

# **FOSTERING ENTREPRENEURSHIP**





## ***FOSTERING ENTREPRENEURSHIP***

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***Publisher:***

Compass Publishing,  
St Pauls Road,  
Newton Abbot,  
United Kingdom



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ISBN 978-1-912009-83-1



9 781912 009831 >

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## ***PREFACE***

The environment within which companies are conducting businesses is characterised by constant changes. Each of them brings about new challenges and the participants in businesses, and other stakeholders, are forced to adapt and get along in order to guarantee their survival. Fast technological advancement, increased global competition, high level of uncertainty and risks in businesses, unpredictable consumers` demands are the characteristics of today`s business environment. In such turbulent conditions, application and adjustment in different fields of one company`s operations are needed. As a result, modern companies are adjusting to new business conditions and directing their ventures and resources to ensure long-term survival as well as achieving competitive advantage.

“Fostering Entrepreneurship” is thematically divided into three sections. The first section deals with entrepreneurial development where the emphasis is on processes, development and perspectives of entrepreneurship. The second part refers to entrepreneurial marketing and the significance of observing customer behaviour and finding optimal marketing strategies. The third part leads us through the legal view and approaches on entrepreneurship.

During the preparation of this book, an attempt was made to group all papers according to their subject matter with a sole purpose of contributing to a better understanding of the entrepreneurship concepts, theories and practice. We would like to thank all the contributing authors for their time and efforts in the preparation and publication of this volume.

*Editors*





*Part I*

***ENTREPRENEURIAL DEVELOPMENT***





## ***ENTREPRENEURSHIP PROCESSES – STARTING FROM AN IDEA TO TOTAL CONTROL OF BUSINESS***

*Milos Nikolic*<sup>1</sup>

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### **ABSTRACT**

*The statement that if we do not know where we are heading all the roads are good gets its full meaning when one considers starting a new business or expanding the existing one. Without precisely defined iterative procedure for evaluating strategic alternatives, every new investment means hazardous job with very aleatory outcome. In order to minimize the risk and observe all the circumstances and factors that influence future decisions of entrepreneurs every investing must undergo analysis. In this work, entrepreneur will be presented as a visionary, while those who can transfer their vision to their employees thus motivating them to successfully perform their objectives are considered as successful entrepreneurs. Every entrepreneur's idea is conditioned with both risk and uncertainty, with developing a clear mission and vision, analysis of strengths and weaknesses, scanning of environment, determining clear goals and objectives, considerably minimizes the possibilities for risk and uncertainty while implementing entrepreneur's idea and business.*

**Key words:** *Entrepreneurship, Management, Strategy, Control*

**JEL Classification:** *M21, M51*

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## ***INTRODUCTION***

Every entrepreneur's idea and business are conditioned with risk and uncertainty in order to minimize the risk and view all the circumstances and factors that could have impacts on the future entrepreneur's decisions. It has been suggested that every investment must undergo an analysis that are made of ten steps (Scarborough, Zimmerer, 2003, pp.40):

- Developing a clear vision and its transforming into a mission,
- Analysis of strengths and weaknesses,
- Environment scanning for the purpose of identifying threats and chances,
- Identifying key factors of business success,
- Competition analysis,
- Determining goals and objectives,
- Formulating strategic options and choice of one's own strategy,
- Transferring of strategic plans into action,
- Grounding of precise controls

Only a small number of potential entrepreneurs are capable of independently conducting analysis of their business ideas through the above-mentioned steps. This is a reason why they tend to seek expertise from independent consultants. They have at their disposal many agencies specializing in providing such services. Also, a significant source of useful contents may be government sites created as to aim at helping fresh entrepreneur's start and expand their business. Information concerning legislative, fiscal policy and conjunction situations may also be found there.

## ***DEVELOPING CLEAR VISION AND ITS TRANSFORMING INTO A MISSION***

An entrepreneur must be a visionary. Personal traits of an entrepreneur and life circumstances, with four C (characteristics, capabilities, conditions and context) are prerequisite for creating the profile of a successful entrepreneur (Popovic et al., 2012, pp. 314.). Successful entrepreneurs are able to transfer their vision and inspiration to their employees and to motivate them to successfully perform delegated tasks. History has known many entrepreneurs and politicians who can be surely said to have been exceptional visionaries. One of them is Steve Jobs, co-founder and owner, now CEO of Apple Computer Company. He constructed his first personal computer in a garage together with his friend Wozniak back in 1976 when even talking about small computers for domestic use was illusionary. An author wrote about him as follows:

„Steve Jobs may be considered a brilliant young man in the Silicon Valley, because he saw the future demand in computer industry. He was capable of making a personal computer and the market for the product. 'Personal computers were constructed in the hardware revolution of the 1970s and the software revolution will bring about the next dramatic change', Steve Jobs once said“. (Halliday, 1985, pp. 78).

It is often said that vision is inspiration of a leader that inspires the team. It must be sufficiently propulsive, that is why it should always demand the best and most, as it is well known that low aspiration level brings about bad performances. In brief, vision is initial thought and starting point in expanding business. It is formulated in writing for a longer period of time and it comprises all groups interested in successful business running: consumers, suppliers, investors, creditors, employees, management and society.

Mission results from vision as its logical continuation and represents category that must be approached at the beginning of entrepreneurial investment. Koontz and Weinrich define mission as the basic function or objective of a company, agency or any of its parts. It can be understood as the most general goal or as a purpose of company's existence. Peter Drucker suggested 'that there was only one purpose of existence, and that is to create buyers'. Mission is the basis for formulating goals, policies and strategies of any new business undertaking. Many companies succeeded in overcoming crisis after successfully defining or redefining mission. Mission must be (Jokić, 2002, pp.172):

- compatible with environment and aspirations of major stakeholders,
- realistic in the sense that it corresponds to the nature of business and company's resources,
- distinctive in the sense that it is recognizable,
- inspirational,
- suitable for formulating goals and policies.

Three alternative strategies for formulating business investment mission are possible:

1. Focus strategy – mission is defined on the basis of precisely determined needs of buyers and groups of buyers as well as by applying precisely determined technology,
2. Differentiation strategy – differentiation as regards competition with widely comprising segments as per all relevant dimensions (demands most resources and competence).
3. Non-differentiation strategy - understands wide comprising of segments as per all dimensions, with products non-differentiating from those of the competition.

Company's vision and mission are, in writing, located in the most frequent places in the company so that they can be observed every day by the employees, buyers and business partners.

## ***ANALYSIS OF INTERNAL STRENGTHS AND WEAKNESS***

Analysis of internal strengths and weaknesses should identify factors that will positively or negatively influence achieving of defined goals and objectives. The purpose of analysis is to strengthen the impact of accelerating factors and to reduce the impact of factors inhibiting the implementation of strategy. The sources of internal strengths and weaknesses can be identified in different fields: production, management, finances, personnel, marketing, research and development.

There is no universal classification of influential factors for every business that is being set. However, certain indications in the form of directions can be presented as follows (Karavidić, Čukanović–Karavidić, 2016, pp. 53):

*Table 1: Internal strengths and weaknesses*

Potential internal strength:	Potential internal weaknesses:
Essential competence in key fields	Non-existence of clear strategic directive
Adequate financial resources	Outdated skills
Good rating with buyers	Low profitability
Well-recognized market leader	Lack of sense and talent for management
Good strategy of functional regions	Lack of some key skills and competence
Access to the economy of volume	Inconsistent strategy implementation
Isolation from strong competitive pressure	Numerous internal problems
One's own technology	Falling behind in research and development
Good advertising campaign	Poor market image
Good innovative competence	Low or average marketing skills
Good management	Impossible strategy financing
Advancement on experience curve	High product expenses compared with competition
Good productive competence	Other
Superior technological skills	
Few internal problems	
Other	

## ***SCANNING OF ENVIRONMENT AIMED AT IDENTIFYING THREATS AND CHANCES***

This phase requires entrepreneur's exceptional analytical power and insight. The purpose of analysis is to identify threats and chances, to evaluate the possibilities of their emerging in future and to coordinate them with the company's power. Just like in the previous phase there is no consensus about everything that can emerge as threat or danger to concrete business. However, certain universal indications may be presented as follows (Kluyver, 2000, pp. 53):

Table 2: External strengths and weaknesses

<i>Potential external chances:</i>	<i>Potential external threats:</i>
Ability of serving additional consumer groups or entry to new market or segment	Possibility of entry by foreign competition with expense advantages
Possibility of expanding production line to satisfy wider consumer needs	Enhancing the sale of products which represent substitutes
Possibility of transferring skills and technological knowlege to new products or businesses	Slow market growth
Possibility of merger forward or backward	Unfavourable changes in trade policy and foreign countries' taxes
Removing trade barriers on attractive foreign markets	High regulatory demands
Satisfaction of rivaling companies with their status in the branch	Recession or slowing down of the business cycle
Possibility of rapid growth as a consequence of increase in market demand	Great negotiating power of consumers and suppliers
Development of new technologies	Quick changes of consumer needs and taste
Other	Unfavourable demografic movement
	Other

Simultaneous joint analysis of internal strengths and weaknesses and external threats and chances is known as SWOT analysis. It represents widely applied and useful assisting tools for observing overall strategic situation of new investment or current position of the company.

M.Dollinger decomposed analysis of business environment in four phases (Dollinger, 2003, pp. 53).

1. Environment scanning - detecting changes
2. Environment monitoring - monitoring development of changes
3. Environment anticipating - projecting changes in future
4. Environment analysis – interpreting of data acquired in previous phases.

Great many factors of interfering effect operate in the environment. Entrepreneur should observe and estimate their impact on business. Numerous environment factors were systematized in five groups by the same author.

Politics is the skill of possible. Entrepreneurship may be regarded the same. By analyzing political scene entrepreneur creates an image of what is possible, what is probable, and what is impossible. Political segment of business environment is an arena where different interest groups compete for favour and resources in order to achieve their interests and impose their own values. Organized groups of entrepreneurs or their alliances, chambers, associations can influence political sector. Actually, a commensalism is set up out of which entrepreneurs draw interests in the form of various stimulations and benefits, while political forces collect points for next elections on account of greater employment and better living standard within their jurisdiction.

Macroeconomic factors relate to overall production, distribution, sale and consumption of products and services in a national economy. Entrepreneurs are interested in raising economic activity as high as possible, while seeing there a

chance for their own expansion. Relevant parameters that must be taken into consideration are economic cycle phase, inflation and changes in income.

Technology is defined as systematic knowledge that can be used for the development of products and services and as such becomes a source of competitive advantages. It can provoke emerging of a totally new industry (eg. computers, lasers, robots), radical changes in the existing industry or to stimulate development of other fields and industries (laser invention radically influenced the surgical field in medicine). Technological environment forces entrepreneurs to systematically search for innovations. It is the state that should take important role in encouraging innovation by granting certain stimulations and benefits, because strengthening of the competition of individual entrepreneurs strengthens competition at the state level.

Demographic environment refers to size, age structure, and geographic location, ethical and racial characteristics of the population. Social characteristics like acquired values, style of living, working habits and the like have great impact on new investments.

Analysis of ecological environment should ensure information on current stand of the state authorities concerning environment protection, legislation in the field to be observed and measures to be taken for the preservation of natural resources. S. Finkelstein and D. Hambrick suggest that entrepreneurs are part of the world movement under the name of sustainable development and it is in this sense that they must compromise between the needs of the present generations and those in the future. In that sense they must rationalize the use of the resources so that they will also be sufficient for the generations to come in the future.

## ***IDENTIFYING KEY FACTORS OF SUCCESS***

Concept of the key factors of success was first mentioned in expert text- books at the beginning of 1960s and has been used in practice ever since for evaluating the threats and chances from the environment. These factors should be understood as variables under the control of the entrepreneur or the company, which predominantly influence competing advantage of the company.

Identification of the key factors of success is done at the level of the company, at the level of the branch and macro environment. Key factors of success are very often related to expenses, to begin with, because of the pressure of the competition by lowering the price as per product unit, as well as because of the sensitivity of the targeted market to high prices or to the change of price. Key factors of success for every business must be determined separately, but following can be stressed in general: precision of delivery, price, product quality, product safety, design, location, additional values of the product and other. After identifying key factors of success estimation of one's own business for every factor separately is done. Estimation can be tabulated which increases analytic value (Dolinger, 2003, pp. 47).

For majority of businesses it is necessary that the company has good rating concerning majority of key factors. However, as for certain activities it often happens that only one factor may be decisive.



## ***COMPETITION ANALYSIS***

Although many businessmen stress that competition is good, majority of them would probably wish that no competition exists at all. The good side of the competition is that it makes entrepreneur constantly vigilant. It is the customers who benefit most from competition since prices are dropped, product quality is improved and additional services are offered that should be deciding when it comes to sale.

Competition analysis begins with identification of subjects which may be competition. Entrepreneur needs to, first, identify competition at the level of business he runs. This means that somebody who wants to develop business in the certain field of production or services must, first, identify all competitors in that field and estimate their impact on business. Second level of competition relates to identifying competition at the level of branch. This level of competition relates to the competition by means of substitution. The next level of competition is viewed in the foreign competition. In this gradation it should be pointed out that pressure by the competition is highest at the level of business, and lowest at the level of foreign competition.

When analyzing competition entrepreneur must be very cautious. Reason for that is in the fact that the most dangerous is the competitor who has not yet emerged. Ready is the one who has been warned, warned is the one who has the sense for collecting information and early warning through perception of weak signals.

N.Scarborough and T. Zimmerer state quite a whole range of questions that an entrepreneur should ask himself concerning competition in order to be able to view it in the real light (Wehrich, 2000, pp.48):

- Who are our main competitors and where are they located?
- Which distinctive competences did they manage to develop?
- What is their structure of expenses and is it better than ours? What are their financial resources?
- How did they position their products and services on the market?
- What do the consumers think about them? How do the customers describe their products and services, their manner of doing business, additional services that they can offer?
- What are their key strategies?
- What are their strong points? How can we surpass them?
- What are their weak points? How can we make use of them?
- Have new competitors emerged on the market?

For comparative analysis with competition following attributes can be used: material resources, physical resources, human resources, technical resources, reputation and organizational resources (Kluyver, 2000, pp. 38). For any of the mentioned attributes one evaluates one's own business and main competitors, the results are added and one gets certain sum that represents rating. The whole procedure can be advanced in the way that certain co-efficient will be assigned to every attribute depending on the attribute's importance, and that co-efficient will later be multiplied by the marks for that attribute. Calculation of the sum remains unchanged.

The purpose of the analysis of competition is defining strategy of the relation to the competition. Two alternative strategies are at entrepreneur's disposal.

Attack strategy on competition is the first. Key issues with this strategy are: who to attack (the strongest or the weakest), how to attack (frontal attack on the main product, guerilla attack on unprotected products and flank attack on side products) and what resources to attack with and at what moment to attack. With this strategy entrepreneur must consider the possibility of retaliation and all the negative consequences resulting from the competitor's reaction. The other is defense strategy based on strengthening positions of the existing products aimed at preventive protection from potential attacks.

In the context of previous strategies one can differentiate among four types of competitors. The first types are leaders. They tend to expand, they invest considerable funds in research and development and they are very responsive to other's attacks. Challengers focus on one market and attack the leader there. Their ultimate goal is to take over leading position. For this they need considerable tools, but challengers hope for better income in the future that should compensate increased investment in the presence. Followers use innovative imitation and select a few segments wishing to enforce offering limited number of products or services. The fourth types are competitors that occupy certain niches on the market and feverishly defend them. They focus on unique needs of consumers offering specialized products and services.

## ***DEFINING GOALS AND OBJECTIVES***

H. Koontz and H. Weichrich define goal as ultimate point toward which organizational and individual activities are directed (Weichrich, Koontz, 2000, pp.143). The authors suggest that many theoreticians and practitioners make no difference between goals and objectives. A. de Kluyver defines goals as general desirable final outcomes (eg. to be profitable, to care about all stakeholders and similar) while objectives are defined as outcomes which are more specific and measurable (eg. to become no.1 next year, to achieve certain increase of market participation and similar) (Kluyver, 2000, pp. 10).

Defining true goals is relevant because they represent necessary presumption for formulating strategy. Defining wrong goals is for an entrepreneur as dangerous as riding in a car in fog without sign-posts. In order to remove possible mistakes certain characteristics of goals have taken a more definite shape in time. In that sense, R. Daft says that goals (Daft, 2008, pp. 138.):

- must be precisely expressed and measurable,
- must cover results of key business fields,
- must represent real challenge for employees,
- must be defined for certain period of time,
- must be associated with rewards.

Significant difference between goals and objectives can be viewed in the period of time they cover so it can, hence, be concluded that the goals relate to somewhat longer period of time (even three or four years depending on the turbulence of the environment), while objectives are of more operational character and cover almost 1-year period of time.

Objectives that entrepreneurs and their employees must achieve relate to different fields: productivity, efficiency, growth, quality, market and profitability. These objectives are often in mutual collision so that entrepreneur needs to determine priorities and action focus must be put on them. Similar to goals, it is stressed that well defined objectives have following characteristics (Stefanović, 1999, pp. 51):

- they must be specific,
- they must be measurable,
- they must relate to certain executor,
- they must be challenging but also realistic,
- they must cover clearly defined period of time,
- they must exist in a reasonable number.

### ***FORMULATING STRATEGIC OPTIONS AND CHOICE OF ONE'S OWN STRATEGY***

Strategy represents meaningful way of acting. Z. Stefanovic defines strategy as planned decision precising ways of achieving goals (Stefanović, 1999, pp. 157). Strategy must be action-orientated. Entrepreneur must define strategy so as to be adequate to essential competence and identified forces.

Michael Porter, one of the most creative and most well-known creators in management field, professor at Harvard Business School and author of numerous books in this field defined three possible strategic options: strategy of leadership in expenses, differentiation strategy and strategy of focus. These three alternative strategies can also be schematically presented. Classification is based on two criteria: basis for competence advantage and targeted market (Jokić, 2002, pp. 64).

Strategy of leadership in expenses is based on permanent control and minimisation of expenses. Such tendency of minimisation of expenses per unit of product results in reduction of expenses as per product unit which directly influences dropping of prices of a concrete product or service. It is essential to emphasize that the product quality is not neglected and that it is proportionate to expenses, but it is generally lower than when differentiation strategy is applied. Products are standardized without superfluous characteristics.

Consumers are attracted by the product that is cheaper than that of the competition. This strategy contains incorporated effects of experience curve. In order to be successfully implemented regular control reports are necessary. The

accent is on the rise of productivity of every employee and constant search for new methods for cost minimisation.

This strategy, beside advantages evident in occupying the market fast also brings numerous risks. First of all, competition can accept war of prices which, if not sustained, leads to business failure. It can also happen that some buyers, in time, switch to the competition's products, first of all because of poorer characteristics of their own products.

This strategy was successfully applied by Lincoln Electric Company. A more recent case of application of this strategy is Lexmark Company, company dealing with the production of printers, which, by applying this strategy, is trying to compete well known companies such as HP and Epson.

Differentiation strategy represents tendency of making one's own products and services look different from those of the competition through varying esthetic, functional, symbolical characteristics. Actually, it is the loyalty of buyers which is targeted through product image. Promotion and propaganda have essential role. It must be pointed out that expenses are not neglected. By applying this strategy, entrepreneur or the company raise high barriers for new entries to the market.

The strategy understands constantly investing in research and development so as to maintain advantage of the competition. The fact that superior product characteristics which imply even higher price are simply not needed by the buyers who ignore offered products (noone needs laser mouse traps) can be dangerous. This strategy was successfully applied by Caterpillar Company.

Focus strategy is based on application of already named strategies in precisely determined market segment. Focus strategy carries danger of market segment not being big enough, or that because of attraction and higher profits it becomes target of other bigger competitors. In both cases, this strategy understands high specialization.

More details about these strategies can be found in M. Porter's original and 'Competitive Strategy'. According to Peter Drucker there are four specific entrepreneurial strategies: (Ristić, 2008, pp. 125).

- to be the first, but also the best at the same time;
- to hit them where they do not expect;
- discovery and materialization of specialized 'ecological niches';
- changes of economic characteristics of the product, market or economic branches.

## ***ANALYSIS AND MAKING OF A BUSINESS PLAN***

The XX century saw vigorous changes in human society. Individual undertakes full responsibility for his/her social status. Human responsibility characterizes entrepreneur but it is not sufficient to guarantee success of entrepreneurial undertaking he/she engages in.

Business plan is intended for the very entrepreneur and his management (to organize himself for participating in the forthcoming changes), business environment (potential business partners), the state (new tax payers), but also to the entrepreneur's family (which supports the entrepreneur in his intention to realize his business idea, i.e. start up business. Business plan is to ensure impartial viewing of the potential of entrepreneur's idea. Entrepreneur believes in his business idea, he is decided to create i.e. to enhance the need for his product or service; he is utterly dedicated to achieving his business dream. Entrepreneur overviews all organizational – economic facts, so as not to jeopardize the success of his entrepreneurial undertaking. It is the business plan that is a kind of test of entrepreneur's decisiveness to make his business dream reality.

For realization of entrepreneurial idea it is necessary to define, beside elements relating to the market, also elements relating to the process, which generate production and service programmes, material, processes and equipment, location, infrastructure and business space, suppliers and their selection, roads and means of communication etc. Hence, entrepreneur is forced, independently or assisted by experts, to answer following questions:

- What to do?
- How to do it?
- When to do what?
- Who will do what?
- Business plan is the road map of every entrepreneur (Wehrich, Koontz, 2000, pp. 133).

When an entrepreneur starts up his business, he must start from the beginning and follow carefully every step. A great many important decisions will be taken on daily basis and each of these decisions has financial consequences, to a greater or smaller extent. These decisions are generally interlinked. There must be sequence of events for decision making. However, irrespective of the order that is chosen, we always have to go back to the things we have previously done.

Business plan represents a document of planned business activities and financial effects of these activities. The most well-known methodology of making business plans are: World Bank methodology and UNIDO (UN Organization for Industrial Development) methodology (Wehrich, Koontz, 2000, pp. 135).

Two basic intentions of a business plan are: to help entrepreneur ensure necessary capital and to make managing growth and development of entrepreneurial organization easier. After making of a business plan, entrepreneur has complete insight if his idea is good and pays well, and becomes aware of the feasibility of the idea, i.e. if the market will accept his product or service. Business plan can be made for internal needs but for external users as well.

## ***RUNNING (MONITORING AND CONTROL) OF BUSINESS***

Entrepreneur's idea begins implementing, after collected resources. Entrepreneur and his men are running-in, operating of all factors is linked and follows their functioning. This is a totally logical sequence of events: after defining and setting goals, planning, engaging resources and the beginning of production, there follows running, monitoring and control of the implementation of the process of realization of entrepreneurial undertaking. Following are monitored and controlled:

- time – i.e. dynamics of implementation/if in keeping with the planned,
- expenses – if within the estimated range, is there any deviation and reasons for that,
- people – have they run-in, how they function,
- information from the field – they refer to monitoring of all market effects, in the way that system of monitoring and reporting is organized thus controlling achieving of goals.

When everything runs as planned, and goals are achieved, entrepreneur does not stand still. Considering turbulence, market and competition are constantly examined: do the buyer's demands change, has the competition dropped the price, in what region is the sale best and the like. Entrepreneur constantly improves his product and motivates his employees. Every man is important and every man can contribute even more than he thinks.

## ***CREATIVITY, INNOVATIONS AND ENTREPRENEURIAL IDEAS***

Innovation in global economy represents strategic factor of development where innovation of entrepreneurial organization should ensure strategic advantage over socio-economic novelties. Word innovation has its root in Latin word *inventio*, which means invention or discovery, changing of the existing. Innovation can be defined as creating something technologically new, something that did not exist before (Wehrich, Koontz, 2000, pp. 108). There must be a boundary fixed between the terms invention and innovation. Innovation understands something that already exists, but has not yet been noticed. As for phenomenon when noticed for the first time, it is said that it is discovered. E.g. man discovered fire but the man did not discover tools for lighting fire, the match, but he invented the match. Innovations can be:

- primary
- secondary
- tertiary.

Under the term of primary innovation we understand those innovations that are still only ideas and have not reached the stage of realization, secondary innovations

are already practically applied, tertiary are those that improve already existing product or service. For an entrepreneur secondary innovations are of greatest importance.

Innovation often understands creativity. Creativity means permanent search for changes. Creativity refers to the skill of combining ideas in a simple way. We must fix boundaries between the terms innovation and invention because these two terms are often equalized. However, they are two essentially different processes. The very process of creating ideas is invention. Innovation is a process of materializing an idea i.e. of the very application of entrepreneurial idea. It can be concluded that invention becomes innovation the moment an idea becomes economically payable i.e. acceptable on the market.

Both innovation and invention originate from an idea. Entrepreneurial idea represents impuls, impetus and agitator of the will, intention and energy of entrepreneur to direct his capabilities toward a chosen aim. That is the first step that entrepreneur makes when starting his journey through the business world (Weihrich, Koontz, 2000, pp. 109). Innovations mean introduction of something new and as such always bring changes with and are followed by a whole fan of risks.

Risks in the development phase of an idea are present for various reasons e.g. risk that developed working model will not be able to grow into mass production. The most important issue is how the market will accept innovation, should there be mass production. Other important issues are: Who are potential buyers of the new product or service? How large will the market be? How long will the product or the service remain in the market?

Many marketing risks are also present (Kluyver, 2000, pp.123):

- Reaction of buyers may be unfavourable due to various reasons, such as: change of buyer's preferences, unexpected lack of interest by the buyer, fear or repulsion toward changes etc.;
- Demand for a new product or service may exist, but it can be considerably below the expected.
- Competition organizations, with their actions which were unexpected, may influence the demand for the product;
- New product or service may turn out to be backdated in the occupying market phase, with the unexpected appearance of the similar product or service;
- Innovation can be launched at the wrong time etc.

"If we take a risk, it is true, we may be wrong, if we do not take the risk we may also be wrong, however the biggest risk is not to do anything". Risk can be defined as a danger of appearance of unanticipated event in future which leads to aberration from the desirable result. Every business carries certain degree of risk. If the risk can be anticipated, it is easier managed. However, every entrepreneurial undertaking is in the region of uncertainty, as one works today and the fruit is plucked in the future. E.g. the prices are known today, but not tomorrow. Entrepreneur is inclined to take the risk as he who does not dare, does not make

profit. The risk must be taken, but also one must learn how to manage it, i.e. identify and control it. Some risks are easily noticed while for some it is necessary to do certain research. Entrepreneur is aware that the higher the risk, the greater the possible profit. In this sense entrepreneur is aware of the fact that the higher the degree of risk, the greater the possible profit. Hence, profit is defined as the reward to the entrepreneur for the degree of risk taken.

Entrepreneur is no gambler who challenges his destiny but cautious businessman who knows measure to everything. If an entrepreneur wants or must enter business of high risk, in proportion to that is also estimated i.e. contracted profit which must be higher it is certain that with high-risk business entrepreneur will not act as an ostrich which, when noticing danger thrusts his head into sand. He will prepare and equip himself as to wait for the threatenig risk as ready as possible. He will not defend himself from the risk if he takes adequate security measures. If he expects risk, he will act more cautious, better and more equipped. If he expects the risk, he will act in that case more cautiously, better and more equipped. He will also engage best forces that will help overcome and minimise the risk. If he estimates that it is necessary and possible, he will ensure himself with respective insurance company. He will excel himself, and his staff on other grounds, so as to meet the danger brought by the risk more readily. If necessary, he will introduce new work methods, while carefully following how they implement (Ristić, 2008, pp. 576),

It is clear that the risk does not represent threat only but also a possibility to achieve certain economic benefit and profit. It is that possibility that is the leader of entrepreneurship and entrepreneur. Today, innovation is the key factor of survival, growth and development of an entrepreneurial organization. Entrepreneurial innovation, in essence, discloses hidden potential of every organization, i.e. recognizes good and profitable ideas. Entrepreneur should know his business environment, i.e.:

- Character, volume and certainty of demonstrating unwanted events;
- Signals preceding the unwanted event;
- Techniques of their avoiding and no repeating them;
- Status i.e. consequences of unwanted event;
- Measures for sanation of the status caused by risky event.

Unforeseeable risks are those a risk on which entrepreneur has no impact, sometimes not even insight into. Some of them are:

- Risk of unfavorable legislation,
- Risk of inordinary damage,
- Activities taken over by the competition,
- Inflation and other changes in monetary sphere, etc.

Examples of some foreseeable risks:

- Risk of competition in the sense of lower prices, more aggressive advertising and the like



- Risk from appearance of new technologies;
- Risk carried by the bank;
- Risk carried by the buyers;
- Risk from embezzlement, theft, flood, fire and similar
- Various business risks - choice of inadequate location, bad choice of distributors, wrong choice of targeted market and similar.

### ***PREVENTION AND FUTURE OF ENTREPRENEURSHIP***

Entrepreneurship is the gist of dynamics of contemporary economy. As innovative, dynamic business activity of creatively inspired people, it has the quality of business in fast changes, uncertainty and risk. Hence, it requires new approach to business, new business orientations, and new entrepreneurial strategies. Development of free entrepreneurship, through affirmation of business efficiency and professionalism, has great impact on the change of opinion, stands and culture, so it has to be made a part of education, built into the people's consciousness i.e. their day-to-day behavior. The future of entrepreneurship is evident not only in activating creative and expert human potential but also in the possibility of starting one's own business by those who want to solve the problem (Dolinger, 2003, pp., 25) of their existence and give their contribution to the faster change of the economical structure.

Directions and goals should be established in keeping with the competition building, activities must be set proactively and directed to managing changes that require implementation of such a model of business decision making that will be based on strong infrastructure for research and development of qualitative human resources, concrete expenses, positive attitude to cooperation, flexibility and adjusting technological, mobilization and means of small proportion, access to investing, improved technical competence etc. It is necessary to establish synchronized business decision-making between big and small organizations at the level of the country's economy and pro-active strategy that offers possibilities for conceiving respective infrastructure, technological competence, human and other resources, but also easier defining of criteria of successfulness, as well as measures for efficiency and effectiveness concerning business running of entrepreneurial economy (Kluyver, 2000, pp. 245).

### ***ESTABLISHING PRECISE CONTROL OVER BUSINESS***

Control represents a process of establishing of the achieved performances, their comparison with those planned, as well as defining corrective actions in order that possible negative deviations could be reduced to reasonable measures. Assumptions as planned and established objectives are standard for comparison.

Successful control must ensure adequate conditions and instruments such as (Jokić, 2002, pp. 299):

- standards for plans
- manner for measuring achieved performance-results,
- manner of removing deviations
- draft of plan re-balance plan and standards in keeping with the needs and changed circumstances.

Standards for plans are established for precisely determined period of time. They are conditioned with the power of installed capacities, number of employees and production abilities (internal limitation), as well as the situation in the market external limitation). It is easiest to control those performances that can be expressed in the form of quantity (e.g. overall expenses of running business, achieved sale volume, achieved profit and similar). Problems can arise if the results can be given by description and estimates only (e.g. buyers' satisfaction with the product or service).

Established deviations from planned standards are to be corrected and reduced to minimum. This should be done by the cheapest and most efficient ways.

If the deviations are large, there is environment pressure or no way for adequate corrective actions can be found, then re-balance of plans i.e. change of planned assumptions is done. Re-balance of plans should be rather an exemption than a rule.

Control allows accessing business activities creatively, much broader and deeper than just the executive role, thus influencing and creating a better climate and working conditions, and actively participating in measures of improving business, better motivation and wider influence on decision-making. Control also allows a better partition of work and tasks on departments and individuals, both within the marketing sector and department, as well as in comparison to other functions, and their relationship with marketing department (Dimitrijevic, Cogoljevic, 2015, pp. 17).

## ***CONCLUSION***

Entrepreneurial job is no easy at all, on the contrary. Beside risk and uncertainty that constantly follow the destinies of entrepreneurial business, there is also stress and numerous psycho-somatic ailments that an entrepreneur faces, as his business advances, through all its phases. To conclude, from an idea to the final control over established business, needs steady and alert control that an entrepreneur must exercise personally. Work on realization of an idea must be trusted with someone from the environment, or to a team member, if there is a team. By all means, the biggest burden carries the entrepreneur on his back. This work tried to shed light on entrepreneurial process step by step, from the very idea to set up some business, over it checking, identifying strong and weak points of the

business, as far as the control of business processes that take place as per the entrepreneur's idea. 'Entrepreneurship is activity aimed at starting, organizing and innovating business of a company, with one basic aim of creating new market and making profit. It is linked with all aspects of human behavior and activity - it develops creativity, urges hatching ideas and enriches human needs.' Entrepreneurship comprises a corps of knowledge, skills and competences, but also creativity, spiritus movens, courage, responsibility, dynamism, devotion, dedication, perseverance. Leading in entrepreneurial process is defined as activity of managing aimed at efficiently achieving objectives or an organization, through cooperation, communication, motivation and directing in accomplishing set objectives. Contemporary conditions management is transformed to managing people and process while management is defined as the skill of running business with people and with the help of people.

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# ***THE IMPORTANCE OF MULTINATIONAL COMPANIES ON THE GLOBAL MARKET***

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## ***ABSTRACT***

*Authors analyze the concept and origin, basic characteristics of multinational companies, their importance on a global level and the impact on the global market, political and economic effects of multinational companies in local, regional and world markets, their access to the global market, and market conquest by multinational companies. This paper provides the analysis of positive and negative aspects of the effect that multinational companies have in the worldmarket, tremendous increase in the exchange and availability of new products and services, as well as the dramatic increase in the mobility of foreign investments, movement of people and international competition. The analysis of multinational companies led to the conclusion that the availability of information within the company, as well as the determination of global brands of products and services, is becoming a phenomenon of the global market.*

**Key words:** *Multinational Company, Globalization, Global Market, Transition, State, Politics*

**JEL Classification:** *F60*

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## ***INTRODUCTION***

The process of globalization causes constant intermixing of regional economies, societies and cultures, whereby the key role in this process is not given to states and international organizations, but to multinational companies that become prominent. The purpose and goal of globalization is to create a single world market, and for this to be achieved, it is necessary to continuously influence their business systems, organizational structure and resources they have available. Globalization represents the final stage of the market integration across the world. Globalization means lower transportation costs, better information technology, and a liberating policy of reducing barriers between countries, all with the aim to achieve high-scale efficiency and specialization.

Multinational companies of global character apply global business management strategies to achieve competitive advantage, which is demonstrated by having recognizable products and services of the same quality, supported by users all over the world, while being adapted to the requirements and needs of local regions, which are, at the same time, a part of the global market.

Nowadays, multinational companies represent main bearers of economic activity and main active participants in business flows. They affect the employment of millions of people, as well as the level of economic activity in some countries. They have a privileged status in the World Bank and the International Monetary Fund. Multinational companies achieve their own development and gain power due to a different set of conditions in some countries. Multinational companies today represent the backbone of modern business, and bearers of economic development in the world economy. They contribute to allocation and better use of available resources, the introduction of new technologies, the emergence of new products and services, encouraging new types of demand, introducing new methods of work and business operation. Multinational companies establish their branch offices abroad, first of all, for their own interests-making profit. For developing countries and transitional economies, foreign direct investments represent an incentive for accelerated economic development through the valorization of available natural and commercial resources.

Modern world is characterized by the dominance of multinational companies and the economic globalization of the world's economy (Rosić, Veselinović, 2006, 141). The process of globalization began with establishing:

1. North American Free Trade Agreement - NAFTA (USA, Canada, Mexico),
2. European Union,
3. East-Asian Union (Japan and the so-called small Asian tigers).

They are struggling for domination in the world market in the field of world economy. This process has been growing stronger after the 1970s. Thus, the financial capital of the most developed countries of the world manages to connect each point (national economy, enterprise) on the globe into a "global village" (Pečujlić, 2000, 126). Markets that were once restricted to national territories have now gained international dimensions.

## ***THE CONCEPT AND ORIGIN OF MULTINATIONAL COMPANIES***

Different names are used to identify multinational companies: “multinational”, “international” and “supranational” company. The use of the term “multinational company” is prevalent. There is no generally accepted definition to refer to a multinational company. The justifications for this situation are found in the characteristics of a multinational company which may be considered from an economic, political, legal, managerial or some other point of view.

Multinational companies are actually national companies that unite the production and supply of large quantities of goods in several countries and represent very important factors in the world economy. Capital, knowledge and a large number of employees are concentrated in these companies, and the reason for their emergence should be sought in the laws of the market economy. The primary aim of entrepreneurs is to increase profit and accumulate capital through the production surplus value. When the capital in the home country cannot be increased by new investments, new, more favorable markets are sought and funds are transferred beyond state borders. This creates multinational companies that control the production of certain product in several countries and, as such, become an important factor in global connectivity. They are very adaptable to market laws, by using all available means and forms of making as quick and as extensive a profit as possible.

The first attempts to create the largest company by pooling capital and laborforce occurred in the 19<sup>th</sup> century, at the end of the first industrial revolution. The companies that emerged at that time were not of multinational importance because of production facilities that were located in one country. Such an example is found in Germany, in the form of GusBtahlfabrik consortium owned by A.F. Kruppa. This consortium consisted of coal and iron ore mines, factories, steel plants and high concentrations of capital and labor force.

The first real multinational companies, as large companies with international capital, were established between the two World Wars and were rapidly developing only after the Second World War. They were established in the United States and the United Kingdom and gradually spread to the industrialized countries of Western Europe, Japan, countries characterized by “overwhelming” industrialization, and more recently to transition countries. Nowadays, there are more than 1,200 such companies, and some of them generate the total income of more than US\$ 200 billion per year.

Most multinational companies have their headquarters in the following three most developed regions: in the USA and Canada, Japan and far-east Asian economic “tigers” and in Western and Northern Europe. According to data recorded in 1991 (this relation has not considerably changed to the present day), 157 out of 500 largest multinational companies have their headquarters in the USA. An increasing number of companies have their headquarters in the new world economic power, Japan, with 119 companies, followed by the countries of Western Europe, Canada and Australia. While companies are changing their rank from year to year, the list of one hundred largest companies has not changed significantly since 1990. The European Union, Japan and the United States own 87% of the top 100 multinational companies.

Multinational companies base their production on the application of high technology and relatively cheap labor. The development of technology allows them to produce parts of a final product in various parts of the world, i.e. in countries where costs of such production are the lowest. A country with the most favorable location, i.e. most cost-effective country is selected for the assembly of such a final product. The fact that multinational companies as large companies play an important role in the world economy is also supported by the fact that in the 1980s 25% of the world's industrial products were produced by such companies, while modern multinational companies generate or control 42% of the value of world trade (Lall, 2004, 34).

Multinational companies fit their interest into state interest as much as possible. It can be noted that the interest of almost all countries of the world is shifted from the ideological-political and military complex to economic-technical-technological development (Drucker, 1995, 32). The codependence between countries is established through new technologies and financial flows (capital and production exports).

Multinational companies, which also provide services and products and conduct trade operations in a number of countries, represent the main factors of today's international business operations in the world (Johanson J.K, 2000, 67). These are all those companies that think and operate using international and transnational logic (in the development of markets, production and technology) and can actively and directly influence the manifestation of competitive relations, on a multinational and global scale. They develop and continually expand their network of branch offices, affiliates and factories located abroad, through which the production and distribution of products and services are controlled. The companies have mixed ownership structure or operate on the basis of partnership relations (from license to their own affiliates) (Rakita, 2006, 78).

The significance of multinational companies is multiple. They have a substantial impact on:

- the allocation and use of resources on a global scale;
- development of a rapid flow of information;
- creation of new products and services;
- encouraging new types of demand;
- development of new methods of production and distribution.

The first multinational companies were established in the USA and the United Kingdom. It is important to note that their products and services are not created to meet the demand at the local level. They are the bearers of international marketing activities, and they behave and tend to be autonomous entities.

The emergence of global competition and global consumers, the development of global marketing infrastructure, high level of knowledge acquired as a result of transferred ideas and experiences, price inefficiency, doubled effort between markets - all these circumstances encourage multinational corporations to internationalize.

Multinational companies grow primarily because of their own interests, but they also have significant effects on the country in which they conduct their business activities. With the strength of their development and market potentials, they provide:

- additional resources for many countries
- technology transfer
- transfer of knowledge intended for local citizens
- international market standards
- more dynamic industrialization
- higher level of employment
- better capital and development base
- business, managerial and competitive training for participation in the world market (Bjelić, 2003, 136).

The population of multinational companies is growing steadily, and now there are already more than 1,200 multinational companies which have a total annual turnover of more than 100 million US dollars. In the early 1990s, around 37,000 multinational companies with around 170,000 affiliates or subsidiaries operated worldwide, and in 2003, there were about 40,000 multinational companies with about 280,000 affiliates, which means 7 branches offices per company on average. Their spatial distribution is highly uneven, i.e. the headquarters of multinational companies are very unevenly distributed and are located in the most economically developed parts of the world.

Most multinational companies have their headquarters in the US, Canada, Japan, "Asian tigers", developed European countries and Australia. 53% of the 500 largest multinational companies are located in the USA and Japan, whereas the others are located in Germany, the United Kingdom, Italy, Canada, the Netherlands and Australia. While some companies have limited their business operations to just a few countries, others, like Coca-Cola (operating in more than 130 countries around the world), are present in all parts of the world.

Since they operate outside the borders of their home countries, they also employ a large share of foreign workers. For example, the Dutch company, Philips, employs as much as 79%, Ford employs 58%, ITT 53%, IBM 43%, and General Motors 31% of foreign workers.

Fortune Magazine, August 2017, gives a list of 500 largest companies in the world according to their total revenues. The top ten companies are presented in the Table 2 without the complete data available in the table:



*Table 1: The list of 500 largest companies in the world according to their total revenues*

Company	Country	Revenue (million \$)	% of growth according to data recorded in 2015	Number of employees	Rank
1. Wal-Mart	USA	485,879	0.8	2,300,000	1
2. State Grid	China	315,198	4.4	926,067	4
3. Sinopec Group	China	267,518	8.1	713,288	6
4. China Petroleum	China	262,572	12.3	1,512,048	2
5. Toyota Motor	Japan	254,694	7.7	364,445	28
6. Volkswagen	Germany	240,263	1.5	626,715	7
7. Royal Dutch Shell	The Netherlands	240,033	11.8	89,000	261
8. Berkshire Hathaway	USA	223,604	6.1	367,700	196
9. Apple	USA	215,639	7.7	116,000	196
10. EXXON Mobil	USA	205,004	16.7	72,700	291

*(Source: Fortune Magazine)*

The first place has been undisputedly held by Wal-Mart trading company since 2002.

The combined revenue of the 10 largest corporations in the world, including Apple, Shell and Wal-Mart, is higher than the revenue of the 180 out of 195 poorest sovereign countries of the world, according to the research conducted by the group Global Justice Now, based in the UK. According to research results, Wal-Mart, Apple and Shell are now richer than Russia, Belgium and Sweden (<http://www.bankar.me/2016/09/13/tri-kompanije-bogatije-od-rusije-belgije-svedske/>). Among the world's 100 largest economic entities, there are as many as 69 corporations. (Fortune's list of 500 most successful multinational companies in 2011 (GLOBAL 500), available at: [http://money.cnn.com/magazines/fortune/global500/2011/full\\_list/](http://money.cnn.com/magazines/fortune/global500/2011/full_list/)).

The situation is even worse when taking into account the top 200 largest world economic entities, since among them there are 153 corporations and only 47 states. In the course of its research, Global Justice Now compiled a list of the world's largest economic entities, where states and corporations are listed. The list shows that the most powerful national economies - the USA, China, Germany, Japan, France, the Great Britain, Italy, Brazil and Canada - hold the top nine positions, and then there are multinational companies, and the first among them is Wal-Mart, i.e. ranked 10th on the overall list. Our country is ranked 273rd. ([http://www.globaljustice.org.uk/sites/default/files/files/resources/corporations\\_vs\\_governments\\_final.pdf](http://www.globaljustice.org.uk/sites/default/files/files/resources/corporations_vs_governments_final.pdf))

Therefore, it can be concluded that companies which strive for success in international business operations must raise the process of planning their business activities to a higher level, i.e. to a global level.

## ***MAIN CHARACTERISTICS OF MULTINATIONAL COMPANIES***

Main characteristics of multinational companies are as follows:

- the dominant role in the world market of goods, services and capital,
- the concentration and centralization of capital,
- from one point of view, they represent a development transmission, and from another - a cause of exploitation on a global level,
- modern technology, knowledge and capital,
- their business philosophy tells us that the whole world is a single market, and they are adapting to it,
- these corporations find places where they can produce the lowest costs possible and sell where there is the demand,
- they invest in different ways,
- they make direct and portfolio investments into underdeveloped countries to ensure low-cost resources with the goal of reducing production costs and maximizing profits.

It could be said that multinational companies are the most important aspect of the system of developed countries in their efforts to establish economic (and political) domination in the world economy and trade by economic means and mechanisms. Multinational companies are considered to be one of the driving forces of the development of national economies. Foreign capital, regardless of how it enters the country, by direct investment and recapitalization or by acquisition and taking over companies, contributes to development, as it brings new knowledge and technologies, widens the market, and ensures higher quality of production and consumption, etc.

One of certainly most valuable advantages of multinational companies is technology. Other advantages are brand, specialized skills, the ability to organize and integrate production across different countries, creating a marketing network, or privileged access to the market of non-proprietary advantages (funds, equipment, etc.). Jointly taken into consideration, these advantages mean that a multinational company can significantly contribute to the development of the host country - if the host country can indicate that it transfers its strengths in adequate forms and has the ability to make good use of them (Grubor, 2003, 44).

Multinational companies have their positive and negative features. Positive features refer to the impact on the development of the economy and the employment of the population in the most developed parts of the world, the main role in the advancement of science and the development of technology, and contribution to the connection in the world. Negative features refer to the influence on politics, but also a monopoly in the economies of individual countries. Often, companies serve regimes that endanger human rights or threaten the environment.

It is estimated that by 2027, in global GDP, global industries will have the share of around 80% - out of the expected \$ 91,000 billion, \$73,000 shall be generated on a global basis, which is the amount 12 times higher than the one recorded in 1997 (Table 1).

*Table 2: Expected trend of the globalization process by 2027 (according to the value of the world GDP in 000 billion dollars) (Vitić, 2007, 42).*

Industry/products	1997	2027 - estimate
Globalized	6	73
On the path of globalization	18	13
Local	4	5
Total	28	91

### ***POLITICAL AND ECONOMIC IMPACTS OF MULTINATIONAL COMPANIES***

Many changes occurred in the last decade of the 20<sup>th</sup> century, which changed the industrial society. An important role in this process was played by the stunning development of science and technology, which represented the driving force of society. This development led to a comprehensive economic development, and the formation of multinational companies marked the beginning of economic globalization. Multinational companies are, in fact, companies operating in several world countries. They are economically powerful and have an impact on the overall economy and politics of certain countries. These companies began to develop in the 1990s.

Since then, multinational companies and especially American companies of that sort have significantly influenced economic opportunities in the world and determined when and how the world market becomes saturated with some product. Guided by the experience of their American competitors, European countries decided to establish such companies themselves. Such a development of the situation has led to the expansion of multinational companies. The advantage of multinational companies lies in the fact that they align their production with the needs of the world market, and not the needs of local population.

After the dissolution of the Soviet Union in 1991, the markets of Eastern Europe and China opened to multinational companies. The active role and investment projects in these markets during the 1980s and 1990s, led to strengthening of the economy, as well as multinational companies. Statistical data show that in the 1990s more than 45,000 multinational companies operated in the world, 37,000 of which were owned by developed countries. In 1996, multinational companies from some of the world's leading countries made a profit of US\$7 trillion, which is much more than the overall profit generated on the world market, which amounts to about US\$ 5.2 trillion.

Today, in addition to trade, economics and industry, multinational companies actively participate in world politics, where sometimes their decisions are considered to be much more important than the decisions of governments of individual world countries.

There are mutually opposing attitudes towards activities of multinational companies in the world and especially in developing countries. It is not difficult to find people with a superficial opinion who spread the belief that the income of these companies leads to an increase in capital and the development of the economy of the countries in which they run their business activities.

On the other hand, economic analysts have repeatedly warned that multinational companies derive their income from the countries in which they operate in the form of foreign exchange reserves. Such an outflow of foreign exchange is much higher than the initial capital that multinational companies bring into developing countries. On the other hand, the introduction of technology into all types of business contributes to an even greater conflict of these countries with strong economies. Multinational companies have modern technology that allows them to obtain a variety of profitable business deals, which brings local companies to the verge of bankruptcy and collapse. Furthermore, multinational companies align their production with the needs of the world market, not with the needs of the local population. Contrary to the opinion of individuals who believe that such investments have led to the silent occupation of certain developing countries, experience shows that the presence of these companies in some country does not lead to its occupation, but to the unemployment of workers who were previously employed in various areas of the state economy.

Today they have huge capital, which allows them to have, not only economic, but political power as well. Their political influence is so strong that, both in their home countries and in other associate countries, they can change legal provisions, thus affecting both their political and social life. A large number of multinational companies have the largest number of employees outside their home countries. In order to generate greater profits, companies are ready to create a more favorable climate in all areas of their work by financing various international organizations, political parties, foundations and other organizations. Nowadays, the prevailing opinion is that multinational companies are the third-largest force in the world, immediately after the United States of America, ranked first, and Japan. As a world power, they represent one of the main phenomena of contemporary tendencies, but also an inevitable aspect of transition. Today, they represent the most economically organized international forces of modern international relations in the field of economy and international movement of capital.

### ***GLOBALIZATION IN THE FUNCTION OF THE DEVELOPMENT OF MULTINATIONAL COMPANIES***

Globalization is stimulating a better and increasingly efficient transportation, communication and information technology, which together ensure a greater production volume, while reducing production costs, speed and distance of transporting goods from one place to another, thus reducing the cost of such an exchange, on one hand, and meeting the taste and consumption requirements of consumers in terms of a greater choice of different types of products and services, on the other hand.

Globalization is present throughout the world, including the area we live in. Simply put, globalization and transition are interconnected. The transition enables the revival of the market and private ownership which is a prerequisite for the democratization of society. Therefore, governments are deliberately changing the policy of reducing and eliminating obstacles so as to ensure smooth movement of goods, capital and services, especially when the authorities, through their own actions, become aware of the costs that such barriers incur. On the other hand, powerful companies change their business strategy and put an emphasis on profit growth through cost savings rather than by increasing the price of goods and services.

Although globalization aims to create a single global market, it has certain negative consequences, especially for the underdeveloped countries of the world. For example, most of the trade takes place within the three aforementioned integration units - regions (NAFTA, European Union, Asian Union) and not among the countries belonging to different integration units. Research shows that OECD countries will buy goods from their country two and a half times rather than purchasing such goods in another country. This means that most of the trade takes place within three regions, and not among all regions, which leads to the conclusion that there are significant differences in the prices of the same products in different countries.

The biggest criticism of globalization lies in the fact that it is evaluated as devastating to employees. Employees have a smaller impact on the conditions of work, and their negotiating power is reduced. Even here, majority of investments go to rich countries. Thus, for example, 81% of the funds that America has invested outside the country, are invested into countries with high incomes, and less than 1% goes to countries where personal incomes are low, although salaries given by multinational companies in countries with low and middle-scale income are, on average, 1.8 to 2 times higher than the average salaries in those countries. Of all the above mentioned deficiencies of globalization, the worst problem arises from already mentioned gap between the rich and the poor (Vesić, 2009, 233).

Globalization represents the final stage of the market integration across the world. Multinational companies are companies that operate simultaneously in many countries. Globalization means lower transportation costs, better information technology, and a liberating policy of reducing barriers between countries, all with the aim to achieve high-scale efficiency and specialization. Multinational companies perform their sale operation simultaneously in many countries. If they decide to do so, they can also transfer their production into the parts of the world where production costs are the lowest and benefit from the economy of scope, although they will still conduct a part of their sales operations in many different markets. This has three effects:

1. First, this reduces impediments to enter certain countries. A foreign multinational potential seller does not have to strive to conquer a large part of the market, and therefore does not have to reduce the price significantly to reach the scale of economy, stemming from the success of global trade.
2. Second, small domestic companies, previously protected by entry barriers, now face a more serious international competition, and it is possible that they will not prevail.
3. Third, according to producers with low production costs, more serious competition leads to lower profit margins and lower prices.

However, if there are only a few multinational companies, they can push out of business domestic companies that conduct their production at higher prices, and then clash each other to increase prices again.

### *ACCESS TO THE GLOBAL MARKET*

In the global market, the expertise and resources of a company are essentially determining the company's policy, strategy and structure. Access to global markets also requires an understanding of the basic determinants of a national competitive advantage. The character of the competition and the sources of competitive advantage differ not only by branches, but also by branch segments. Enterprises achieve and maintain a competitive advantage through improvements, innovation and overall success.

According to Porter, four factors help a nation to shape the environment in which domestic companies compete to improve or limit the creation of a competitive advantage:

- factor conditions - the position of the nation among the production factors (professional workforce and infrastructure),
- demand conditions - the character of domestic demand for products and services within the branch,
- related and supportive branches-presence or absence of branches that supply or are related (and which are mutually competitive),
- strategy, structure and rivalry of enterprises - conditions in the national economy that direct the establishment, organization, management of the enterprise, as well as the character of the domestic rivalry.

Porter's analysis of determinants of national strengths shows that the conditions for business success are created first in the national economy, that is, on the domestic market. Thus, the most important reason for international success is an intense competition among companies within the domestic market. Many authors cite a number of strategic options in the global market, i.e. different variations of generic strategies (cost leadership, differentiation and focus - based on costs or differentiation) used on the domestic market (Todorović, 2004, 164).

One of the key issues in deciding on the emergence on new markets is to reliably respond to the question of whether a company has a competitive advantage and whether it is beneficial in new markets. In seeking a reliable answer to this question from a marketing point of view, a combination of internal analysis, competition analysis, and external analysis is used (Petrović, 2008, 104).

Global orientation means that the company is not limited only to business activities in familiar or traditional markets, but also on new attractive national markets (whereby it is important to choose the right time and the right way to emerge on new markets). In this regard, some authors specify six types of strategies (Ibid., pp. 211-215):

1. emerging on the market with a wide line of high quality products (quality leaders),
2. innovators (specific nature is the high share of new products),
3. the enterprise follows the integrated strategy (integration, consumer concentration),
4. the company follows a strategic orientation towards narrower markets (lower quality products and more modest marketing efforts),
5. the company is oriented to the market "niche" (a smaller number of consumers with a relatively narrow product line),
6. synergetic group (oriented to a relatively smaller market width with fewer new products).

However, each company, first and foremost, must take into account all elements of the business environment when joining the international flows. At the micro level, this would practically mean that there are several implications that are significant for every business subject focused on the global scene today:

1. affirmation of new competitors, new methods of competition in all parts and in all segments of international markets,
2. emergence of new markets (and countries with export expansion),
3. appearance of new sources of supply (at lower prices),
4. emergence of new potential partners for production and/or marketing arrangements (additional activity, but also different in relation to partnership with industrialized countries),
5. narrowing the existing production lines of traditional manufacturers (looking for market space for those items where they can have some comparative advantages),
6. economy of scope is indispensable to enterprises (serial production which could be competitive in international markets),
7. to a significant extent, enterprises must endeavour to internationalize their production and marketing efforts and resources, in order to survive on international markets.

## ***CONQUERING MARKETS BY MULTINATIONAL COMPANIES***

Every major business venture requires studious thinking and a precise strategic emergence on the market, which can be carried out in different ways, using different means and different methods. The type and content of such participation is defined, on the one hand, by the character of the relevant market, and on the other hand, it is defined by business objectives to be achieved, as well as the business opportunities of the entrepreneur and its company to achieve the defined goals (Kotlica, 2000, 98).

As a rule, the effort directed towards conquering a foreign market, regardless of the type of participation (export, import, cooperation, direct investment) is made

according to a certain procedure, which in general covers the following phases of operation (Jokić, 2006, 117):

1. Identification of needs and opportunities for participation in the foreign market. On that occasion, it is determined whether the company has the need to conquer and perform business operations in the foreign market.
2. Research of domestic and research of interesting foreign markets. Within this phase, it is determined which jobs are profitable, and which countries are suitable for performing lucrative business. The above mentioned research determines: supply and demand (quantities and prices) for certain items on the domestic and foreign market in order to obtain information about the abundance and shortages as well as price disparities, which can be the basis for starting particular business; legal regulations, custom law, culture of the environment and everything else related to the unknown or insufficiently known foreign space in which business can be started.
3. Identification of the country or countries in whose market the foreign business will be launched and managed. This refers to the choice of macro-location, as well as the choice of business which shall be conducted at that macro-location.
4. Determining objectives and strategies of foreign participation. At this stage of preparation, it is necessary to determine the goals that are to be achieved and the strategy of action aimed at achieving the defined goals.
5. Determining the internal capacity of a company to perform the defined business. Within this phase of research and engagement, organizational, personnel, financial and other resources of the company required for starting and successful management of the planned business are defined.
6. Identification of foreign partners and their engagement for the purpose of the planned business. This phase is about suppliers (in case of purchase on a foreign market); customers (in case of placement of products on a foreign market); business partners, associates, engaged workers and others whom the planned foreign business shall be conducted with.
7. Determining a micro-location where the foreign business will be conducted and the provision of such location: lease, purchase, or something else.
8. Determining the time required to accomplish certain tasks in the course of preparing the business, as well as the order of engagement of individual bearers of preparatory activities. In order to do this, it is best to make an appropriate plan, in which the activities, bearers of activities and the time schedule of their engagement will be precisely defined.
9. Other research and identification activities. These activities can be very different depending on the type of foreseen business and country where the preparatory and operational implementation is conducted.

The second phase of preparatory activities is a very important phase of operational activities. As a rule, it includes the following tasks and activities:

1. Establishing and conducting operational communication with identified domestic and foreign partners whom the planned business shall be conducted with. The initial communication can be established through the government,



the chamber, professional associations, through fairs and commercial exhibitions, via the Internet and/or directly. If they participate in a foreign market, which is absolutely or relatively unknown to them, no entrepreneur and no company can successfully commence managing their business operations without the help of businessmen or companies operating in the foreign territory, where the business is planned and conducted.

2. Conclusion of agreements (contracts) with domestic and foreign co-operators which were previously identified, whom the planned foreign business shall be conducted with. The foregoing includes presenting relevant domestic and, in particular, foreign regulations and standards to co-operators relating to technical, sanitary, environmental, human resources, labor and social and other conditions for the performance of a defined foreign business.
3. Perform legal formalities related to participation in the foreign market. This refers to obtaining various export-import and/or other permits and approvals from state authorities of their own government, as well as relevant foreign government, in whose market the business is planned to be conducted.
4. Purchase, construction and/or lease, and then equipping business premises. Full attention must be paid to the location where the business premises of the company will be located. Very often the performance of a defined foreign business depends on the very selection of a suitable or unsuitable location. The location that is selected and provided should be in the right place where suppliers (in case of purchase), i.e. where buyers (in case of sale) are located. If the location is inadequate, the costs of transportation shall be higher, which reduces the price competitiveness of the entire business.
5. Establishing operational business communication with identified clients (suppliers, customers and others); with state authorities, neighbours and other interested parties and presenting the company and the business to them.

The third phase of a foreign business implementation is the last and basic phase of conducting activities, prepared in the previous phases of work. Implementation actually means a current performance of defined business operations. This part of the job must be consciously and comprehensively performed, according to the previously determined plan, since its results yield the desired financial, promotional and/or other effects, which are the main objectives of launching the foreign business.

## *CONCLUSION*

Globalization is present throughout the world, including the area we live in. Simply put, globalization and transition are interconnected. The transition enables the revival of the market and private ownership which is a prerequisite for the democratization of society. Therefore, governments are deliberately changing the policy of reducing and eliminating obstacles so as to ensure smooth movement of goods, capital and services, especially when the authorities, through their own actions, become aware of the costs that such barriers incur. On the other hand, powerful companies change their business strategy and put an emphasis on profit growth through cost savings rather than by increasing the price of goods and services. Competitiveness on the international level requires companies to turn domestic positions into international ones, i.e. to adopt a global strategy of performance. There are fewer national and more global products.

Positive features of multinational companies refer to their impact on the development of the economy and the employment of the population in the most developed parts of the world, the main role in the advancement of science and the development of technology, and contribution to the connection in the world. On the other hand, their main negative features refer to the influence on politics and a monopoly in the economies of individual countries.

Due to the size of multinational companies, their geographical distribution, the variety of its activities, the power over resources around the world, and the use of these resources, as well as their results, multinational companies are becoming rivals to traditional economic exchange among nations. Business operations of multinational companies exceed the operations of domestic enterprises in every aspect. Multinational corporations have become synonymous with dynamics, rapid development, technological advancement, the expansion of international investments and other economic relations, as well as the prototype of new relations between economics and politics.

The analysis of multinational companies leads to the conclusion that globalization has penetrated into all pores of our lives, which gives it an economic nature. It means a very fast integration of the economy across the globe, primarily through trade, financial flows, technology exchange, information network and intercultural and historical legacy of movement.

Although mainly perceived as something distant and abstract, multinational companies have become a part of our everyday life more than we can imagine.

Starting with the food we eat, clothes we wear, technology we use, cars we drive, the impact that multinational companies have in today's world is inconceivable and inevitable. Whether, due to globalization and accelerated technological development, multinational companies will lead to weakening of nations and strengthening of their brands, remains to be seen.

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# **ELABORATION OF IMPORTANCE OF FAST GROWING COMPANIES GAZELLES - NEW EVIDENCE FROM SERBIA**

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## **ABSTRACT**

*Small and medium enterprises (SMEs) are one of the key pillars of development of all national economies, both the richest and those less developed. In this paper, attention is focused on the specific segment of SMEs, characterized by rapid and stable growth, ability to quickly adapt to changing market conditions and in the long term to operate at the high performance level. These companies are today known as "Gazelles", a term that was coined by an American author, David Birch. The interest for these companies, both at the macro level of policy creators, as well as at the company level, has grown rapidly in recent years because of their high potential for addressing issues of unemployment, creating a host of new products and services and added value for society as a whole and alike. The paper deals with issues such as definitions and basic characteristics of these companies, the key factors of their business, as well as their level of development in the European Union and the Republic of Serbia.*

**Key words:** *Growth, Small and Medium Enterprises (SMEs), Gazelles, Business Performance, Innovations*

**JEL Classification:** *L25, L26*

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## ***INTRODUCTION***

Due to numerous economic and social advantages, such as economic and technological flexibility, job creation and employment, the SME sector is development generator of every national economy. They are the dominant form of business organization, accounting for 95% to 99% of total businesses in national economies employing between 60% and 70% of total working population in some countries. The focus of this paper is put on the special group of SME enterprises, i.e., a group of fast-growing companies called gazelles. These enterprises attract a lot of attention owing to their above-average growth rate, which makes them the best and the biggest job generators. They have attracted so much attention because they contribute to social well-being by creating new businesses and jobs. They are said to provide a high return on investment, promote regional development, and contribute to the managers' and employees' satisfaction. For these reasons, in the recent years, many governments have aimed to increase the number of gazelles.

## ***LITERATURE REVIEW***

The author who has coined the term "gazelle" to describe the firms which are growing at the rates considerably over the industry's average was David Birch (Birch et al, 1998). The research performed by Birch has shown that a major share of new jobs in USA has been created by SMEs, particularly in the new and highly innovative groups of SMEs. According to his study, on average, two thirds of all jobs are created by SMEs. Kirchoff at all, have come to similar findings regarding situation in the Europe (Kirchoff, 1994), while Brüderl at all, have confirmed it for the Germany (Brüderl et al., 1996). According to Dautzenberg at all, three meta-studies and 22 empirical studies on the subject of gazelles have been conducted between 1994 and 2011 (Dautzenberg et al., 2012). The studies were conducted in USA, Canada and several EU countries (Germany, Finland, Sweden, UK, Spain and the Netherlands). Most of these studies have confirmed importance of the gazelles in their national economies: they have found that only 2% to 5% out of total number of companies could be put into the category of gazelle, but 60% to 75% of all newly created jobs can be allotted these companies. Thus, gazelle, despite their small share measured against all companies, have effect on employment much above the average.

The findings regarding the importance of innovations and gazelles are not unambiguous. The research conducted by Werner Hölzl, has shown that the gazelles have important role in R&D and innovative practices in the developed and technologically advanced countries, but not in undeveloped countries in which gazelles could be found in all (high-tech as well as in traditional more mature) industries (Holzl, 2008). On the other hand, Geroski et al (1997) and then Bottazzi et al. (2001) have not found significant relationship between company growth and innovation activity (Geroski et al., 1997); (Bottazzi et al., 2001). More recent studies, focused on the fast growing companies, on the other hand, have found clear positive relationship between innovation activity and growth (Coad, Rao, 2008).

## ***DEFINITION OF FAST GROWING COMPANIES - GAZELLE***

By studying the prosperity of the Silicon Valley in 1980's, David Birch concluded that only three percent of companies would survive and continue to grow and he named them dynamic companies, gazelles (Birch, 1979). Studies show that the share of these companies, comparing to other companies or businesses that have been created in the current year is very small in any economy, the figures varying between 2% and 15% depending on the study. Birch, also set the principal elements to be used in applying gazelle definition, these are: selected growth indicator, measurement method, time period of measurement, as well as other additional criteria. Growth is conditioned by relative or absolute growth as well as a mix of the two. The default time for the company analysis company is usually three years.

The most commonly used definition of a gazelle in the world literature is that these enterprises are those whose sales increase by at least 20% per year over the course of three consecutive years.

The most important indicators of company's growth are:

- Type 1: Absolute growth  $AR_{t1t2} = \text{aps}(x_{t1} - x_{t2})$  that measures sales growth and employment growth as a difference between the first year of proportion / size, and last year the share / size
- Type 2: Relative growth  $RR_{t1t2} = (x_{t2}/x_{t1}) - 1$ , which measures turnover growth or employment growth as a division between first-year share / size, and last year the share / size
- Type 3: Birch Index  $BI_{t1t2} = |AR_{t1t2}| * RR_{t1t2}$ , which calculates the turnover growth and employment growth as a combination and multiplication of the absolute and relative growth.

The OECD (2007) definition is that the fast-growing enterprises are those generate the average annual growth rate of over 20% per year over a period of three years with at least 10 employees in the initial year of the period, whereas gazelles are a group of fast-growing companies with up to 5 years of existence.

## ***CHARACTERISTICS OF GAZELLES AS ECONOMIC DEVELOPMENT DRIVERS***

Successful gazelles are characterized as enterprises with a clear strategy of differentiation, fostering their customers and cleverly using the resources available in their environment, especially those that allow them to reduce the risk and uncertainty, as well as knowledge creation and innovation.

## ***CORRELATION BETWEEN GAZELLES AND GROWTH***

Fast growth is possible in two situations: formation of the new company created to use innovations of technological-marketing nature in ceasing market opportunities not identified by competition and/or existing company is introducing new strategies, procedures, conduct and similar. Subject changes, if radical, may contribute to strong company growth. Important element of strategy implementation is the ability of the company to learn from the growth in a certain period and then to apply the lessons learned in the next period. On the other hand, the biggest limitation or barrier to growth, in most cases, is the use of inadequate strategy mix.

Growth nature in these companies is not always continuous and that companies may be subject to non-linear forms of growth, with frequent booms and plunges, and that in spite of all of that they continue to grow in long term. Understanding what the driver of fast SME growth is crucial both for managers striving to become or remain competitive, and for the governments responsible for national economies and creation of new jobs.

## ***CORRELATION BETWEEN GAZELLES AND INNOVATION***

Dynamic organizational capabilities of an enterprise are based on the ability to connect internal power to external needs. Gazelles are characterized by the fact that innovations are not only introduced in production domain, but practically in all domains of operations, including managerial, organizational and technical innovations within the company. Fast growing companies succeeding with the help of innovative approach in marketing, organization and/or distribution may be found in all spheres of business. Gazelle innovation represents a change of approach to resource management and the introduction of new organization structure rather than the creation a new technologies or product in general.

## ***CHARACTERISTICS OF GAZELLES IN TERMS OF SIZE AND AGE***

It is estimated that about 70.5% of gazelles are small-sized businesses, while medium-sized enterprises constitute about 27.5% of all gazelles in the EU. The biggest number of gazelles is certainly among small and young firms. Age of gazelles is an interesting issue. Baseline assumption of David Birch, is that fast growing firms are by default young companies. Research conducted in USA in 2008 found that, however, average age of fast growing companies is as much as 25 years (Acs et al., 2008). On average, the largest number of gazelle founders has significant experience of many years in their profession, in a particular area and branch. One of the most important growth patterns of a company is just the professional experience of the founders and employees.

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## ***STRATEGIC ASPECTS OF GAZELLE OPERATIONS***

Successful gazelles are characterized by application of clear differentiation strategies, customer care and smart use of available resources in the environment. Subject companies are successful due to their close contact with the customers, listening to identify customer needs and requirements, constant product improvement and, thus, ensuring superior position versus relevant competition. Focus on quality, clients and distribution are by far the most important growth drivers and in that context of marketing it plays key role. Dynamic organizational capacities of the company are based on its ability to connect internal forces with external needs. Crucial factor safeguarding survival of SMEs, and especially gazelles, on the highly competitive market is human resources management, including style, personnel, skills and common values. Style is related to grouping staff by similarities in thinking and conduct, strengthening organizational culture and involving employees in decision making processes; staff is related to special individuals, engaged. Skills are related to the fact that employees possess special skills required for company strategy implementation.

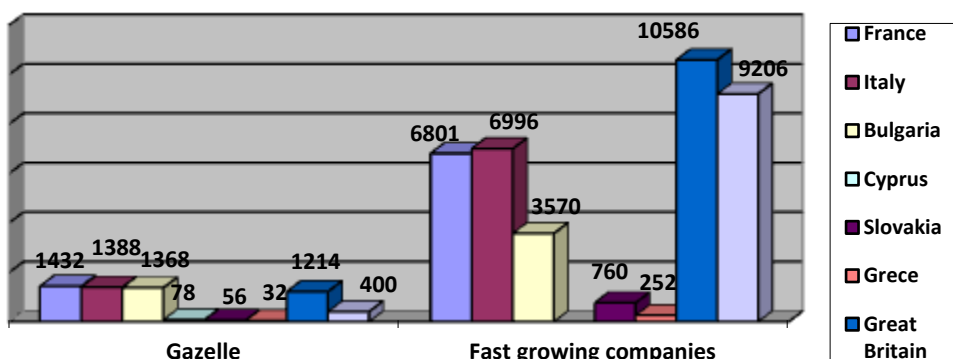
## ***GAZELLE FIRMS IN THE EUROPEAN UNION***

Researches proved that most important trends of European economy are connected with fast growing companies, particularly gazelles. For example, comparing to the average, gazelles provide more significant contribution to sales growth than to the employment growth in the total economy; then, young production firm generate more contribution to sales growth and less to employment growth, while service companies generate more significant contribution in both domains, sales growth and employment growth.

## ***OVERALL IMPORTANCE OF SMES AND GAZELLES FOR ECONOMIES OF EU COUNTRIES***

Graph 1 shows EU Countries with both three highest and three lowest number of gazelle and fast growing companies in 2010, according to Eurostat.eu official statistics. Gazelles were characterized like companies of not more than 5 years in existence with the average annual growth rate above 20% in the last three years. Fast growing companies are companies with the average annual growth rate of 20% in a three year period.

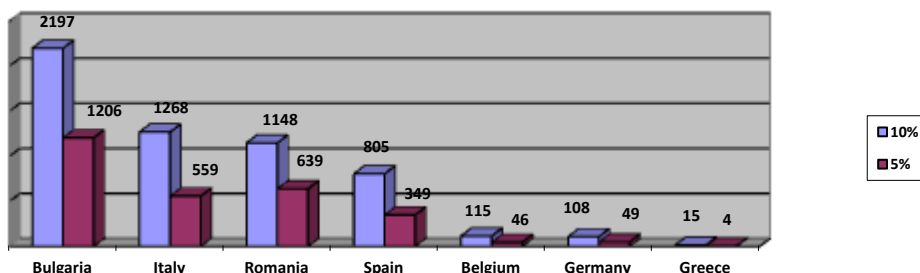




Graph 1: The Number of Gazelles in Selected EU Countries  
 Source: Eurostat.eu

**CONTRIBUTION OF GAZELLES AND FAST GROWING COMPANIES TO THE EU ECONOMIES**

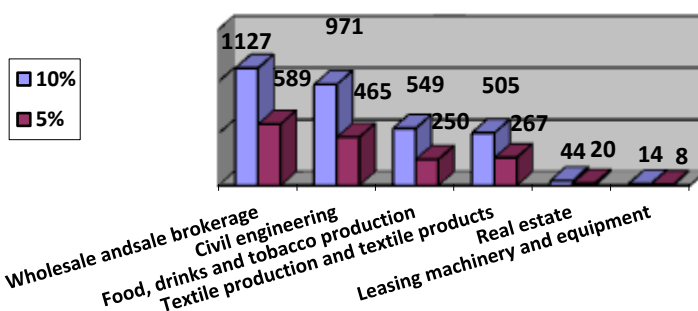
Share of gazelle firms by countries is shown in the study conducted by the European consortium INNOVA Sectorial Innovation Watch, in January 2011 (Mitsch, Schimke 2011). Research included analysis of gazelle firms share by countries within two specific samples: share of 10% and 5% of fast growing companies. Research was based on the database of CIS IV (CIS (Community Innovation Surveys) are statistical researches of innovations in companies in the science and technology segment of EU. Producing CIS data is on voluntary basis for all member countries. CIS IV was implemented on the basis of 2002-2004 reference period in the following countries: Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, Greece, Spain, Finland, France, Hungary, Italy, Lithuania, Latvia, Portugal, Romania, Slovenia, Sweden, Slovakia, Norway and Island.). Graph 2 shows five of highest and two of lowest shares of gazelles both with 10% and 5%.



Graph 2: The share of gazelles in selected eu countries  
 Source: Eurostat.eu

## ***THE SHARE OF GAZELLES IN INDIVIDUAL SECTORS OF EU COUNTRIES***

Aforementioned study (Mitusch, Schimke 2011) showed representation of gazelles by industries and sectors in EU. Research identified gazelle shares by sectors and industries within 5% and 10% groups of all growing companies in EU within NACE (NACE (European Classification of Economic Activities) is a statistical classification of economic activities in the European Community and a subject of EU legislation.). Graph 3 shows highest and lowest gazelle share by sectors.



*Graph 3: The Share of Gazelles in selected EU countries by Sectors*  
Source: Eurostat.eu

## ***EVIDENCE OF GAZELLE PERFORMANCE IN THE REPUBLIC OF SERBIA***

In the most recent period for which data is readily available (2013) and, by analogy in the subsequent period, the SME sector has remained an increasingly important sector of the Serbian economy, with an increasing share of the economic structure and contribution to GDP.

However, the Republic of Serbia's ranking is relatively low compared to EU countries in terms of potential entrepreneurship and innovations. Measured by the global entrepreneurship development index - or GEDI (*Global Entrepreneurship Development Index* (<http://thegedi.org/research/gedi-index/>)), which is used as an indicator of the quality of entrepreneurship and innovations, which have been influenced by individual and institutional factors, in 2014 Serbia ranked 68 out of 130 countries, which is below most of the countries in the Region.

It is argued that Serbian gazelles recorded a dynamic growth of employment and total revenues, primarily, thanks to their investments in technical and technological resources and applying the cutting edge methods and standards taken

from successful countries; but also thanks to continuous professional education of employees, continuing improvements of customer relations, product and/or service quality and aspiration towards winning over new positions in the market.

The advantage of these enterprises is primarily in what is considered a fast revenue growth and market share usually accompanied by an increase in company value. Their greatest weaknesses, on the other hand, are mainly associated with the fact that they have not achieved the necessary economies of scale and therefore occasionally enter the zone where they generate losses. In addition, they are usually faced with constraints related to financing of their business activities, and have difficulty to reconcile growth and profitability. The biggest obstacle in obtaining funds for these enterprises is a brief period of existence, which is why they do not have sufficient credibility among investors, and often record a high level of indebtedness, which prevents further borrowing.

Although, judging strictly from the standpoint of European standards of innovations, economic power and competitiveness, it is still early to talk about dynamic entrepreneurship in Serbia – in its last official research the Republic institute for Development for the period 2003-2007 identified 532 dynamic enterprises out of which 53 firms can be classified as the most dynamic ones – gazelles (The Ministry of Economy and Regional Development, the Republic Institute for Development, the National Agency for Regional Development, 2008). In this research, gazelles were identified as small and medium-sized enterprises that were employing in 2003 up to 20 people and not more than 250 respectively; that their number of employees and their total revenues in 2007 increased by 30% compared to 2003; that their business was continuously solid and that they weren't part of a larger holding companies.

In 2007, which is the last official research, gazelles in Serbia made up 0.1% of the total number of enterprises and 1.0% of the total number of employees; they managed 0.3% of the equity, generated 1.0% in total revenues and 1.3% in total gain. In the years that followed through 2013 the significance and growth of these companies was doubled or tripled on all majors indicators which will be presented herein after.

Comparative key findings in our study reflecting the period 2007 through 2013, are the following:

- In 2007, in Serbia there were 532 dynamic enterprises, with 43,311 employees, out of them were 53 gazelles while in 2013 1.103 dynamic enterprises included 156 gazelles which means that their significance has doubled.
- Dynamic enterprises accounted for only 0.6% of the total number of enterprises in 2007, and 1.2% in 2013 and they actually created 10,00 new jobs from 2009 through 2013.
- These companies have generated 110.5% of the growth of business revenues of the economy as a whole in from 2009 through 2013, and actually covered 10,5% of the losses of the rest of the economy. These companies accounted for one third of all gross profit growth.

- In the rated period of 2009-2013 net profit of these companies was tripled.
- These companies actually created 10,00 new jobs from 2009 through 2013 which is 2% of total labor force while at the same time employment in the rest of the economy dropped by 78,000.

In the rated period of 2009-2013 the sectoral structure shows that the dynamic enterprise concentrated in the trade sectors (336 companies or 30%) and then in the manufacturing sector (201 companies, i.e. 18.2%). Negative trends in the manufacturing sector industry are observed through all main indicators: reduced participation in number of employees, operating revenues and in the newly created value.

In the observation period (2009-2013), Gazelles, dynamic small and medium size companies demonstrated resilience to crisis blows and that they managed to overcome the crisis fast and achieved outstanding performance.

Obviously some of the conditions for the operation, strengthening and growth of SMEs in Serbia have been improved in recent years which is partly attributable to the policies adopted by the Government and the improved framework of support provided through business support organizations, including the network of Regional Development Agencies. The 2013 SME Report for Serbia clearly states that required is establishing a rounded incentive system and solving key problems of enterprises coupled with specific measures as part of the process of building a system to encourage the development of dynamic enterprises and gazelles. However, since 2013, most of the support organizations and the government unfortunately don't directly target the development and growth of Gazelles in the Republic of Serbia.

Considering aforementioned, one may conclude that gazelle firms in Serbia have very much the same general characteristics as the one identified in case the subject firms in other world economies, including the most developed. There are few of them (not more than few percentages of the total number of companies), but they generate outstanding contribution in terms of employment, growth and total business results of the national economies and should therefore receive much more attention of SME policy institutions.

## *CONCLUSIONS*

Within the total SME corpus, so-called gazelles, dynamic small and medium size companies, play special role, and many authors believe that they are the biggest development potential of the national economies. Present paper elaborated the issue of the definition of this specific group of companies; gazelle phenomenon was explained, as well as their specific features and characteristics making them so unique. The most important results of gazelle related researches conducted in USA, European Union and, in the final part in Serbia, were presented.

Principal characteristics of gazelles are innovativeness, both in production and process domains, as well as management practices. Their management and organizational flexibility facilitates faster and streamlined adaptation to changes,

providing for strong market orientation, focus on quality, clients and distribution. Strong links with consumers and maximum utilization of employees indicate that successful strategic management of the company leads to constant and stable growth, both large and small and medium enterprises, including gazelles.

Because of this the set of incentive measures for supporting gazelles need to be established, ranging from friendly environment in general to those specifically supporting establishment and sustainable development of dynamic and gazelle firms. Formulating and consistently implementing aforementioned measures of development and support to dynamic and especially gazelle companies would generate significant contribution to more dynamic national economy as a whole and better performance, thus, creating conditions required to find solutions for numerous social problems.

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## **ENTREPRENEURIAL PERSPECTIVE OF HOMESTAY OPERATORS: A QUALITATIVE STUDY FROM EMERGING TOURISM INDUSTRY**

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### **ABSTRACT**

*Intrinsic nature and entrepreneurial perspective of homestay operators has rarely been explored in previous studies; recently there is a momentum in tourism studies for exploring the subjective nature and personal perspective of host families. This study is an effort to analyze the entrepreneurial perspective of homestay host families in Sarawak, Malaysia. Homestay operators have a key role in rural tourism, where tourist can live with the host families and can observe the cultural values of local people. Findings of this study are based upon detailed interviews conducted with homestay operator host families around Kuching, which is the capital of Sarawak, Malaysia.*

*It was found that element of hospitality and desire of social connectivity is dominant over yearning economic gains. Furthermore findings of the study depict a weak entrepreneurial perspective ensuing from anti-commercial hospitality of hosts, but a strong bond of host families with their house and culture as well as pressing need for social connectivity and self-recognition. Previous studies have rarely reported any personal perspectives of host families in this context. Thus, findings of this study make a new contribution for better understanding of entrepreneurial phenomenon of homestay operators and also sets direction for future research in this filed.*

**Key words:** Homestay Entrepreneurs, Entrepreneurial Perspective, Commercial Homestay, Malaysian Homestay Industry, Entrepreneurial Orientation

**JEL Classification:** L26, M13, J24

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## ***INTRODUCTION***

Small accommodation for tourists have been described with a number of different terminologies which encompasses the essential elements of this business, for example, supplementary accommodation, para-hotel accommodation, bed-and-breakfast, boutique accommodation, specialist accommodation, farm accommodation, quasi home, homestay service, commercial home, traditional homestay and rural homestay. All these studies have elaborated a slightly different concept of small accommodation business, which is apparently aspired by hotel type accommodation service with some differences in its operations. Yet, it must be noted that the above mentioned scholars have no agreement on the size, duration and type of accommodation described for homestay.

Majority of above mentioned terms are coined on the base of similarity in the lodging functionality, without specifying other dimensions of scale, size, duration and type of facilities. In short, there is a lack of consensus on single explanatory definition of homestay. A possible reason for this wide diversity on commercial homestay terminology and lack of shared features is that most of the earlier studies were conducted in isolation and in different countries (Stringer, 1981). Furthermore Stringer (1981) notes that using one's personal home and involving whole family for the provision of small economic gains is very unusual. Douglas (1991, p. 288) argues that home refers to a personal space which intend to maintain the privacy of family members. These arguments are in line with the findings of Stringer (1981) that the provision of financial gain is not the main objective of building a home. Home is not necessarily a composition of mortar and bricks, it can be made of a tent, boat, wagon or it can be a caravan. Other than this composition, home is not complete without family members who have some moral and cultural values observed by them as member of the family. Various authors have given different definition of home, such as (Douglas, 1991; Lynch, 2005b; Marcus, 2006). Widely accepted and most commonly used definition of home is:

*“Home starts by bringing some space under control; but a home is not only a space, it also has some structure in time; and because it is for people who are living in that time and space, it has aesthetic and moral dimensions (Douglas, 1991, p. 289)”*

Cooper Markus (2006) notes that home is a mirror of owners' personality which reflects their lifestyle, cultural values, social norms, religious beliefs and historical background. According to Lynch (2005a) although main purpose of a home is to have a personalised space for one's own family; but in some circumstances a portion of the home can be used to earn supplementary income by



offering rental accommodation to tourists. Such kind of setup which is being used for stay of owners' family as well as commercial activities is described as commercial home (Sweeney, 2008). Furthermore Stringer (1981) notes that location of home is one of the major attributes, for attracting high number of visitors in small scale bed-and-breakfast service. Concept of commercial home is defined by Lynch (2005a, p. 534) in following words:

*“Commercial home refers to an accommodation where visitors pay to stay. Where interaction takes place with the host family living in same premises and with whom public space is, to a degree, shared (Lynch, 2005a, p. 534)”*

Here, caution must be taken to differentiate between small hotels and homestay operators. Lowe (1988, p. 210) asserts that small hotels are different from homestay, because in a homestay guests get a home like feeling with the owners' family instead of being served by hotel staff or waiters. Operations of homestay business requires a practical involvement of hosts' family members, hence it have a significant impact on the personal and family life of the operators (Altinay et al., 2012, p. 174). It is prominent to note that in such kind of home based accommodation setup, cultural, social, psychological and emotional interactions also take place between hosts and visitors (Di Domenico, 2004; Domenico and Lynch, 2007). A number of previous studies have examined the economic benefits and supplementary income generated from small homestay accommodation setup managed by hosts' family member (Amin and Ibrahim, 2015; Ibrahim and Razzaq, 2010). Premise of this study was to move beyond the prevailing paradigm and explore the intrinsic nature of entrepreneurial perspective of homestay operators. While examining the services of farm-stay in New Zealand, Pearce (1990, p. 340) notes that there is a similarity of shared dimension in farm-stay and bed-and-breakfast. Furthermore he notes that, staying in another persons' home is a common element, along with some other conceptual similarities. It is also worth noting that majority of researchers have agreement on the involvement of operators' family instead of paid staff or employees (e.g. Douglas, 1991; Gu and Wong, 2006; Lowe, 1988; McIntosh et al., 2011; Zakaria, 2012). According to Zakaria (2012, p. 14) homestay allows visitors to interact with the host family in order to observe and learn the cultural heritage of local people. Furthermore he defines homestay program as follows:

*“Homestay is a program which offers the tourists to stay with host family in their home and experience the everyday way of life of the host family in direct and indirect manner (Zakaria, 2012, p. 14)”*

According to McIntosh & Siggs (2005) homely feeling is one of the integral part of homestay which is based on emotions, personal touch and hospitality. However, Lowe (1988) also notes that involvement of operators' home and homely ambiance for visitors is integral part of homestay. Importance of small scale tourism business cannot be denied, homestay operators play a role of micro-enterprise in rural tourism industry (Nair et al., 2015). According to Farooq et al. (2010) some kind of intrinsic personal motivation in the shape of economic or non-economic gains is always required for sustainable business operations. Two earlier studies on small homestay operators and bed-and-breakfast were conducted by Warnick & Klar (1991) and Emerick & Emerick (1994) in rural areas of the United States. They discovered two categories of service providers: first, lifestyle entrepreneurs providing bed-and-breakfast home and charging minimum cost to supplement their lifestyle, and second, purely commercial business which provides bed-and-breakfast for economic gains only (Emerick and Emerick, 1994; Warnick and Klar, 1991). In line with this, McIntosh et al. (2011) notes that prior studies on homestay operators are commonly driven by following four different motivational perspectives.

First approach is to consider homestay as a small scale business (Ateljevic and Doorne, 2000; Carr, 2007; Thomas, 1998). This approach considers operation of homestay, as a pure business commercial activity, hence it lacks the basic element of hospitality which is the true spirit of tourism industry (McIntosh et al., 2011). According to Morrison & Conway (2007) this approach is sensitive to the basic operations of the considers that commercial homestay is like a small version of any large scale business organization. There is lack of consensus among researchers for defining this approach as a small-business or micro-business (Morrison, 1998; Thomas, 1998).

The second approach considers that homestay program is a family business (McIntosh et al., 2011). Scholars of this approach consider that the nature of homestay business involves whole family. This family-run nature the homestay operations makes it a business of whole family (Getz et al., 2004; Getz and Carlsen, 2000). According to McIntosh et al. (2011) this approach focus on the nature of family involvement in the routine operations of business, instead of categorizing it as a small scale or large scale business.

Third approach considers homestay program as fulltime lifestyle entrepreneur (Ateljevic and Doorne, 2000; Hall and Rusher, 2013; McIntosh et al., 2011; Morrison et al., 2001). This approach emphasises on non-economic factors and intrinsic motivation of non-material gains for running a homestay business for foreign tourists. According to Di Domenico (2004) non-economic gains are equally important as economic gains. In this context owner's main objective is to gain social benefits instead of maximizing their financial profit (Ateljevic and Doorne, 2000). A number of studies have reported empirical evidence of lifestyle entrepreneurs in hospitality and tourism sector, such as (Ateljevic and Doorne, 2000; Di Domenico, 2004; Featherstone, 1987; McIntosh et al., 2011; Morrison et al., 2001). Despite the availability of number of studies, still there is a lack of consensus about the conceived motivation for lifestyle entrepreneurs. McIntosh et al. (2011) asserts that it can be a strategy for positive self-marketing or result of high self-recognition in the society.

Fourth perspective categorises homestay operations as a part of farm-based rural tourism business (McIntosh et al., 2011, p. 2). These studies consider that farm-based tourism is the actual origin of homestay business; such as (e.g. McGehee and Kim, 2004; Nickerson et al., 2001; Sequeira et al., 2007) report that homestay business is on-farm accommodation enterprise. Furthermore Nickerson et al. (2001) note that majority of farm based tourism and homestay operators, which are located in remote areas usually lack people skills. In a rural farm study Nickerson et al. (2001) note that economic gains are first main motivation behind farm based homestay business after social networking gains. In a study conducted in New Zealand, Hall & Rusher, (2013) found that enjoyment of a leisurely and good lifestyle is the main objective of homestay operators. Similarly Bransgrove & King, (1996) asserts that attainment of relaxed and desired lifestyle is the main philosophy behind commercial homestay business in rural communities. Furthermore it is observed that most of farm tourism based activities take place in economically marginalized and remote areas (Busby and Rendle, 2000, p. 636).

These four different perspectives provide a detailed narrative of prior literature on homestay operators. According to Stevenson (1983) entrepreneurial perspective is an approach which refers to pursuit of economic gains regardless of limited current resources. Furthermore he asserts that entrepreneurial behaviour requires a strong commitment to exploiting economic opportunities for maximizing financial profit. In a recent study on family owned businesses Nordqvist et al. (2012) note that entrepreneurial orientation might vary from person to person. Furthermore it is also observed that in small family firms ownership and management goes hand in hand (Block et al., 2011; Fuller et al., 2008). A number of scholars such as Nandram et al. (2007) and Block et al. (2011) have agreed that financial success or failure of family owned enterprises depends on entrepreneurial behaviour of operators. They assert that entrepreneurial perspective depends on operators' maturity and stage in life cycle phase. In line with these findings McIntosh et al. (2011) also reported that those homestay operators who were retired from previous jobs demonstrate low attraction towards economic gains, rather they had a high motive to fulfil their social needs.

## ***BACKGROUND OF HOMESTAY PROGRAM IN MALAYSIA***

History of homestay program in Malaysia goes back to 1970s, when it was informally started by some local rural community members (Kayat, 2011). This informal homestay program offered cheap accommodation to foreign tourists in the homes of rural community members (Hamzah, 2008). According to (Ibrahim and Razzaq, 2010) main attraction for homestay program was its low price accommodation; therefore foreign tourists preferred homestay instead of expensive hotels and resorts. In 1995 homestay program was officially tested in village of Desa Murni, Pehang and Temerloh with an objective of promoting rural tourism (Kayat, 2011). After the successful pilot testing government have allocated additional funds for promoting homestay program as a rural tourism product for

foreign tourist (Ibrahim and Razzaq, 2010). Homestay program have helped in providing lucrative economic gains for rural communities as well as it is instrumental in ensuring the preservation of Malaysian cultural heritage, antique crafting arts and social values of rural areas (Farooq, 2016; Hussin et al., 2014). Over a period of previous four decades Malaysian homestay program have become a widespread choice for foreign tourists. Statistical data shows a continuous increase in the homestay operators in all states of Malaysia. Following Table 1 present an overview of homestay operators, villages and number of rooms from each state of Malaysia.

*Table 1: Statistics of Homestay Operators in Each State of Malaysia*

State	No. of Homestays	No. of Villages	No. of Operators	No. of Rooms
Selangor	15	18	458	660
Johor	16	35	478	623
Sabah	16	25	228	438
Kedah	14	19	296	393
Pahang	14	19	249	376
Sarawak	26	28	353	357
Sembilan	9	27	231	354
Perak	6	30	231	308
Pulau Pinang	9	9	200	227
Melaka	7	7	115	173
Kelantan	6	7	133	133
Terengganu	6	6	104	106
Labuan	3	3	79	97
Perlis	3	3	56	64
Total	150	236	3,211	4,309

*Source: (Yusof et al., 2013, p. 304)*

According to United Nations World Tourism Organization (UNWTO), Malaysia have a strong base and wide range of product mix in the tourism sector (UNWTO, 2011). Tourism activities contribute to the creation of new employment opportunities and bring a significant proportion of GDP in Malaysia (Othman et al., 2013). According to (Barnett, 2001; Farooq and Radovic-Markovic, 2016) hospitality of local Malaysian is a prime reason for popularity of homestay program. Economic benefits derived from homestay program and its low operating cost, makes it more lucrative for local communities and foreign tourists as well, who want to explore the traditional rural lifestyle (Goh, 2015). This homestay program offers a win-win situation for both the operating host families and the tourists.

## ***METHODOLOGY***

With the advancement in the field of tourism studies, now a wider range of research methods are being accepted (Robinson and Lynch, 2007; Pocock et al., 2009; Amin and Ibrahim, 2015), with a greater acceptance of qualitative research methods (Denzin and Lincoln, 2011). Investigation of host's entrepreneurial perspective raises some methodological issues. Particularly, it is quite challenging to explore the nature of intangible dimensions and analysis of subjective feelings of the homestay operators. In order to analyze this subjective nature of this intangible phenomenon, an interpretive research framework is deemed to be most suitable. Latest trends show that more and more scholars are interested in exploring the subjective nature of hospitality and tourism industry (Lynch, 2005c, 2005a; McIntosh et al., 2011), for this purpose qualitative approach is widely used (Bryman, 2004; McIntosh and Siggs, 2005).

According to McIntosh et al. (2011, p. 2) qualitative approach is suitable for understanding and exploring the intrinsic phenomenon of homestay operators' entrepreneurial perspectives. Furthermore, literature review revealed that interpretive research approach has been used by many scholars. Such as, Sweeney (2008) used interpretive approach for analyzing hosts' relationship in small homestay service providers of Scotland. Similarly, McIntosh et al. (2011) used interpretive approach for studying the commercial homestay operators in New Zealand. In line with the latest practices recommended by McIntosh et al. (2011), Sweeney (2008), and McIntosh et al. (2005) detailed interviews were conducted with homestay operators in Sarawak, Malaysia. It was made sure that respondents are the owner of their home; they allow tourists to stay in their family home (instead of renting a separate portion or providing a separate self-contained accommodation); and host family provides breakfast or other meals if requested by visitors.

Purpose of these measures was to make sure that, respondents fit in the definition of homestay operator (rather than a small hotel or rental accommodation), as defined by (Lynch, 2005a, p. 534). Key phenomenon was to assess whether operators' perceive it as more of a business or more of a home and lifestyle choice. Interviews were conducted in natural conversational style, which helped to elicit and note the respondents' views towards their homestay operations. Furthermore interview questions were built upon Sweeney (2008) and McIntosh et al. (2011) to explore the perception of homestay host families towards their guests. Findings derived from the analysis of in-depth interviews are elaborated below.

## ***FINDINGS***

Investigation of homestay operators' relationship with their home and guests revealed a weak entrepreneurial perspective rather an anti-commercial hospitality and pressing desire of social connectivity along with a strong emotional bond with their cultural values and heritage. Furthermore some other common findings were also derived from the in-depth interviews, such as desire to socialize with like-minded people and projecting their self-image through hospitality. As mentioned in the previous section, this study involves qualitative interpretive method. Therefore direct quotes (translated) are used to illustrate the aforementioned areas of analysis. It was observed that none of the homestay operator solely relied on homestay income; rather it was viewed just as a secondary source of income. Furthermore it was observed that homestay hosts have their own perceived rules of hospitality through their self-selected lifestyle. In an effort to portray their image of "good host" they lose their entrepreneurial perspective (profit seeking behaviour). Following statement demonstrates fact:

*"We don't think that a customer or a stranger is coming to our home, rather we take them as our guest. We want them to know about our culture and our traditional lifestyle"*

In view of this statement it is clearly evident that homestay is different from restaurants, where customer is taken as a customer and is treated as a source of profit maximization. Unlike the concept of bed-and-breakfast, given by Stringer (1981) somewhat anti-commercial hospitality was evident in homestay operators. According to McIntosh et al. (2011, p. 8) anti-commercial hospitality refers to hosts' behaviour which is contradictory to the established norms of commercial hospitality business in terms of routine operations, pricing and standards etc. for example following statement demonstrate this fact:

*"We never ask for extra money if a guest requests for some extra meal. Homestay is not for making money; rather it's just like little icing on the cake."*

In this way, arguably, homestay operators' have a slightly different perspective regarding the operations and nature of commercial hospitality business. It is evident from their own quotes that instead of maximizing their profit by charging extra money for one extra meal they wanted to build personal image of good host. In view of this statement, it would be not wrong to argue that such kind of behaviour is definitely ethical on the base of humanity but it's not a commercial in context of entrepreneurial point of view. Now a day it's common in commercial hospitality industry to charge extra money for extra meal. So many popular brands of multi-national food chains, such as Pizza Hut, McDonalds, Hardee's, and

Dominos etc. charge extra money for little extra topping. When asked about their intention to invest in any other business, which can promise more profit and income for their family, owner of the homestay said:

*“I know I can make more money if I open a proper food shop or restaurant; but I am happy with my lifestyle. My home is a source of my pocket money which is usually spent to decorate my home.”*

Here it will be righteous to argue that homestay operators have a weak entrepreneurial perspective; because a true entrepreneur (as defined by Stevenson, 1983) is always hungry for growth and keen to exploit more profitable opportunities. Nordqvist et al. (2012) also acknowledges that opportunity recognition and exploiting the most profitable opportunity is one of the basic traits of an entrepreneurial personality. The aforementioned statement also depicts the hosts' solidarity, emotional attachment and bonding with their place. Although whole house was decorated and painted with nice colours; but it was observed that guest rooms were often more decorated than other rooms reserved for the family members. Various wall hangings, paintings and artificial flowers reflected hosts' efforts to provide a better ambiance and memorable experience to the guests. As one of the family members described:

*“I always try to decorate the guest room, because I want the guests to know that they are special for us. I want that anyone, who entered this home as a guest, may leave as a friend.”*

Here, aspect of personal projection through interior decoration was quite visible; guest-rooms were decorated with paintings and wall hangings depicting the personal interest of the host family. For example, one homestay which was operated by a Chinese family was profoundly ornamented with large size red colour globs having very bright Chinese alphabets in golden colour. Furthermore guest-room had a large size wall hanging of symbols of Chinese year; which was again projection of host's personal beliefs and lifestyle. This element of self-centred projection is previously reported by Featherstone (1987, p. 55) and McIntosh et al. (2011, p. 5) in slightly different context. Featherstone (1987, p. 55) have reported similar kind of findings and illustrated it as “self-expression” of the host family. Similarly McIntosh et al. (2011, p. 5) argues that the homestay operators focus on “self-presentation” because of their personal self-consciousness towards their own lifestyle. In this context, element of mainstream ethics of hospitality can be questioned which requires further investigation. Furthermore a strong social motive in homestay operators was also observed. It was also observed that respondents frequently expressed their desire to have conversation with like-minded people. Indeed, a desire for the company of tourists and happiness of vicarious traveling with foreigners was also highlighted by an interviewee, as this quote demonstrates:

*“Most of our guests are very professional, we feel happy when we have their company and get a chance to learn about their views. It is also joyful to travel with our guests, because usually foreign tourists are not familiar with our local places.”*

This pressing need of social connectivity is acknowledged by Pearce (1990) and Lynch (2005c). According to Pearce (1990) farms house operators which were located in remote areas of New Zealand; reported their farm-stay operations are a source of social connectivity. Further he acknowledged that although dairy products are main source of farm-house income but operators could earn some supplementary income by offering farm-stay to the tourists. In this context Lynch (2005c) also asserts that sociological impression in hospitality business definitely helps to build a good image of host; but more a host socialize with the guest, weaker will be his bargaining power in terms of financial gains. Hence this presence of social motive, element of self-projection and anti-commercial hospitality altogether lead to weak entrepreneurial perspective in homestay operators.

## **CONCLUSION**

From the analysis of aforementioned findings of this study it is concluded that homestay hosts' relationship with their visitors could not be characterized as purely entrepreneurial. Although all visitors are supposed to pay for the homestay, but at the same time, element of anti-commercial hospitality, personal projection, strong desire for social connectivity and homely expression, makes it more of lifestyle choice rather than a commercial business. In short, although the importance of economic gains as supplementary income cannot be denied, but the findings of this study conclude that the element of hospitality was found to be dominant over the entrepreneurial or profit seeking mind set. In other words homestay operators have a metaphoric entrepreneurial perspective along with hosts' intention to fulfil their social need while enjoying their self-selected lifestyle.

More empirical studies are required to assess the impact of homestay program on the economic condition of the operator's host families and on whole community in large. Further studies should be conducted on the factors which motivate local people to participate in homestay program, marketing efforts for rural tourism; effectiveness of government policies for homestay program and the role of other key players in promoting rural tourism in Malaysia. Furthermore future studies can be conducted on the significance of government policies towards promotion of rural tourism and the role of homestay operators.



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# **WOMEN ENGAGEMENT AND EMPOWERMENT THROUGH SOCIAL ENTREPRENEURSHIP IN IRAN: CASE STUDY OF THE FIRST FEMALE EMPOWERMENT CENTER**

*Narges Khoramshahi*<sup>9</sup>

## **ABSTRACT**

*Women engagement and empowerment plays a leading role in positively affecting the lives of mankind. There has been an emerging concentration on the concept of women's engagement and the role of women empowerment in progress and development of transactional societies. Iranian Women have shown courage, talent and commitment toward their gender interests and equal opportunities. The most important key in women empowerment is to concentrate on education, awareness, self realization and self development of women in our communities. Empowering women provides a more flexible schedule and gives them more control and freedom regarding decisions, enables them to be true to themselves, their beliefs and their values and allows them to determine their own happiness and success and improve their performance and achieving a higher standard of living. There are educated, talented and bright women in my country willing to take part in their own destinies, building the future of their society. It is inspiring to see brave women attending schools, universities, and the world of businesses, sport and social activities with a smile on their faces and a strong belief of a better future in their hearths. The purpose of this paper is to identify and document women engagement and empowerment through social entrepreneurship in Iran. In order to identify the concepts and methods of women engagement and empowerment through social entrepreneurship in this context, a research has been conducted based on Iranian women engagement and participation. The findings of this study can be used in order to address the vital necessity of women participation especially female social entrepreneurs in solving social challenges and moving toward advancement of their society.*

**Key words:** *Women Engagement and Empowerment, Social Entrepreneurship, Self Development, Education*

**JEL Classification:** *J16, L31*

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## ***INTRODUCTION***

The vital role of women in sustainable development has long been recognized. Women engagement and empowerment enables the progress and development of communities and countries. Empowerment is a strategy to help women to change the quality of their lives. Women empowerment can be reached through social entrepreneurship. Social entrepreneurship provides opportunities for women to become more independent and engaged in the society.

There is no tool for development more effective than the empowerment of women. The 1995 Beijing Declaration from the United Nations' Fourth World Conference on Women recognized that empowering women is essential to sustainable development (Sathiabama, 2010). The need to address women's empowerment remains pressing. Social entrepreneurship can create new opportunities, jobs and roles for women. Empowered women reinvest in the society with their innovative perspectives, solutions and contributions. This empowerment can be seen in many subjects such as socio-economic opportunity, property rights, political representation, social equality, personal right, family development, community development and at last the nation development. Connecting empowerment with the fulfillment of equality and the realization of rights must be locally driven in order for empowerment to be practiced in cultures where gender equality is not the norm. It is assumed that promoting gender equality empowers women (Porter, 2013).

A central purpose of this paper is to identify the concepts and methods of women engagement and empowerment through social entrepreneurship. This article contributes to the understanding of women empowerment through social entrepreneurship in three ways. First is the concept of women/female empowerment. Second is to concentrate in social entrepreneurship as a solution. Third is to indicate the concepts and methods of women empowerment through social entrepreneurship in Iran. Subjects as education, development, engagement and participation of Iranian women are highlighted to understand empowerment through social entrepreneurship. To this end, the real life example of the author, working as a social entrepreneur in Iran is being presented suggesting practical points regarding Iranian women engagement and empowerment.

## ***LITERATURE REVIEW***

This paper reviews the concept related to empowerment of women through social entrepreneurship in Iranian society. Women's engagement in the empowerment process is defined as improving the ability of women to access the constituents of development in particular health, education, earning opportunities, rights, and political participation. Empowerment can, in other words, accelerate development (United Nations, 2005). Social entrepreneurship is also positively changing the lives of women around the world by addressing issues of health, gender equality, education and

environmental sustainability. Social entrepreneurship is a process that (1) empowers women and (2) contributes to changing the status and position of women social order (Haugh, Talwar, 2014). In this article these two concepts are studied and developed in order to reach a better understanding.

## ***WOMEN ENGAGEMENT AND EMPOWERMENT***

Women engagement and empowerment accelerates access to aid, education, and health care. The term ‘empowerment’ is used by the UN, governments, non-governmental organizations (NGOs) and in development discourse generally. The UN Millennium Development Goals addresses women engagement and empowerment and gender equality (UN MDGs, 2011). The engagement and empowerment of women is one of the central issues in the process of development (Sen, 1999).

Women engagement provides answer to broader social development and poverty reduction (Lewin, 2010). Empowering women is seen by some development organizations as a way to boost a country’s economic growth. Typically, women put an average of 90 percent of their earnings back into the family, compared to the 30 to 40 percent that men contribute. One of the basic principles of United Nations Global Compact’s report on women empowerment is to promote education, training, and professional development for women (Gender, Development Network, 2011).

Women engagement and empowerment consists of several dimensions (Mayoux, 2000), economic empowerment from access to income, social empowerment resulting from increasing their status in the community and political empowerment from increased participation in public life. The process of women’s engagement and empowerment enables women to exercise more power to shape their lives, refine and extend what is possible for them to do (Mosedale, 2005) and hope for a different future (Branzei, 2012). Women engagement and empowerment is a process of self-realization, self-actualization and mobilization to demand change.

## ***SOCIAL ENTREPRENEURSHIP***

Although the concept of social entrepreneurship may be new, initiatives that employ entrepreneurial capacities to solve social problems are not. Social entrepreneurship engages and empowers women thorough wider access to high education opportunities and vocational job training. Social entrepreneurship inspires visionary women to find innovative solutions toward solving social issues.

Social entrepreneurship is a process of offering solutions to a range of social problems (Nicholls, 2006) and is acknowledged to be an effective mechanism for generating economic, social and environmental value (Murphy, Coombes, 2009).



Social entrepreneurship is a way to catalyze social transformations well beyond solutions to the initial problems (Ashoka innovators, 2000).

Social entrepreneurship encourages community building between diverse groups of people, which in turn can facilitate development. Social entrepreneurship cultivates the creative problem solving of community groups when it places community needs and ideas first and prioritizes the development of community skills (Bornstein, Davis, 2010).

Social entrepreneurs are focused on social problems. They create innovative initiatives, build new social arrangements, and mobilize resources in response to those problems rather than market criteria (Alvord et al., 2004).

### ***WOMEN ENGAGEMENT AND EMPOWERMENT THROUGH SOCIAL ENTREPRENEURSHIP***

Social entrepreneurship has the potential to contribute to women empowerment and advancing social change (Haugh, Talwar, 2014).

Women's participation in decision-making at all levels is a crucial outcome of, and vehicle for empowerment. Empowered and engaged women contribute significantly to prioritizing practical issues such as education, women's specific health needs and skilled employment (Anderlini, 2007; Porter, 2007).

Women empowerment has been an important strategy for changing the position of women in society. For example, when women can make use of opportunities such as education and employment, the extent of their choices will increase. Women engagement and empowerment through social entrepreneurship creates an influential cycle for development by identifying women committed to social issues; investing in their education; skills and abilities. On the other hand, investing in women's and girls' education is a necessity to reduce poverty (UNFPA, 2005), which is on the concentration of social entrepreneurship.

Social entrepreneurship empowers women through wider access to high education and job training. Social entrepreneurship also encourages women to get active and involved in their society through building opportunities. Social entrepreneurship is offering women the opportunity to invest in themselves and their families, providing values, helps girls develop confidence and support networks while enhancing their educational and employment opportunities.

Women engagement and empowerment through social entrepreneurship can lead to Enhanced awareness, Self confidence, self development, skill improvement, Sense of achievement, higher education, improved standard of living, Increased participation, social interaction and active engagement, Involvement in solving problems related to women and community, increased decision making capacity in family and community.

## ***MOVING TOWARD IRANIAN WOMEN EMPOWERMENT THROUGH SOCIAL ENTREPRENEURSHIP: PROPOSING THE CREATION OF THE FIRST FEMALE EMPOWERMENT CENTER***

Iranian women, have greatly improved in academic education. In 2008, Iran has witnessed the extensive entrance of women in higher education (67 percent). Based on Iran Statistical Center the presence of women in academic education has been rising and even from the year 2003 the number of women accepted in academic education has become more than men. For so many years in Iran, women with academic education had occupations with low income and specialized in teaching and nursing. Recently, the number of educated women who have got high income occupations that were previously done only by men, has increased, but the employment rate still is lower than expected. Women in Iran have shown a great deal of courage, imagination and commitment to struggle for their gender interests (Povey, 2001).

Iranian women have proved their aim to transform the society in a more active way than before. Women in Iran own and manage businesses, many of them in male dominant industries like oil and gas, construction, mining, and new technology. Iranian female film directors, actresses, athletes, scientists and entrepreneurs are at the forefront of raising awareness about women's rights and creating a culture of acceptance, one that will alter social perceptions and empower women.

Iran has an estimated social entrepreneurship market of 50,000 to 75,000 active participants. 83% of Iranian social entrepreneurs are currently engaged in an initiative, organization, or start-up with a social, economic, or environmental objective (Financial tribune, 2015)

Teaching Entrepreneurship courses to female students in technical colleges made me understand that empowered women can influence their society in the best possible way. This inspiring teaching experience made me realize how enthusiastic students can be. Meeting passionate students lead me to the mentor role and the eager to help women in their life journey.

There are educated, talented and bright minded women in my country willing to take part in their own destinies, building the future. I strongly believe in women in my community and I know they are fulfilled with hopes despite all the limitation. It is inspiring to see these brave women attending schools, universities, and the world of businesses, sport and social activities with a smile on their faces and a strong belief of a better future in their hearths. I have been a witness to the potential of Iranian women and started my social entrepreneurship project to create the first female empowerment center advocating women engagement, empowerment and all level collaboration in their respected communities.

The female empowerment center collaborates with youth-led organization to increase the role of women in my society and enable them to acquire new skills, join the work force, and expand their network and to boost their presentation and participation in the communities. My main intention is to bring back the hope and confidence to women in order to take the journey toward addressing and solving social challenges.

Women believe that the support of their families is pivotal to their success. Having a father, mother, or spouse that believes in them and wants them to be courageous can keep them engaged and focused on their goals.

Women empowerment improves social and economical opportunities, women rights, political representation and participation, social equality, family, community and nation growth and development. Creating the first female empowerment center provides women with new opportunities such as acquiring a higher education and job training and employment to increase their options roles within the society. Women engagement and empowerment through social entrepreneurship creates the synergy for development by identifying girls committed to social issues; investing in them; and empowering them to become disrupters. These girls can then become the next generation of local leaders, mentors, and change agents in their communities.

The center and female entrepreneurship clubs facilitates youth employment and entrepreneurship through creating self employment, positive change, sustainability and social and economical growth. Social tension can be reduced by education, networking and creating self employment and self development. Center focuses on supporting women in order to know their skills, ability and also recognizing their own strength and addressing and solving social problems. Empowering women provides a more flexible schedule and gives them more control and freedom regarding decisions, enables them to be true to themselves and allows them to determine their own happiness and success and achieving a higher standard of living. Women engagement and empowerment through social entrepreneurship means to show the real face and ability of Iranian women to national and international communities. Social entrepreneurship investigates in women education and employment. Women can enhance their ability and knowledge about social development. Empowered women are responsible citizen that are positively shaping their future.

Women empowerment is a process of sharing stories, knowledge and experiences with peers such as entrepreneurs, researcher, change agent and leaders to build a strong, inspiring network and participate in challenging projects in order to generate sustainable solutions. We have identified a great need for increased collaboration between universities, civil society, private and public sector in Iran in order to strengthen the field of social entrepreneurship as well as empowerment of the women involved. We are shaping a strong network of aspiring women that provides young, ambitious and visionary individuals with competencies that will enable them to become the change makers within their society. This will provide a unique environment of social entrepreneurship and women empowerment center in our community.

## ***CONCLUSION AND SUGGESTION***

Women can do wonders by their effectual and competent involvement in development of themselves and their societies. Social entrepreneurship is a valuable way for women development and promotion. When women actively involve themselves in social activities the more they become empowered. Empowered women will motivate and support other women to engage in their own destinies. The advancement of women in Iran has been considerable in recent years, but their participation in community or social development programs remains low. In order to increase social impact we should investigate in social entrepreneurship.

The process of empowering women should be continued and developed. We have realized that we are the one initiating and enabling the change. Social entrepreneurship offices, club and centers are great opportunities and environments for empowerment, inspiration and sharing. Meeting all the inspiring youth, trainers, leaders and change makers will lead us to build a strong network and a significant synergy. We can enhance our ability and knowledge and empower women in our region through collaboration, education and influential feedback. But a one question remains which is “will social entrepreneurship be enough for women empowerment? The answer to this question relies on future research and studies related to this context.

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*Part II*

***ENTREPRENEURIAL MARKETING***







# **IMPORTANCE OF COMBINING MARKETING MIX INSTRUMENTS IN CREATING SUCCESSFUL ENTREPRENEURIAL STRATEGIES**

*Dusan Garabinovic<sup>10</sup>*

*Zorana Nikitovic<sup>11</sup>*

## **ABSTRACT**

*Awareness that entrepreneurial business has to be adjusted to buyers, their needs and requests, if one wishes to achieve satisfactory business results, puts the implementation of marketing concept in the spotlight.*

*Specifics of marketing in entrepreneurship stem from characteristics of entrepreneurial line of work and business methods that differ and stand out with their approach to work and market. Entrepreneur – marketer has to constantly analyse environment and himself in it and be ready to timely react to perceived signs of changes by always trying not to be caught in actions of others, but rather to surprise the market, to be the bearer and main force of future changes. Entrepreneurial marketing, by joining entrepreneurship and marketing, creates conditions for attracting and retaining buyers and for the occurrence of loyalty based on trust, which contributes to achieving sustainability through satisfaction of both buyers and vendors. Entrepreneurs are people believing in themselves, their abilities, and only that kind of people will be trusted by others.*

*Optimal combination of marketing instruments and their different manifestations, both traditional and contemporary, is a requirement entrepreneurs have to meet while heading towards business success.*

*Objective of this paper is to point out to the significance of combining marketing instruments and their different manifestations in successful entrepreneurship.*

**Key words:** *Entrepreneurial Marketing, Entrepreneurship, Marketing, Marketing Mix Instruments*

**JEL Classification:** *M30, M31, M50*

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## ***INTRODUCTION***

Today's business world demands a highly professional and responsible approach of its members, both to environment and to their organization, by respecting established rules of behaviour and work. In such conditions the question is how to be professional and at the same time maintain creative drive. Emphasis on freedom and unconventional approach to work, by surpassing already existing limits and constantly striving for more, are characteristics of entrepreneurship, but also of marketing closely related to it.

Accepting the concept of marketing without deviating from entrepreneurial principles enables the creation of new multidimensional view of the market and innovative activities directed to it. Entrepreneurial marketing recognizes role of the buyer as the bearer of demand, but it also pays great attention to other factors of market activities, without forgetting the entrepreneur. Entrepreneur – marketer is the driver of changes in the overall business philosophy, influencing not only the organization but the society he belongs to.

In modern conditions, entrepreneurial activities are becoming one of the most important ones and entrepreneurial marketing an assumption of successful business. Recognizing promising opportunities in the sea of numerous ideas, realizing them for the sake of improving the position it has on the market through achievement of competitive advantage, regardless of whether it is a new or existing endeavour, make entrepreneurial marketing become new skill and art in demand.

Understanding what buyers need now, and what in the future, without using standardized research methods, and relying more on feeling and intuition, gives basis for harmonizing needs of buyers with company's long term objectives.

## ***LITERATURE REVIEW***

Complexity of entrepreneurship leads to the existence of different definitions of this term, different ways of observing and understanding its role in economy and society in general. Entrepreneurship can be described as the process of making decisions and developing profitable businesses (Radovic Markovic, 2007), "a means of doing independent business primarily based upon the innovative ideas and creativity expressed in all the stages of the business process. Entrepreneurial way of doing business is not a classical performance; that is a focus on achieving a visionary objective which will mean benefit not only for the business owner, but also for the people in his closer and wider environment" (Garabinovic, Markovic Blagojevic, 2016, pp. 86-109, p. 88). "Entrepreneurship is first and foremost a mind-set. It covers an individual's motivation and capacity, independently or within an organisation, to identify an opportunity and to pursue it in order to produce new value or economic success" (Commission of the European Communities, 2003, p. 5).

Important place in analysing entrepreneurship is taken by an individual who is the basis of entrepreneurial existence with his ideas and their realization. In him are integrated all characteristics of this type of business form, through his personality reflecting the strength of entrepreneurial spirit. Entrepreneur is “the carrier of entrepreneurial activities. He is a person noticing all possibilities for new products or services that others do not see or do not pay attention to. He connects all elements of production to initiate changes” (Group of authors, 2006, p. 597). The new way of acquiring knowledge combines formal and informal learning with practical experience. Raising awareness, training and qualifying employees is a key factor in market competitiveness (Radovic Markovic et al., 2012). “Learning and personal development happening during one’s whole life make a good starting point in defining an entrepreneur, person ready to rise above others, above averageness, with his ideas and attitudes, by taking risks without the fear of potential failure that can only make him stronger in wanting to achieve the desired goals” (Garabinović, 2017, pp. 443-450, p. 444).

Complexity of the phenomenon of entrepreneurship transfers to entrepreneur as well. Even though they often seem like regular people making decisions and solving problems with ease, their personality conveys a mix of different characteristics that make them unique and special. Simplicity which characterizes them is in fact the greatest complexity. “Key characteristics of entrepreneur’s personality are: (1) self-esteem, (2) self-confidence, (3) independency, (4) risk-taking, (5) creativity, (6) innovativeness, (7) vision” (Avlijaš, Avlijaš, 2013, p. 29).

Entrepreneurs have to keep up with trends and be ready to take advantage of them. There are situations when keeping up with trends brings great risk. Then, companies more often opt for protecting the existing markets and personal resources than for innovations. Innovating, implementing innovations is not easy, especially if we know the fact that 90% of innovations don’t live up to our expectations. For that reason, entrepreneurs don’t only rely on creative inspiration, but are also guided by their knowledge and information on customers and what is happening around them. In that way, they can create an image of the future needs on the market and create products and services which they would use to meet identified needs and desires. Every market-oriented organization puts customers’ needs and their adequate satisfaction in the centre of their business because that’s the key to achieving goals and company’s development (Nikitovic, Novakovic, 2015, pp. 80-100).

Entrepreneurial development is a precondition for successful functioning of a community, but also of the entrepreneur as an individual starting particular business endeavour. Benefits are multiple on both sides, so countries are trying to use incentive measures to strengthen the growth of this sector. “Being a business activity, entrepreneurship directly manifests its influences on the economy and indirectly on the society. In that sense, it contributes to economic and social growth and development of all countries in the world, regardless of the reached level of their economic development” (Bučalina Matic, Milanović, Vrcelj, 2016, pp. 485-491, p. 487). “Most important effect and main profit social community has from entrepreneurial activities are healthy companies which are on the leading position

in developing new, innovative technologies that, primarily with the quality of their products and services, progressively influence their social community” (Karavidić, 2008, pp. 2-7, p. 3). By increasing the number of entrepreneurs, hence small and medium enterprises, we can start hiring people which reduces unemployment and at the same time creates innovative competitiveness for the existing companies and consequently we encourage development of an entire ambience of one market activity. Of course, we must not neglect positive effects entrepreneur gains, because of which he actually goes into independent business, and these are:

- “Ensuring existential sources of income for him and his family,
- Creating conditions for a better-quality way of life.
- Desire to become independent and start an independent business.
- Making profit” (Milošević, Vujčić, 2015, p. 19-20).

Modern business concept is based on the understanding that there are no final formulas of success. There isn't a standardized method that will guarantee complete success, except for focus on the market and buyers on it. Process going through all parts of one organization, all aspects of economic, but also overall social life, collection of activities that can, to a large extent, help in achieving the abovementioned, is known as marketing. Term, as such, is widely spread and used, but the essence of its meaning is mostly misunderstood. Aim is to help the buyer, create an image about the company as an entity doing everything to make the customer satisfied, because needs are simultaneously the beginning and ending of marketing activities. Designing offer in accordance with characteristics of the target segment shows that caring about customers is at the first place on the list of priorities as a precondition for making profit. Communication done between the marketer and buyer, that two-way relationship of trust and loyalty, can be difficult to sustain in the long run, hence only the best succeed in it.

“Marketing is a scientific and professional discipline, an economic and business process, business orientation, concept, politics, philosophy, strategy and tactics, as well as a system, function, collection of activities and organizational unity in a business-production system – focused on achieving economic goals in production and business, as well as on meeting the needs of consumers and society” (Avakumović, Avakumović, 2016, p. 13). Marketing can be observed from social and managerial aspects. “Social definition points out to the role marketing has in society”, whereas it is understood as “a social process used by individuals and groups to get what they need and want, by creating an offer and free exchange of values through products and services”, and exchange is the crucial element of marketing (Kotler, Keller, 2006, p. 6). Unlike the abovementioned, managerial definition says that “marketing is often described as the art of selling products” (Kotler, Keller, 2006, p. 6). CIM (The Chartered Institute of Marketing) offers the following definition for marketing: „The management process responsible for identifying, anticipating and satisfying customer requirements profitably“ (CIM – The Chartered Institute of Marketing, 2015, p. 3). As it can be seen, the essence of marketing, as a result of different understandings, is achieving balance between meeting customer needs on the market and making profit. Like that, we get one of the shortest definitions of marketing - „marketing is managing

profitable customer relationships“ (Kotler, Armstrong, 2011, p. 4). Applicability, changeability and adaptability to newly occurred situations are main characteristics of marketing which enable companies to find the place they deserve, their role in society and primarily the essence of business in which buyer is in the centre of attention.

Observation and analysis of terms entrepreneurship and marketing are mostly done separately because of the complexity and individual significance they both have. Unlike this individual point of view, there is a concept integrating them into one unity by creating a special aspect of their research. Entrepreneurial marketing came to existence on the basis of modern needs for adjusting marketing activities to environment which is everything but static. Flexibility, as well as acceptance of changes, in given conditions are implied as an important part of all characteristics necessary for stable management. Positive view on changes as a basis for creating future chances and tendencies to use visionary and proactive acting to enable better competitive position are just some of the characteristics this type of marketing distinguishes as a special unity.

Entrepreneurial marketing implies a combination of marketing strategies and entrepreneurial spirit that help entrepreneurs and enterprises in their striving to find their way on the market. Unlike big enterprises, micro, small and medium enterprises and entrepreneurs are often not in the possibility to, inside the organization, have a sector for marketing, development and research...rather they are trying to use limited resources to achieve business endeavours. In such conditions, companies are often not able to apply traditional marketing strategies. Through entrepreneurial marketing, innovations and creativity, they are trying to be different, to single themselves out from the competition by creating specific values for consumers (Nikitovic et al., 2017, pp. 269-270).

Entrepreneurial marketing can be observed as „proactive identification and exploitation of opportunities for acquiring and retaining appropriate stakeholders through innovative approaches to risk management, resource leveraging and value creation“ (Morris, Schindehutte, LaForge, 2002, pp. 1-19, p. 5).

Entrepreneurial marketing, a consistent compound of entrepreneurial and marketing orientation, is just one link in a long chain of activities leading an organization through the world of business by accepting the risk bravely, without the fear of failure. This modern way of thinking and working is becoming an integral part of one organization's culture, regardless of its size and time spent in business. Role and significance of entrepreneurial marketing is reflected in company's permanent contact with the environment, wherein an enterprise, through activities by which it constantly affects the market, foresees changes so as to be able to adjust to them and it also uses customer satisfaction to ensure market survival and achieve competitive advantage (Nikitovic et al., 2017, pp. 271-272).

There are many differences between small companies and entrepreneurial companies. „Within the evolution of EM this discrepancy has been reflected in a conceptual separation between small business marketing and entrepreneurial marketing as related, but dissimilar research fields, reflecting the differences in behaviour between a small business owner, running his or her business as a basic operation, in contrast to the behaviour of the innovative entrepreneur who

continuously strives for growth“ (Hills, Hultman, 2011, pp. 1-10). It can be concluded that „the importance of entrepreneurial marketing strategy and marketing activities of SMEs are directly related to the survival, development, business success, marketing performance, and marketing goal achievements as well as superior competition“ (Wongtianchai, Ussahawanitichakit, Jhundra-indra, 2015, pp. 14-32, p. 17).

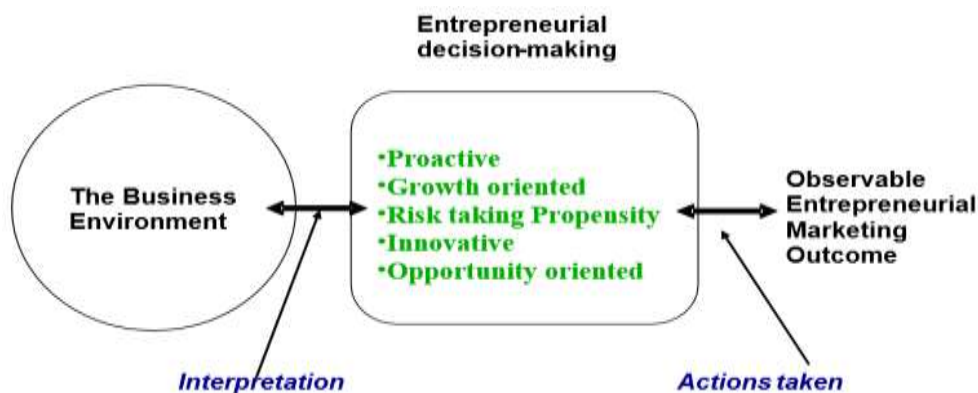
Concept of entrepreneurial marketing is therefore not only related to new entrepreneurial endeavours, but to all companies owning entrepreneurial characteristics, by simultaneously applying new principles of market-oriented marketing business. Personality of entrepreneurs and tendency to use the existing or even create new opportunities by, at the same time, expressing their uniqueness with the use of limited funds are an important part of entrepreneur-marketer analysis.

Entrepreneurial marketing is in fact a bridge joining two main components of today’s business success embodied through innovative behaviour of entrepreneurs and focus on meeting customer needs by the marketers.

Analysis of the term entrepreneurial marketing also implies the observation of main aspects of its interpretations. Those aspects are in fact elements this concept consists of, parts that together give us the whole picture of how entrepreneurial marketing functions. Morris, Schindehutte and LaForge made a matrix where each element can be observed through their level of application, be that culture, strategy or tactics. Basic elements of entrepreneurial marketing are:

- „Opportunity-driven,
- Proactiveness,
- Innovation-focus,
- Customer Intensity,
- Risk Management,
- Resource Leveraging,
- Value Creation“ (Morris, Schindehutte, LaForge, 2002, pp. 1-19. p. 10).

The abovementioned factors are the basis for establishing and analysing differences between classical and entrepreneurial approach to marketing. Representation of this type of marketing as a result of entrepreneurial interpretation of information, decision making and marketing activities, based on a permanent relationship with the environment, its analysis and entrepreneurial activities, can be seen in Picture 1.



*Picture 1: Entrepreneurial Marketing is the Result of Entrepreneurial Interpretation of Information, Decision-making and Marketing Actions*  
 Source: Hills, Hultman, 2011, pp. 1-10

Entrepreneurial marketing is an integral part of total activities of entrepreneurs, activities not standard and which often deviate from predicted and expected ones, but which bring effects reflected in excellent results both in business and in experience which is the greatest advantage. It is an art of constant experimentation with different forms of marketing and their combinations that emphasizes its potential in the future and values offered on the target market in a comprehensible and clear way.

“Competitive, i.e. strategic advantage is today as a rule achieved through innovation of products/services, compression of processes, through product complexity, through adding and expanding factors of competitiveness, through legal protection of intellectual property, through adequate innovative timing, robust design, through setting new rules, reconfiguration of systems, etc.” (Krstić, 2017, p. 24).

Regardless of whether innovativeness is reflected through changes of product characteristics, pricing methods or product distribution, innovativeness is one of the main characteristics of entrepreneurs they use to gain, sustain and promote competitive advantage. They have a great role in marketing frames, through all four elements of marketing mix (product, price, place and promotion). Unlike the innovative business method used by entrepreneurs, main feature of traditional marketing is „facilitation of transactions and market control“ (Morris, Schindehutte, LaForge, 2002, pp. 1-19, p. 6). Speaking of entrepreneurial approach, marketing is not only a part of the organization, or a business function in which innovations are systematically happening with the support of the research and development department, but rather a nucleus, bearer of innovative process and culture of change. “Innovation should be happening in all segments of one organization, in each department and all aspects of the value chain” (Dess, Lumpkin, Eisner, 2007, p. 437). Business world is constantly changing and adapting and if companies don’t realize that and start changing themselves, then they will soon not be a part of it. Ship not following the signs the sea is giving will soon sink.

## ***SYNERGY OF MARKETING MIX 4P INSTRUMENTS AND ENTREPRENEURIAL MARKETING MIX INSTRUMENTS***

Analysis of features and specifics of entrepreneurial marketing brings the need to look at the collection of marketing instruments observed through the prism of entrepreneur. As an addition to and development of traditional concept of marketing and on entrepreneurship based behaviours and skills, entrepreneurial marketing is an approach that completely corresponds with modern business based on changes. Review of traditional marketing mix instruments from an entrepreneurial aspect can be seen in Picture 2.



*Picture 2: Marketing mix strategy for an entrepreneur*  
*Source: Bygrave, Zacharakis, 2011, p. 172*

People differ according to personal features they have, so the needs that should be satisfied also differ. When they are detected, we can start designing the offer that is going to be placed on the market. "Product is everything that can be offered to the market and can meet desires or needs of consumers" (Kotler, Keller, 2006, p. 372). Even though it is most often considered a physically tangible good, product appears in several forms which points out to the complexity and diversity of its meaning. As it is stated in (Kotler, Keller, 2006, p. 8) what can be placed on the market is: "goods, services, experiences, events, people, places, assets, organizations and ideas." All that represents an offer which we use in the process of meeting the demand. That kind of diversity completely corresponds with an entrepreneurial approach to marketing linked to flexibility of creating an offer most suitable for the market.



From the aspect of entrepreneurial marketing, a product would cover up:

- New, innovative products that haven't been on the market before,
- Improved versions of existing products,
- Products adjusted to the needs of a smaller number of buyers (active involvement of buyers in creating products),
- Readiness to quickly introduce new and change the existing products.

Innovativeness, dynamics and active participation of buyers prevail in the process of creating products. Likewise, proactive and partner-based approaches are promoted with the localization and customization of products which additionally facilitates development of information and communication technologies.

Marketing instrument that has a large influence on deciding whether to buy a product or not is the price, directly leading to fund inflow. Price is of great importance in attracting and repelling potential buyers, so it takes a special place in marketing mix framework. New approach to pricing for a certain category of products can be interesting to buyers and due to uniqueness be widely accepted.

In the process of forming prices it is important to first determine who the consumers are and what their characteristics are in terms of the quality they want and price they are willing to pay. Adjusting the price in accordance with changes or their indications and within the possibilities of the company and the target market is a request that has to be met if a company wants to have a long and successful business. "Price is what you pay. Value is what you get" (Warren Buffett). Value is much more important than price, but price is often the way to see value. Everything has its price but the relationship between the two is very difficult to find.

Availability of products has an important role in their market realization. If it is not in the right place, at the right time and in the right way available, not even the best features, price and promo activities will help much. It is crucial to get to know your buyers. Based on that, distribution should be adjusted not only to your own, but also to the abilities of buyers. Finding new, for some products innovative, channels of sales can be a good move. It is necessary to feel what market wants because not everything is spoken in words.

In what way something is presented is much more important than what is presented. Goal of promotion is to make products psychologically closer to buyers by exposing them to impressions that mould their consciousness about the product and influence positioning. Creativity, as the most valuable element of promo activities, is rarely found, but often brings success. However, there is no established form of success. It is necessary to know oneself, one's product and company, objective to which one is heading to, and the most important thing, how to present oneself and what attitude buyers should have about the offer. "Creative without strategy is called art. Creative with strategy is called "advertising"" (Jef I. Richards). Nobody has yet made a brand and good image by copying others, but by creating uniqueness and specialty.

„Entrepreneurial marketing activities do not fit easily into these existing models of the marketing mix. Owner-managers do not define their own marketing mix in terms of product, pricing and place decisions, although they usually include promotions.

Instead, a different theme seems to run through the marketing methods preferred by entrepreneurs: they involve direct interchanges and the building of personal relationships. Entrepreneurs prefer interactive marketing. They specialise in interactions with their target markets because they have strong preferences for personal contact with customers rather than impersonal marketing through mass promotions. They seek conversational relationships in which they can listen to, and respond to, the voice of the customer, rather than undertake formal market research to understand the market place“ (Stokes, 2000, pp. 1-16, p. 10).

New form of marketing mix related to entrepreneurial actions is given by (Kolabi, Hosseini, Mehrabi, Salamzadeh, 2011, pp. 1-17, p. 1) in the form of 5Ps by adding one more element – “person”.

There is a look at entrepreneurial marketing mix where you keep 4Ps, but elements differ. „Person, Process, Purpose and Practices and that these dimensions provide a better framework for understanding entrepreneurial relationship marketing“ (Zontanos, Anderson, 2004, pp. 228-236). Review of the relationship between elements of entrepreneurial marketing mix can be seen in Picture 3.



*Picture 3: Entrepreneurial marketing mix*

*Source: Authors*

Entrepreneurs, as bearers of entrepreneurial business endeavour, are individuals who, with their creative, unstandardized way of thinking and acting, stand out as the basic factor of economic development, primarily through small and medium enterprises. Presence of entrepreneurs is the base for separate studies on marketing mix in entrepreneurial marketing in relation to traditional concept of marketing. Entrepreneur joins all other employees and elements of marketing mix together by introducing the spirit of change, necessity to accept contemporary, visionary way of perceiving the world. That doesn't only change the number of instruments, but other instruments also change by gaining new, dynamic and innovative concept of functioning.

## ***RESEARCH ON THE APPLICATION OF MARKETING MIX INSTRUMENTS STRATEGY IN ENTERPRISES IN SERBIA***

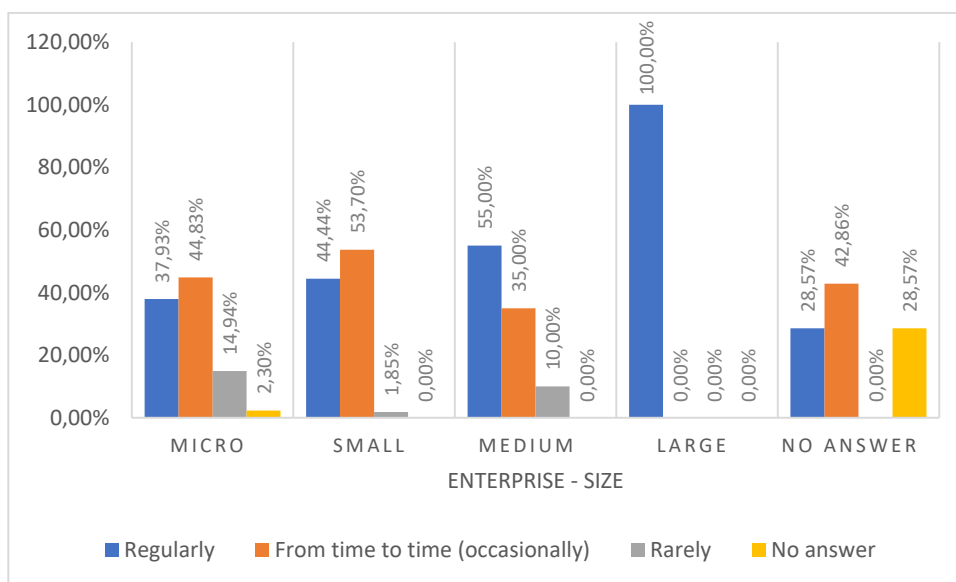
Research was carried out on 171 interviewee on the territory of the Moravica River district (focusing on the City of Čačak) in June and July 2017. An offline survey including 18 questions was used; 10 questions about the person filling out the survey (2 open-ended questions and 8 closed-ended questions with one possible answer) and 8 questions about the business of the economic entity the interviewee belongs to (5 closed-ended questions with several possible answers and 3 closed-ended questions with one possible answer).

Interviewee structure by gender is 80 (46.78%) men and 91 (53.22%) women. Largest number of interviewees are between 30 and 50 years of age (84; 49.12%), than over the age of 50 (52; 30.41%), below 30 (29; 16.96%). Average age of all interviewees is 43.68. When it comes to education of interviewees, the largest percent finished secondary school (112; 65.50%), then faculty (35; 20.47%), college (18; 10.53%), master studies 2 people (0.85%). By far the highest percent of interviewees are from private sector (167; 97.66%), while there is an insignificant number of interviewees in public sector (4; 2.34%). By the position they are at in their companies, most interviewees are workers (105; 61.40%), then owners/founders (63; 36.84%) and managers – top, senior, junior (3; 1.75%). Size of companies is such that slightly more than half are micro (87; 50.88%), then small (54; 31.58%), medium (20; 11.70%), large (3; 1.75%) and there are ones who didn't answer the question on the size of their company (3; 1.75%).

## ***RESULTS***

Entrepreneurial activity can be seen as a “bridge between entrepreneurs and their close and functional environment” (Jovanović-Božinov, Živković, Langović, Veljković, 2004, p. 12). By satisfying the needs of environment in which they are and with their creativity, entrepreneurs promote the society, but also ensure their rightfully deserved place. Promoting and developing new products and services, as well as business methods, through the concept of entrepreneurial marketing is the need which is constantly being renewed, need which constantly demands maximal dedication and understanding of the current market situation. Those who do not innovate are doomed to fail, and those innovative at least get a chance to promote their competitive position.

By analysing data obtained in the research (Picture 4), largest number of interviewees are from macro companies (39; 44.83%) and they stated that innovations and product and business promotions are in their organizations carried out from time to time (occasionally). Then we have 33 (37.93%) interviewees who said that innovating is a regular activity, 13 rare activity (14.94%) and 2 people (2.30%) didn't answer that question.



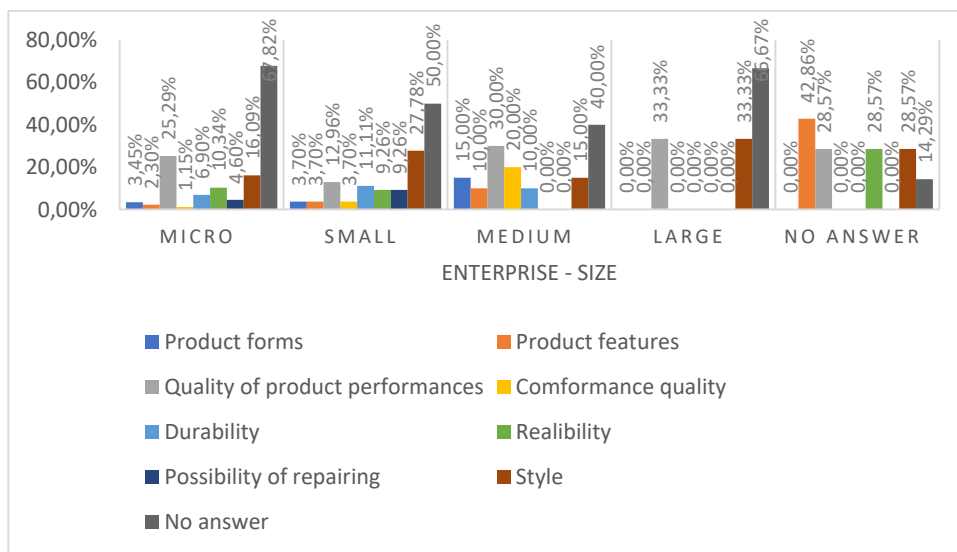
*Picture 4: Percent of interviewees (by the size of their company) innovating regularly, occasionally and rarely*

*Source: Authors*

Interviewees coming from small companies, more than half of them (29; 53.70%), stated that innovative activities happen occasionally. Then we have 24 interviewees (44.44%) that claimed that innovative activities are often present and 1 person (1.85%) rarely present. Interviewees from medium enterprises mainly said that innovating is a regular activity (11 people, 55.00%), then that it is an occasional activity (7 people, 35.00%) and rare activity (2 people, 10.00%). All 3 interviewees from large companies (100%) said that innovative activities are regularly present in their companies. When it comes to interviewees who didn't state the size of their company, three of them (42.86%) stated that innovations are occasionally present, two said regularly (28.57%) and two didn't answer the question. As we can see from the data, interviewees mostly think that in the organizations they belong to innovating is present, be it occasionally or continuously.

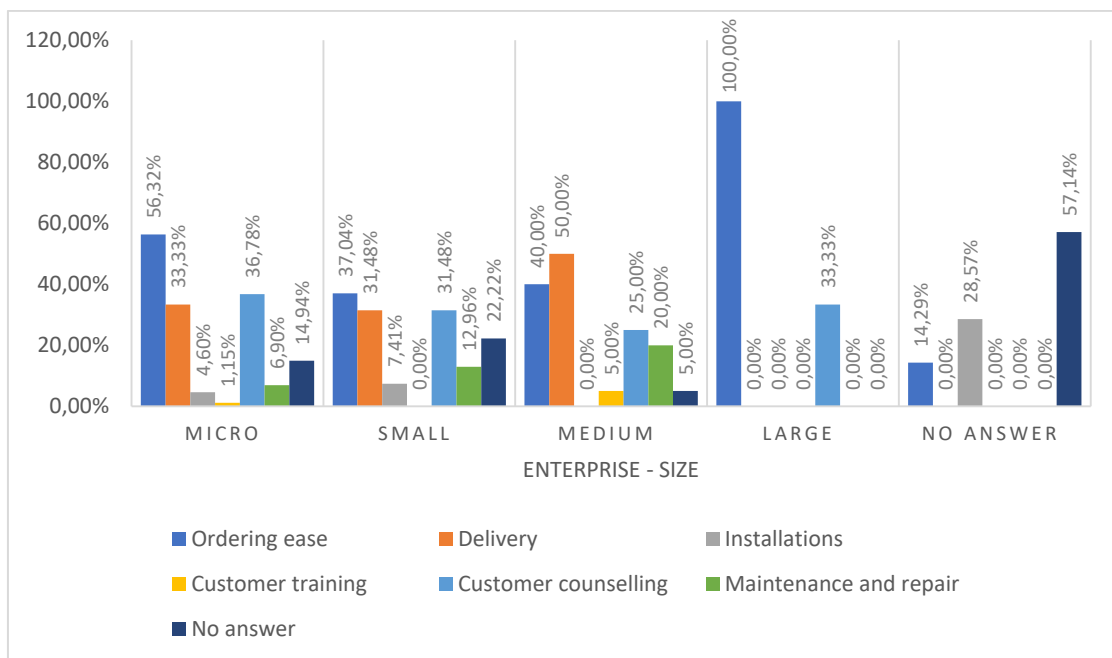
Creating diversity based on products they offer is a good opportunity for numerous companies and, by deciding to apply differentiation or not, they determine their position on local, national or global market. By analysing data on the type of product differentiation and by the size of the company interviewees belong to, largest number of interviewees didn't answer the question (59; 67.82%), 22 (25.29%) stated the quality of product performances, 14 (16.09%) style, 9 (10.34%) reliability, 6 (6.90%) durability, 4 (4.60%) possibility of repairing, 3 (3.45%) product forms and 2 (2.30%) product characteristics. Half the interviewees (27) from small companies didn't answer the question, 15 (27.78%) stated style, 7 (12.96%) quality of product performances, 6 (11.11%) durability, 5 each (9.26%) reliability and possibility of repairing and 2 each (3.70%) product forms, product characteristics and quality confirmation. Interviewees belonging to medium-sized companies mostly didn't answer this question (8; 40.00%), 6

(30.00%) said quality of product performances, 4 (20.00%) quality confirmation, 3 each (15.00%) product forms and style and 2 each (10.00%) product characteristics and durability. When it comes to interviewees from large companies, two of them didn't answer (66.67%) and 1 each (33.33%) said product performance quality and style. Among the interviewees who didn't state their company's size, 3 people (42.86%) said product characteristics, 2 each (28.57%) product performance quality, reliability and style and 1 person (14.29%) didn't answer. Graphic representation of data can be seen in Picture 5.



Picture 5: Percent of interviewees (size of the company) stating that certain form of product differentiation is carried out  
 Source: Authors

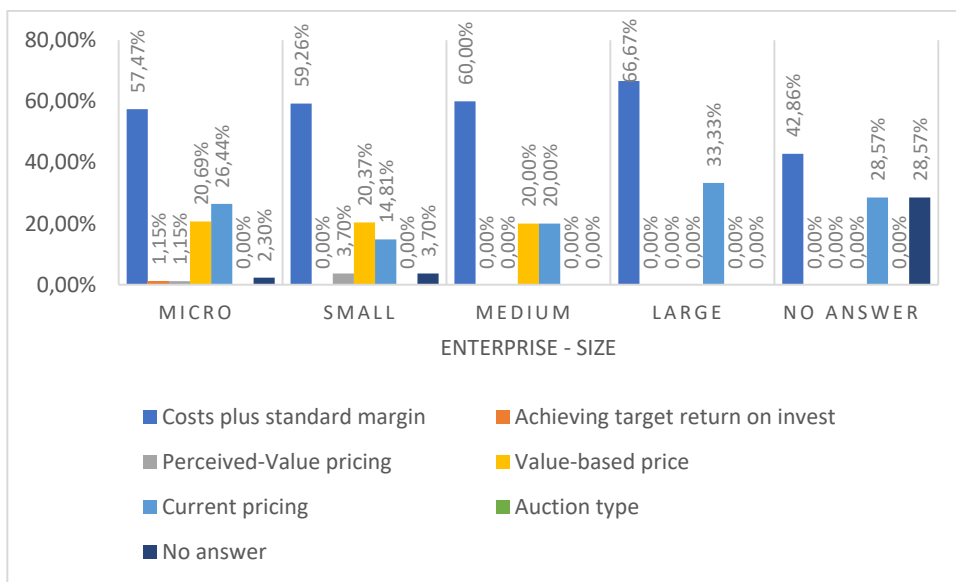
If we look at the size of companies, more than half of interviewees from micro companies (49; 56.32%) when asked about the means of service differentiation stated ordering ease, then customer counselling (32; 36.78%), delivery (33.33%) and 6 people said maintenance and repairing (6.90%), installations (4; 4.60%) and customer training (1; 1.15%). A number of 13 interviewees didn't circle any of the offered answers, i.e. 14.94%. Interviewees from small companies stated ordering ease (20; 37.04%), delivery and customer counselling (17 each; 31.48%) and then maintenance and repairing (7; 12.96%) and installations (4; 7.41%), wherein 12 interviewees didn't answer the question (22.22%). Half the interviewees (10) from medium-sized companies stated delivery as the way for achieving their service differentiation, 8 (40.00%) ordering ease, 5 (25.00%) customer counselling, 4 (20.00%) maintenance and repairing, 1 (5.00%) customer training and one person didn't answer the question. All 3 interviewees from large companies pointed out to ordering ease, and one third of them on the role of customer counselling. People not stating size of the company they belong to opted for installation (2; 28.57%) and ordering ease (1; 14.29%), wherein more than half didn't answer the question (4; 57.14%). Graphical review of the data can be seen in Picture 6.



*Picture 6: Percent of interviewees (size of the company) stating that certain form of service differentiation is applied*

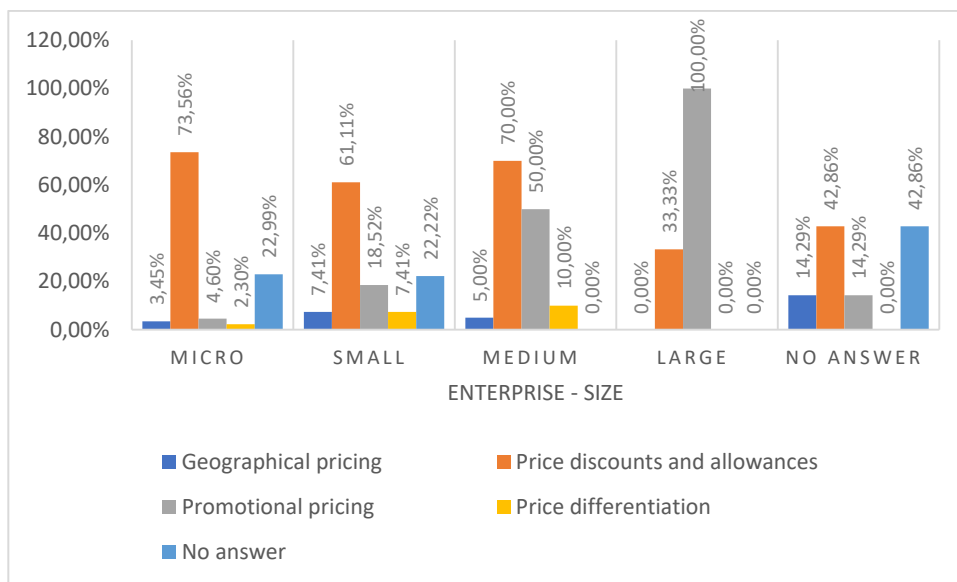
*Source: Authors*

If we look at the pricing methods from the aspect of the size of the company using them (Picture 7), we can see that when it comes to interviewees from micro companies, and basically from all others, they opted for costs plus standard margin (50; 57.47%) and significantly less people said current prices (23; 26.44%), value-based price (18; 20.69%), achieving target return on invested (1; 1.15%), perceived value (1; 1.15%), wherein 2 people didn't answer the question (2.30%). Interviewees from small companies mostly said costs plus standard margin (32; 59.26%) and then value-based price (11; 20.37%), current prices (8; 14.81%), perceived value (2; 3.70%) and two people didn't answer the question (3.70%). Medium-sized companies, by interviewees coming from them, mostly said costs plus standard margin (12; 60.00%), then value-based price (4; 20.00%) and current prices (4; 20.00%). Interviewees from large companies put costs plus standard margin on the first place (2; 66.67%), then current prices (1; 33.33%). When it comes to interviewees who didn't state the size of the company they belong to, cost strategy plus standard margin is most present (3; 42.86%), current prices 28.57% (two interviewees) while the same number didn't answer the question.



*Picture 7: Percent of interviewees (size of the company) answering that certain pricing strategy is carried out*  
 Source: Authors

Together with pricing strategies it is important to sometimes adjust prices to customer needs. Using different possibilities offered by price politics and promotion by combining several different forms of entrepreneurial marketing concept often creates space for the achievement of flexibility depending on dynamics of requested changes. By observing pricing (adaptation) strategies and size of companies interviewees come from, it can be concluded that micro companies most often use discounts and reliefs (64; 73.56%) and much less promo prices (4; 4.60%), geographical pricing (3; 3.45%) and price differentiation (2; 2.30%), wherein 20 interviewees didn't answer the question (22.99%). For the interviewees from small companies discounts and reliefs are the most common method of price adjustment (33; 61.11%), then promo prices (10; 18.52%), geographical pricing and price differentiation (4 each; 7.41%), and 12 didn't answer (22.22%). Interviewees from medium-sized companies, 70% of them, stated use of discounts and reliefs, half of them promo prices, 10% price differentiation and 5% geographical pricing. All 3 interviewees from large companies stated promo prices as pricing strategy, and one third (1) said discounts and reliefs. Discounts and reliefs prevail with 42.86% for interviewees who didn't state the size of their company, and 14.29% each have geographical pricing strategy and promo prices. Three interviewees didn't answer the question, i.e. 42.86%. You can see a graphical overview in Picture 8.

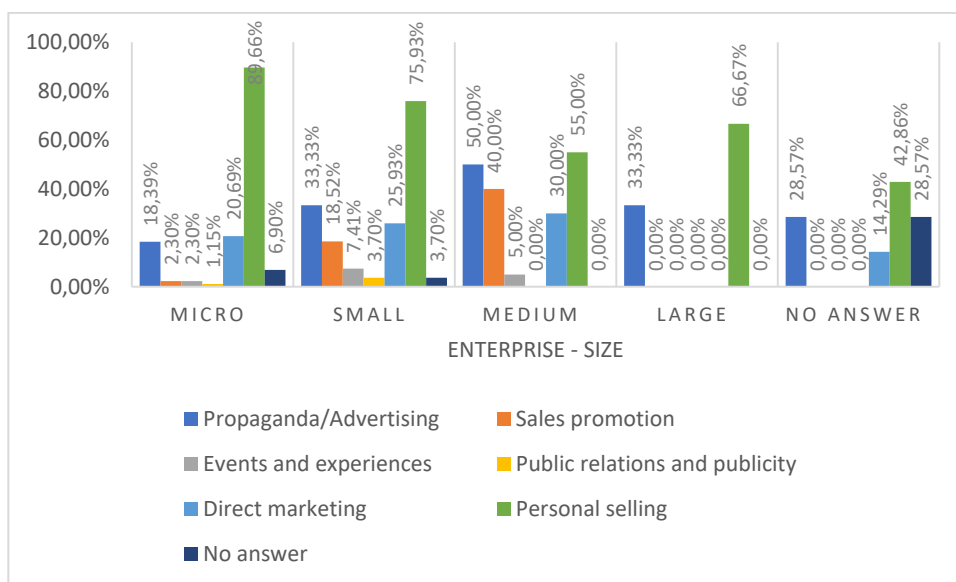


*Picture 8: Percent of interviewees (size of the company) confirming the presence of certain pricing (adaptation) strategy in their organization*

*Source: Authors*

Choosing the way in which you will communicate with the target market and send certain desires demands an in-depth market analysis, complete understanding of the characteristics of existing and future buyers, but also of competitors with whom we are sharing the market. Choosing one or more elements of marketing communications mix is not an easy task, nor is once made decision final. It is necessary to achieve complete synergy between them by changing and adapting to given changes and by using on entrepreneurial marketing based creativity, but by always sending one clear and unambiguous message – our company is different than other companies and offers the most affordable offer.



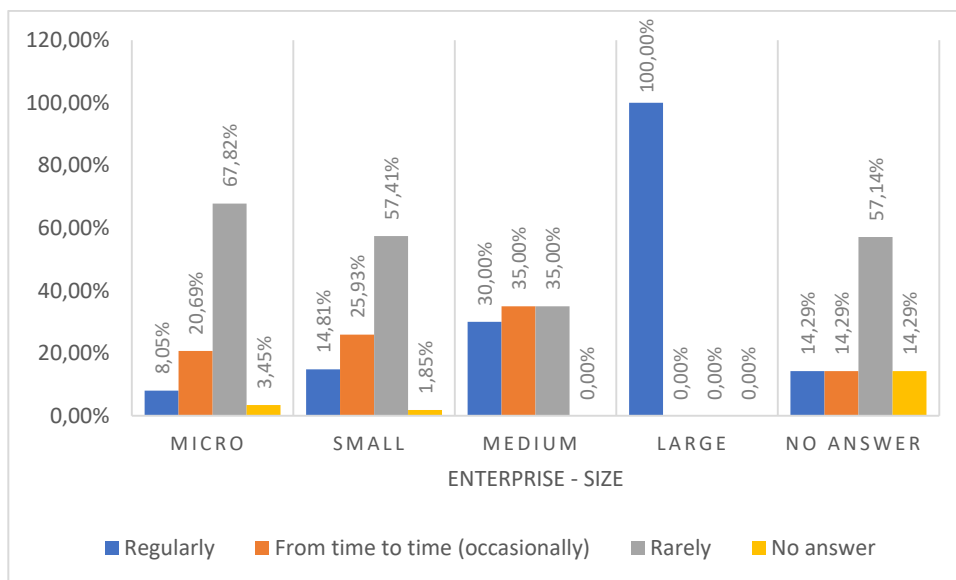


*Picture 9: Percent of interviewees (size of the company) emphasizing certain element of customer communication*

*Source: Authors*

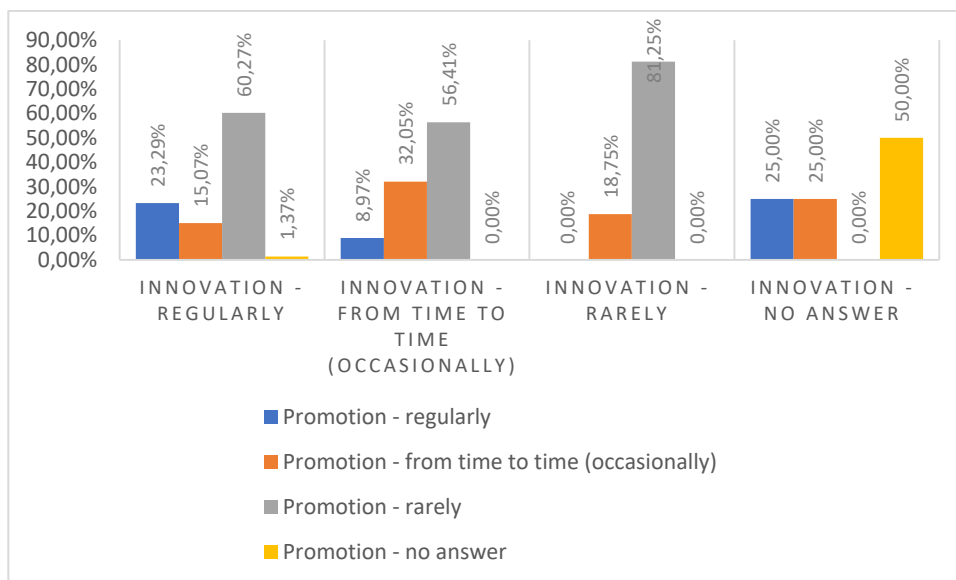
Interviewees from micro companies mostly opted for personal selling (78; 89.66%) and significantly less for other forms of communications mix: direct marketing (18; 20.69%), propaganda/advertising (16; 18.39%), sales promotion (2; 2.30%), events and experiences (2; 2.30%), public relations and publicity (1; 1.15%) and 6 didn't answer (6.90%). Small companies opted for personal selling (41; 75.93%), then propaganda/advertising (18; 33.33%), direct marketing (14; 25.93%), sales promotion (10; 18.52%), events and experiences (4; 7.41%), public relations and publicity (2; 3.70%) and 2 didn't answer (3.70%). Data point out to the enormous significance personal selling has for micro and small companies, regardless of whether they have just been established or have been in business for a long time. Personal selling is in the first place for interviewees from medium-sized companies (11; 55.00%) then propaganda/advertising (10; 50.00%) sales promotion (8; 40.00%), direct marketing (30.00%) and events and experiences the least (1; 5.00%). Interviewees from large companies first opted for personal selling (2; 66.67%) then propaganda/advertising (1; 33.33%). In the structure of people who didn't state the size of their company, as well as all other interviewees, personal selling is most common (3; 42.86%), then propaganda/advertising (2; 28.57%), direct marketing (1; 14.29%), didn't answer (2; 28.57%). In Picture 9 we can see a graphical overview of the given data.

Companies can be extremely good in activities of promoting the existing and developing new products, but if the market isn't aware of those successes, it's like they don't exist. Promotions of existing and new (improved) products are in organizations of interviewees carried out rarely (101; 59.06%), occasionally (40; 23.29%), regularly (25; 14.62%), didn't answer (5; 2.92%).



*Picture 10: Percent of interviewees (size of company) answering that promotions of new (improved) products have some frequency in their organizations*  
*Source: Authors*

When it comes to micro companies, promotions of existing, new or improved products are carried out rarely in 59 companies or 67.82%, occasionally (18; 20.69%), regularly (7; 8.05%), didn't answer (3; 3.45%). Interviewees from small companies mostly think that promotions are done rarely (31; 57.41%), then occasionally (14; 25.93%), regularly (8; 14.81%), didn't answer (1; 1.85%). In medium-sized companies, the number of interviewees that stated rarely and occasionally is identical (7; 35.00%), while 6 said regularly (30.00%). All interviewees from large companies said their companies carry out promotions regularly. We should mention the structure of answers of interviewees who didn't state the size of their company – rarely (4; 57.14%), the number for interviewees saying regularly, from time to time and who didn't answer is the same (1 each; 14.29%). Graphical overview is in Picture 10.



*Picture 11: How often interviewees doing innovations (regularly, occasionally, rarely) have promotions of their new (improved) products*

*Source: Authors*

It is interesting to draw a parallel between the frequency of innovating and frequency of promoting new products and/or processes (Picture 11). Largest percent of those innovating and improving products/services or their business rarely present them (44; 60.27%), 27.29% (17) do that regularly and only 15.07% (11) occasionally, whereas 1.37% (1) didn't answer. If we look at the ones who occasionally innovate, most of them rarely promote innovated products/services or processes (44; 56.41%), occasionally (25; 32.00%) and regularly only 7 (8.97%). Companies which rarely innovate also rarely promote results of those activities (13; 81.25%) or do that occasionally (3; 18.75%). Amongst the ones who didn't state how often they carry out innovations in their companies half of them didn't answer how often they promote new or improved products/services (most likely because those activities are very rare), 25% (1) stated that promotions are performed regularly and the same percent occasionally.

One of common characteristics of companies applying both traditional and entrepreneurial marketing model is the awareness about the importance and contribution innovations can bring. Changes in different spheres of social life bring changes in target market characteristics, but also in organizations. In that process some needs, requests and desires disappear while simultaneously creating new ones. It is also necessary to adjust the offer to the new market situation by enriching the existing products and introducing completely new ones.

## *CONCLUSION*

Doing business in conditions of fierce competitiveness is a very complex assignment, true art of choosing and entering the market and long term survival on it. Factors affecting the creation of the complexity of business activities are numerous, which creates a framework of choosing many possibilities and different ways for achieving the desired goal on the market. It is important to be prepared to constantly analyse the environment and personal strengths and weaknesses in order to detect chances whose use would potentially lead to business success.

By analysing results obtained from a survey conducted on 171 interviewees employed in large, medium, small and micro companies, on the territory of the Morava River district, we can conclude that business development and success are based on market research and on the consequently defined strategy which is based on different combinations of marketing mix instruments and innovations and promotions of products, services and processes. Within the survey framework and in regards to ways of product differentiation, most common were answers product performance quality, style, reliability, durability, product characteristics and possibility of repairs. When it comes to ways of service differentiation, most interviewees opted for ordering ease, delivery, customer counselling, maintenance and repairs and customer training.

Way in which pricing is done can significantly influence market's reaction to new offers. Even though it often seems as a passive and uninteresting element of marketing mix, different forms of its design can play an important role in market competitiveness and often decide the winner. By analysing answers to questions about choosing the price strategy used in companies interviewees belong to, more than half of interviewees said cost strategy plus standard margin, while other strategies were less present: current prices, value-based price, based on how buyers see product value – perceived value. When it comes to price adjusting, most interviewees opted for discounts and reliefs and promo prices, then geographical pricing and price differentiation.

On question about the elements of marketing communications most often used in their companies to attract and retain customers on the market, most interviewees said personal selling. Next was propaganda/advertising, direct marketing, sales promotion, events and experiences and public relations and publicity.

To clearly define what should be accomplished relieves pressure from marketing. Creation, preservation and promotion of competitive advantage with innovativeness and flexibility alongside with customer satisfaction and making of profit is the main objective entrepreneurial marketing should accomplish. It is everything but easy to do so, but entrepreneurial personality transferred to entire organization is ready to fight dangers and temptations by fiercely looking at the future and the desired objective slowly being realized.

Adopted general principles and values of market business completed with the application of chosen marketing resources make a good basis and good start that later demand constant dedication to research and innovations, acceptance but also initiation of changes – in one word resourcefulness in all aspects of doing business. Acceptance of changes and dynamics, creation of partnership with buyers are the basis of observing marketing as a focal point of innovative and business activities of companies. Modern business process demands changes, and entrepreneurial marketing is the best answer to those changes.

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# **PRICE AND PRICING, A KEY DRIVER FOR IMPROVING PROFIT AND PROFITABILITY IN ORGANIZATIONS**

*Carminé D'Arconte<sup>12</sup>*

## **ABSTRACT**

*For-profit companies should, by definition, aim for the highest possible profit in relation to the capital invested; this is only achieved by selling a certain number of products or services that adequately meet market demand. Nevertheless, to attain this objective they must also be able to set the price correctly and adapt it according to market changes and circumstances.*

*Price is in fact the only element of the marketing mix which produces revenues and that may generate profit; therefore, it plays a fundamental role in determining the success or the failure of any entrepreneurial activity.*

*In this respect, apart from examining the main contributions of the relevant literature, we have conducted research to highlight entrepreneurs' understanding of price and pricing, as well as their general behaviour in relation to key aspects of the topic, whilst trying to underscore how this may influence an organisation's outcomes.*

*We shall introduce here an advanced model to fix prices and finally draw our conclusions as we highlight what should be done to avoid some recurrent mistakes and allow companies to enjoy better profits and profitability.*

**Key words:** *Price and pricing, Entrepreneurs' approach, Guidelines for pricing.*

**JEL Classification:** *M30*

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## INTRODUCTION

One of the most important and complex decisions that a company must make is how to determine the sales price of products and services and the adjustment of price, depending on inevitable changes in the market. In fact, price is the only element of the marketing mix which produces revenues (other elements only produce costs); therefore, it is the sole driver of profitability which simultaneously influences market demand (the number of products or services that will actually be sold).

All for-profit organizations are therefore tasked with the arduous responsibility of trying to set the prices of their products or services to the best of their abilities, all the while having in mind that every mistake, no matter how small, may result in very heavy consequences as far as final profit is concerned; in fact, even the most extraordinary business idea, the best know-how, expertise in communication, technology, and whatever else may be completely spoiled by a wrong price that could lead an organization to failure. Apart from this, we also have to consider how price determines market demand and, consequently, sales volume. With a few exceptions (Giffen, Veblen goods), it happens that the higher the price, the lower the sales-and vice versa.

It's necessary here to distinguish between price and pricing, focusing briefly on each of them. Prices, first of all, can have different denominations, depending on the context of reference: e.g., rent, tuition, fees, royalties, rates, tolls, contributions, and salary. In practice, we can define price as the amount of money that an economic entity either receives for providing or, conversely, pays to obtain a certain product or service.

From a marketing standpoint, it's useful to regard price as an expression of value that both the seller and the consumer attach to it, in fact:

- for the *seller*, it is the amount of revenue, the *benefit*, actually the *only* benefit that compensates all his efforts, as well as the risks he has taken, in the creation, production and selling of a product or service; and for the *consumer*, it is the cost, the *sacrifice*, the amount of income he must give up to obtain the same product or service.

Therefore we can consider price as the result of an ideal fraction as follows:

$$\text{Price} = \frac{\text{Perceived differential benefit}}{\text{Perceived differential sacrifice}}$$

In other words, before buying something, potential customers make a comparison between the perceived benefit they may gain in relation to similar products and services offered by competitors and the perceived sacrifice, that is what they feel they will have to go without in buying the product or service for a certain price.



Pricing is the process and the policy of setting the price of a product or service when a new product is introduced on the market for the first time, or, when necessary in cases of existing products, of adapting said price for various reasons. In this paper, we will focus only on price setting without considering important aspects related to price adaptation, for brevity's sake.

From everything mentioned up to now, it should be extremely clear how the relevant decisions must be taken, in any case, with the utmost care—after all, the success or failure of all the organisation's efforts depends on it.

We will now first examine other authors' theoretical contributions and then provide a summary of our research on entrepreneurs' competences, especially in relation to price and pricing. Furthermore, we will introduce our model to fix the initial price of a product or service.

## ***THEORETICAL REVIEW***

In spite of its fundamental importance, it appears that pricing does not receive enough attention from scholars; there have certainly been many contributions, but the general trend seems to be a rather fragmented approach to this primary issue.

Let's start by saying that we calculate profit by deducting costs from revenues. Therefore, the price of a product as part of a company's real routine cannot be fixed without previously determining the relevant costs. So, it makes little sense to refer to a price only based on the market demand or the perceived value, i.e., how a specific target evaluates the product in relation to similar ones offered by competitors at a certain price. In assessing profit, it is fundamental for a company to position itself so as to determine, with extreme care, the costs of its products; for this reason, it is quite astonishing for an economist (Palmerio, 2013) to have stated that “there is no evidence that companies, especially big ones, when setting their prices, behave in such a rough way to simply add to the average cost a certain mark-up. Experience shows that companies operating under a monopoly or oligopoly consider the demand when fixing the price.”

Leaving aside monopolies and oligopolies, in the real world precisely the opposite is true. Most companies work exactly in this way: they evaluate the costs of a product the best they can and they then add a mark-up. The problem is that in so doing they quite often make serious mistakes, as we will explain later along with the results of our research. We have to add that delving into all aspects related to costs, not only it's rather complicated but it also seems to be the privilege of a few companies conversant with standard costs, price and pricing procedures, advanced analytical accountancy such as ABC, advanced data process systems, etc. (D'Arconte, 2015).

It is also true that referring to costs alone is not sufficient, as it may be a theoretical exercise only; an author tackling this critical issue, Lambin (2000), warns that all calculations that refer only to costs, though made in the best scientific way, do not give any guarantee that the established quantities will be

effectively sold. He also warns about a vicious circle inherent in all cost-based methods: starting from the costs and considering the desired profit, a company would need to sell a certain quantity of products at a certain price; however, the price in question would determine the real volume of sales, which will most likely be different from what was previously estimated.

This is surely one of the most serious problems facing companies, and in this regard, Kotler (1997) some time ago pointed out that the most common mistakes made are:

- pricing being too cost-oriented
- prices generally set independently of the other elements in the marketing mix, rather than being an intrinsic element of a well-defined market-positioning strategy
- prices not revised often enough to capitalize on market fluctuations
- prices not varied enough to adapt to different products, items, market segments, and occasions

We wholeheartedly agree with the above, especially with the second point, as we firmly believe that the most important point is that the price should always be regarded as an intrinsic element of a well-defined market-positioning strategy—we will elaborate a bit more on this topic. Apart from highlighting what general problems may exist in pricing, Kotler doesn't indicate what to do in practice, or what procedure to follow to fix the price.

The point is that we definitely need a basic fundamental model that takes into consideration both the demand and costs and the way they are related, as the final gross profit will depend on the quantity effectively sold at a certain price  $P$ , deducting all the relevant costs. In this regard, the best contribution is the so called *three "Cs" model*, from Kennichi Ohmae, the famous business and corporate strategist who states that when a company has to fix the price of a product it must consider:

- the corporation's offer: what kind of product the company is offering to the market and at what price
- the competitors' offer: what kind of similar products competitors are offering and at what price
- the customers' demand: what the demand may be, considering the product and its price in relation to competitors' product characteristics and prices, also taking into account the socioeconomic situation of the specific environment

We will use this as a starting point to work out a more complete and advanced model, having in mind that the three C's model, in order to become an efficient tool in fixing the price of a product or service, must also be significantly improved, both with integrations and extensions.

## ***RESEARCH ON ENTREPRENEURS' APPROACH TO PRICING***

In our wider research on CRM, Customer Relationship Management, we prepared a complete and detailed questionnaire with nearly 50 questions on entrepreneurial competences and entrepreneurs' business approaches. Many of these questions focused on price, pricing, and accountancy.

The questionnaires were distributed to 50 entrepreneurs, mostly members of the CNA, Confederazione Nazionale dell'Artigianato e della Piccola e Media Impresa di Roma, and thus mainly the owners of small enterprises. After completing it, they participated in a lengthy interactive and open discussion based on the questions.

Approximately 70 business administration students at Roma Tre University in Rome, Italy and at Kliment Ohridski University in Sofia, Bulgaria were also given the same questionnaire and also in this case there was an interactive discussion on the most important aspects.

## ***RESULTS***

The questionnaires and the interactive discussion that followed confirmed what we had already observed in our experience teaching several business administration courses to approximately 200 members of the CNA.

Apart from specific technical skills related to their business and some positive personality traits, entrepreneurs seem to be very poorly equipped as far as managerial skills are concerned. This is mainly because they have received zero managerial preparation. They also seem to have many difficulties with pricing especially, as they generally only refer to costs when fixing prices, and often make serious mistakes when adding mark-ups to prices. In a telling way, many have shared the following wrong sentiment with us: "I add a mark-up of X% on costs so to have a profit of X%" and, besides this, they do not seem to understand the key value of elasticity in price adaptation, nor do they know how to calculate the breakeven quantity, or how profits may change with different sales volumes. On top of everything else, they normally lack any kind of advanced accountancy system to help properly analyse the effective costs and revenues of their products and services; meaning that in practice, they are unable to ex post facto check to what extent their prices were correct.

The extreme limitations of enterprises where the owner does nearly everything alone, without being able to rely on specialized competences within a larger company, make it understandable that serious problems would occur and impede seriously business,

## ***THE BASIC 3Cs MODEL TO FIX THE PRICE***

The *three "Cs" model* is absolutely a good place to start because it refers to 3 key drivers, both simultaneously and with regard to their reciprocal interactions; nevertheless, the model has to be integrated and extended—see our contribution on pricing (D'Arconte, 2017).

First of all, we should more closely consider the demand function issue; in this regard, we have worked out a simple model based on a decreasing linear demand that leads us to the idea of an optimum price; this in turn determines the optimum volume of sales.

In substance, assuming that the demand function may be represented with a decreasing line and on the basis of two data, namely *the maximum quantity than can be sold with the lowest acceptable price* and the *maximum price after which nobody will buy the product*—data that can both be evaluated with good approximation, thanks to specific market research—we have a simple formula from Springer (1967) that allows us to calculate the optimum price of a product as follows:  $P = \frac{1}{2} [(Q_{\max}/m) + Vc]$ . Here,  $Q_{\max}$  is the maximum quantity that can be sold when the price approaches 0,  $m$  is the angular coefficient of the linear decreasing demand,  $Vc$  is the variable cost of the product, and  $P$  is the limit price which causes sales go to 0.

This approximation of reality will be rough, for sure, and we will obviously not be able to find the exact optimum price, but we will find a good estimate and, above all, a simple basic model to refer to. The fact is that in all cases where the model can be applied, there will be only one price that maximises profit, and any change, either an increase or a reduction, will result in an immediate loss for the company. This is obviously an extremely important point to remember, as it contradicts the widely held belief that the higher the sales, the higher the profits will be; on the contrary, if an optimum price exists, then there will also be an optimum quantity of sales, and if we reduce prices to increase sales, then the more we sell, the more profit will we lose.

Apart from this integration, the 3Cs model should also be extended to include another important key driver, the company's objectives. In fact, these should not only play a fundamental role but we also believe, as some authors correctly point out (Lambin, 2000, Grandinetti, 2008), that they ought to be considered before anything else. It is one thing for a company to aim at being the leader in terms of sales volume over a certain period of time, and quite another for it to aim at high profits. Objectives normally also have to change over time, especially at the beginning, when it is more important to conquer market shares, attain brand recognition, etc. Apart from this, investments at this stage are very high, while revenues are slow; therefore, companies do not expect profits early on. The same thing is true during periods of economic crisis, when, generally speaking, companies can only try to survive in the hope of better times ahead.

It is therefore evident that companies are forced, so to say, to decide on different objectives according to varied circumstances over time. We all know—

there are many contributions in the literature—that companies have to adapt their strategies and prices during the so-called product life cycle. Every company, when fixing the price for the first time, finds itself in the introduction phase; it must pass through the different steps that follow, making the necessary adjustments. Therefore, objectives are definitely a fundamental driver, a sort of indispensable compass to set the company's course; in the case of a company with two or more products, different objectives can be set for each of them, according to their particular characteristics.

According to P. Kotler (1997), five major objectives may exist:

a) Maximum sales growth

Some companies want to maximize the quantity of sales, as they believe that a higher sales volume will lead to lower unit costs and higher long-run profits; to do this they set the lowest price, assuming the market is price sensitive. This practice is called market-penetration pricing.

b) Maximize revenue (market share in value)

Some companies set a price that maximizes sales revenue. This is a different approach in comparison to the previous one; the main idea is to have high revenues. They may be obtained in different ways.

The first is to try and sell more without changing the price: e.g., investing in advertising or in other activities that may improve the image of the product or service (being careful to balance costs and benefits).

Another option is to adapt the price, with two different options:

- offer a low price that, *in cases of high elasticity*, may result in higher sales volume, and consequently more revenue;
- set a high price that, especially *in cases of rigid demand*, will have a limited impact on sales reduction, so that it may bring in higher revenues than before.

c) Maximum market skimming

Many companies favour setting high prices to “skim” the market. For example, Kotler (1997) indicates Du Pont as a prime practitioner of market-skimming pricing: with each innovation—cellophane, nylon, Teflon, etc.—the company estimates the highest price it can charge, given the comparative benefits of its new product versus the available substitutes. It sets a price that makes it just worthwhile for some segments of the market to adopt the new material. Whenever sales are slowing down, Du Pont lowers the price to draw in the next price-sensitive layer of customers. In this way, Du Pont skims a maximum amount of revenue from the various market segments.

d) Product-quality leadership

A company might aim to be the product-quality leader on the market. According to Kotler, Maytag is a prime example: the company builds high-quality washing machines and prices them a few hundred dollars over competitors' prices.

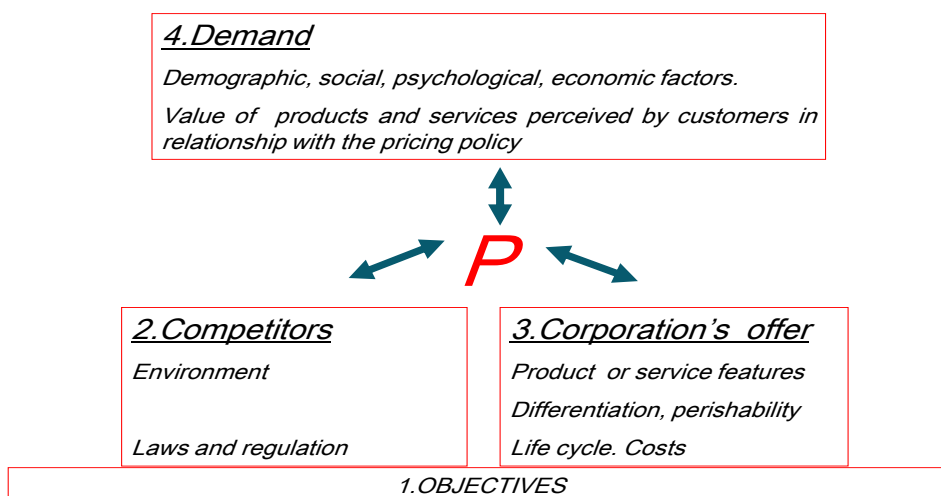
Maytag used the slogan “Built to last longer” and its ads featured “Ol’ Lonely,” the Maytag repairman who is asleep near the phone because no one ever calls him for repairs. Maytag’s quality/premium price strategy has earned it a consistently higher-than-average rate of return in its industry.

The core idea of this kind of pricing is good positioning: building up a good image in the mind of the consumer so that a premium price may be accepted.

*e) Maximum profit*

Last but not least, many companies try to set the price that will maximise current profits, choosing the price that they believe may produce maximum current profit, cash flow, or rate of return on investment.

The 4-driver model for price determination



Picture 1: The three C's model, integrated with objectives

We have listed the main objectives but, in the long run, it goes without saying that profit must necessarily become the main objective of all for-profit companies; otherwise they will not have any chance of survival.

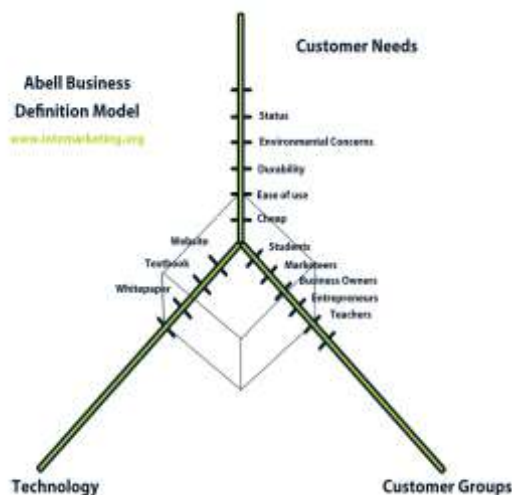
Going back to our model, it is therefore important to keep in mind that when making pricing decisions a good balance should be reached which considers the type of product in question and how consumers perceive it, as well as the competitive situation of the market, the total costs, and finally, the company's objective. Picture 1 shows a graphic representation of the general model for

determining price, using the four key drivers we have laid out above and we have indicated as the 4-driver model for setting the price.

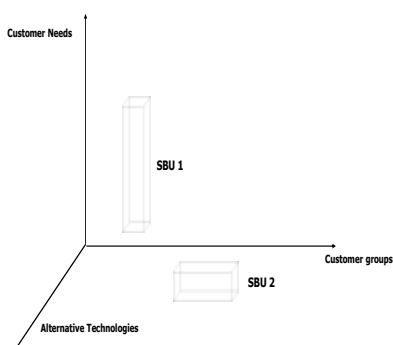
Having stated all this, we now have to consider another fundamental and even more important aspect, namely that price should not only be regarded as an isolated item—as Kotler points out—but more importantly should be considered as a fundamental part of an entrepreneurial project, to be implemented according to well-structured processes. In fact, by the time companies set the price, they have already passed through the two other steps of the fundamental marketing process (analysis and strategy), and this will inevitably strictly limit their range of choices, which to a certain extent can determine pricing policies. In fact, as Picture 2 shows, once companies have analysed the market, they first identify and choose the SBU, or Strategic Business Units, meaning the specific product or set of related products being offered to a well-defined target. Using D.F. Abell's model (Donnelley, 2017) in which the three variables are combined, it is possible to identify and define one or more SBUs. In Picture 3 we can see a self-explanatory illustration (Donnelley, 2017) of the application of this model, with a company that decides to produce violins and has to choose between two different possible SBUs: the first one is comprised of professional musicians, a limited target to whom the company must offer high-quality violins—more than likely handcrafted by highly skilled craftsmen—and the second is a far more numerous target of amateurs, who may accept lower quality violins without any problem.

Strategy, therefore, is fundamental to decision-making and, if we simplify it greatly, two kinds of strategies can be defined:

- a) 'Low-price' strategy with an undifferentiated product
- b) 'High-price' strategy with a differentiated product

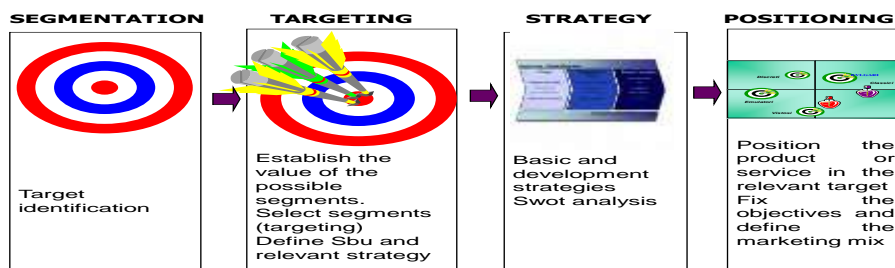


Picture 2: The Abell model for SBUs identification



Picture 3: Abell's model at work, identifying two SBUs

We are dwelling on this particular point because it must be clear that at the beginning the company will, according to its specific know-how and objectives, be free to choose between the two SBUs; but immediately after making this decision, as in forward reasoning, subsequent decisions will have to be coherent and therefore strongly limited. So, if the company decides to do business with professional musicians only, it will necessarily aim at selling a limited amount of high quality violins at higher prices; the opposite will be true in case it decides on the other SBU, i.e., a greater number of violins sold at lower prices.

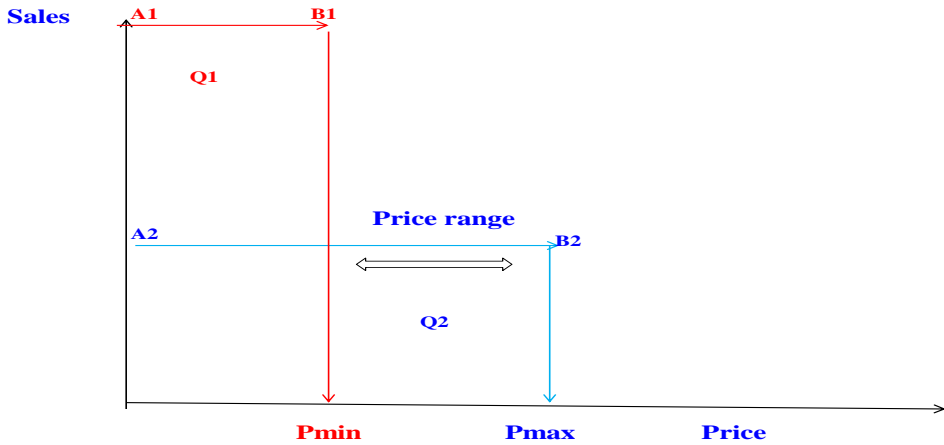


Picture 4: Flowchart of the key and strictly interrelated steps of the Strategic Process

Picture 4 (Donnelley, 2017) shows that following segmentation and targeting, a specific strategy needs to be chosen along with a certain marketing position; each of these choices will inevitably influence all future decisions quite heavily.

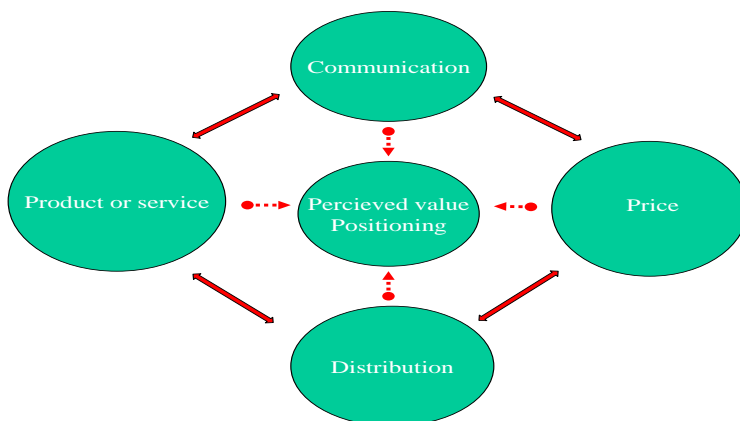
Obviously, the strategy will not determine the exact price, but it will delimit a certain range within which the 'right' price should be found. In Picture 5 there are two example prices, **P<sub>min</sub>** and **P<sub>max</sub>**, the former corresponding to the lowest price that the company may set, and the latter representing the maximum price not to be exceeded in any case.





Picture 5: The price range from a minimum to maximum amount

We are mainly focused on the price, but it's also helpful to repeat and stress the importance of the three other elements of the marketing mix; as shown in Picture 6, the 4 “Ps” are strictly interrelated. In fact, it wouldn't make sense to try and sell a highly differentiated product at a high price with a low-level advertising campaign and mass distribution. The strategy adopted by the company sets the roadmap, so to speak, and the 4 elements of the marketing mix must be harmonized in line with this appropriately in order to create value in the consumer's mind and avoid detrimental anti-climaxes.



Picture 6: The interconnected influences of the four Ps on the perceived value and positioning of a product and/or service

From all this it should also be clear how setting a price cannot be a sequential process but must be an iterative one, meaning that we must simultaneously consider more aspects holistically and that any decision made about one of them will inevitably influence the others, with a mechanism of continuous feedback.

Going back to price range, two questions are immediately evident. First, how can these two price limits be determined? And second, are there any substantial differences between undifferentiated and differentiated products when setting prices?

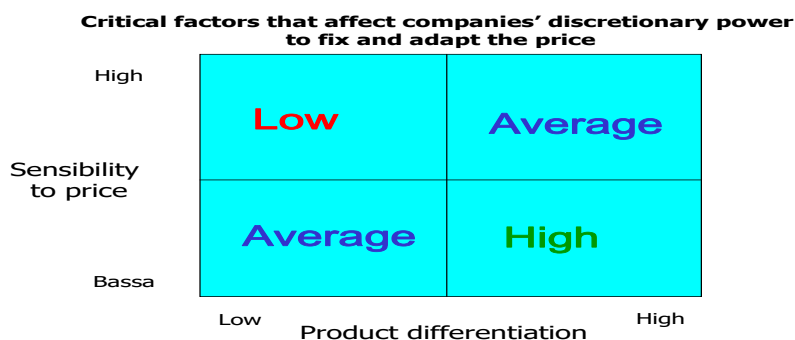
As for the first question, it goes without saying that the main reference is the market; that is, it will be necessary to analyse the prices of similar products on the market being offered by the competition, very carefully comparing their level of differentiation. Obviously, research and consolidated managerial experience in the specific sector would be extremely helpful in order to make correct and reliable evaluations; however, there would be no certainty in this regard, and even experienced analysts and entrepreneurs should not cherish the vain hope of finding the “perfect” price, but rather try to limit inevitable mistakes in evaluation and assessment as much as possible. We also have to add that our socioeconomic context is not at all stable, and therefore, even if such business analysts have been so lucky as to guess the “perfect” price, they should continuously check to see whether it would be better to adjust the price or not.

Before answering the second question about undifferentiated and differentiated products, we should keep in mind that all generalizations can be rather dangerous, especially in pricing. Having said that, we are logically inclined to believe that the price range for the latter may be considerably wider than that of the former; in fact, undifferentiated products are bought mainly, if not exclusively, because of lower prices in comparison to competitors’ similar products. There are certainly other slight differences that may carry some weight in consumer decisions, but because of the nature of the product, these will most likely have a very limited impact on choice. In other words, price is the most important aspect, and since the most important thing for consumers is to spend less, the rest will have only limited importance.

For differentiated products, exactly the opposite is true: it is the product’s differentiation that plays a key role, while the price, though always important, plays a minor role because the consumer is looking for a particular taste which can be found, sometimes only subjectively, in a singular product. Therefore, when setting prices for differentiated products, the focus must be on the subjective perception of customers and the value they attribute to the product; this obviously places us in an extremely complicated environment, made up of individuals and their subjective perceptions of the world—quite often very different from one another and, moreover, that may also change over time.

Focusing once more on the initial idea that price is an integral part of an entrepreneurial project, and with the intention of providing assistance in a more practical way, we would like to propose a simple model which entrepreneurs might refer to when deciding to start a business.

Every profit company—by definition—has to make a certain profit, maybe not in the short run but certainly in the long one; companies should first evaluate the possibility to reach a satisfactory profit, and then set it as an objective to be attained over a certain period of time. It's obvious that for this to happen, a certain quantity of products must be sold at a certain price; but how can companies determine this quantity and price, as well as any relationships that might exist between the two?



*Picture 7: Company's possibility of manoeuvres in setting the price depending on the product differentiation and price sensitivity (D'Arconte, 2017).*

We have already mentioned the necessity to estimate the demand function and, given that it is a decreasing line, we also presented a simple formula that may be extremely useful. Still, making such an estimate may prove rather complicated and some previous considerations should be made. Some authors (Grandinetti, 2008, Lambin 2000) indicate a possible method, wherein a certain desired profit is stated and the volume of sales necessary to sell at a certain price is accordingly calculated. Following their recommendations, we will first of all need to estimate fixed costs (**FC**)—these do not vary with the volume of sales, e.g., an office rental. After that, we should estimate variable costs (**VC**)—these, in contrast, increase along with the volume of sales. For simplicity's sake, we will assume that variable costs vary proportionally to the volume of sales.

With a certain amount of fixed costs, there will always be a maximum quantity that can be produced and sold; we will indicate this as **Q<sub>max</sub>(CF)**, and this quantity is a limit that in no case may be exceeded.

Apart from this, the first elementary condition for a company to make a profit is that the price (**P**) by which a product or service is offered to the market is higher, albeit slightly so, than the variable cost (**VC**) so that **P > VC**. In fact, only in this way the difference between **P** and **VC**, defined as the contribution margin (**CM**), will be greater than 0; this will firstly compensate for the total costs incurred, meaning fixed and variable costs, when a critical quantity is sold to generate revenues equal to costs (breakeven point or **Q<sub>b</sub>**) while further sales will contribute to a positive operative result **OR**.

The quantity to be sold to reach the breakeven point may be calculated by simply dividing the fixed costs by the contribution margin, that is  $Q_b = FC/CM$ , provided that there is only one product and no change in prices or costs.

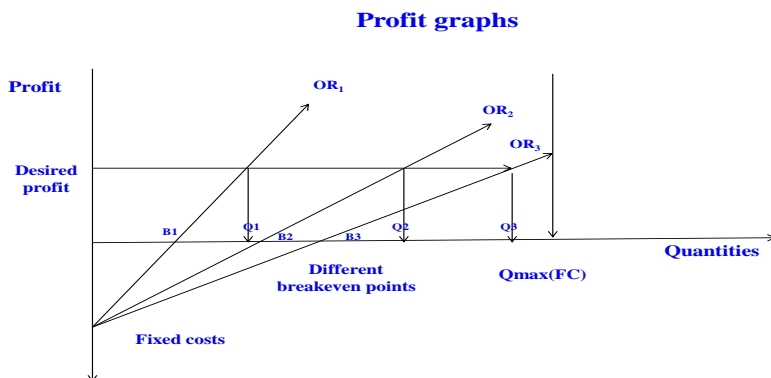
As a logical consequence when trying to determine the quantity to be sold, **two limits** are present: a **lower one** which is the quantity necessary for the breakeven point  $Q_b$  and which must necessarily be exceeded, and an **upper limit** which, on the contrary, cannot be exceeded in any case, that is  $Q_{max}(FC)$ . So, if we indicate the quantity of sales with  $Q_s$ , it follows that:

$$Q_b < Q_s < Q_{max}(CF).$$

The quantity sold for a certain OR may be calculated by dividing the sum of the fixed costs and the desired profit by the contribution margin, that is  $Q_{or} = (CF+OR)/CM$ , always assuming one product only and without any changes in price or costs.

In order to assess the quantity to sell, then, we should consider the minimum and the maximum price,  $P_{min}$  and  $P_{max}$ , and calculate what quantity to sell in order to obtain the desired profit with these prices—some intermediate values should be added, as well. So, if we have €65,000 in fixed costs, a variable cost of €2 and the objective is an OR of €25,000, it's easy to calculate that for a set of prices, €6, €5, and €3, we would need to sell 22,500, 30,000 and 60,000 products, respectively. In this theoretical picture—and as also clearly shown in Picture 8—the higher the price, the lower the amount needed to be sold to obtain the desired profit.

In fact, we can see three different profit graphs:  $OR_1$ ,  $OR_2$ , and  $OR_3$ , deriving from three different prices ( $P_1$ ,  $P_2$  and  $P_3$ , with  $P_1 > P_2$  and  $P_2 > P_3$ ).  $OR_1$  not only reaches the breakeven quantity first, but also requires the smallest quantity of sales to obtain the desired profit; the same can be said about  $OR_2$  compared with  $OR_3$ . In fact,  $Q_1 < Q_2$  and  $Q_2 < Q_3$  and this provides another considerable advantage because the same profit can be obtained by producing lower quantities and therefore investing less capital, with a consequently higher ROI (Return on Investments).



Picture 8: The higher the price, the earlier the breakeven point will be reached, and the lower the quantity of sales will be

At this stage, we have pointed out some important facts about quantities and prices, but there can obviously be no certainty that these quantities will be sold; in fact, we will have to ask ourselves which possibility is the most realistic option, meaning that it may be in line with market demand, and would require market analysis and specific research.

So, in practice, we will have the following algebraic system:

**OR = (QxCM) – FC** (formula to calculate quantities for a certain gross profit)

**Qb < Qs < Qmax(FC)** (possible quantities of sales between breakeven and QmaxFC)

**Q = Qmax - mP** (linear demand function)

with

**P>VC**

**Qmax (FC)**

**Pmin**

**Pmax**

Let's see how this works with an illustrative example: a company has to decide the price to set for its new product—a differentiated one—with a set objective for gross profits of €25,000, a minimum price, Pmin, of €3.5 and a maximum, Pmax, of €6.5. Through some simple mathematic calculations, we can build the table in the table 1 where, apart from these two prices there are also two more extreme values, 3 and 7, as well as intermediate prices which increase from left to right by €0.5.

The data in the table are, so to say, mathematically correct, but we are assuming that whatever quantities we need can be sold without taking into any consideration how the market may react to different prices; in other words, we have ignored the demand function.

*Table 1: Price variations and sales to obtain the same profit according to the breakeven model*

Price	3	3.5	4	4.5	5	5.5	6	6.5	7
Variable cost	2	2	2	2	2	2	2	2	2
Sales	90000	60000	45000	36000	30000	25714	22500	20000	18000
Elasticity	3.57	2.66	2.5	2		1.4287	1.375	1.333	1.3003
<b>Revenues</b>	<b>270000</b>	<b>210000</b>	<b>180000</b>	162000	<b>150000</b>	<b>141427</b>	<b>135000</b>	<b>130000</b>	<b>126000</b>
Fixed costs	65000	65000	65000	65000	65000	65000	65000	65000	65000
Total variable costs	180000	120000	90000	72000	60000	51428	45000	40000	36000
<b>Total costs</b>	<b>245000</b>	<b>185000</b>	<b>155000</b>	<b>137000</b>	<b>125000</b>	<b>116428</b>	<b>110000</b>	<b>105000</b>	<b>101000</b>
Gross operative result	25000	25000	25000	25000	25000	24999	25000	25000	25000
OR as % on revenues	9.26%	11.90%	13.89%	15.43%	16.67%	17.68%	18.52%	19.23%	19.84%
ROI (OR/total costs)	10.20%	13.51%	16.13%	18.25%	20.00%	21.47%	22.73%	23.81%	24.75%

Let's now suppose that the demand function might be assimilated to a decreasing line summarised by the expression  $Q = Q_{max} - mP$ , where  $Q_{max}$  is the maximum quantity that can be sold when the price approaches 0,  $m$  is the angular coefficient of the decreasing linear demand, and  $P$  is the limit price at which sales reduce to 0. Using the demand function, we can calculate what quantities we could sell at every price level and we can build the table in table 2 through some further calculations.

Looking at tables 1 and 2, the first fundamental point of comparison is that the central price value results are more or less similar, while on the other hand, very low or very high prices would prove dramatically wrong if the demand function was actually a linear one. In this case, a policy of extremely high or low pricing would be disastrous: far from attaining the desired profit, a company that employed such a policy would soon be in a very serious financial situation and lose a lot of money.

*Table 2: Sales and financial results with price variations according to a specific decreasing linear demand*

Price	3	3.5	4	4.5	5	5.5	6	6.5	7
Variable cost	2	2	2	2	2	2	2	2	2
Sales	50000	45000	40000	35000	30000	25000	20000	15000	10000
Elasticity	0.77778	1	1.2857	1.66667		1.66667	2.2	3	4.33333
<b>Revenues</b>	<b>150000</b>	<b>157500</b>	<b>160000</b>	<b>157500</b>	<b>150000</b>	<b>137500</b>	<b>120000</b>	<b>97500</b>	<b>70000</b>
Fixed costs	65000	65000	65000	65000	65000	65000	65000	65000	65000
Total variable costs	100000	90000	80000	70000	60000	50000	40000	30000	14000
<b>Total costs</b>	<b>165000</b>	<b>155000</b>	<b>145000</b>	<b>135000</b>	<b>125000</b>	<b>115000</b>	<b>105000</b>	<b>95000</b>	<b>79000</b>
Gross operative result	<b>-15000</b>	2500	15000	22500	25000	22500	15000	2500	<b>-9000</b>
OR in % on revenues	-10%	1.59%	9.38%	14.29%	16.67%	16.36%	12.5%	2.56%	-12.86%
ROI (OR/total costs)	-9.09%	1.61%	10.34%	16.67%	20%	19.57%	14.29%	2.63%	-11.39%

Therefore, assumptions made only on the basis of the breakeven model, that is, considering costs alone without taking demand into consideration at all, are definitely limited and may even be dangerous. In particular:

- It may be absolutely wrong to heavily slash a price to increase sales, in the hope of increasing revenues and profit; in the same vein, it may be just as senseless to produce and sell as much as the maximum plant capacity  $Q_{max}(CF)$  would allow adopting low prices or a systematic price reduction policy.
- It may also be wrong to significantly increase the price, based on the assumption that the product will sell less, but more profit will be earned for every item sold.
- The best thing to do is to try and assess the demand function, even at a simplistic level, and to try and find the optimum price at which the best quantity to sell can be derived—i.e., the quantity that maximizes the result of investments.

## ***CONCLUSIONS AND FUTURE OUTLOOK***

We believe that we now have a much more complete model to fix prices that considers all the possible key drivers in their reciprocal interactions; the model should prove helpful because, practically speaking, it will prompt companies to consider all the elements along with a specific procedure. In fact, they should first of all determine the fixed costs (FC), the maximum quantity that can be produced [ $Q_{\max}(FC)$ ], and the variable cost (VC) of the product; then they should determine the minimum and maximum price, considering the differentiation level of the product in relation to alternatives offered by competitors. Next, they should set a certain profit as their objective over a period of time and calculate the quantities to sell at different prices in order to obtain that profit. Finally, and most difficult of all, they should try to estimate the demand function and individuate the optimum price among all reasonable possible alternatives.

We are perfectly aware that doing all of this is no easy task; it seems like a conundrum, a difficult and complicated puzzle with so many different parts to put together in a certain way so that they fit well into the whole picture, but if our goal is to set the right price, there is no other way.

On the other hand, if the complexity of the exercise requires considerable effort to try and work out the best price, it is also true that valuable and lasting benefits would also follow the adoption of a more scientific approach to pricing—avoiding the rough and inaccurate methods mentioned in our research summary.

What can be done to improve the present situation?

We do believe, first of all, in considerable investments to improve managerial competences related to all aspects of accounting; cost determination and control is, without a doubt, the first fundamental step. Next, specific courses and training should be organized in order for entrepreneurs to gain a much better understanding of pricing problems. Some simple software might be designed and developed to support them in general, and similar tools could help in particular situations by evaluating different possible scenarios and predicting the relevant financial outcomes.

Another rather worrisome thing is that the results of the questionnaires, which were distributed to more than 70 business administration students evenly represented from universities in Italy and Bulgaria, were quite poor; though the sample pool is too small to be considered as representative, nevertheless it may raise the issue of the quality of teaching at the university level as far as Business Administration is concerned. We would suggest, therefore, that the educational system should also be more closely monitored with much more collaboration between universities and companies, so that too much concentration on theory can be avoided and much greater focus can be given to the practical aspects that are important in business.

Finally, going back to the difficulty of applying the model to fix prices, we have to point out that there is, unfortunately, still some work to be done before the model is really complete; first of all, we should investigate more realistic demand

functions rather than a simplistic linear decreasing one. The second fundamental issue to analyse is price adaptation, specifically in terms of price reduction and increase, with all the further complications deriving from it, and we have it in mind to face these tasks through more research in the near future.

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## **THE IMPACT OF CREATIVITY AND INNOVATION ON THE PROMOTION OF INTELLECTUAL CAPITAL**

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*Vesna Baltezarevic*<sup>14</sup>

### **ABSTRACT**

*To be successful organizations need to have a culture and organizational environment that consistently reinforces and spawns creativity and innovation which leads to the potential of intellectual capital. The organization must encourage such an organizational environment that motivates employees to constantly search for new solutions and contribute to innovation. Communication enables access to intellectual capital and its further transfer to the internal and later to the external environment.*

*The aim of this paper is to examine the impact of organizational culture and communication on innovative processes and reviewing the position of Serbia in the area of registered patents.*

*The paper also shows the ranking of Serbia in relation to registered patents at the global and European level.*

**Key words:** *Organizations, Communication, Intellectual Capital, Innovation, Patents, Serbia*

**JEL Classification:** *J24, D23, O31*

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## ***INTRODUCTION***

Communication and organizational culture both are important for achieving the projected goals of the organization and adaptation to the changes in the organizational culture, because they encourage adequate participation of workers and the achievement of organizational goals (Radović-Marković et al., 2014, p. 92). Successful positioning in the market is conditioned by the achievement of goals that are based on the intellectual capital that the organization has at its disposal. Innovations are becoming necessary for business success in an increasingly competitive world economy.

Creativity and innovation require a good business environment (Baldwin, 2013), in order to develop the process of new creative ideas that can be implemented by an organization (Walter, 2012, p. 642). Malkolski (2012, p. 10) pointed out that “the work space is integral to achieving a high rate of success for a company but it cannot support users without a successful organizational culture in place”, while Moultrie, et al (2007, p. 56) believe that organizations that support the delivery of the innovation strategy, create a motivational environment.

Businesses organizations must constantly improve their products and services if they want to achieve and maintain market competitiveness. Innovation and creativity are gaining in importance when it comes to the fact that intellectual capital, along with other intangible investments, accounts for over half of the total investments in developed countries. According to Tidd, Bessant & Pavitt (2001), many problems in the processes of innovation are due to the failure of communication.

## ***INTELLECTUAL PROPERTY***

Organization which wants to be successful must define a goal to creating knowledge management systems to harness intellectual capital and create value. Intellectual capital is intellectual material (knowledge, information, experience) that can be used to create new value and lasting wealth which leads to the right or possession known as intellectual property. With intellectual property intellectual capital become protected and has a legal definition.

Intellectual property is a general, legal-technical concept for various creations of the human mind and commercial symbols, which represent intangible assets that can be protected by different types of exclusive rights that are essentially similar to real rights. The notion of intellectual property was accepted internationally after the Convention Establishing the World Intellectual Property Organization came into force, the seventies of the twentieth century. The modern world economy cannot be imagined without investing in the development and exploitation of such kind of property.

The term Intellectual Property is first mentioned in the judgment of the District Court of the State Massachusetts in 1845. In the legal theory and literature the term was first used by Alfred Nion and has been widely used the seventies of the last century since the entry into force of the Convention on the Establishment of the World Intellectual Property Organization.

The social community has secured the right to intellectual property to encourage inventions and creative achievements from which society, even the individual benefits, as well as to help innovators and creators to live from their work. These rights, which can be realized by individuals or organizations (business, scientific research centers or faculties), are recognized by the state to a greater or lesser degree. Protection provides a balance in meeting the needs of creators and users. The purpose of the system of intellectual property rights is to encourage innovators to create new inventions. In return, society gets a stable flow of innovations that trigger economic, cultural and social progress.

The invention, as a result of spiritual creativity, appears at the beginning of a human civilization. However, although the invention has always been an inseparable element of all human activities, awareness of the social importance of the invention has formed much later (Besarović, 2005, p. 33).

## ***ENVIRONMENT FOR INNOVATION***

*„The illusion of a business separate from humanity is similar to the idea of a head that is separate from its body " (Fairholm, 1997, p.4)*

Creativity is the concept of new ideas while innovation is manifestation and measurable result of a creative idea in the game (Marshall, 2013). Creativity is the ability to create something new through imagination. Creators are only people who have a set of intellectual properties, personality traits, motivation, emotionalism and other factors, which in their concentration and orientation represent the basis for creative achievements (Karlavaris, Kraguljac, 1981).

Creativity is the power of the creative spirit, the process of thinking that must begin with the idea, but the outcome is realization. If there is no realization, there is no creativity, as an activity that gives new products in the material or spiritual sphere. It is important that these products are original, that they are the result of a creative process and lead to a more successful response to individual and social needs. Creativity is closely related to the intellectual characteristics of an individual, but with the intellect, knowledge and skills are always required, as well as the ability to synchronize and successfully use all of these abilities.

Innovations are often the result of organized research by strong professional teams of strong corporations, or small, but inventive and motivated groups of experts. In everyday life, innovations involve novelties in a wide range of new recipes, new business concepts, improved products, tools, manufacturing or measuring procedures, and the like (Baltezarević, Baltezarević, 2015, p. 100).

If workers are expected to deliver innovative results, they must have a work environment that will encourage creativity. Creativity and innovation are the two most important items that provide added value to the organization (Kelley, 2001). Workers often point out the bad organizational climate as the main obstacle to the development of creativity (Walter, 2012).

In order to be successful in the era of complex and cognitive work, organizations must have a culture and a proper physical environment that consistently strengthens and creates creativity and innovation. If a physical environment can potentially support the implementation of an innovation strategy, then it is fair to assume that there should be explicit motivations behind the design of an innovative environment (Peponis et al., 2009, p. 56). Creativity is the context in which innovations can be developed (Von Stamm, 2003). "The process of developing new ideas that can be implemented only by the organization that is successful in implementing creative ideas (Walter, 2012, p. 642).

Achieving a high level of success for the company is not possible without good organizational culture. If the physical environment can potentially support the adoption of an innovation strategy, then it is fair to assume that there should be explicit motivations behind the design of an innovative environment (Moultrie et al., 2007, p. 56).

Good organizational culture is built only if good business communication is established in the organization. Communication is a way of exchanging ideas, attitudes, values, opinions and facts, a process that requires a sender initiating a process and a recipient ending a communication link (Baltezarevic, Baltezarevic, 2013, p. 433).

Communication and organizational culture together are both important for achieving the projected goals of the organization and adaptation to the changes in the organizational culture, because they encourage adequate participation of workers and the achievement of organizational goals. Good communication stimulates ideas and creativity of employees (Radović Marković et al., 2014, p. 92).

## ***INTELLECTUAL PROPERTY IN SERBIA***

In considering the level of intellectual property in Serbia, this paper concentrates on the field of industrial property and patents.

Industrial property is made up only of those intellectual property whose use results in a certain benefit (financial or some other material). This means that industrial property can be economically exploited in carrying out economic activity, can be materialized and whose value can be expressed in money. Industrial Property includes patents for inventions, trademarks, industrial designs and geographical indications.

Innovation is a new solution for technical, technological and the like or procedure that is not yet registered in the World Patent Database or in the patent

application register of the Intellectual Property Office. The invention may be protected by a patent if it is industrially applicable, if it is new and if it is inventive.

A patent is a right recognized as an invention in any field of the art, which is new, having an inventive level and that is industrially applicable. The object of the invention to be protected by a patent may be the product, process, application of the product, and the application of the procedure ("Official Gazette of the Republic of Serbia", 2011)

"Patents provide incentives to individuals by recognizing their creativity and offering the possibility of material reward for their marketable inventions. These incentives encourage innovation, which in turn enhances the quality of human life" (WIPO, 2017, p. 5).

The earliest forms of patent protection date back to the period of Greek cities-states. There have been cases of giving exclusive rights to use recipes for a meal for a period of one year. Similarly, in some cities of ancient Rome. The first patent as a document appears in Venice in 1474.

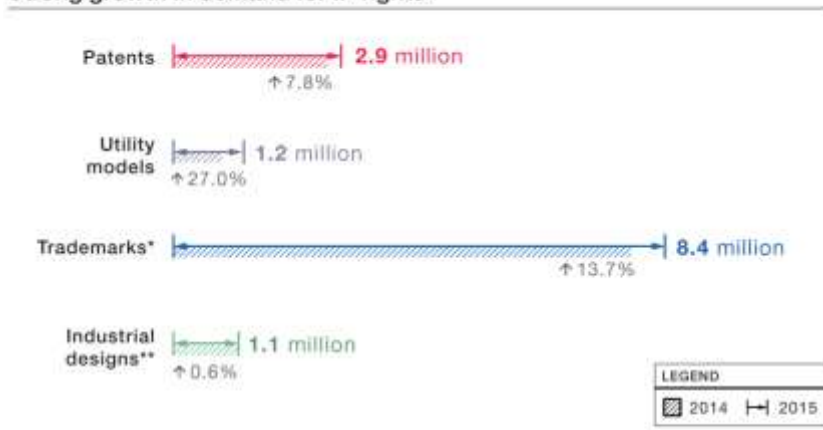
The first Serbian registered inventor was Milan T. Jovanovic from Novi Sad, and his patent „A cauldron for baking the brandy“ was registered in 1921.

Tradition of invention in Serbia has existed in the Middle Ages. This is evidenced by numerous letters and documents related to the Despot Stefan Lazarevic Mining Act (Stevanović, 2009).

Patents are the driving force of innovation and development on the global level. Patents stimulate investments that are vital in the field of research and development. WIPO (World Intellectual Property Organization) is the global forum for intellectual property services, policy, information and cooperation with the intention to make the best contribution to the industry with its innovative patents. This is a self-funding agency of the United Nations, with 191 member states. Serbia joined WIPO in 1992.

WIPO publishes reports on an annual basis, in which, besides other data, there are also data on the number of patent applications globally.

### Strong growth in demand for IP rights



#### 1. Total applications and growth in applications

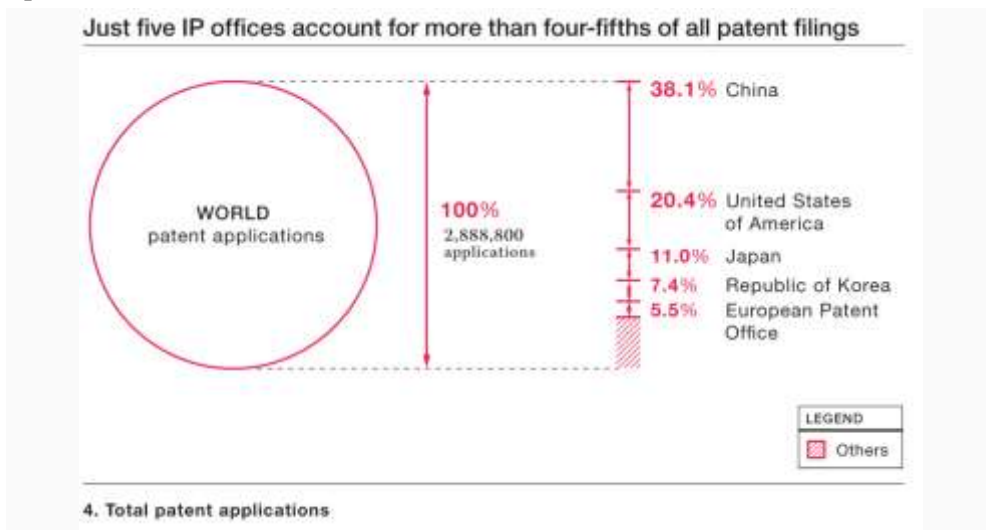
\* refers to class count – the total number of goods and services classes specified in trademark applications.

\*\* refers to design count – the total number of designs contained in industrial design applications.

Picture 1: WIPO report on IP (Intellectual property) rights on the global level

Source: WIPO IP Facts and Figures, 2016, p. 7.

From the Picture 1. We can see results from the last WIPO report which indicate s that about 2.9 million patent applications were filed worldwide in 2015, up 7.8% from 2014.



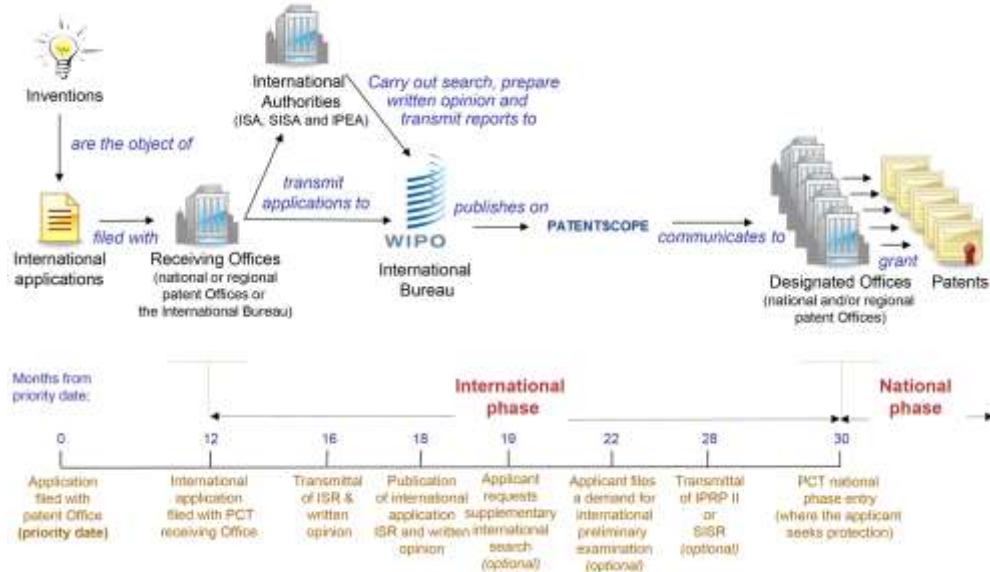
#### 4. Total patent applications

Picture 2: The list of the five top global applicants

Source: WIPO IP Facts and Figures, 2016, p. 11.

From Picture 2. We can see the list of the five top applicants who account for more than four-fifths of all patent filings. China is on the top of the list with strong growth with about 174,000 patent filings of the nearly 208,000 additional filings in 2015 and accounted for 84% of total growth (WIPO, 2016, p.11).

International patent application with a national or regional patent Office or WIPO must comply with the Patent Cooperation Treaty (PCT). The PCT is used by the world's major corporations, research institutions, and universities when they seek international patent protection.



Picture 3: Overview of the PCT System

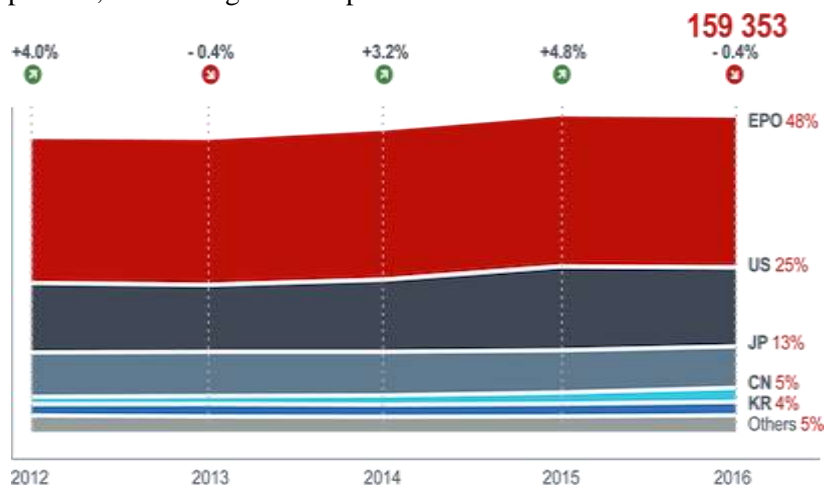
Source: WIPO: PCT FAQs, *Protecting your Inventions Abroad: Frequently Asked Questions About the Patent Cooperation Treaty (PCT)*, 2015

From the picture 3. we can see how works the PCT application system. The PCT allows applicants to seek patent protection for an invention simultaneously in a numerous of countries by filing a single “international” patent application. This process replaces filing several national or regional patent applications.

WIPO statistic base represents National IP Statistics and Annual Reports. The last Intellectual Property Office, Republic of Serbia, Annual Report included in the Patent base is report from 2016. (Patent base, 2016).

At the European level Serbia is a member of the European Patent Convention from 2011. The European Patent Convention (EPC) allows a patent protection in about 40 European countries by filing one patent registration. Patent filings by residents of this country at the European Patent Office (EPO) are considered both resident and abroad filings via regional office. The applicant chooses the countries for which is interested in searching protection. The European Patent Office has made significant progress towards a unique patent.

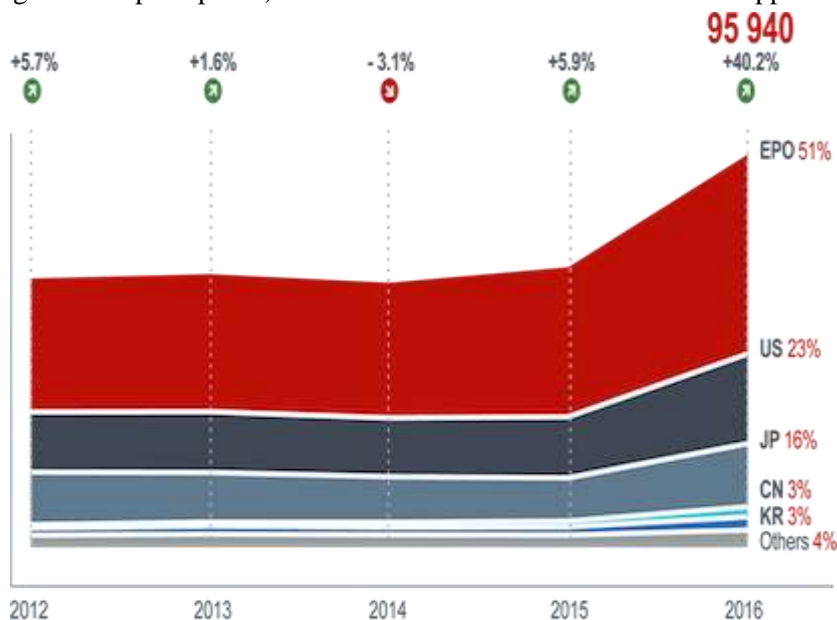
EPO is the first among the top five IP organizations that have received an end-to-end process, from recognition to publication.



Picture 4: Top five European patent applications filed with the EPO five years period

Source: EPO Annual Report: European patent applications, 2016a

From picture 4, we can see that The EPO received nearly 160 000 European patent applications in 2016. Analysis based on European patent applications filed with the EPO (Direct European applications and International (PCT) applications entering the European phase). Statistics are based on the first-named applicant.



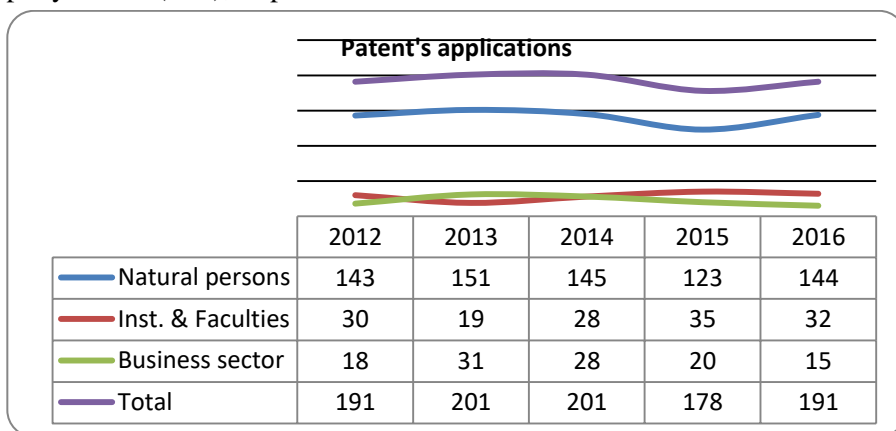
Picture 5: EPO Granted European patent-five years period

Source: EPO, Annual Report: Granted patents, 2016b



From picture 5. It can be seen that the EPO granted approximately 95 900 patents in 2016, which means increase of 40% over 2015.

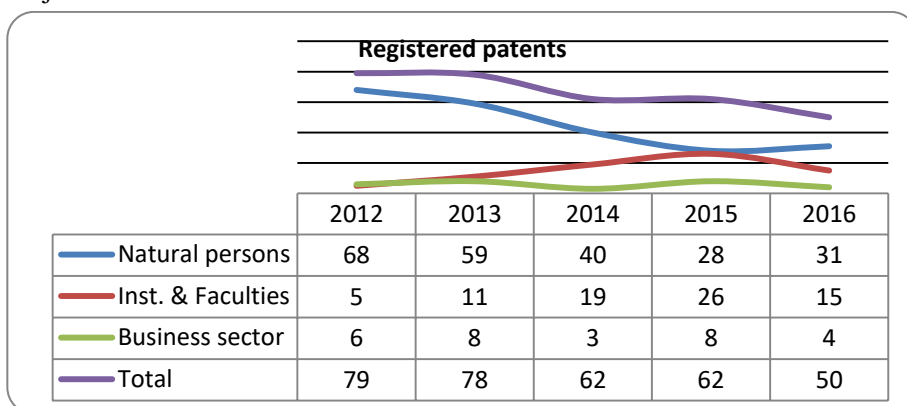
On the domestic level patent applications are submitted to the Intellectual Property Office (IPO), Republic of Serbia.



*Picture 6: Patent applications submitted to the IPO, Republic of Serbia  
Source: Property Office (IPO), Republic of Serbia, Annual Report for 2016*

Picture 6. represents patent applications in the period 2012-2016 in relation to the types of applicants. We can see that most applications are submitted by natural persons, then scientific institutions and the business sector is on the last position. It is an indicator that innovation and the procedure of its protection take place with the individual efforts of natural persons which indicates that there is no widely applied scientific and business approach.

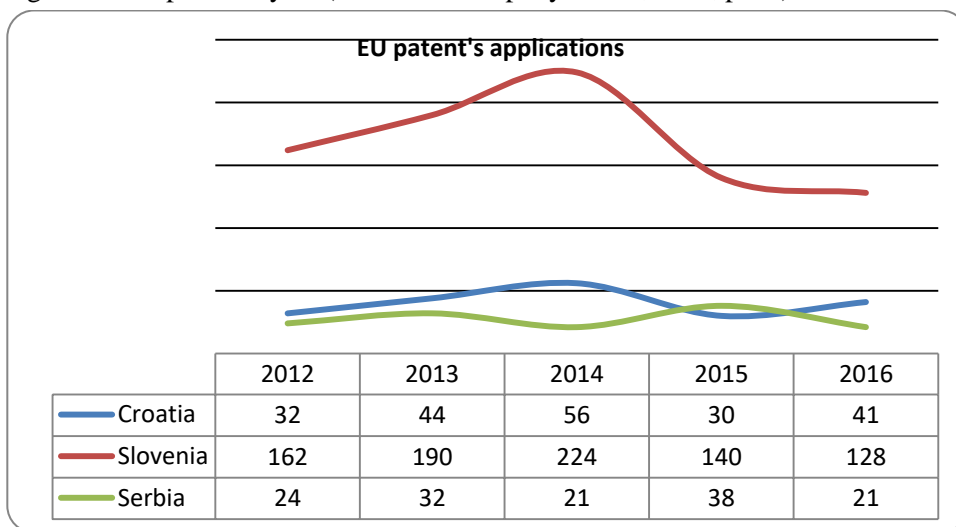
In relation to the number of applications submitted over the years, we can conclude that the interest in patent registration is almost uniform and that there are no major oscillations.



*Picture 7: Registered patents by the IPO, Republic of Serbia  
Source: Property Office (IPO), Republic of Serbia, Annual Report for 2016*

Picture 7. represents patents registered by the IPO, Republic of Serbia in the period 2012-2016. The data shows a significant difference between submitted and approved patent applications. The number of granted patents goes in the same order as for submitted applications (Picture 6).

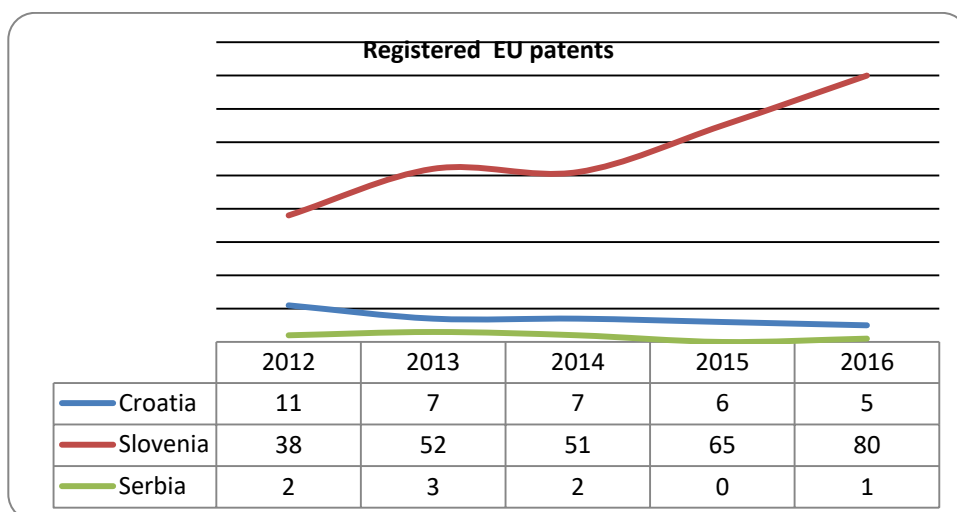
In contrast to the number of applications filed for patents where significant oscillations are not recorded, the number of registered patents shows a decline and is the smallest in 2016. In Republic of Serbia the inflow of requests for the registration of European patent has been constantly increasing since 2012, and in 2017 it was 70% larger than the previous year (Intellectual Property Office, 2016, p. 18).



*Picture 8: Serbian applications for a European patent filed in the period 2012-16 compared to Slovenia and Croatia*

Source: EPO Annual Report: European patent applications, 2016a

From the picture 8. we can conclude that EU patent's applications from Republic of Serbia are minor in relation to Croatia and especially to Slovenia. These two countries have been selected for comparison because they are the former Yugoslav republics and current EU members.



*Picture 9: Serbian registered European patent in the period 2012-16 compared to Slovenia and Croatia*

*Source: EPO, Annual Report: Granted patents, 2016b*

Picture 9. indicate that Republic of Serbia has a lot to invest in the development of intellectual capital in order to get closer to the results of Croatia first, and then in a longer term to Slovenia.

## **CONCLUSION**

The efficient system of intellectual property protection represents a constituent part of the business environment which improves innovation and creativity. Implementation of intellectual property is not possible without the human potential that creates within business organizations with a good organizational culture.

An analysis of world and European statistics on the number of registered patents can be concluded that the state of intellectual property in Serbia (in the patent-related field) is at a low level. Also, as we have already pointed out in this paper, the data which show that the largest number of applications is submitted by natural persons indicates a disorganization and lack of cooperation between the scientific and business sectors. The appearance of individuals as holders of patent applications also indicates the failure of the business sector with innovators and the ignorance of the importance of intellectual property.

Ignorance of the value of intellectual property leads to the absence of investment in the creativity and innovation of employees, which is shown by the data that we have tabulated in this paper.

Weak organizational culture that is not oriented to improve human capital results in the absence of intellectual creativity that transforms into patents and enable competitive advantage and successful business.

Recognition of the importance of intellectual capital and the value of registered patents direct the scientific and business sector to orient towards the search and implementation of business methods that ensure the creativity and innovativeness of employees.

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## **THE NEED FOR UNIQUENESS AS A PREDICTOR OF INNOVATIVE CONSUMER BEHAVIOUR – RESEARCH IN A BULGARIAN CONTEXT**

*Tatyana Yordanova*<sup>15</sup>

### **ABSTRACT**

*This report examines the role of the need for uniqueness personality characteristics as an important determinant in innovative consumer behaviour. The essence of the construct and its main dimensions are represented in depth. Innovative consumer behaviour is taken into consideration, with an emphasis on the specifics of its cognitive and behavioural aspects. Attached are the results of an empirical study, conducted in a Bulgarian sample of 382 respondents aged 20 to 64 years, confirming the initial assumption for a link between the need for uniqueness and consumer innovativeness. In particular, the regression analysis data shows that the need for uniqueness positively influences the consumer's readiness to adopt innovation. In terms of its three dimensions – creative choice, unpopular choice and avoidance of similarity, there is a slight to moderate impact on consumer innovativeness, with unpopular choice as the strongest predictor, and the avoidance of similarity as the weakest. In addition, the report analyses and comments on the results obtained and draw a parallel with empirical data, retrieved from other studies in the area under consideration.*

**Key words:** *Need for Uniqueness, Innovative Consumer Behaviour, Consumer Innovativeness, Adoption of Innovation*

**JEL Classification:** *M31*

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## ***INTRODUCTION***

The need for uniqueness is seen as a major factor, driving the contemporary consumer on the market field. This also explains the increased scientific interest in the construct, and the numerous studies not only aimed at revealing its essence and dimensions, but also exploring relationships with other psychological constructs. One such correlate is the innovativeness of the consumer underlying its innovative behaviour. The possession of an innovative product might be used as a means by which the individual satisfies the need for uniqueness, by feeling special and unique due to the exclusivity of innovation. Globally, there is a shortage of research exploring the link between the need for uniqueness and the innovativeness of the consumer. In the Bulgarian context, the two constructs are relatively unknown and unexplored. This text provides a deeper insight into the essence and specifics of the need for uniqueness and innovativeness of the consumer, focusing on the relationship between them.

## ***NEED FOR UNIQUENESS – ESSENCE, DIMENSIONS AND MANIFESTATION***

The issue of human uniqueness is subject to increased scientific interest. The construct is in the basis of a vast number of conceptual and empirical studies. In scientific literature, along with the multitude of psychological theories, which examine interpersonal attraction and the propensity of the individual to conformational behaviour, there are also those who focus on their uniqueness and the desire to sometimes feel different, distinguishing themselves from the masses. Each person feels the need to claim himself/herself as unique. According to social psychologists, differentness draws the attention to the person, contributes to their identity and improves self-esteem and social status (Maslach, 1974; Codol, 1984). On the other hand, the individual also feels the need for a certain resemblance to others, leading to emotional proximity, affiliation, mutual help, and social influence (Schachter, 1951; Byrne, 1971). As a result of this, the person strives to express their uniqueness, trying to maintain a balance between distinctiveness and the need to be part of the masses.

In connection with human uniqueness, Allport (1961) emphasises that individuality is an outstanding feature of every person. The human being is a unique creation of nature with its unique genetics, manifested in its physical and physiological characteristics (Williams, 1956). The desire of the individual to perceive himself/herself as special and different from others is also seen by authors such as Horney (1937), Fromm (1941, 1955) and Maslow (1962), who suggest that people have a “need for a separate identity” or a “need for uniqueness” inherent to each individual.

The construct of the general need for uniqueness is defined by Snyder and Fromkin (Snyder & Fromkin, 1977) as “pursuing difference”. It reflects the counter-conformity motivation – a motivation to differentiate the self from others, and is determined by the individual’s aspiration to distinguish himself/herself from the masses. A way of demonstrating the person’s uniqueness are the so called “attributes of uniqueness”. They are viewed as socially acceptable dimensions by which the individual may manifest his/her distinctiveness; they identify the person as different from his/her reference group and may have physical, material, informative, and other nature (e.g. attitudes, appearance, personality characteristics, friends, consumer products, group membership, etc.). It is assumed that individuals demonstrate their uniqueness with respect to those dimensions, which are of paramount importance to their own self-concept and at the same time do not lead to social rejection (Snyder & Fromkin, 1980).

The general need for uniqueness can be manifested in many different areas. The individual can achieve distinctiveness through the demonstration of material possessions (Belk, 1988), a style of interpersonal interaction (Maslach et al., 1985), a scientific area in which he possesses expertise (Holt, 1995), etc.

Considered in the context of consumer behaviour, the construct is defined as personality characteristics (Lynn, Harris 1997a; Snyder, Fromkin 1977; Tian et al., 2001), which is expressed in seeking out a difference to others through the acquisition, demonstration and use of commodities and brands, in order to develop and improve the personal image and social identity of the person (Tian et al., 2001; Knight, Kim, 2007). Presented in this manner, the construct of the consumer’s need for uniqueness is a manifestation of the general need for uniqueness in the domain of consumer behaviour. In other words, the consumer’s need for uniqueness is part of the general need for uniqueness, inherent in every individual but manifested in the market field.

Consumers acquire and use commodities to distinguish themselves from others and satisfy their need for uniqueness. Possessions have long been seen as an integral part of the identity of the person, they are a kind of continuation of the self or an element of its “extended self” (Belk 1988; James, 1890; Veblen, 1934). William James, the founder of modern concepts of the self, defines the material self as everything that one can call his own – not only the body and the mental energy, but also clothes, house, land, and so on (James, 1980). This means that people are largely determined by what they possess. With their choice of goods and brands, they try to distinguish themselves from others and build a unique image (Tian et al., 2001). Consequently, the self-concept may be affected, especially in terms of our uniqueness, by material possessions. It can be changed by accumulating or selling different products (Grubb, Hupp 1968).

Research shows that the need for uniqueness varies between individuals and situations (Snyder, Fromkin, 1977, 1980; Zimmer et al., 1999). Some people exhibit a strong desire to distinguish themselves from the rest, while others develop a low need for uniqueness (Snyder, Fromkin, 1980). On this basis, the construct can be seen as a continuum, at one end of which are the people who want to be like everyone else – the other person from the crowd, and in the other end, there are the ones who wish to be as different as possible.



It is assumed that individual differences in motivation to distinguish oneself and to be unique arise in early childhood when the process of socialization begins, in which young people assimilate different cognitive and behavioural models (Moschis, Moore, 1979), through which they enter the social system (Kroeber-Riel, Weinberg, 2003). In the course of this process, either the authority and the respect of the norms, or the creativity and personality of the individual are emphasized (Snyder, Fromkin, 1977), determining the differences in the need for uniqueness. Where will the emphasis be placed, is partly determined by factors, such as family size, birth order, number of brothers and sisters, etc. (Chrenka 1983).

According to some psychologists, people with a strong need for uniqueness are striving for a higher level of differentiation from others (Snyder, 1992; Lynn, Harris, 1997a) and are willing to show this need in a behavioural way and in any situation despite the existing risk of social disapproval (Fromkin, Lipshitz, 1976).

### ***DIMENSIONS OF CONSUMER UNIQUENESS***

The “need for uniqueness” construct uses three dimensions of consumer behaviour, or three behavioural manifests, by which people satisfy their need to be different – controversial creative choice, controversial unpopular choice, and avoidance of resemblance (similarity) (Tepper, 1997; Tian et al., 2001; Tian, McKenzie, 2001).

The *controversial creative choice* reflects the search for social diversity through demonstration and consumption of commodities, which are acceptable to others (Knight, Kim 2007; Tian et al., 2001). It is anticipated that they will be assessed positively by the social environment and perceived as an expression of the uniqueness of the individual. Building a unique identity involves creating a personal style through the use of commodities, which represent the essence of the person (Kron 1983). The creative choice implies conformity with social norms, as the individuals still want to be accepted by society, despite their desire to express their identity and uniqueness through the consumption of new brands and exclusive products (Tian et al., 2001; Knight, Kim, 2007). In other words, in the case of the controversial creative choice, consumers will strive to distinguish themselves from the masses by choosing products, which are more likely to be considered unique and approved by others in the social context (Snyder, Fromkin, 1977, 1980; Tian et al., 2001).

The *controversial unpopular choice* relates to the choice or the consumption of products and brands, which deviate from the group norms (which are not accepted by the reference group). This choice, on the one hand, poses a risk of social disapproval, which the consumer is willing to take to achieve distinctiveness and, on the other hand, has the potential to improve his/her self-esteem and social image (Knight, Kim 2007; Tian et al., 2001). According to Ziller, when a person fails to distinguish himself/herself in a socially acceptable way, he/she can focus on actions, which will distinguish them negatively (Ziller, 1964). In the context of the

consumer, this means that when the individual fails to distinguish himself/herself sufficiently through traditional consumer goods, he/she chooses such behaviour. By violating the existing rules and provoking group norms, the person risks being socially disapproved, which also includes receiving remarks on their bad taste. Negative comments from others will be ineffective for uniqueness-seeking individuals who will ignore criticism from their social environment and focus on unusual products to emphasize their uniqueness (Simonson & Nowlis, 2000). Moreover, an initially unpopular choice might receive social approval over time, thus distinguishing positively the personality as an innovator or a fashion leader (Heckert, 1989).

The third dimension of the need for uniqueness is the *avoidance of similarity*. The consumer strives to avoid resemblance with a larger group by betting on the so called “choice of the minority”. The individual loses interest or stops using products and brands that are considered to be common or popular (Thompson, Haytko, 1997; Tian et al., 2001; Knight, Kim, 2007). In this way, the person moves away from the similarity to others and restores its own uniqueness. In other words, this dimension expresses the tendency for products, which are not popular, or are likely not to become such, to be favoured (Knight, Kim, 2007).

Creating a distinctive image through choosing one or the other commodity (brand) often has a short span of time, which necessitates constant maintenance. The reason lies in the fact that the choice the consumer makes – be it creative or unpopular, to establish his/her uniqueness, will probably attract followers who also wish to be perceived as unique or to identify themselves with the group of innovators (Fisher, Price 1992).

In conclusion of the above, it can be summarised that the pursuit of social diversity and the building of a unique image requires a certain readiness for change in the consumer’s preferences and behaviour, which is also considered as a main criterion differentiating the counter-conformity motivation from the other motives leading to behaviour of difference from others (Nail 1986).

## ***THEORY OF UNIQUENESS***

The need for uniqueness concept stems from Snyder and Fromkin’s uniqueness theory, which focuses on people’s perceptions and reactions to their similarity with others. According to the theory it is assumed that individuals need a separate identity – they feel the need to be unique, identifying themselves through different important dimensions of identity with respect to others (Snyder, Fromkin, 1977; 1980; Snyder, 1992).

People are constantly assessing the degree of similarity or difference to others through the so called “attributes of comparison”, which are defined as perception or knowledge, by which the individual determines himself/herself and distinguishes from others (Sherwood, 1970). In other words, the attribute of personality is the perceived result or the specific place, which a person attributes to himself/herself

through an interpersonal comparison. Personality attributes are arranged in certain categories and the set of attributes, which have a common semantic core are defined as the dimension of identity (Miller, 1963). It is assumed that uniqueness is one of the dimensions of identity. It can be presented as a hypothetical cognitive continuum, by which the individual performs a complete analysis of his/her resemblance to others (Snyder, 1992). According to Snyder and Fromkin, the boundary, in which resemblance can vary, is from none to very strong – and it is indicated that the mean values are most acceptable for the person. High levels of similarity or difference are perceived as unpleasant and lead to lowering the self-confidence of the individual. As a result, he/she responds behaviourally and emotionally to maintain average levels of similarity to others (Fromkin, 1972).

According to the theory of these two scientists, the most positive emotional response occurs when one perceives a moderate degree of resemblance to others. By increasing or decreasing the degree of perceived similarity to moderate averages, i.e. too strong or too weak resemblance to others, more negative emotions in the individual are induced. The result in both cases is that the information of similarity is encoded by the individual with a low degree of acceptability of the dimension “identity uniqueness” (Snyder, Fromkin, 1980). By nearing the person’s notion of similarity to average values, this negativity decreases (Fromkin, 1972).

Besides emotional reactions, the perceived degree of similarity also provokes behavioural reactions of the individual. At moderate levels of similarity inducing positive emotions, no change-oriented behaviour is observed, i.e. people do not engage in activities aimed at enhancing or reducing the moderate level of similarity. However, when the degree of similarity exceeds or falls below a moderate level, people take on a behaviour aimed at enhancing or reducing similarity. When a strong similarity is observed, the need for uniqueness increases and the individual starts to strive more to make a difference.

Based on the above, it can be concluded that people use behavioural and affective mechanisms to maintain a moderate level of uniqueness. In a feedback about highly extreme similarity or difference to others, accompanied by negative emotions, the individual changes his/her behaviour so as to improve similarity or enhance the difference.

The intensity of the behavioural and emotional mechanisms used depends on the strength of the individual’s need for uniqueness. By increasing its intensity, the sensitivity to similarity – respectively difference – to others also increases, as does the subsequent desire for distinctiveness (Snyder, 1992). According to Snyder and Fromkin, the individual’s desire for uniqueness is limited by the need for social approval and the need to belong (Snyder & Fromkin, 1980). In other words, the individual will manifest his/her uniqueness by avoiding a behaviour that can lead to social sanctions and disapproval. In accordance with the notion of the extended self, material possessions are an appropriate way to satisfy the desire for distinctiveness (Belk, 1988) without provoking extreme social reactions of deviation from the group norms (Snyder, 1992).

It is assumed that individuals exhibit different levels of uniqueness as a result of their concern towards social norms (Snyder, Fromkin, 1980). Marilyn Brewer's theory of optimal distinctiveness can be used to comprehend the importance of the social context in forming the individual's desire for uniqueness. The theory accepts the existence of two competing needs that motivate the individual: the need for affiliation and the need for distinctiveness (Brewer, 1991, 1993; Pickett, Brewer, 2001). The two motives constantly oppose – when one is too strong, the other must be strengthened to compensate for it, and vice versa. Consumers strive for balance between the two needs (or for optimal distinctiveness) (Brewer, 1991). In an imbalance between them, the self-respect and the perception of the individual for security are at risk. Accordingly, excessive distinctiveness or differentiation may lead to social distancing, potential rejection and isolation, as well as to stigmatization. Conversely, too much fusion with the crowd or loss of individuality may disrupt self-determination and comparative assessment. It is assumed that the deviation from optimal distinctiveness motivates the individual to restore the balance between the two needs (Brewer, 1991).

Individuals strive to preserve their uniqueness without causing a negative social response (Brewer, 1991; Simonson, Nowlis, 2000). The area of consumption is one socially acceptable way to distinguish the person from the masses and to emphasize their individuality. Empirical studies show that individuals with a strong need for uniqueness are attracted to rare products (Lynn, Harris (1997b), innovative products (Burns, 1989), personalized products (Lynn, Harris, 1997b; Tepper et al., 2001) and unpopular products (Tepper et al., 2001).

The assumption that there is a connection between the need for uniqueness and the person's innovative behaviour is made for the first time by Fromkin (1968). His theoretical position was subsequently proven empirically by a number of researchers (McAlister, Pessemier, 1982; Lynn, Harris, 1997b; Burns, Krampf, 1991). In support of the relationship between the constructs considered is also the conclusion that innovators share many of the characteristics of individuals with a strong need for uniqueness, such as a tendency to take risks, independence, creativity, confidence, etc. (Workman, Kidd, 2000). According to Roehrich, the need for uniqueness can be seen as a reliable precursor to the consumer's innovative behaviour. The author points out two main reasons for this. The first one is that the manifestation of innovativeness is an easy way for the individual to satisfy his/her need for uniqueness, and the second one is that the need for uniqueness includes independence of the individual's judgement, which is the basis of innovation and is necessary for engaging the consumer in innovative behaviour (Roehrich, 2004).

## ***INNOVATIVE CONSUMER BEHAVIOUR – COGNITIVE AND BEHAVIOUR ASPECTS***

There are different research approaches to uncovering the essence of innovative consumer behaviour, with the basis of each of them being the innovativeness of the person. In general, innovative consumer behaviour can be defined as a behaviour of adoption/use of an innovative product (Im et al., 2007); it is also referred to as “actualized innovativeness” or the extent to which a person is accepting the innovation relatively earlier than other members of the social system (Rogers, Shoemaker, 1971). It implies a change in consumer patterns of behaviour due to both the assessment of the potential risks and benefits of the innovative product as a result of cognitive information processing, as well as the expected emotional enjoyment of its use (Bartels, Reinders, 2010).

Innovative consumer behaviour is an actual manifestation of the innovativeness inherent to every person (Goldsmith et al., 1995). It is considered as the main driving force in the process of adopting the innovative product as it guides the individual’s judgement in the purchasing decision (Midgley, Dowling, 1978). Rogers states that the members of different social groups within a society will exhibit varying degrees of readiness for change. Interest in the innovation will only be demonstrated by part of the individuals – the ones who will accept it immediately after it appears on the market, while the rest will show varying degrees of resistance and will therefore accept it at a later stage, after a convincing evidence of its usefulness (Rogers, 2003). It is empirically found that the higher level of innovativeness is associated with earlier acceptance of the innovative product or with the inclusion of the consumer in innovative behavioural activity (Rogers, 2003; Im et al., 2007). This regularity finds its explanation in L. Festinger’s theory of cognitive dissonance. According to her main postulate, a person will strive towards a behaviour in accordance with his/her cognitions, motivated by the desire to avoid the unpleasant sensation of discomfort, caused by the dissonance that appeared at a discrepancy between the cognitive elements (Festinger, 1999 [reference in Cyrillic: Фестингер, 1999]). In terms of consumption, this means that the individuals with a high level of innovativeness, influenced by their perceptions of usefulness and ease of use of the innovative product, will form activity readiness for it and will therefore demonstrate innovative behaviour (Lu et al., 2005), led by the tendency for consistency of attitude and behaviour. The opposite is also true – consumers with low level of innovativeness will avoid innovation by showing a resistance behaviour as a result of the lack of conviction for its usefulness, perceiving it as risky and requiring additional efforts by the person.

Two key components of innovative consumer behaviour, or actualized innovativeness, have been identified in scientific literature – symbolic and actual acceptance of innovation (Klonglan, Coward, 1970). The first one is defined as a motivational state, reflecting the consumer’s assessment for the innovative product as a useful and appropriate to meet his/her specific needs (Karahanna , Agarwal,

2006). In this component, the individual only accepts the idea of the product without actually getting to its physical use (Klonglan, Coward, 1970). Hirschman denotes symbolic (mental) acceptance as “vicarious innovativeness” and notes that it is the consequence of the cognitive processing of the product information coming from the social system (Hirschman, 1980). In other words, innovative consumers will express their inherent innovativeness by actively engaging in interpersonal interactions and gathering information about the new product, which will lead to its earlier acceptance (Midgley, Dowling, 1978; Hirschman, 1980).

The vicarious innovativeness includes mass media communication, mainly presented as advertising, and interpersonal communication, carried out through word-of-mouth communication and modelling of other people’s behaviour (Andreasen, 1968). It is considered that advertising might have a direct impact on the acceptance of the innovative product (Steenkamp, Gielens, 2003), but also indirect impact – by stimulating interpersonal communication (Day, 1974). The latter, which involves engaging the consumer in product conversations with his/her social environment, is strongly influencing his/her attitudes and behaviour, as a result of the trust to this information source. In addition, product information is sought by a consumer, is not perceived “*inter alia*” – as is the information received from the advertisement, and as a result the consumer is actively involved in its cognitive processing (Gilly et al, 1998) and accordingly forms beliefs about the product attributes. Modelling, as an element of vicarious innovativeness, is expressed in observing the behaviour of others alike, who are using the innovation. It is the source of the so called “Social proof” of the qualities and usefulness of the product (Cialdini, 2001). According to Cialdini the impact of social evidence increases with the increase of the complexity of innovation and the risk of its acceptance/use (Cialdini, 2001).

The second component, or the actual acceptance of innovation, named “adoptive innovativeness” by some researchers, refers to the actual use of the innovative product by the consumer and relates to the personal impressions gained from the direct experience and experiences with it. It is believed that this type of innovativeness is the result of combining the consumer’s inherent innovativeness and the complex processes of communication and influence (Hirschman, 1980).

A number of authors point out that symbolic adoption precedes the actual use of the innovation and is seen as its predictor, but only in a voluntary context (Rogers, 2003; Klonglan, Coward, 1970). At the same time, it should be noted that mental reception is not always followed by physical use of the innovative product. For example, the consumer might assess the qualities and merits of the innovation and store the information in their memory, so that it will be available in future solutions, but to avoid the costs and inherent risk associated with its use.

According to Rogers and Robertson, the cognitive and behavioural aspect of innovative consumer behaviour can be presented as a series of five stages (Rogers, 2003; Robertson, 1971) and at the basis of each of them is the cognitive activity of the person, determined by its intellectual capabilities, the readiness to process the information received and the available time resource (Molt et al., 1981).

The adoption process starts with *knowledge* for innovation and awareness of the need for it. At this stage, the mass media has an important role, which, in the context of informational overloading of the personality and the lack of an actual need, should attract the attention and provoke the consumer's interest to the innovative product (Rogers, 2003; Robertson, 1971).

At the next stage the consumer *forms beliefs* about the attributes of innovation as a result of the processing of the newly-received information and its reconciliation with the personal needs (Rogers, 2003).

*Taking the decision* to accept, or reject respectively, the innovative product as an alternative to meeting the person's specific need, forms the third stage of the process and marks the symbolic adoption of the product or the idea of it. Rogers mentions that this is the result of the assessment of innovation made in terms of the potential risks and possible benefits of its use (Rogers, 2003).

After the occurrence of these cognitive processes and the awareness of the benefits of innovation over existing commodity alternatives on the market, real behaviour follows, directed at *implementation* or use of the innovative product by the consumer (Rogers, 2003), i.e. making it one of the preferred alternatives in meeting the particular need.

The adoption process ends with the evidence-seeking stage, *consolidating* the correctness of the decision taken and *decreasing* cognitive dissonance that appeared (Rogers, 2003).

Innovative consumer behaviour, or actualize innovativeness, is a way for individuals to express their uniqueness. Driven by the desire to distinguish themselves from others and feel special, they will be ready to put more effort and move faster through the series of cognitive and behavioural steps, leading to the ultimate goal – adopting the innovation, the means of achieving their distinctiveness.

Based on the theory and the data from existing empirical studies in the area under consideration, it is suggested that there is a link between the “need for uniqueness” construct and the consumer's innovativeness. In particular, the need for uniqueness will positively influence the consumer's willingness to accept the innovative product, i.e. to engage in innovative consumer behaviour.

## ***STUDY OF THE CONNECTION BETWEEN THE NED FOR UNIQUENESS AND THE CONSUMER INNOVATIVENESS IN BULGARIAN CONTEXT***

### ***METHODOLOGY OF THE STUDY***

In order to verify the assumption of a link between the examined constructs, a Bulgarian study with a sample of 382 respondents was conducted, including 187 men (49.1%) and 195 women (50.9%) aged 22 to 65 years, divided into two age categories: up to 40 years – 194 (50.7%); and above 40 years – 188 (49.3%).

The research tool used for the purposes of the study includes a set of two methods. The first one is based on the Tian, Bearden and Hunter scale, which measures the consumers' need for uniqueness. It reflects the individual differences in consumer motivation for counter-conformity – a motivation to differentiate the self from others, and is determined by the individual's aspiration to differentiate from others by acquiring and using goods to improve his/her social identity (Tian, Bearden & Hunter, 2001). For the purposes of this study, the Ruvio scale short form is used, which includes 12 items, divided into three sub-scales – counter-conformity through creative choice, counter-conformity through unpopular choice and avoiding similarity. The scale is culturally validated and the distinction between the three sub-scales is successfully preserved (Ruvio, Shoham & Brencic, 2008).

The *counter-conformity through creative choice* sub-scale reflects the demand for social diversity through the choice of goods, which are expected to be positively assessed by others and be perceived as an expression of the individual's uniqueness.

The *counter-conformity through unpopular choice* sub-scale refers to the consumption of products or brands, which deviate from the established group norms and pose a risk of social disapproval. It is assumed that such behaviour is a consequence of the individual's inability to distinguish himself/herself from the others in a socially acceptable way through the use of traditional consumer goods.

The *avoiding similarity* sub-scale is associated with the loss of interest by the individual and the discontinued use of the products, which become popular in order to restore the uniqueness of the individual.

The second method includes the Steenkamp and Gielens scale, measuring consumer innovativeness (inherent consumer innovativeness), defined as the consumer's beliefs that he/she will be among the first to test innovative products when they are on the market. This type of innovativeness expresses the individual's desire for change and is in contrast to his/her previous consumer choice (Steenkamp, Gielens, 2003). The scale includes 8 items.

For the responses of the studied persons in both methods, a 5-step Likert-type scale is used.



The research tool showed very good psychometric characteristics when applied in Bulgarian conditions. The inner consistency coefficient (Cronbach's alpha) of the applied scales and sub-scales is in the range between 0.76 and 0.83.

## ***RESULTS AND DISCUSSION***

As a result of the linear regression analysis carried out between the independent "need for uniqueness" variable (the whole scale) and the dependent "consumer innovativeness" variable, a statistically significant, direct and medium-force correlation dependence was established ( $r = 0.270$ ;  $r^2 = 0.089$ ;  $p < 0.05$ ). The need for uniqueness is a predictor of consumer innovativeness and explains 8.9% of its variations. The uniqueness influences positively the consumer's readiness to adopt the innovative product. With the increase of its intensity, there will be greater readiness on the part of the individual to engage in innovative behaviour. The result obtained is in accordance with the preliminary expectations and demonstrates similarity with data from previous studies in that direction (Burns, Krampf, 1992; Ruvio et al., 2008). The individual's desire to distinguish from the masses and express its uniqueness makes him/her open and receptive to innovative products as they can be regarded as unique and scarce. This is due, on the one hand, to the existence of exclusive features, which no other alternative on the market has, and which require certain personality traits possessed by the category of innovators and, on the other hand, to the inherent scarcity of innovation, arising from the potential financial risk if a market failure occurs, as most companies are reluctant to mass production of the new product before it is widely adopted and shared in the social system. Hence, the possession of an innovative product, because of its exclusivity, might be used as a means to satisfy the need for uniqueness.

In order to determine how the separate dimensions of the need for uniqueness affect the consumer's innovativeness, a stepwise regression analysis was performed. The results have shown that all three dimensions of the need for uniqueness are predictors of consumer innovativeness, with their power of influence is from low to moderate. In particular, the "unpopular choice" dimension has the greatest influence, and the dimension of "creative choice" has least influence. The results are presented in the following table.

*Table 1: Impact of the dimensions of the need for uniqueness on the consumer innovativeness*

<b>VARIABLE</b>	
<b>DIMENSION OF THE NEED FOR UNIQUENESS</b>	<b>CONSUMER INNOVATIVENESS</b>
CONTROVERSIAL UNPOPULAR CHOICE	$\beta = 0,264$ ; $p < 0,05$
CONTROVERSIAL CREATIVE CHOICE	$\beta = 0,199$ ; $p < 0,05$
AVOIDANCE OF SIMILARITY	$\beta = 0,226$ ; $p < 0,05$

The strongest predictor of the consumer innovativeness has been the controversial unpopular choice, aimed at using products that pose a risk of social disapproval. The result obtained is logical in view of the fact that innovative products are invariably related to risk, having different dimensions: financial, physical, psychological, social, etc., which innovators are ready to take. The specific features of innovative products place additional personality requirements, related to acquiring new knowledge and skills in order for the product to be adequately evaluated and fully exploited. As a result, individuals exhibiting innovative behaviour are referred to as the “consumer elite” (Petrova, 2004 [reference in Cyrillic: Петрова, 2004]). Such demonstrating-independence behaviour, which is appreciated positively by others and serves as a role model for followers, is a way for the individual to distinguish himself/herself from the masses and to satisfy his/her need for uniqueness.

The least impact on consumer innovation has been shown in the “avoiding similarity” dimension. At its core is the so called “choice of the minority”. An innovative product could be seen as such a choice, and it always is, since it is initially owned only by a small number of individuals, or by innovators, who make up about 3.2% of consumers. On the other hand, however, the choice of the minority does not necessarily mean choosing an innovative product, which could somewhat explain the lesser impact of this dimension on the uniqueness on consumer innovativeness.

The summarized results of the regression analyses showed a statistically significant relationship between the studied constructs in the context of the Bulgarian consumer. The need for uniqueness is a predictor of consumer innovativeness, in which higher levels are associated with greater readiness to engage the consumer in innovative behaviour.

Regarding the three dimensions of the need for uniqueness – creative choice, unpopular choice and avoidance of similarity, there is a slight to moderate impact on the construct of consumer innovativeness. Accordingly, the unpopular choice is the strongest predictor, and the avoidance of similarity – the weakest. The results obtained partly confirm Latter’s empirical data exploring the relationship between two constructs in the area of fashion (Latter et al., 2010). Differences are outlined in the creative choice, which in Davis’s research most strongly influences innovativeness, and in the case of unpopular choice – a statistically insignificant predictor of innovativeness. The last result is confirmed by Ruvio’s study, who states that there is no relation between unpopular choice and innovativeness (Ruvio, 2008). Regarding the “avoidance of similarity” dimension, in the study was found and confirmed by Latter as the weakest predictor of the three dimensions of innovativeness, and that is in contradiction with the empirical data obtained by Ryan (Ryan, 2008).

## **CONCLUSION**

The need for uniqueness is a major motive, driving the contemporary consumer on the market field. In the conditions of mass production and consumption of the same goods, which unify the individuals and lead to their loss of identity and to their “sinking” into the masses, the person feels a need to express their uniqueness. This motive is further exacerbated by the processes of globalisation, which create a sense of anonymity that presses the consumer and limits the field of his/her social identification. A means of achieving distinctiveness is the inclusion of the individual in innovative market-oriented behaviour or the possession and use of innovative products. The link between the need for uniqueness and user innovativeness is a new opportunity for marketing and its communication when launching an innovative product on the market. The use of appeals, aimed at the “need to be different”, which try to convince the consumers that the product will provide them with difference, uniqueness, and identity, which they desperately need, is a way of aiding the process of innovation adoption, and hence and its more rapid dissemination and sharing in the social system.

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## **A STUDY ON CONSUMER BEHAVIOUR TOWARDS SERVICE QUALITY IN ONLINE SHOPPING**

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### **ABSTRACT**

*In today's era of internet proliferation, the prevalence of online shopping has increased. Internet has made the transactions smoother, quicker, faster and easier and both the buyers and sellers get benefited by technology. The growing use of internet in India has created a basis for tremendous prospects for online retailers; knowledge of factors affecting consumer buying behavior can help retailers develop their marketing strategies to convert their potential consumers into active one. The study focuses on the consumer behaviour towards service quality in online shopping. Questionnaire was used to collect the primary data. The sample size of the study was 125 and the sample design adopted was convenience sampling. This paper tried to find out the impact of service quality on the consumer buying behaviour towards online shopping and gives suggestions to improve the same.*

**Key words:** Consumer, Behaviour, Online Shopping, Service, Quality

**JEL Classification:** M30

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## ***INTRODUCTION***

In recent years, the Internet has become increasingly important as a marketing tool. Internet as one of the most successful innovations has shown tremendous growth in both its applications and number of users. Its unique characteristics of flexibility, interactivity, and personalisation have provided enormous opportunities for innovative business strategies. One unique and revolutionary transformation brought forward by the Internet, “online shopping”, has become a source of increasing competition to the traditional shopping channels, such as retail stores, mail stores catalogues especially those associated with product areas of books and music. The internet brings opportunities for retailers to sell to and communicate with their customers through an interactive and flexible medium. Through an online platform, businesses will be able to promote their products and services and ensure good customer service by enabling businesses to deal directly and reach out to a wider market. Online shopping or e-shopping is a form of electronic commerce which allows consumers to directly buy goods or services from a seller over the Internet using a web browser. Alternative names are: e-web-store, e-shop, e-store, Internet shop, web-shop, web-store, online store, online storefront and virtual store.

According to Zeithaml et al (2013) as well as Hoffman and Bateson (1997) the term service refers to deeds, efforts, processes or performances. Marketing scholars such as Parasuraman, Zeithaml and Berry have particularly been very influential in service quality research mainly due to the service quality measurement scale known as the SERVQUAL that they developed. SERVQUAL measures service quality based on customers’ expectations and perceptions relating to five core dimensions namely reliability, responsiveness, assurance, empathy and tangibles. According to Parasuraman et al (1988) reliability relates to ability to perform promised services consistently and dependably; responsiveness refers to willingness and readiness to provide services while empathy is about being caring and providing customers with individualised attention. They described assurance as employees’ knowledge, courtesy and ability to inspire trust and confidence while tangibles were noted to refer to the physical facilities, equipment and appearance of personnel.

## ***OBJECTIVE OF THE STUDY***

- To identify the dimensions of service quality in online shopping.
- To identify the impact of service quality in online shopping behaviour of consumers.
- To suggest measures to improve the service quality in online shopping.

## ***REVIEW OF LITERATURE***

Montoya and Grewal (2003) identify visual design such as colour, structure, graphic and informative presentation, which are the most effective attributes of B2C (business to customer) websites. In addition, there is a relationship between visual attractiveness and quality perceptions, which leads to a link between visual attractiveness with trustworthiness on the website. Consequently, perceived website quality is referred as a multidimensional latent structure which of informativeness, friendliness, usefulness, playfulness, organization, technology and navigability Chung and Tan, (2004).

Flavián, Guinaliu and Gurrea, (2006) states that the online presence of a company is an important element that customers can judge its reliability in the absence of tangible signals of another 'real world'.

Tasi and Yeh (2010) aimed to study the effect of website quality specifically product quality information, efficiency service quality, website design style and characteristics, and transaction and delivery capabilities-on perceived risk of information security and privacy and its relationship with purchase intention. The results show that consumers who purchase environmentally sustainable products pay attention to the quality of the websites from which they purchase those products. Also, the results showed that perceived risk of information security and privacy involves two dimensions: perceived ease of use and perceived usefulness.

Chen et al. (2013), in agreement with Fassnacht and Koese (2006) point out the need for online retailers to focus on three main components namely the service environment, delivery and outcomes. They remarked that environmental quality captures aspects to do with the appearance of the user interface; delivery quality pertains to customer-website interaction during usage while outcome quality relates to what the customer is left with after the service.

Pappas et al (2014) pointed out that online stores can enrich customer online store experience by having a system that is able to use customer data to filter website content and provide customers with only the content that is relevant to them.

Mercy Mpinganjira (2015) say that customers evaluate different dimensions related to service quality. It was found that information quality is an important dimension of service quality as evidenced by the significant positive relationship that it has with attitude towards online store as well as on customers' engagement in positive word of mouth. In this regard managers need to ensure that they provide customers with adequate information that can enable them engage in online buying without the need to get in contact with store' personnel. The study also show the positive relationship that personalisation of services has on customers attitude as well as behavioural intentions.

## RESEARCH METHODOLOGY

The Researcher used Descriptive Research Design in this research. Primary Data's were collected using questionnaire and Secondary data's were collected from journals, books and websites. The collected data were edited, coded, classified and tabulated for analysis. The sampling technique used by the researcher is convenience sampling. Sample size taken for the study is 125.

## DATA ANALAYIS AND INTERPRETATION

*Table 1: Educational Qualification Vs Tangibility In Online Shopping Service*

### HYPOTHESIS I

Null Hypothesis: There is no significant association between educational qualification and satisfaction towards tangibility in the online shopping service

Chi square test to test the association between educational qualification and tangibility in the online shopping service

Tangility in the online shopping service	Educational Qualification				Chi – Square Value	P Value
	School Level	Under Graduate	Post Graduate	Others		
Attractive source of marketing	4 (5.71) ((6.90))	22 (31.43) ((11.07))	18 (25.71) ((5.06))	26 (37.15) ((25.50))	45.633	0.000*
Easy method of shopping	22 (12.94) ((37.93))	56 (32.94) ((19.72))	64 (37.65) ((17.98))	28 (16.47) ((27.45))	87.142	0.000*
Easy to compare other brands for purchase	4 (2.15) ((6.90))	58 (31.18) ((20.42))	118 (63.44) ((33.15))	6 (3.23) ((5.88))	69.563	0.023**
Availability of discounts and offers	4 (2.17) ((6.90))	58 (31.52) ((20.42))	102 (55.44) ((28.65))	20 (10.87) ((19.61))	70.797	0.000*
Selection of goods available on the internet is very broad	24 (13.16) ((41.38))	90 (47.37) ((31.60))	54 (28.42) ((15.17))	22 (11.58) ((21.57))	78.270	0.006*
Advertisements of online shopping are attractive and effective	4 (5.71) ((6.90))	22 (31.43) ((11.07))	18 (25.71) ((5.06))	26 (37.15) ((25.50))	62.924	0.000*

*Source: From Primary data*

Note: \*\* denotes significant at 5% level

\* denotes significant at 1% level

The value within ( ) refers to row percentage

The value within (( )) refers to column percentage

## RESULT:

Since p value is less than 0.001 at 1% significant level, the null hypothesis is rejected. Hence it is concluded that there is association between educational qualification and tangibility in services offered in online shopping with regard to attractiveness, easiness in shopping, availability of discounts and offers, availability of broad variety and effective advertisement in online shopping. Since p value is less than 0.05 at 5% significant level, the null hypothesis is rejected, hence there is an association between educational qualification and tangibility in services offered in online shopping with regard to easiness in comparing other brands and accessibility to online shopping.

*Table 2: Educational Qualification Vs Empathy In Service In Online Shopping*

## HYPOTHESIS-II

Null Hypothesis: There is no significant association between educational qualification and empathy in services in online shopping

Chi square test to test the association between educational qualification and empathy in service in online shopping

Empathy in the online shopping service	Educational Qualification				Chi – Square Value	P Value
	School Level	Under Graduate	Post Graduate	Others		
Reduces shopping time	4 (5.71) ((6.90))	22 (31.43) ((11.07))	18 (25.71) ((5.06))	26 (37.15) ((25.50))	110.541	0.000*
Comparatively less price	22 (12.94) ((37.93))	56 (32.94) ((19.72))	64 (37.65) ((17.98))	28 (16.47) ((27.45))	63.589	0.000*
Availability of discounts and offers	4 (2.15) ((6.90))	58 (31.18) ((20.42))	118 (63.44) ((33.15))	6 (3.23) ((5.88))	70.797	0.000*
Timely up-dation of websites	4 (2.17) ((6.90))	58 (31.52) ((20.42))	102 (55.44) ((28.65))	20 (10.87) ((19.61))	73.940	0.000*
Disclosure of true facts in advertisements	24 (13.16) ((41.38))	90 (47.37) ((31.60))	54 (28.42) ((15.17))	22 (11.58) ((21.57))	78.371	0.000*
Disclosure of true facts in websites	4 (5.71) ((6.90))	22 (31.43) ((11.07))	18 (25.71) ((5.06))	26 (37.15) ((25.50))	61.877	0.000*

*Source: From Primary data*

Note: \*\* denotes significant at 5% level

\* denotes significant at 1% level

The value within ( ) refers to row percentage

The value within (( )) refers to column percentage

**RESULT:**

Since p value is less than 0.001 at 1% significant level, the null hypothesis is rejected. Hence it is concluded that there is association between educational qualification and empathy in services offered in online shopping with regard to reduction in shopping time, comparatively less price, availability of discounts and offers, timely updation of websites, disclosure of true facts in advertisement and disclosure of true facts in websites.

*Table 3: Educational Qualification Vs Reliability In Service In Online Shopping*

**HYPOTHESIS III:**

Null Hypothesis: There is no significant association between educational qualification and reliability in services in online shopping

Chi square test to test the association between educational qualification and reliability in service in online shopping

Reliability in the online shopping service	Educational Qualification				Chi – Square Value	P Value
	School Level	Under Graduate	Post Graduate	Others		
Effective after sale service	4 (5.71) ((6.90))	22 (31.43) ((11.07))	18 (25.71) ((5.06))	26 (37.15) ((25.50))	97.293	0.000*
Goods delivered safely	22 (12.94) ((37.93))	56 (32.94) ((19.72))	64 (37.65) ((17.98))	28 (16.47) ((27.45))	101.634	0.000*
Product suits the description	4 (2.15) ((6.90))	58 (31.18) ((20.42))	118 (63.44) ((33.15))	6 (3.23) ((5.88))	23.724	0.022**
Information available are reliable	4 (2.17) ((6.90))	58 (31.52) ((20.42))	102 (55.44) ((28.65))	20 (10.87) ((19.61))	52.225	0.000*
Delivery of products on orders	24 (13.16) ((41.38))	90 (47.37) ((31.60))	54 (28.42) ((15.17))	22 (11.58) ((21.57))	101.615	0.000*

*Source: From Primary data*

Note: \*\* denotes significant at 5% level

\* denotes significant at 1% level

The value within ( ) refers to row percentage

The value within (( )) refers to column percentage

**RESULT:**

Since p value is less than 0.001 at 1% significant level, the null hypothesis is rejected. Hence it is concluded that there is association between educational qualification and reliability in services offered in online shopping with regard to effective after sales service, goods delivered safely, information delivered are reliable and delivery of products on orders. Since p value is less than 0.05 at 5% significant level, the null hypothesis is rejected, hence there is an association between educational qualification and reliability in services offered in online shopping with regard to product suits the description.

*Table 4: Educational Qualification Vs Assurance In Service In Online Shopping*

**HYPOTHESIS IV:**

Null Hypothesis: There is no significant association between educational qualification and assurance in services in online shopping

Chi square test to test the association between educational qualification and assurance in service in online shopping

Assurance in the online shopping service	Educational Qualification				Chi – Square Value	P Value
	School Level	Under Graduate	Post Graduate	Others		
Shopping on internet saves time	4 (5.71) ((6.90))	22 (31.43) ((11.07))	18 (25.71) ((5.06))	26 (37.15) ((25.50))	41.968	0.000*
A great advantage to be able to shop at any time of the day	22 (12.94) ((37.93))	56 (32.94) ((19.72))	64 (37.65) ((17.98))	28 (16.47) ((27.45))	45.435	0.000*
Selection of goods available on the internet is very broad	4 (2.15) ((6.90))	58 (31.18) ((20.42))	118 (63.44) ((33.15))	6 (3.23) ((5.88))	78.270	0.000*
Sufficient information given about the product on the website	4 (2.17) ((6.90))	58 (31.52) ((20.42))	102 (55.44) ((28.65))	20 (10.87) ((19.61))	105.434	0.000*
Security in handling credit card number	24 (13.16) ((41.38))	90 (47.37) ((31.60))	54 (28.42) ((15.17))	22 (11.58) ((21.57))	81.831	0.000*
Preference to purchase products through online shopping compared to retail market	4 (5.71) ((6.90))	22 (31.43) ((11.07))	18 (25.71) ((5.06))	26 (37.15) ((25.50))	73.816	0.000*

*Source: From Primary data*

Note: \*\* denotes significant at 5% level

\* denotes significant at 1% level

The value within ( ) refers to row percentage

The value within (( )) refers to column percentage

**RESULT:**

Since p value is less than 0.001 at 1% significant level, the null hypothesis is rejected. Hence it is concluded that there is association between educational qualification and assurance in services offered in online shopping with regard to saves shopping time, ability to shop anytime, wide variety of products for selection, sufficient information given about the product, security in handling credit card, cash on delivery, preference to shop online compared to retail market.

*Table 5: Educational Qualification Vs Responsiveness In Service In Online Shopping*

### HYPOTHESIS V

Null Hypothesis: There is no significant association between educational qualification and responsiveness in services in online shopping

Chi square test to test the association between educational qualification and responsiveness in services in online shopping

Responsiveness in the online shopping service	Educational Qualification				Chi – Square Value	P Value
	School Level	Under Graduate	Post Graduate	Others		
Risk in shopping through online shopping	4 (5.71) ((6.90))	22 (31.43) ((11.07))	18 (25.71) ((5.06))	26 (37.15) ((25.50))	121.351	0.000*
Financial transaction involved in online shopping are secured	22 (12.94) ((37.93))	56 (32.94) ((19.72))	64 (37.65) ((17.98))	28 (16.47) ((27.45))	75.191	0.000*
Trustworthiness in dealing through online shopping	4 (2.15) ((6.90))	58 (31.18) ((20.42))	118 (63.44) ((33.15))	6 (3.23) ((5.88))	62.404	0.0239**
Quality of goods purchased through online shopping	4 (2.17) ((6.90))	58 (31.52) ((20.42))	102 (55.44) ((28.65))	20 (10.87) ((19.61))	48.400	0.000*
Maintenance of confidentiality of transactions made through online	24 (13.16) ((41.38))	90 (47.37) ((31.60))	54 (28.42) ((15.17))	22 (11.58) ((21.57))	8.021	0.0353**
Credibility of online shopping compared to retail marketing	4 (5.71) ((6.90))	22 (31.43) ((11.07))	18 (25.71) ((5.06))	26 (37.15) ((25.50))	75.318	0.000*

*Source: From Primary data*

Note: \*\* denotes significant at 5% level

\* denotes significant at 1% level

The value within ( ) refers to row percentage

The value within (( )) refers to column percentage

### RESULT:

Since p value is less than 0.001 at 1% significant level, the null hypothesis is rejected. Hence it is concluded that there is association between educational qualification and responsiveness in services offered in online shopping with regard to risk involved in online shopping, security in financial transactions, quality of goods purchased and credibility of online shopping. Since p value is less than 0.05 at 5% significant level, the null hypothesis is rejected, hence there is an association between educational qualification and reliability in services offered in online shopping with regard to trustworthiness in dealing in online shopping and maintenance of confidentiality of transactions made through online shopping.

### Findings of the study:

- There is association between educational qualification and tangibility in services offered in online shopping with regard to attractiveness, easiness in shopping, availability of discounts and offers, availability of broad variety and effective advertisement in online shopping.
- There is an association between educational qualification and tangibility in services offered in online shopping with regard to easiness in comparing other brands and accessibility to online shopping.
- There is association between educational qualification and empathy in services offered in online shopping with regard to reduction in shopping time, comparatively less price, availability of discounts and offers, timely updation of websites, disclosure of true facts in advertisement and disclosure of true facts in websites.
- There is association between educational qualification and reliability in services offered in online shopping with regard to effective after sales service, goods delivered safely, information delivered are reliable and delivery of products on orders.
- There is an association between educational qualification and reliability in services offered in online shopping with regard to product suits the description.
- There is association between educational qualification and assurance in services offered in online shopping with regard to saves shopping time, ability to shop anytime, wide variety of products for selection, sufficient information given about the product, security in handling credit card, cash on delivery, preference to shop online compared to retail market.
- There is association between educational qualification and responsiveness in services offered in online shopping with regard to risk involved in online shopping, security in financial transactions, quality of goods purchased and credibility of online shopping.
- There is an association between educational qualification and reliability in services offered in online shopping with regard to trustworthiness in dealing in online shopping and maintenance of confidentiality of transactions made through online shopping.

## ***IMPLICATIONS AND DISCUSSIONS***

Service quality provides online retailers an opportunity to effectively differentiate themselves in the onlinemarket place in a way that is appealing to customers. Online marketers shouldfocus on improving quality of their services across three main dimensions namely the quality of the online store platform, quality of store interaction with the customer and quality of outcome. On the platform quality level, online marketers should appreciate the fact that the website is the contact point between an online store and the customer. As such the platform



provides online marketers with an opportunity to create first impressions that may convey service quality to customers. Just as they spend time, effort and often finances in designing the interiors of their physical stores, online managers need to appreciate the importance of good interior design even for their online stores.

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***Part III***

***LEGAL VIEW ON ENTREPRENEURSHIP AND SMEs***





## **PROHIBITION OF DISCRIMINATION AND ENTREPRENEURSHIP: LEGE LATA AND THEORETICAL CONSIDERATIONS**

Zivorad Rasevic<sup>18</sup>

### **ABSTRAKT**

*This paper investigates the relations of the discrimination ban with the freedom of entrepreneurship. These two legal institutions certainly belong to the disparate domains of the legal system: the prohibition of discrimination to the public law and the entrepreneurship to the private law. However, their relation proves to be complex and complicated, since wide-ranging opportunities for public intervention in private relations have been envisaged in the Serbian lege lata. In this regard, certain conflicts and interdependencies between these two institutions are pointed out, and the possibilities of a harmonized approach in their interpretation and application as well. Considering the lege lata provisions, case-law and theoretical findings about the significance and the nature of these institutions, two antagonist risks in their common application are noticed: first, the excessive threat to privacy and the economic efficiency; second, the risk of redundancy of the discrimination ban in the context of private law. Looking for an optimal balance between maximization of the disparate social aspirations of these legal institutions, this paper suggests a course of interpretation of the lege lata provisions which provides more certainty in determination of their substantial and personal scope.*

**Key words:** *Prohibition of Discrimination, Freedom of Entrepreneurship, Legal Principles, Conflict of Norms, Proportionality*

**JEL Classification:** *K10, K38, K31*

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## **INTRODUCTION**

In the dichotomous legal system the prohibition of discrimination and the entrepreneurship belong to the disparate legal domains. While the prohibition of discrimination is a public, human rights law institution, the notion of entrepreneurship encompasses a wide range of interpersonal relations regulated by the private law. From the axiological point of view, their disparity and distance are obvious: while the provisions of anti-discrimination law express aspirations and programmatic aims according to desirable patterns of social equality, the very idea of entrepreneurship is of a non-egalitarian character, implying the paradigm of a competition for scarce resources to achieve individual and social good. They are also distinguished by their legal effect: while the prohibition of discrimination consists in *erga omnes* obligation to refrain from socially undesirable behaviour, the provisions that regulate entrepreneurship ensure freedoms of private persons to regulate their relations with others. Using theoretical, *lege lata* and comparative methodology, this paper examines the limits of the discrimination ban in the private law.

## **THE THEORETICAL APPROACH**

This essay is feasible only within the theoretical and methodological framework that enables the setting of two legal institutions in a correlative relation with clear mutual interactions. In order to be useful, this framework must genuinely reflect the Serbian *lege lata*. In the quest for answers, it is thus necessary to make a step outside the boundaries of the human rights and civil law into the broader, predominantly systemic interpretations of applicable legal institutions.

In this respect, this essay is theoretically based on the world-wide recognized doctrine of horizontal effect of human rights, which implies that authorization of public authorities not only to regulate relations between a state and private persons (i.e. vertical effect), but also to intervene in private relations (Nowak, 2005, pp. 632; Jakšić, 2006, pp. 13-14). However, it should be noted that the doctrine of horizontal effect of human rights is not accepted everywhere and uniformly. One comparative classification (Barak, 2001, pp. 14-28) identifies three doctrines of the application of human rights norms in private law relations: (1) the direct application of human rights law to those persons who otherwise are not party in a certain relation between a state and a private person - *Drittwirkung der Grundrechte* (Switzerland, Germany), (2) the indirect application, or the radiation of the constitutional system of values to private law (Germany, Italy, Spain, Japan) and (3) the judicial application (the United States), and one doctrine of non-application (Canada).

Referring to the predominant approach (i.e. the application of the norms of human rights in private law), the relations of the prohibition of discrimination and entrepreneurship can be seen only as a matter of the real and personal scope of

anti-discrimination provisions within the private relations. The discrepancy between these two theoretical concepts is quite obvious. While the non-discrimination prohibits an unequal treatment of persons with regard to their personal traits due to ethical reasons (Gajin, 2010, p. 15; Dimitrijević, 2007, p. 114), the entrepreneurship assumes a disposition to treat persons unequally in pursuit of maximization of economic and social benefits within the context free market competition. Apart from that, scholars do not concur about the economic and social effects of the application of the discrimination ban within the context of entrepreneurship. While some of them argue that under certain conditions this could be a good incentive (Fredman, 2002, p.185; Cooray, 1985, art. 9.3), others consider the opposite: according to them, the ethical imperative of a harmonized community of equal individuals impose only such obligations that essentially compromise those values of private law that make entrepreneurship feasible, i.e. freedom, privacy, autonomy of will, etc. (Mansel, 2007, p. 809; Hasnas, 2002, pp. 6, 69; Lüttringhaus, 2010, p. 406). Since the success of entrepreneurs in the market economy is not guaranteed, they must be free to cope with uncertainties in the competition for scarce resources and relations that could be seen unequal, socially irrational or even immoral (Narveson, 211-215; Cavanagh, 2002, pp. 22, 80, 117, 143, 173). The entrepreneur is thus entitled to conduct business, make decisions and to cope with free-market contestants, but the rights of other participants in the business process (i.e. employees, consumers and the publicity) must not be compromised (Ratković Njegovan, 2008 p.176). Therefore, the public authorities have a difficult task to provide legislative and administrative framework in private law that enables such a subtle balance of freedoms and responsibilities in concrete circumstances. This balance must be progressive in two disparate ways: to maximize economic well-being on the one hand, and social equality on the other. Since the enjoyment of freedoms *per se* implies the discretion to treat people according to personal, intimate preferences, the idea of social equality in context of private law should be seen in less ambitious respect, rather in approach of formal equality, i.e. equality of treatment. Only very important social relations and protected personality traits that are explicitly envisaged in the *lege lata* deserve additional effort of public authorities, i.e. affirmative measures in pursuit to equality of opportunity or equality of results.

Using Dvorkin's distinction of human rights provisions between rules, principles and public policy (Dvorkin, 2001, 50), the prohibition of discrimination in the private context can be seen as a civil obligation or right, a substance of a principle of equality of parties in private relations and a public interest (Rašević, 2014, pp. 42-46). First of all, this institution meets all the theoretical criteria to be understood as a source of the civil law obligation, because it imposes a duty to one feasible behaviour (Vodinelčić, 2014, pp.187-188). However, there are no sufficient arguments to convince us in its establishment as an individual right in Serbian civil law, because the obligation of everyone not to discriminate does not correspond to the individual entitlement (i.e. legally recognized and protected concrete possibility) not to be discriminated, except in those especially important social relations (relations concerning civil personality rights, labour relations, employment, education, etc.) and protected personality traits (sex, race, religion,

etc.) that are explicitly envisaged as such in *lege lata*. Secondly, non-discrimination can be seen as a concretization of the principle of equality of parties in private relations. The differences between two institutions are nevertheless noticeable. While the principle of equality establishes a formal balance of parties in all private relations, the prohibition of discrimination applies also in relations that are not established and it is applicable only to defined relations and protected personal traits. These two principles fall under different Aristotle's paradigms of justice (Aristotle, 1998, pp. 32-33): while equality of parties is derived from the notion of commutative justice (double-sided relation, arithmetic equality), non-discrimination presupposes a relation with at least three parties, where one party is authorized to behave differently, in proportion to the established criteria, to the other two or more parties (three or more parties, geometric equality). Finally, the prohibition of discrimination can be so important for a regulation of certain private relations to the extent that the public intervention is necessary for combat against discrimination. This intervention is allowed by the vague terms used in the civil law provisions that refer to the application of public law norms („imperative regulations“, „public order“, „good customs“, etc.). This will be discussed in the part that interprets the *lege lata*.

## ***INTERNATIONAL STANDARDS***

Talking about international law, the relations of the discrimination ban and entrepreneurship are indicated in the provisions of the universal and regional human rights systems.

The article 55.c) of the Charter of the United Nations (hereinafter UN) emphasizes few protected personality traits as the discrimination grounds, such as race, sex, language and religion, while the Article 2 of the Universal Declaration of Human Rights does not limit the list of protected grounds, using the formulations „without distinction of any kind“ and „other status.“ However, the race and gender are considered to be exceptionally important discrimination grounds, being prioritized in the Article 26 of the International Covenant on Civil and Political Rights and the Articles 2 and 3 of the International Covenant on Economic, Social and Cultural Rights. These grounds and are also additionally protected in the Convention on the Elimination of All Forms of Racial Discrimination and the Convention on the Elimination of All Forms of Discrimination against Women. The Para 3 of the preamble to the International Covenant on Economic, Social and Cultural Rights, states in programmatic and declarative manner that „the ideal of free human beings enjoying freedom from fear and want can only be achieved if conditions are created whereby everyone may enjoy his...rights.“ Useful concretization of international standards in this matter is contained in the report of the Special Representative of the UN Secretary-General on the issue of human rights and transnational corporations and other business enterprises, entitled „Guiding Principles on Business and Human Rights.“ This report was endorsed by Resolution No. 17/4 of June 16 2011 of the Human Rights Council. In this document, the private entrepreneurship entities are considered to be „specialized



organs of society performing specialized functions“and required to pay due diligence to respect of human rights, to avoid procedures that could indirectly cause violations of the rights of others and to take steps to prevent, mitigate and eliminate the negative impacts on human rights, in proportion to their size and circumstances.

In the primary law of the European Union (hereinafter EU), the discrimination is prohibited on several *numerus clausus* protected grounds: sex, race, ethnic origin, religion or belief, disability, age, sexual orientation (the Article 10 of the Treaty on the Functioning of the EU, Lisbon, 2007), colour, genetic features, membership of a national minority, birth (Article 21 of the Charter of Fundamental Rights of the EU, Nice, 2000) and citizenship (only between EU Member States, but not others) (Priručník, 2010, p. 56). The list of protected grounds is long, but closed to other personality traits that could deserve protection against discrimination. The secondary EU law prohibits discrimination in clearly defined social relations and on the closed list of grounds that is even shorter (Priručník, 2010, pp. 62-66): in labour and employment, irrespective of racial or ethnic origin (Directive 2000/43 / EC ), religion, disability, age or sexual orientation (Directive 2000/78 / EC), in access to goods and services on grounds of sex, including pregnancy and motherhood (Directive 2004/113 / EC), in employment, promotion, vocational training, labour conditions, wages and social security (Directive 2006/54 / EC).

In the legal system of the Council of Europe the relation of the discrimination ban and the entrepreneurship can be reflected through the systemic interpretations of the Article 14 of the European Convention for the Protection of Human Rights and Fundamental Freedoms (hereinafter: the EC) and the Protocol No. 12 to the EC with the Article 1 of the Protocol No. 1 to the EC. In comparison with the EU law, the scope of the discrimination ban is much wider. The initial substantive scope of Article 14, covering only the enjoyment of rights established by the EC, was extended by the Protocol No. 12 to the enjoyment of all rights set forth by law. However, this extension is addressed only to the public authorities. Furthermore, in both provisions the lists of protected personality traits are not closed, which enables the additional extension of the personal scope. When it comes to the Article 1 of the Protocol No. 1, the case-law of the European Court of Human Rights (hereinafter: ECHR) included so far in the substantive scope of the right to property: concessions, crafts and business activities and certain economic interests (Jakšić, 2006, pp. 377-371). Interactions of these two EC's rights can also be found in the restrictive provisions of the EC. In this respect, the Article 1 of the Protocol No. 1, contains the restriction of the right to property in Para. 1: „in the public interest and subject to the conditions provided for by law and by the general principles of international law“, and in Para. 2, which authorizes the state „to enforce such laws, as it deems necessary to control the use of property in accordance with the general interests ...” Apart from that, the ECHR has formulated in its case-law a general exception to non-discrimination, i.e. „objective and reasonable justification.“ This exception justifies the acts of unequal treatment if they are conducted in pursuit of a legitimate aim, if they are legal and proportionate to this legitimate aim. Obviously, the restrictions of both EC rights

are defined rather complementary, but imprecisely set by use of vague terms. The only one concretization in this respect can be found in Recommendation No. 14 of the European Commission against Racism and Intolerance (Combating Racism and Racial Discrimination in Employment CRI/2012 48 of June 22 2012): *inter alia*, it is recommended to the member states to ensure „through encouragement of self-regulation of private sector“: that the national anti-discrimination law applies to private employers; that the discriminatory provisions in individual and collective agreements and internal regulations are amended or abrogated; that public procurement procedures impose sanctions to those employers who have violated the prohibition of discrimination; that employers promote equality and ensure equal opportunities, prohibition of harassment, develop incentives to encourage employers in this respect, etc.

In summary, international universal and regional law recognize a broad discretion of the states to regulate the prohibition of discrimination, the freedom of entrepreneurship and their mutual relation in accordance with their own specific circumstances, exigencies and approaches to concepts of the common good and the social equality. Since the international non-discrimination standards do not directly affect generally wide discretionary powers of public authorities in the regulation of entrepreneurship, certain comparative differences in substantial and personal scope of the applicable *lege lata* are quite reasonable. However, certain discrimination ban provisions have deserved the status of international *ius cogens* in order to protect personality traits that are very important in international relations, such as race and gender. Due to its special status, those international imperative norms must be directly addressed to all persons in all spheres of social life. Apart from that, the application of anti-discrimination norms that have not acquired this status implies careful and subtle evaluation of conflicting public and private interests. This approach is clearly expressed in the European private law, because there the discrimination ban on other grounds has narrower and more precise scope. *Ratio* of such approach should be found in the concern of possible negative impacts of the anti-discrimination law on the freedom of entrepreneurship.

### ***THE SERBIAN LEGE LATA***

The constitutional framework for interaction between the prohibition of discrimination and entrepreneurship should be found in the anti-discrimination provisions of Articles 15, 21 and 76 of the Constitution of Serbia (Official Gazette of RS, No. 98/06) and Articles 82 and 83 that regulate the freedom of entrepreneurship. In the constitutional system, both institutions are not located in the catalogue of individual human rights, which is defined in Articles 23-74 of the Constitution. The freedom of entrepreneurship in Articles 82 and 83 is defined as one of the basic principles of economic regulation and can be „restricted by law in order to protect the health of people, the environment and natural resources and for the security of the Republic of Serbia.“ There are quite concrete consequences for such qualification (a principle instead of an individual right) in determination of the scope of the freedom of

entrepreneurship: the legislator is not bound by the constitutional rules for restriction of individual and minority rights under Article 20 of the Constitution (Pajvančić, 2009, pp.106-107). The same could be concluded for the anti-discrimination provisions. The gender equality under Article 15 is one of the constitutional principles, the prohibition of discrimination is defined in Article 21 as one of the basic principles of human and minority rights and freedoms, and only Article 76 prohibits discrimination as a collective right of national minorities. Thus, both institutions are not concretized to the threshold of individual right and do not enjoy strict constitutional guarantees, which enables a wide legislator's discretion in their mutual arrangement. According to Dvorkin, the conflicts of principles can be solved only by taking into account their proportionate weight (Dvorkin, 2001, pp. 49-50). In that respect, a proper guidance can be found in the Article 20 of the Constitution, which prescribes that the restrictions of the constitutional rights can be justified after taking in account the purpose, the extent of restriction, the essence of the right that is to be restricted, the importance of the purpose of the restriction, the nature and the scope of the restriction, the relation between the restriction and its purpose and whether there is a way to achieve the purpose of restriction with less restrictions of the others right. When this hard-to-comprehend and philosophically described operation is applied to the mutual restriction of the prohibition of discrimination and the entrepreneurship, the theoretical findings about the relation of social equality and private initiative *supra* can be useful, although they do not offer resolute answers. When it comes to the application of human rights norms in private law, Articles 18.1 and 23 suggest the direct application doctrine (*Drittwirkung der Grundrechte*): human rights are applied directly, and everybody (not public authorities only, but private persons as well) is obliged to respect and protect human dignity as a core of all human rights. Therefore, nobody is entitled to enjoy its freedom by breaching the constitutionally protected right of third parties (i.e. persons who are not party in a public relation where this freedom is enjoyed). However, the private law provisions suggest the application of the doctrine of indirect application, because they contain vague legal terms that enable supplementary application of the public-law institutions: e.g. „imperative regulations, public order and good customs“ are set out in Articles 10, 49, 51, 75, 103 and 104 of the Law on Obligations (hereinafter ZOO, Official Gazette of SFRY No. 29/78, 39/85, 45/89 and Official Gazette of FRY number 31/93); „conscientiousness and honesty“ in Article 12, etc. Such broad *lege lata* provisions are addressed to all private persons, enabling the protection of constitutional rights either by private or public remedies. However, they imply a certain risk of an excessive judicial discretion that can result in arbitrariness and subjectivity in balancing between public and private interests. According to the doctrine of the radiation of the constitutional system of values within private law, these vague terms serve as gateways for the infiltration of the public law norms into private law. The provisions that prohibit discrimination surely have a potential for such application.

More specific guidance on this issue should be further found in the provisions of the organic and general anti-discrimination law, i.e. the Law on the Prohibition of Discrimination (hereinafter ZZD, Official Gazette of RS, No. 22/09) that elaborates the constitutional provisions and compiles anti-discrimination standards from the European law (Rašević, 2016, p. 37). This act tackles the entrepreneurs

(legal entities, individuals) only in criminal provisions for violation of the prohibition of discrimination (the Articles 51, 52, 55- 60). The strict liability of public bodies is defined in the Articles 13.1.2 and 15 and in the punitive provisions in the Articles 50 and 53. It seems that the private-public distinctions are not sufficient, since the differences in the manner of regulation of the public and private law are significant. For instance, more subtle distinctions and adaptations to the domain of private law can be found in the German General Law on Equal Treatment (*Allgemeines Gleichbehandlungsgesetz*, BgBl. I S. 1897, 1910). In the Article 19, the material scope of the discrimination ban „in the establishment, execution and cessation of civil law obligation“ is limited to the massive, depersonalized and lucrative relations, i.e. the relations that „typically occur regardless of the person in a large number of cases under comparable conditions or where the relation with a person is of subordinate importance in relation to the obligation and comparable conditions arise in a large number of cases,“ and in private insurance. Para. 3 of the same Article excludes from the scope of this law the housing, allowing unequal treatment in circumstances where „it serves to establish and maintain stable social structures in terms of inhabitants and a balanced structure of accommodation, economic, social and cultural conditions“. In Para. 4 the next exception relates to the family and inheritance law, where the general regime of non-discrimination does not apply, and Para. 5 exempts the „civil obligations where the parties and their relatives are closely related or have a relation of trust“, and in particular, same residence and rent less than 40 apartments. In matters of the personal scope, the Article 19.2 defines more stringent protection in relation to the racial and ethnic discrimination in the field of social protection, education and public access to goods and services. Furthermore, Article 20 envisages certain exceptions to the prohibition of different treatment based on religion, disability, age, sexual orientation or gender, provided that they are based on „objective grounds“ and states the following examples: the reduction of risk, the prevention of damage or other comparable aims, protection of privacy and personal safety, lack of interest in conducting equal treatment, protection of religious ethos, and on ground of gender in the life insurance`s actuary statistics (Para. 2). Similarly, the anti-discriminatory provisions of the Chapter 2 of the Draft Common Frame of Reference EU restricts the contractual freedom in the access of goods and services available to members of the public and establishes the civil right not to be discriminated against, regardless the gender and ethnic/racial origin (the Article II-2: 101.) According to this document, the area of public-law intervention is clearly limited to the contracts on the supply of goods and services available to members of the public, and just on two grounds that are the European and international *jus cogens*. The rest of the contractual regulation scope is subject to the autonomy of will, privacy and private initiative. However, these examples from highly developed economies and legal systems of EU states are certainly not capable for an uniform transplantation in Serbian *lege lata*, but they can illustrate the meticulousness in adjustment of the scope of public anti-discrimination intervention in private law in quest for an optimal balance of privacy, freedom and entrepreneurship with the public interest for combat against discrimination.

## **THE SERBIAN CASE-LAW**

One good example of the combat against discrimination in Serbia is the case Rustenov and others against the company Jugent-SRC „Krsmanovača“ Šabac that was litigated before the Municipal and District Court in Šabac and the Supreme Court even before the adoption of the ZZD. The behaviour of the employees of the respondent company, which consisted in prohibiting the entry of prosecutors into the public swimming pool solely because of their Roma origin, was qualified to be the violation of the rights of personality that constituted discrimination in comparison to other visitors. Utilizing the systematic interpretation of the Articles 157 and 199 of the ZOO in connection with relevant international and constitutional provisions, the respondent was obliged to apology through media and to refrain from such conducts. The Supreme Court in the judgment no. Rev. 229/04 of April 21 2004 reasoned: „As a consequence of this event, the prosecutors suffered physical pain due to the violation of the rights of personality, being not granted with all the rights that have persons who are not members of the Roma ethnic community, and thus they suffered a feeling of hurt and humiliation.“ There is nothing to object on such reasoning, but it must be noted the business interest of the respondent company to maximize the swimming pool visitation was not clearly identified and evaluated. As discussed in theoretical considerations *supra*, doing business by public offering of services is not necessarily moral thing to do. In this case the discriminatory behaviour of the respondent employees could rather be caused by the prejudices of other visitors (i.e. third party) than the lack of tolerance of the respondent company towards Roma. Surely, the denial of access to a public space to the members of Roma ethnicity cannot be justified, but it should be noted that in this case the burden of the third party`s prejudices was transferred to the respondent company. Having this in mind, it is hard to claim that this type of reprimands contributes to the eradication of discrimination, because the entrepreneurs who offer access to a public spaces already developed quite effective tactics to deny access to unwanted guests, e.g. by establishment of an allegedly private clubs with membership criteria that are apparently non-discriminatory or unknown. Such scepticism is convincingly expressed in one critique of the German anti-discrimination law:

*„Above all, the reform will thus emphatically encourage those members of the legal community permanently under suspicion of discriminating to camouflage their capabilities, to deliberately develop deceptions and dishonesty in the future. The Federal Minister of Justice understands this issue correctly when she doubts „that one [is able] to change a society through legal policy” and when she fears that that leads only to false excuses and rather will be made ridiculous.”*(Picker, 2003, p.778)

In the available case-law of the Serbian Commissioner for the Protection of Equality there are several characteristic arguments regarding the impact of the discrimination ban on the entrepreneurship (Zbornik, 2011, pp.181-195). In the first case the complaint of E.P. that the bank A. denied him/her loan due to his/her age was

upheld and the policy of the bank was qualified discriminatory. The bank stated in its defence that its freedom of entrepreneurship and contracting as its general policy was not limited by the applicable imperative legal regulations, public order and good customs, and that the business with the elderly implied an additional risk based in quantitative and qualitative criteria and the personality of the client. The Commissioner in its Opinion and Recommendation No. 947/2011 of Aug 1 2011, requested the bank to amend its regulations, eliminate the age limit for its services and to refrain from further discriminatory treatment, stating that „the activity of this and other banks is governed by special laws, but they ... and their application must not be contrary to the constitutional and legal norms on the prohibition of discrimination.“ This interpretation seems correct, but insufficient. The opposing and equally legitimate freedom of entrepreneurship of the bank was not clearly identified and evaluated, especially its right to minimize business risks and its contractual autonomy (freedom of contract, freedom to determine a content of contract and the freedom to dispose a contract). Apart from that, the priority of the discrimination ban could not be justified solely by a positivistic reference to the interpretation rule *lex superior derogat legi inferiori*, because the freedom of entrepreneurship is also prescribed by the constitutional norm. As discussed *supra*, the relation between two non-harmonized constitutional principles must be the subject of subtle examination and evaluation of their purposes in concrete circumstances.

The second case tackles discrimination in employment. In the Opinion and Recommendations addressed to the health care institution K.C.S. from September 12 2011 the Commissioner found that the employment requirement, set in the public notice that the candidates for medical technicians must not be older than 35 years, is discriminatory. The health institution argued that this age requirement, although not prescribed by its regulations, is justified by long-lasting experience that „younger people perform entrusted duties more easily, expeditiously and dashing, especially if jobs are difficult.“ The Commissioner concluded that this argument was illegal and based on stereotypes and prejudices, and that the age did not constitute a real and decisive condition for the performance of this job, having in mind its nature and the working conditions. In summary, the Commissioner identified the existence of prejudices and thus limited the freedom of the employer in the selection of its staff, prioritizing the interests of candidates to enjoy equal opportunities regardless of age. However, there is the other side of the medal. The freedom and responsibility of the healthcare institution to choose employees who maximize the medical services by their expertise and physical abilities is at least equally important. Apart from the interests of the healthcare institution, the rights of patients to the satisfaction of the medical services and even their freedom to have certain morally wrong prejudices are important as well. The healthcare institution strives to maximize that feeling of satisfaction in the selection of its staff, for the purpose of a more competitive position in a free health care market. When all the particular rights and interests are equally appreciated, they can be seen in form of a triangle of rights and interests of the candidates, the employer and the patients. However, it is really difficult to find objective criteria to prefer one of them. The problem thus seems to be more complicated, and its solution is dependant of the angle of perception. For sure, the vast majority of patients would

rather be taken care of in such healthcare institution where the toughest jobs and duties are performed by youngsters, and complicated interventions are entrusted to a more experienced staff. Getting back to the issue of social prejudices, the most difficult question is how to properly address the burden of responsibility for them. The prejudices of the employer and the social prejudice in general can affect an employment (Šimonović Einwalter, 2009, p. 64), but the rebuke to an employer is not always the best way to suppress them, especially when other important rights and interests are at stake.

### ***THE LIMITS OF DISCRIMINATION BAN IN ENTREPRENEURSHIP***

When the Serbian *lege lata* and case-law compares with theoretical and comparative solutions, certain deficiencies in the Serbian anti-discrimination law are easy to spot. Although the fear of the ubiquitous arbitrariness of public authorities proved to be well-founded when intertwining in private relations that should be left to the market, the legislator did not set forth the clear criteria for the intervention of anti-discrimination norms in order to protect foundations of private law. This results in legal uncertainty that burdens the legal and economic status of private entrepreneurs. This argument obviously does not support the application of anti-discrimination provisions in private law, but the ZZD must not be practically ignored for that reason. Being a foundation of a new, so far incomplete branch of the Serbian legal system, the ZZD contains just general rules that are required to be developed by special laws. If there are no such special laws or they are not clear enough in this respect, a responsible judicial decision-making could diminish this problem by methodologically correct, constitutionally appropriate and socially opportune interpretation. (Rašević, 2014, pp. 42-43, 56).

Bearing in mind the theoretical conclusion on the breadth and ambiguity of the discrimination ban in private law (i.e. obligation/right, principle and public interest), the uniform view on its impact on the entrepreneurship cannot be feasible. For that reason the use of different theoretical and hermeneutical approaches results in different legal consequences on discriminatory contracts. If the prohibition of discrimination is seen as a public interest that is legitimate to affect on contracts, then the civil courts should *ex officio* pay attention and nullify discriminatory contracts according to the Articles 104, 105 and 109 of the ZOO, and this can be requested by public prosecutor or anybody else (Art. 109 and 110 of the ZOO). According to the approach to the discrimination ban as a civil law principle or obligation/right, there is no explicit *lege lata* possibility of *ex officio* annulment of discriminatory contracts and the protection could mainly be provided *inter partes*.

Reminding that the public intervention in private law can do more harm than benefit, the scope of the prohibition of discrimination should be limited to the most important issues of public interest (Picker 2003, p. 774-780). Therefore, the institution of the discrimination ban should not be seen as an imperative provision *in abstracto* that inevitably nullifies discriminatory contracts. Instead of that, one

should carefully and comprehensively weigh the intensity of the public interest in private relations and protected personality traits where a different treatment takes place. The threshold for the impact of the anti-discrimination provision remains undefined, and closer instructions to interpreters would be the following. Firstly, the positivistic paradigm implies that all anti-discrimination provisions that expressly contain the terms „prohibition“, „prohibited“, etc. are considered to be of imperative character. Thus, the annulment of a contract will be the inevitable consequence of an unequal treatment under the Articles 21.3 and 76.2 of the Constitution (i.e. based on race, gender, nationality, social origin, birth, religion, political and other beliefs, wealth, culture and language, age, psychological and physical disability) and the following Articles of the ZOZD: 9 (Prohibition of prosecution), 10 (Association for the purpose of discrimination), 11 (Hate speech), 12 (Disturbing and degrading treatment), 16 (Discrimination in the field of labour), 18 (Prohibition of religious discrimination), 19 (Discrimination in the field of education and vocational training), 20 (Discrimination based on sex), etc. Another private relations and protected grounds that are not under explicit provision of discrimination ban would be beyond the scope of the public intervention. In this respect, there is the civil obligation for everyone not to discriminate against in Article 4.1 of the ZZD, and a somewhere even the correspondent individual right (e.g. the right to legal protection under Article 3.1 of the ZZD and the right to equal access to facilities in the public use under Article 17.2 of the ZZD). A narrow interpretation is thus inevitable, because a wider interpretation of vague constitutional and statute terms increases the scope of the discrimination ban beyond the criteria set forth by the theory of private law and comparative law. Furthermore, a narrower approach than this is not possible, because it would be *contra legem*, i.e. the explicit constitutional provision must not be ignored. It is far more difficult to reach a definite conclusion on issue of the appropriateness of the terms „public order“ and „good customs“ for anti-discrimination intervention in private law. In this respect, the valuations beyond the *lege lata* are inevitable. Thus, the first step must be the weighing of the amount of public interest to ban discrimination in concrete private relations and protected grounds. The second step would be the proportionality test under the Article 20.3 of the Constitution, which implies the objective and rational quest for a proper balance between the egalitarian public interest and the constitutional rights of parties in private relations.

The maximization of economic and social benefits by the application of anti-discrimination provisions in the entrepreneurship can be achieved if an optimal balance of public and private interests was found. In this respect, the interpretation and application of the relevant *lege lata* should be performed in the following steps. The scope of a legitimate intervention of the discrimination ban in contractual affairs is determined in two ways. Firstly, all constitutional and statute provisions that explicitly prohibit discrimination on ground of personal traits, form or appearance in contractual relations are *ius cogens* and thus derogate discriminatory contract or its provision (*lex superior derogat legi inferiori*), i.e. nullify them. Other anti-discrimination provisions prescribe the civil obligation to refrain from unfavourable treatment that cannot be objectively and reasonably justified, and, when explicitly emphasized, a correlative right not to be exposed to



such treatment, i.e. not to be discriminated against. In some private relations and positions even the other anti-discrimination norms could exceptionally be taken as a ground for a public intervention under the terms of „public order“ or „good customs“, if the amount of public interest overweighs the private interests. The amount sufficient to pass this threshold is determined *in abstracto* by the legislator and *in concreto* by judiciary by means of the proportionality test under the Article 20.3 of the Constitution. Furthermore, the prohibition of discrimination as a civil obligation and exceptionally as an entitlement affects the certain private relations (modifies, repeals or establishes a new one) within the punitive framework under the Article 43 of the ZZD. In this case the obligation not to discriminate does not deserve a special place in comparison to other private obligations. The discrimination ban provision as the *lex superior* formally derogates those provisions that are at a lower level than the Constitution and the statutes, certainly including contracts. In the case that the norms of private law are rooted in international, constitutional or statutory acts, they can be at the same level with anti-discrimination norms. Then the operation of systematic interpretation and substantial derogation of some of the relevant norms follows, by utilization of the proportionality test.

## CONCLUSION

Due to their vagueness and breadth, the relation between the prohibition of discrimination and entrepreneurship cannot be seen in unambiguous, abstract, or general way. The formula for determination of their scope lies in a careful examination and subtle evaluation of their interactions, i.e. in evaluation in concreto of the public interest of combat against discrimination in the protected private relations and personal traits. Identification, measurement and comparison of the amount of public interest in each private relation implies a multidimensional, comprehensive evaluation of circumstances by means that sometimes do not belong to the *lege lata*. However, these means must be in accordance with the rules of the practical mind. This approach ensures more practical advantages than damage to the positivistic consistency, because it suits to the vague and moralized nature of the discrimination ban. The risk of arbitrary decision-making could be diminished to a tolerable level by the safeguards of independence and impartiality and by methodologically correct and socially progressive interpretations.

However, public authorities should retain their public responsibility even when performing role of parties in private relations. Regardless the amount of public interest in private relations, the rule of law principle ensures that the state organs cannot be treated like private persons. The state does not have its individual rights and freedoms like private persons. A power entails responsibility, and hence the responsibility of a public entity that conducts its authorities in the name of a state in private relations should be more stringent than the responsibility of private persons.

Regarding the effects of anti-discrimination law, such criteria enable a clearer and fairer personal adjustment of stringency of the obligation and responsibility to respect the discrimination ban. In this respect, the obligations and responsibilities of the state must be strict, i.e. the state must be always responsible for the conduct its organs regardless their intentions. Vice versa, the obligations and responsibilities of private persons should be less strict, i.e. proportionally dependant on the amount of the public interest in business and on the purpose, size and degree of social responsibility of a private legal entities.

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# **IMPACT OF THE CRISIS AGRICULTURAL POLICY OF THE REPUBLIC OF SERBIA ON THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES**

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## **ABSTRACT**

*The authors critically examine the causes of the crisis, the effects of agrarian policy in the Republic of Serbia in recent years, with a special focus on 2016. Analyzing the characteristics of agrarian policy, authors point out the mechanism's non-functionality, as well as its inadequacy and inconsistency. The first is reflected in the problems of functioning of two key institutions of our economic (and agrarian) system: markets and the state. The second is reflected in the relatively small agrarian budget, as well as the frequent changes in the measures of agrarian policy. Bearing in mind that in the Republic of Serbia rural areas make up as much as 85% of the total territory, the authors consider that the crisis of agrarian policy is one of the important reasons for insufficient development of small and medium enterprises. For example, in the sector of agriculture, forestry and water management in 2015, 515 were established, and 394 small and medium enterprises were closed, i.e. only 23% of them survived. The authors propose a series of measures and actions to stop the crisis trends, create an environment, create a system of financing and lending, improve the situation in our agriculture and agro-industry, and in order to harmonize our agricultural policy with European standards.*

**Key words:** *Agriculture, Agrarian Policy, Small and Medium Enterprises, Changes, Republic of Serbia*

**JEL Classification:** *Q18*

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## ***INTRODUCTION***

Agricultural policy is part of the state's economic policy through which the development of the agricultural sector is directed within the selected model of economic development. Agrarian policy consists of: economic, organizational-administrative and technical-technological measures, as well as land policy. Economic measures of agrarian policy represent its most complex part and include: price policy, investment, credit, tax, export-import and agricultural production insurance policy.

Price policy is an important instrument of the economic policy of each state, because it reflects national income between economic branches, regions and regions. A particularly important place is taken by the price policy of agricultural products. In Serbia, throughout the period after the Second World War, the policy of depressed prices of agricultural products was guided. This, in part, can be explained: (a) accelerated industrialization after the Second World War, when the conscious income realized in agriculture spilled into the industry for the purpose of industrial development; (b) social and political reasons, because the low prices of agricultural products protected the standard of living of the population, but also the regional interests of certain Republics, since the income is transferred from agricultural to industrial regions; (c) by ensuring food security of the citizens at the time of the sanctions of the international community, which were in force between May 1992 and June 1999 (Radović, 2014).

Inadequate price policy was a source of lack of funding for self-financing of agricultural entities in Serbia both in pre-transition and transition periods. However, the lack of own sources of financing was characteristic for all countries in transition and was a fundamental impediment to economic growth and development, and the inflow of foreign capital was necessary in order to successfully realize economic and social transformation. On the other hand, foreign investors have carefully invested their capital in transition countries because of: the instability of the economic system, the inconsistencies in the implementation of certain systemic solutions, the high inflation rate and unemployment, the lack of or insufficient development of the capital market, the country's high external debt, the lack of legal regulation, the presence of corruption and the like (Pejanović and Tica, 2005).

The agrarian policy in Serbia, during the transition period, was marked by marked and sudden changes, which resulted from changes in the socio-political and economic system (Radović, 2014). Theoretically, three concepts of agrarian policy can be defined. These are: protectionist, liberal and concept of sustainable development of agriculture.

In Serbia before the transition and in the first transition period, the agricultural policy was based on the protectionist concept. This concept is unrealistic even though it corresponds to the largest number of manufacturers. Also, in the long term, it is unproductive, with the removal of Serbia from international integration. In 2003, the Ministry of Agriculture introduced a completely liberal concept of agrarian policy.

It quickly produced negative effects on domestic agriculture because it was exposed to ruthless foreign competition. Given that domestic food producers were not an equal competitor to foreign countries, they quickly began to introduce additional protective measures and increase incentives to agricultural production, and therefore the domicile agrarian policy began to deviate from a completely liberal concept. The Government of the Republic of Serbia is in the National Strategy for Economic Development of Serbia in the period from 2006-2012 adopted the Concept of Sustainable Agricultural Development as the basis of future agrarian policy (Radović, 2009).

The concept of sustainable rural development of agriculture is in line with the modern European model of agricultural development and in the long run is the best concept of agrarian policy. The basic objectives of this concept are related to: (a) sustainable resource management; (b) production of health-safe food; (c) ensuring rural development and an adequate standard of living for the rural population; (d) raising the competitiveness of agricultural production; (e) ensuring food security of the population (Pejanović, Radović, 2011).

This concept implies the development of multifunctional agriculture, where food quality is a key factor of competitiveness. The concept of multifunctionality of agriculture is reflected in the synthesis of the function of sustainable rural development, ecological, economic, social, food, cultural and functions of support to the development of tourism (Pejanović, 2007).

However, critically speaking, the agricultural policy in the Republic of Serbia, instead of implementing the planned sustainable development concept, is in a deep and comprehensive crisis. This is explained by the fact that agrarian policy, as a segment of the state's economic policy, shares its fate. And her "fate" in the Republic of Serbia has been marked, especially since 2008, by the crisis of the economy and society, the unsuccessful transition and partocratic personnel policy (Pejanović et al, 2013).

## ***CAUSES OF CRISIS OF AGRARIAN POLICY***

Agriculture in the Republic of Serbia, as well as the economy, for the fourth century, is going through a profound and comprehensive crisis, at all levels. So in the period 2000-2015 Agricultural production grew only in four years. According to the data of the Republic Institute for Statistics in 2015, Serbia's agriculture recorded a fall in the physical volume of consumption by eight percent compared to 2014. Particularly, worrying is the decline in livestock production, which has a share of 35.7% in the realized value of agricultural production. Otherwise, in developed EU countries, this share is 60-70% (Pejanović, 2016).

The most important causes of the agricultural crisis in Serbia are the following: long-term unfavorable economic position of agriculture, reflected in permanent "price scales" open to the detriment of primary agricultural production; the problem of financing and crediting of primary agricultural production;

disinvestment in agriculture, especially in capital facilities; the decline in the technical and technological level of equipment; "tearing" the chains and the interconnection between farming and livestock, in the process of agrarian reproduction; relatively small agricultural estate; productivity decline and extensification of plant and animal production - with the decline and variation in production per unit of capacity and on the conditional cattle throat; relatively low level of market production on farms and high level of naturalness; climate changes; the inefficiency and inadequacy of the agricultural policy mechanism (Radović, Njegovan, 2014).

All of this is followed by the extinction of our villages and the demographic breakdown. According to demographics estimates, in Serbia the annual number of inhabitants is reduced by 35,000 - 40,000 inhabitants (one local community). The average age of the population is 46 years, which is among the highest averages in the world. The increase is 1.2%, which is not enough for free reproduction. Following the "brain drain", Serbia takes one of the first places in the world. The summarized picture of villages in Serbia shows statistics: 1,200 villages are continuously killed; about 200 rural elementary schools have only one pupil; in 400 villages there is no store, medical stations are quite rare, and the homes of culture are extinct.

Our reality is also illustrated by the fact that the village Obornjača, on the border of the municipalities of Ada and Backa Topola, has a zero population according to the latest records of the Republic Institute for Statistics, which extinguished the once-rich Vojvodina village. In this regard, there are suggestions that it should be regulated by law that the issuing of state-owned land, primarily, goes to young farmers. The Village and Agriculture Committee of the SANU believes that the Serbian Parliament should adopt a declaration on stopping the destruction of our village and its development.

### ***CHARACTERISTICS OF AGRARIAN POLICY CRISIS***

Agrarian policy in the Republic of Serbia has been characterized in recent decades: (a) non-functionality; (b) inadequacy and (c) inconsistency.

The non - functionality of the agricultural policy mechanism is reflected in the problems of functioning of two key institutions of the economic (and agrarian) system: the markets and the state.

The market for agrarian products is not developed or efficient in our country, even in the market of goods, capital market, labor market, forward market, lease and land market (obsolete land registry and cadastral system, unresolved issue of socially owned property in cooperatives, incomplete restitution, etc).

Key elements of market disorder of agricultural products are reflected through:

1. the monopolization of demand (the market is dominated by several processors - oligopolists, who negotiate through the cartel, especially with regard to purchase prices of agricultural products);
2. supply mixing - a large number of relatively poorly integrated small-scale farmers on the supply side - a benefit for monopolization;
3. a large part of the market is in the unregulated flows of redemption and payment (high participation of the "gray economy");
4. the instability of prices of agricultural products accompanied by price disparities, especially in livestock production;
5. high level of administration (through regulations that determine constraints); (f) inefficient inspection bodies in market regulation (veterinary, sanitary, phytosanitary, agricultural and other inspection);
6. lack of purchase - distribution centers in the function of placement and distribution; (h) insufficiently developed commodity market (there are no conditions for bigger commodity exchange operations and forward trading of agricultural products); (i) an inefficient system of commodity reserves (often accompanied by corruption and abuse); (j) the market is small in volume and low purchasing power, etc.

No other important institution of business - the state is not in Serbia, in the process of post-social transition, experienced an adequate transformation. On the one hand, it remained in the "heads" of commodity producers of the desire and aspiration for the paternalistic role of the state. On the other hand, the state proved to be inefficient and with an undefined role in the creation and implementation of the "rules of the game", the presence of systemic corruption (the example of commodity reserves and subsidies), as well as the presence of voluntarism (Law on Agricultural Land, which specifies the conditions and criteria for giving state fields in the long-term lease"). Due to the specificity of agriculture as a strategic branch of the economy, to which the biological and climatic factors make decisive influence, a more important role of the state in this field is necessary.

However, in Serbia, for a long time, the role of the state in agriculture has been inadequate. This is reflected in the following (Pejanović, Radović, 2013):

1. inexplicable and unacceptably low agrarian budget (on average about 3% of the total budget in the first decade of the 21st century, which is very little considering the share of agriculture in the creation of social gross product, as well as the development potentials and comparative advantages in food production);
2. agriculture is treated as a "social shock absorber";
3. unregistered register of agricultural holdings;
4. unconfined network of advisory services; (e) non-built system of recording and reporting in agriculture;
5. non-construction of agricultural accounting systems (for tracking revenues and operating costs);
6. the lack of an integrated agricultural information system;



7. inadequate land policy (reflected in the existing law on agricultural land, which leads to problems in the application;
8. unregulated property relations (privatization, restitution;
9. administrative barriers (the government does not create an environment);
10. unregulated redemption (it must be prescribed who can deal with slaughter industry, dairy industry, milling, trade in agricultural products;
11. the lack of an adequate and long-term policy of state interventions in the agricultural product market;
12. unwillingness for climate change, who take their "tribute"; (m) inadequate de-geographic policy, as well as the policy of stopping rural exodus and leaving the village.

The role of the state in agriculture is, therefore, multiple (regulatory, development, stabilization). The appropriate economic and agrarian state legislation should ensure the functioning of the agribusiness system. State investment policies should support large projects such as: (a) revival of villages and agriculture; (b) protection of agricultural land, exploitation of water and water regime; (c) strengthening of agricultural farms; (d) production of environmentally healthy food; (e) development of professional - advisory services and permanent education of farmers; (f) development of veterinary and other inspection services, etc. In order for all this and much else to accomplish, a well-organized, organized and efficient state is needed, with authority and trust, without which there is no success (Pejanović, 2013).

The inadequacy and inconsistency of our agrarian policy is reflected, above all, in a relatively low agrarian budget, which on the one hand is a manifestation of neglect of this economic area with enormous comparative advantages, and on the other hand an expression of non-compliance with legal definition. Instead, the law defined the share of the agrarian budget in the total state budget of 5%, in 2016 this share was about 3% (Radović and Pejanović, 2016).

The inadequacy and inconsistency of our agrarian policy is related to the relationship of the line Ministry towards the EU IPARD project (Instrument for Pre-Accession Assistance for Rural Development). Namely, Serbia is still without accreditation for the IPARD program. This instrument of European aid to countries outside the EU's door is in fact preparing for future participation in a complex and clearly defined common agrarian policy of the EU - CAP (Common Agriculture Policy), which is a set of rules for all and which implies a common agrarian budget. The main objective of the IPARD (II) program of the Republic of Serbia 2014-2020 is the improvement of the agricultural sector through the competitiveness of agricultural products. For this, the EU has allocated 175 million euros to our farmers, which will be available to them when Serbia overcomes administrative barriers.

In order for any country to use IPARD funds, it must fulfill two basic conditions - politically and technically. It politically implies that it must be a candidate for membership in the EU and the other - technically, that it must be able to manage these funds as predicted by Brussels and applied to all EU members and candidates. Serbia became a candidate for the EU in March 2012 and thus fulfilled a political requirement, but it has not yet met the technical part of the criteria, ie it

has not been accredited for the use of these funds. The reason is more, but it is still the most obvious lack of adequate technical skills of the people who would manage the management of these funds in Serbia.

It is the interest of farmers and the entire rural sector to start training and training of potential beneficiaries in a timely manner (Pejanović et al, 2014). Especially that these trainings take place on the ground, as close as possible to the users. It is necessary to do all that is necessary in order to prepare better, because, as can be seen on the example of Croatia and other European countries that have been using IPARD, bad start and outcome negatively affects the motivation of agricultural users.

It is very positive that it enters the IPARD into national agricultural support systems, one of which is the predictability and transparency of the payment of funds. As the support to the agricultural production of each country depends on the percentage of GDP growth and the general progress of the national economy, the agricultural budget is also modified in accordance with the current circumstances. Unlike national funds, which are most often determined annually and where the biggest problem is the consistency of support in the case of IPARD, budget appropriations are set at seven years, within the budget period of the EU. This means that the amount of funds and form of support is virtually unchanged or very little, which allows users to plan for many years. When the amount of investment support is added, which can be significant for certain measures, certainty and caution is more than necessary.

## ***THE CRISIS OF THE AGRICULTURAL BUDGET***

Analyzing budgetary allocations for the purpose of encouraging the development of agriculture and rural development in 2016, it is obvious that certain (un)regularities that are characteristic of Serbia have been evident for many years now, and those are:

1. favoring direct payments at the expense of investment measures;
2. in the case of direct payments, the absence of stimulants for increasing quality and / or quantity (premium per liter of milk is paid regardless of the quality of milk produced, payment per unit area is separated from production selection / production volume), thus jeopardizing the efficiency of spending these assets;
3. very low level (9%) of budgetary allocations for rural development measures (incentives for sustainable rural development amount to only 8% of total budget funds, of which only organic production is only 0.45% of the total agricultural budget);
4. within the limited resources allocated to rural development, favoring investment measures, and neglecting other aspects of rural development;
5. within the program of special incentives funds for scientific-research, development and innovative work in the field of agriculture amount to only 0.4% of the total resources of the agricultural budget.

It can also be noted that even in 2016, frequent changes in the agrarian policy continued with the aim of allegedly encouraging the development of agriculture. Of course, the most obvious change in so- payment per hectare paid for years at a more or more standard level of 12,000 dinars. per hectare and for a maximum amount of 100 ha per farms. This payment is firstly limited to five times the lower maximum amount per farm (maximum 20 ha) and then reduced in absolute amount to 4,000 din/ha. Also, the amount of funds defined by the national budget for the purpose of stimulating agriculture in 2016 did not amount to the promised five per cent minimum promised by the Law on incentives for agriculture and rural development of 2013.

Frequent changes in the agrarian policy of the country, accompanied by insufficient budgetary allocations for the promotion of agriculture and rural development, and the unfavorable structure of the agricultural budget, have made it impossible to use the potential of agriculture in a higher degree. The fact that the aforementioned Act on Incentives has been adopted since its adoption in 2013 (Official Gazette of the Republic of Serbia 10/2013) to date has been changed twice (Official Gazette of RS, No. 142/2014 and 103/2015) dissonied the idea of adopting the Law in the creation of a stable, consistent agricultural policy of the country. In addition, the structural reforms of the sector have not been completed, and the business climate for dealing with agriculture has not been improved to the level that would make this area attractive for investment.

### ***EVENTS OF THE CRISIS OF AGRARIAN POLITICS***

The next serious indicator of the crisis of our agrarian policy is the irrational management of state agricultural land. Since the adoption of the Agricultural Land Act in 2006, damages from, for example, the illegal use of arable land whose owner has reached more than hundreds of millions of euros. In this connection, the problem of the cadastre of immovable property arises. He is rightly labeled as the biggest "cancer" of the unregistered state of the register of state fields, but also of agricultural land in general. Local self-governments, together with the competent republic authorities, had to list all the land in their own attorney, and they made a comparison, ie, determine what is agricultural and what construction land.

The introduction of the order in the cadastre is neither easy nor simple task, it requires a lot of work and patience, but in order to achieve European standards, the order in the cadastre must be introduced. Establishing a single cadastre would give a true picture of state and other arable land, which is very important in the process of joining the EU, but also for the rational use of this important resource. The mere fact that in the course of 17 years about 200,000 hectares of agricultural land has been converted into building, with the strengthening of urban ones at the expense of rural areas, it is evidence that arable land, as naturally irreplaceable, inadvertent use. In addition, there is an inefficient policy of land consolidation.

The agricultural policy in 2016, as in the previous years, has also shown a number of other weaknesses. Thus, for example, in the pig market, there were disorders that were not adequately and timely reacted. Namely, in pig production there are four-year cycles, which are much more pronounced in our country, even 2-3 times more than in the EU, because our market is small and closed. The second reason lies in the fact that there are no long-term contracts with us. Namely, there are many small producers who easily enter production and easily come out based on price estimates in the next 3-4 months, which makes the oscillations within our market even greater.

On the other hand, our pig farming is relatively customs protected, i.e. it survives thanks to high customs. These customs are temporarily helpful, but they will also be spoiled, because the question arises as to what will happen to our piglets when our market opens. Prices of price fluctuations were also influenced by other agricultural policy measures, such as the decision that livestock owners have priority over the lease of the country, which led many farmers to take livestock only so that they could get the land. It increased the offer and even lowered the price. In addition to pig farming, the situation in our cattle breeding is also unfavorable, which is a consequence, in addition to inadequate agrarian policy, and turbulence in the production and marketing of milk.

It is also necessary to review the policy of subsidies within the framework of agrarian policy. The experience of many countries shows, that increased agricultural subsidies do not result in increased competitiveness of agriculture. Croatia's example shows that huge subsidies have not contributed to the development of agriculture, but on the contrary, agriculture has fallen. On the other hand, the EU, as well as some countries in the region, give more emphasis to investment support, which in the EU should be 30-40% of the budget. This raises competitiveness, which is a key category of a new agrarian economy and policy.

When it comes to competitiveness, it is all the more important, because the world market of agriculture enters a period of low prices. Namely, after 2008 when there was a large increase in prices of crop products, their prices were very high and they could have been quite good. The picture, however, is changing now, the prices of these products in the next 10-15 years will not be so high, and we are accustomed to these high prices. Therefore, agricultural policy has to follow these trends and to not stimulate production with no measures on the world market. On the other hand, in contrast to stock products (wheat, corn, sunflower, oilseeds) for fruits and vegetables, other trends apply. Namely, their prices do not fall, and this is our chance. For example, it is already being asked to cultivate fruits and vegetables, especially berries and berries, but also peppers, cucumbers. About half a hectare of planted peppers earn about 12,000 euros a year. Since this is a difficult, all-day work, this is obviously a chance for young entrepreneurs, which the state should support. Serbia's chance is also the production of organic food, for which there is a growing demand in the world market.

In addition to the above, there are a number of other failures in agrarian policy, as well as the unfulfilled promises of our ministers (such as billions of euros for irrigation, public storage, institution building, etc.). When it comes to institutions,

besides mentioned, we should mention the National Milk Quality Research Laboratory, which we have been waiting for over a decade and for which the EU has given 15 million euros since 2003.

We are also lagging behind in the application of new technologies in agriculture. The technique available to agriculture today has been brought to perfection. It's about computerization, automation and robotization. Communication between machines enables better control of the process of agrotechnical operations. Sensor technology in combination with the satellite-based guidance system significantly contributes to the efficient use of chemicals and mineral fertilizers, since the quantities are adapted to the specificities of the site within a single plot. Information technologies provide an overview of the condition on the plot without leaving the parcel, which also changes the attitude towards production. The services of this technology in developed countries are already used by large agricultural producers, farmers, researchers, seed producers, insurance companies and banks.

When it comes to agricultural technology in our agriculture, the last 2012 census showed that more than 95 percent of the then-about half a million tractors in Serbia were older than 10 years. Therefore, measures of agricultural policy (subsidies) should help in the coming period to those farmers who intend to restore agricultural machinery. When it comes to climate change, our agrarian policy does not undertake some major preventive measures. In Serbia, less than 10% of arable land is insured, although the risks of disasters have increased precisely due to climate change.

A special problem of our agrarian policy is in the domain of foreign trade, credit and fiscal policy. Exports of raw materials are still dominated by foreign trade. On the import side there is obvious irrationality and dominance of import lobbies. The foreign trade surplus generated by agrarian products is an expression of our potentials that are underutilized. The issue of lending to agricultural production, as specific areas (due to the long capital reversal and uncertainty of climatic influences), is still unresolved.

Tax policy, characterized by the failure of the tax system, high taxes, and frequent changes in the laws of the past decade. It is extremely slow and implementation of the undertaken obligation to harmonize tax regulations with the EU acquis. Namely, taxpayers and agribusiness were seized, namely, the right to the stability of tax regulations. The development of a tax culture also means that taxpayers are taught and that prior to the adoption and application of tax laws they are familiar (through their associations and associations) with the draft laws, to give them the opportunity to give their suggestions and opinions. Tax incentives are also needed. All these measures help the tax system to be more efficient and to suppress the gray economy. Of course, high trade margins should also be mentioned.

Last, but not least, it is the problem of trust in the state and its agrarian policy. Since 2000, a relatively large number of ministers have changed and changed in a relatively short period, in line with party changes. This is an open problem not only of the continuity of agrarian policy, but also of the phenomenon of unfulfilled promises.

## ***A MODEST IMPACT IN THE FIELD OF INTERNATIONAL INTEGRATION AND OTHER AREAS***

In 2014, Serbia started a new phase of the EU integration process - accession negotiations for EU membership. For EU accession, it is necessary to ensure compatibility with the model of EU agricultural policy. The current reform implemented in 2013 introduces new CAP measures aimed at improving competitiveness, sustainability and greater efficiency, emerging as a response to the challenges of food safety and security, environmental protection, climate change and territorial balance. The course of reforms and the trend in budgeting of funds in the previous period and the projections for the period 2014-2020 point to the tendency towards a significant strengthening of the second pillar of support - rural development. In contrast, the current structure of the Serbian agricultural budget, according to the pillars of support, was uneven, with a pronounced and rising domination of the first pillar (direct payments) over recent years.

In terms of Serbia's progress on the road to the European Union, the performance achieved in the previous year can be assessed as very modest. The European Commission, in the Report on the Progress of Serbia for 2016 in the field of agriculture, usually deals with Chapter 11 - "Agriculture and Rural Development", chapters 12 - "Food safety, veterinary and phytosanitary policy" and chapters 13 - "Fisheries" (pages 48-50).

Although the Report states that Serbia has made slow progress in the quality policy of agricultural products, in drafting strategic documents that regulate national policies in this area (including organic agriculture, etc.), it is estimated that Chapter 11 has achieved "certain progress" in the year for us (page 48). Particular emphasis is placed on the need for Serbia to "take all necessary steps" to enable the use of IPARD funds for its farmers and companies, as well as to "adopt an action plan for alignment with the *acquis* in the field of agriculture and rural development and begin its implementation". Regarding the areas under Chapter 12 - "Food Safety, Veterinary and Phytosanitary Policy", the European Commission estimates that "no progress has been made in the past year" (page 49).

Similar to the use of IPARD funds, it is appealing for the personnel training of the appropriate organizational units of the Ministry of Agriculture (Veterinary Directorate in Chapter 12). More appropriate implementation of the existing national legislation in this area is recommended, as well as the adoption of programs for improvement of conditions in food production facilities.

Concerning Chapter 13 - "Fisheries", it is estimated that "some progress" has been achieved through the adoption of the Livestock Act. Nevertheless, it is particularly emphasized that Serbia should establish a "catch certification system and a system for collecting market data". It also concludes that there are no adequate structural measures in Serbia to stimulate this sector. The biggest problems are in institutions, which either have not been formed or have no capacities. There are, then, small budget allocations and unpreparedness of our agricultural producers, both in terms of competitiveness and education.

According to the last census (2012), the family farm in Serbia uses 4.5 hectares of agricultural land and owns one tractor. In addition, the possession of up to 2 hectares has 47.2%, and the possession of 50 to 100 hectares is only 0.7% of family farms. Can you enter the EU with a small office, if you know that Germany has an average estate of about 46 hectares, Austria about 20, the Netherlands about 25 hectares, and Denmark as many as 65 hectares.

Serbia is in the process of joining the World Trade Organization for 11 years (Delić et al, 2011). The bilateral part of the access process has been at the very end for several years, which can be noted for the system part, harmonization of the legal framework in the field of regulation of agriculture with rules and principles WTO. Bearing in mind that in 2015 and 2016 the Law on Genetically Modified Organisms (adopted in 2009) has not been amended, and that the process of bilateral negotiations with the WTO member states has not been completed, it can be concluded that there has been no progress in the process of Serbia's accession to this multilateral organization in the year behind us.

### ***THE EFFECTS OF THE CRISIS OF AGRARIAN POLICY ON SMALL AND MEDIUM ENTERPRISES IN THE FIELD OF AGRI-BUSINESS***

According to the data of the Business Registers Agency in Serbia, in 2015 there were about 300 thousand small and medium enterprises. The SME sector includes: entrepreneurs, micro companies (employing up to nine workers), small (employing 10 to 49 employees) and medium-sized enterprises (employing between 20 and 249 employees). According to the Serbian Chamber of Commerce in 2015, small and medium-sized enterprises accounted for 99.8% of the total number of active economic entities. However, the high participation of small and medium-sized enterprises in the total number of enterprises, employment and creation of gross value added (GVA) in the Republic of Serbia is a result of the transition problems of large economic systems, the slow implementation of structural reforms, and not the high level of development and competitiveness of this sector.

In the sector of agriculture, forestry and water management in 2015, there were 5,770 economic entities, out of which only 14 large enterprises. Thus, 99.8% or 5,756 were small and medium enterprises. More precisely, in 2015, in the sector of agriculture, forestry and water management, there were 95 secondary, 367 small, 2,905 micro enterprises, and 2,389 were entrepreneurs. In the observed year, these companies employed a total of 22,786 workers, earned a profit in the amount of 16,018 thousand dinars, which represented 4.1% of the total profit of the sector of small and medium enterprises in Serbia. Also, these companies participated with 3.2% in Gross Value Added (GVA). In the sector of agriculture, forestry and water management in 2015, 515 were established, and 394 small and medium enterprises.

The big problem in the business of small and medium enterprises in the Republic of Serbia is the lack of quality external sources of financing, which are necessary due to the lack of funds for self-financing. According to one survey, as many as 60% of

surveyed business entities did not use credits because they could not meet the banking conditions, which is particularly pronounced in the field of agriculture, as well as manufacturing industry and construction, that is, activities that should be the drivers of the development of the economy in Serbia ("Dnevnik", August 6, 2017).

The problem of financing is present in small and medium enterprises in the field of green economy. The development of SMEs and green economy in Serbia is the possibility or the need, bearing in mind the available resources, underdevelopment of the rural economy and unemployment of the population. Possibilities for development of SMEs sector are multiple, but it is necessary to respect in their functioning principles of sustainable rural development, looking at the ecological, economic and social aspects. Quality financial resources, among other production resources, a very important factor for achieving competitiveness of SMEs in the domestic and international market. To this end it is necessary that the Republic of Serbia set up a new financial institutions, as well as to innovate the existing legal framework (Radović-Marković and Radović, 2016). In this sense, innovative ways of financing small and medium-sized enterprises in the field of agriculture, forestry and water management, as well as green economies, could be microcredit organizations. Loans from these financial institutions are available to customers who do not have a "credit history", that is, newly established businesses and are available in a very short time.

In order to develop the sector of small and medium enterprises in the field of agribusiness in Serbia, as well as to solve the accumulated problems of the transition process, it is necessary for the state to improve economic policy in this segment (Petrović and Vuković, 2016, p. 1444). In particular, the agrarian policy should have a developmental character in the part of the development of small and medium enterprises in the field of agribusiness. This is especially important given the current climate change, especially the catastrophic drought in 2017.

According to preliminary data, drought in 2017 reduced total annual agricultural production by about 20% compared to the average, and the lost value is estimated at more than one billion dollars. Also, according to the preliminary data of the Ministry of Agriculture, Forestry and Water Management due to high temperatures and drought, the genus of corn and soy is 40-50%, sugar beet 30-40%, apple 20-30%, blackberry 40% etc ("Politika", August, 15, 2017).

In order to prevent such a situation, it is necessary that agrarian policy in the next years, in the segment of incentives for the construction of irrigation systems, reserve higher funds of the agricultural budget. Also, it is necessary to allocate more significant resources to the agrarian budget for incentives for the construction of drainage systems, in order to prevent floods, as well as to build anti-road networks, as a risk prevention of the city, which is the most frequent risk of agricultural production. All of the above would be strong support for the development of small and medium enterprises in the agribusiness sector in Serbia. Especially when considering that according to the current data, only 100 thousand hectares are irrigated, and only 300 thousand hectares are covered under the antagonistic networks, which makes up only 1% of the total arable land in the Republic of Serbia.



## ***THE NECESSITY OF REDEFINING AGRARIAN POLICY***

While financially, things are somewhat simple and clear - there needs to be a higher level of support through policy measures that deliver the best results - in the legislative-institutional sense, Serbia has a lot of work to do. The work will be directed towards establishing and strengthening institutions that respect the specifics of our country, but they are also on the line of the process of Eurointegration and there is the capacity to be responsible for the big exam.

From a financial point of view, bearing in mind the undeniable fact that one of the major obstacles to the development of agriculture is financing (insufficient volume, inadequate budget structure and inefficiency of spending of funds) it is necessary:

1. ensure an adequate level of allocation from the national budget for the purpose of encouraging agriculture;
2. drastically reconPicture the current agricultural policy by reducing the share of direct payments in favor of investment budget measures;
3. formally and legally ensure the level and forms of financing agriculture for a longer period of time from the annual level;
4. financial support for young agricultural producers (and return to the village);
5. systematically and consistently control the spending of budget funds;
6. provide conditions for the use of EU pre-accession funds.

Bearing in mind the fact that efficient state institutions have a crucial and crucial importance for the functioning and support of the development of agricultural production (but also rural development), then the establishment, construction and accreditation (for those institutions subject to this process by the EU - IPARD Agency) of these institutions must give due attention to what, at least until now (and in 2016), was not the case.

In particular, it is necessary or founded, or in cases where institutions / bodies exist but do not function as expected: IPARD Agency and / or the Agency for Payment to Agriculture (depending on the model for which the state decides in the process of establishing structures for the use of IPARD funds) , The Agency for Market Intervention (or modify the existing way of functioning of the Directorate for Commodity Reserves), establish the Farm Accountancy Indicator System (FADN), revitalize and reintegrate the Compensation Fund and Sistem jav (contrary to the Law that was established in 2009 and on the proposal of the same Ministry), to establish the Integrated Payment Scheme in Agriculture (IACS), the Land Parcel Identification System (LPIS), to work on strengthening of agricultural production organizations in agriculture as a partner to the state in the creation and implementation of agricultural policy, etc.

The (non) achievements of agrarian policy in this area are clearly stated in the Serbian Progress Report 2016 (page 48), where in Chapter 11 Agriculture and

Rural Development, the European Commission estimates that Serbia is yet to start with the right work on developing the systems of support to agriculture.

When it comes to support, quality and food safety must be a priority for agrarian policy, due to the relevant chapter in the process of EU accession, as well as for consumers, but also as a factor of competitiveness.

## ***CONCLUSION AND RECOMMENDATIONS***

Our agriculture and its agrarian policy are in a deep and comprehensive crisis. The crisis is an expression of the inherited and acquired problems of socio-economic and rural development. The current problems of Serbia's agrarian policy are many. They are also an expression of decennial unfavorable business conditions in the field of agriculture, as well as instability, dysfunction, inefficiency and unpredictability of the current agricultural policy, whose bearers are changing according to partocratic personnel policy. Therefore, it is necessary to redefine our agrarian policy, in order to exploit the significant potentials of this important economic activity, to rationalize this strategic natural capital, and to break the crisis cycle.

Within the framework of the strategy of sustainable development of agriculture and rural areas, as well as rural development, it is necessary to ensure the development of our agriculture, through incentives to increase the competitiveness of all, especially small and medium-sized agricultural producers, as well as small and medium-sized agricultural enterprises, as well as increasing the volume and quality of the entire agricultural production (conventional and organic), multifunctional development of agriculture, agro-industry, encouraging the professional training of the population for dealing with this activity, especially young agricultural the interest of connecting farms, as well as the development of rural areas and the revitalization of villages.

In order to further develop agriculture, it is necessary to increase state incentives. Also, it is necessary to intensify production and introduce an integral concept, along with investments in the application of new agricultural technology, irrigation systems and anti-grid systems. Therefore, a policy of reminding competitiveness, especially competitiveness of quality (both conventional and organic agriculture). It is necessary to develop and strengthen agricultural institutions (agencies, inspection services, schools, faculties, institutes, chambers, advisory and reporting and forecasting services). Education is an important development factor. Knowledge-based development requires each individual to develop all potentials, permanent lifelong learning, the application of acquired knowledge, skills and skills, and the ability to adapt to the demands of increasingly rapid market changes. In a word, it is necessary to speed up and quality adaptation of agriculture to European standards and requirements.

A balanced relationship between the market and the state is necessary. A regulated market requires healthy competition, as well as the smooth functioning of

competition law ("reward-punishment"), as an incentive mechanism for the development of agrarian entrepreneurship. The state creates an environment, encourages, intervenes, regulates, invests, passes laws, and reviews the legal regulations. Its role in agriculture is multiple (regulatory, stabilization, developmental). It is important to gain confidence in the state and its agricultural policy, which implies its expertise, consistency, continuity and predictability, as well as the strategic thinking of food, rural development, agribusiness and agrarian entrepreneurship.

Agricultural policy, as well as credit policy, should be encouraging for the development of the small and medium-sized enterprises in the field of agribusiness in Serbia. To this end, it is necessary to allocate considerably higher funds in the framework of agricultural policy measures aimed at encouraging the construction of irrigation, drainage and raising systems for antifactual networks than in previous years. In addition, innovative ways of financing, as well as amendments to the current Law on Banks, are needed for this purpose in terms of their inclusion in the financial system and microcredit organizations. These financial institutions exist in all countries in the region, and their loans are particularly incentive for the SME sector.

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