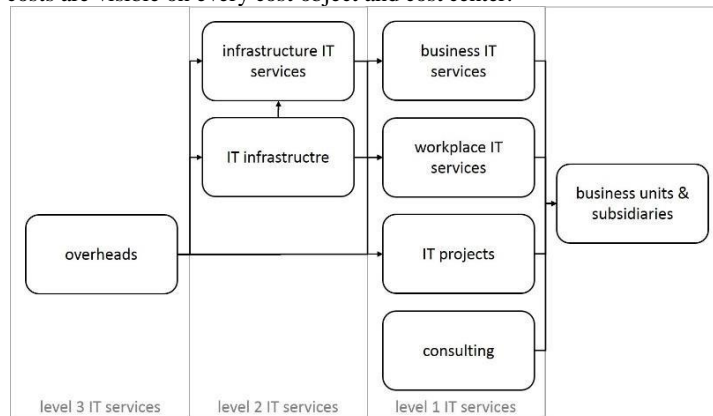


Fig. 1. Allocation scheme

Allocation keys

Allocation keys are built on allocation bases, which are derived from significant cost drivers. In order to identify these cost drivers, the actual costs of the previous three years are analyzed in depth. Allocation keys are updated annually. So far as resource consumption or quantities are

used to build allocation keys, they are measured once a year. Changes during the year are disregarded, because the effort of measuring and changing is incommensurate with the benefit of a more accurate allocation. Allocation keys for level 1 IT services are recommended by the IT department and coordinated with the receiving business units. Allocation keys for upstream level 2 IT services, as well as overhead level 3 IT services are set by the IT department and are not coordinated with the receiving business units. The following Table 1 gives a summary of the main cost drivers per cost object and the derived allocation keys.

Table 1. Allocation keys and cost drivers of cost objects

Cost object	Main cost drivers	Allocation keys
Business & infrastructure IT services	License costs, costs for changes	Along licensing model; major changes via projects to beneficiaries
Workplace IT services	Maintenance costs, capex	Capacity-based tiers for devices; access-based for IT services
Virtual server	Maintenance costs, capex	Capacity-based tiers
SAN storage	Capex, maintenance effort	Volume-based tiers
Network	Capex, maintenance costs network component	Flat rate per server & IT client
Overheads	Number of IT employee, strived risk & quality levels, number & extent of IT services	Extent-based tiers for IT services

Business IT Services and Infrastructure IT Services. Cost drivers are license costs and costs for changes. Therefore allocation bases are chosen alongside the particular licensing models, such as per used module of the business IT service or per number of users per user type. Major changes are implemented via projects, which are allocated to the beneficiaries.

Workplace IT Services. Cost drivers are maintenance costs and capex for devices and accounts. Allocation is performed via capacity-based tiers per device category and access-based for IT services. For personal computing devices, for example, two categories exist alongside performance parameters – standard and power user devices. Mail accounts are set up according to a defined standard and are allocated access-based.

Virtual Server. Server capacity, like CPU and RAM is a minor cost driver by now, compared to maintenance effort (i.e. for maintenance costs and management effort of virtual infrastructure, patching, monitoring, asset management). This would suggest to establish easily measurable flat rates per virtual server. Still, server capacity costs are step-fixed. Taking this into account, allocation keys are built on capacity-based tiers. There are three different server capacity categories alongside CPU and RAM at a 1-to-1.5-to-2 ratio. If a server is in use by several IT services, it is allocated in equal proportions to the using IT services.

SAN Storage. Main cost drivers are overall capex and maintenance effort. Maintenance effort remains almost stable even if disk space is enlarged. This would lead to an equal distribution of costs to central storage using IT services. Disk size is a minor cost driver, except for extremely large volumes. Taking this into account allocation keys are built on capacity-based tiers. There are three tiers for small, medium and large allocated disk space. As non-standard requirements on connectivity or performance of individual IT services also cause relevant additional maintenance effort, the additional implementation of performance-based tiers is considered. However, it has not been put into practice yet.

Network. The main cost driver of the network is capex and maintenance costs per network component and related software. Network is used by workplace IT services and servers, therefore it is allocated to them. The allocation key reflects the ratio of capex and maintenance costs for network components in office buildings versus these costs for network components in data centers. The used network capacity is not a cost driver anymore, except for extremely extensive usage, which induces step-fixed costs to jump to a higher level. Amongst IT clients, network is allocated as flat rate. The proportion of network costs for data center is allocated as flat rate equally to each server.

Overheads. Cost drivers for overheads are the number of IT employee, strived risk and quality levels as well as number and extent of IT services. Overheads conduces to IT services as well as infrastructure, therefore it is allocated to business IT services, IT workplaces, IT projects, IT infrastructure services and IT infrastructure. One of the estimators for caused overheads is the extent of IT services. The extent of an IT service is mostly directly related to the direct costs, including material costs, labour costs and capex. As a consequence, allocation keys are built on four categories derived from direct cost levels of the receiving IT services. The overhead costs are allocated to IT services according to the assigned categories small, medium, large and extra-large at a 1:5:10:20 ratio.

Conclusion

There is no overly precise method for allocating a cost object to a recipient, so an approximate method has to be used to set up allocation keys. Cost allocation bases reflecting significant cost drivers should be preferred. In this way, the service recipient can influence the real costs of the upstream IT services through the way of utilization. This approach also yields a more accurate allocation of actual IT costs. Commonly, allocation keys for shared IT infrastructure are built capacity-based or volume-based, such as per transaction volume, line items or database size. These allocation keys do not in any case reflect the causation principle nowadays. A case study at a medium-sized Austrian financial service provider brought allocation keys into light, which are oriented to the significant cost drivers and take jump-fixed costs into account. These are for example: flat rates for network access, capacity-based tiers for virtual servers or volume-based tiers for SAN storage. The findings can assist IT cost allocation designers to fine-tune their applications in practice. A potential limitation is that the results rely on a single case. As an opportunity for future research this study could be replicated with different companies in different sectors. Furthermore, the insights can be leveraged by researchers to develop a reference model for cost driver based internal IT cost allocation.

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IoT to help Albania and Kosovo achieve SDGs

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Abstract. Internet of Things (IoT) seems to be one of the strongest transforming technological trends. Developed countries are investing a lot of resources in research and infrastructure to provide all it is needed for a better future through IoT. The aim of the paper is to highlight the potential use of IoT in developing countries, such as Albania and Kosovo, as a means to achieve their sustainability goals based on Sustainable Development Goals (SDGs). Both countries are making considerable efforts toward these objectives. This paper analyzes opportunities and challenges of IoT implementation in order to help Albania and Kosovo achieve a sustainable future.

Keywords: Internet of Things, SDGs, Developing countries, Albania, Kosovo.

Introduction

IoT acts as a disruptive tech force nowadays. The term describes the connection of different devices to communicate with each other with the same language despite technical differences and without human intervention. These devices are expected to be smart, to learn and to be able to take decisions on their own. Gartner forecasts that 25 billion connected things will be used by 2021 [1]. Industries and businesses are said to swap to IoT if they want to be competitive on the market. In developed countries, governments and universities are investing in IoT research. While the world is changing and new things are expected to come, some simple questions can be raised; what is going on in developing countries? Are they aware of this new wave of developments and transitions? Can IoT help these countries fulfill their development plans?

Albania and Kosovo have adopted the 2030 Agenda for Sustainable Development which proposed 17 SDGs [2][3]. IoT projects and applications can help monitoring and accelerating progress to evaluate and achieve these goals [4] [5]. The paper chooses a descriptive approach to describe the potential use of IoT in problematic sectors in Albania and Kosovo in order to help them towards sustainable development and the fulfillment of SDGs.

On the other side the paper aims to bring a special attention to academia and researches about the potential of the IoT research. A sustainable future requires strong partnership between all the actors [2]. For this reason universities need to work closely with governments, businesses and everyone involved in the IoT implementation process.

IoT solutions in Albania and Kosovo

IoT for agriculture and water management

The economy of Albania and Kosovo is highly depended on Agriculture [6][7][8]. Economic growth is usually vulnerable to weather conditions since they might boost or not hydroelectricity and agriculture production. By the end of 2030, Goal 2 requires practices in agriculture that can increase productivity and the capacity to adopt to climate changes, extreme weather, flooding, drought etc. [7] [8].

IoT seems as a potential enabler for a good transformation of the Agriculture sector [5][9][10]. IoT sensors can be implemented on the ground, in the water, in vehicles in order to collect data for the inputs such as soil moisture and crop health. All the data can be saved on cloud and can easily be accessed by farmers and by institutions [11][12][13]. IoT applications can be found in monitoring the weather, greenhouse management, nutrient management and pest control [10][11]. Main problems of agriculture in Albania and Kosovo include poor marketing of products, low technological levels, underdeveloped irrigation and drainage systems and moreover low level of collaboration between farmers and a low level of development of the processing industry and supply food chain controlling [12][13]. IoT can provide information to help farmers and governments design business models with a combination of smart agriculture and smart food supply chains [12][14].

IoT can help in management of the water supply and irrigation and prevent drought or flood, a problem for Albania and Kosovo [12]. Through the use of the right technology, agriculture might use 30%-50% less energy and water. The water resources lack good management and there are citizens that do not have full access to fresh water. The biggest consumer of water resources is agriculture [8]. According to Climate Change Post a study done predicts a decrease in water resources due to climate changes in the near future. New systems and new innovative ways in water resources management are required [7] [8] [15] [16].

IoT for local data and context

Human resource, knowhow, financial resources, lack of transparency, lack of data/statistical system that will provide quality information, validation and strengthen explanatory power of data remain a challenge in both countries [17] [7][8]. One the challenges in achieving SDGs and building proper policies, is the lack of data and trusted information. IoT can feed institutions with information from all the fields, health, environment, agriculture, etc. [18]. A proper and a low cost infrastructure might be built to maintain and analyze all the data coming from IoT devices. Public entities can easily accessed these data in order to improve decision making. An example comes from Honduras where a project aimed to put sonar sensors to bridges and to monitor the water levels. When the levels arise, the government will give alarm for evacuation [18].

IoT in healthcare

Albania and Kosovo fail to fulfil quality health system, social care and protection (Goal 3) for the citizens. There are lots of groups in Albania and Kosovo especially in rural areas that do not receive proper services in healthcare and insurance. IoT technologies can provide new ways in fulfilling these needs with low costs [5][4]. An example of Body Sensing Networks can be proposed to be installed in patients home and to monitor their wellbeing [19]. Middle income countries are known for problems especially in chronic diseases such as cancer, chronic respiratory like asthma and diabetes. These diseases require uninterrupted care which is unavailable in some part of Albania and Kosovo, especially in rural areas. Remote diagnoses with m-health and wearable devices might offer low cost solutions and a proper healthcare system [5].

IoT in tourism

Tourism is an important sector in both countries, especially in Albania. It is predicted to contribute directly at 9.3 growth of GDP by 2028 in Albania [20]. Albania and Kosovo might benefit from IoT applications in tourism. IoT implementation in this field can increase quality

of services [21], smart energy saving, data, information and personalization that will attract tourists [22].

IoT for renewable energy and energy efficiency

A decrease to summer rains is projected to have a major impact by 2050 in energy consumption. For that reason, one of the priorities of Albanian and Kosovo government is to increase competitiveness and innovation and to promote innovative technologies for renewable energy [7][8].

Both Albania and Kosovo have a significant potential for clean and renewable energy [23][24]. Especially in Albania the market for solar water heating systems has seen a growth these late years [23]. Energy management is another problem in both countries since there is a lot of loss and corruption in the system. The current infrastructure lacks the ability to cover the need for all the population and the price of energy consumption isn't affordable by all the families. Renewable energy and energy efficiency seems to be the solution [25]. The use of IoT in renewable energy management and energy efficiency can be irreplaceable. Sensors collecting real time data, remote management and intelligent behaviors are some of the potential applications in energy management in these countries.

Challenges and recommendations of IoT implementation in Kosovo and Albania

Despite that both countries have plans to foster international collaboration through advancements and deployment of ICT infrastructure, innovation and science still the actual physical infrastructure seems to be a barrier for innovation and growth [28]. ICT innovations in these countries are a little bit far from the desired results. More efforts in improving current ICT infrastructure are required [26]. IoT implementation might be a cost effective solution and it might needs to start with essential applications only [27]. ICT and even IoT seem to be an important tool for economic and social growth. IoT needs some investments in the beginning where interested parties, like farmers might not have the financial resources for the installation costs required and also the knowledge on working on this technology [28]. European Projects, funding organizations and collaboration with businesses and ICT forces might be another way to invest and help decrease initial investment costs of IoT devices and infrastructure.

One of the main problem in all these applications and in overcoming challenges is the lack of professionals in the field of IoT and especially in ICT in Agriculture [29]. There are more than 80 study programs in Albania and Kosovo in ICT and ICTrelated field and there is not a single study program with a focus in IoT. A search was done in some of the biggest ICT study programs in Albania and Kosovo and less than 3 courses in IoT were found. There were other courses that part of their syllabuses had basic concepts in IoT. On the other side, ICT professionals rarely prefer to go and work in rural areas after graduating. Academia and governments need to work together to fulfill the gap in knowledge and knowhow [12][14]. Broader and long term plans for training professionals in this field are required. Developing proper courses and curricula in universities with a focus on trainings in ICT and IoT is a must with this expected impact of IoT in everything. There is a strong need for collaboration with other international organizations that give advices and monitor the process of SDGs implementations and IoT. A new form of IoT knowledge needs to be implemented in our education system [4]. Bachelor and Master Programs in ICT field should see IoT knowledge as a must and include that on curricula and syllabuses. Other challenges of IoT implementation are security and privacy. These concerns need to be understood well by the governments and be

put as a priority if they want things to success in long term. Academia can bring solutions through innovative curricula in security area.

To achieve growth and sustainable development, both countries need to explore new models of investments, businesses and to create a strong collaboration environment between industries, public authorities and researchers [19][27][28].

Conclusions

Developing countries like Albania and Kosovo are having trouble with their efforts achieving SDGs for a sustainable future. On the other side, latest developments in technology, especially the so called IoT, are expected to transform our society, our economy, our world to another level. IoT applications can be found not only on developed countries and stable economies but they can also be a huge help even for developing, unstable economies, sectors and countries. IoT-enabled solutions can transform Agriculture, Data Management, Tourism, Environment protection, Energy efficiency - some of the main sectors in Albania and Kosovo that if developed properly can have a directly impact in sustainability. On the other side, there are a lot of challenges in implementing these tech trends. Old infrastructure, lack of human resources and knowhow, lack of financial resources etc., delay the work of IoT implementation and achieving SDGs. Academia can play an important role in leading IoT change and transformation in both countries. Universities can propose visionary plans to government and need to strongly cooperate with administration, tech businesses and all the units and sectors in order to build strong foundation for stable development. New curricula and study programs with a focus on developing professionals in IoT for the purpose of using this knowledge to implement IoT in Albania and Kosovo can be developed.

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How Printing Industry Meets Technological and Financial Challenges

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Abstract. Printing and publishing industry is currently undergoing a period of transformation caused by powerful technological shifts, leading to a change in the business model of the industry. Instead of being a producing industry, printing is becoming a part of the service industry. The economic situation in the printing industry is difficult. The consequences of competition from digital technologies are a decrease in investment, profit and sales and an increase in operating costs. The changes could not but affect the structure of the industry, its financial performance, the activities of individual companies and their financial situation. Sustainability of the industry was in jeopardy, which requires analysis and development of measures to ensure the successful adaptation of printing companies to changing business conditions. The purpose of this research is to identify opportunities and threats for printing companies based on investigation organizational and technological trends in the industry and the financial performance of companies. Object of study is constituted by the printing companies of St. Petersburg. Methods of financial and economic analysis and statistical techniques are used. The made as the result of study may be useful for the heads of particular companies and for the governmental bodies responsible for industrial policy..

Keywords: Printing Industry, Printing Technologies, Industrial Organization, Financial Performance, Opportunities and Threats.

Introduction

Among manufacturing industries, the printing industry ranks 5th in the world by the volume of production, but it rarely attracts the attention of researchers. The printing industry has a large economic footprint in the global economy [1]. In any economy it serves the variety of many areas, including government, finance, education, and produces a wide range of products used at all stages of each business and in everyday life of each person - newspapers, magazines, books, postcards, letterheads, etc. Consumers of printing products are large companies and the smallest firms, individuals with different activities and interests. The printing method is also applied to apply images to fabric products and other surfaces. In addition to direct contribution, there are numerous ways of indirect affecting of the printing industry on the economy.

For example, the packaging and advertising industries are heavily dependent on the printing industry. The variety of consumers predetermines the variety of products and requirements to their features. And the structure of printing industry reflects the diversity of its products and determines the fragmented nature of its market.

Printing is a technology-oriented industry. In the prepress, printing and post-printing processes, complex and high-precision equipment and specialists with the highest professional

qualifications are required. Currently, the printing industry is undergoing fundamental changes in all aspects of its activity, a high level of technological progress is observed all over the world, and there is no doubt that the results of the recent research, modern technical and technological achievements and trends make a huge contribution to the printing industry development. According to Thompson [2; 3], the current economic climate, wide coverage and high speed of creating new technologies guarantee that the future of the printing industry will not be simple, but there are great opportunities for the industry to increase productivity and efficiency.

The main challenges faced by the printing industry are associated with the new technologies. Firstly, the spread of the Internet as a source of operational information caused a decrease in demand for information print production (newspapers, magazines), and the availability of materials on digital media contributed to a decrease in the need for books. Secondly, the spread and rapid improvement of digital printing devices not only created competition for printing companies in the operational execution of small volumes of work, allowing many potential customers to perform work independently or with the help of newly emerging small firms, but also forced printing companies to upgrade their production base and accelerated mastering of new equipment.

Increased market competition and a growing variety of consumer requirements increase the industry's dependence on demand and necessitate the consideration of individual requirements in the printed products, thereby reorienting the industry from manufacturing to providing services [4]. Thus, the value created by the printing industry can lie not only and not so much in the material product being manufactured, but also in the characteristics of the manufacturing process and the compliance not only of the material result, but also of the process with the specific customer's requirements. Growing customer dependence and a shift from manufacturing to services are changing the requirements for technologies used in the industry, increasing the importance of such characteristics as speed, flexibility, and mobility.

According to [5], not all printing companies are able to succeed in new situation: approximately 20% of companies will be able to form a diversified service portfolio and ensure profit growth, about 60% will stagnate with a reduction in profit, and the remaining 20% will experience rapid decline in sales and profits. The medium 60% of companies have a hypothetical opportunity to offer new services to the market, but this requires a fundamental rethinking of the business [5].

Shah [6] supposes that the promising opportunities that are currently opening up for the printing industry are largely associated with the use of innovative digital technologies - cloud technology, the Internet of things, artificial intelligence.

Data and Methods

The study is based on theoretical provisions formulated in modern scientific works and focused on the adaptation of the printing industry to technological and economic challenges.

The object of the study is printing companies of St. Petersburg, differing in size and financial result (Table 1). Financial and economic data on the companies' activities were obtained from the SPARK database (Interfax). The study included companies for which at the time of accessing the database, the information for 2017 and 2018 was available.

Table 1. Sample description.

Group of companies	2017				2018			
	Total	Profitable	Break-even	Unprofitable	Total	Profitable	Break-even	Unprofitable

Large	3	2	0	1	3	2	0	1
Medium-sized	6	5	0	1	5	5	0	
Small	22	21	0	1	24	21	0	3
Micro	703	575	4	124	715	591	2	122

Due to the fact that the number and composition of enterprises in the samples of 2017 and 2018 do not completely coincide, the analysis was based on the conditional companies. The balance sheet figures and the figures of the income statement of the conditional companies are the arithmetic mean values of the corresponding indicators for the groups of companies. The companies were separated by size and profitability level. This approach allows aggregate characterizing the state of the industry. Methods of financial and economic analysis and statistical techniques are used. For groups of profitable and unprofitable companies, an analysis of the indicators described in Table 2 was conducted: To analyze the survival of companies the diagrams of distribution density were built.

Table 2. Analyzed financial indicators.

Designation and calculation method	Description
K1 = Equity/ Assets	Characterizes financial independency and sustainability
K2 = Long term liabilities/ Assets	Jointly with K1, characterizes financial sustainability in short term period and indirectly reflects the creditors' trust
K3 = Fixed Assets/ Assets	Characterizes the capital base of production process
K4 = Money and Equivalents/ Current liabilities	Characterizes instant liquidity and the ability to pay off the current liabilities
K5 = Current assets / Current liabilities	Characterizes liquidity and the ability to pay off the current liabilities
K6 = Gross Profit/ Costs	Characterizes productivity of the costs
K7 = Gross Profit/ Assets	Characterizes productivity of the assets
K9 = Net Profit/ Equity	Characterizes the financial result from the <u>owners' standpoint</u>

Main Provisions and Results

State of the Printing Industry in Russia

As indicated in [9], printing is not among the priority areas for the Russian economy development, but it retains its significance in the common economic space. In [9] it is also said that the printing industry receives constant support from the state, and the further improvement

of printing industry is today determined by the information and digital technologies development. The current situation in printing, the need to work out measures for its further development, as well as assessing future changes in the printing market, makes it necessary to take into account, first of all, the current and possible changes in the media consumption and prospects in the industrial printing segment.

According to the Federal State Statistics Service, the output of the printing industry in 2018 increased by 16.2% compared with 2017 and amounted to almost 300 billion rubles in comparable prices. Skopintseva [10] associates the growth with the following factors: 1) changes in industrial statistics; 2) adaptation of enterprises to new situation; 3) development of a new direction - an effective business model for small-scale printing.

In recent years, the total volume of printing production in Russia has remained almost unchanged, but there are noticeable changes within the industry. Offset printing volumes are gradually decreasing. Flexographic and gravure printing volumes are growing, although the growth rate is declining. The share of digital printing is growing steadily from year to year, and although its total volume is still small, it is the most rapidly growing segment in the printing industry. The industry structure in terms of printing technologies is shown in Fig. 1.

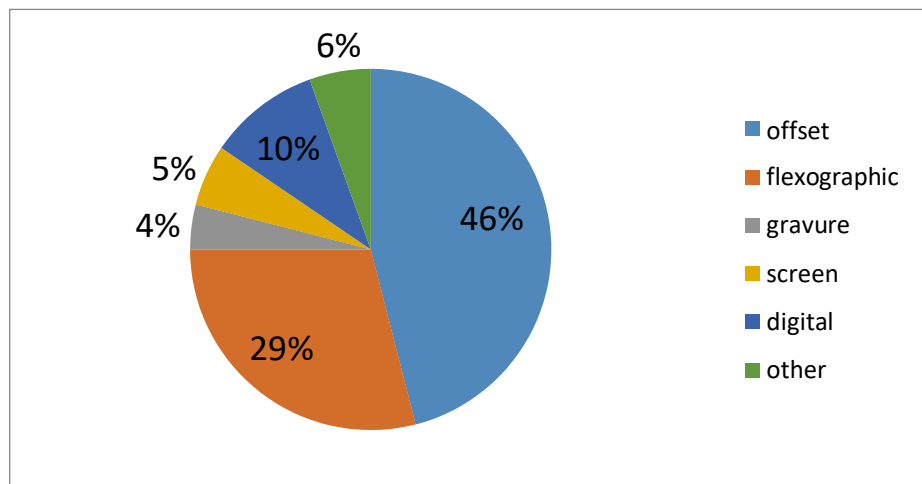


Fig. 1. Structure of the printing industry in terms of printing technology.

Digital technologies prevail in advertising and commercial printing, where their share is about 30%, while digital technologies account for no more than 6% in packaging design, label printing and publishing printing [11]. Digital printing technologies have advantages when printing small runs, the need for personalizing printed products, improving print quality and productivity. Circulations of printed products are currently being reduced, but the market for small-run products with the short term of production has significant chance for growth. Small circulations, circulations requiring urgent printing or personalization are switching to digital printing [12]. Zhavoronkova and Tsepkova [13] see the reason for the slow development of digital technologies in the high price of the print and also come to the conclusion that at present, digital printing is economically justified only for small-run orders.

The change in the industry's technological structure was a natural consequence of a change in demand for printing work, the introduction of digital technologies and software solutions in domestic printing houses, the use of the latest generation technological equipment and production automation. The orders receiving and processing reorganization based on computer

technology, as well as the possibility of online access, contributes to the development of the digital business line.

The following is identified as the main factors that have a negative impact on the stability of the printing industry [14]:

- on the part of consumers - reducing orders, deferring payment, claiming for lower price of printing works and services, making changes to the order lists;
- on the part of suppliers - toughening the terms of delivery and payment, in particular, increasing the requirements for prepayment, disruption of supply, increasing prices for goods and services;
- on the part of banks — raising interest rates on loans, complicating procedures and conditions for granting loans.

As indicated in [15], the specificity of the printing companies' technical base lies in the fact that it focuses on a specific product and its parameters. Because of this, the industry's reaction to market changes in related fields, for example, the publishing, is not always operational, and, on the contrary, related industries may not be able to respond to new printing opportunities quickly. The traditionally tight relationship between printing companies and publishers is complicated by the price factor also.

It should be noted that in Russia the production of not only printing and finishing equipment and machines, but the majority of printing supplies has not been established. As a result, the development of the printing remains dependent on import.

Seifullaeva, Murtuzalieva, Tverdokhlebova, Burakova & Pogorilyak [16] offer 3 scenarios for the companies' development in printing industry of Russia until 2020:

1: Efficient print production that benefits content providers and readers. This scenario assumes development by maximizing the efficiency of the value chain, increasing production flexibility and adapting to various formats and materials.

2: Adding value to the printed product by giving it new properties increasing its attractiveness. This scenario involves the development of the industry through the products, which are independent interactive media that will be aimed at multi-sensory perception and interact freely with other media.

3: Producing non-media products by printing methods. This scenario involves the development by expanding the production of non-media products in the form of separate or integrated products and components.

Financial Situation of the Printing Companies in Saint-Petersburg

The printing industry of St. Petersburg is represented by companies of various sizes. Most enterprises are privately owned by residents, a number of enterprises represent foreign ownership or were created with the participation of foreign capital.

Sustainability of company's development is determined by the implementation of the so-called "golden rule", according to which the relative increase in net profit should be higher than the increase in gross profit, which should exceed the increase in revenue. The latter, in turn, should exceed the increase in assets.

The ratio of the mentioned indicators' relative growth in 2018 compared to the previous year is shown in the Table. 3. It may be seen that the growth of assets is accompanied by the outstripping growth of revenue only in the small companies' group, however the change in their gross profit is negative. Large and medium-sized companies have a gross profit growth greater than revenue growth. Large, small and micro enterprises have a negative growth in net profit.

The positive value of this indicator for medium-sized companies is explained by the absence of unprofitable companies in the sample for 2018.

The table 4 shows the growth rates of indicators included in the golden rule for profit- able companies of different size. A significant increase in the assets of profitable large companies is accompanied by a significantly smaller decrease in relative net profit than in the group as a whole. It should also be noted that profitable microenterprises comply with the golden rule regarding the correspondence of revenue, gross profit and net profit growth, and this is the only group where all growth indicators are posi- tive.

Table 3. Gold rule of business for mean company.

Group	Change, %			
	Assets	Revenue	Gross profit	Net profit
Large	2.1	11.2	23.7	-234.9
Medium-sized	106.4	32.5	36.5	32.2
Small	12.6	16.1	-27.1	-13.0
Micro	56.6	8.3	0.7	-14.0

Table 4. Gold rule of business for mean profit-making company.

Group	Change, %			
	Assets	Revenue	Gross profit	Net profit
Large	43.6	12.1	-2.3	-28.4
Medium-sized	73.1	30.9	13.8	-14.1
Small	8.9	18.2	-27.6	-13.5
Micro	32.2	7.2	19.5	19.9

Among large companies, the federal company Goznak stands out. In addition to print- ing, the company also produces paper. Its assets in 2017 exceeded the assets of the next company about 44 times, and in 2018 the excess was more than 30 times. Due to obvious incomparability, this company was excluded from consideration.

In addition to Goznak, in the analyzed period there were 3 large companies that were analyzed. A small number of companies can't provide representativeness of group averaging. The Table 5 shows that in 2017, a loss-making company had the indicators K7, K8 and K9, characterizing the performance, less than that of the mean profitable company. In 2018, the major losses incurred by CONFLEX SPB exceeded the profit earned by the other two companies. However, the indicators of K7 and K8 of the loss-making company significantly exceeded the similar mean figures of profit- able companies.

The number of medium-sized companies is also small. The only one which fin- ished with a loss in 2017, of the 6 companies did not get to the sample of the next year. The remaining 5 companies were profitable in 2018. However, their productivi- ty indicators K7, K8 and K9 decreased significantly. Indicators K2 and K3, reflecting an increase in dependence on short-term debt, decreased significantly, and indicator K6 showed a slowdown in the turnover rate.

The averaged small business in 2018 showed lower values of K7 and K8 than in 2017, but at the same time, the value of K9 increased slightly, which can be consid- ered as a result of improved financial performance of companies.

Table 5. Financial indicator of the groups of companies.

Group	Year	K1, %	K2, %	K3, %	K4	K5	K6	K7, %	K8, %	K9, %
Large Profitable	2017	7.3	26.9	31.1	0.02	1.95	1.80	13.2	21.0	11.5
	2018	27.0	35.8	2.3	0.01	1.06	1.40	11.3	14.3	4.3
Large Unprofitable	2017	41.0	37.5	38.5	0.14	2.37	0.99	10.7	9.5	-0.6
	2018	15.2	11.7	1.6	0.00	0.98	1.89	19.5	30.9	-98.2
Medium-sized Profitable	2017	12.6	22.0	19.5	0.0	1.4	2.4	27.6	51.5	38.9
	2018	6.6	16.4	3.0	0.0	1.1	1.8	23.2	33.8	25.9
Medium-sized Unprofitable	2017	0.0	-164.3	0.0	0.1	0.4	65.4	0.0	0.0	*
	2018									
Small Profitable	2017	28.4	29.7	7.6	0.07	1.14	2.02	19.1	32.3	27.0
	2018	26.2	23.0	10.6	0.05	1.11	2.19	10.9	21.5	27.7
Small Unprofitable	2017	19.9	23.9	16.2	0.08	1.06	1.21	6.8	7.7	-34.0
	2018	38.9	60.2	6.8	0.18	1.62	1.24	8.4	9.6	-3.1
Micro Profitable	2017	15.6	40.3	4.5	0.21	1.49	1.96	8.2	14.2	29.2
	2018	12.9	28.5	21.2	0.32	1.50	1.59	9.3	12.8	37.4
Micro Unprofitable	2017	21.6	-14.3	15.6	0.09	0.75	1.76	24.9	36.7	*
	2018	40.8	17.5	30.3	0.04	1.02	0.59	8.7	4.9	-75.9

*the indicator is not informative due to negative value of equity

Opposite trends had place for profitable and unprofitable small companies in terms of indicators K1 and K2: with a slight decrease for the former and significant increase for the latter. It should be noted that in 2018, the liquidity level of loss-making companies - indicators K4 and K5 - exceeded the level of similar indicators of profitable companies. The K6 turnover ratio of loss-making companies was significantly lower than that of profitable ones.

In 2018, in the microenterprise group, profitable companies had liquidity indicators (K4, K5), as well as turnover (K6) and productivity (K7, K8) significantly higher than of unprofitable ones. It should be noted that, compared with 2017, profitable microenterprises significantly increased the efficiency of equity (K9).

Large and medium-sized companies operate within production business model, leaving the opportunity to supplement it with the services. The large companies profitable in 2018 were 16.5, 18 and 23 years old, the company that existed on the market for 19 years turned out to be unprofitable. Among medium-sized companies, only one can be called a beginner - 3 years old, the rest work in the market from 12 to 21 years. Small companies and microenterprises operate within service business model, and specialize in printing services and carrying out activities on customer orders. The age composition of small businesses is shown in Fig. 2. The unprofitable companies were of different ages - 3, 9 and 12 years.

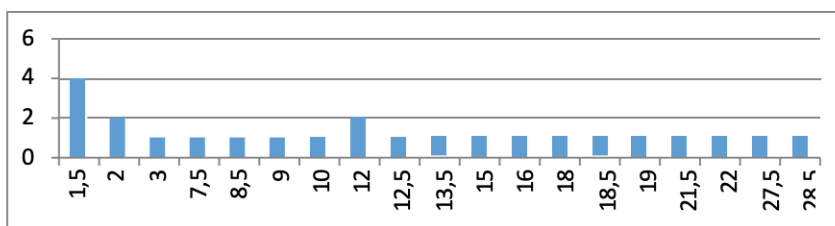


Fig. 2. Distribution of operating small companies by age in 2018.

The most interesting situation is in the microenterprise group, where the share of un-profitable companies is about 17%. Fig. 3 shows the distribution of microenterprises by age in 2018. It can be seen that most micro-enterprises are present in the market for less than 10 years, that is, despite the difficult situation in the industry,, the enter- ing as a printing service provider remains attractive.

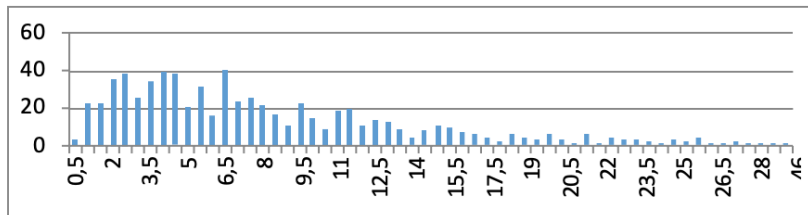


Fig. 3. Distribution of operating microenterprises by age in 2018.

Note that the accumulated experience does not become a guarantee of success. Companies of different ages are present among the unprofitable microenterprises, and the majority is constituted of companies that have passed the 5-year line (Fig. 4).

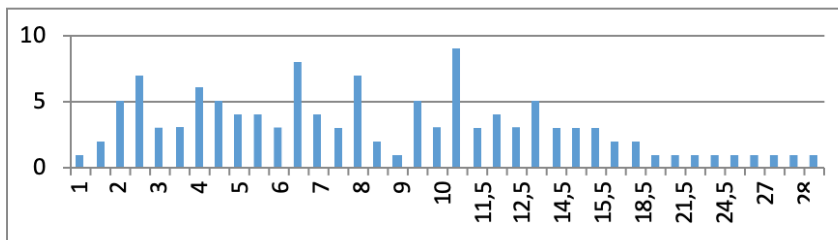


Fig. 3. Distribution of unprofitable microenterprises by age in 2018.

Conclusions

The development of the printing industry and the printing market depends on factors determining the general trends of contemporary society development. The industry is changing, adapting to the new needs of society. Under these conditions, the main success factor in the market is the company's ability to maintain close contact with consumers.

The emergence of new sources and means of information disseminating has become the main cause of the crisis in the printing industry. Opinions regarding the ways to overcome the crisis and the onset of stabilization differ. The crisis prompted the industry to adopt a new business model. Adoption of the services business model in the printing industry may be considered as a partial, and in the future, possibly full alternative to the traditional production business model. The service business model is based primarily on digital technology which opens up new opportunities for the industry.

In Russian printing, a gradual change in the technological structure of the industry is taking place. The process is complicated by a number of internal and external factors. Three strategic directions of changes aimed at strengthening position of the printing industry were developed.

Analysis of printing companies in St. Petersburg showed that the business models used vary depending on the companies size . Large and medium-sized companies are characterized by a production business model, while small companies and microenterprises operate on the basis of a service business model.

A group of large companies (excluding the largest federal company) in total in 2018 was unprofitable, and the source of losses was not the production but the financial activities of the company. This may be due to the ongoing process of property redistribution. The group of medium-sized companies after the only unprofitable company's leaving became the most successful in terms of return on equity.

For all groups of companies, the rule of outrunning growth is not kept up. All groups of companies experienced significant growth in assets. The only that showed an increase in return on equity in 2018 was the microenterprises group. However, the source of growth was not production, but additional activity.

The age of the companies has no obvious relation to the success of their work. The printing industry remains attractive for new small companies and microenterprises to enter.

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Factors Affecting Knowledge Management in Organizations

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Abstract. It is a strategic process that organizations use to boost learning and performance. Mainly, companies use it to attain short and long-term ways to use knowledge to the entity. In this field, knowledge can either be explicit, implicit, or tacit. The framework asserts that knowledge management strategies are affected by whether a company tries to measure its information resources and the performance of its knowledge activities. The four dimensions of knowledge management, namely, knowledge acquisition, conversion, application, and protection have a definite link with the two aspects of organizational performance. It is important to use appropriate support systems to generate, code, and transfer the knowledge within the organization's participants to ensure that it is put to its rightful use.

Key words: Knowledge Management, Organizational Performance, Knowledge Support Systems

Introduction

Knowledge management involves acquiring knowledge from sources external to the company, selecting knowledge from the organization's resources, generating information by discovering it, internalizing the knowledge through storage or distribution within the entity, and externalizing the information either explicitly or implicitly in the company's outputs (Hislop, 2013). It is a strategic process that organizations use to boost learning and performance. Mainly, companies use it to attain short and long-term ways to use knowledge to the entity. In this field, knowledge can either be explicit, implicit, or tacit. Explicit knowledge refers to information that is set out in real kind while implicit refers to knowledge that is not displayed in tangible form but could be made clear. On the other hand, tacit knowledge refers to information that an individual would experience significant difficulty operationally setting out in concrete form. This paper seeks to identify factors influencing knowledge management, the systems that support it, and the link between knowledge management and organizational performance. A broad range of aspects influences the success of knowledge management. Mainly, they include corporate culture, technology, evaluation and administration of knowledge management activities and resources, leadership, employee motivation, and external elements. However, these factors can be broadly categorized into three groups, namely, managerial influences, resource factors, and environmental aspects.

Managerial Influences

Administrative factors originate from organizational contributors responsible for the management of knowledge. The framework divides these forces into four areas, namely, coordination, control, measurement, and leadership in the management of knowledge (Asiedu, 2015). Knowledge development is a key driver of knowledge management. It requires coordination involving the discernment of what knowledge activities to perform and in what sequence, which participants to complete them, and what knowledge resources to be operated on by each activity. Mainly, coordination seeks to harmonize activities in a company by ensuring that right resources are used at appropriate times and that they sufficiently relate to each other as events progress. Proper coordination strongly influences the management of information in a company. According to Asiedu (2015), examples of coordination approaches in a knowledge-based organization comprise linking reward systems to knowledge sharing, initiating communications for sharing knowledge, and developing programs to foster learning. Control relates to ensuring the availability of the required knowledge resources and processors in sufficient quality and quantity, subject to needed security. Protection of knowledge resources is paramount for the effective knowledge management. However, in developing controls to govern the quality of information used in an entity, managements must consider two facets: the validity and utility of knowledge. On the other hand, measurement entails the evaluation of knowledge resources and activities and linking them to financial outcomes. The framework asserts that knowledge management strategies are affected by whether a company tries to measure its information resources and the performance of its knowledge activities. Finally, leadership is a crucial aspect of these managerial influences. The alignment of leadership with the organization's goal and strategy establishes favourable conditions for effective knowledge management.

Resource Influences

Financial resources put a limit to what an organization can disburse on knowledge activities. Therefore, increasing the number of financial resources available for a learning activity may influence the efficiency of that operation and the quality of its results (Saretsalo, 2015). Moreover, the availability of funding may affect the implementation of coordination, control, measurement, and leadership. Second, the knowledge manipulation skills of human and material resources, essential for the execution of knowledge activities both curb and facilitate knowledge management. Human resources also affect knowledge management by allowing or restricting the managerial influences. Finally, organizational knowledge resources, for example, artefacts, culture, strategy, and participants' knowledge influence knowledge management firmly. Furthermore, they are the raw materials for knowledge activities and serve as the foundation for coordination, control, measurement, and leadership.

Environmental Influences

These are factors external to the organization, unlike management and resource controls that are internal. The external business environment affects what information resources

should or can be obtained in the course of knowledge management. Similarly, it impacts on the availability of knowledge manipulation skills. Examples of environmental influences on knowledge management include competition, technology, economic, political, social, and educational factors (Hislop, 2013). Note that, the organization has little control over these external influences, and as such, they pose restraints on the organization's knowledge management initiatives. Nevertheless, the convergence of environmental factors can offer opportunities for improving knowledge management in the organization.

Systems Supporting Knowledge Management

As previously stated, knowledge management involves knowledge generation, storage, retrieval, sharing, and application. Knowledge support systems are technologies that support these activities in an organization that facilitates efficient knowledge management (Becerra-Fernandez & Sabherwal, 2014). First, an expert system is an information system that employees use to make choices that would ordinarily be done by a domain expert. It is an essential support system for the diagnosis of a problem within the organization. Second, groupware systems enhance collaboration among employees. Particularly, it is a system that aid workers in sharing messages and relevant documents such as appointment calendars. Third, document management systems enable operators to store and share knowledge and search through documents efficiently (Wang, Noe, & Wang, 2014). These systems ensure that employees access knowledge efficiently thus saving time, a valuable resource for any organization. The fourth knowledge support system is the decision support system. It presents knowledge to users in a manner that enables them to make informed decisions timely. Mainly, it aids decision makers to compile useful knowledge from a combination of raw data, documents, and personal knowledge to identify and solve issues and make effective decisions (Alyoubi, 2015). It is an essential system that supports knowledge management in mid and high management levels within the organization. Fifth, database management systems aid in the collection and use of data stored in a database by facilitating easy storage and retrieval. Moreover, the system ensures that knowledge within the organization is consistently organized and easily accessible. Finally, simulation systems are useful in modelling real-world scenarios and testing the impact of these scenarios to establish their economic benefits within real world equivalents. Simulation ensures that organizations use the most appropriate knowledge to create viable commercial projects that facilitate high financial performance of the company.

Relationship between Knowledge Management and Organizational Performance

Organizational performance is the ability of a company to meet its stakeholders' needs and survive in the market. Also, it is known as the outcome of the activities carried out by the organization's participants to measure how well an entity has accomplished its objectives. Mainly, organizational performance has two aspects, namely, financial and nonfinancial performance. This multidimensional construct facilitates a complete assessment of different performance dimensions because corporate performance could not take place without employees, customers, management, partners, and integration of services (Gholami, Asli, Nazari-Shirkouhi & Noruzy, 2013). Moreover, non-financial performance measures

play a significant role in facilitating the performance of the entity. Notably, they enable the assessment of their intangible benefits, for example, innovation ability, client satisfaction, internal business process efficiency, and employee satisfaction. The four dimensions of knowledge management, namely, knowledge acquisition, conversion, application, and protection have a definite link with the two aspects of organizational performance. First, acquisition of appropriate knowledge ensures that the organization has adequate stocks of knowledge available for the company, which provides organizations better capability to make appropriate decisions that are crucial to superior organizational performance (Zaied, Hussein & Hassan, 2012). However, it is important to organize, integrate and present in an effective way to be useful. Second, conversion of knowledge enables the company to improve its expertise and efficiency by converting knowledge into useful organizational knowledge and distributing it to the area, it is required. Third, application of knowledge helps to change knowledge into real innovations, which improve overall organizational performance (Rasula, Vuksic & Stemberger, 2012). Finally, since knowledge is a crucial source of sustainable competitive advantage for businesses, increasing knowledge protection to prevent imitation by competitors is inevitable. Available knowledge protection processes include trademarks, nondisclosure contracts, and patents.

Conclusion

In conclusion, knowledge management is a crucial process for any organization. Mainly, it promotes innovation and creativity within the organization, which enhances the overall organizational performance. Therefore, it is important to use appropriate support systems to generate, code, and transfer the knowledge within the organization's participants to ensure that it is put to its rightful use. Additionally, it is paramount to secure the knowledge to avoid imitation by competitors. In summary, managing knowledge efficiently enables an organization to perform well, which allows it to gain a competitive edge in the market.

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VAT REDUCTION IN 8% AND ITS IMPACT ON HOUSEHOLD BUDGET

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Abstract. Increased care, implementation, and greater importance in creating fiscal policies that impact in the economy and family consumption began after the declaration of Independence in 2008, when the first tax reforms were made. But the fiscal reforms called the "Fiscal Package 1 " which started its enforcement by the end of 2015, especially the VAT reduced rate for household consumption from 16% to 8% had the main effect on the consumer basket and the family budget, which is also the main approach of this paper. Based on the analysis of many indicators, statistical data and questionnaire we have verified how much was impact in the household budget by the decrease of VAT rate. We will give an overview on the influence of this reform on the household consumption basket by focusing mainly on essential products for living. By comparing the experiences of the countries in the region and the survey with the respondents we will be able to see how these changes were expected by the citizens, how do they evaluate the impact on their family budget, as well as possible suggestions for other positive ways that can contribute in saving the family budget. Hypothesis from the comparison of the results of the findings and the answers from the survey was verified that family consumption basket with VAT reduction has lower cost especially for public services and saving the family budget. While the implication on the general budget of the state from reduced VAT rate is very small, compared to the benefits of low-income households.

Keywords: VAT, Tax rate, household consumption

INTRODUCTION

Value Added Tax (VAT) is one of the most important topics in the literature of fiscal policy due to the fact that it is applied in more than 150 countries around the world, which use VAT systems including exceptions, reduced rates and zero rates.

The fiscal policies that were implemented in our country, especially after the war, mainly aimed at two basic elements: "that of generating sufficient budget revenues and allocating budget resources for the delivery of public services. As a consequence, three other important aims of fiscal policy: support to economic growth, economic stabilization and reduction of social inequality were neglected. An increased attention to and proper implementation of fiscal policy development and their impact on economy and household consumption started after the declaration of Independence in 2008 when the first tax reforms took place, but the biggest fiscal reform is the so- called "Fiscal Package 1", which started to be implemented at the end of 2015. Until this year a uniform or general VAT system has been implemented, where all products and services were taxed under the same rate of 16%, except for exempt supplies and those considered as exports. Whereas, the beginning of the tax reform in September 2015, also

marked the start of application of VAT with two tax rates, the standard rate of 18% and the reduced rate of 8%.

Indirect taxes, such as Value Added Tax (VAT), generate a significant share of tax revenues in many countries of the world. Many researchers consider VAT as the most efficient mean for generating budget revenues. (Delfin et al 2005)

Value Added Tax or VAT is a tax on consumption. VAT is paid by the consumer at the moment of purchase of goods and services, i.e. VAT is a tax on consumption (circulation of goods and services). It is collected by persons who are registered for this type of tax through realisation of various supplies carried out by consumers. The end consumer is the one who completes the final cycle with the sums of the added values of the supply and the payer of the tax.

VAT is a form of taxation that taxes the value that the seller has added to the selling price of the products and services in each stage of the cycle. The basis of the VAT is the difference between the supplying price and the selling price. Thus, Value Added Tax - (VAT) is a tax on consumption, which is indirectly paid by the consumer through businesses.

Through this paper we will provide data on the impact of the value added tax reform, focusing mainly and putting an emphasis on the changes made at the end of 2015, which reduced the VAT rate from 16% to 8% for essential products as well as on the impact of this change on the household budget. The purpose of this study regarding application of tax reforms in Kosovo with a special emphasis on the reduction of VAT tax rate to 8% is to provide scientific contribution not only to compare the effects of those reforms in the budget of household consumption but at the same time in the not very significant imbalance in the budget of the Republic of Kosovo. How it is viewed by our respondents as well as potential suggestions for other positive effects, which can have an impact in the household budget in one hand, and reduction of tax rate with effects on increased formal economy on the other.

Through scientific suggestions and with empirical comparisons of various tax reforms that have been applied in other countries, we will try to provide our suggestions in relation to impacts of reduced tax rates that could be implemented in Kosovo in the future.

Tax reforms on reduction of the VAT rate for essential products in Kosovo has been reflected in savings in the household budget allowing for an increased consumption from the basket of goods but also lower prices for public services (such as water and electricity). So, the objective of the paper is to verify the impact of reduced VAT in households through budget savings in increased purchase of more essential products in the basket of goods.

METHODOLOGY

The data from at least 50 respondents, mainly medium and low-income breadwinners, will be used to analyse the impact of the tax reform i.e. reduction of the VAT rate in the increased household budget savings and the number of essential living products included. On the other hand, through the analysis of statistics on tax collection by TAK, we will be able to find the implications in the state budget and in the increased number of declarers through increased turnover for the consumer goods. The application of quantitative method aims to identify the cause and the consequence of the relationship between the changes from the reduction of the VAT rate and the impact on the improvement of living standard. This research gives us an opportunity to explain how a phenomenon can have an effect on another.

For example, the change in tax rates has had an effect on increasing or decreasing consumption for essential living products, and also this reduction of this rate has had an effect on reducing or not the state budget. At the same time, the impact on the trend of business orientation towards sectors that have lower tax rate, e.g. orientation from products with standard rate of 18% to those with a low rate of 8%.

Questions/ Hypotheses

The hypotheses derive from the tax reform – the reduction of VAT rate that has been applied in Kosovo has had an effect on increasing household budget savings and at the same time this reduction of the tax rate has not significantly reduced the state budget,

From this we have:

H1 Reduction of the rate from 16% to 8% saves the household budget H2 Basket of goods for the essential products has a lower cost.

H3 Reduction of VAT rate has a negligible impact on Kosovo's budget revenues

BACKGROUND AND DIFFERENT OPINIONS ON VAT IN THE MODERN LITERATURE - THEORETICAL REVIEW

Value Added Tax (VAT) is the tax on consumption (paid by the end consumer), which is now applicable in more than 150 countries around the world. With the exception of the United States (USA), all countries that are members of the Organization for Economic Co-operation and Development (OECD) implement the VAT, including US partners in the North American Free Trade Agreement (NAFTA)

- Canada and Mexico. In the European Union (EU), which consists of 27 member states, adoption of VAT is a prerequisite for membership.

Although it is considered as one of the newest taxes in the history of modern economy of taxation, there are many studies on VAT. Even though it is one of the newest taxes, VAT for a relatively short time started to be implemented almost all over the world and it generates over 20% of total tax revenue.

Although in the beginning as a tax it was imposed with considerable difficulties, then it was abolished only to be returned again. A similar story is the case of VAT approval in Japan. Japan approved a VAT in 1950, delayed its effective date for several years, abolished it in 1954 and then issued another version of VAT in 1988.

VAT is considered the most important event in the evolution of tax structure in the last half of the 20th century (Sjbrene Cnossen, 1998). The origin of VAT came as an idea of the German businessman Wilhelm Von Siemens in 1918, and American economist Thomas S. Adams in his writings between 1910 and 1921. The concept of Von Siemens on VAT was seen as a technical novelty which brought about a significant improvement of tax on turnover which now would avoid the problems caused by the cascade effect (cascade increase after each sale and turnover) Clara K. Sullivan (1965)

However, the imposition and beginning of the implementation of VAT at national level initially took place in France in 1954. Then it started to gradually be imposed in other countries by continuously being adapted, where the first country in Europe which adopted the complete VAT is considered to be Denmark in 1967 (Alan Schenk, Oliver Oldman (2007). In the Netherlands this tax was imposed in 1969, then in Luxemburg in 1970, in Belgium in 1971, Ireland 1972, Italy, Great Britain and Austria in 1973, Spain 1986, Greece 1987 and Finland 1994, to continue in all other countries and outside EU.

VAT approval can be characterized as a development with two main phases. The first phase occurred mainly in Western Europe and Latin America during the 1960s and 1970s. The raise of VAT in Western Europe was accelerated by a number of EC Directives requesting by the member states to adopt a harmonized VAT upon entry into the Union European whereby VAT was approved by all EU countries in an effort to align taxes with the aim to lay the foundations for the European free trade zone. Liam Ebrill et al (2007)

The second phase of VAT approval took place at the end of 1980s with the introduction of VAT into some high-profile industrialized countries outside the EU, such as Australia, Canada, Japan

and Switzerland. This stage also witnessed a massive expansion of VAT in transition and emerging economies, particularly in Africa and Asia, mainly with the influence of IMF and the US Agency for International Development (USAID) in promoting VAT through funding and technical assistance for emerging and transition economies. Thus, VAT began to be implemented in South Korea in 1977, China in 1984, India in 1985, Taiwan in 1986, Philippines in 1988, Japan in 1989, Thailand in 1992, Singapore in 1994, and Mongolia in 1998, to continue its implement almost all over the world.

Tax specialists and experts generally agree on what constitutes an ideal or 'good' VAT regime, they refer mainly to the recipe which includes a flat VAT rate extending up to the retail stages of the economy, imposed on a broad basis of consumption of goods and services with minimal exceptions. What distinguishes VAT from ordinary retail sales taxes, which is applicable in all countries is that VAT is imposed for every transaction in the production chain, instead of being collected only at the retail stage. Therefore, a more thorough definition of VAT is that it is an indirect tax that is applied in the consumption of goods and services which is charged with the value of imports and with the added value for goods and services supplied from one business to another until it reaches the end customer Emran, Shahe M (2005)

Today we can talk about three main types of VAT: The European model, the New Zealand model and the Japanese model. The New Zealand model is known as the Goods and Services Tax (GST) where the standard rate of 15% is lower than the OECD average rate, it does not apply reduced rates, except the zero rate for a small number of goods and services, the threshold for this tax to be obligatory is quite high or the annual turnover should be over NZ\$ 60,000. (customs.govt.nz)

The Japanese model applies sales tax or consumption tax at a rate of 5 - 8%. Together with Canada, Singapore and Switzerland, they are known as the countries with the lowest rates of sales tax or VAT. (worldwide-VAT, EY)

Most jurisdictions have adopted a European model VAT including multiple rates (Standard Rate, Special Reduced Rate, Low Reduced Rate) as well as some VAT- exempt products and services.

As a basis for imposing a tax obligation, the VAT as a tax on consumption, uses the location of production (also known as the principle of origin) or the location of the final consumption (known as the principle of destination). A broad-based taxation such as the indirect type VAT which is paid by the end consumer is usually based on the principle of destination. According to this principle, exports are usually exempt from VAT, while imports are taxed. Kearney. M (2003).

VAT as an indirect type tax became acceptable for many reasons. The most important is that VAT does not harm investments because the business requests credit or deducts VAT on purchases. It also eliminates the cascade tax because the tax is paid by any stage and transaction in the production cycle (VAT, WB 2003). It is also neutral with regards to domestic production and imported goods as a principle of free trade economy.

VAT as a transparent taxation with the abovementioned features was embraced by most countries in Europe and beyond as the main source of revenue. In the European Union, it is one of the main sources of government revenue, one of the taxes with the highest participation in the general tax revenues.

The Pros and Cons of the reduced VAT rate

Value added tax (VAT) especially the topic of reduced rates is an on-going debate with arguments in favour and against their implementation by posing questions whether they are really reasonable, whether they have an impact on price reduction, whether there is an increase consumer demand for goods or services after the reduction of rates, which sectors are favourable

for their implementation, and other similar questions, most of which aim to argue the positive effects. However, many experts in this field pose questions and conduct analyses which go in favour of arguments against reduction of rates, e.g. the assumption that the application of these reduced rates increases the likelihood of tax evasion, contributes to cost increases and makes it more difficult to administer by the responsible authorities.

The above mentioned reasons, especially the latter ones, have led European Union experts to come up with ever-increasing requests that the current VAT system becomes more uniform with only one standard rate with the aim to improve economic efficiency and protect the functioning of the internal market. However, especially member states that have expressed their interest in reducing the VAT rate have continuously argued that the extent of reduced VAT on particular products would create economic benefits such as higher employment and less inequality.

In the context of this debate and many studies on the subject in question, there are opinions and arguments pro and against it, some of which we will mention in this paper;

Firstly, there is a strong general argument in the European Union for establishing uniform VAT rates with little or no exceptions in order to maintain a high level of economic efficiency and to mitigate functioning of the domestic market (Copenhagen Economics. (2007).

Secondly, the ever-increasing demand of member states to implement reduced rates particularly in foodstuff, tourism sector, home refurbishing and alike. Arguing that VAT reduction helps inequality in income by saving the basket of household consumption, it can then increase productivity and reduce unemployment, e.g. hotels, restaurants and other household services such as renovation for energy efficiency etc. The argument in favour of the application of reduced VAT rate is even more stable if such rate is set for certain necessary products for the family basket of goods and mainly for countries with consumption differences between high and low income groups, which implies a cost saving for the household budget (MEMO/03/149 Brussels 2003)

VAT and tax rates are approved by different countries in accordance with their respective specifics, whereas for the EU countries the rules are specified in Directive 2006/112/EC or the so-called "Directive Six" which is mandatory for member states but the same is applied by other European countries which aim to become candidate for the EU.

The European VAT Directive obliges the 28 member states to be free to determine their standard VAT rates but this rate should be lower than 15%. In addition, this Directive allows the use of maximum two more lower reduced rates, the height of the lowest one being 5% or higher. The average standard rate in EU countries is 21.2%, while the average of the low rate is 6% while the second reduced rate is 10.2%.

Goods and services in which reduced rates are most applied

Member States have agreed to use a reduced rate on a number of goods and services, including: food products, water supplies, books; children's clothing; hygiene products, medical devices and pharmaceutical products, hotel services etc. The table below specifies goods and services in which the reduced rate is applied by different countries, which choose products and services depending on their specifics, constitutional order, territorial size, population, demographic structure, size of the public sector, economic structure, unemployment, the size of the public debt, the economic orientation, type of fiscal policy, comparative advantages of the country and other characteristics of social policies. It is important to note that all EU Member States, except Denmark, use reduced rates for certain products, whereby based on the Directive Six of EC every state is obliged to seek approval for the implementation of reduced rates (European Commission data 2018).

The countries which use the reduced rate for essential foodstuff of the consumer basket are especially countries with low-income per capita. Other countries use the application of the reduced rates to support any sector in the economy, which will indirectly influence the growth of consumption, greater competition in the development and employment of a particular profile.

A similar case is Ireland, where the reduced rate of 9% is used in foodstuff and non-alcoholic beverages, restaurant and accommodation services with the aim to support the development of the tourism sector and job creation in this sector. O'Connor Brendan (2014)
DTES activities performed during 2017

VAT in the European Union Countries

In the EU countries (28 member states) the VAT is the tax which collects the most revenue compared to other taxes. According to the statistics of (TAXUD 2008) in the total of revenues from taxes, the VAT participates with 30%, while income tax with 27.6 %, Corporate Tax with 10.1%, Excise with 9.5% and revenues from other taxes with 22.8%.

According to recent reports published by the European Union for the Member States, standard rates remain stable in the EU countries, only two countries have made changes, Greece increased the rate by 1% to 24% on 1 June 2016, while on 1 January 2017 Romania completed its plan to lower its standard rate to 19%. As usual, many countries have adjusted their Intrastat thresholds for the new year, but there is little change in other data. Sweden and Luxembourg have increased VAT registration thresholds for local businesses and Estonia is in the final stage to do the same, during 2018 changes are expected in the UK after the decision to leave the EU that, as soon as it is implemented, the EU will release it from Intrastat regimes and distance sales. Brexit is not expected to enter into force until March 2019, so currently, the UK's VAT system will continue to operate under EU rules. (EU 2017)

In the last decade, it is being noticed that many EU Member States and other European countries have a tendency to increase the standard rate while lowering the reduced rate (in a very limited number of products and services). The average VAT rate applied by the EU Member States has gradually increased to 21.6% in 2015. Compared to the 1995 level of 18.5%, a slight increase has been observed, demonstrating the preference of the EU Member States for this source of income. Stefan et al (2015)

This year, in May 2018, the EU is preparing new VAT legislation which foresees changes based on the experience of the last decade in implementing VAT within member states, in order to adapt to the challenges of the modern economy, especially now that information technology is ever advancing more and thanks to these achievements many services are performed in electronic form, which makes it even more difficult to administer VAT from the tax authorities. Therefore, a proposal, for a new directive is being drafted, amending the Directive 2006/112 / EC.

Why there are different VAT rates in the EU??

European tax acts must be adopted unanimously. Current provisions on VAT rates are the result of various compromises agreed by all EU Finance Ministers. The VAT

Directive defines the framework for VAT rates in the EU (Council Directive 2006/112/EC 2006), but gives national governments the freedom to determine the number and level of rates they choose by subjecting to only two basic rules:

Rule 1: Standard rate for all goods and services

Rule 2: An EU country may choose to apply one or two reduced rates, but only for the goods or services listed in the VAT Directive.

Standard VAT Rate

This is the rate that should be applied by all the EU states for all the goods and services that are not exempt (Article 96 of the VAT Directive).

It may not be less than 15%, but there is no maximum (Article 97 of the VAT Directive).

Reduced VAT Rates

The EU states have the possibility to apply one or two reduced VAT rates (Article 98 VAT Directive) which: may be applied to goods or services listed in the Article III of

the VAT Directive, but not for the services provided electronically (Article 98 VAT Directive) it may not be less than 5% (Article 99 of the VAT Directive)

Exceptions to the Rules - "special rates" of VAT

"Special rates" refers to the multiple exceptions to the basic rules. Many for historical reasons and under certain conditions, many EU countries (in some cases, most of them) have been allowed to depart from these rules for a transitional period, with the objective to allow for the gradual alignment of national laws with the VAT Directive, in certain cases the same also happened because some of these countries applied reduced rates, even prior to EU entry, foreseen by their national strategies in order to favour certain sectors or even apply favourable social policies. Such a case was allowed until the final approval of agreed VAT arrangements by all EU countries (Council Directive 2009).

Similarly, the 2009 Council Directive Enables Member States to maintain "special rates" - reduced rates under 5% (including zero rates) and reduced rates for goods and services other than those listed in the directive (Articles 102-128 VAT Directive).

Examples of such exemptions from the European Commission's VAT committee are specified in the 2009/47 directive as follows:

Zero rates or reduced special rates: Member States which are implementing them since 1 January 1991 may continue to apply them further (mainly the United Kingdom and Ireland).

Special Reduced Rates: Member States which have been required to increase them to more than 2% on 1 January 1993 (Spain and Luxembourg) may apply reduced rates of less than 5% in the categories specified in the Annex III.

Low Reduced Rates: Member States which, on 1 January 1991, have been applying a reduced rate for goods and services not specified in Annex III may continue to apply this reduced rate on condition that it is not smaller than 12%, Luxembourg, Austria and Portugal).

The table below gives all VAT rates that are currently used by member countries Table 1: List of VAT rates applied in the EU Member States (in %)

Member States	Code	Super-reduced Rate	Reduced Rate	Standard Rate
Belgium	BE	-	6 / 12	21
Bulgaria	BG	-	9	20
Czech Republic	CZ	-	10 / 15	21
Denmark	DK	-	-	25
Germany	DE	-	7	19
Estonia	EE	-	9	20
Ireland	IE	4.8	9 / 13,5	23
Greece	EL	-	6 / 13	24
Spain	ES	4	10	21
France	FR	2.1	5,5 / 10	20
Croatia	HR	-	5 / 13	25
Italy	IT	4	5 / 10	22
Cyprus	CY	-	5 / 9	19
Latvia	LV	-	12	21
Lithuania	LT	-	5 / 9	21
Luxembourg	LU	3	8	17
Hungary	HU	-	5 / 18	27
Malta	MT	-	5 / 7	18
Netherlands	NL	-	6	21
Austria	AT	-	10 / 13	20
Poland	PL	-	5 / 8	23
Portugal	PT	-	6 / 13	23

Source: Taxud.c.1(2018) – EN VAT rates applied in the Member States of the European Union
Situation at 1st January 2018

As seen in the table above, the EU Member States with the highest standard rates are Hungary (27 percent), Croatia, Denmark and Sweden (25 percent), while the lowest rates are in Luxembourg (17 percent), and Malta (18 percent).

Whereas, with regards to reduced rate, we have noted that the country with the lowest reduced rates is Poland (5 percent and 8 percent).

Special reduced rates are present in only a few countries (4.8 percent in Ireland, 4 percent in Spain and Italy, 3 percent in Luxembourg, and 2.1 percent in France). This special reduced rate in Ireland applies to some agricultural products, newspapers and magazines, used cars, bicycles and vehicles for people with disabilities, funeral services etc. In Spain, it applies to food products, books, newspapers, magazines, pharmaceuticals, supplies of new buildings and construction works, etc. Italy applies this rate for foodstuffs, books, newspapers, television license fees, supply of new buildings, construction of new buildings, medical equipment for persons with disabilities and social services.

Luxembourg applies this rate to radio and television services, copyrights, foodstuff and beverages (except alcoholic beverages), books, clothing for children under 14, water, pharmaceutical products, transport of individuals, accommodation and access to cultural,

educational, sports and entertainment events. France applies it to newspapers, pharmaceuticals, cultural services and shows. Moreover, the zero rates applied for consumption were recorded in Belgium, Denmark, Ireland, Italy, Malta, Finland, Sweden and the United Kingdom.

In Poland, the 8 percent rate applies to basic foodstuff, cinemas, theatres, opera and ballet tickets, books and similar publications, accommodation services in hotels, motels, bed and breakfast, and similar facilities. While the reduced rate of 5 percent applies to book supplies, to foodstuff, books, newspapers and magazines, certain goods related to health care, services related to agriculture, forestry and construction etc.

Some of these countries apply the reduced rate to transport services in order to encourage the use of public transport. The main purpose of a reduced rate in these cases is to reduce the movement of cars in cities, affecting the reduction of carbon dioxide - to a better and cleaner environment without pollution.

Other legislation related to VAT is the Directive 2007/74/EC (allowances for travellers), Directive 2006/79/EC (private consignments), Directive 2009/132/EC (VAT free import), Directive 86/560/EEC (VAT refund), and Directive 2009/9/EC (VAT refund). In 2011, the European Commission implemented the Council Implementing Regulation (EU) No. 282/2011, laying down implementing measures for Directive 2006/112/EC on the common system of value added tax.

VAT in Kosovo and Region - Definition and Application in Practice

VAT - value added tax is a tax on consumption on goods and services, i.e. the value added to the price of goods and services depending on the tax rate charged at the various stages of production, distribution and the life cycle of trade in goods and services; and which is ultimately paid by the end consumer.

Value Added Tax or VAT is a tax, which in the tax terminology is known as an indirect tax not only because it is added to the price of goods or services but also because the businesses collect it from the customer and the same value is transferred to the state budget. Therefore, the Value Added Tax - (VAT) is a tax on consumption, which is indirectly paid by the consumer through businesses.

In order to better understand the tax terminology of direct and indirect tax, below we will provide an explanation which lists the taxes depending on which category they belong to

- **Direct Taxes:** This group of taxes includes personal income tax, corporate income tax, or property tax. In Kosovo, as well as in many other underdeveloped economies, direct taxes do not have a significant role in the state budget.
- **Indirect Taxes:** Indirect taxes, among others, include the VAT, excise and customs duties. Currently, the indirect taxes contribute with the highest percentage of collected revenues. These types of revenues are mostly collected at customs points.
- **Taxes:** Taxes can be applied to local or national services. Examples of services that may be subject to tax are: airport; certain documents issued by the public administration; business registration, various administrative permits etc. It implies as a rule that these types of revenues do not play an important role in the budget of a country.

VAT as an indirect tax is collected by persons registered for this type of tax through provision of various supplies from consumers. Final consumer is the one completing the final turnover with the amounts of values added of supply and the taxpayer. VAT is a type of taxation which taxes the value that the seller has added to the selling price of products and of services in each stage of the lifecycle of the product. The basis of the VAT is the difference between supplying price and selling price.

VAT is a taxation collected by the self-declaration method. Registered persons who pay VAT declare to the tax authorities the amount of VAT to be paid, and it is the tax authorities who, through a control, shall verify if the declaration was accurate.

In order to determine the VAT to be paid, the company has to calculate the total of VAT in its selling invoices, and then deduce the total VAT in its purchase invoices from it. The total of VAT in sale is also called gross taxation or collectable VAT. Whereas the total VAT in purchases is called deductible VAT. The difference between the collectable VAT and deductible VAT constitutes the payable VAT.

VAT rate in Kosovo

Value Added Tax (VAT) has started to be applied to imports and local supply of goods and services since 1 July 2001 (pursuant to UNMIK regulation no. 2001/11 – on "Value Added Tax in Kosovo" which was amended by the Regulation no. 2002/17, Regulation no. 2004/35, and Regulation no. 2005/40).

The Law No. 03/L-114 on Value Added Tax was adopted in December 2008 and has been in force since January 2009. The basic change is the increase in tax rate from 15% to 16%. Since September 2015, VAT has been graduated in two rates, the standard rate of eighteen per cent (18%) and reduced rate of eight per cent (8%) of the value of imported supplies and local taxable supplies, with the exception of exempted supplies and supplies treated as exports.

Reduced VAT rate is calculated and paid by eight per cent (8%) for the supply of goods and services, and their import, such as:

Supply with water, except bottled water; Supply with electricity, including transmission and distribution services, with central heating, waste collection and other waste treatment; Grains such as barley, corn, maize varieties, oats, rye, rice and wheat; Products made from grain for human consumption, such as flour, pasta, bread and similar products; Cooking oils made from grains or oilseeds for use in cooking for human consumption; Dairy and dairy products intended for human consumption; Salt appropriate for human consumption; Eggs for consumption; Textbooks and serial publications;; Supply including lending of books from libraries including brochures, leaflets and similar printed materials, children's picture books, drawing and colouring books, music printed texts or manuscripts, maps and hydro graphic charts and similar; Information technology equipment; Supply with medicines, pharmaceutical products, instruments, medical and surgical devices; Medical equipment, ambulances, aids and other medical devices to facilitate or treat inability for exclusive use by the disabled, including the repair of such goods; Supply with children's vehicle seats; For exports, international transport, and agricultural inputs,

VAT rate is zero (0%) of the taxable value.

The 0% VAT rate is applicable for: export of goods; the supply of goods non-profit organizations; supply of goods directly related to exports or imports of goods; certain operations related to international transportation of goods and passengers; supply of goods and services performed under diplomatic consular relations; supply of goods and services to international organizations, and members of these organizations; supply of goods and services for armed forces of other NATO member states; supply of gold for the Central Bank.

VAT usually is responsible for incurring approximately one fifth of the total tax revenues (Charlet, A. and J. Owens (2010). In Kosovo at the end of 2014 VAT has generated 50% of revenues collected at the border, and 47% of domestic revenues (Economic Bulletin of Kosovo 2015). When examining the existing systems of VAT, one of the key elements to be considered is that there is a variety of VAT structures. Standard VAT rate is higher in Western Europe countries and in transition countries. Most developers of fiscal policies usually follow the principle of tax reduction especially in "basic products or goods" which are proportionally consumed more by low-income families. Therefore, most countries apply the principle of multiple VAT rates: reduced rates, and in some cases exemptions for basic products, and a higher rate for other products.

In the European Union (EU), pursuant to the Directive for VAT, all Member States shall set a standard VAT rate, which may not be less than 15%. Furthermore, Member States may not

apply more than two reduced rates which may not be less than 5% in all or some of the products listed in Annex III of this Directive (Directive 2006/112/EC).

The VAT system with reduced rates was introduced in Europe with the aim to facilitate the taxation in products and services that constitute a large portion of expenses for poor families (Johansson, et al (2010).

In Kosovo, the implementation of the first fiscal Package has commenced in September 2015, which assisted in increasing formality of businesses by amending the Law on VAT, the VAT threshold and undertaking another range of reforms which enabled the enhancement of private sector turnovers due to the multiple exemptions of raw materials and of manufacturing machinery. Statistics from the Central Bank, Agency of Statistics, and from the Ministry of Finance indicate that businesses have benefited approximately EUR 47 million from various exemptions for raw materials and manufacturing machinery. Only large enterprises, which are required to report to the Kosovo Council for Financial Reporting, there has been an increase in enterprises for 12 per cent and an increased employment for 11 per cent to these enterprises (CBK 2015). Citizens have benefited approximately EUR 21 million as a result of VAT exemption, reduction of VAT rate from 16 to 8 per cent for all public services and for a number of goods and services.

The following table shows tax rates of VAT in Kosovo and in some countries of the region. From this overview of VAT rates in countries presented in table 1, we can see that the standard rate in these countries ranges from 18% up to 25%.

Table 2: VAT rate in Kosovo and in the region
Standard and reduced rates of VAT in Kosovo and in the region

Country	Standard rate	Reduced rate
Kosovo	18% - 8%	8% applies to essential products, Electricity, water, school books, and information technology equipment
Albania	20%	/
Montenegro	19% - 7%	7% applies to basic products such as bread, oil, milk and sugar; orthopaedic tools, prosthesis; pharmaceutical products used in veterinary, school books, periodicals, daily newspapers
Serbia	20% = 10%	10% applies to the supply of goods and services regarding bread, milk, flour, sugar, oils, fruits and vegetables, meat, fish, eggs, artificial fertilizers, pesticides, planting seeds, school books, newspapers, etc.
Macedonia	18% - 5%	5% applies to the sale and import of food products, supply of drinking water from public suppliers, publishing of books, brochures, newspapers, etc. Planting seeds, fertilizers, protection products in agriculture, machinery for agriculture, etc.
Croatia	25% - 13%	13% applies to hotel accommodations.
Slovenia	22% - 9.5%	9.5% applies to food, non-alcohol beverages, animals, seeds, water services, pharmaceutical equipment for recovery and prevention, medical equipment, passenger transport, books, leaflets, etc.

Source: Ministry of Finance. Medium Term Expenditure Framework 2016-2018.

From the table above, it is apparent that Albania does not apply a reduced rate, while in other countries this rate ranges from 5% up to 13%. The reduced rate is usually applied to the supply of goods and basic services such as food, non-alcohol beverages, sale and import of food products, supply with drinking water, publishing of books, leaflets, newspapers, planting seeds, fertilizers, and agriculture protection products, pharmaceutical equipment for recovery and prevention, medical equipment and transport for passengers.

In the new VAT Law of Kosovo, the reduced VAT rate of 8% applies to the following products: Supply of water, except bottled water; supply with electricity, including transmission and distribution services, central heating, waste collection and other waste treatment; grains such as barley, corn, maize varieties, oats, rye, rice and wheat; products made from grain for human consumption, such as flour, pasta, bread and similar products; cooking oils; dairy and dairy products intended for human consumption; salt appropriate for human consumption; eggs for consumption; textbooks and serial publications; children's picture books, drawing and colouring books, music printed texts or manuscripts, maps and hydro graphic charts and similar; information technology equipment; supply with medicines, pharmaceutical products, instruments, medical and surgical devices; medical equipment, ambulances, aids and other medical devices to facilitate or treat inability for exclusive use by the disabled, including the repair of such goods and supply with children's vehicle seats; (Law No. 04/L-108).

Studies show that transition from a uniform VAT system to a non-uniform VAT system, or a system with reduced VAT rates, may bring great benefits for the society's wellbeing. Products and services to which lower tax rates are applied depend on the effect intended to be achieved by such reduced rates. If arguments and results from the theoretical and empirical works summarized in the research carried out by Copenhagen Economics in 2007 are taken as a baseline, then the application of reduced VAT rate would be preferable to be limited in one of these four sectors:

1. Sectors, services of which are easily replaced by the population,
2. Sectors that employ a large number of under qualified employees,
3. Sectors favoured by low-income families, and
4. Sectors which, for various reasons, are consumed below the intended level

In Europe, the introduction of reduced rates is linked to the sector which is favoured mostly by low-income families, i.e. the food sector.

ANALYSIS AND DESCRIPTION OF RESULTS

VAT is administered by the Kosovo Customs and by the Tax Administration of Kosovo. Customs collect VAT on the imported goods, while Tax Administration manages VAT on purchases and sales within the country, normally accepting VAT as deductible for the paid value at the border in the cases of imported goods. The largest VAT revenues derive from import on the occasion of customs at the border, which is also apparent in the table below,

Table

3: Total revenue from VAT at the border and within the country

VAT	2014	2015	2016	2017
border	423,937,347	456,278,732	514,021,013	557,786,771
TAK	131,941,264	153,936,530	180,363,401	196,635,189
Total	555,878,611	610,215,262	694,384,414	754,421,960

Source: <http://www.atk-ks.org>

Knowing that the reduced VAT rate in 2015 had an impact only for four months because it started to be applied from September, then based on the total VAT revenues in 2015 we have an increase by 54 million euros, in order to continue with a higher trend of increase in the following years, where the increase in 2016 compared to 2015 is 84 million euros, while in 2017 compared to 2016 is 60 million euros. The conclusion of this is that VAT increase in 2015 and in the following years is as a result of the increase of VAT rate from 16 to 18%.

The increase has also been influenced by the fact that the decision of "fiscal package 1" was for the pharmaceuticals to be subject to an 8% VAT rate, which until September 2015 were exempted from VAT, and paid only customs duty.

It should be noted that the increase in VAT was also influenced by inflation which marked an average increase of 1.5 to 2% over the years (CBK 2018). This contributed directly to the increase of prices and, consequently, to the increase of the VAT value. It is also normal to calculate a slight increase in overall consumption compared to the previous year.

Findings from comparison of results

In reference to the above statistics and to ensure consistency in our research, the following questions need to be answered:

1. What was the extent of the budget increase following the increase in VAT from 16% to 18%?
2. Has the household budget benefitted from the VAT rate reduction (from 16% to 8%) and to what extent?
3. Has the household budget suffered any damage and to what extent following the VAT rate increase from 16% to 18% (at a difference of 2%) for products other than essential ones?
4. Who are the other beneficiaries from the VAT rate reduction in addition to the household budget?

Answer to the first question

The data presented in the table above, if we take 2017 as the basis for comparison concerning revenues from VAT clearly show that the state budget has increased by 60 million Euros. This increase is a NET value resulting after the compensation of loss from the VAT rate reduction. Therefore, the VAT rate reduction for essential products from 16% to 8%, along with an increase from 16% to 18% for other products resulted in the increase of the state budget.

Answer to the second and third questions

For purposes of answering to these questions, we have conducted a detailed analysis based on data generated from the VAT declaration and payment database of the Tax Administration of Kosovo. More specifically, we used data from the VAT Declaration and Payment Form Column No. 12 Taxable sales at an 18% rate and Column No. 14 Taxable sales at an 8% rate for years 2014¹, 2015, 2016, 2017 and 2018.

¹In 2014 there was only one standard VAT rate of 16%

These statistics highlight that the sale of all essential products calculated with the reduced VAT rate of 8% represents an average share of 15% of the total sales declared using the VAT Form. Thus, out of the total sales in 2017, amounting to over 7 billion Euros, sales of essential products accounted for over 1 billion Euros. These statistics render our findings even more accurate concerning the impact of the VAT rate reduction on the household budget or the consumer basket, on the one hand, and of the impact on the state budget, on the other.

Table 4: Taxable sales at 18% and 8% rates

No.	Year	Taxable sales at a 18% rate	Taxable sales at a 8% rate	Total consumption	% essential products consumption
1	2014	6,018,173,208	-	6,018,173,208	-
2	2015	6,360,302,914	372,596,081	6,732,898,995	6%

3	2016	6,132,439,129	1,107,466,603	7,239,905,732	15%
4	2017	6,478,196,596	1,214,459,779	7,692,656,375	16%
5	2018	4,988,930,468	888,584,368	5,877,514,836	15%

Source: Tax Administration of Kosovo

These data in conjunction with the data from the Kosovo Agency of Statistics, according to which in Kosovo there are 324,782 households with an average of 5 members each, show that in terms of household consumption of essential products, a household in Kosovo spends an average of 7539 Euros annually or 628.25 Euros per month. (Household Budget Survey 2017) The majority of the household budget in 2017 was spent on food and housing; thus, food and housing respectively accounted for 40 percent and 29 percent of the overall consumption. Then transport 5 percent and 4 percent for furniture, alcohol and tobacco. The following table uses the data outlined above to calculate the net saving in Euros in the household basket following the VAT rate reduction from 16% to 8% minus the damage to the family basket following the VAT rate increase from 16% to 18%.

Table 5: saving from VAT rate reduction

Total consumption	% of consumption	Total consumption of essential products and other products	VAT at 8%	VAT at 16%	VAT at 18%	VAT from 16% to 18% increase difference of 2%	Annual saving/reduction per household	Monthly saving
2,448,531,488	40%	979,412,599	135,091,392	67,545,696			+ 207.97	+ 17.3
	60%	1,469,118,888			21,655,872		- 66.68	- 5.56
NET saving per household upon VAT reduction from 16% to 8% minus the increase from 16% to 18%								11.77

Source: author's own calculation

The calculation of data show that net household budget savings in Euro with the reduction of the VAT rate amount to approximately 11.77 Euros per month. This calculation is done according to the average household consumption based on the KAS data as explained above. It is evident that many households in Kosovo do not even approach the above-mentioned average spending, hence the family basket savings are entirely dependent on the level of monthly spending on essential products, namely those essential products which have been subject to the VAT rate reduction.

All of these products in 2017 marked a rise in prices compared to the previous year, excluding the electricity price which in 2017 was discounted by 3% upon the ERO's decision. It may be concluded that the other main consumer products had an exceptionally high price rise compared to 2016.

Representatives of consumer protection and rights in Kosovo also consider that since the entry into force of differential VAT rates, consumer prices marked no decline; instead, they continuously increased making the consumer basket more expensive. Although it should be acknowledged that the rise in these prices has been reflected as a result of inflation, these products are mainly imported, hence their prices depend on the price fluctuations of oil and other products in the international stock market.

A general conclusion is that the reduction of the VAT rate did not reflect in the reduction of the prices of the products; instead, they remained the same following the beginning of implementation and gradually increased later on due to inflation. Therefore, the risk associated with the reduction of the VAT rate on essential products and services is that benefits are not transferred only to consumers but many of those benefits are transferred to traders.

Answer to the fourth question

To answer the question, "Who are other beneficiaries from the VAT rate reduction in addition to the household budget?" we will use the data from 2017 where the declaration of sales at the rate of 8% from the taxpayer's statement is 1,214,459,779 Euros. Considering that the table above shows the household budget consumption is much smaller than this statement, it is concluded that this difference in the payment of VAT with the reduced rate benefits not only the household budget but also all others who consume the same products, mainly businesses.

To illustrate this through practical cases, the reduction of the VAT rate for electricity benefited all businesses, institutions and other entities that pay lower VAT on consumption. This means that their costs are lower, but the same is not reflected in the price reduction of the product or service.

The same applies to central heating, waste collection and other waste treatment services. Similarly, the VAT rate reduction for basic products such as bread, flour, oil, milk and salt benefits all other consumers outside the family budget.

The reduced VAT rate from 16% to 8% also covers a number of products that are not essential to the household consumption basket, but are still included in the list of products subject to the VAT rate reduction, such as lending books from libraries, serial publications; brochures, flyers and similar printed materials, hydrographic maps and charts; Information Technology equipment, etc., thus the benefits of the VAT rate reduction do not apply only to low-income households, but extend to a considerable number of businesses.

Results from the Questionnaire

In the process of selection of the respondents so that they would be mainly the head of the family or those who responsible for the supply of the necessary basket of daily consumption, all of them got to understand the topic and purpose of the research. In the three main questions that are the core of the survey such as, the impact of the reduced rate on the family budget, the price changes and inclusion of this rate in the basic consumption products, the result of their responses comes to a conclusion that, even though it was not easy to observe, the effect of the reduced rate had an impact on the family budget. The prices have not decreased, consumption of the essential products of the family basket has not increased and the majority of respondents consider that the rate does not include a considerable number of basic products that are part of the family basket for e.g., hygiene products. Below you will find the results of the main questions asked to respondents.

1. "Do you consider that the reduction of the VAT rate has had an impact on the family basket, (e.g., you have paid lower invoices for electricity, drinking water, and supply for the family table)?"

56% of respondents have answered positively to the question that the reduced VAT rate has had an impact in the family basket by saving the family budget. 38% of respondents think this impact is small or moderate. While only 6% think that the reduced VAT rate had no impact at all on saving the family budget.

2. "Have the prices for family consumption been decreased (e.g. bread, salt, oil, flour) etc. after the reduction of VAT rate"?

Respondents are very much convinced that the reduction of VAT rate did not lead to a decrease in prices, whereby 76% of the respondents shared this opinion. 16% responded that the price of some products had decreased, while 8% think that the reduction of VAT rate for basic products has had a positive effect in the decrease of prices.

3. Have the essential living products of family basket sufficiently been included in the reduced VAT rate?

50% of the respondents consider that in the reduced rate a sufficient range of household consumption products have been included. Up to 36% think that this reduced rate covers a moderate range of household consumption products, whereas 14% think the number of products covered by the reduced rate is not sufficient.

Further, in the following questions, 84% responded that the reduced rate of 8% is not low compared to the rate that should be applied to the basket of consumption products, and 68% of them think that even with the application of a reduced rate of 2%, the impact on the reduction of the state budget would be very little.

One thing that can be considered of particular importance is that in their 90% of respondents consider that, despite the fact that the reduced VAT rate has had a positive impact in the household budget, the increased rate from 16 to 18% has had a counter effect due to the fact that this increase on the other hand of the VAT rate for other products, which are also part of the consumption basket, has damaged the household budget.

On the question whether there has been an increase in the consumption after the reduction of the VAT rate, 80% have responded negatively. So even though the VAT rate has been reduced, the consumption of these products has remained the same, while 20% replied that there has been an increase in the consumption of some products.

When asked whether hygiene products should have been added to the list of basic or necessary household products, 92% of the respondents answered positively.

To clarify some of the answers, we have asked for additional comments or we have discussed with respondents, which helped us to better understand the answers. Thus, for example, it was discussed how they have noticed the savings when there was no decrease on prices, the opinion that dominated is that this is mainly seen in public services, electricity, water supply and waste collection bills. Such a finding is more than true because in these invoices first the consumption is registered multiplied by the price, then based on this the VAT rate is calculated and in these services it has been reduced from 16 to 8%, or VAT for each invoice has had 50% less value added tax.

CONCLUSION

The VAT structure in the regional and European countries is at a standard rate for most products and services and with reduced rates for basic products and services. In Kosovo, the uniform VAT system, with only one standard rate for all products and services and without any reduced rate by the end of 2015, differed greatly from the systems of most of these countries. Due to the fact that the biggest share of the family budget, around 40%, is spent on food products and non-alcoholic beverages and the fact that 29.7% of the population in Kosovo lives in poverty and 10.2% in extreme poverty, then a decreased VAT rate in food products and electricity and water supply services has contributed to improving income distribution and raising the welfare of society.

Given that VAT revenues on basic products and services account for only about 5% of total VAT revenues, budget losses from the reduced rate were not only easily covered but there was an increase in the state budget due to the increased standard rate by 2% in other products.

Based on other countries' experiences, the reform of the VAT system cannot be done without many difficulties and risks. Administrative and implementation costs are considered to be very high for a successful implementation of such a change. On the other hand, there is a risk that the benefit of the reduced rate on basic products and services will not be transferred to customers but only to traders. This may occur if traders, in order to increase personal gains, will not lower the prices of basic products and services after the reform.

Reforming the VAT system in Kosovo by introducing the reduced rate under the "fiscal package 1" was a challenge with complex technical operations that implied the design of a dynamic plan for timely implementation of legal and operational security, intervention in the information technology, staff training and additional inspections.

One of the concerns of the IMF and EC is that the reduced rates, VAT exemptions and any escalation make it more difficult to implement and monitor fiscal authorities.

Reduction of the rate in the food sector is done in order to improve the distribution of income. This is a very simple way of reducing VAT on basic food products, a sector that accounts for a large share of consumption for lower-income households compared to higher-income households, which offers specific advantage for low-income households (Copenhagen Economics 2007). Therefore, the countries of the region have also focused on reducing the VAT rate in this sector. An exception is the case of Croatia, Ireland, which applies a reduced VAT rate for hotels, accommodation and other catering services in the tourism sector, a sector that employs a big number of low-skilled workers such as waitresses, cleaners, etc.

Based on the results of VAT revenue statistics, their comparison and trend in the period of VAT reduction, comparison with the practices of other countries, as well as the results of the survey prove the hypotheses that: the reduction of VAT rate from 16% to 8% saves the family budget, the basket of essential products has lower costs especially for public services. In addition, the reduction of VAT rate has an insignificant impact on the budget revenues in Kosovo, due to the fact that the increased standard rate for 2% on the other hand, not only has covered the loss from the reduction but has managed to increase the state budget with an average over 60 million euros each year.

Some very important issues that were observed during the research on the reduced VAT rate in Kosovo are:

- The reduction rate of VAT did not reflect the reduction in prices.
- The benefit for low-income households was small.
- A part of the VAT deduction has been acquired by traders, and since there was no price reduction, there has been an increase in traders' profit.
- The state budget, by applying an increase of 2% for other non-basics products, not only has covered the loss related to the reduction of VAT rate also has also increased the budget by an average of 60 million euro.
- Consumption of basic products was not increased.
- The list of products with VAT reduction was wider than the essential consumption basket products for lower-income households.
- The cost of implementation is evident both at TAK as well as in business, even though there are no accurate data on its value, since there have been changes in the books for registering purchase and sale, forms and software for declaration, and other similar actions.
- The change of VAT threshold from 50 thousand Euros to 30 thousand Euros also has also increased the number of declarants.

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Modeling the Fundamental Value of the Kosovo Commercial Banks

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Abstract. Valuation is an important element of the bank appraisal since it determines the financial position of the common stocks. The work identifies the deviation of the enterprise value from the total assets of the Kosovo commercial banks. The study used accounting items composed from the audited financial statements of the seven selected banks, operating in the Kosovo banking industry. The methodology stands on the Discounted Cash Flow Model adjusted for the bank-specific characteristics. Monte Carlo simulation technique with 10000 samples was conducted to find possible estimated values, from 2010 till 2017. The absence of the Kosovo Stock Market generated limitations during the valuation process where the cost of equity and beta coefficients were obtained from the Damodaran Database. Outcomes of the study indicate that the enterprise value of the Kosovo commercial had a considerable deviation from bank size. Moreover, from 2010 till 2017 banks operating within the Kosovo banking industry on average were overvalued in the range of 56.6%.

Keywords: Estimated Value, Commercial Banks, Book Value, Financial System.

JEL classification: G13, G15

Introduction

Determining company value is one of the most complex subjects in financial management. The value of the entity can only be estimated since the valuation models are constructed on numerous assumptions and limitations. Moreover, the capability of the valuation techniques to predict future events (cash flows) stands on several restrictions. In addition, valuation comprises procedures before conducting the final valuation act. Industry analysis provides a crucial outlook in positioning banks in terms of risk outcomes, performance, and competition. Banks are financial institutions that are regularly engaged in the due diligence and revaluation of physical and financial assets. Koller et al. (2010) show that banks are prone to additional difficulties compared to ordinary firms since it is difficult to identify the quality of their investment portfolio. Damodaran (2009) indicates that the financial crisis of 2008-2009 showed the complexity of evaluating financial institutions. Besides, the study displayed problems of estimating capital expenditures, working capital and debt level since these elements are not well defined in the annual reports. Financial statements of the banks show a historical

representation of the assets, debts, and equity which are important inputs of the company valuation (Dermine, 2009). The balance sheet, income statement and cash flow statement do not represent the market value of the entity. In contrast, stock prices represent real market value when public companies are listed on the efficient stock exchanges.

The intrinsic value of the company indicates expectations for future cash flows and not linked with the present situation of the businesses (Damodaran, 1996). However, Fama (1968) considers that stock prices move close to their intrinsic value where market prices have a low standard deviation from the mean. Multiple Based Method is a widely used technique for identifying if the listed companies are overvalued, undervalued or properly in the stock exchange. In addition, the method is frequently applied after the regular company valuation is performed (Fernandez, 2001). There are several approaches used for the valuation of banks while none of them holds complete accuracy in defining the enterprise value (Deev, 2011). Risk is a supplementary component that influences the valuation of commercial banks. The higher risk imposed on the banks' operations indicates the lower intrinsic value and the other way around. Aliu et al. (2017) identified that the intrinsic value of the Prishtina International Airport is lower than the liquidation price. Moreover, the study considers that the Five Forces Model of Porter comprises comprehensive risk dimensions of the privately held companies. Standard valuation techniques use beta coefficient as the measure of the company risk exposure. Beta coefficient is generally obtained from the regression of the firms' returns with stock market returns (Bradfield, 2003).

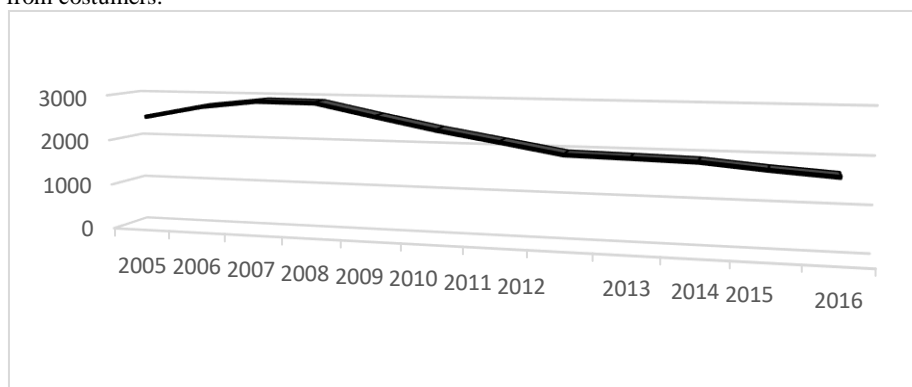
The banking industry is an important element of the financial system that allows directing financial resources from savers to borrowers. Moreover, banks stand are the major financial institutions in Kosovo that provide liquidity for business operations and human activities. The banking industry holds the major share within the Kosovo financial system followed by the Kosovo Pension Fund (CBK, 2004-2017). Kosovo does not have a stock and bond market that would be an additional financial source to expand lending activities of the Kosovo banks. However, deposits and financial performance remain key sources of the increasing size of the banks in Kosovo. Standing on this concern, enormous competition is involved in attracting new depositors since this component might be the main uncertainty on the passive side of the banks' balance sheets. Depositors for the Kosovo banking industry remain as the crucial money supplier of their lending activities. However, is quite hard to differentiate offers for depositors in the banking industry since products are easily imitated from the competitors. The study by Prahinski and Benton (2004) confirms that a better understanding of suppliers' needs expands the firm's efficiency in the marketplace. The additional risk of the banking might be well diversification of the depositors. The high concentration of deposits risks the performance and liquidity while influencing the market value of the banks. Aliu and Knapkova (2017) confirm that diversification benefits are reduced in the crisis periods since stock exchanged are highly interconnected. Due diligence investigation delivers a strong outlook on the specific risks related to corporate governance, quality of the portfolio and legal issues that are not covered from the regular financial reports (Denson and Ko, 2016).

Standing on the identified problem, the study analyzes the enterprise value of the Kosovo commercial banks via implementing ordinary valuation methods. The results of the work obtain the intrinsic value of the bank, not the market price. Moreover, the market price of the bank is determined by the market forces (supply and demand). To the best knowledge, it is the first work that identifies the deviation of the enterprise value from total assets. Outcomes of the study provide indications for the shareholders, managers, depositors, Kosovo Central Bank on the historical value of the commercial banks in Kosovo. Moreover, the DCF technique is used not only to identify the current steady state of the commercial banks but also to backward-looking estimated enterprise value.

Background of the Kosovo Banking Industry

Competition as a key driver of innovation and productivity stands still in the infant states within the Kosovo banking industry. High-interest rate spreads (IRS) and massive profit margins from 2004 until 2017 in the Kosovo banking industry might not be sustainable in the long run. Banks with an insufficient capital base will not be immune from the declining IRS in the Kosovo banking industry. Meanwhile, high IRS were loaded from elements, such as inefficiency of the banks, market segmentation, risk posed during lending activities or cooperative agreement within banks, etc. The study conducted by Aliu et al. (2016) on their study for the Kosovo banking industry, confirms that in the long run, net profit and overall expenses positively affect IRS while GDP and Inflation have a negative effect.

Entry barriers are determined by factors such as economies of scale, product differentiation, cost advantage, government limits, access to distribution channels (Porter, 1980). Microeconomic theories on the market competition confirm that when industry generates profits new entries will occur. Market competition is measured through index concentration named as Herfindahl-Hirschman Index – HHI. Moreover, higher HHI represents a lower competition level in the market. Fig. 1 shows an asset concentration level of the Kosovo banking industry from 2005 to 2016. From 2005 until 2009 the banking industry was a highly concentrated industry with HHI above 2500 points. Moreover, from 2010 until 2016 banking industry was characterized by moderate concentration where HHI was standing within 1600 and 2500 points. The decline of the HHI index corresponds to the period when new banks entered the Kosovo banking market. Products that contain equal purpose are considered as substitutes. Banks can easily shift from one target industry to the other since switching costs are low. Moreover, it is widely proven that the existence of substitute products raises efficiency within the industry and imposes lower profits. However, Peter et al. (2014) confirm that substitute products improve efficiency since each firm intends to have its products or services favored from customers.

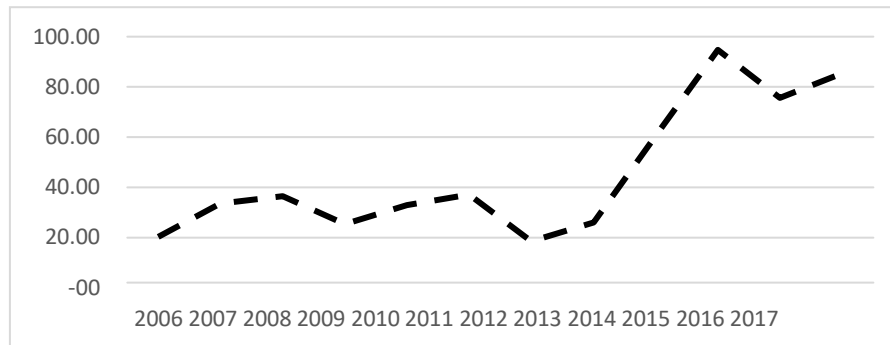


Source: Authors elaboration based on the CBK annual reports.

Fig. 1. Assets concentration (HHI-index) in the Kosovo banking industry (2005-2016).

Fig. 2 show that the banking industry in Kosovo was regularly generating profits from 2006 until 2017. However, there is a decline in the average profits during 2008- 2010 and during 2011- 2013 which corresponds with the financial meltdown of 2008 and the European debt crisis of 2011. In addition, profits in 2006 were in the range of 20.2 million euro, while in 2017 profits were in the range of 85.4 million euro, an increase of 323%. Profits are crucial signals for new banks to enter the industry. Central Bank of Kosovo

has set up entry barriers which entail a minimum capital base of 7 million-euro, shareholder's financial sustainability, management criteria, etc. (CBK, 2010).



Source: Authors elaboration based on the CBK annual reports.

Fig. 2. Net profits of the Kosovo banking industry from 2006 until 2017.

Since 2014 average interest rates on the lending activities are experiencing a downward trend which is a clear sign of increased competition. Interest rate spread (IRS) indicates a difference between interest rates on lending activities and deposits. The average IRS from 2007 until 2013 was 10.2% that confirms a huge difference within interest rates on deposits and loans. However, from 2014 until 2017 average IRS drops to 6.5%, which corresponds with the decrease of the industry concentration level. However, from the early years of operations, the Kosovo banking industry imposed low costs on deposits while high lending rates.

Methodology and Data

The study stands on the standard valuation steps adjusted for the banking industry. Inputs used within the valuation process correspond to the country risk profile. Since banks in Kosovo are not publicly traded (not listed in the stock market), beta coefficient is obtained from the Damodaran Database (Damodaran, 2019). The valuation of non-listed companies creates extra difficulties in the process. Aliu et al. (2016) represent a case where small changes in the beta coefficient, brings a diverse intrinsic value of the private economic entities. Data concerning the inputs used during the valuation are collected from the audited financial statements of the individual banks, operating in the Kosovo banking industry. Accounting items were gathered from 2010 till 2017 on an annual basis and seven banks were selected for the analysis. However, some of the banks are missing the results of the enterprise value since FCFF was negative for those years. The sample size consists of Raiffeisen Bank, Procredit Bank, NLB Bank, BKT Bank, TEB Bank, BpB Bank, and Banka Ekonomike. BKT Bank in Kosovo operates as a branch of a mother bank in Albania. Accounting data of the BKT were gathered from the consolidated financial statements of the mother bank in Albania.

The following formula explains the composition of the DCF model used for the study:

$$\begin{aligned}
 & \text{FCFF}_1 \\
 & F = \text{FCFF}_1 * g^1 \\
 & \text{FCFF}_3 = \text{FCFF}_2 * g = \text{FCFF}_1 * g * g = \text{FCFF}_1 * g^2 \\
 & \text{FCFF}_4 = \text{FCFF}_3 * g = \text{FCFF}_2 * g * g = \text{FCFF}_1 * g * g * g = \text{FCFF}_1 * g^3 \\
 & * \\
 & \text{FCFF}_i = \text{FCFF}_1 * g^{i-1}
 \end{aligned}$$

$$\begin{aligned}
 & \text{FCFF}_1 \\
 & \text{FCFF}_1 * g^1 \\
 & \text{FCFF}_1 * g^2 \\
 & \text{FCFF}_1 * g^3 \\
 & \text{FCFF}_1 * g^4 + \dots + \\
 & \text{FCFF}_1 * g^{(n-1)} \\
 & \text{FCFF}_1 * g^{i-1} \\
 & \text{DCF}_n = \frac{\text{FCFF}_1}{(1+r)^1} + \frac{\text{FCFF}_1 * g^1}{(1+r)^2} + \frac{\text{FCFF}_1 * g^2}{(1+r)^3} + \frac{\text{FCFF}_1 * g^3}{(1+r)^4} + \dots + \frac{\text{FCFF}_1 * g^{(n-1)}}{(1+r)^n} \\
 & \text{DCF} = \sum_{i=1}^n \frac{\text{FCFF}_1 * g^{i-1}}{(1+r)^i}
 \end{aligned}$$

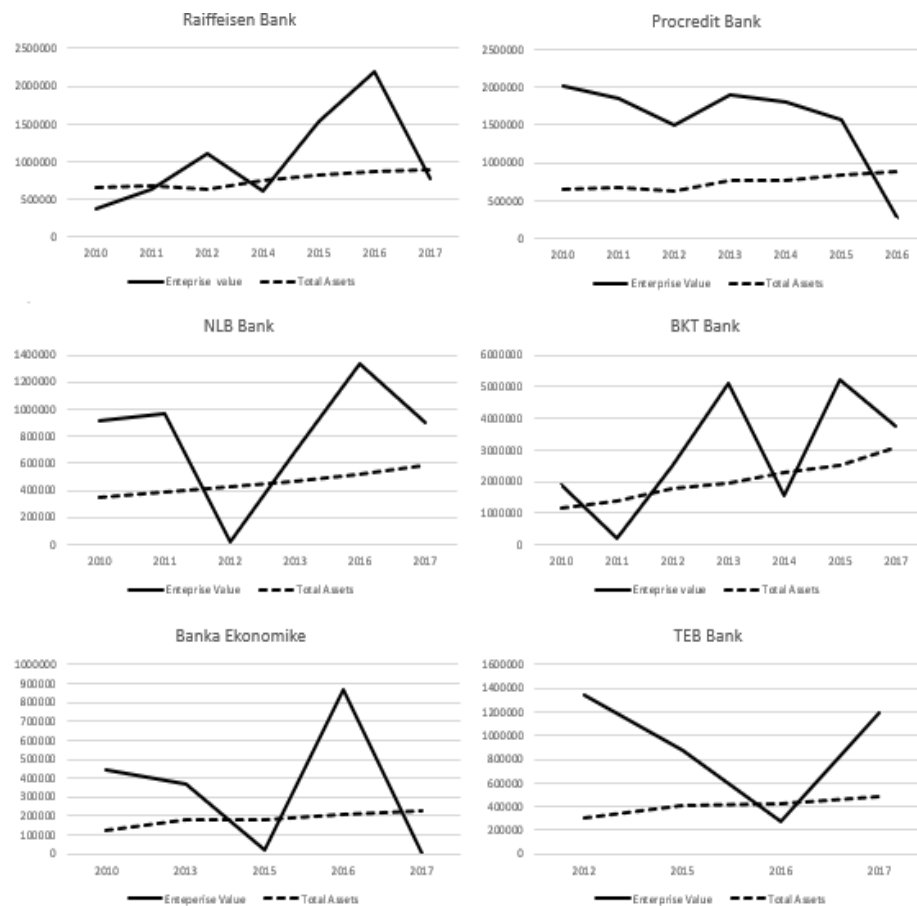
Discounted Cash Flow method has been used to identify the enterprise value of the Kosovo commercial banks. Free Cash Flow (FCFF) to the firm is used as available money remained for debtholders and shareholders. Besides, FCFF has been discounted for the weighted average cost of capital (WACC). WACC has been detected based on the weighted sum between the cost of debt and cost of equity. The cost of equity was formulated by the Capital Asset Pricing Model (CAPM). Market returns were obtained from the Standard and Poor's annual returns (S&P 500, 2019) while the risk-free rate (RFR) from the Kosovo government bonds (RFR, 2019). However, the cost of debt (cd) was generated from the average interest rate imposed on deposits from the Kosovo commercial banks (CBK, 2019).

Monte Carlo simulations with 10000 trials were used to generate possible enterprise values of the banks from 2010 till 2017. Damodaran database was used to detect the growth rate within the geometric progression. The growth rate is the only parameter simulated with Percentage Point Function (PPF) while the other components remain constant. Growth rate calculation involves parameters, such as randomly calculated values between zero and one (probability), mean growth rate and standard deviation of growth rate. DCF simulations have been realized for the 20 upcoming years since cumulative DCF-s do not provide added values after 20 years.

Results

The study detects the enterprise value of the commercial banks operating in the Kosovo banking industry, from 2010 till 2017. The results of the study reflect the estimated values based on the inputs used within the appraisal method. Identical techniques (DCF method) were used for each bank in our sample size. Fig. 3 represents enterprise value in relation to total assets of the four Kosovo commercial banks, such as Raiffeisen Bank, Procredit Bank, NLB Bank, BKT Bank, TEB Bank, and Banka Ekonomike. It is clear from the graph that in 2011-2012 there is a drop in the enterprise value of the banks that match with the European debt crises of 2011. Moreover, during 2016 and 2017 there is another drop in the enterprise value of the Kosovo banks. Detailed results concerning the enterprise value of the banks are provided in Table 1 in the appendix. In addition, missing values in Table 1 shows that FCFF was negative in those years. Negative FCFF indicates that enterprise value is not calculated for those years. The maximum positive correlation between total assets and enterprise value stands for BpB Bank

($r_{ij}=+0.64$), followed by Raiffeisen Bank ($r_{ij}=+0.53$). In contrast, the maximum negative correlation occurred for the Procredit Bank ($r_{ij}=-0.65$) and the TEB Bank ($r_{ij}=-0.34$). Raiffeisen Bank reached the maximum estimated enterprise value in 2016 (2.2 billion euro) while the minimum one in 2010 (365 million euro). Procredit Bank experienced maximum value in 2010 (2.02 billion euro) while the minimum one in 2016 (283 million euro). However, the maximum value NLB achieved in 2016 on a range of 1.3 billion euro and the minimum one in 2012 (24 million euro). Raiffeisen Bank on average from 2010 till 2017 was overvalued (difference between enterprise value and total assets) in the range of 73.7%, followed by BKT Bank with 69.6%, NLB Bank with 56.4%, BpB 54.9%, Banka Ekonomike with 53.7%, Procredit Bank with 47.5% and TEB Bank with 44.4%. The most overvalued bank was Raiffeisen Bank while the least overvalued was TEB Bank. However, banks operating in the Kosovo banking industry from 2010 to 2017 were overvalued in the range of 56.6%. Data concerning the total assets of the individual banks are presented in Table 2 in the appendix.



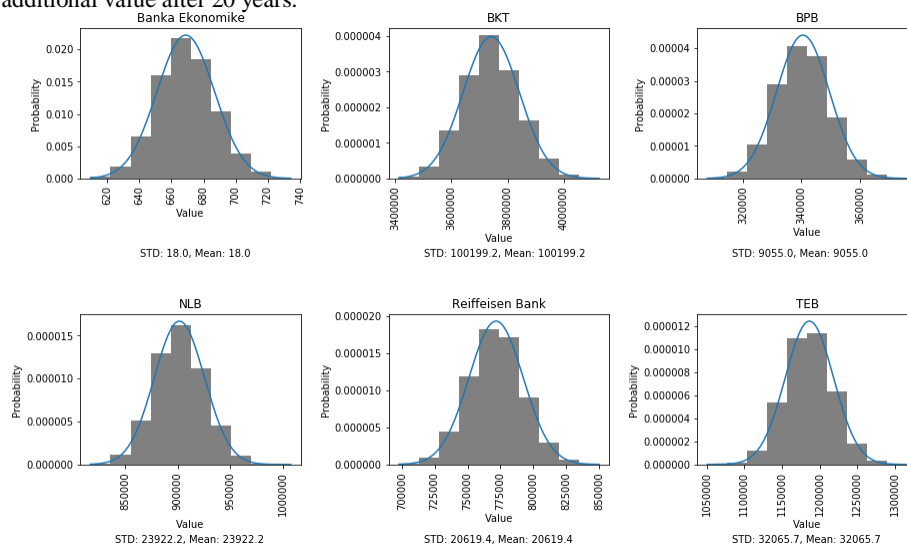
Source: Authors elaborations based on the financial statements of the banks.

Fig. 3. The association between enterprise value and total assets of the commercial banks.

The normal distribution indicates a probability function that shows the possible estimated enterprise values of the Kosovo banks. Data close to the mean has the highest probability of

occurrence which represents a more representative enterprise value of the banks. Fig. 4 shows the normal distribution of the six Kosovo banks with a standard deviation of growth rate at 1%. Percentage point function is used to create growth rates, standing on the following parameters: the randomly generated values within zero and one mean of the growth rate which is obtained from the Damodaran Database and standard deviation of the growth rates. The distribution of the estimated value did not show any negative numbers since the growth rates were constantly positive and with a low

standard deviation (only 1%). Negative values in the distribution can appear mainly when the growth rates are negative, or the standard deviation is more than 100%. The randomly created numbers were equally spread on the DCF geometric progression. Each trial contains its own randomly created growth rate values and geometric progression was programmed for 20 years in the future. Moreover, DCF is constrained with 20 years since future outcomes do not provide additional value after 20 years.



Source: Authors elaborations based on the financial statements of the banks.

Fig. 4. The normal distribution of the DCF-s (Enterprise Values) for the Kosovo banks with 10000 samples.

Conclusion

Enterprise values of the companies and the changes in their market prices stand as the permanent concern for the shareholders. Detecting enterprise value based on cash flow methods is considered as the most difficult issue for the financial analyst. DCF model uses numerous assumptions and expectations based on projections which make the model defective and less precise. The banking industry operates under a specific risk environment compared to the other industries. The crises of 2008-2009 exposed the problems linked with inappropriate valuation and lack of risk management controls from the financial institutions. However, our study identifies the estimated enterprise value of the Kosovo banks based on the numerous limitations.

Kosovo does not have a stock market that would enable listed banks to observe changes in their daily stock prices. The lowest average value, banks in Kosovo experienced in 2011 in the

range of 762 million while the maximum average value occurred in 2013 with 1.6 billion euro. The debt crisis of 2011 generated widespread panic within the European continent that was reflected in the financial performance of the Kosovo banking industry. However, 2017 was characterized by a decline in the enterprise value through overall banks. Procredit Bank in 2010 reached the maximum enterprise value (2.02 billion euro) while the Raiffeisen Bank in 2016 (2.2 billion euro). However, NLB Bank reached the maximum value of 1.3 billion euro in 2016 while the maximum value of the BKT stands in 2014 with 5.2 billion euro. The outcomes of the study represent authors' estimations while other scholars might identify different values. The results of the study show that the enterprise value stands above bank size (total assets) which is a clear indication that Kosovo banks were on average overvalued from 2010 till 2017. The results indicate that banks in the Kosovo banking industry from 2010 till 2017 were overvalued in the range of 56.6%.

The study recognizes several restrictions imposed on the DCF model where beta coefficient was obtained from the Damadoran database. Besides, beta coefficient co- vers a sample of selected banks within the European Union which might not correspond with the risk characteristics of the Kosovo banks. Market returns were generated from the S&P500 index that corresponds with US financial reality. Lack of financial and legal due diligence did not allow observing multiple risk dimensions of the Kosovo banks which are treated as off-balance sheet records. Moreover, besides ordinary limi- tations linked with the valuation of public companies, lack of the stock market generates further difficulties.

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Appendix

Table 1. The enterprise value of the commercial banks on the Kosovo banking industry (2010-2017).

Enterprise Value	2010	2011	2012	2013	2014	2015	2016	2017
<i>In million euros</i>								
Raiffeisen bank	365	642	1,108	missing	616	1,525	2,203	771
Procredit bank	2,027	1,856	1,500	1,900	1,804	1,560	283	missing
NLB Bank	919	970	24	680	missing	missing	1,331	901
BPB Bank	239	158	77	116	missing	189	372	340
Banka Ekonomike	445	missing	missing	371	missing	25	865	0.6
TEB Bank	missing	missing	1,340	missing	missing	869	274	1,186
BKT Bank	1,895	185	2,515	5,104	1,526	5,218	missing	3,741

Source: Authors elaborations based on the financial statements of the banks.

Table 2. Total assets of the individual commercial banks operating in Kosovo.

Total Assets	2010	2011	2012	2013	2014	2015	2016	2017
<i>In millions of euros</i>								
Raiffeisen bank	654	682	628	698	760	831	879	900
Procredit bank	803	802	804	791	801	791	800	794

NLB Bank	347	386	423	464	463	464	516	584
BPB Bank	62	78	93	108	117	136	152	188
Banka Ekonomike	125	151	155	176	170	178	212	224
TEB Bank	169	212	300	372	369	410	429	488
BKT Bank	1,139	1,355	1,772	1,944	2,274	2,512	2,870	3,047

Source: Authors elaborations based on the financial statements of the banks.

REMITTANCES SUPPORT THE GROWTH OF DEVELOPING COUNTRIES

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Abstract. Emigration plays a fundamental role in shaping the economic, social, and political developments in the Kosovo. In fact, in the last decades, no other phenomenon has influenced the country more than emigration. Even in the case of best social-economic scenarios for the near future, it is reasonable to assume that emigration will persist, as shown in examples of other European countries, where emigration, once started, lasted for decades or even centuries. A new strategic vision for the country's development must be defined, which must imply the shifting from the consumption growth model financed by remittances and building a model based on investments, exports, and innovations. This strategy must maximize the positive impact of remittances, on development, and limit their negative impact.

Keywords: Remittances, Growth, Economic development in Kosovo.

JEL Classification: F24, F22, F43, O16

INTRODUCTION

Empirical evidence suggests that remittances have a mixed impact on the economy. Their positive main effect is due to the increase in the disposable income of the population and, respectively, the decrease in the rate of poverty (Wiesmann, Kiteme, and Mwangi 2014).

In this context, it can be said that remittances have already had a considerable economic impact, reducing the poverty rate in the Kosovo substantially. In turn, lower poverty implies a higher turnover for businesses and higher accumulations of taxes. Other positive effects are related to the financing of the current account, given that remittances, as a rule, are stable inflows of foreign currency, they are often counter-cyclical, tending to offset the decline in population income under recession. Additionally, the inflows of remittances foster the demand for banking services, contributing to their modernization. Deposits opened by emigrants or their relatives are converted into loans and investments, respectively. It is complicated to determine the relationship between migration and economic development of source countries¹, as numerous factors affect the process. International migration is a many-sided phenomenon that affects many aspects of the country, the individuals and the state, and is an integral part of the cross-border cooperation of any country.

The impact of remittances on the development of source countries is a highly debated topic today with the intention to find the most effective solutions to stimulate the country's economic growth, better distribution of pensions, and poverty reduction.

FACTOR INFLUENCING THE REMITTANCE DELIVERY DECISION

Labor force from low-income countries, such as Kosovo mostly migrates to developed countries securing access to better income to support their families.

Measuring the determinants of migration and economic development of source countries has been a trendy field of study for the researchers, especially where remittances play a vital role in social and economic development in countries.

A research conducted by Thomas Osang (2006) using both cross-section and panel-data estimation methods, finds that remittances as a share of GDP have a positive impact on the economic development of the source country.

Aydas, Neyapti Ozcan (2005) examined the determinants of flows of remittances from Germany towards Turkey in the period 1963-1982 and analyzed the impact of remittance income in Turkey. Although the paper covers the period before the financial liberalization of Turkey, the results show that investment motive always had a place in the remittance decision of Turkish migrants. He finds that the wage level as a critical element of the potential flow of remittances, and then the political stability determines what part of it has been remitted.

The confidence that the Turkish emigrants felt in the safety and liquidity of their investments in Turkey has a meaningful impact on their decision to remit.

According to the research of E. Holst, M. Schrooten (2006), the level of the migrant's income is very important, as the higher the income, the more it will be sent to the family. The amount of income is directly related to the length of stay in the host country and increasing integration. The longer a migrant is in the country, the more integrated he is in society, he has been able to legalize his place of residence and find more paid work, leading to an increase in remittances. With the extended stay in the host country, the likelihood of permanent placement and bringing the family to the host country increase. When the closest members are transferred to the host country, the quantity and periodicity of remittances are reduced (Jorgensen 2007). The status and integration of the migrant will also affect the distribution channel through which he/she sends remittances². A more integrated migrant has greater access to financial services in the host country and can, therefore, use official channels such as banks and other financial institutions.

On the other hand, illegal migrants do not have access to official channels (banks, or similar institutions) and send remittances through acquaintances who return to their country of origin or send them through financial services that do not require the legal status of the migrant. However, these services are more expensive than banking services but have the advantage of being more available in home countries (for example, Western Union is also more accessible in more remote areas).

Remittances are also affected by family members' income at the source country and their number. The lower the income, and the higher the number of family members, the more frequent and higher the remittances we have (Simpson & Sparber 2019).

Macroeconomic factors that may be involved in migrants' decisions to send remittances are economic and political conditions in the country. Examples of economic factors include the stability of the currencies, the interest rates, and exchange rates in these countries, the security, and liquidity, the effectiveness of funds transfer systems, and the level of inflation.

For example, if the inflation rate in the source country is too high or suddenly rises, remittances will drop and change in nature, meaning that a migrant will send, for example, missing goods in the source country and will be exchanged for essential materials. In this case, inflation mainly affected the structure of remittances (P Fajnzylber, JH Lopez – 2008).

As for interest rate changes, these will not have much of an impact on remittances, as in most cases, remittance funds are just enough to buy essential food, thus an increase in interest rates that would otherwise cause savings. One of the reasons is the relatively low level of

remittances, but also their distrust in financial institutions, or their inefficient functioning or complete abstinence.

EFFECTS ON POVERTY REDUCTION

Remittances in terms of their effects can be seen just like any other increase in national income, so that their impact on poverty reduction can be monitored through a rise in GDP per capita or average income and a distributional effect, for the population receiving remittances.

According to Adams Page (2003), remittances measured by participation in GDP have a substantial impact on poverty reduction, since 10% of the increase of remittances correlate with decreases by 1.6% of people living in poverty, hence remittances impacting to poverty.

According to the same study, an increase in the participation of the population living abroad³. This study is based on a sample of 74 developing countries that have been able to access migration, remittance, and poverty data since 1980. The study uses not only the population with less than one U.S. dollar a day to measure poverty, but also the so-called poverty gap index, which measures how much average spending, or income of the poor, lags behind the poverty threshold, as well as the square of this index, which measures the severity of poverty and reflects changes in income distribution among the poor, bearing in mind that transfers from the poor to the poorer will not affect the former two poverty indicators, but will reduce the square of this index.

The study came to the following results:

- Poverty elasticity in relation to income inequality (Gini coefficient) is found to be positive,
- The share of remittances in GDP as a variable has a negative impact on all poverty indicators, the number of the poor, the poverty gap, but the poverty elasticity of remittances is low. Hence a 10% increase in remittances would lead to a 1.6% decrease in the number of poor people.

The reason why the impact of migration and remittances on poverty is estimated as small but statistically significant is that both variables are underestimated relative to their true values, bearing in mind that they are illegal emigrants most likely use unofficial remittance channels, which are not recorded on the balance of payments (Thomas Faist 2018).

REMITTANCES AND THE CONSUMPTION

The remittances impact on the economy of the source country depends primarily on whether they are spent on investment or personal consumption. In the first case, remittances would contribute to an increase in production directly, and in the second, through a multiplier effect of consumption, demand for goods and services of domestic origin, and in proportion to their share in total consumption. The multiplier effect depends on whether the urban or rural population consumes the remittance, and on whether a smaller or more substantial portion of the purchasing power obtained will be directed to domestic products and thus have a smaller or larger multiplier effect (A.Taylor 1990). Spending remittance on goods not participating in international exchange should, as Burgess and Haksar (2005) point out, affect the deterioration of the competitiveness of the domestic economy through appreciation of the domestic currency, but by acting on the level of domestic prices, this effect is neutralized.

Evidence from a survey by the Asian Development Bank (Global Crisis, Remittances, and Poverty in Asia 2012) shows that a large proportion of remittances is spent on the purchase of real estate, especially residential construction, as well as food, education, and rent payments. From a

household point of view, spending remittances on the acquisition of houses, apartments, land and other things of lasting value represents a form of savings and investment, which will impact an increase in consumption or an increase in total wealth, but from the economic point of view, a change in ownership of these goods have no effect on economic activity, such as the purchase and use of capital goods intended for production, does not increase the total capital of the economy or its productivity (Mr. Jahjah & Fullenkamp & Chami, R. 2003) .

Concerning the macroeconomic effect of remittances, the literature indicates that remittances increase the consumption of the family who uses them, without investing in productive investments, except for real estate investment (Bougha-Hagbe 2004, Oberiai and Singh 1980, Alderman 1996, Brown 1997).

Another part of the literature indicates that part of the remittances which is invested in the source country has a short-term multiplier effect (Stahl and Arnold, 1986; Stahl&Habib 1989).

It should be considered that Mr. Jahjah & Fullenkamp & Chami, R. (2003) found a low degree of correlation between remittances, real consumption, and GDP. Additionally, they also found insufficiently convincing evidence of the stabilizing role of short-term remittances based on the VAR. This model is using consumption as a function of disposable income, income, and real interest rates, using remittances by using two values, nominal remittance and real income from remittances.

Using data for Morocco and using the technique of cointegration, the model given by Bougha-Hagbe (2004) assumes that the altruistically motivated worker splits his income into few parts, having in mind the need to increase his/her wealth, on consumption in the country where he/she works. The acquisition of financial assets in the country in which he works, family consumption in the country to which he remittances, and the acquisition of financial and other assets, including real estate, in the country to which he/she dispatches. On this basis, authors concluded that if the attachment of emigrant to the country of origin is greater, the long-term elasticity of remittances relative to the amount invested by the worker in non-financial assets in the country of origin will be positive, and if altruistically motivated, the resilience between remittances relative to real wages or GDP in the country of origin will be negative, with remittance elasticity relative to wages in the country in which they acquired must be positive.

EFFECTS ON INVESTMENT

Remittances should, in principle, act as an incentive to move investments, since they contribute to the creditworthiness of investors and facilitate covering initial investment costs, as evidenced by many studies. However, these studies do not acknowledge these effects, estimating that remittances primarily reflect an increase in consumption. However, these studies consider consumption, with relation to domestic goods and services, through the effect on total economic activity, which then reflects in the movement of investments.

Also, remittances by their positive effects on credit availability may partially offset the effects of external disturbances on fixed investment movements, but Adams and Page (2003) indicate that in the case of large shocks, credit availability would not counteract their effects on investment decisions. What constitutes the positive effects of remittances based on long-term investments are, in their estimation, an increase in entrepreneurship, self-employment, and investment in more intensive forms of production.

In his study on remittance theory applied to Morocco, Bough- -Hague (2004) states that, when remittances occur in the form of portfolio investments, they are subject to changes in rates of return on this type of investment, thereby increasing the sensitivity of the foreign exchange inflow of the recipient country to this type of change. It could be assumed that the increase in the

rates of return in the receiving country and their decline in the country of origin of the remittances have a positive effect on the foreign exchange inflow in the source country, there is a positive correlation between them. He stresses that this is not the case for the part of remittances that comes in the form of foreign direct investment, whose sensitivity is related to the general economic conditions in these countries, where economic reforms would have a positive impact on the allocation of investments in terms of more significant diversification opportunities, as well as neutralizing the negative effect of labor outflows by creating new jobs. Here, the author takes into account the need to correct the structure of investments, since a large part of the investment goes to residential construction, instead of creating small and medium-sized enterprises. It acknowledges, however, that remittances can stimulate the growth of the real estate sector and, consequently, construction activity, or employment, with a multiplier effect on demand and production growth, regardless of the fact that the effect on the creation of small and medium-sized enterprises and the use of skilled labor is less recognizable rather than if remittance is used more for productive investments.

At the microeconomic level, remittance investing requires, as Ralph Chami (2003) points out, oversight of what family members engage as remittance agent, meaning that part of remittances should be intended to compensate family members for the job. According to this interpretation, families can play the role

of financial intermediary and act as an insurance company, which protects against sudden changes in income by diversifying their sources. The family can also play the role of financing the bank, with remittances representing repayments of these loans, from which future loans for family members can be financed.

When it comes to portfolio investment, Bouhga-Hagba's (2004) model predicts that there is a motive for diversifying the portfolio of securities in the country of origin, with remittances remaining at the same long-term level. However, this model did not establish that the desire to diversify the beneficiary country's financial assets portfolio causes remittances in the long run, suggesting that only an increase in interest margins will not increase the remittance amounts in the beneficiary country's accounts.

In the process of direction remittances in the direction of increasing production relative to residential investments, the opening of small and medium-sized enterprises should be encouraged, and appropriate information, legal and administrative assistance is needed.

ADVERSE EFFECTS OF REMITTANCES ON ECONOMIC ACTIVITY

Remittances can improve the welfare of family members and improve the economies of receiving countries. However, they also create a culture of dependency in the receiving country, decreasing labor forces participation, promoting inadequate consumption, and slowing economic growth. A better understanding of remittances might reveal how they contribute to economic development or could be channeled into productive investment through appropriate policies (Jackman, M., Craigwell, R. and Moore, W. 2009).

Remittances can decrease labor supply in the country and create a culture of dependency that obstructs the development of the country's economy. Remittances can impact the increase of the consumption of non-tradable goods, appreciate the real exchange rate, elevate their prices, and reduce exports, consequently damaging the receiving country's competitiveness in world markets. Remittances can be shortened, along with international migration, by escalating anti-immigrant sentiment and tighter enforcement practices in host countries.

According to the model proposed by Ralph Chami (2003), by linking the motivation for remittances and their effects, using the panel method, based on a sample of 113 countries, concludes that remittances have a negative effect on the economic growth.

A similar conclusion is drawn by Burgess and Haksar (2005) following the example of the Philippines, using the ordinary least squares (OLS) method in a model representing the logarithm of real GDP per capita as a function of the logarithm of the share of investment in GDP and the logarithm of the share of remittances in GDP. With data from 1985–2002, a negative correlation between GDP growth per capita and remittance growth has been established, with the conclusion that no record has been established on the countervailing effect of remittances, either on income or on consumption. On the other hand, the model did not provide convincing evidence of the negative impact of remittances on economic growth, but with the fence that is determining the relationship between remittances and economic growth aggravates the problem of endogeneity. Also, according to the authors, the model could be expanded by introducing new variables, since remittances could reflect economic developments in the countries where they are employed, changes in their qualification structure and labor supply from other countries, opportunities for workers to return to countries of origin and demographic factors.

By linking the individual causes and the corresponding effects of remittances, Ralph Chami (2003) states, the movements of remittances across the national economy could be monitored, and unexpected effects can be avoided. Due to the considerable spatial distance of the sender and the remittance users, the authors find that the government is not able to reliably monitor the way remittances are used. That means that this type of transfer is carried out in an asymmetric information environment, which entails considerable moral hazard.

Unlike several studies that address the short-term effects of remittances, there is no record of their longer-term effects on economic growth, and the few records that exist suggest a negative impact of remittances on long-term economic growth.

REMITTANCES IN KOSOVA

The large current account deficit (15% of GDP in 2018) is mainly financed through remittances. Indeed, Kosovo is among the top countries receiving remittances from abroad, where the annual amount reaches 15% of GDP. Although remittances have remained significant and stable during the last years, only about 11% of inflows are used for investment, with most of the funds going to current consumption. (USAID 2012).

In the period 2015-2018, remittances, by narrower definition, increased, moving up a steady upward trend.

Table 1. Total remittances and channel of transfers

Years	Total remittances	Channels of transfers		
		Banks	Funds transfer agencies	Others
2015	665.5	121.1	303.3	241.1
2016	691	116.3	324.4	250.3
2017	759.2	120.4	363.7	275
2018	800.6	123.1	387.5	290

Source: edited by the author from CBK data

Remittances received in Kosovo, which also represents the largest category within the secondary income account, amounted to euro 800.6 million, representing an annual increase of 5.4 percent (CBK 2019). Remittances in Kosovo come mainly from Germany and Switzerland, counting 62.1percent. A significant portion of remittances is also accepted by the U.S., 6.7 percent of total remittances (CBK 2019).

From reports of Central Bank Kosovo (CBK), it is observed, that remittances through Banks remain very low over the years, while, on the other hand, there is an increase in remittances through money Transfer Agencies.

Based on official data of the Central Bank of Kosovo, the diaspora has sent in Kosovo through bank transactions 123.1 million euros in 2018, 120.4 million euros in 2017, 116.3 million euros in 2016, while

121.1 million euros in 2015. Only about 15 % of registered remittances come from commercial banks, and 48% from Western Union institutions (or similar institution) and the remaining comes thorough other channels 36%.

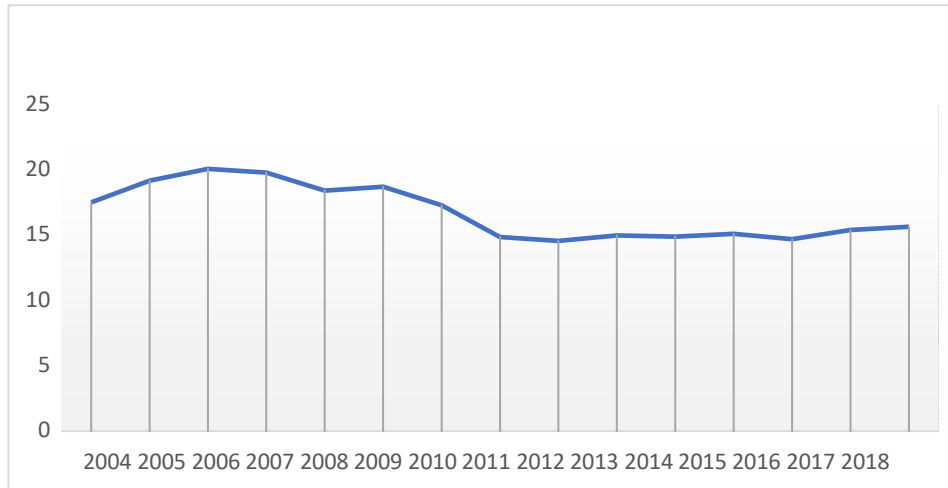
Table 2. Total remittances by country

Remittances by country in %															
Germany	Switzerland	Italy	Austria	Belgium	USA	Sweden	France	Norway	Canada	UK	Denmark	Finland	Netherlands	Slovenia	Other countries
36.4	22.5	5.0	3.8	2.6	6.2	2.9	3.3	3.2	1.3	3.1	0.6	0.5	0.6	1.4	6.6
36.7	22.4	4.8	3.5	2.5	8.0	2.9	3.1	2.7	2.0	2.9	0.3	0.6	0.7	0.8	6.0
37.1	22.6	5.3	3.6	2.3	6.8	3.4	3.8	2.0	1.6	2.9	0.4	0.7	0.7	1.1	5.7

40.4	21.7	4.9	4.1	2.5	6.7	3.4	4.3	1.9	1.4	2.3	0.3	0.8	0.6	0.5	4.2
39.3	22.5	4.4	3.8	2.6	7.0	3.4	4.1	1.9	1.6	2.8	0.4	0.8	0.6	0.5	4.6

Remittances represent a high percentage of GDP, and they go far beyond FDI and exports. The net inflow of foreign exchange through exchange operations represents an increase in the foreign exchange reserves of the central bank and commercial banks.

Graph 1. Remittances as percentage of GDP:



Sources: World Bank

Since a significant proportion of remittances comes to the country from informal channels, with part of the balance of payments statistics being recorded as foreign exchange inflows from foreign exchange transactions, their remittance portion is difficult to estimate. Based on the total number of our migrants it is believed their family members who have remained in the country as recipients of remittances could make between EUR 1. billion and EUR 1.2 billion a year. The highest amount of remittances come from Germany, Switzerland, Austria, and the USA.

ECONOMIC CONDITION FOR POSITIVE IMPACT ON THE DEVELOPMENT

Based on the above considerations, a picture can be drawn of the possibility of intervention on Macro and Microeconomic levels (Blion Verriere 94).

Macroeconomic measures and structural reforms in the countries of origin, although not thought of with priority reference to remittances, they can lead to building a more favorable context for transfer and efficient use of remittances. In this sense, the effects on remittances were positive, especially in the Asian countries following the adoption of active economic policies to support industrial production, the incorporation of migrations into planning macro, and the definition of specific measures to catalyze remittances for production purposes. Other measures include both the banking side and the programming of flows of emigrants with greater skills and greater potential in terms of saving capacity and, therefore, of transfer of remittances.

In the micro economic levels, the central issue is restructuring and modernization of the financial system both in the countries of arrival and in those of origin of the migratory flows. According to the analysis conducted by Blion e Verriere(1994) in France, he insists in favor of measures which create a network between French banks and countries of origin, a more significant factor for efficient use of remittances, tendency of the banking system towards immigrant customers, the creation of companies with guarantee capital granted by the savings of immigrants, increase access to credit in the countries of origin is considering important factor in reducing remittances due to increasing integration of emigrant to the host country.

DISCUSSION AND CONCLUSION

International migration, remittances, and investment may not always lead to the development of source countries, even though migration has a powerful potential to spur it. The positive impact of immigration on economic development can be seen, in a short period, when the increase of funds in the country leads to growth in consumption, rising living standards, and sometimes increasing investment. However, success in the short term may not lead to economic growth in the country. The growth of inflow may not lead to an increase in investment, and if used only to increase consumption, it may lead to a rise in inflation. Migration can be an incentive, but whether it will lead to economic growth depends on the ability of the source countries to manage it effectively. Effective migration policies must be based on their prudent and effective management and cooperation between source and host countries.

- Both forms of foreign exchange inflow contribute to poverty reduction and thus also isolate the country from the effects of market volatilities, especially in the period of transition.
- In theory, the adverse effects of remittance could be avoided, by adjusting the monetary policy and wage policies, keeping both of them under control correcting them for effects in the foreign exchange and labor markets.
- The adverse macroeconomic effects of remittances are based on moral hazard for governments since remittances are a significant source of foreign exchange for many countries, whom economic policy would be subjected to high pressure, this means that, under the influence of remittances, governments tend to ignore imbalances in the economy and avoid politically necessary measures to remedy them. The predictability of remittances, create the comfort to governments that remittances will continue to isolate the domestic economy from the negative consequences in the world economy, leading the country to even greater dependence on them.
- It is necessary to better differentiate the short-term from the long-term effects of remittances in the markets regarding the factors of production, especially labor. The short-term effects include the effects on the labor cost of labor exporting countries in terms of growth based on a decrease in labor supply, and labor importing countries in the opposite sense, as well as impacts on the structure of labor-intensive investments in labor-importing countries and vice versa. In addition, the development of entrepreneurship and self-employment, long-term effects would include those arising from such changes in the structure of investment, the price of labor in both groups of countries, and they would also be the opposite.
- It is significant for source country to reduce the costs of remittance transfers and the use of its informal forms, encourage the placement of remittances in productive investments, as well as sterilize their monetary effects. Also, a more precise analysis of the macroeconomic effects of remittances is needed.

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International Risk Analysis Based on The Portfolio Diversification: The Case of Prague Stock Exchange

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Abstract. Stock exchanges are constantly prone to instability caused by asset bubbles. Risk level within the stock exchanges stands as the main concern for the financial investors. Stock prices are influenced by the choices completed on the domestic and international environment. The study intends to measure the risk level of the Prague Stock Exchange (PSE) from the internal risk perspectives. Portfolio diversification formula has been implemented to obtain the risk level of the PSE from 2000 till 2017. Stock prices and the trade volume of the listed companies in the PSE were collected from the Thomson Reuters Eikon database. PSE has been considered as a portfolio based on the number of listed companies on the respective years. The results confirm that financial investors in the PSE would be compensated for the risk exposure. Diversification risk and weighted average returns from 2000 till 2017 were almost moving identically. The results indicate that PSE was influenced from the last financial crises of 2008, confirmed from a decline in the weighted average returns and an increase in the diversification risk. The results of the study stand in line with the theoretical paradigms that increase in the number of stocks that reduces the diversification risk of the portfolio.

Keywords: risk level, portfolio diversification, Prague Stock Exchange, financial crises.

JEL Classification: G110, G120

Introduction

Stock exchanges are considered the most sophisticated construction of the capitalist system. Stock prices reflect the fundamental environment of the national and international economy. The crisis of 1929-1933 and the financial downturn of 2008 proved that the stock exchanges are an excellent financial indicator that shows symptoms of the sick economy. However, stock exchanges in the countries with centrally managed economy were considered as the symbol of the capitalist system. The history of the PSE dates back in 1871 where it experienced the biggest achievement in the sugar trade, becoming a fundamental market for the entire Austro-Hungarian Empire (PSE, 2017). PSE is not the most important institutional money injector for covering business ideas and the daily economic activities of the Czech enterprises. Banks keep the major share within the Czech financial system for financing the economy (CNB, 2015).

The efficiency of the stock exchanges indicates the financial situation of the company and the ultimate prospect of the national economy. Stock exchanges that do not comprise national and international events, are considered weak efficient form. Fama (1968a; 1968b) confirms

that when stock exchanges are strong efficient form, stock prices adjust toward equilibrium (intrinsic value). Moreover, Fama (1998) shows that in the long run, no one can realize excess returns within efficient stock exchanges. However, the intrinsic value of the company indicates expectations for future cash flows (Damodaran, 2012). However, Prague Stock Exchange is characterized by low trade volume and a small number of the listed companies (PSE, 2017). The inefficiency level of the Eastern stock exchanges generates space for the abnormal returns. Dragotă and Tilica (2014) on their study indicate that excess returns can be realized within eastern European stock exchanges when proper financial instruments are used. The study by Pošta (2008) with the data from 1995 till 2007, confirm that PSE stand within weak efficient form. Moreover, a series of studies conducted in different time intervals confirm weak efficiency within PSE (Smith, 2012; Stoica and Diaconasu, 2011; Dritsaki, 2011). Lack of efficiency within PSE indicates that stock prices were characterized by information asymmetry. Aliu et al. (2019) via using diversification techniques confirms that Budapest Stock Exchange contains the lowest risk, followed from Polish Stock Exchange and Bratislava Stock Exchange.

Integration within stock exchanges creates indications for diversification benefits. Higher integration among stock exchanges diminishes diversification opportunities for financial investors and the other way around. Linne (1998) confirms that positive co-integration exists among central European stock exchanges while no integration with western stock exchanges. In contrast, MacDonald (2001) shows that there exist long-run co-movements within central European stock exchanges and western European stock exchanges.

PSE is less volatile than stock exchanges of developed countries although it comprises higher risk exposure. Information transmission within the PSE is weak to impact stock price movements in real-time. Moreover, inefficiency imposed on the PSE stocks is an additional uncertainty for the financial investors, that prices do not reflect the intrinsic value of the listed companies. Voronkova (2004) studied the long run affect within eastern stock exchanges (Poland, Czech Republic, Hungary) and western stock exchanges (France, Germany, UK), the study confirmed the long-run relationship while fewer diversification benefits for the international investors. In contrast, the study conducted by Serwa and Bohl (2003) on the shock market spread between western countries (France, Portugal, Spain, Germany, UK, Greece) and eastern European countries (Poland, Czech Republic, Hungary, Russia) confirmed weak evidence on cross-market linkages and extensive space for international diversification.

Besides the speed of reflection within stock exchanges, diversification benefits are additional concerns for the financial investors. To the best knowledge, no studies were focused on the risk exposure of the stock exchanges based on portfolio techniques. The study attempts to measure the risk level of PSE based on the portfolio diversification perspectives. The work distinguishes itself from the previous studies on the following features: 1. Generates historical outlook on the diversification risk of the PSE, from 2000 till 2017 2. Use diversification methods for measuring the risk level of the stock exchanges 3. Provides indications to the financial investors if they were compensated for the risk exposure within the PSE.

The rest of the paper is structured as follows. The first part contains an introduction and brief description of the risks related to the PSE and eastern stock exchanges. The second indicates a literature review concerning portfolio diversification. Used methodology stands in the third part. Interpretation of results and conclusions are presented in the fourth and fifth parts.

Literature Review

Standard investment theories confirm that concentrating financial investments in one place, expose investors to higher risk. Diverse financial assets contain different risk level where stocks are considered as the riskiest financial instruments. The history of the portfolio performance has

proved that constructing an optimal portfolio stands on the talent of financial investors. PSE has a small number of listed companies, which creates less space for portfolio optimization. Harry Markowitz (1952, 1959), fashioned the way risk-averse investors optimize their portfolios. Also, Markowitz's theory is built under the assumption of efficient markets, which is not a viable proposition for non-efficient stock exchanges.

Risk is mainly linked with uncertainties that investors have for future economic outcomes. Portfolio risk is measured through the standard deviation of returns. Diversification benefits are influenced by numerous aspects, such as correlation coefficient within asset classes, weights concentration and return volatility. In contrast, stock exchanges are constrained with the existing number of stocks that do not allow portfolio arrangement based on the different asset classes. Portfolio risk is vastly influenced by the correlation coefficients within financial securities (Behr et al. 2013; Drake and Fabozzi, 2010; Medo et al. 2009). Financial assets can be highly correlated in the short run, but in the long run can move in opposite directions. The portfolio is organized from a diverse set of financial securities where investors tend to find less correlated financial assets. Correlation coefficient measures short-run dependency within asset classes while the co-integration method captures the long-run effect. Mohamad et al. (2006) consider that a well-diversified portfolio, in the long run, tends to diminish the risk exposure. However, the risk of individual financial securities is calculated by a linear relationship within market returns and individual security returns, named as beta coefficients (Chen, 2003; Tofallis, 2008). Aliu and Knapkova (2017) indicate the portfolios of assets tend to be more correlated during the crisis's periods. Moreover, Aliu et al. (2017) show that crisis of 2008 hardly influenced portfolios built from the automotive companies situated in the Czech Republic.

The number of securities is an additional risk element that influence portfolio performance. The small number of financial assets is likely to increase the correlation coefficient and risk level of the portfolio (DeMiguel et al. 2013). Studies conducted by Domian et al. (2007) confirm that portfolios with 50 stocks eliminate the completely unsystematic risk of the portfolio. In contrast, the work completed by (Brands and Gallagher, 2005; Surz and Price, 2000) confirms that a portfolio with five to sixteen stocks can achieve diversification benefits.

Financial investors tend to minimize controlled risk (unsystematic risk) while they are highly exposed from the market shocks (systematic risk). Olibe et al. 2007 confirm that systematic risk is beyond the ability of the financial managers to control them. In contrast, the study by Khan (2011) considers that investing not only within the national borders but also in the international stock exchanges, tend to reduce systematic risk of the portfolio. However, the financial crisis of 2008 proved that world stock exchanges are highly integrated which creates less space for international diversification. Initial signals that the stock exchanges of Germany, Japan, and US are highly integrated, dates back to the crisis of 1987 (Dwyer and Hafer, 1988; Eun and Shim, 1989; Jeon and Von Furtsenberg, 1990; Bertero and Mayer, 1990). Moreover, this crisis confirmed that spreading financial investments worldwide does not reduce systematic risk.

The originality of our work is linked with the implementation of the portfolio risk methods to the stock exchanges. Moreover, it is the first effort on measuring the risk of the Prague Stock exchange with the diversification techniques. However, previous scholars were mainly focused on detecting macro and firm-specific factors that affect stock price movements within the PSE.

Methodology and Data

The study aims to measure the risk level of PSE based on the portfolio risk analysis. Risk has been measured on the yearly basis standing of the companies listed within the PSE. Data have been collected from the Thomson Reuters Database (Eikon, 2019). Stock prices and trade volume as two inputs used within the formula were collected daily from January 2000 till

December 2017. The risk of the PSE is influenced by factors such as variance, the standard deviation of returns, weights based on the trade volume and correlation coefficient. Higher risk on PSE is imposed by higher variance, higher standard deviation, higher positive correlation, and higher concentration level. The correlation coefficient is measured from the daily stock prices of the listed companies. Weights are measured by the trade volume that each listed company has within the PSE. Standard deviation and variance are captured from daily price movements. Each year number of correlations is different based on the number of companies operating within the PSE. The year 2000 has been used as a benchmark (base year) for comparing the risk level of the other years.

The Markowitz (1952) formula has been used to measure the risk level of the Prague Stock exchange on the yearly basis:

$$\begin{aligned} \sigma^2 = & (w_1^2 * \sigma_1^2) + (w_2^2 * \sigma_2^2) + (w_3^2 * \sigma_3^2) + (w_4^2 * \sigma_4^2) + (w_5^2 * \sigma_5^2) + (w_6^2 * \sigma_6^2) + (w_7^2 * \sigma_7^2) \\ & + (w_8^2 * \sigma_8^2) + (w_9^2 * \sigma_9^2) + (w_{10}^2 * \sigma_{10}^2) + 2w_1w_22\sigma_1\sigma_2\varphi(1,2) \\ & + 2w_1w_32\sigma_1\sigma_3\varphi(1,3) + 2w_1w_42\sigma_1\sigma_4\varphi(1,4) + 2w_1w_52\sigma_1\sigma_5\varphi(1,5) \\ & + 2w_1w_62\sigma_1\sigma_6\varphi(1,6) + 2w_1w_72\sigma_1\sigma_7\varphi(1,7) + 2w_1w_82\sigma_1\sigma_8\varphi(1,8) \\ & + 2w_1w_92\sigma_1\sigma_9\varphi(1,9) + 2w_1w_{10}2\sigma_1\sigma_{10}\varphi(1,10) + 2w_2w_32\sigma_2\sigma_3\varphi(2,3) \\ & + 2w_2w_42\sigma_2\sigma_4\varphi(2,4) + 2w_3w_52\sigma_3\sigma_5\varphi(3,5) + 2w_3w_62\sigma_3\sigma_6\varphi(3,6) \\ & + 2w_3w_72\sigma_3\sigma_7\varphi(3,7) + 2w_3w_82\sigma_3\sigma_8\varphi(3,8) + \dots \\ & + 2w_{12}w_{13}2\sigma_{12}\sigma_{13}\varphi(12,13) \end{aligned}$$

Formula explanation: structure of the mathematical formula is built from: correlation coefficient between stocks of each company listed within the PSE $\varphi(i, j)$, the weights of each company based on trading volume (w), standard deviation of returns (σ), variance of returns (σ^2).

Generalized diversification risk formula stands as follows:

$$\sigma_k^2 = \sum_i^{nk} w_{ik}^2 \sigma_{ik}^2 + 2 \sum_i^{nk} \sum_{j<i}^{nk} w_{ik} w_{jk} \sigma_{jk} \rho_{ijk} \quad (1)$$

Formula explanation: σ_k^2 of the portfolio in the year k is computed on the sample of n_k companies. Index i indicates a company, j is an auxiliary index assuring that covariance is computed on distinct companies, ω represents the weight of each listed company in the stock index within the portfolio based on their trade volume, ω^2 represents weight in square, σ^2 -variance of returns (stock prices of individual listed companies in the PSE), σ stands for the standard deviation of returns (stock prices of the individual listed companies in the stock index) while $\varphi(i, j)$ shows the correlation coefficient within returns (stock prices of the individual listed companies in the PSE).

The mathematical formula was implemented from the following computer programs: Python 3.6.3 (version:0.21.0), Numpy (version:1.13.3), Jupiter Notebook (version:5.2.0). Generating the inputs of the risk level (σ^2) starts with splitting the tables that contain prices and trade volumes. The following matrix was used to generate the results:

$$U_{ij} = \begin{cases} a_{ij} & \text{for } i < j \\ 0 & \text{for } i \geq j \end{cases} \quad (2)$$

Where a_{ij} represents combinations (correlation) between companies i and j .

Results

The risk of the PSE has been measured from the portfolio diversification formula. Numerous factors influence diversification risk of the Prague Stock Exchange, such as: correlation coefficient, concentration of trade volume, variance and standard deviation of returns. Table 1 shows the main inputs used for the measuring diversification risk of the PSE. The number of combinations in Table 1 represent the combinations within listed companies from 2000 till 2017. The maximum combinations have been realized between 2016 and 2017 (78 combinations). Besides, an increase in the number of combinations is linked with the number of listed companies. Diversification risk (σ^2) was moving in the same line with the volatility of returns. From 2000 till 2004 risk level was increasing since the correlation coefficient has been rising. Moreover, the number of companies listed on the PSE was quite small from 2000 till 2004 between 5 and 6 companies. Trade volume was concentrated in five companies and stock volatility was increasing at the same speed with the risk level. Based on Figure 5, the highest volume of trading from 2000 till 2004 has been realized by CEZ CP equity (40% of trade volume).

Table 1. Key inputs for measuring diversification (σ^2) of the PSE.

Years	Nr. Of Comb	Nr. Of Comp.	Avg. Correl	Risk level (σ^2)	STD (σ)	PSE (Weighted average returns)
2000	10	5	0.29	100	100	-0.14
2001	10	5	0.24	164	127%	-0.06
2002	15	6	0.38	414	160%	0.08
2003	15	6	0.54	379	209%	0.14
2004	15	6	0.41	771	229%	0.18
2005	21	7	0.40	611	192%	0.14
2006	28	8	0.35	397	182%	0.03
2007	28	8	0.13	148	107%	-0.33
2008	36	9	0.70	326	108%	-0.64
2009	36	9	0.72	108	86%	0.11
2010	45	9	0.14	18	74%	0.04
2011	45	10	0.36	70	69%	-0.10
2012	45	10	0.11	13	44%	0.05
2013	55	10	-0.01	29	47%	-0.01
2014	55	11	-0.02	3	33%	-0.01
2015	66	12	-0.03	-432	50%	0.01
2016	78	13	0.02	556	143%	-0.01
2017	78	13	0.50	757	91%	0.11

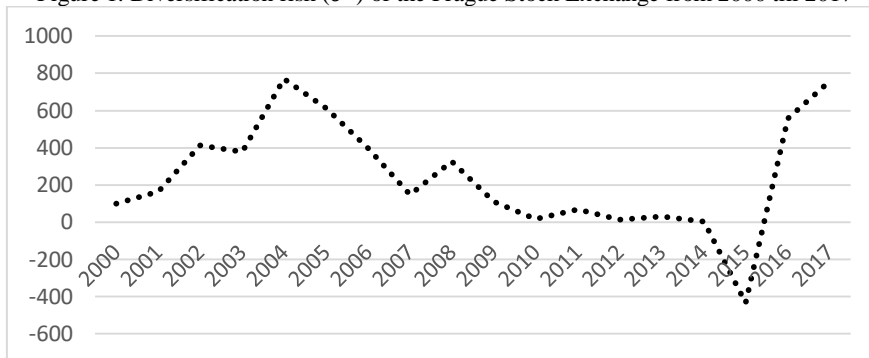
Source: Authors own calculation based on the Thomson Reuters Database.

Based on Figure 1, the decline in the diversification risk after 2004 is justified by more companies operating in the PSE. The concentration level was reduced after 2004 since more companies entered the PSE index. Average correlation coefficient within companies started to

decline and volatility of the PSE was reduced. Moreover, all these indicators made the diversification risk to decline after 2004.

Heights diversification benefits have been reached between 2010 and 2015. Figure 1 shows that risk increased faster after 2015, wherein the 2017 risk level was 7 times higher than the base year. During this period, stocks became more volatile, prices of the companies were highly correlated, and the trade volume was vastly concentrated. During 2016-2017 trade volume was concentrated mainly on the Moneta CP equity (60% of trade volume). The maximum risk level was reached in 2004 (7 times higher than the base year), while the minimum one in 2015 (4 times slower than the base year). The Figure 5 (in the appendix) shows the spread of correlation coefficients in the PSE (2000-2017). For 17 years has been realized 645 combinations (correlation coefficients). Besides, 445 combinations were positively ranged while 216 on the negatively ranged. It is quite clear that during this period PSE offered less space for diversification benefits. Moreover, most of the combinations were standing within $R_{ij}=0$ and $R_{ij}=+1$ which are not target investments for the financial investors.

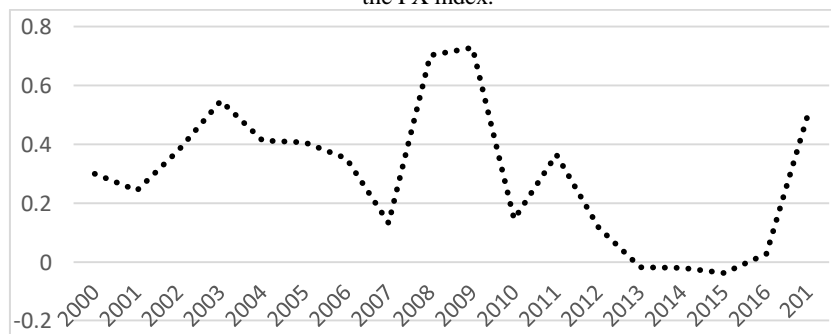
Figure 1. Diversification risk (σ^2) of the Prague Stock Exchange from 2000 till 2017



Source: Authors own elaboration based on the Thomson Reuters Database.

Figure 2 indicates an average correlation coefficient of the companies operating in the PSE from 2000 till 2017. The highest correlation coefficient is realized during the financial crisis of 2008-2009. Average correlation coefficient during the crisis period, was above $R_{ij}=+0.7$. Prices of the listed companies during this period were completely correlated. Average correlation coefficient started to decline after 2009 and reached the minimum level in 2015 ($R_{ij}=-0.04$).

Figure 2. Average correlation coefficient based on the combinations of the companies listed in the PX index.

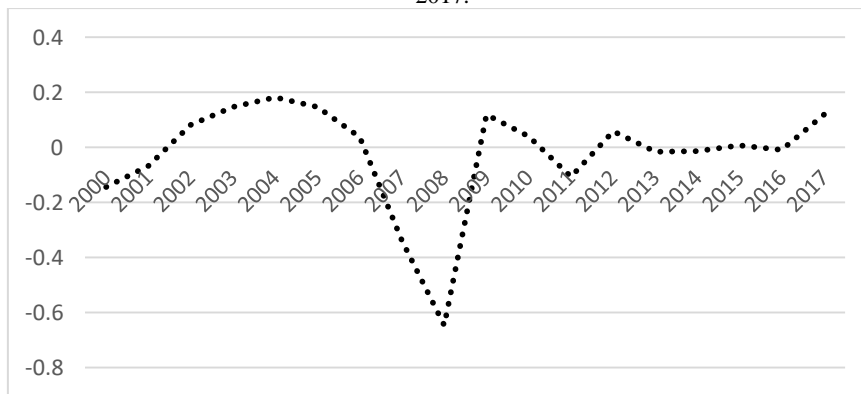


Source: Authors own elaboration based on the Thomson Reuters Database.

The financial crisis of 2008 which impacted the entire world financial and economic system had a huge influence on the PSE. Moreover, in 2009 was realized the highest average correlation coefficient ($R_{ij}=+0.72$). The maximum diversification benefits stand between 2013 and 2015 where the average correlation coefficient was negative. The lowest diversification benefits from the correlation perspective stand from 2002 till 2009.

Figure 3 indicates the weighted average returns of the PSE index from 2000 to 2017. From 2000 till 2006 PSE realized positive performance while from 2007 till 2009 PSE experienced a huge downturn in the weighted average returns. The recovery started in 2009 while in 2011 PSE experienced another negative downturn that corresponds with the European debt crisis. Figure 3 confirms that the crisis of 2008-2009 hardly affected the performance of the companies in the PSE. The decline in the performance of the companies during 2008, justifies high positive correlation in this period. Moreover, Figure 2 and Figure 3 indicates that average correlation and weighted average returns were moving in the same direction during the crisis.

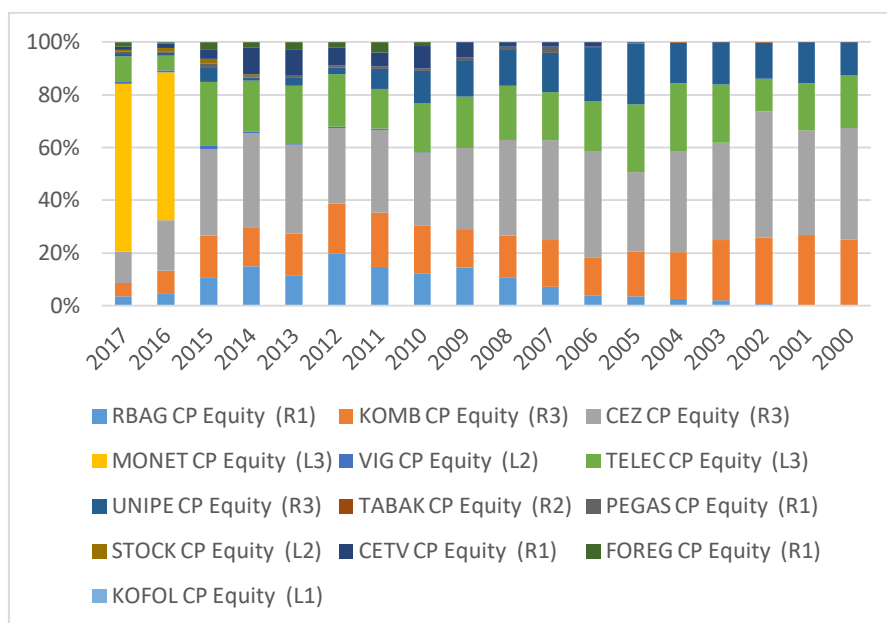
Figure 3. Weighted average returns on the PSE based on stock price movements, from 2000 till 2017.



Source: Authors own elaboration based on the Thomson Reuters Database.

Figure 4 indicates the spread of the trade volume within the PX index from 2000 to 2017. Concentration of the trade volume is one of the inputs that increase or lowers the diversification risk of the PSE. The highest concentration from 2000 till 2007 is focused on the CEZ CP equity while during the 2016-2017 trade volume was focused on Moneta CP equity.

Figure 4. Weight concentration based on the trade volume of the companies listed on the PSE from 2000 till 2017.



Source: Authors own elaboration based on the Thomson Reuters Database.

Conclusion

The Prague Stock Exchange is an important element within the Czech financial system. PSE does not stand as a significant component of injecting business ideas and daily operations of the Czech economy. The study measured the risk level of PSE with the portfolio diversification methods. Listed companies in PSE experienced an enormous downturn during the 2008 financial crisis. Maximum weighted average returns occurred during 2004 and 2005 that corresponds with the period when the Czech Republic joined the European Union. Weighted average returns from 2000 till 2017 were positively related with the diversification risk of the PSE. Besides, increase in the diversification risk was compensated with higher weighted average returns and vice versa.

The diversification risk followed a diverse pattern among years within the PSE index. The maximum diversification risk occurred during 2004 and 2005 while the minimum one from 2010 till 2015. Moreover, the period from 2010 to 2015 was characterized by the highest diversification benefits and lowest average correlation. The crisis of 2008 increased diversification risk caused mainly from the incline of the positive correlation within listed companies. The correlation coefficient proved that the performance of the companies was affected identically during the 2008 crisis. The results show that the correlation coefficient and diversification risk increased during 2008 even though the concentration level was reduced. Moreover, the 2008 crisis indicates that even if you control unsystematic risk, is hard to manage systematic risks that are coming from the market shocks.

The number of companies listed on the PSE were rising from five in 2000 to thirteen in 2017. A higher number of the companies within the portfolio reduced the average correlation coefficient and weights concentration. The result of the work shows that an increasing number of stocks in the portfolio reduces the correlation coefficient. Results stand in line with

theoretical portfolio concepts that the size of the portfolio influence diversification risk. Moreover, the work provides indications for the financial investors on the diversification benefits within the PSE index, from 2000 till 2017. Moreover, allocating portfolios within the PSE index based on the existing concentration level would compensate financial investors for the risk exposure.

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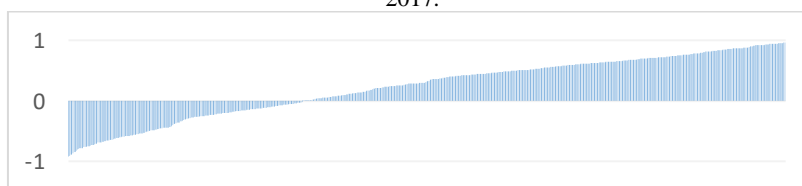
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Appendix:

Figure 5. The spread correlation coefficients within companies listed in the PSE from 2000 till 2017.



Source: Authors own elaboration based on the Thomson Reuters Database.

CONTROL ACTIVITY AND MONITORING AS COSO FRAMEWORK ELEMENTS AND THEIR IMPACT ON THE PERFORMANCE OF ENTITY: CASE STUDY REPUBLIC OF KOSOVO.

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Abstract. This paper aims to investigate the impact of two elements of the COSO framework such as Control activity and Monitoring on the performance of Institutions of the Republic of Kosovo. Therefore, public institutions and audit agencies in our country need to work more than ever before to promote law enforcement, fight against corruption, honesty, the efficient use of public funds and the increase of government competencies and responsibilities in order to increase the performance of the entity. We employ primary data due to lack of data by secondary data from other relevant institutions. The data set includes a sample of 400 internal auditors, covering the entire auditory region in the Republic of Kosovo. An IV-GMM model is implemented to measure the impact of two determinants in the public sector together with their metering instruments. Since the reliability of the data is proven, we think that this research has presented the current state of the institutions of the Republic of Kosovo and determining the main factors of the progress of this system.

The results show that the control activity, including Comprehensive control activity, Equality in control activities and Duration of control have 56% impact on entity performance. Moreover, the results show that Monitoring as a 5th element of the COSO framework, including the self-assessment questionnaire and verification in the field as measurement instruments of monitoring, in the case of the Republic of Kosovo has an impact 41 % in performance enhancement in public entities.

Keywords: COSO framework, Internal Audit, Kosovo.

Introduction

The concept of internal control of public finances has been developed by the European Commission during the 1990s and is now used to run and support candidate countries in reforming their public management and control system. The concept is based on international standards of internal auditing in the public sector and the best practice of EU countries. For this, improvements in public finance management systems appear to be essential for the proper implementation of EU policies and sustainable achievement of development objectives. However, the study is based on responses by the sample set of primary data. While trying to make a general involvement and given that data reliability is proven, we think that this research has presented the current situation of the institutions of the Republic of Kosovo and determined the main factors of the progress of this system. Many authors have tried to explain the impact of the COSO framework elements, especially for the Control activity and Monitoring. In our

research, we have included the measuring instruments used to achieve a realistic and factual result in time for the case of the Republic of Kosovo. For example, in the first dependent variables, we have the "Activity Control" with its instruments such as comprehensive control activity, equality in control activities, and duration of control. Meanwhile, at the second independent variable, we have "Monitoring" with measuring instruments such as the self-assessment questionnaire and verification in the field. Regarding the Activity Control, we have different authors who have researched this variable like (Badara, 2012;, Keasy & Wright,1997;, Tricker, 1994;, Hassan, 2014). As for the Monitoring, like Colbert & Bowen (1996). Hence, the research question is how does Activity Control and Monitoring affect the entity's performance?

To address this research question, we establish the following research hypotheses:

H₁: Activity control has an impact on the growth performance in the public sector;

H₂: Monitoring hasn't an impact on the performance of the public sector;

In order to check the validity of hypotheses, we used primary data through questionnaires where the sample is made up of 400 internal auditors in Republic of Kosovo from the public sector. In addition, we used the instrument variables GMM model, to measure the determinants of performance growth in Kosovo. This study and the results are in accordance with the previous literature from this area. The contribution of this study is threefold: First, this study will have scientific and practical significance for designing more effective policies to increase the efficiency of the work of auditors by identifying key variables. Secondly, the paper will provide evidence and information on the state of auditors in Kosovo. In order to take into consideration some econometrics problem, the study employs a technique IV-GMM model. The evidence provided by this study can be used by policy-makers, leaders, and decision-makers for fair and transparent budget allocation for these Institutions. Third, this research will also be an information tool for each worker and a ground for further research regarding the internal audit in Kosovo. To summarize the econometric result of the IV-GMM model should be summarized as follows: The results show that the activity control, including (comprehensive control activity, equality in control activities and duration of control) have 56% impact on entity performance. Moreover, the results show that Monitoring as a 5th element of the COSO framework, including (the self-assessment questionnaire and verification in the field), in the case of the Republic of Kosovo has an impact 41 % in performance enhancement in public entities. The paper is organized as follows: Section II- Presents the descriptive statistics, Section III-The econometrics modeling, Section IV- the econometrics results and Section V- the Conclusion.

Review of literature

The purpose of this topic it is to measure the impact of two elements of the COSO framework in the case of the Republic of Kosovo also aims to determine the relationship between factors that contribute to the effectiveness of IA works in promoting better transparency and integrity of public and management. This has become interesting topics for study by academics, scholars, and practitioners. Then, all the auditor's characteristics (skills, auditor independence, competencies, professionalism) and others are important because they affect the nature of the audit's assessment both in terms of performance, success, sustainability and auditing survival as a profession. There is a fairly large number of authors who have studied the correlation between these variables that impact the performance of the public sector. Internal Audit effectiveness plays a role in ensuring effective management in public sector Mgbame et al., (2013). Many authors use different methods for estimating the impact of independent variables on dependent variables, different studies have shown different results, which at times are even contradictory. Our research includes two factors that affect the performance growth of public money in Kosovo and six measuring instruments. Such as Activity control and Monitoring. According to

Walker et al., (2003) performance refers to the ability to work efficiently, profitable and respond to environmental and pressure opportunities. In their research audits McCrae & Vada (1997), recommend different ways to improve the subject's performance. That performance is measured by the fact of how effective is the enterprise in using resources to achieve its objectives. But in Kosovo, we do not yet have such research. Vacca, noted that "auditing is an important tool to improve transparency, efficiency and accountability in public administration" (Vacca, 2014: 3). While according to Richard et al., (2001) effectiveness represents the degree to which the internal auditor realizes the intended goals in advance. Van Gansberghe (2005), explains that the effectiveness of internal auditing in the public sector needs to be assessed by the extent to which it contributes to demonstrating efficiency and effectiveness as it sends the demand for improved internal audit and service.

- **Control Activity**

Control activities are policies and procedures that help ensure management directives. They help to take appropriate action to address risks that may hinder the achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and at all functions. Corporate governance is based on a set of attributes, including ensuring accountability for shareholders or stakeholders Keasey & Wright, (1997). Control activities assist and provide the actions needed to address the risks to achieving the objectives of the organization. In line with research conducted by Joseph (2016); Once the control environment and risk assessment within the entity are defined, the next step is control activities, which should not be overestimated by management. We also have Badara's (2012) research which claims to assess the role of internal auditors in ensuring effective financial control at the local government level. The research is based on primary data from 50 questionnaires, and the results of the audit were: Lack of internal staff and inaction by standards, also a low degree of auditor independence.

- **Monitoring**

Internal control systems need to be monitored - a process that assesses the quality of system performance over time. Internal control deficiencies identified through these monitoring activities should be reported upstream and corrective action should be taken to ensure continuous improvement of the Colbert & Bowen system (1996). When it comes to monitoring and evaluation in the case of Kosovo, it is one of the weakest stages of the internal control practice cycle. Monitoring as a process requires continuous and costly effort, expertise, skills, evaluation, and proper leadership management. Monitoring is an ongoing process and requires a qualified administration, as the information received is crucial for the unit / organization. A very important factor in the monitoring phase is information, because it directly affects the motivation of the entities to perform better, as well as to provide qualitative information for the purposes of monitoring and reporting. This is achieved through ongoing monitoring activities, separate assessments or a combination of both. Continuous monitoring is performed during operations. This includes regular management and other actions taken by staff in the performance of their duties. All of the above studies show the factors that affect the performance of the entity, given that different authors have used different models, but for a country like Kosovo, we still do not have one such research. This study will show at one and the same results, almost the same with the countries in the region.

Descriptive statistics

Command	Rezultat
<i>Breusch-Pagan / Cook-Weisberg test</i>	

<p>Comment: We have the presence of heteroscedasticity, for this fit the IV-GMM model. Because heteroscedasticity measures the variance of independent variables and if variances of these variables are different from each other, then there are elements of heteroscedasticity.</p> <p>Rule: $H_0 \neq 0$ – Homoscedasticity $H_1 = 0$ – Heteroscedasticity</p>	<p>chi2(1) = 3.52* Prob > chi2 = 0.0504 chi2(1) = 1034.66** Prob > chi2 = 0.0000</p>
<p>Sargan & Basman test</p> <p>Comment: The instruments used for the IV-GMM model are important and valuable to the model in question.</p> <p>Rule: $H_0 \neq 0$ – Important instrument $H_1 = 0$ – A little important instrument</p>	<p>Sargan, chi2(2)=6.36;(P=0.041)* Basman chi2(3)=5.22; (P=0.0028) Sargan, chi2(2) =0.5647;(p=0.0452)** Basman, chi2(3)=0.568;(p=0.0405)</p>
<p>Durbin-Wu-Hausman test</p> <p>Comment: The instruments in the model are exogenous.</p> <p>Rule: $H_0 = 0$-Exogenous $H_1 \neq 0$-Endogenous</p>	<p>Durbin, chi2(1)=2.13;p=0.0235)* Wu-Hausman F(1,332)=1.208(p=0.0229) Durbin, chi2(3)=2.56(p=0.0138)** Wu-Hausman F(1,184)=5.284,(p=0.02)</p>

* Activity Control, ** Monitoring;

Table:1, Source: Author's Calculation

From the table above, testing the above three tests, it is verified that the model used is correct and the results reflect a realistic situation in the Republic of Kosovo. As independent variables used to describe the dependent variable, in our case performance growth include the implementation of Activity Control and Monitoring like elements the COSO framework.

Econometrics Modelling

Following *Sargan (1958), Davidson & MacKinnon (1993) and Greene (2000)* where the econometric model for the performance growth is:

$$PG^1 = \beta_0 + \beta_1 Z_{1+n} + \beta_2 Z_n + \varepsilon_{PKM} \quad (1)$$

Vector β_0 contains the variable that is supposed to impact the PG, being it Control Activity and Monitoring. While ε_{PKM} is a probabilistic component. Also, we have measured the impact of independent variables along with their instruments in performance growth with the scale of 1 to 5, as a result of the first equation we use the IV-GMM model.

$$PG = \beta_0 + 0.56Z_{1+n} + 0.41Z_{1+2n} + \varepsilon_{PKM} \quad (2)$$

Comprehensive control activity (Z_1) = 0.24	The self-assessment questionnaire (Z_1) = 0.22
Equality in control activities (Z_2) = 0.32	Verification in the field (Z_2) = 0.25
Duration of control (Z_3) = 0.24	

Table 2, Source: Author's Calculation

¹ The performance growth

β_0 - Constant; β_1Z - Activity control, β_2Z - Monitoring; Vector Z_n –contains measuring instruments that are supposed to affect the work of internal control; While (ϵ_{PKM}) is a probabilistic constituent.

Econometrics result

In this section, we will see definitive results in increasing performance in the public sector. With the help of the IV-GMM model, we have achieved these results:

Source	SS	Df	MS
Model	313.0	5	62.60
Residual	19.46	396	0.058
Total	332.5	400	0.8717

Number of Ob = 400
F (1,344) = 1061.44
Prob>F = 0.0000
R-squared = 0.9415
Adj R-squared = 0.9406

Enhancing Public Sector Performance	Coef.	Std. Err	T	P> t
Activity control	0.564	0.1453	3.87	0.0021
Monitoring	0.411	0.1912	2.15	0.0120
_cons	0.134	0.7505	4.45	0.0500

Table 3, Source: Author's Calculation

Also, realizing the common regression from the sample (n) = 400, we see that all independent variables have an impact on the dependent variables. All independent variables together have an impact on the dependent variable of about 94%. With 95% confidence level and significance level (α) = 0.05 we can say that independent variables are within the permissibility limit. To verify the accuracy of the responses we have, we realized and testing data reliability (Cronbach Alpha), which in our case is a = 0, 77 for more details, can be seen the result as follows:

Reliability Statistics

Cronbach's Alpha	N of Items
.7714	2

Table 4, Source: Author's Calculation

If we look the resultant of effects ordered IV-GMM model, we see that we have the result of regression with these answers: From the results of independent variables together with the measuring instruments, we observe that in the correlation between these variables is 94%. An important role in these tests has and measuring instruments. How accurate are the measuring instruments, best shows the result from Cronbach's Alpha test with 77% confidence level. Also, to show that the model used (IV-GMM model) is correct and to measure the validity of the instruments, then we have performed three (3) types of tests for each independent variable like Breusch-Pagan test, Sargan & Baumann test, and Hausman test. While the overall impact of the independent variable in our case "Activity control" has an impact on the growth performance in the public sector by about 56% following these measuring instruments: "Comprehensive control activity", has an impact of about 0.24%, being followed by "Equality in control activities" with a 32% impact and "Duration of control" with 24%. Also, in according with the literature review as well the control environment, as defined by the organization's administration, defines the tone of an institution and influences the awareness of its employees Whittington & Pany, (2019).

Corporate governance represents the system by which controlled companies are run Cadbury's (2000). Control from the aspect of corporate governance includes notions of compliance, accountability, and transparency MacMillan .et al., (2004). Auditing affects the importance of reviewing the achievement of effective internal control Armor, (2001). On the other hand, Wallace & Kreutzfeldt, (1991) analyzed the control environment in different companies, as one of the elements of the COSO framework. And they concluded that the companies that paid attention to the control environment were more competitive, more regular, more profitable and more liquid. In their study, Sarens & Abdolmohammadi, (2011) confirmed that the characteristics of the control environment (eg, ethics development, level of awareness of the importance of control, and the existence of risk) are closely related to the role of the internal auditor and influence the scope of responsibilities for risk management. Abdo & Feghali, (2017) attempted to look at the impact of COSO on Lebanese firms. And they came to the conclusion that the COSO framework has a positive impact on internal control in public institutions. The sample consisted of 225 interviewers and the questions were aligned with the Liker scales. The control environment is the basis for all other components of internal control, which gives discipline and structure. It refers to the actions, policies, values, and styles of management that influence and set the tone of the day-to-day activities of organizations. For this in accordance with the revision of the literature and the evidence provided by our statistical data, we accept, Hypothesis 1: Activity control has an impact on the growth performance in the public sector. While the overall impact of the independent variable in our case "Monitoring" has an impact on the growth performance in the public sector by about 41%. Following these measuring instruments: "The self-assessment questionnaire ", has an impact of about 22%, being followed by "Verification in the field " with a 25%. Also, in accord with the literature review like as according to Radcliffe, (1999), risk assessment with the goal of minimizing and controlling also helps the organization to reduce potential losses while improving the quality of an organization's operations and services. While Kaya, (2017) has aimed at analyzing the degree and effectiveness of internal control as well as ERM and exploring their value creation link. It came to the conclusion that, in addition, the Integrated monitoring framework is a feasible and appropriate framework for designing, implementing, conducting and evaluating the effectiveness of internal control and reporting. Theofanis et al. (2011) emphasize that internal audit is vital inefficient risk management and consequently in business survival successfully. For this in accordance with the revision of the literature and the evidence provided by our statistical data, we rejected, Hypothesis 2: Monitoring hasn't an impact on the performance of the public sector an accepted alternative hypothesis. All this is achieved by maintaining the confidence interval at 95%.

Conclusions

The main purpose of this paperwork is to provide empirical research of the COSO framework and its elements in the case of Kosovo. The IV-GMM model was used to evaluate relationships

between performance enhancement and the COSO framework. The data survey of 400 employees as auditors, in the public sector, is used to investigate the work efficiency. Due to the lack of data from the Kosovo Agency of Statistics or other relevant institutions, we conducted a survey that included a questionnaire with employees and included almost the entire country. The econometric result of the IV-GMM model should be summarized as follows: The 3th element of the COSO framework called "Control activity" has an impact on in-creasing public sector performance by about 56% in the Republic of Kosovo. Whereas in terms of measuring instruments, the " Equality in control activities " in the workplace has a higher impact, followed by " Duration of control ". For this we have accepted the first hypothesis. While in relation to the second hypothesis that "Monitoring" doesn't have impact in performance of the entity, the results show that in the case of the Republic of Kosovo in the public sector this indicator is not sufficiently high. It has an impact of only 41% on the overall performance of the entity. And although we have ac-cepted the second hypothesis in our case, we recommend that the competent au-thorities in this field should work harder. These results can be useful for policies in the public sector and for employers at large because the research can be an information tool for each worker and a ground for further research regarding the audit in Kosovo.

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Cost analysis on cost of consumers in terms of small markets. (Case study, Vlora).

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Abstract. This article deals with the observed changes in consumer spending in a region of Albania following the fall in market sales prices. The paper focuses on the statistical study of a local consumer system. In the meantime, we are striving for greater recognition. Respectively in a more generalized and mathematical perspective, the generalized customer or consumer is the user and consumer as the behavioral agent. The purpose of the paper is to identify the best or most appropriate model for the behavioral profile according to the profile determined by the inductive analysis of the variables themselves. For this reason, part of the purpose of the paper is to construct the behavioral profile ie what are the most characteristic variables and the factor group profile. In the region where the study was conducted, it has been found that the price reductions drive costs, which in turn shows that the consumer behaves as a minimalist buyer, in response to high prices rather than budgetary constraints.

This supports the view that consumers in this region are primarily rational consumers. It was then found that the most pronounced effect relates to average consumer spending suggesting marketing activity referring to this category of consumers.

Keywords: Probit model,behavior al models,factor analysis.

Introduction

Consumer behavior is an opinion formation process which is difficult to be studied quantitatively and rather complex as evidenced in [1]. In a formal approach they are assumed to act rationally in their decision making by optimizing some utility function, but this last cannot be measured directly. Meanwhile the assumption of rationality does not hold always which is clarified by behavioral theories as discussed in [2], [3] etc. Behavior seems to be too complex to be studied and analyzed by deterministic methods. Even so, researchers and scholars have outdone this difficulty by using statistical tools and probabilities facilitating modeling in this case as presented in many textbooks. Mixed calculation using econometric optimization and network dynamics have been developed as for example in [4] and many other applications. Generally, the consumer’s decision making process in buying is complex but econometrically known and measurable. Aside of general models and regressions, practical calculation have demonstrated their capacities to describe consumer behavior in specific systems as in [5], [6] and many others. In our recent work [7] we applied a logistic regression to identify the consumer profile in a specific area, the factors affecting their behavior and other parameters characterizing the system of consumer attitudes and activities. This study is intended to evaluate a marketing aspect as discounts for example, by specifically considering the nature of

the state of the system, the possible presence of not-apparent factors as latent effects or hidden variables etc.

The study of concrete economic environment unavoidably face challenges to the scholars. Standard questionnaires that aims gathering information from social or economic mediums include different types of variables, non-numerical responses, questionable answers, missing or incomplete records etc. Usually the inquiries might be organized and held in different moment of times. Finally they must be included in modeling say linear multivariate functions

$$Y = A * X + \varepsilon; \quad (a)$$

$$Y = W * Z + u \equiv W * (\Gamma * X + v) + u \quad (b)$$

1.1

or in the logistic type relationship

$$f(z) = \frac{1}{1 + \exp\left(-\alpha + \sum_{i=1}^n \beta_i x_i\right)}$$

1.2

where X, are factor variables or predictors and Y are responses variable or indicators whereas u,v,ε are errors and A,W, Γ etc are matrices. Versions 1.1.(a) are the simplest relationship in the models. In the cases 1.1 a regression procedure leads to the calculation of the matrices of coefficients which explain the weight of each variable (i) in responses (j). In the case of 1.1.(b) the problem includes the calculation of the so called latent variable (Z) adding to the coefficients matrices W and Γ. The belongs to structural equation or SEM systems, discussed in [6] , [7] and used largely in sociology [10], econometrics [11], explanatory medicine etc. In all those cases, some necessary statistical assumption should be fulfilled. It happen that in real systems many of them does not hold. Therefore quantitative methods needs for more analysis as seen in the reference [9] and others related to this aspects. In this case, some approximate methods are suggested and elaborated as in [10] or in a more dedicated case in time series in [12]. However, in general it depends on the concrete properties of the data series. In general, preparatory analysis or data elaboration is needed. The second problem is related to the tangible set of the variables included in the models. Again, standard models belong to the standard systems and in real ones there is a considerable difference. But by carefully using simple analytic tools it is possible to avoid the complexity of the model, to control extra errors added during calculation phase and improve overall calculation. In our recent research in the analysis of consumer behavior in district of Vlora, we considered such specifics as an important step [1], [2] etc. The last issue that can affect directly the quality of the modeling is the representable property of the data gathered from measurement related to the sampling process. In practice an appropriate size of the sample might not be accessible [3] or it is difficult to be stated. For numerical continuous and normally distributed random variable , the working formula is

$$n = Z^2 \frac{\frac{p(1-p)}{2} \text{Margin of Error}}{\frac{z^2 p(1-p)}{e^2}} = \frac{z^2 p(1-p)}{1 + \frac{z^2 p(1-p)}{e^2 N}}$$

where z is the normalized variable $z = \frac{x - \langle x \rangle}{\sigma(\langle x \rangle)}$, Z is the critical value or level α, N is the

population size and e is the level of tolerance adapted and p is the sample proportion. But it is difficult to be estimated if we consider categorical variables. In this case we proposed to choose a sample size according to numerical variables and accordingly to use auxiliary statistical tools to identify the error injected in the system by such approach. Next consider that in theoretical

approaches one assumes stationary for the system states, homogeneity, formal relationship etc. Detailed analysis on those aspects are provided in many articles-guides and statistical books as [3] or [4]. In this case the problems could be overcome if we adjusted correctly the sample size or adopt a suitable sampling method. In the case where the above step is not suitable or even impossible, the factorial and descriptive analyses could be used as recommended in standard procedures to manage the sampling error, [5] and general consideration [13].

Verifying statistical meaning to the variables

The data set of our study consists in some general properties of buyers (consumers) that are expected to affect the response behavior which consists in the way (s)he does his expenses. They look like the shortened Table 1. By first approach we realized the measurement by using standard models and methods over education, family size, gender, employment state etc., that are factor variables whereas quantities of expenses for specific items are response variables. Initially the formula 1.1., 1.2 were adapted and applied using those data as pilot modeling. The results were unsatisfactory. Logistic model 1.2 doesn't work at all if using response variables as taken from the system. formula 1.2 looks unable to make a relationship between some conditions of the buyer and his expense in goods (i). To check if the model fails or variables were un-appropriate we explored the results of the logistic model 1.2 by removing randomly individuals in the sampling data and next limiting the model in different categories of expenses. It resulted that by changing individuals, the outcome of the model does not change abruptly whereas by referring different expenses (y) the model 1.2 gave contradictory results. Next we observe that the distributions of values of expenses (y) were highly irregular and no shape was unidentified, contrary, the relative values if the expenses showed smooth distribution.

General Information: factor variables		Expenses: Response variables			Complementary data	
Family type	Education	Other variable	Foods [Lek/monthly]	Other Expenses in the monthly bounded	Relationship with household head	Other properties
2	Professional/College;	..	60000	5000	Head of family	...
3	University	...	50000	30000

To normalize this, we proposed to use statistical counterpart of some response variables introducing the relative weight of particular expenses.

$$X \rightarrow \frac{X_i}{\sum_{i=1}^{NumberVariables} X_i} \equiv \frac{Specified_Expense}{Total_Expenses}$$

1.3

Secondly we tried to obtain the most stationary variable in y. It resulted that the grouped expenses showed more stable distributions in the bases of analysis [9]. Usually the stationary of the distribution is related to the stationary of the state and statistically we can use each on in the same context. In [10] it has been proposed a very interesting functional form that report directly the stationary of the distribution by the parameter q:

$$p(x) = \frac{1}{Z} [(1 + \beta(1-q)(x-\mu)^2)]^{\frac{1}{1-q}} = \frac{1}{Z} \left[1 + \frac{(1-q)}{5-3q} \left(\frac{x-\mu}{\sigma} \right)^2 \right]^{\frac{1}{1-q}} \quad 1.4$$

$$1 \leq q \leq \frac{5}{3}$$

q-Gaussians are in stationary state if $1 \leq q \leq \frac{5}{3}$ and converge to the Gaussians if $q \rightarrow 1$ as detailed in [9]. In fact we observe that among many candidates the q-Gaussian and lognormal distribution fits the data better than other distributions tested. In addition and to count for mixed multiplicative properties as usually expected for complex dynamics, we use q-lognormal as detailed theoretically in the reference [4]

$$p(x) = \alpha \frac{1}{x^q} \left[\left(1 - \beta(1-q) \left(\left(\frac{x^{1-q} - 1}{1-q} \right)^{1-q} - \mu \right) \right)^2 \right]^{\frac{1}{1-q}}$$

The distribution should be identified by a fully optimization procedure. The key element in picturing distribution is the optimization of the bin size based on Fredman-Diaconis algorithm. In Figure 1., the near to power law distribution for expenses in alcoholic drinks for example tagged it as an un-appropriate variable. Grouping them in four expenses type respectively {basic-vital, necessary, quality-life luxury} expenses resulted in variables with stationary distribution identified in their q partner below 5/3.

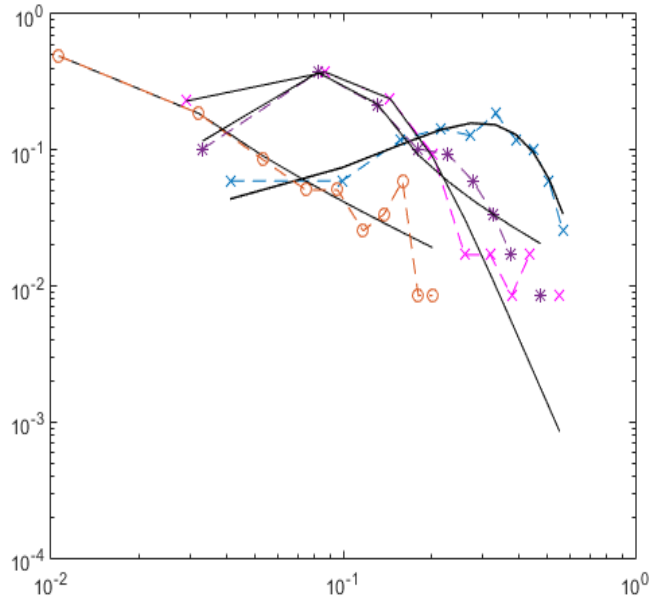


Figure 1: Logarithmic view of distributions for some variables .

Table 1: Variables of the model

Variable		Q-Parameter	Mean	R2	Stationary : Q<5/3
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Foods And Non-Alcoholic	P6	2.3193	0.1727	0.9817	FALSE
Alcoholic Ad Cigarettes	P7	2.9968	0.0582	0.9218	FALSE
Clothes	P8	1.9457	0.0884	0.9941	FALSE
Subsistence	P9	1.4498	0.062	0.9992	TRUE
Health	P 10	1.646	0.0069	0.9999	TRUE
Transport	P11	1.9654	0.0169	0.9982	FALSE
Communication	P12	2.1387	0.0932	0.999	FALSE
Entrainments And Child Care	P13	1.7068	0.0207	0.9989	FALSE
Education	P 14	2.3654	0	0.9942	FALSE
Luxury	P 15	1.7264	0.0208	0.9986	FALSE
Services	P 16	2.6702	0.0452	0.9996	FALSE
All Expenses		1.6707	0.1283	0.9987	FALSE

Estimation of the utility and latent variables.

In the analysis of the effect of sales and discounts we proposed to analyze two scenarios: a hidden influences is assumed to be present or the outcome of the behavior is driven from a latent utility. In the first stage we perform factorial analysis to observe any possible reduction in the indicators, analyses as in [15]. We obtain that the number of latent variables could be larger than 2 but 95% of variance can be expressed in the tow first hidden components. Basing on the in the non-stationary of the state and the fact that after sales the state become more relaxed, we hypothesized that another hidden variable affect the purchasing behavior and checked it using MIMIC model. In this case we consider predictors variables in $X=[Gender, Age, Group, Average, Visits Average, Expenses Phone, Contact, Regular, Client]$, $Y=[Average Expenses after sales, Average Visits after Sales]$. Performing full structural model calculation under the assumption of an extra variable we obtain that for this choice, a single hidden variable will explain good the intermediary relationship between Causes X and consequences Y.

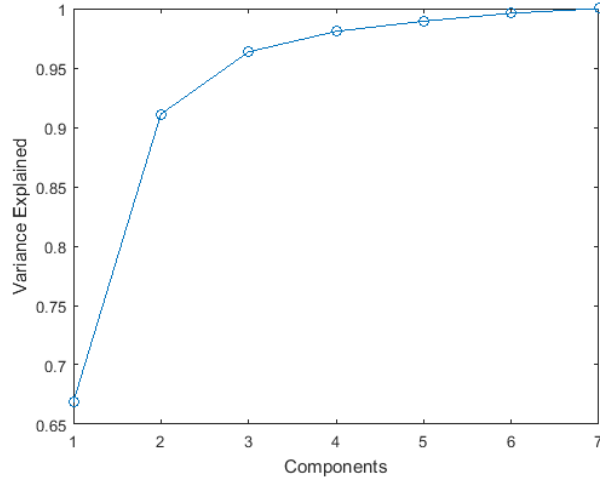


Figure 2: Identification of hidden or latent components
 In table 2 we show parameter of linear equation $LV \sim Parameters * Factors$

Table 1: Parameters of hidden variables

	Parameter Matrix A			Parameter Matrix B	
Factors	Two HV		One H.V	Observed	1 HV-Mode
Free parameter	0.0046	0.526	0.0046	SpendingAfterSales	-7.9368
Gender	1.0743	1.3994	1.0743	VisitsAftersales	141.482
AgeGroup	-0.2782	83.5887	-0.2782		
AverageVisits	-1.8217	-3.5924	-1.8217		
Average Spending	-0.3789	-0.4879	-0.3789		
RegularClient	0.0363	0.1666	0.0363		
TelephoneContact	141.482	0.0798	141.482		

Interestingly, the factors have different effects on average spending after sales and average visits. As seen in the Table 2, the parameters remain unchanged (up to 3 digits) in modeling with one and two hidden variable and therefore we restrict the model with one single hidden or latent variable. In this case the hidden variable could act as an interconnection between causes and outcomes. The reduction in the number of latent variables is plausible for the model because in this case we can use the utility as the intermediate variable ore stage in the consumer decision making. So far, we assume that the overall decision of the consumer to increase the expenses after discounts have been applied could be interpreted by a continues utility function

$$u_j = \beta_o + \sum_{i=1}^n \beta_i x_{i,j} \quad (1.5)$$

where j is the individual observation and i are variables. The response will be a dichotomous as follows

$$P(Y = y_i | X) = P(a_{i-1} \leq u < a_i | X) \quad (1.6)$$

and for our binary output there is only one point to be considered say the moment where the continuous probability take the value 0.5.

Firstly we consider the attractiveness of the discounts, so we examine increasing number of market visits after discounts were applied. Here we use chose as dependent variables the positive change in the average number of visits after discount; and for independent factors the gender of buyer, the age group and contacts by calls to announce the offers. By applying probit regression we observe that a good fit is obtained and the marginal errors are normally distributed as seen in the figure (3). The coefficients have been confirmed as different from zero within 90% confidence, whereas the free coefficient seems to not pass the test

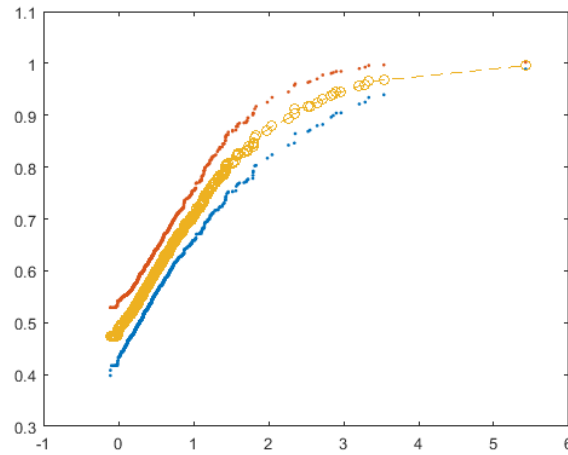


Figure 3: Probit regression for Increasing Expenditures after discounts

Therefore the utility of the attractiveness is obtained by probit regression as follows

$$Y^* = \{0.0698\} - 0.1367 * \text{GenderBuyer} + 0.0962 * \text{Age Group} + 0.0002 * \text{PhoneContact} + \varepsilon \quad (1.7)$$

From relation (1.5) we observe that the gender of buyers (F=1,M=2) is mostly decisive in the increasing number of visits in the market after sales, and usually male buyers are not more frequent in the market after discounts have been applied. The phone contact has a slight effect on it. The age group has comparable role to the gender of consumer. In Figure 4 is seen that the probability for more visits in the market is high for almost all the values of utility function (1.7) and only few values are less than 0.5. In this sense, for nearly all consumers' specifics, the marketing strategy (prices discounts) has been found attractive for peoples that respond by increasing the number visits in the market. Thus is the intermediate change on the consumer behavior. In the second stage, the final behavior is considered.

Now the response variable is the change in expenditure measured by the natural function "is greater than" e.g., in absence of the marketing stimulus. It is possible that the buyer, under budget constraint, would respond to the discount spending the same quantity of money and therefore just buying some more goods, so this variable is meaningful and not trivially known. Here the independent variables include even average expenditures before sales and registered cards consumer. The first is expected to give information about which consumer category has increased the expenses, and the second could inform the role of being a formal consumer. Performing probit regression we obtain the utility function

$$y^* = -0.916 + 0.093 * C.Gender - (0.0133 * C.AgeGroup) + 0.0199 * AverageVisit + 0.854 * AverageExpenses - 0.136 * CardHolder + (0.0013 * Call) + 0.0396 * PeriodOpen \quad (1.8)$$

In (1.8), the statistical significance is acceptable for all variables except Tel, Call and Age.Group (the p.Value is high, ~0.3) so we put it in parentheses. Notice that their coefficients are small and so this does not affect the estimation of the utility so we kept them in the equation (1.8). Now we make use of the binary outcome expression using continuous probability. The switching value for utility is

$$P(ExpencesAfter > ExpencesBeforeX) = P(u \geq 0.08) \quad (1.9)$$

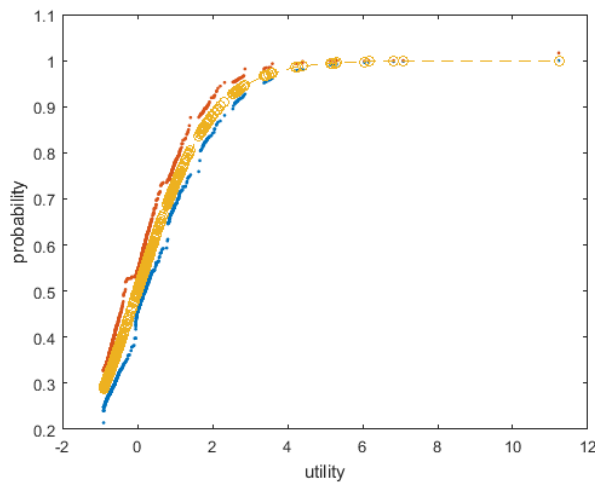


Figure 4: Full model probit regression

By using equation (1.7) we can realized conditions that (1.8) is fulfilled and therefore it is possible to forecast what happen with purchasing behavior for an individual with values

$$Consumer\{i\} \equiv n_1 n_2 \dots n_7 \quad (1.10)$$

This is done by just putting values (1.9) in equation (1.8). We observe that rational or cognitive issues weight more in the utility value as seen from the coefficients for female byer that usually behave as major house holdings buyers, common average expenses that indicate the level of budget in the purpose, the time of effectiveness for sales. The expected psychic parameters as telephone call have less effect in shifting the utility. By randomly selecting consumer (predictor) values according to the population considered, we see that the value of (1.8) is usually reached, therefore the conclusion herein seem to be a global tendency in the area studied. Remember that those findings are general characteristics because the distribution in this state has been acknowledged as being stationary.

Conclusions

By combination of common analytic tools we have analyzed the behavior of the consumer in a market environment which can be classified as small, heterogeneous and dynamic system. In such particular situation usually common individual techniques can produce fuzzy results and

inappropriate findings. Practically herein we concluded that econometric modeling would result a successful analysis for small and heterogonous market mediums if assisted by some statistical tools. Before modeling or applying a known econometric model it is very helpful to analyze the state of the variables and choosing among them most stationary ones. Next, the factorial analysis improve significantly the process of reduction of the dimension of the system by offering a data oriented method to obtain principal factors or ‘basic variables’ in the system rather appointing them subjectively or using standard modeling. Herein we used statistical interpretation of the information gathered from direct questionnaires to produce meaningful units for variables, and thereafter we used in those last series in the models. Finally, using simple statistical fit from a minimal or pilot model, we arrived in a deduction which match better to the problem under examination. As result, by combination such simple techniques we were able to identify the most characteristic properties of the consumer behavior or merely the profile of the averaged consumer. It resulted that the income types, the employment, family size, education level age of the householder are the most important variables that define the consumer profile in this case. In econometric approach, the marketing should be based on those most characteristic elements when dealing on the attraction of the consumers. Therefore, analyses of the market, measurements of quantities and statistical study for this system should be better performed on the after-discounts states. Particularly we conclude that the consumer reaction to the discounts was characterized by the increase of spending itself, not only the volumes of items purchased. We identified the load of each factor in the increase of expenditures and acknowledge the utility form in this case.

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Entrepreneurial Marketing Paradigm-Why it is important for Kosovar Entrepreneurs?

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Abstract. Entrepreneurial marketing is a relatively new concept that has emerged at the intersection of the two very extensively researched fields such as marketing and entrepreneurship. It is considered as a new marketing paradigm that is suitable especially for small and medium-sized enterprises who due to their limited financial and human resources are unable to perform the traditional marketing principles. Having in mind that this research field has not yet sufficiently penetrated in the Balkans, this paper will provide some insight into this relatively new concept that has gained the attention of many researchers from all over the world. This paper will explain what is entrepreneurial marketing as well as when, how and why this research field has emerged? Further, the paper will stress the need for entrepreneurial marketing, its characteristics as well as the main differences between entrepreneurial and traditional marketing. This study will also underline the importance of this new marketing paradigm for the success of small and medium-sized enterprises. At the end of the paper, the recommendations for the use of entrepreneurial marketing by SMEs as well as the proposal for future research directions in this field will be presented.

Keywords: Entrepreneurial Marketing, SMEs, entrepreneurship, traditional marketing, SME Marketing.

Introduction

Being aware that businesses today operate in an uncertain environment full of challenges characterized by globalization, strong competition, and rapid technology development, it is clear that all of these changes affect the way companies do business, especially small and medium-sized enterprises which in the absence of sufficient resources are forced to find alternative forms of marketing in order to maintain their market competitiveness.

This new field of study created on the intersection of marketing and entrepreneurship is relatively new and dates back to 1982. Since then even though many scholars have made efforts to find a unique EM definition there is still no universal agreement about it. Entrepreneurial marketing is characterized by seven dimensions such as; proactiveness, innovativeness, customer intensity, risk-taking, opportunity focus, resource leveraging and value creation (Hisrich and Ramadani, 2017; Morris et al., 2002), while the most common forms of entrepreneurial marketing are guerrilla marketing, buzz marketing, ambush marketing and viral marketing (Hisrich and Ramadani, 2018). All these dimensions and forms of entrepreneurial marketing are considered very important for SMEs because it is found that there is a strong relationship between entrepreneurial marketing and SME performance (Sadiku-Dushi et al., 2019).

Despite the fact that this field has ignited the curiosity of many researchers worldwide, there is a scarcity of the studies on the entrepreneurial marketing in Kosovo. Having in mind that SMEs

in Kosovo represent 99% of all registered companies and seeing that empirical studies show that entrepreneurial marketing has a positive impact on the performance of small and medium-sized enterprises, the aim of this study is to shed some light on this new field of study and therefore present this new marketing paradigm that can help companies to increase their performance, and to give an answer the question: **Why the entrepreneurial marketing it is important for Kosovar Entrepreneurs?** This question will be answered by highlighting the significance of this new marketing paradigm for SMEs.

The main contribution of this paper is *firstly* in increasing the knowledge about entrepreneurial marketing in general. *Secondly*, this study will highlight the importance of this marketing paradigm for Kosovar SMEs. And, *thirdly* this study may also act as the informational tool that can help other scholars and researchers who may be interested in deepening the research in this field.

Literature review

What is Entrepreneurial marketing

At the point when the number of entrepreneurial companies has grown, researchers in the field of marketing have noticed that there is a difference in a way that entrepreneurs do marketing comparing to larger companies. (Carson and Gilmore, 2000; Morrish et al., 2010). Noticing this difference scholars started to investigate this new forthcoming field which later will be known as “entrepreneurial marketing” that had emerged on the intersection between the marketing and entrepreneurship disciplines (Hills et al., 2010). By observing the connection between marketing and entrepreneurship it was realized that entrepreneurs are implicated in many activities that are vital to marketing theory (Collinson and Shaw, 2001). They have addressed the linkage that exists between these two fields and have proposed that entrepreneurial marketing represents the crossing point of these two fields (Morrish et al., 2010). The first researchers that have linked these two fields were Murray and Tyebjee in the 1980s (Hills and Hultman, 2011). The presence of similarities between the field of marketing and entrepreneurship suggests that research models and processes that are suitable to the marketing discipline can be applied and adapted to the field of entrepreneurship, and conversely (Carson and Coviello, 1996). Therefore, when researchers begun to stress the complementary roles of those two fields in a firm and especially in SMEs, marketing and entrepreneurship interface has become a rich focus for research (Hills et al., 2008).

The concept of entrepreneurial marketing was for the first time introduced in 1982 at a conference sponsored by American Marketing Association and the International Council for Small Business at University of Illinois in Chicago (Hills et al., 2008). This conference was a starting point that played role in increasing the interest in this newborn field. This conference was later followed by the first entrepreneurship and marketing symposium organized in 1986 (Hills et al., 2010). The symposium was shown to be very successful and it is still being organized every year. The topic of entrepreneurial marketing entered in Europe in 1995, whereas in 2003 for the first time this topic has crossed the Anglo-American borders by the organization of a symposium related to marketing, entrepreneurship, and innovation in Karlsruhe, Germany (Ionita, 2012). Even though new field of study entrepreneurial marketing scholars from 1999 and onwards are given the opportunity to publish their papers in different journals covering this field such as; Journal of Research in Marketing and Entrepreneurship, Journal of Marketing Theory and Practice, International Journal of Technology Marketing, European Journal of Marketing, Marketing Education Review and Management Decision, Journal of Marketing: Theory and Practice (Hills et al., 2010), as well as International Journal of Entrepreneurship and Innovation Management, Journal of Small Business Management,

International Journal of Entrepreneurship and Innovation Management which showed that entrepreneurial marketing has infiltrated also the entrepreneurship literature (Ionita, 2012). The growing interest in the intersection of marketing and entrepreneurship has resulted in publishing the first book "Entrepreneurial Marketing: Lessons from Wharton's Pioneering MBA Course" in 2001 by Lodish, Morgan, and Kallianpur which has improved the trustworthiness of entrepreneurial marketing due to the extraordinary reputation of the Wharton's Business School (Hills et al., 2008). This book was later followed by other books written by different authors who contributed in new awareness about EM. The growing importance and interest in this field has caused the incorporation of entrepreneurial marketing in many university syllabuses around the world.

As a new field of study the entrepreneurial marketing offered an opportunity for the development of several research streams which consequently resulted in different views and definitions of EM concept. In literature there is a number of definitions ranging from ones that consider EM as a marketing of small companies (Hill and Wright, 2000), others that make no division regarding company size or age (Kraus et al., 2009; Morris et al., 2002), or the ones that highlight the different aspects of EM such as innovativeness (Stokes, 2000) and value creation (Morris et al., 2002; Whalen et al., 2016). Nevertheless, the evident fact in all the definitions is that they contain marketing and entrepreneurship elements.

The EM definition offered by Morris is the most frequently definition used in literature. He defines EM as "proactive identification and exploitation of opportunities for acquiring and retaining profitable customers through innovative approaches to the risk management, resource leveraging and value creation." (Morris et al., 2002. p. 4). Another more frequent EM definition explains this paradigm as "as an inexpensive form of marketing that is suitable especially for SMEs who due to their limited recourses take innovative approaches and calculated risk-taking actions, and proactively use every opportunity to attract more customers through creating superior value in order to increase their performance" (Sadiku-Dushi and Ramadani, 2018, p.724)

Why the Entrepreneurial Marketing is needed

During those almost four past decades, academics have doubted the capability of traditional marketing and they have recommended that there is a need for a new marketing paradigm. There are numerous empirical studies that found that the concepts of traditional marketing cannot be used by all kinds of firms. Such an example can be found in a work of Hultman and Shaw (2003) who found that companies that offer services often perform various activities that are not supported by the traditional marketing mix model. Those activities are related to the building of reputation through referrals, goodwill, word of mouth and establishment of long-term personal relations. In another study conducted by Constantinides (2006), it was found that the concept of the traditional marketing mix lacks customer orientation and interactivity. Today's changing, challenging and turbulent environment characterized by chaos, risk turbulence and insecurity was also a reason for creating a need for a new marketing paradigm that is necessary especially for small companies. These characteristics are having an important impact on marketing in a global economy where customers are becoming more demanding (Hills et al, 2008). According to Day and Montgomery (1999), there are few changes such as; connected knowledge economy, globalization, convergence, fragmenting and frictionless markets, demanding customers and their improved behavior and, adaptive organizations that are of outstanding importance for the marketing field to follow a new direction. Therefore, researchers suggested some new marketing practices which will complement the traditional marketing practice. The globalization has caused some transformations to the traditional marketing and thus the creation and development of new nonconventional marketing forms (McKenna, 1991). As a result, EM came out as a new paradigm that helps companies to rethink the way they do marketing so they can be more responsive to these changes in the business

environment. Moreover, EM is capable of helping companies to survive and adapt to all the changes identified by Day and Montgomery (1999).

Hence, it is obvious that the greatest need for EM is in an environment that is characterized by instability, and when it is obvious that traditional marketing practices are no longer adequate (Collinson and Shaw, 2001; Morris et al., 2002). And, since today markets have these characteristics, the implementation of EM would be useful and essential for most of the companies operating nowadays (Morris et al., 2002). It is also worth mentioning that EM can be used in a different way at every stage of business expansion (Morris et al., 2002).

Entrepreneurial Marketing characteristics

There are a number of characteristics of entrepreneurial marketing that have been identified during the research in this field. According to Hills and Hultman (2006), the main characteristics of EM are: a) the entrepreneur is at the center of marketing, b) decisions are related to personal goals and long-time performance, c) development of smaller market niches with a tailored range of products and services d) low market power, e) marketing penetrates at all levels and functional areas of the firm, f) marketing is based on trust, personal reputation, and credibility, g) an intense focus on promotion and sales, h) lack of proper planning and strategy, i) dependence on the owner's intuition and experience, g) creation of individual values, k) lack of marketing resources, and lack of marketing division, l) rare formal market research, instead the use of personal networks and contacts, m) innovative product improvement, n) focus on proactiveness, opportunity recognition and calculated risk, o) flexibility and quick response to customer preference change, p) the continuous risk of market exit, and

q) a role for passion, enthusiasm, and dedication, as well as the passion for leading customers instead of following them.

Other EM characteristics incorporate a continuous focus on change, a greater willingness to take risks, and the ability to leverage resources (Morris et al., 2002). EM companies are usually aware that they are constrained by an unstable environment, and as a result, they cannot keep the same marketing strategy for a long period of time. Today's consumers have high expectations and their demand is changing constantly, that is why EM firms should persistently observe the market around them and should try to forecast market demands, and as a result, these firms should be focused on change.

Divergences among entrepreneurial and traditional marketing

Entrepreneurial marketing characteristics are the ones that distinguish EM from traditional marketing. These divergences can be seen from the context and practice point of view. As context concerned the divergences can be seen based on the diverse characteristics between large and small companies. Small companies being contextually unlike larger companies they use marketing differently (Hills and Hultman, 2006; Hills et al., 2008). From a practical viewpoint, the key difference is in terms of how marketing is done by managers compared to entrepreneurs because as marketing is concerned the entrepreneurs think and behave differently from large company owners (Gilmore et al., 1999). Zontanos and Anderson (2004) argued that the active role of the entrepreneur is what differentiates entrepreneurial marketing from traditional marketing. On the other side, Dew et al. (2009) found five main divergences between the entrepreneurs and non-entrepreneurs way of thinking starting from their vision for the future, making marketing decisions, their approach toward risk-taking, their attitude toward outsiders and, the way they approach unexpected contingencies. Further, Hills et al. (2010) in their study found that traditional marketing is different from entrepreneurial marketing also regarding their view on market involvement, passion for customers, planning horizon, relationship and networks, and formal plans. Similarly in another research Hills and Hultman (2011) also gave an significant separation between traditional and entrepreneurial marketing by

pointing out that entrepreneurial marketing is practiced by entrepreneurs and is the consequence of how they understanding information, how they make decisions and how they proceed with marketing actions.

Conclusion and further research directions

The aim of this paper was to shed some light on this new field of study and therefore present this new marketing paradigm that can help companies to increase their performance, and to give an answer the question: Why the entrepreneurial marketing it is important for Kosovar Entrepreneurs?

Based on the extensive literature review related to this topic it can be concluded that entrepreneurial marketing is a relatively new field of study that is created on the intersection of the fields of marketing and entrepreneurship and that there is still no universally accepted definition. The most common EM types are guerrilla marketing, buzz marketing, viral marketing, ambush marketing, and social media marketing, whereas the most frequently used dimensions are proactiveness, opportunity focus, calculated risk-taking, innovativeness, customer intensity, resource leveraging and value creation. Also it can be concluded that empirical studies in the field have found that EM positively impacts the performance of small and medium enterprises.

Since the environment where Kosovo companies operate is characterized by high competition, turbulence and change it can be concluded that EM is very important for Kosovo Entrepreneurs based on the fact that empirical studies found that EM is extremely important for the success of especially small and medium enterprises and that it positively impacts the SME performance. Also due to the large number of SMEs in Kosovo, EM may be considered as the only suitable way of doing marketing for SMEs since it is considered as a very inexpensive and innovative form of doing marketing. Due to the mentioned importance of the EM for SMEs it is recommended to incorporate the EM subject in the university syllabuses in order to be better understood and implemented by the SME owners or managers. Also, business owners should pay more attention to this inexpensive form of marketing. Moreover, researchers should consider switching their study interest from traditional to entrepreneurial marketing in their future research.

Further research should be focused into linking the EM theory to practice by empirically investigating in more details all the areas of this field including EM strategies, EM types and different EM dimensions and linking them to the measurable SME outcomes.

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EFFECT OF LEADERSHIP EVALUATION BY EMPLOYEES IN AN ENTERPRISE

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Abstract. CEOs are those who have the task of leading the company, building good relationships with others and achieving the objectives. All of this is achieved through human resources, the most basic resource of the company, which by working in their fields, make it able to meet the company's objectives and why not maximize profit. To date, in various companies, we have often encountered CEOs or managers who evaluate employees' performance from time to time, but rarely or at least we did not encounter employees who in their view evaluated the performance of their chiefs. This is because employees did not have the courage and support to raise any issues for their bosses or even less to evaluate their performance. By this research we did a partial evaluation of the CEOs by employees in an enterprise. It is therefore envisaged to interview about 20 employees of different levels and of different companies regarding the performance of their bosses. The extracted data were analyzed through the software application for statistical analysis SPSS (IBM Analytics). Through the results, we have understood more about employees' perceptions about the performance of their CEOs and how informed CEOs are about what's happening in the company.

Key words: chief executive, making decisions, creative ideas, solving problems.

Introduction

There are a large number of companies, each with its chief executive as well as other staff who make up a group working towards a goal. The chief executive officer is the position of chief executive officer of the corporation, which is responsible for managing an organization. The chief executive of a corporation or company usually reports to the board of directors and is charged with maximizing the value of the entity, which may include maximizing share price, market share, revenue, and so on. In the not-for-profit sector of government, CEOs typically aim to achieve results related to the organization's mission, such as poverty reduction, increased literacy, and so on. The CEO's responsibilities in an organization are set by the organization's board of directors or other authority, depending on the legal structure of the organization. They can be broad or very limited in impact and are typically protected in an official delegation of authority. The communicative role may include press releases, such as for the management of the employee and the organization. The decision-making role involves high-level decisions on policy and strategy. As a company leader, the CEO advises the board of directors, motivates employees and brings change within the organization. As a manager, the CEO heads the day-to-day operations of the organization. The term refers to the person who makes all the important decisions about the company, which covers all sectors and business areas, including operations, marketing, business development, finance, human resources, etc. The CEO of a company is not necessarily the owner of the company. Employees who do important work are also needed to do

its job and to drive processes toward achieving its goals. Each of them in the field where they are knowledgeable contributes and works towards the achievement of a common goal. For the work that the bosses do they are the ones who motivate them by paying them a salary.

LITERATURE REVIEW

Role leader in leading the enterprise

The role of the leader is versatile. His influence is at all points of social reproduction and there are no issues in the enterprise that will not be his preoccupation. the world, with the problems of short, medium and long term development, with the problems of efficiency of enterprise activity and with many other areas of enterprise development and leadership. Leadership cannot be isolated; leadership must combine professional skills, human morality, cultural level, authority, etc. Leadership is the driving force in an enterprise to provide energy, inspiration, creativity, independence, responsibility and position. convenient and material in line with the results of the work. Being a leader requires more than a title, a large office, and other symbols of rank. The leader of the enterprise must balance and harmonize the key functions of the enterprise, business leadership, employee and employee leadership, enterprise leadership in the community and society. Great leaders really care about those who are privileged to lead and understand that the true cost of leadership privilege comes at the expense of self-interest. If your actions inspire others to dream more, learn more, do more and become more, you are a leader (Sinek, S, 2014). According to Mitzberg, managers play ten roles which can be systematized into three main categories. The interpersonal role deriving from the managerial authority where the manager assumes this when dealing with others, whether as a figure, leader or liaison. The informational role lies in the fact that the manager receives and sends information that he receives from external or internal sources of the enterprise as a representative. Whereas the manager's decisive role implies the decisions he makes regarding the activities of the enterprise as an entrepreneur. (Mustafa, 1991)

The Importance of Leadership Management

The leader is of the utmost importance in the enterprise, whether in leadership, decision-making or even as a driver for organizational success. Leadership is a process by which an executive can guide, guide, and influence the behavior and work of others toward achieving specific goals in a given situation. Leadership is the ability of a manager to encourage subordinates to work with confidence and diligence. Leadership is the potential to influence the behavior of others. It is also defined as the ability to influence a group toward the accomplishment of a goal. Leaders need to develop future visions and motivate organizational members to want to achieve visions. Organizations have a variety of goals based on the area of action and activities needed to accomplish them. Drucker (1974) proposes dividing goals into eight areas, ranging from market positioning, innovation, organization, physical resources, financial resources, social responsibility, productivity and profitability. To improve business communication skills the presence of effective workplace communication is essential in any industry because it is critical in enhancing employee productivity. As a leader, effective communication skills do not just mean giving clear verbal instructions, because non-communicational and written communication tools also influence how connections with people can be established. When there is improved communication in the workplace, all kinds of interaction are also positively developed to make personal and professional growth of employees more visible. Those who work in a fun environment have greater interpersonal productivity and effectiveness at work (Wiseman, 2010). Fayol (1949) points out that managing means to anticipate and plan, organize, command, coordinate and control. Thought leadership, decision making behavior, and

communication habits that correspond to each level are related to the leader. "Leadership Development" is a guide both for individual leaders who want to develop their personal leadership style and for decision makers of corporations seeking competitive advantage through the development of their leadership culture (Mitchell, 2012). Your company's capacity to change effectively as the market evolves will depend on whether you keep up with the developments and how effectively you can apply that knowledge. Find the voice by clarifying your personal values. Set the example by adjusting actions with shared values. Anticipate the future by imagining exciting and noble opportunities. Make others into a shared vision by invoking shared aspirations (Suriyamurthi & Velavan, 2013). Organizations can develop leadership at every level by identifying future leaders, evaluating their corporate confidence, planning their development, and measuring their results (Charan & Drotter, 2011). What we see around the world is the firing of employees, high levels of leader turnover, career paths, and failed leadership development efforts. Good leadership should illuminate the leadership industry, showing why it fails and how it can be repaired. Through this, leaders are often more sincere, authentic, and modest, telling the truth, building trust, and caring for others (Pfeffer, 2015). According to (Kouzes & Posner, 2016) all individuals are born with the ability to lead, they must create a context in which they can excel. Learning leadership is a call to unleash the leadership potential that is already present in today's society. Much of the communication in an organization seems to depend on the distribution of formal authority (Aghion & Tirole, 1997). The earliest understanding of leadership relies largely on identifying leaders with persons possessing particular personal qualities and abilities. We can justify this with the example of Fajol, who also considers the qualities of a leader such as physical qualities (health, strength), mental qualities (understanding and learning), moral qualities, and the choice of leader (energy, consistency, initiative, willingness to accept responsibility, etc.) (Fayol, 1903).

Nayar (2010) has claimed that the role of the CEO is to enable people to excel, help them discover their wisdom, fully engage in their work, and accept responsibility for making changes.

Kalantri (2012) claims that before they became chief executives, they were the best employees of their companies. Chesky & Airbnb claimed that when you start a company, it's more of an art than a science, because it's completely unknown. Instead of solving high-profile problems, try to solve something that is deeply personal to you. Ideally, if you are an ordinary person and have only solved your problem, you may have solved the problem for millions of people. Nooyi claimed that just because you're the CEO, don't think you have enough knowledge. You need to constantly increase your knowledge, the way you think, and the way you approach your organization.

RESEARCH METHODOLOGY

Purposes of the research

While every day we come across employee evaluations by their superiors, the purpose of this research is to look at the other side as well, namely the leader's evaluation of his employees. A very interesting and new thing in this field, where each of us is curious to know or know the leaders of different companies and the performance they have in terms of employees. It is also important to encourage employees to truly demonstrate the performance of their leaders in the different aspects that enterprises face every day.

Objectives of the paper

In order to fulfill the purpose of the study, I have compiled the objectives through which I intend to fulfill the purpose of this study, which are:

Review of the literature on the role of leader in enterprise leadership, the importance of leader management, leadership characteristics, leadership, and authority.

- Analyze the role of employees as part of the process and the characteristics of good leadership.

Ia Providing clear recommendations on what a leader should possess in order to succeed and with the employees to achieve the goals set.

Research questions and hypotheses

The paper aims to analyze and clearly understand the impact of the gender of the leader in solving problems in the company and the influence of the number of employees in bringing new and practical ideas in the company. The hypotheses for each research question are followed by the two research questions. For the research question Does the gender of the leader influence the problem solving in the company? we have: H1- The gender of the leader has an impact on solving problems in the company

H0- The gender of the leader has no impact on solving problems in the company.

Whereas for research question How much does the number of employees influence the introduction of new and practical ideas in the company? we have:

H1- The number of employees affects bringing new and practical ideas to the company

H0- The number of employees does not affect bringing new and practical ideas to the company.

Methodological research approach

To carry out this research on the effect of leader evaluation in an enterprise, I have used various methods that have helped me to achieve the most realistic results for the problem posed.

The methodology I have used contains both the quantitative and the comparative method. The quantitative method includes the questionnaire that I sent to different companies, and with the comparative method I compared the questionnaires of those companies. I extracted the primary data from a questionnaire where I interviewed about 20 employees of different levels and of different companies about the performance of their leaders. I analyzed the extracted data and then extracted the results through the SPSS statistical software (IBM Analytics) software. As a secondary data, I used sources from the Internet and from various books.

The importance of the paper

This study will have practical relevance for employee motivation. First, the study will provide an analysis of what employees think and see about the leaders and the work they do in the company they share together on business days. Second, the paper will analyze how important the leader's gender is to the smooth running of the company. This paper will contribute to motivating and self-confidence of employees in relation to their future superiors.

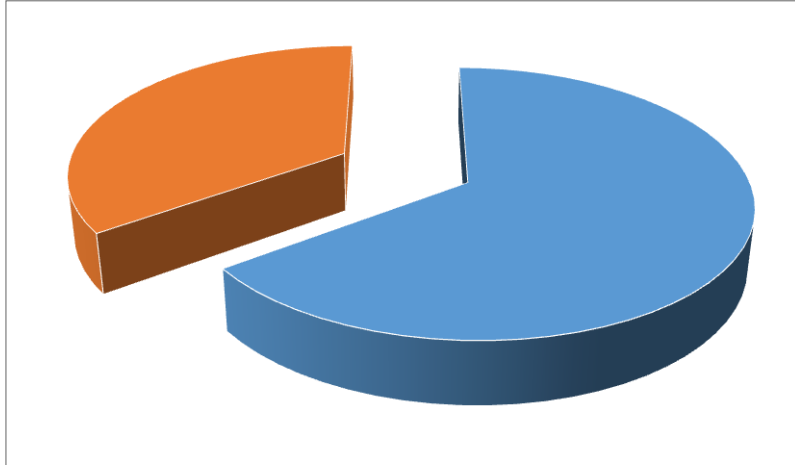
COLLECTION OF DATA FROM THE QUESTIONNAIRE

Extracting obtained data

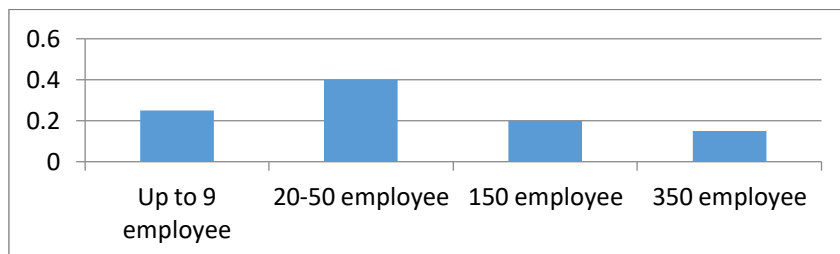
Data mining occurs when data is analyzed and discovered to retrieve relevant information from data sources (such as a database) in a specific model. Further data processing has been done, which includes adding metadata and integrating data; another process in the data workflow. Most of the data mining comes from structured data sources and various data formats. This unstructured data can be in any form, such as tables, indexes and analysis.

Statistical data analysis

Of great importance to research is also the gender of the CEO where most of the businesses surveyed with more than 50% of them having male CEOs continue with some of them where as CEOs have a female.



Employees are one of the biggest assets in any company, and their importance is often overlooked. Depending on the size and activity of the companies they have a certain number of employees. We base our research on small, medium and large companies. Most of these companies have between 20 and 50 employees (40%), followed by those with up to 9 employees (25%), companies with 150 employees (20%) and large ones with 350 employees who participate in our research only 15%. This element will represent an important control variable in further studies and analyzes. Depending on the number of employees in the enterprise we can see how they value their boss, where company size plays a key role in a manager's abilities and in his relationships with employees and the environment in which he operates.



Interpret the results through SPSS

Correlation analysis

Correlation is a statistical measure that helps us to understand the relationship between two variables. So through correlation we discover the causality link. The correlation coefficient gives us a mathematical value to measure the power of the linear correlation between the two variables.

Correlations:

		Gender of CEO	Brings New and Practical Ideas
Gender of CEO	Pearson Correlation	1	.435
	Sig. (2-tailed)		.05
	N	20	20
Brings New and Practical Ideas	Pearson Correlation	.435	1
	Sig. (2-tailed)	.05	
	N	20	20

To evaluate whether or not the test is significant, we should look at the significance level, where if that level, then the p value is less than or equal to 0.05, then we say that the test is significant, and if the significance level the p value is higher. greater than 0.05 say the test is not significant. The output is shown in table 3.1. It clearly shows that there is a correlation between the selected variables. From the output, we can see that the correlation coefficient between CEO gender and new ideas behavior is 0.435 of the p-value for the t-test of significance is equal to 0.05. From these figures we can conclude that there is a positive correlation between CEO gender and bringing new and practical ideas to the company, and this correlation is significant at the significance level of 0.05. So this implies that gender is what plays a role in bringing new and practical ideas to the company in order to accomplish an innovative job and stay above the competitors in terms of innovation.

Multiple standard multiple regression analysis

In statistical modeling, regression analysis is a statistical process for evaluating the relationships between variables. It involves many techniques for modeling and analyzing some variables, where the focus is on the relationship between a dependent variable and one or more independent variables. Regression analysis will test some hypotheses about the gender relationship of the CEO, the timely decision-making process, and the creation of creative problem-solving ideas. The hypotheses to be tested are: H1:: The gender of Ceo is closely linked to the creation of creative ideas for problem solving in the company. The null hypothesis (H0) in this case would be that the gender of Ceo is not related to bringing creative ideas for problem solving in the company.

Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	Gender of CEO ^a	.	Enter

a. All requested variables entered.

b. Dependent Variable: Brings Creative Solutions to Problems

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.917 ^a	.840	.832	.2817

a. Predictors: (Constant), G_{in}CEO

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.000	.078		63.992	.000
	Gender of CEO	-.1286	.132	-.917	-9.735	.000

a. Dependent Variable: Brings Creative Solutions to Problems

The table titled Variables Entered / Removed shows the independent variables and the regression method used. Here we can see the independent variable, the Gender of Ceo that was simulated for analysis just as we selected the Enter method. The next table entitled Model Summary gives us R-values for evaluating the overall model suitability. The adjusted value of squared R in this case is 0.832. To see how well the independent variable explains the dependent variable we turn to the Model Summary table that in our case R² came out

$0.832 \times 100 = 83.2\%$ this shows that the independent variable in the regression explains to this extent the dependent variable creative of problems.

The last table gives the regression coefficients and their significance. These regression coefficients can be used to construct an equation called Ordinary Least Squares (OLS) and also to test the hypotheses in each independent variable. Now we are testing our hypothesis. The null hypothesis indicates that there is no relationship. The P value for the beta coefficient on the gender of Ceo is 0.000. We can say that this value is significant at the 10% significance level. In other words, we can assert that the gender of Ceo is closely linked to the creation of creative ideas for problem solving in the company.

GENERAL DATA ANALYSIS

Hypothesis testing and interpretation of research questions

Moving forward, the company depends not only on the boss but also on the workforce who contribute ideas and ideas to make a project live and move the processes forward. Therefore, based on the research question: How much does the number of employees influence new and practical ideas in the company?

Hypothesis 0: The number of employees does not affect bringing new and practical ideas to the company.

Hypothesis 1: The number of employees affects bringing new and practical ideas to the company.

<i>One-Sample Statistics</i>				
	<i>N</i>	<i>Mean</i>	<i>Std. Deviation</i>	<i>Std. Error Mean</i>
<i>Number of Workers</i>	20	99.8500	119.66896	26.75879
<i>New and Practical Behavior</i>	20	3.650	1.3485	.3015

One-Sample Test						
Test Value = 0						
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Loëer	Upper
<i>Number of Workers</i>	3.731	19	.001	99.85000	43.8432	155.8568
NewandPracticalBehavior	12.105	19	.000	3.6500	3.019	4.281

So by analyzing the value of significance, which is a value less than 0.05, respectively 0.001 (Number of Employees) and 0.000 for Constant (Brings new and practical ideas) means that this result is statistically significant because from the data aggregated from the survey, it turns out that testing this variable is true. So the null hypothesis is rejected, while the first hypothesis is accepted or considered. The interpretation would be this: The number of employees influences the bringing of new and practical ideas into the company.

CONCLUSIONS

Many leaders are competent but only a few can be truly committed to what they do and being ethical with their employees. This study will have practical relevance for employee motivation and it will contribute to employee motivation and self-esteem in relation to their future superiors. By taking in consideration different evaluations for enterprise leaders by their employees we can improve company outcomes and overall results.

All leaders have to make difficult decisions, this goes directly to the work they do every day. One important thing is that these people know how to make these decisions right and if they are at the highest level. In leadership positions, determination is what matters most, and having this ability helps you in every way.

Good leaders are a source of positive energy. They communicate freely. They are very helpful and always care about the feelings of others. They always give the conviction that they have a solution for everything, they always know what to say in order to inspire others. They avoid pessimistic criticism and thinking, and are always looking for ways to reach an agreement between the parties where it helps workers work together as a group to have more efficient and effective work in the company.

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Consumer protection and care in Kosovo

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Abstract.Based on the principle, a state is comprised by social communities, respectively society in general, while the consumption structure are comprised by the individual, the family, the social communities, companies and institutions, but in a word they are all consumers. Kosovo after the war has accepted the market economy system, ie the law of value, competition, the supply and demand.

In economic systems dominated by a market economy, but also in Kosovo, consumer protection refers to infrastructure and legal provisions sponsored by the Government of the Republic of Kosovo and approved by the Assembly of the Republic of Kosovo, since designed for consumer protection and harmonized with the highest EU standards, as Kosovo aspires to EU membership, and in the other form consumer protection is the responsibility towards the product. Based on the statistics, Kosovo is known more as a state of consumption, least a state of production, while protecting and caring for the consumer we must introduce our culture and mindset, good or not good, we must present as high value in material property, using marketing for encouragement and motivating consumers to consume more than enough.

Consumerism in practice has more definitions, while in business and economy in general even in Kosovo it means, to protect consumer rights and safety, initially, consumer health protection and compliance principles of market competitiveness, offering quality products with acceptable offer, and above all product safety. Consumer protection is based on consumer rights, or the idea that consumers have an inherent right for basic health and safety.

Part of this context are: Institutions of the Republic of Kosovo: MAFRD, MTI, VFA, Kosovo Customs, KTA, and other relevant executive agencies, which have legal and constitutional obligations to protect and care for the consumer.

Keywords: protection, care, customer, market, institution, marketing.

Introduction

Kosovo as the youngest state in Europe there has been fortunate to live in two economic systems. Kosovo as the youngest state in Europe is lucky enough to live in two economic systems. At the end of the 20th century, ie since 1990 has been the MIX economic system, has begun in part to give creative citizens the opportunity and with entrepreneurial concepts to conduct their business in their private ownership in one side, while on the other hand there were so-called socially owned enterprises, and now after the war for liberation from the slav-communist system, ie from the year 2000 the beginning of the 21st century, Kosovo switched to a market economy system, in order to meet the requirements, the needs and desires of the consumer.

In these two decades of system development of the market economy in Kosovo, ie the entrepreneurs of this system have turned the customer into a KING.

Free competition it has been one that has created credibility between enterprises which should increase the diversity of products and services, increase the quality of products and services and finally to lower prices for products and services that offer to consumers. The question is how realistic is this finding? We can say that this approach is far from reality! Because companies who are thirsty for big profits and non-principled competition they have violated these principles. This time period corresponds an economic development which brought about variety of products and services. Influenced the strengthening of the trading position constantly weakening the position of consumers, increasing the size of the enterprise, products and services continually become more complex, develops aggressive marketing with its instruments.

All of them, add to the risk that consumers in Kosovo have be transformed in a toy, which could easily be manipulated from the hands of marketing professionals competitive and agile. That is, here the customer is treated in two roles of the consumption system: in that of the king, and that of the bondservant. We can say freely, the consumer is in a very difficult situation because of poverty, low employment rate, lack of information, limiting of the free movement in EU member states, etc. Therefore, in the context of these circumstances the need arises for consumer protection, not only from fraudulent businesses, but also of economic power abusers. Therefore, the state, respectively the Government of the Republic of Kosovo has built mechanisms, has designed and approved infrastructure and legal provisions, harmonizing them with EU standards, initially taking care of protection of population health and then all rights guaranteed even with international conventions for consumer protection, whilst Kosovo aspires to European integration.

Who is the consumer and what is the consumer's interest?

Kosovo has adopted the Law on Consumer Protection, these provisions are designed to protect and promoting consumer interest, based on the provisions and fundamental rights that refers also from the United Nations Guide to the Protection of the customer which guide starts from the fundamental rights by adding also the four additional pillars:

1. The right to fulfill basic needs;
2. The right to compensation;
3. The right to education;
4. The right to a healthy environment;¹

Law on Consumer Protection in Kosovo Nr. 06 / L-034, May 17, 2018, promulgated by the decree of the President DL-023-2018, 04.06.2018, which the Law aims at regulating of:

- market conditions in business-to-consumer relationships, including labeling of products, price indicators, public services and unfair trade practices;
- consumer rights in relation to contracts, including unfair contract terms, distance sales and outside the business environment, non-comfortable contracts, credit contracts for consumers and tourism product contracts;
- administrative protection judicial protection of consumer interests;
- the institutional framework on consumer protection in the Republic of Kosovo;²

It is worth mentioning that this law is in harmony and in full compliance with EU directives in the legal order of the Republic of Kosovo.

As after the scientific definition, law and legal, the *Consumer* is any natural person who buys and uses goods or services to meet their individual needs, which is not considered a commercial activity, of business, craft or professional.³

This way, one of the objectives and priorities of the Government of the Republic of Kosovo is the Consumer Protection Program 2016-2020, and through him, MTI aims to advance consumer protection, in relation to the protection of public health, environment and market.

1. The basic interest of the consumer is:
 - a. The right of consumption in relation to economic interest;
 - b. The right of free choice;
2. The right to fulfill basic needs;
 - a. The right of consumption for safe products, referring to food safety, as after standard HACCP based on "Food chain" to guarantee it safety.
3. The right to a healthy environment.
4. The right to complain;
5. The right of consumers to compensation and practical access;
6. The right of consumers to information, education or education and awareness (information, education and awareness of consumers),
7. The right of consumers to be heard, united or lobbied.⁴

¹ UNCTAD, United Nations, Guidelines for Consumer Protection, New York and Geneva, 2016

² Consumer Protection Law No. 06 / L-034, Pristina 2018, and DL-023-2018

³ Prof.Dr.Ali Jakupi, Marketing, pg-145, Pristina, 2008

Responsibility for consumer protection in Kosovo

Consumer protection in Kosovo belongs to them within the control of the functioning of public institutions and not public institutions, which are set out in specific laws which are sponsored by the relevant ministries or proposed by them on the basis of their status. The question arises, what institutions and mechanisms play a role in consumer protection in Kosovo ?

Institutions and mechanisms which play a role in consumer protection in Kosovo, are:

1. Assembly of the Republic of Kosovo,
2. Government of the Republic of Kosovo,
3. Ministry of Trade and Industry (MTI),
4. Consumer Protection Council,
5. Inspectorates and Regulators,
6. Association for Consumer Protection,
7. Other local level bodies.⁵

Assembly of the Republic of Kosovo

According to the Constitution of the Republic of Kosovo, the Assembly of Kosovo is a legislative body, directly elected by the people. The Assembly of Kosovo oversees the work of the Government of Kosovo and other relevant institutions who report to the Kosovo Assembly.

Government of the Republic of Kosovo

Upon the proposal of the Ministry of Trade and Industry, the Kosovo Government appoints members of the Consumer Protection Council. This council through MTI submits the report to the Government of Kosovo.

Ministry of Trade and Industry (MTI)

This institution, pursuant to the Consumer Protection Act is the most competent body which regulates the organization and the functioning of the hierarchical structure responsible for consumer protection. MTI, based on Regulation No. 29/2012, has established the Department of Consumer Protection, department which It has responsibility for the coordination of activities and works between stakeholders of the public and private sectors in the domain of their responsibilities.

Consumer Protection Council

This council is public, while coordinates affairs, they are defined within law on consumer protection.

Inspectorates and Regulators

The competence of the inspectorates is of inspect commodity trading standards and quality of services which offer enterprises in Kosovo, also supervised the risks to consumers. This institution is functioning within the MTI, that is responsible for supervision of the implementation of legislation, in the field of consumer protection, security products and services, prevention of unfair trade practices, combating informality, etc. namely, It carries out the duties and responsibilities in accordance with Law No. 04 / L-186, supervises the implementation of 15 laws and over 30 bylaws.

Consumer Protection Association

This association is non-political organizations, non-profit and non-governmental, which are formed for the purpose of providing assistance for Kosovar citizens in the protection of rights and consumer interests. Based on Law No. 04 / L-57, on freedom of association in non-governmental organizations the way of establishment is regulated, registration and its legal status. In Kosovo, there is currently an active non- governmental organization, "Konsumatori" which initiates the solution of individual or social issues, to achieve standards in relation to respecting the rights of consumers.

Research methodology

To achieve an objective approach to the issue, we used non-verbal research methodology, through each we have handled the case, getting opinions and opinions directly from the consumer using questionnaires through survey method.

Survey method

This survey method contains approaches with which based on the questionnaire we have explored the knowledge, attitudes, opinions and needs for the research object, in this case consumer protection. This method is valid and reliable in relation to the questions posed in the survey. The disadvantages of this method can be information provided by the respondents having the subjective character or emotional or even no information is provided by the respondent of true.

During the wording of the questionnaire, we have in mind important issues:

- Questions in the questionnaire are structured so that the respondents to give expected responses;
- Questions in the questionnaire are concise of clear and formulated precise the relevance of the matter;
- The questions in the questionnaire are short, so that it doesn't take long for the respondents, that are not annoying, therefore answers to be expected and optional.

In this case to avoid time and expense, this research through survey we made through cabinet forms, from the office by software utilization and applications "Google unititled form".⁶

Questionnaire - Survey

The purpose of this survey it's obtaining information and opinions of consumers in the Republic of Kosovo, how careful they are in the case of products and services acquisitions, how informed they are, how they (consumers) are protected and what the rights are and their responsibilities.

All of them we present them in this questionnaire from 9 questions, as follows:

1. Do you look at the expiration date during the purchase of food products and medicines ?
2. Do you ever check weight / quantity of product during purchase?
3. Do you verify–confirm product prices after purchase(fiscal coupon)?
4. Do you complain to the seller/supplier if the product does not have the right quality, of declared as in the labels?
5. Are you satisfied following a complaint made in the answer of the seller/ supplier?
6. Are you aware, are there institutions or mechanisms for your protection as a consumer?
7. Are you aware, that if you complain you will receive compensation or reparation by offenders of the your rights as a consumer?
8. Are you informed, what are the institutions and laws that protect your interest as a consumer?
9. Do you need to be notified or sensitization for rights and your obligations as a consumer?

⁶https://docs.google.com/forms/d/1Ug5sT0eD_wR0orcHz0KJFtHaYOO0LsGQWZnLlg/edit#responses

Results from the survey

Out of 100 respondents from different areas in Kosovo, we received fair responses from 66 respondents.

The narrative and tabular result, is as follows:

Do you look at the expiration date during the purchase of food products and medicines ?

Answer: YES(56) 87.5 %, NO(7) 9.4%, other: I don't have answer(3) 3.1%.

Do you ever check weight / quantity of product during purchase? Answer: YES((24)53.1 %, NO(35) 37.5%, other: I don't have answer (7) 9.4% .

Do you verify–confirm price of product after purchase(fiscal coupon)?

Answer: YES(48) 75 %, NO (12) 17.2 %, other:I have don't answer (6)7.8 %.

Do you complain to the seller/supplier if the product does not have the right quality, of declared as in the labels?

Answer: YES(34) 54 %, NO(19) 32 %, other: I don't have answer(13)14 %.

Are you satisfied following a complaint made in the answer of the seller/ supplier?

Answer: YES(18) 54%, NO(35) 28.6%, other:I don't have answer(13) 17.4%.

Are you aware, are there institutions or mechanisms for your protection as a consumer?

Answer: YES(48) 73.4%, NO(15)23.4%, other: I don't have answer(3)3.2%.

Are you aware, that if you complain you will receive compensation or reparation by offenders of the your rights as a consumer?

Answer: YES(21) 53.1%, NO(35) 32.8%, other:I don't have answer(10)14.1%

Are you informed, what are the institutions and laws that protect your interest as a consumer?

Answer: YES(38) 59.4%, NO(24) 35.9%, other: I don't have answer(4) 4.7%.

Do you need to be notified or sensitization for rights and your obligations as a consumer?

Answer: YES(50) 75.4%, NO(15) 23.1%, other: I don't have answer(1) 1.5%.

Tab.1 Consumer protection and care in Kosovo in % & persons

No.	Description of the question	YES	NO	I don't have answer
1.	Do you look at the expiration date during the purchase of food products and medicines ?	86.2 56	10.8 7	3.0 3
2.	Do you ever check weight / quantity of product during purchase?	36.9 24	53.8 35	9.3 7
3.	Do you verify–confirm price of product after purchase (fiscal coupon)?	73.8 48	18.5 12	7.7 6

4.	Do you complain to the seller/supplier if the product does not have the right quality, of declared as in the labels?	53.1 34	29.7 19	17.2 13
5.	Are you satisfied following a complaint made in the answer of the seller/ supplier?	12.5 18	54.7 35	32.8 13
6.	Are you aware, are there institutions or mechanisms for your protection as a consumer?	73.8 48	23.1 15	3.1 3
7.	Are you aware, that if you complain you will receive compensation or reparation by offenders of the your rights as a consumer?	32.3 21	53.8 35	13.9 10
8.	Are you informed, what are the institutions and laws that protect your interest as a consumer?	58.5 38	36.9 24	4.6 4
9.	Do you need to be notified or sensitization for rights and your obligations as a consumer?	75.8 50	22.7 15	1.5 1

Consumer Protection Department

before you buy always check



Photo1. Sensitization messages for consumer protection

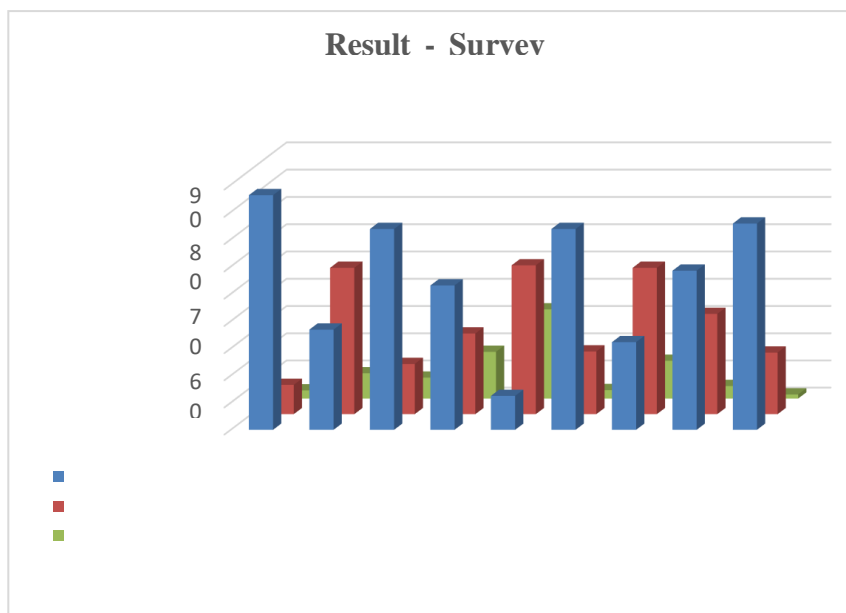


Fig. 1 Consumer protection and care in Kosovo

	1	2	3	4	5	6	7	8	9
YES	86.2	36.9	73.8	53.1	12.5	73.8	32.3	58.5	75.8
NO	10.8	53.8	18.5	29.7	54.7	23.1	53.8	36.9	22.7
I don't have answer	3	9.3	7.7	17.2	32.8	3.1	13.9	4.6	1.5

Based on the results obtained, response of 66 respondents to the survey, consumer protection and care in Kosovo, the answer to question 9, do you need to be notified or sensitized about your rights as a consumer ? it turns out that 75.4% are stating yes, means they need to be notified and are sensitized on their rights and responsibilities as consumers

Informing and educating consumers

Based on the economic development of Kosovo, consumer awareness here in Kosovo in the last decade there has been an improvement over rights and responsibilities (awareness raising) of the consumer, directly affecting by undertaking the activities of the responsible institution in the Republic of Kosovo, ie of MTI respectively department to trade that cares about respect of the legal provisions in force in cooperation with other subordinate agencies who inspect the economic entities on customer care and protection. In the context of education and consumer awareness and this time with campaigns, MTI undertakes activities as after the protection program of consumer 2016-2020, as follows:

1. Promotion;
2. Presence, online at, internet;
3. Broadcasting and Journalism: TV, Radio and Press;

4. Real-world events, and developments and economically developed;
5. Educational activities aimed at young consumers;
6. Joint activities with an international partner;
7. Public opinion polls.⁷

Consumer Complaints

Consumer protection is an inalienable right guaranteed by law by the state, based on the institutional and political framework for consumer protection in the Republic of Kosovo. Other than legal provisions, institutions and state mechanisms of formed for consumer protection, to facilitate their complaints at the moment of finding irregularities by other traders and operators, It has opened a hotline free to report these irregularities that harm interest of consumers. The phone offered for free from the Consumer Protection Office, it's No. 0800 11000, that can be called in 24 hours, free of charge and anonymously.

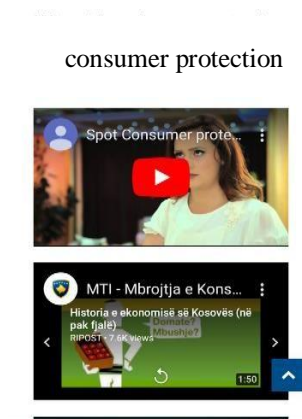


Photo 2. Consumer protection



Photo 3. Leaf-folding

⁷ <https://konsumatori.rks-gov.net/CMS/Page/Get/programi-info>

Conclusions

Ensuring of system operation market economy in Kosovo depends on the development of a legal infrastructure and administration, harmonizing them with EC standards and directives which flow through the SAA referring to Article 81 (a) and Article 82, in relation to market surveillance and enforcement of laws and provisions of law for consumer protection.

Therefore, consumer protection it also depends on the involvement of all the actors, conducting discussions and debates with interest groups to ensure consistency and clarity in defining interests and protecting consumers.

Recommendations

1. To develop awareness campaigns for consumer protection, on their rights and obligations.
2. Promoting consumer rights and their protection becomes more through trading chains because the population there circulates more.
3. Greater consumer education through various campaigns to raise awareness.
4. Stopping of ads of some dangerous products that harm consumers' health (tobacco, alcohol, and some medications, etc.).
5. Establishment of the inspectorate agency, which must be detached from political influence.

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The impact of organizational changes on human capital performance and motivation

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Abstract. In the recent years telecommunication industry in Kosovo has experienced a great development. To be more competitive organization must have a competitive advantage to be able to serve customers more effectively and efficiently than other competitors. Change is very important in any organization because it helps them compete with other organizations and leads them to realize their goals.

The main aim of this paper is to assess the impact of organizational change on employee's motivation and performance. The research is executed with description research based on quantitative and qualitative methods based on statistical analysis, correlation and OLS regression.

The results of this paper shows that numerous organizational changes have a significant impact on motivation and performance of employees, more precisely organizational change has negative impact in employees motivation and frequency of organizational change has negative impact on employees performance.

Keywords: Change management, Human capital, Motivation, Performance

Introduction

Today, the world faces major developments in all areas, which directly or indirectly affect the business environment. This environment has become highly variable, so organizations need to identify appropriate ways to cope with and adapt to these changes in order to reduce the impact of environmental changes. Therefore, organizations need to set a clear strategic vision to understand these changes. In such an environment, organizations need persistent change to sustain their existence.

Organizations that resist or fail to adapt to changes, face the risk of extinction in the conditions of intense competition. Therefore, extending the life span of the organization will be possible through the cooperation of workers and managers. This can be achieved through good change management.

Also, organizations should use all available funds and human capital to respond immediately to the changes. Changing management is a very difficult and expensive task, and the ability to deal with compelling requests and technology development has now become a critical element for the lifespan of an organization. So adapting to change is mandatory in order for the organization to survive and stay competitive. Bringing big changes in a large and complex organization is a difficult task. Policies, procedures and structures need to be changed. Individuals and groups should be motivated to continue to perform their tasks regardless of the high turbulence. Workers face the fact that old ways, including familiar tasks, jobs, procedures, and structures are no longer applicable. Political behaviors often become more active and intense.

For an organization that knows how to manage change, any change that occurs in the external environment it is an opportunity for the organization. Organizations either manage change, or change makes the organization unmanageable. Therefore, those who cannot manage change in competitive environments find themselves changed.

In this paper to analyze the impact of organizational changes in motivation and performance of employees in the telecommunication industry in Kosovo, will be examined books, reports, scientific papers, and primary data will be collected through questionnaires.

Literature Review

In this paper to understand the impact of numerous organizational changes on employee motivation and performance, literature with different views of authors has been researched.

The meaning of change

The term "change" means the change of a situation, process, content, way of working, behavior, procedure, etc. While not every change brings positive results, any positive result requires changes to occur. A unique and specific change is usually required to achieve results under certain conditions (Zeqiri, 2006).

We live in a constantly growing global business environment today, where change has become the norm for organizations to sustain their success and existence. Perhaps the only common factor for all organizations is change (Burnes, 2009). Organizations and their leaders are also changing as a natural response to change that has strategic importance, from effective management of markets and tangible assets to innovation, knowledge management and human resources (Al-Haddad, 2014).

Another definition of organizational change is a planned process of change in the organizations culture through the use of behavioral science technology, research and theory (Burke, 1982). Kotler & Schlesinger (2008) clearly state that organizational change means organizational transformation. From a global perspective, the concept of organizational change can be a wide organizational transformation, which can include aspects like change in organizations missions, culture, partnership agreements, union decisions and much more.

The steps of the organizational change process

The steps of the organizational change process are: assessing the need for changes; deciding what changes should be made; implementing change and evaluating change (Zeqiri, 2006).

Types of changes

In changing management, it must first determine what kind of change should be implemented in the organization. In recent years, organizations are facing a rapidly changing and increasingly complex environment. Therefore, even the types of change required to be realized in these organizations have become more complex (Lingham et al., 2005). Changes can be categorized as gradual and radical changes. Radical changes can occur at the same time and in parallel with gradual changes (Zeqiri, 2006).

Resistance to change

People usually tend to resist change. Any of the changes can be associated with stress, conflict, sabotage, dismissal, obstruction that are symptoms of resistance to change in the organization. Causes of resistance to change include: self-interest, lack of information, fear of the unknown, misunderstandings and lack of confidence, fear of failure and lack of ambition (Zeqiri, 2006).

Some techniques and methods for overcoming resistance to change include: Education and communication; participation and involvement; facilitation and support; negotiation; manipulation and co-option, and obligation (Kotter & Schlesinger, 2008; Zeqiri, 2006).

Research Questions and Hypotheses

The research questions of this research paper are as follows:

1. Are employees aware of the changes occurring within the organization in the telecommunication industry?
2. Is there employee resistance to change?
3. How are changes made in the organization?
4. What is the main goal to be achieved through change?
5. How do changes affect the overall performance of the organization?

The research hypotheses are:

H₁: Organizational changes negatively affects employees' motivation in the telecommunications industry.

H₂: Frequent organizational changes negatively affect the performance of employees in the telecommunications industry.

Methodology

Primary and secondary data were used in this paper. Secondary data were obtained from books, various scientific papers published in various journals and other data in the form of reports and articles. Whereas the primary data were collected through the quantitative method, more specifically the questionnaire technique.

The questionnaire begins with demographic questions, followed by questions about organizational change. The questionnaire includes questions in the form of closed questions. The first part of the questionnaire included questions such as gender, age, occupation, duration of employment, etc. The second part of the questionnaire was composed of questions about change and how it affected employee motivation and performance, where the questions were Likert scale questions. Questionnaires were distributed electronically to employees working in the telecommunications industry at all levels. Considering the confidence interval of 95% and margin of error of 10%, it was calculated that the sample size should be 83. Statistical methods as coefficient of correlation and OLS regression were used to analyze the results through SPSS Statistical Analysis.

Results

The first questions in the questionnaire were demographic questions, where 53% of the respondents were female and 47% male. 52% of respondents were aged between 25 and 35, 31% aged between 35 and 50, 15% aged under 25 and 2% aged over 50. 48% of respondents were engineers by profession, 28% economists, 11% jurist, 1% of architects and 12% of other professions.

The employment period in the telecommunications industry was: between 5 and 10 years 30% of respondents, between 1 and 3 years 25%, more than 10 years 24%, and between 3 and 5 years 21 % of respondents. Desire to continue working in the organization: 31% of respondents

wanted to continue working between the next 2 and 5 years, 28% between 5 and 10 years, 23% whole life and 18% less than 2 years.

71.1% of respondents' state that they are aware of the reasons for the changes that have occurred within the organization; 69.9% of respondents claim to have had resistance to change; 75.9% of the changes are gradual, with small and slow steps, while only 24.1% are radical changes, in large and consistent steps. 66% stated that they see the changes as negative, while 34% are more open to the changes and stated that they see them as positive. 72.3% think that the main purpose of an organization making changes is to generate higher profits. Only 27.7% think that the main purpose is to provide better incentives for workers. 65% of respondents think that organizational change causes increasing of fear, while the rest (35%) think that change can cause increasing of confidence.

Management communicated the vision for change to most employees, with 65% of respondents stating that they had this type of communication, and 35% denying it. 69% of the respondents stated that the frequent organizational changes that occurred have had a negative impact on employee motivation, while 31% denied having such an impact. If employees were given an opportunity to switch jobs and move to another organization, then 60.02% of the respondents would have changed the workplace, while 39.8% would continue to be loyal to the organization and would not have changed the workplace.

55.4% of the respondents claim that they work only what the job requires, neither more nor less. 74.7% would continue to work in the organization even if they did not need the money, only 9.6% deny it. 73.5% of the respondents think that the work environment really inspires them for better work performance, while only 6% disagree. Employees have a neutral opinion about lack of job security due to fear of losing their job with 47%, 24.1% agree that they do not feel safe and 28.9% disagree.

After analyzing the results obtained from the survey, hypotheses were tested using statistical analyzes such as correlation and regression through SPSS. After calculating the correlation coefficient between organizational change and performance, we find that there is a strong negative correlation of -0.876, whereas between organizational change and motivation there is a moderate negative correlation of -0.722.

Table 5.1 Correlation between change, performance and motivation

Correlations

		Change	Performance	Motivation
Change	Pearson Correlation	1	-.876**	-.722**
	Sig. (2-tailed)		.000	.000
	N	83	83	83
Performance	Pearson Correlation	-.876**	1	.589**
	Sig. (2-tailed)	.000		.000
	N	83	83	83
Motivation	Pearson Correlation	-.722**	.589**	1

Sig. (2-tailed)	.000	.000	
N	83	83	83

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

Source: Authors calculations through SPSS

Regression calculation for motivation

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.722a	.521	.515	1.0934

a. Predictors: (Constant), Motivation

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	105.244	1	105.244	88.039	.000b
	Residual	96.829	81	1.195		
	Total	202.072	82			

a. Dependent Variable: Change

b. Predictors: (Constant), Motivation

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.779	.360		18.810	.000
	Motivation	-2.428	.259	-.722	-9.383	.000

a. Dependent Variable: Change

Source: Authors calculations through SPSS

Based on calculations the regression equation for motivation is:

$$y = 6.779 - 2.428x$$

From the data obtained we can conclude that according to the correlation coefficient -0.722, the coefficient of determination 0.521, $\alpha = 0.01$ and the signification level of 0.000 then *the first hypothesis is accepted*, thus organizational changes have a negative impact on employee motivation.

Regression calculation for performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.876a	.768	.765	.7615

a. Predictors: (Constant), Performance

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	155.107	1	155.107	267.510	.000b
	Residual	46.965	81	.580		
	Total	202.072	82			

a. Dependent Variable: Change

b. Predictors: (Constant), Performance

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.986	.169		35.494	.000
	Performance	-.943	.058	-.876	-16.356	.000

a. Dependent Variable: Change

Source: Authors calculations through SPSS

Based on calculations the regression equation for performance is:

$$y = 5.986 - 0.943x$$

From the data obtained we can conclude that according to the correlation coefficient -0.867, the coefficient of determination 0.768, $\alpha = 0.01$ and the signification level 0.000 then *the second hypothesis is accepted*, so frequent organizational changes have a negative impact on employee performance.

Conclusions

From the obtained results we can see that the telecommunications industry has had numerous organizational changes over the last five years. Employees are aware of the reasons for the changes that have occurred within the organization and during the change process most employees have resisted change. Respondents stated that they see the changes as negative, that cause increasing of fear and the goal the organization wants to achieve through change is to generate higher profits. Management communicated the vision for change to most employees and involved them in the change process. Respondents state that they work only what the job

requires, neither more nor less. They would continue to work in the organization even if they didn't need the money. Employees have a neutral opinion about the lack of job security for fear of losing their jobs.

Finally, we can say that based on statistical analysis, correlation, regression and hypothesis testing we conclude that numerous organizational changes have a significant impact on motivation and performance of employees in the telecommunication industry in Kosovo.

Limitations of this paper mainly concern the sample which is not at a desirable level to measure well such a phenomenon, because the questionnaire was distributed electronically and part of the staff (especially those working in branches in different cities and dealing with clients) due to system constraints were unable to complete the questionnaire and consequently the questionnaire was completed mainly by employees working in head offices. The data were collected in a moment and the time span would be of interest to better understand the difference.

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The Impact of Effective Management on Enterprise Growth

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Abstract. Effective management implies truthful and satisfactory performance of management activities. A high performing productive management typically perform activities effectively and efficiently. Accordingly, companies and countries can be economically viable when the available human, physical, and financial resources are effectively and efficiently managed to ensure the economic growth and well-being. Growth is most powerful organisational device to compete and to sustain by creating profits and by providing prosperity. Nevertheless, the essential management principles alone, could not provide sufficient support to achieve and sustain the ultimate goal of growth and affluence. Therefore, deep focusing on management effectiveness is needed to achieve higher organisational performance, and thereby healthier economic growth. Accordingly, this paper analyses the factors triggering the management effectiveness within organisational structure, and outlines the role of effective management on enterprise growth. The study is focused on several important factors that contribute to building an effective management climate, such as: leadership, motivation, communication, integration, vision, value recognition, knowledge, and skills, and to search rather the integration of those factors may impact the enterprise growth.

Keywords: effectiveness, enterprise, management, knowledge, leadership, motivation, communication.

Introduction

This research discusses the effective management and its impact on economic growth in transition countries. The study is focused on several significant effective management factors such as communication, vision, value recognition, integration, motivation, and leadership. The paper assumes that effective management is a significant influence of economic growth and examines such influence in the public and private organizational structures.

Public Sector Management deals with governance in each present-day country. The public sector is still playing a significant role in the employment proportion of countries. However, there is a significant difference in the size of government employees worldwide (OECD, 2017). Public service personnel comprise of people employed by public authorities at central, regional, and local levels and include civil servants and public employees. Public authorities are expected to provide high-quality services to their citizens and decent work for their workers.

The private sector also consists of different categories and types of businesses and organizations that, in close cooperation with the public sector, contribute to the economic growth of businesses themselves, regions and countries. There is evidence showing that the private sector is the main driver of economic growth of countries.

The starting argument is that economic growth is considered the most powerful instrument for reducing poverty and improving the quality of life in developing countries. Both research and

case studies provide awesome indication that sustained enterprise growth is critical to making progress towards strategic goals.

Realistic data based on literature and field study, from both the public and private sectors, have been provided by this research, analyzing and comparing various situations to answer research questions and/or to test hypothesis, and finally to draw vibrant conclusions.

The purpose of this research

The significance of this paper and research is to generate a theoretical and practical overview, clarifying whether effective management practices are perceived as a way and instrument to influence economic growth, and to confirm the role and importance of effective management in this regard. The focus of effective management lies on factors as leadership, communication, motivation, value recognition, and integration.

The current research effort to solve the target issue is based on various studies of the organizational structures of public and private enterprises paying attention to the factors of effective management that are responsible for creating long-term sustainability, as well as reflecting on barriers. and the challenges of economic growth in the private and public sectors.

Research objectives

Firstly, this paper examines the effectiveness of management to manage private and public enterprises. Secondly, it attempts, through the use of scientific research methods, to identify obstacles to effective management that may have a negative impact on economic growth.

Through quantitative research conducted by means of a closed-ended questionnaire survey, different level managers are involved, varying in age, gender, and years of experience, employment and job position.

Research Questions and Hypotheses

This research addresses the identified problem through the following questions:

1. How enterprises can create conditions for development of an effective management?
2. What is the relationship between the enterprise's growth and effective management factors?
3. Does effective management of enterprises impact economic growth of regions?

This research addresses questions related to the impact of effective management on economic growth in the public and private sectors assuming that such a proposal would help the sector to ease the difficulties and possibly to solve the problems related to the effectiveness of management.

The hypotheses that address the study problem in this paper are the following:

[H1] Enterprises that have integrated management factors can create conditions for effective management.

[H2] The growth of enterprises is strongly correlated with the integration of effective management factors.

[H3] Enterprises with effective management can create conditions for economic growth of regions.

Importance and contribution of the study

The importance of this study lies on the complementation of the literature and knowledge in the area of effective management and on the explanation of the relationship between economic growth and effective management in the public and private sectors.

In addition to the importance of research, in this section we will also list the contributions of this research that we think latter will become important:

- Supplementing of regional literature, which appears to be substantially poor in this field of study;

- Introducing the current state of effective management its impact on the economic growth in the public and private sectors in a region of transition economy;
- Assisting the managers and other individuals and interest groups in harmonizing understanding in the context of improving their perception related to the subject;
- Supporting institutions in completing the curricula with focus of business management and economy.

Research limitations

In one hand, taking into consideration the limitations and difficulties encountered during this research work, we may point out some research shortcomings. The databases and the statistics in the study region are mostly in their early developing stages and there is a small number of organizations in the public and private sectors that have developed proper and dependable database and statistics. In another hand, conducting a survey to get a full understanding of the processes provided also limited outcomes, considering the organizations are mostly new in business. For this reason, it is difficult to ensure high dependability of the results of the study. Nonetheless, this research has reached a desirable altitude when it comes to its purpose. With other words, when another researcher had to study the same data on the same topic, but in another region, the probability is low she would have the same research outcomes, no matter as she could have chosen the same variables to analyze.

Literature review

Historically, there are different approaches related to management. The evolution of management theories has created the conditions for a more systematic treatment of management as a discipline. Various scientists have focused on the analysis of management as a complex process, beginning from the 1890s to the present.

There are a lot of authors and scholars who are engaged in researching and writing on effective management in the world today, and each one stretches a different definition than the others. However, the definitions of management as a science as a process and as a discipline may differ from one another. Thought. This research focuses on the definition of management considering it as a process.

Luthans and Hodgetts provide a simpler definition of management “Management is the process of setting objectives and coordinating employees’ efforts to achieve them” (Luthans & Hodgetts, 1992).

Heller (1999) went farther than others by claiming that any attempt to provide a definitive answer to this question is doomed to failure. He emphasizes that every definition of management is right because they each put something in this amorphous field and in change (Heller, 1999).

Certo (2006) states that management is the process of achieving organizational objectives by working with and through people and other organizational resources.

Today’s conception shows that management has three main characteristics: it is a process that involves a series of continuous and interrelated activities; it is a process focused on achieving organizational objectives; and a process that aims to achieve these objectives by working with and through people and other resources of the organization (Certo & Certo, 2006; Campling, 2008; Mohylova, 2015).

Effective management

Effectiveness as a word has many meanings. Merriam-Webster dictionary defines the *effectivity* as ‘producing a decided, decisive, or desired effect’ (Merriam-Webster.com, 2018). While Cambridge dictionary defines the it as ‘producing the intended results, or (of a person) skilled

or able to do something well' (Dictionary.cambridge.org., 2019). Hence, we will define effectiveness as an attribute of the right activities on the right time and for the right purposes.

National and international organizations functioning in developing regions are faced with many real challenges and various opportunities. Effective management is about effective networking, which in turn is supplemented with cooperative objectives, joint energies and shared resources. (Limani and Stapleton, 2016).

Effective management factors

There are many important factors determining the effective management. A set of such factors is displayed in the Fig. 1. Nonetheless, the main factors for effective management identified and discussed in this research work are communication, motivation, and leadership.

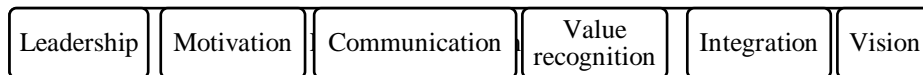


Fig.1. Selected effective management factors

Source: Williams, 2015

Attributes of management effectiveness

In our view effective management is about the process of properly managing and coordinating resources within organizations or businesses. For this process to be effective, managers are required to possess multidisciplinary, interpersonal, technical and professional skills and abilities. Managers play a vital role in improving the overall effectiveness of the organization.

It is generally believed that managerial effectiveness is an inherent quality of executives and cannot be learned (Kreitner, 2008). However, the certainty lies on that managerial effectiveness can be learned and optimized through practice and experience. To achieve this easily and quickly, managers need to possess an optimal level of talent. The effectiveness of talent management and the added value they provide to the organization is not completely evaluated (Machado, 2015). Effective managers know the important role creativity, knowledge, and people play in making an organization successful (HRB, 2005). Creativity is now considered the most important quality of leadership for business success, beyond global integrity and thinking. In today's business world, creativity is the key to the success and survival of any business. A manager should do the best for his employees by initiating and encouraging their creativity (Bierman, Ferrell & Ferrell, 2018).

Simply and typically explained, managerial effectiveness means performing managerial activities successfully. An effective manager performs activities effectively and efficiently by doing the right things and doing these things right. Many people believe that successful managers are intelligent, imaginative and knowledgeable. In conclusion, only effectiveness translates the intelligence, imagination, and knowledge into results and makes a manager successful (Drucker, 1974).

Leadership

Leadership is the key factor that makes everything function together; without leadership, all other business resources are not effective. Conscious leaders of business are aware of their employees' concerns and are at the forefront of new developments in leadership theory and

practice to create more effective work environments. Leadership means to influence people in order to direct their activities and motivate them to accomplish company goals (Betchoo, 2016)).

Effective management correspondingly depends on the leadership style. Not all leadership styles have the same effect on managing organizations. According to Stephen Covey (2004) it is sure that the traditional leadership methods and management tools will not be good enough to survive in future (Covey, 2004).

Not all styles of leadership function with each-other, e.g. coercive leadership style seems to be not consistently effective for creating the range of deep engagement within organization. E.g. energizing leaders use different leadership styles, like any other leader since they also use different leadership styles effectively as well. Contrary, an authoritarian leadership style may function well for energizing leaders in specific organizations, (Avolio and Gartner, 2005; Eigenhuis and Dijk, 2007).

Not proper leadership mostly produces ineffective process of directing and coordination resources in organizations, i.e. ineffective management. Consequently, organizations move very slowly, stagnate and miss their path. Leadership has more impact and is a most critical components of any company. Effective leaders have the necessary tools and skills to inspire and impact on their teams allowing firms to run proficiently and smoothly (Istrate and Puentes, 2011).

Leadership significance

There were many discussions about leadership, management and their relationship with all levels of workers. In this regard and interesting evidences showed that traditional leadership currently treats educated workers in an inappropriate way (Covey, 2004). All successful organizations and businesses need effective leaders. The leadership of effective and well-trained leaders is paramount to providing an agreed-upon goal for the company's success. Leaders are invaluable when it comes to formulating and communicating new strategic directions, as well as communicating with and motivating employees to increase dedication to organizational goals. Ongoing leadership skills training is essential to making sure that leaders are on the right track. The culture of the company depends on the specific leadership style of the responsible executive.

There is evidence showing that moral leadership is required to create an environment in which today's workers are willing to give the best of their abilities to their organization. This moral leadership should create a situation where employees trust each other and focus on activities where they are the best (Eigenhuis and Dijk, 2007).

In conclusion to this part, we maintain the assumption that leadership the most important factor of effective management.

Communication

In the context of management effective communication is about knowing your employees, developing a communications plan, choosing the right message and right channel for doing that. The organization's culture is reflected in the nature of office communications, and business can hinge on effective communication. Effective mechanisms and methods are decisive for the achievement of effective communication within the organization (Grunig, 2008). Indicators of effective communication include soft talk tones, willingness to consider all opinions, desire to increase communication frequency, effective conflict resolution, and efficient decision-making processes. Moreover, in order to promote team cohesion, employee satisfaction, and motivation, organizations must implement a formal conflict resolution process where managers cannot resolve conflict internally (Green, 2008).

Peter Drucker argues that communications have been in the centre of managerial attention for a long time. Nonetheless, there has been great concern with communications. Almost all industries including businesses, public administration, security and defence services, healthcare,

and perhaps in all main structures of modern society have shown great concern about the communication level. Furthermore, Drucker argues that communications are practically impossible if they are based on the downward relationship (Drucker, 2002). In conclusion to this part, we admit that communication is one of the most important factors of effective management.

Motivation

Motivation is the readiness of an individual to strive to achieve the objectives of the organization through the use of a large amount of energy and effort, provided that these efforts fulfill the objectives of the organization. Based on incentive theory, motivation is the pull of incentive that makes people work towards achieving personal and organizational objectives (Evans, 2016).

Motivation should be top management high priority and should be positively correlated with other managerial effective factors. Environments with no attention for motivation deliver low productivity and are bad for the organization's economy (Miner, 2015).

Motivation and performance are two concepts closely related to each other. What makes employees motivated is the interesting work, challenges and growth in general as factors. Employees have a thoughtful need for growth and achievement (Boxall & Purcell, 2003).

In conclusion, we assume that motivation is strongly correlated to the performance, and in turn performance is strongly correlated to the labour productivity.

Problem statement, research questions and hypothesis

Economic growth is the most powerful instrument for reducing poverty and improving the quality of life in developing countries. Growth can generate virtuous circles of prosperity and opportunity. During the literature research we have noted that there is significant research effort made to elaborate and examine the topic of effective management and economic growth. Nonetheless, we didn't find much work directly related to the integration of effective management factors and their impact on enterprises growth and thereby on economic growth of a region.

Consequently, the study identified the opportunity to explaining whether effective management factors of enterprises are integrated, and what is the impact on economic growth of such practices, and to provide with a theoretical and practical overview in this respect.

Hence, the research is geographically limited to the case of an economically and politically transition country. In this case the study takes into account the difficulties and problems, namely the challenges that Kosovo faces concerning integration of effective management factors and economic growth.

This problem is addressed by following questions:

How enterprises can create conditions for development of an effective management?

What is the relationship between the enterprise's growth and effective management factors?

Does effective management of enterprises impact economic growth of regions?

The research questions are further translated into following three hypotheses:

[H1] Enterprises that have integrated management factors can create conditions for effective management.

[H2] The growth of enterprises is strongly correlated with the integration of effective management factors.

[H3] Enterprises with effective management can create conditions for economic growth of regions.

The methodology

The working methodology is presented in the Figure 3 which is divided into four main phases and some sub-phases. Research design represents the first stage, literature research addresses the second stage and problem definition, Survey research and statistical analyses represents the third stage, and results, conclusions and conclusions in the fourth stage.

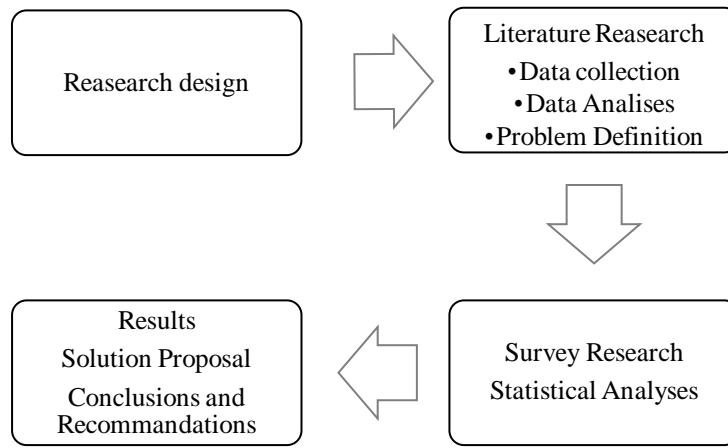


Figure 3. Working and research methodology

The methodology applied in this study is based on literature research related to the effective management features, and on survey research related to the association between effective management and economic growth, supported by case studies. The data collection and data analyses are completed based on quantitative and qualitative methods.

Population and sampling

This study focused on the public and private enterprises involving about 72 companies from the territory of Kosovo. Respondents' samples are: enterprise size, industry-based, and positions/functions within enterprises.

Instruments

The instruments used in this research are questionnaires as a qualitative data collection instrument (with companies' representatives of that will be part of the study).

Presentation of survey results

This chapter explains in detail the relevant data used for the research work. In the research part a combined questionnaire was made, which has the following structure: The general, identifying part where age, position, and occupation are included.

Results

Results are displayed in the following figures and discussed.

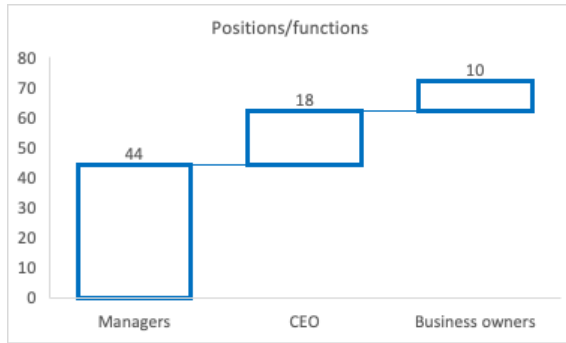


Fig.2 Positions/functions of respondents

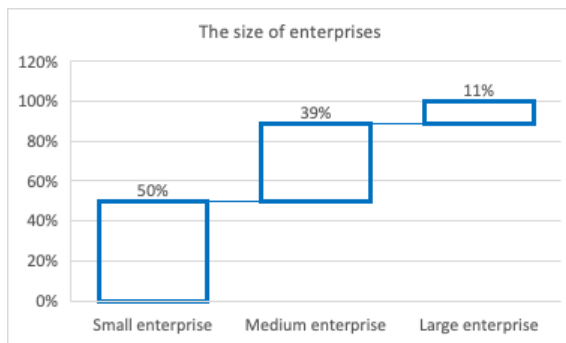


Fig.3 The size of enterprises where respondents work

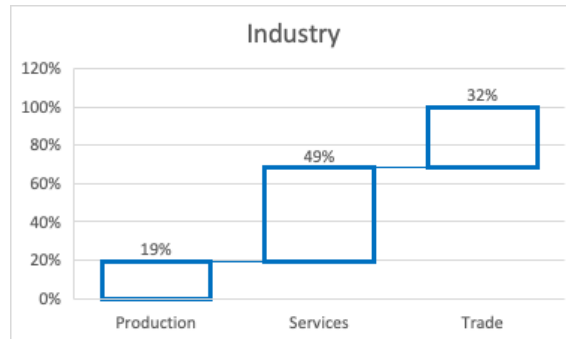


Fig.4 Operating industry of enterprises where respondents work

Testing the hypothesis

[H1] Enterprises that have integrated management factors can create conditions for effective management.

The H1 hypothesis is accepted. There is a strong positive and significant relationship between integrated management factors and effective management. The correlation Spearman coefficient was calculated to be $r = 0.994^{**}$, and the p value =0.00 which means there is a strong correlation between variables with a strong significance. From this we can conclude that integration of management factors can create conditions for effective management.

[H2] The growth of enterprises is strongly correlated with the integration of effective management factors.

The H2 hypothesis is accepted.

There is a strong positive and important link between integration of effective management factors and the creation of conditions for long-term enterprise growth. The Pearson correlation coefficient was calculated to be $r = 0.997^{**}$, and the p value =0.00 which means there is a strong correlation between variables with a strong significance. From this we can say that integrating effective management factors can create conditions for long-term enterprise growth.

[H3] Enterprises with effective management can create conditions for economic growth of regions.

The H2 hypothesis is accepted.

There is a strong positive and significant link between economic growth and enterprises' dependence on integrations of effective management factors.

The correlation coefficient was calculated to be $r = 0.995^{**}$, and p value equal with zero. From this we can say that the economic growth of regions may be influenced by the on the integration of effective management factors, and thereby by the effective management.

Conclusions

Political scientists, legislators, educators, business executives, lawyers, consumerist, and practically everyone sometimes demand effective management whether in the public sector or in the private sector. For business people and other individuals and groups engaged in private sector, the need for effectivity in doing business is especially important because they feel surrounded by government institutions with which they are legally required to interact.

In point of fact, we came to the conclusion that effective business management is qualitatively and quantitatively different from effective government management, since the expectations of the processes are different.

This is made clear as we deal with different purposes: while business is aimed at maximizing profit and developing people within the organization, the government aims at maximizing the quality of service and improving the lives of the country's citizens. In this context it is necessary to have an effective co-operation in the form of a sustainable network.

Results show the findings from the statistical analysis of the enterprise survey data. The purpose of this part of the results is to understand if there are differences and / or similarities between those found in qualitative literature research. The results show that there is a positive and healthy relationship between qualitative and quantitative study since the results are comparable, logical and similar.

Future research could consider statistical relationships between economic indicators and effective management factors. For example, one can analyse employment in relation to effective leadership, GDP in relation to motivation, value recognition in relation motivation and effective management, and so on.

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The Effect of Accepting External Influence on Emotional Labor: A Study on White-Collar Workers in Turkey

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Abstract. Many years after Industrial Revolution, the threat working under arduous conditions poses as physical burden to laborers was realized. As industry developed, the concept of being a laborer evolved into a task that requires emotional assets of laborers in addition to physical burden. By American sociologist Arlie Hochschild, the term “emotional labor” was coined and investigated with many factors and concepts since then. This study empirically investigated the role of accepting external influence, a factor of authenticity, on emotional labor among the white-collar workers in Turkey. As service-oriented total quality management applications requires constant communication with colleagues, customers, suppliers, competitors, stakeholders, white-collar workers are the ones that are being required to perform emotional labor and being exposed to face their authentic selves via accepting external influence or not. The purpose of this study is to determine the effect of accepting external influence on emotional labor. Data was collected via Hospitality Emotional Labor Scale (HELs) developed by Chu and Murmann (2006), and The Authenticity Scale developed by Wood et. al. (2008). There are 201 participants, 126 were female and 75 were male who work in a variety of industries in Turkey. Analysis was conducted by the SPSS program. According to the results, there is a positive and significant relationship between the effect of accepting external influence on emotive dissonance and emotive effort. Also, a positive and significant relationship between the effect of accepting external influence on emotional labor was concluded.

Keywords: Emotional labor, the role of accepting external influence, authenticity, white collar workers, Turkey.

Introduction

First coined by Arlie Hochschild in her book “The Managed Heart: the Commercialization of Human Feeling” in 1983 under the definition of “labor which requires one to induce or suppress feeling in order to sustain the outward countenance that produces the proper state of mind in others” (Hochschild, 1983), emotional labor has been gaining recognition since then as a research topic for many areas like alienation, job satisfaction, emotional exhaustion. On the other hand, as St. Augustine regarded authenticity as essential on the way to “Good and god” (Taylor 1991), it had been evolving for centuries. Accepting external influence was identified as a dimension of authenticity by Wood et. al. (2008). In this study, a theoretical framework of emotional labor, authenticity, and accepting external influence was formed based on the information gathered via the online questionnaire that was filled by 201 white-collar workers in Turkey.

Literature Review

Emotional labor was defined as white-collar workers' control of their emotions and them exhibiting the emotions their business owners demand for consumer satisfaction and positive relationships between white collar workers and shareholders in this study. Emotive dissonance and emotive effort are recognized as its dimensions. Emotive dissonance was defined as "the difference between felt and feigned emotions" (Kruml and Geddes, 2000; Hochschild, 1983) in this study. Emotive effort was defined as changing actual feelings to match those one must express to shareholders (Kruml and Geddes, 2000) was acknowledged in this study. The tripartite-authentic living, self-alienation, accepting external influence- person centered view definition of authenticity developed by Wood et. al. (2008) was acknowledged. One of its factors, accepting external influence, was investigated specifically. Accepting external influence was defined as constant feeling of needing to do what others are expecting one to do was acknowledged (Lenton et. al., 2016). The authors investigated all the research conducted between the years 2016-2019 in Turkey on emotional labor. It was observed that mostly emotional labor's relationships between job satisfaction, emotional exhaustion and burnout variables were investigated. Research was generally conducted on health, tourism, sports, education and service industry areas and among nurses, tourist guides, hotel employees, call center operators and coaches. Though emotional labor was investigated with a variety of terms such as work alienation and job satisfaction, a study that empirically investigates the effect of accepting external influence of emotional labor wasn't prevailed on. Thus, it can be concluded that this study is significant for both the notion of "emotional labor" and the future studies regarding it.

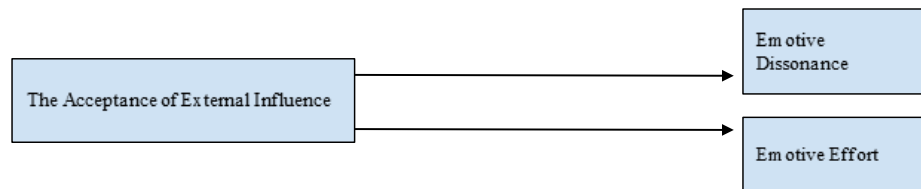
Methods

This study aims to investigate the effect of accepting external influence on emotional labor. Emotional labor has 2 dimensions: emotive dissonance and emotive effort. This 2-factored structure was developed by Kruml and Geddes in 2000. As a factor of authenticity, accepting external influence was defined as constant feeling of needing to do what others are expecting one to do (Lenton et. al., 2016). Two hypotheses were developed in this study:

H1: There is a significant and positive effect of acceptance of external influence on emotive dissonance.

H2: There is a significant and positive effect of acceptance of external influence on emotive effort.

H3: There is a significant and positive effect of acceptance of external influence on emotional labor.



The data was obtained by a questionnaire that included a hybrid of 2 scales. The scales were Turkish adaptation of "Hospitality Emotional Labor Scale (HELs)" developed by Chu and Murmann (2006), which was "Emotional Labor Scale Validation on Turkish Tourism Workers"

developed by Avcı and Boylu (2010) and the Turkish adaptation of “The Authenticity Scale” developed by Wood et. al. (2008), which is “Adaptation of Authenticity Scale to Turkish: A Validity and Reliability Study” developed by İlhan and Özdemir (2013) as assessment tools at the questionnaire. The scale for accepting the role of external influence that was obtained from “The Authenticity Scale” developed by Wood et. al. (2008) is 1-factored and has 4 items. The original version of “Hospitality Emotional Labor Scale” developed by Chu and Murrmann (2006) has 2 factors (emotive dissonance and emotive effort) and 19 items (11 on emotive dissonance and 8 on emotive effort). Though the authors removed some items and lowered the scale to 15 items, they recommended the original version with 19 items to be used in future studies. After factor analysis, 11 items were removed and a scale of 2 factors and 8 items (5 on emotive dissonance and 3 on emotive effort) was obtained in this study. When the other studies who used the same scale in Turkey were investigated, it was observed that its version of a scale with 10 items and 2 factors were used by the study conducted by Avcı and Boylu (2010) on tourism workers and a scale with 8 items and 2 factors were used by the study conducted by Kaya and Serçeoğlu (2013) on service industry constituted by hotel, call center, and shop sales clerk workers. 7 items are common in total for these 3 studies. Therefore, it can be regarded that utilizing the emotional labor scale different among workers in Turkey is acceptable. By using SPSS (Statistical Package for Social Sciences) program, the results were statistically analyzed.

Analyses and Results

The sample of this study has 201 participants, 126 female and 75 male.

The demographics of the participant set shows that;

- Gender: 62.7% female, 37.3% male.
- Age: 32.3% for aged 34 or less, 43.8% for 35 to 44 years old, 18.9% for 45 to 54, and 5% for aged 55 and more, concentrating 76% of participants in the younger than 44 year old limit.
- Academic degree: %14.2 for undergraduate, %55.2 for graduate, %29.9 for post graduate degree.
- Marital Status: 67.2% married, 32.8% single.

In terms of employees’ background:

- Sector: 3% textile ; 15.9% finance; 4% automotive; 15.4% service; 5.5% health; 2.5% trade; 3.5% informatics; 6.5% construction; 24.4% education; 19.4% other not specified in the questionnaire.

Sample of the study is mostly female, younger than 44 years old and married. The sectors are distributed to a variety of industries, though fairly more concentrated in education (24.4%) and sectors that weren’t specified in the questionnaire, mentioned as “other” (19.4%).

The Cronbach’s alpha was calculated for every scale in the reliability analyses that were conducted. As demonstrated by Table 1, the value of Cronbach’s alpha is greater than 0.7 for every variable, and acceptable according to Hair et al. (2006).

Table 2. Reliabilities of Scales

Scale	N	N of Items	Cronbach’s Alpha
Acceptance of External Influence	201	4	0.798
Emotional Labor	201	8	0.866

As a glance on the KMO table shows, the data set is appropriate for factor analysis since significance value is 0.00. The explained variance of the 2-factored construct is 64.7% in cumulative. Factor loads are demonstrated below:

Table 2. Rotated Component Matrix

	Component 1	Component 2
Dissonance 1	0.852	
Dissonance 2	0.862	
Dissonance 3	0.820	
Dissonance 4	0.619	
Dissonance 5	0.658	
Effort 1		0.796
Effort 2		0.788
Effort 3		0.627

Tables 3 and 4 below demonstrate the descriptive statistics and normality analyses.

Table 3.

	Mean
Acceptance of External Influence	3.256
Emotional Labor	2.368
Emotive Dissonance	2.046
Emotive Effort	2.905

As the 7 point likert scale demonstrates the means of accepting external influence (3.256) and emotional labor (2.368) of white-collar workers in Turkey, the tendencies for them to both accept external influence and perform emotional labor are low.

Table 4.

Descriptive Statistics	Skewness
External Influence 1	0.251
External Influence 2	0.678
External Influence 3	0.010
External Influence 4	0.498
Dissonance 1	1.561
Dissonance 2	1.858
Dissonance 3	1.503
Dissonance 4	1.899
Dissonance 5	1.353
Effort 1	0.176
Effort 2	0.623
Effort 3	1.229

Because skewness values are distributed between -2 and +2, normal distribution hypothesis were made according to Hair et al. (2006). The analysis will continue with parametric tests.

Table 5 shows the regression results for the effect of accepting external influence on emotive dissonance, emotive effort and emotional labor.

Dependent Variable	Independent Variable	Standardized Coefficients (Beta)	R Square	Sig.
Emotive Dissonance	Acceptance of External Influence	0.266	0.071	.000b
Emotive Effort	Acceptance of External Influence	0.356	0.127	.000b
Emotional Labor	Acceptance of External Influence	0.339	0.115	.000b

Table 5

Regression analyses suggest that;

- There is a significant and positive effect of accepting external influence on emotive dissonance. ($p < 0,05$). Accepting external influence can only explain 7% of the emotive dissonance. Yet, as significance level is 0.00, the hypothesis is acceptable.
- There is a significant and positive effect of accepting external influence on emotive effort. ($p < 0,05$). Accepting external influence can only explain 12.7% of the emotive effort. Yet, as significance level is 0.00, the hypothesis is acceptable.
- Therefore, it is possible to conclude that there is a significant and positive effect of accepting external influence on emotional labor ($p < 0,05$). Though accepting external influence can only explain 11.5% of the emotional labor, the fact that significance level is 0.00 makes the concluded hypothesis acceptable.

Conclusion and Discussions

Regression analyses suggest there is significant and positive effect of accepting external influence on emotive dissonance and emotive effort, which constitutes its overall significant and positive effect on emotional labor. Accepting external influence has a significant yet low effect on emotive dissonance, emotive effort and emotional labor. This study contributes to the academic discussions via initiating to explore the external part that makes up the emotional labor. Though attention has been given to emotional labor in a more inner way in the previous studies like job burnout, satisfaction, and alienation, the effect of an external factor on emotional labor is a new area of study. As Industry 4.0 evolves more from relationship between human-machine to human-human everyday, the emotional labor has been becoming an integral part in work and daily routine. The findings of the study are significant for and could be used by a variety of industries both in Turkey (as nearly all were represented) and the world. Yet, it is important to emphasize that results can not be generalized neither to a specific sector or a service industry nor to other countries. In the future studies, it is possible for this study to be supported by the studies conducted in different specific work fields and countries.

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