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## **DELEGATED POWER AND ROLE PERCEPTIONS BETWEEN GOVERNMENT AND INDEPENDENT REGULATORY AGENCIES IN KOSOVO AND IMPACT ANALYSIS IN PUBLIC SECTOR ENTERPRISES SUSTAINABILITY**

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### **ABSTRACT**

In this paper, we focus on dynamic exchange, opportunities, tendencies or phenomena between increasing the independence of regulatory agencies and political control. The main issues of research are weak basis of reforms and current regulatory practices, the creation of confusion between political control and agency control, with the key focus on the impact it has on the public sector enterprises in a developing country such as Kosovo in Southeastern Europe, and issues of "best practice" in policy and regulatory practice.

The theoretical basis of this research is agency theory and a broad institutional approach combining national political strategies, historical and cultural context and external pressures to understand regulatory agencies and regulatory challenges. Here we describe how regulatory reforms and regulators in practice are affected and affecting public sector when not in compliance with the law. Preliminary results and our observations show that independent regulatory agencies are affected by politics, regulates, and interest groups, we also lack leaders with integrity, formal independence *de facto* does not apply, as a consequence investment climate is jeopardized by various dimensions of independence and an unviable public sector enterprises threatening public goods and universal services whose aim is to reduce the gap between rich and poor, also to provide a baseline level of services to every resident of a country.

Our concern is to raise citizen's awareness on the need to review and evaluate public policies, assess public needs, and assess ex-ante social impact of regulatory

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decisions, procedures and accountability as key performance indicators in meeting public policy expectations and transparent implementation results.

**KEYWORDS:** Independent Regulatory Agency (IRA), Reform, Depoliticization, delegation of authority, public goods and services, public sector enterprise, financial sustainability

**JEL CLASSIFICATION:** G3, H4, L51

## 1. INTRODUCTION

So as to create further comprehension of the topic it is essential to clarify toward the very start the fundamental ideas and meanings of the term “independent regulator”. There have been many interpretations with respect to the main utilization of this term in scholarly writings and it is trusted that the primary appearance of the term emerged especially during 1980s and 1990s extensive reforms in Western Europe, as author Mark Thatcher notes in his paper “Delegation to Independent Regulatory Agencies in Western Europe” (Thatcher, M., 2002). As further explained, author assumes that crucial attention has been focused on privatization, aiming the end of monopolies and the expansion of EC regulation. The aim was the creation and role of independent or semi-independent regulatory agencies at the national level. Once established, Thatcher notes that they have often become central actors in decision making, furthermore their role raises issues of democratic legitimacy and accountability.

It is now known that issues of institutional design and governance have been raised during the creation or modernization of sectoral regulators. From the point of view of public governance, authorities are given important regulatory competence with a certain level of autonomy in decision-making. Independent regulators are being created in different administrative societies, under various constitutional constraints, with different ways of delegating regulatory powers at arm’s length from governments with a sole purpose to cultivating accountability, transparency and trust. Regulatory authorities are not risk-free as they must be protected from the risk of capture and moreover have to obtain clear objectives and missions to fulfill their role within the regulatory framework (OECD, 10-11 January 2005). In recent years, the European market and in particular those countries which intend to be part of the large European

family, have undergone tremendous change due to the European Union's decision to create an internal electricity market through the gradual opening of national electric energy markets. Market liberalization has led to the emergence of a new type of organization called Independent Regulatory Authorities (IRA), but also affected public sector enterprises at large. The purpose of this paper is to discuss the central dimensions of this independence. Regulatory authorities are an extremely important instrument that has helped democratic governments impressively to achieve the desirable goals of public policy, hence it is vital to preserve the independence of these authorities.

In the introductory part of this paper are described current context and changes that occurred over time. A brief review of earlier dominant historical events and state of art describing an emerging of independent regulators, and unaddressed problems. Chapters I, II and III of the paper describe an introduction to the topic, methodology employed and research problem limitation, while hypotheses on the de facto practices in the empirical environment show new findings result from the preliminary research of the problem.

### **1.1 Current Context and Definitions - How Independency is Perceived by Regulatory Authorities in Kosovo**

Prior to asking basic questions on independency of regulatory agencies (IRAs), a definition of the term is required, which online Business Dictionary defines (BusinessDictionary, n.d.) as a “government body formed or mandated under the terms of a legislative act (statute)” the idea behind is “to ensure compliance with the provisions of the act, and in carrying out its purpose”, hence the name “regulatory authority” or “regulatory body.” Nevertheless, there is no one agreed definition on this regard even though their purpose is of high importance as it serves to law conforming standards and integrity of independent regulators acting under the government’s delegated authority.

On the other hand, we have the “independence” term, that is a traditional understanding of a democratic country, which starts with the idea that its institutions and procedures must ensure “the government of the people, by the people and for the people”, as the wise Lincoln’s speech delivered at the Gettysburg Address (Lincoln,

November 19, 1863) meant above all equality, freedom, and national unity. For this paper's purpose equality is treated in the context of market liberalization and freedom as services provided by public sector enterprises and ensured to comply with the law by independent regulators at a national level. In other words, independence in this context should enable effective institutional instruments to express the will of its citizens', but also imposing accountability through control and monitoring of those who bring decisions on its behalf. In this line, the need for mechanism and results is of no less importance when solving social problems that require qualitative decisions on the politics and policies and their adequate implementation.

The state is inseparable when discussing of regulatory agencies, thereof, in our attempt to explain its effect we must point at the origin of the term "the regulatory state" coined by Giandomenico Majone, who describes it as "the regulatory support - rather than public ownership, centralized planning or administration - characterizes the methods of the regulatory state." (Majone, 1996) However, the case of regulators in Kosovo stands a slim chance to follow above mentioned definitions. Institutions and agencies that report to the Assembly of the Kosovo Government have been established over the last decade without a general legal framework that would set some basic rules and principles that would apply to all of IRA (The Ministry of Public Administration and SIGMA, 2016). After the recent war in Kosovo, in 1999 and with the entry into force of the Constitution of the Republic of Kosovo, on June 15, 2008, the state of Kosovo takes over the powers by formalizing all the changes that have taken place in Kosovo during the United Nations Interim Administration Mission in Kosovo (UNMIK). This turn also implies that the ownership of socially-owned enterprises changes and R. of Kosovo promulgates the ownership of all social and public enterprises. By this act it enables the transfer of ownership by selling through the Privatization Agency of Kosovo (PAK) all socially-owned enterprises. On the other hand, public enterprises are kept in property by the government, for which reserves the right to regulate privatization, concession, or lease by specific laws. Thus, the concept of the former communist system for social and public property changes completely. It should be noted that the "social property" in the communist system, especially in the former Yugoslavia, expressively with the self-government system meant the ownership of the entire society (working class) in the social enterprise, but in reality their system was



fully centralized with absolute domination and state interference, which, the advent of democracy, break this illusion of ownership that opened up problems by creating a sense of ownership in the working class that raised the voices for non-privatization, as is the case of a number of factories in the western city of Kosovo, in Gjakova, where they are least privatized, and economic development is slowed by contributing with only 1% in Kosovo's budget, which is a real burden for a post-war developing country.

There are scholar studies that show that because the EU regulatory system is far less tolerant of lower standards than required and because economic interests may be threatened by an eastern enlargement, the EU's negotiating position in the accession negotiations with the CEE countries is likely to be more rigid than for EFTA (R. Young and Wallace, 2000), which interprets as a new challenge for Kosovo which is aiming to become an EU member country.

### **1.2 Key Previous Results Leading to State of The Field**

As part of this paper's previous research on theoretical framework when studying the problem, the agency theory and institutional approach was chosen to further investigate this endeavor to combine national political strategies, historical and cultural context, external factors and pressures to better understand regulatory agencies and public sector enterprises challenges in Kosovo. As part of this investigation this approach will further be countered by a practice model of agencies in Kosovo. Empirically, the article is based on regulatory independence, which is a European Commission reform request for Kosovo, giving a brief presentation in the context of reform and agency, followed by an analysis of the challenges facing the regulatory reforms and public sector enterprises. Also, part of this research is a descriptive form of regulatory reforms and agencies work in practice and a case study of public sector enterprise challenges in Post of Kosovo (Avdija, 2016). During the empirical research of theoretical literature on regulatory independence, it is noted the content of normative approaches that generally recommend the engagement of independent regulators and rational approaches that try to specify why and under which circumstances politicians would want to delegate power to independent regulators.



Aided by Theory of Institutions this research can bring light to understanding the processes as authoritative guidelines for social behavior, how they are created, how they are distributed, how they are adopted and how they fit in time and space; as well as how they fall and are released from use. A research collaboration between sociologists William Richard Scott and John Wilfred Meyer, recognized broader ways in which institutional forces shape organizational arrangements (John W. Meyer, 1983). Although, the scholar William R. Scott notes that there is "no single and universally agreed definition of an 'institution' in the institutional school of thought", in a series of his studies extending through for more than two decades of research he explains how the ways in which "not only 'task' but the 'institutional' environment-the wider-cultural framework-shaped how formal organizations were structured around work systems". His continuous studies elucidated further that "Institutions consist of cognitive, normative and regulative structures and activities that provide stability and meaning to social behavior. Institutions are transported by various carriers – cultures, structures, and routines – and they operate at multiple levels of jurisdiction." (Scott, W., 2005)

To have a deeper insight in the problem we have chosen the Theory of the Agency (Mitnick, 1975) which describes how to better organize relationships in which one party determines the job while another party does the job. In this relationship, the head engages an agent to perform the job, or to perform a task that is not able or unwilling to do. For example, in corporations, the heads are shareholders of a company, who delegate to the agent, namely the management of the company, performing tasks on their behalf. The agency theory assumes that the head and the agent are motivated by self-interest.

### **1.3 Unaddressed Problems**

The best practice of regulatory system in the countries of the region and Europe has researched three aspects of the life of the Independent Regulatory Agency (IRA): *their independence from elected officials, their relationship with the regulatees; their decision-making process*, therefore in Kosovo it is imperative to evaluate:

- The integrity of Managing Board of the Independent Regulatory Authorities.

- The performance of the regulatory body, including the impact assessments (IA) of the decision-making process made by the regulators, should be explored.
- More research is needed to measure *ex-ante* decision impact on citizens' trust in regulators that regulate public sector industries.

Although these issues beg the question Who will measure this impact? and What scientific methods will be used? While keeping in mind that the ultimate goals of this form of re-regulation were economic - to reduce transaction costs for business, to expand the domestic market and to boost competition and competitors in order to improve our society in all aspects. Reconfiguring the process of policies about economic issues and civic interest focused on social impact of the regulation would be a proper way to address the problem.

## **2. METHODOLOGY AND LIMITATIONS**

The methodological triangulation (Rothbauer, 2008) is used as a method for this research as it involves the use of more than one data collection method instruments such as interviews, observations, questionnaires, and documents that will be used in this research endeavor.

In order to determine how strong a regulatory agency is, it is important to analyze its formal independence and the way it is used in practice, for this purpose, questionnaires designed for evaluation according to the "Gilardi Index" method are applied (Gilardi, 2005), while data processing was done with the SPSS program. The assessment technique chosen for measuring and comparing "Regulatory Independence" through questionnaires designed by Fabrizio Gilardi - was used in 2014 by the IberoAmerican Energy Regulators Association (ARIAE) and as such contains a structure that answers the questions of this research. (Szörényi, 2015)

This research uses primary data to assess whether independent agencies in Kosovo are, in fact, more isolated, and aims to identify the most influential factors. With particular emphasis on the impact of interest groups on public sector enterprise efficacy, who can influence decision making process either through contacts or through the information input when selecting the career executives appointed to these agencies. The research question also seeks to find out whether delegation to

independent agencies protects policies from future political interventions, and also determines which delegated actors will have an impact on implementation in the reforming process of institutions.

## **2.1 Limitations of the Study**

There are certain disadvantages when using Google forms such as:

- Access to internet and knowledge on security questions when prompted with in Chrome Browser and Internet Explorer.
- Design customization is very limited with just over 15 templates to pick from
- The design of questionnaires was left with the option to add additional explanations and to skip questions, as a result some respondents did not give any input when asked to add more information under “other”, thereof was left blank and no interpretations could be made for respective questions, and some were left blank.
- An important limitation of this exploratory study is the fact that a small-scale study as such does not provide satisfactory answers because study participants cannot be representatives of the broader population we are trying to generalize.
- We cannot make comparisons with other studies, because in developed countries this study is mostly done with one particular regulator e.g. energy regulation, competition regulation etc., whereas in this case we have public sector enterprise regulator who report to the Assembly Commission only, and their perceptions pertaining to competencies and independence.

## **3. HYPOTHESIS AND PRELIMINARY RESULTS**

### **3.1 Hypothesis of the study**

- 1) H01.** Regulators have no unity in terms of the overall role of regulatory authority, implying that their perception is affected perhaps by their lack of empowerment and unilateral interpretation of the law.

Regulators are not unique in terms of the overall role of the regulatory authority, implying that their perception is affected by their ineffectiveness and the unilateral

interpretation of the law that causes ambiguity in the role. The regression analysis is used to see how much financial and organizational autonomy depends on the powers of the regulators, on the other hand we see how these two factors relate.

The first results represent the average value of 1.36 to the regulatory empowerment and the standard deviation of .809, while the financial autonomy has an average of 1.59 and a deviation of .358.

**Table 1 Descriptive Statistics of Hypothesis H01**

Descriptive Statistics			
	Mean	Std. Deviation	N
5 – Regulatory Competencies - REGULATORY COMPETENCIES	1.36	.809	11
Financial and Organizational Autonomy	1.5909	.35834	11

**Source of table: Authors research results of the study**

In the table below, we have the linear regression analysis where we see that between the two factors, e.g. between the financial autonomy and the regulatory competencies there is a correlation of .392, a regression of .154, whereas significance is .233 that is higher than 5 % confidence level. From these results we can say that we have a high correlation and that ‘we have no unity in the sense of the general role’, so we accept the zero hypothesis stating that: Regulators are not unique in terms of the overall role of regulatory authority, implying that their perception is affected perhaps by their ineffectiveness and the unilateral interpretation of the law, which creates ambiguity in the role.

**Table 2 Regulatory Competencies**

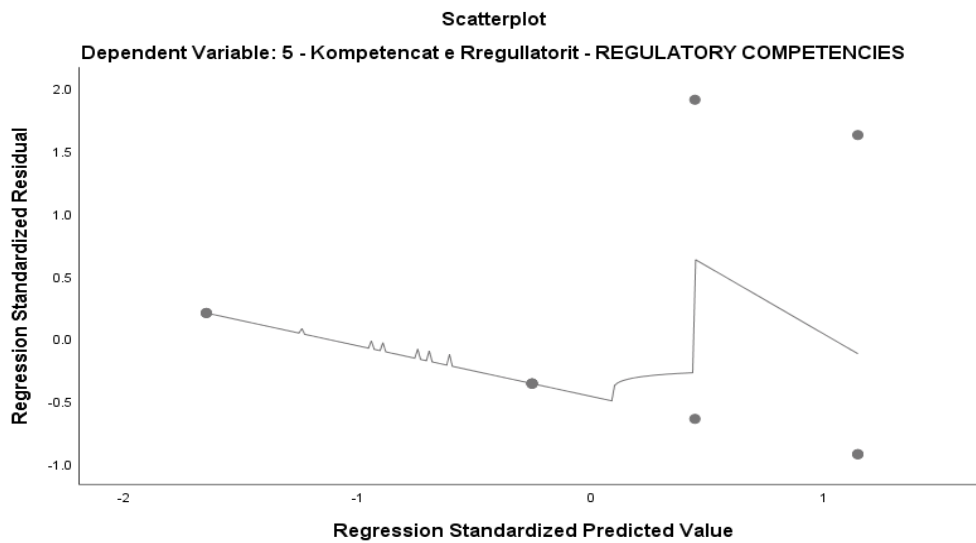
Model Summary <sup>b</sup>									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.392 <sup>a</sup>	.154	.060	.785	.154	1.634	1	9	.233

a. Predictors: (Constant), Financial and Organisative Autonomy

b. Dependent Variable: 5 - REGULATORY COMPETENCIES

**Source of table: Authors research results of the study**

**Graph 1 Scatterplot of Hypothesis 01**

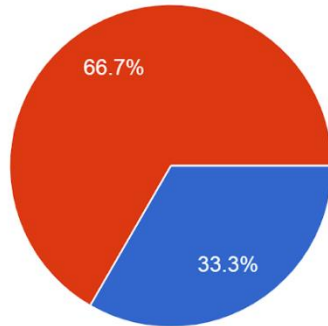


**Source of table: Authors research results of the study**

The graph above represents the link between regulatory competencies in relation to financial and organizational autonomy. Structured Questionnaires with 7 (seven) Regulators that report to the Assembly of Kosovo were conducted. Above results present findings regarding regulators independence who report to the Assembly of Kosovo, viewed in particular their perceptions of Regulatory Competences perceptions on their *competencies, financial and organizative autonomy*. On the online, questionnaire comprised of forty three (43) questions related to "Independent Regulator", "Legal Independence" and "Financial Independence" the following graph presents selected answers of respondents that reveal and confirm our research hypothesis.

- 2) **H02.** The political impact, predictability of position status of the Managing Board *de jure* and their non-applicability *de facto*, and lack of accountability, leaves room for the appointment of leaders without integrity, making them politically submissive, and paving the way for the phenomenon of the "revolving door".

**Graph 2 Agency's formal obligations to the government**



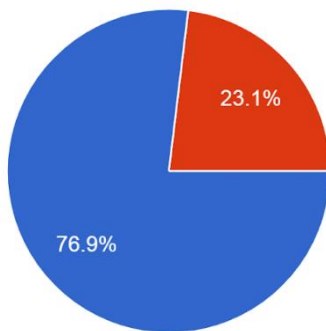
**QUESTION: DOES THE REGULATOR-AGENCY RECEIVE DIRECT GUIDANCE FROM THE GOVERNMENT OR ANY OTHER PUBLIC OR PRIVATE ENTITY WHEN PERFORMING REGULATORY TASKS?**

- Yes 33.3%
- No 66.7 %

Source of graph: Authors research results of the study

**Graph 2** when answering on how independent Regulatory Agencies are 33.3% of respondents answered with "YES", they receive direct guidance from the Government, confirming that the government directly affects the decision-making of independent regulators. In twelve (12) questions related to "The status of the head of the agency" the following graph presents one particular question which revealed and confirmed our research hypothesis.

**Graph 3 Members' of the Board Status**



**QUESTION: IS THERE A FIXED DEADLINE FOR THE APPOINTMENT OF THE MEMBERS**

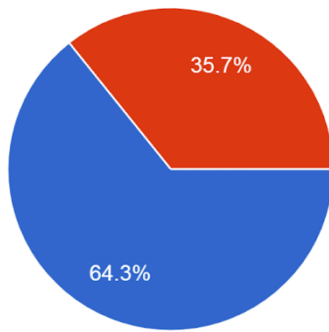
- Yes 76.9%
- No 23.1%

Source of graph: Authors research results of the study

**Graph 3** respondents answered that the regulatory Managing Board *de jure* has a fixed deadline for the appointment, while *de facto* cases show 23.1% of answers confirming that this is not applicable.

- 3) **H03.** Lack of decision-making autonomy, *ex post* budget cuts and interference, is reflected in non-transparent regulators and increases the influence of interest groups, especially those of the regulated industry.

#### Graph 4 Financial Autonomy

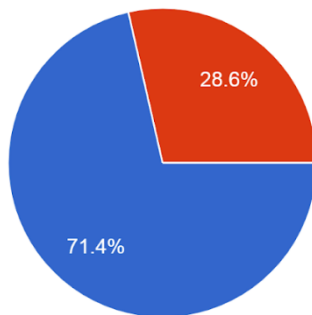


**QUESTION: ARE THERE ANY EX-POST CUT (BASED ON ACTUAL RESULTS RATHER THAN FORECASTS) OF THE AGENCY-REGULATOR BUDGET?**

- Yes 64.3%
- No 35.7%

Source of graph: Authors research results of the study

#### Graph 5 Financial Autonomy



**QUESTION: IS THE BUDGET OF THE REGULATORY-AGENCY AUTHORITY SUBJECT TO RESTRICTIONS DERIVED FROM THE CENTRAL BUDGET?**

- Yes 71.4%
- No 28.6%

Source of graph: Authors research results of the study

Financial independence of independent regulators leaves much to be desired, from respondents' responses it appears that only up to 28.6% are financially independent, while the budget is influenced by politics up to 71.4%, making it subject to government-parliament relations will.

## 4. DISCUSSION OF THE RESULTS

### 4.1 Conclusions and practical implications

Preliminary results comprise of seven (7) regulators who report to the Assembly Committee, although we must note that one in particular did not respond to the survey, and that is Railway Regulatory Authority. The following regulators/agencies report to Assembly Committee for Economic Development, Infrastructure, Trade and Industry: 1) Privatization Agency of Kosovo, 2) Kosovo Competition Authority, 3) Regulatory Authority of Electronic and Postal Communications, 5) Railway Regulatory Authority, 6) Civil Aviation Authority, and 6) The Independent Mining and Mineral Commission, 7)



*Energy Regulatory Office*. When analyzing their responses on their reporting authority, various incorrect answers were obtained, which lead to confirming of hypothesis in the lack of independence at the chief management of the regulators. Whereas, concerning financial independence, we refer to the “Review Of Institutions And Independent Agencies Of The Assembly And Central Government Bodies” (Ministry of Public Administration, 2016) for 2016 data show that:

- 1) Privatization Agency of Kosovo has an independent budget line approved by the Assembly of Kosovo for 2016 in the amount of 8.965.168 €.
- 2) Kosovo Competition Authority has an independent budget line approved by the Assembly of Kosovo for 2016 in the amount of 224,810 €.
- 3) Regulatory Authority of Electronic and Postal Communications has an independent budget line approved by the Assembly of Kosovo for 2016 in the amount of 796,568€
- 4) Railway Regulatory Authority Communications has an independent budget line approved by the Assembly of Kosovo for 2016 in the amount of 293,623€
- 5) Civil Aviation Authority has an independent budget line approved by the Assembly of Kosovo for 2016 in the amount of 925,274€
- 6) The Independent Mining and Mineral Commission has an independent budget line approved by the Assembly of Kosovo for 2016 in the amount of 1,306,628€, and
- 7) Energy Regulatory Office has an independent budget line approved by the Assembly of Kosovo for 2016 in the amount of 743, 516€

Remarks are to be taken into account regarding the post-expo budget cutting that lead to the conclusion stated.

The strong part of this paper is the exhaustive investigation questionnaire that consists of 72 question with regard to formal independence, as the key variable factor, of regulatory authorities, which is measured with adequate questions that explain the process of delegation from government to independent regulators. On the other hand, the weak aspect is that when asked to be interviewed they hesitated and agreed to fill in the questionnaire only.

Main conclusions from this investigation are closely related to the following:

- a) There should be elected people with integrity in the Managing Board of the Independent Regulatory Authorities.
- b) In Kosovo, empirical research on citizens' trust in public regulators is fundamental. Regulatory agencies tend to be relatively undistinguished to the general public either when things go well when they fail to take the necessary measures to protect the public interest, thus more investigation is needed to measure citizens' trust in regulators.
- c) The performance of the regulatory body, including the impact assessments (IA) of the decision-making process made by the regulators, should be controlled and monitored.
- d) Financial independency solution is of grave importance to build independent institutions.
- e) More research is needed to measure *ex-ante* decision impact on citizens' trust in regulators that regulate public sector industries.
- f) Practical implications involve improving living conditions and quality of life, which means direct impact on economic and social issues.
- g) More research is needed especially on the impact of regulated interest groups and the "Revolving Door" issues should be regulated with normative acts.
- h) It is of crucial importance to make an independent Impact Assessment (IA) to evaluate ex-post impact of decision or the lack of made by regulatory authorities.
- i) The performance of the oversight body, including the revision of the impact assessment (IA) of the change, should be periodically assessed.
- j) Trust in the relationship between regulators and the regulatees should be researched to see if they are ready and able to comply with regulation in cases where there are differences or other factors.
- k) Reputation seeking, and trust building can be reliably linked to empirically demonstrate that agencies can act intentionally for the sake of gaining the trust of target audience both in political systems and stakeholders. Moreover, building trust can be generally crucial to agency leaders who may want to put aside various needs to undertake credible actions.

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## **ROOTS, CAUSES, EFFECTS, AND LESSONS LEARNED FROM THE GLOBAL FINANCIAL CRISIS**

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### **ABSTRACT**

Analysts have described the 21<sup>st</sup> century global financial crisis as the most influential and impactful crisis the world has ever seen since the Great Depression of 1930s. The paper explains the 1987 Stock Market Crash, the Glass-Steagall Act that was created at the beginning of 1990s, the financial globalization/liberalization, the corporate scandals and terrorist attacks, and last but not least, the sub-prime mortgage lending as the roots of the global financial crisis. Furthermore, this paper analyses the reasons or the causes for the financial crisis to go global. There are different opinions of different authors on the topic. Another very important aspect when we talk about the global financial crisis is the worldwide effects. This research will study the reported losses, bankruptcies and bail-outs worldwide. Last but not least, this research glances over the lessons learned from the global financial crisis. The lessons are analyzed based on the opinions of different authors including the opinion of the authors of this paper. The research paper is conducted using the historical, statistical, comparative, descriptive and analytical methods, and the method of deduction.

**KEYWORDS:** financial crisis, roots, causes, effects, lessons

**JEL CLASSIFICATION:** G01 Financial crisis

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## 1. INTRODUCTION

The global financial crisis of the 21<sup>st</sup> century is not the first crisis that struck the world economy, nor will it be the last. The last financial crisis was the worst crisis the world has ever seen and experienced. Analysts have described the 21<sup>st</sup> century global financial crisis as the most influential and impactful crisis similar to the Great Depression crisis of the 1930s. Both crises have many similarities such as the roots and the overall effects on the economy. Financial instability, low interest rates, instability of the crisis epicenter (USA), investor panic and “runs” on financial institutions like banks and credit unions, and high bankruptcy rates for the SMEs, households and farmers are the roots for both, the Great Depression and the GFC. Aside from having the same roots, the two crises have the same impact on the economy such as: slump in the industrial and factory output, loss of income and wealth, evident widespread economic bankruptcies and foreclosures, recorded unemployment rate of 30% in key countries (Ciro, 2012). The Great Depression was appropriately named because the same had devastating and depressing effects worldwide. The Great Depression, the GFC was named the “Great Recession” by the International Monetary Fund because it was similar to the crisis of 1930s with financial system that was somewhat more damaged (Simkovic, 2008). According to Siegel (2009) the US government responded to the Great Depression by enforcing a New Deal Act, which would create new regulatory entities that still exist nowadays, such as the Federal Deposit Insurance Corporation (FDIC), the Securities Exchange Commission (SEC), the Social Security Act 1935, and the Federal Housing Administration (FHA). The aim for the creation of the New Deal Act is to have better control over the financial, commodity and housing markets as well as to improve the confidence of banks and other deposit-taking institutions.

If the US government created such entities that have control over the most delicate economic and financial sectors, then why did the GFC of 2007 happen? Why did the US government let the causes of the crisis of the 1930s remain as causes for the 21<sup>st</sup> century GFC? We believe that by writing this thesis the reader will be able to answer these questions.

The aim of this research paper is to help the reader understand where the GFC came from, what the causes for the GFC are, what the effects on a global level are, and

last but not least, lessons learned from the GFC and precautions for future crisis prevention.

## **2. THE ROOTS OF THE GFC**

“Remember this crisis began in regulated entities . . . This happened right under our noses”

Paul S. Atkins, former member of the Securities and Exchange Commission (Dec. 15, 2008)

What Paul S. Atkins really wanted to say with this quote was that the gigantic financial instability that took place between the years of 2007-08 occurred as a result of the lax of the monetary policy and regulated entities. The regulated entities compounded this error by enabling and encouraging the excessive leverage and transformation of banks, from universal to financial conglomerate banks. Innovation contributed to the reckless credit expansion and investments, but all that was not going to be achieved by the creation of the new Tech-Shock. Tech-Shock was named by Donaldson, author of the Three Ethical Roots of the Economic Crisis (2011). Donaldson (2011) explains the new Tech-Shock through securitization of debt, created by the Federal Reserve Board (FRB). The new Tech-Shock is an inventive financial technique that allows financial obligations such as mortgages, credit card debt, and auto debt, to be repackaged into a bulk of securities that will be issued on the stock market later on (Donaldson, 2011).

Different speculators express different opinions on the origins of the GFC. Some argue that the GFC started originating from the sub-prime mortgage lending, whereas others seem to be more critical and find the roots somewhere in the 1980s. The authors strongly believe and state that the roots of the GFC are found in the Stock Market Crash of 1980s, the re-entry of commercial banks into the security markets, the financial globalization/liberalization, the 9/11 terrorist attack, and the housing bubble. In each of the events, the Federal Reserve response was a pure failure. There are theories that have proven that the more relaxed monetary system a country enjoys the more proponent to financial crisis it will be. At the end it all comes to the conclusion that the crisis began in the government regulated entities, and they are to be blamed for the same. The reason they took certain actions was probably due to the “getting

rich” effect which was mentioned at the beginning of the paper. We strongly believe that everyone was aware that by creating loopholes in the banking and financial system it will be hazardous for the United States and the rest of the world as well. Why did the government officials did look back at the roots and causes of the Great Depression of the 1930s and failed to compare it to the GFC of 2007? We do not think they failed to look at the historical background. They considered this, but some of them were unrealistic and others were keen to become richer and more powerful.

### 3. CAUSES OF THE GFC

“God knows, some really stupid things were done by American investment banks... To policy makers, I say where were they? They approved all these banks ... We gave (consumers) weapons of mass destruction to borrow too much...” - Jamie Dimon, Chief Executive Officer of JP Morgan Chase, at the World Economic Forum in Davos, Switzerland

The triggers of the GFC still continue to attract attention and publicity by many worldwide speculators. As Jamie Dimon at the World Economic Forum in Switzerland said, banks were given a lot of privileges as they took on an excessive risk of lending out credits, and consumers on the other side were keen to borrow as much as possible. Then, who is to blame for the GFC? Based on the literature review, we believe that the answer lies in the financial entities and the irresponsible actions taken by the Federal Reserve and other U.S. government-run entities.

According to the Harvard Review Paper The Perils of Fragmentation and Reckless Innovation (2012), the causes of the GFC lie in the financial landscape that occurred in 1990s where the national politicians expanded the home-ownership opportunities to all American citizens and the passage of the Gramm-Leach-Bliley Act 1(GLBA). This Harvard paper argues that the securitization of the home loans was extremely lucrative for the financial markets. The same was not applied nor monitored properly which is one of the reasons for the GFC. However, other authors who investigated the causes of the GFC also agree that the financial innovation of the late 1990s and early 2000s is to be blamed for the crisis. For example, Ciro (2012) argues that the causes for the GFC are the housing bubble, the collapse of Lehman Brothers and the global

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<sup>1</sup> Read more about the GLBA in the *“Re-Entry of Commercial Banks into Securities Markets”* pg.13



credit freeze, the systematic market failure, the sovereign debt, opaque financial markets, and ineffective market regulation. Gordana Juhas, an author of the scientific paper Securitization-Great Benefits and Potential Cause of the GFC (2013), also argues that securitization and the new financial innovations are associated with the causes of the GFC. Ben S. Bernanke<sup>2</sup> in his statement paper released on September 2, 2010 on the causes of the GFC says that the ineffective use of the existing authorities, too big to fail, and the weak monetary policies are linked with the reasons for the global financial freeze in 2007.

The authors' personal opinion is that all factors written above represent reasons causing the GFC.

The causes for the financial crisis of 2008 are not definite and are still the subject of an ongoing debate. Based on the literature review, we selected the U.S. housing bubble and the new financial innovation, the collapse of Lehman Brother's and the global credit freeze, the sovereign debt risk, the opaque financial markets, and the ineffective market regulation, as the most important triggers of the crisis. All five factors are closely tied together. All of them have to do with loose financial restrictions, monitoring, and regulatory frameworks from the governments and failure to learn from history. What has been very clear from all these five triggers is that they had demoralizing costs over the real economy worldwide, revealed failures of the markets, and of course, regulations. The effects of the crisis were severe and catastrophic.

#### **4. THE EFFECTS OF THE GFC IN THE UNITED STATES, EUROPE, AND MACEDONIA**

"The world economy today is recovering slowly, and there are still some destabilizing factors and uncertainties. The underlying impact of the international financial crisis is far from over"

Hu Jintao President of China 2003-2013

The costs of the GFC were catastrophic and incomparable to any other global crisis. Many authors argue that the consequences of the crisis are healed, but as the quote above states, the impacts of the crisis are far from over. The consequences of the

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<sup>2</sup> Ben S. Bernanke was two times a chairman of the Federal Reserve, from 2006-2014

2007-09 GFC were associated with a double-digit unemployment percentage in the United States and parts of Europe, destroyed financial systems, bankruptcies of large banks and financial institutions, increase on government intervention and sovereign debt, and other psychological consequences (Ciro, 2012), (Atkinson, Luttrell, Roseblum, 2013).

The GFC was truly a very important global and historic event. There were many factors that contributed to the crisis to a large scale. One of the most important factors above all are the loopholes of the regulatory frameworks of the governments, especially the US government (Ciro, 2012). Nevertheless, this crisis had no discrimination at all because it hit both the developed and the developing nations. According to Aleen and Carletti (2009), the GFC destroyed the economic growth and real wealth of investors, corporations, banks, and economies. Other consequences are the fall of the worldwide industrial production, increased percentage of bankruptcies, and globally increased inflation (Ciro, 2012). The prices of the equities felt dramatically and the excessive credit lending led to freezing the short-term credit in money markets (Atkinson, Luttrell, Rosenblum, 2013). All these devastating consequences led the most affected countries to come up with a vigorous response to the crisis.

The GFC originated in the U.S. and the effects were devastating. The country suffered a large number of bank bankruptcies, acquisitions, and job losses; fall in the output, financial market destabilization and much more. According to the results, Europe was more affected by the GFC compared to the U.S. because Europe needed more time to adjust to the crisis as a result from the large inter-linkage with the States. Same effects and consequences were transmitted to the European countries. The only difference is that not all EU countries suffered to the same level. The advanced economies struggled more compared to the emerging economies.

The effects on the Macedonian economy cannot be compared to the U.S. or EU ones because the country is relatively very small and the financial markets are not so wide open. Macedonia is a small country and the banking and financial sector is not integrated on a global level. However, in 2009 Macedonia felt the effects of the GFC and the country entered into a recession. According to the State Statistical Office of Macedonia, the country's GDP noticed a decline of 0.9% and 1.4% in the first two quarters of 2009.,

As a small open economy, Macedonia is heavily dependent on trade and financial links with other countries. The trade channel was the strongest transmission channel the exports of which were the first to react on the crisis. The exports felt by 6.3% in 2008 and 15.8% in 2009 (Kabashi. R). Imports on the other side had a slowdown effect at the beginning of 2008 and in 2009 they felt by 14% in real terms. Macedonia's imports were twice as big as the exports of the country, meaning the trade deficit reached out a level of 25% of the GDP in 2008. Personal consumption also felt in 2009 by almost 5%. The gross investment did not notice any changes until 2010 when the percentage felt by almost 6.7%.

The deficit in those years was financed by the money transfers from the workers who work abroad. As the trade deficit was financed through the money transfers, in 2009 the deficit remained at a lower level, or 14% of the GDP. Macedonia entered into a state of economic recession, following by a strong decline in the external sector. However, the rating agencies Standard & Poor and FITCH, rated Macedonia with BB+, as a result of the low debt and keeping the foreign currency reserves on a stable level (Muaremi, Ademi, 2012).

In general, the impacts on the country were not so severe compared to the developed countries primarily because Macedonia is a very small country with a banking and financial sector that is not globally unified. So, the losses on the Macedonian economy were impactful for the country, but not for the world.

## **5. LESSONS LEARNED FROM THE GFC**

“The lessons we have to learn from the financial market crisis are clear: we need a new regulatory framework for financial markets that contributes to more responsible behavior on the part of all financial market participants”

Wolfgang Schauble, Federal Minister of Finance, Germany, May 19, 2010

The consequences of the GFC were devastating and resulted in losing homes, savings and jobs. Economies had to face a very slow growth over the past years. The stock market is functioning again by having the old and new players on the market pouring money, but the question here is, “Did we learn something from the GFC”?

The lessons learned from the GFC are a very broad topic. However, all of them focus on the market discipline, creating new regulations, keeping it simple; trusting your inner investment intuition, and that debts are very dangerous.

### **5.1 Lesson # 1: The Significance of Market Discipline**

We point out the market discipline as the most important lesson from the GFC. According to the speech by Evans L. Charles<sup>3</sup> delivered on April 15, 2011, to the Financial Reform and the Real Economy: 20th Annual Hyman P. Minsky Conference on the State of the U.S. and World Economies in New York, the market discipline is the best line of defense against systematic instability, which means that if firms get into trouble, the creditors should expect losing money. In spite of the fact that market discipline is very important, many investors and firms do not take it into an account. During the 2007-2009 period, the market discipline? failed due to the process of financial intermediation that helped justify the regulatory structures (Evans, 2011).

Gary Stern<sup>4</sup> in his book Too Big to Fail: The Hazards of the Bank Bailouts (2004) wrote: *'the fundamental defense against the excessive-risk taking by the financial intermediaries is that their creditors demand adequate risk premiums against those states in the world where the intermediaries record losses'*. However, the assumptions of government interference changed this calculus to the benefit of both, banks and their creditors, and the society as a whole. According to Gary Stern's insights, market discipline is very hard to be achieved. Nevertheless, the same can be achieved by reduction of the safety net and market-driven adjustment in liquidity financing.

The market discipline as a very important lesson failed also because of the investment in risky debt. The risky debt can be very expensive and dangerous for obtaining the high returns the investors expect. During the 2007-2009 period investors invested in securities measures for which they hoped the government would cover the returns. The most appropriate example was wafer thin spreads paid by Fannie Mae and Freddie Mac over Treasuries (Evans, 2011).

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<sup>3</sup> Evans L. Charles is the ninth president and CEO of the Fed of Chicago.

<sup>4</sup> Gary Stern is an American economist and banker and former executive of the Federal Reserve Bank of Minneapolis.

## 5.2 Lesson # 2: Do not Load the Monetary Policy with More Mandates

Another lesson to be learned from the GFC is not to burden the monetary policy with too many mandates. Under the Federal Reserve Act, the Fed has an obligation to foster the price stability and to decrease the unemployment rate to minimum; known as the dual mandate. The dual mandate is accomplished by a single tool and that is the measurement of short-term interest rates. The correlation of the two objectives (price stability and maximum employment), is very high and the insufficiency of tools is making it even more difficult. Some argue that the monetary policy should pursue a third objective: to foster systematic stability by attacking incipient asset bubbles. However Evans L. Charles (2011) sees such proposals as a problem because there is no room for adding a new objective as a result of the insufficient tools. Adding a new objective that is not related to the other two could cause the Fed to face a much tougher job. As Evan L. Charles (2011) explained, even if the Fed could accurately detect an early asset bubble in the real time, the monetary policy is too blunt an instrument for such an objective. Doing so would also affect other macroeconomic and financial variables that are well beyond the targeted asset prices. In conclusion, the monetary policy should not be burdened with a third objective because in doing so the Fed's efforts will be too weak to achieve the dual mandate (Evans, 2011).

## 5.3 Lesson # 3: Keep it Simple Because Simple is Beautiful

According to Arends (2013), in the article Six Lessons You Should Have Learned from the Global Financial Crisis, the simpler the investment is, the better the outcome will be. All complex structured financial innovation failed during 2007-2009 period. Credit default swaps and hedge funds collapsed, complex derivatives blew up, and banking stocks plunged. The smartest financial PhDs faced disenchantment. Warren Buffet, known as one of the wealthiest investors in the world, has one simple rule during the time of a financial crisis, and that is: "Don't sell and keep it simple". What he means by that is do not invest in toxic financial products and do not sell your investment in times when prices are falling down. Prices of investments will not always decrease, but there will be time when the market stabilizes, the prices go up again. Buffet also stated that there is nothing more hazardous than investing in financial products that you do not really understand (Arends, 2013).

In 2007-2009 when the Wall Street guys came up with the new financial innovation, people that had knowledge and people that did not have any knowledge in the products started investing like crazy, thinking the returns of the same will be guaranteed and safe. We believe this is the part where a lot of investors failed. They invested before doing their homework diligently.

#### **5.4 Lesson # 4: Debt is Dangerous and Debt is not OK!**

Three decades before the GFC, the entire U.S went on a spree; households, companies, and government. The debt of the households and companies doubled in the last ten years and by the summer of 2008, the U.S. households owned 10 times as much as they owed in 1980. The Fed and the Wall Street saw the debt as benign and during that time the debt made sense to them and it was 'OK', as Arends (2013) states in the article [Six Things You Should Have Learned from The Financial Crisis](#), Wall Street Journal. The chairman of the Fed, Janet Yellen thought that the household debt was OK because it allowed people to use their fortune in order to purchase their "dream house". The financial debt was also OK as it allowed the companies to transfer risks across multiple parties and they thought that in that way the system was "safer".

As the title itself says, debt is dangerous and debt can never be OK - especially if the same is constantly increasing. The excessive risk-taking and the debt are very close related as banks untied their restrictions in lending out credits even to the riskiest clients. The debt was OK in the short run, but results show it was devastating in the long run.

#### **5.5 Lesson # 5: Straightening the Macro-prudential Approach to Supervision**

On May 7, 2009, Ben Bernanke, former Fed chairman, held a speech at the Federal Reserve Bank of Chicago, talking about the lessons learned from the GFC and new policy reforms the Fed should come up with in order to prevent a future financial crisis. He believes that a more macro-prudential approach to supervision could help improve the financial stability. Bernanke states that straightening the banking capital, liquidity, and risk-management is the best way to avoid a future crisis. He proposed several policies for implementation as a result of the lessons learned from the GFC and future prevention of the same. Some of the policies are:

- *Monitoring large and rapidly increasing exposures such as the subprime mortgages;*

- *Assessing the potential systemic risks implied by evolving risk-management practices, broad-based increases in financial leverage, or changes in financial markets or products;*
- *Analyzing possible spillovers between financial firms or between firms and markets, such as the mutual exposures of highly interconnected firms;*
- *Ensuring that each systemically important firm receives oversight commensurate with the risks that its failure would pose to the financial system;*
- *Providing a resolution mechanism to safely wind down failing, systemically important institutions;*
- *Ensuring that the critical financial infrastructure, including the institutions that support trading, payments, clearing, and settlement, is robust;*
- *Working to mitigate procyclical features of capital regulation and other rules and standards; and*
- *Identifying possible regulatory gaps, including gaps in the protection of consumers and investors that pose risks for the system as a whole (Lessons from the Financial Crisis – Wall Street Economists).*

All these policies were not present before the GFC as the banking and monetary system contained a lot of loopholes in the regulations. Such policies as the suggested one by Bernanke are applied nowadays and there are new regulations are restrictions on the banking capital, liquidity and risk-management that differ from the one before the GFC.

The last GFC definitely required the need for creation of new policy and responses. An example of such a policy is the Trouble Asset Relief Program (TARP), and changes in the U.S fiscal and monetary policy. The aim of TARP is to ensure that the toxic assets will be flushed out from the US financial system. The same program has been achieving astonishing results (Ciro, 2012).

### **5.6 Lesson # 6: Cash is Heaven**

*“Cash is not Trash”* refers to the terminology used by Arends (2013), in his article [Six Lessons You Should Have Learned from the Financial Crisis](#), in order to define the importance of cash when there is a GFC. Arends (2013), states that wealthy investors such as Warren Buffet become even richer at times when there is a financial crisis. The reason for that is because they play smart with their money. According to him, Buffet-the master of investments was loaded with cash and he was able to buy cheap stocks



while the panic lasted. These bargain stocks that Buffet bought when everyone was panicking rewarded him high returns after the market stabilized.

We believe that every investor should hold money - cash – in such times. While the “conventional wisdom” sees cash as dead money, poor investment, and no future return, we see having cash as a smart move and an amazing opportunity. Sometimes “putting money to generate high returns” does the opposite effect. The matter here is how smart you play with money at the right time.

### **5.7 Lesson # 7: Straightening the Credit Rating Agencies Seriousness**

The role of the CRAs during the GFC was very significant as they were accused of straightening the negative effects of the GFC by generating additional systematic risk. An important lesson from the GFC to be considered is finding out approaches to overcome the problems related to the CRAs and their business. According to Rafailov (2011), an essential change of the existing system, improvements of the current system and stricter regulation, and establishment of alternatives to credit ratings and more competition, are essential proposals to reform the CRAs. The most significant approach that needs to be done is the change of the existing system of the CRAs. Such approach can be accomplished by the elimination of the “*issuer pays*” model and rebuilding of the “*investor pays*” model. By doing so, the conflicts of interest will be removed and the agencies will not act on behalf of the companies. As Rafailov (2011) says, if the ratings are incorrect, then they will lose clients. Another way to repair the existing system of the CRAs is to establish a government credit rating or other private agencies that will boost the competition among them. Other ways of repairing the existing system of the CRAs are: more transparency, restriction of conflicts of interested punishing the CRAs if they do not work according to the stipulations and laws. The significance of implementing such reforms is paramount for the investors and the financial markets in general.

### **5.8 Lesson # 8: Basel III Basel Committee on Banking Supervision**

The Basel Committee considered one very important lesson to be learned from the GFC. A number of financial institutions, like banks, had a very hard time responding to the financial crisis. For that reason, the Basel Committee suggested a creation of new requirements for the liquidity and capital adequacy standards. Such new proposal

would help the banks and financial institutions to respond much better and in a safer way to a new GFC. The new proposals from the Basel Committee known as the Basel III aim to increase the minimum requirement for the capital adequacy ratio of 2% of the banks' net assets to 4.5%. In addition to the proposal for increasing the minimum capital adequacy ratio, under Basel III, banks are also obliged to provide a capital buffer of up to 2.5% by 2019. Under the Basel III proposal, the minimum common equity capital ratio for all banks and deposit institutions should be raised to 7%, which would mean a huge change from Basel II (Ciro, 2012).

According to *Ciro (2012)*, under the new proposed Basel III guidelines, by 2015 the minimum Tier 1 capital liquidity ratio of 4.5% of the bank's net assets should be increased to 6.0%. Additionally, the minimum total capital including the conservation buffer should be raised from 8% to 10.5% by 2019. According to the Basel Committee on Banking Supervision, the strong capital requirements are a necessary step to get in action, but this proposal by itself is not enough. The Basel III proposals are intentionally aimed at improving the capital adequacy and liquidity of banks that operate internationally. Obviously there are many lessons to be learned from the last financial crisis. The roots and causes of this financial crisis are very similar to the ones of the Great Depression of the 1930s. A lot of speculators and authors avoided the history and background of the Great Depression counting it as irrelevant for the 2007-2009 crisis. It was very evident that starting from the 1987 Stock Market Crash, the monetary, fiscal, and banking regulators started creating loopholes in the regulations and policies, such as the Glass-Steagall Act. Such cases should be strictly prohibited. Banks and other financial institutions should be strictly monitored. The creation of new structured financial innovation does no good to the financial market. As Section 5.3 says, *"Keep it Simple Because Simple is Beautiful"*. Investors are safe enough if they invest in simple financial products. Same theory applies to the banks as well.

Last but not least, high debt, uncertain ability of borrowers to repay the debt, and an expectation that the prices of the real estate will always increase are the key lessons to be learned from the 2007-2009 GFC. The choices government regulators, investors and creditors make in the short-term always have a long-term effects that need to be carefully considered.

## 6. CONCLUSION

The last financial crisis has been the worst crisis the world has ever experienced. The same has been described as the most influential and impactful crisis very similar to the Great Depression in the 1930s. The GFC had its genesis in the dislocated and dysfunctional financial markets, low interest rates, instability of the crisis epicenter, investors' panic, high bankruptcy rates, like the Great Depression. The results of both were devastating. The effects were felt on the industrial and factory output, national trauma and loss of wealth, evident widespread economic bankruptcies and foreclosures, and high rates of unemployment.

The GFC started rooting since the Stock Market Crash in 1987. The Stock Market Crash was represented as the largest market crash in a single day. Dow Jones lost \$US 1 trillion in market capitalization and investors around the world panicked, selling stocks at a record speed and volume. The Stock Market Crash was the first indicator that showed the weakness of the trading systems and government response to the event. The re-entry of commercial banks into the securities markets was a fuel added to the stock market crash. As banks entered the securities markets, the new financial products were created and distorted the markets as never before. The financial globalization/liberalization played a very big role as well. The countries that were most open to it were severely damaged due to the fact that toxic securities were sold on a global level. The financial globalization contributed a lot to wakening the credit markets. The 9/11 terrorist attack and the sub-prime mortgage lending also contributed to the GFC. The consequences of the 9/11 terrorist attack were devastating and for that reason the Federal Reserve responded by providing an unusual amount of liquidity and reduced the rates of federal funds rates by more than the expected from levels of output and inflation. The financial markets were severely hit by the 9/11 crisis and they disrupted the whole economic system.

The cause of the financial crisis is a very broad topic. Because of that reason, the triggers still continue to attract attention and publicity by many worldwide speculators. This section raised the question: "Who is to blame for the GFC?" – It is not easy to provide an answer to that question because all regulated entities are to be blamed. The housing bubble, the new financial innovations, the securitization, the collapse of the Lehman-Brothers and the global credit freeze, the sovereign debt,

opaque financial markets ineffective market regulation, and the failure of the rating agencies are triggers that are tied together. All of them have to do with loose financial restrictions and regulatory frameworks from the government and failure to learn from the history. These triggers had demoralizing effects on the real economy worldwide. The financial crisis originated in the United States; however, its effects were spread all around the world. Europe was the continent that got hit the most because of its large inter-linkage with the United States. The consequences of the crisis over the U.S. are vast and complicated to be measured. However, the U.S. economy had to face a monotonous labor market allied with deterioration in mental and psychical health, including reduced wealth among the employed and unemployed. In Europe, the developed economies succeeded to keep their financial and economic measures stable, but the developing economies had to face high rates of unemployment and a slow economic growth rate. Some Macedonian economists and politicians believed that Macedonia will not feel any consequences from the crisis as the country itself is not integrated on a global level. Unfortunately, small economies like Macedonia felt the effects of the crisis and the same needed time to adjust. Macedonia also faced high levels of unemployment, decrease in the credit lending from the banks, and higher deficit trade compared to the years prior to the crisis. There are many lessons to be learned from such an event that had a global effect. The question in this section was if we finally learned the lesson because the same events that contributed to the creation of the GFC were seen in 1930s – The Great Depression. The lessons we deemed important were the significance of the market discipline, not to load the monetary policy with more mandates, to keep it simple because simple is beautiful, to know that debt is dangerous and debt is not OK, to straighten the macro-prudential approach to supervision, and to maintain that cash is heaven. Of course, there are more lessons to be learned, but the ones selected here were the ones that contributed to the creation of the GFC. The more seriously the lessons of the GFC are, the less likely the creation of new future financial crisis will be.

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## SNWs E-RECRUITMENT IN NORTH MACEDONIA: A CASE STUDY

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### ABSTRACT

The paper focuses on specific subsets of e-recruitment, which has gained traction in the Republic of North Macedonia, and has been the focus of previous research by the authors. The process is defined in detail and comparison is given to traditional recruiting methods, outlining the main benefits which can be utilized by companies of any size, with particular importance given to SMEs. E-recruitment methods are defined in three general types, including corporate web-sites, online job boards and e-recruitment through social networking websites as the latest trend. Secondary research is done to offer comprehensive analysis of the initial benefits and drawbacks of each method.

Primary research is implemented through a holistic case study approach, focusing on two sources of input (SMEs in the Republic of North Macedonia), with six instances (job advertisements) being analyzed in a two-month period from 01.02.2019 through 01.04.2019. The research focused on three different types of e-recruitment – job boards, combined SNWs forms and Facebook job ads. Based on the analyzed quantitative and qualitative data, the most optimized method for e-recruitment for SMEs in North Macedonia are the combined SNWs forms, fulfilling 4 quantitative and 4 qualitative aspects that were being monitored.

**KEYWORDS:** E-recruitment, SNWs, case study, North Macedonia

**JEL CLASSIFICATION:** O15

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## 1. INTRODUCTION

The process of recruitment is a vital part of human resource management (HRM) systems and has been through substantial changes. Recruitment can be viewed as the process of attracting individuals on a timely basis, in sufficient numbers and with appropriate qualifications, to apply for jobs within an organization (Mondy, 2008). The digitalization of recruitment has brought many benefits to companies, such as improved geographical reach, instant feedback, reduced cost per result, unified data processing, faster time to employment and many more (Sultana & Sultana, 2017). In the constant chase of improving the effectiveness and efficiency of the HRM systems, many companies are utilizing e-recruitment methods. E-recruitment is defined as the utilization of Internet technologies to attract potential employees to the organization and hire them (Ghazzawi & Akccoumeh, 2014); any recruiting process that is conducted using web-based tools can also be viewed as e-recruitment (Kerrin & Kettley, 2003). In more recent years, companies value the impact of social networking websites (SNWs) on the recruiting process, which are platforms for online communication with two core characteristics: 1. They must involve a digital platform; 2. Require some form of participation and digital interaction (Manning, 2014). Statistics indicate that there are currently more than 3,2 billion social media users, equivalent to 42% of the whole population<sup>1</sup>. The most popular SNW is Facebook with 68%, followed by Instagram (35%), Pinterest (29%) and LinkedIn (25%)<sup>2</sup>. In relation to recruitment, 79% of job seekers state that they use SNWs to research future employment (Glassdoor, 2018), 84% of organizations are currently using e-recruitment through SNWs and 9% are planning to use it in the near future (SHRM, 2016), with job seekers ranking SNWs as the most useful resource during their search for employment<sup>3</sup>. This paper is a continuation of a previous research the authors have done on the territory of North Macedonia in 2018, which focused on the level of usage of SNWs in the recruiting process by small, medium and large enterprises.

## 2. METHODOLOGY

Research on the main topic of the paper is done through primary and secondary data. Statistics for the Republic of North Macedonia were taken from the authors previous

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<sup>1</sup> <https://www.emarsys.com/en/resources/blog/top-5-social-media-predictions-2019/>

<sup>2</sup> <https://www.pewinternet.org/2018/03/01/social-media-use-in-2018/>

<sup>3</sup> <https://www.careerarc.com/blog/2017/04/future-of-recruiting-study-infographic/>



research, which is considered valid because it is less than 12 months old and no significant changes in the field were discovered. The following scientific methods were used:

- **Empirical method** – utilized to obtain key elements from previous research of different authors, related to traditional and e-recruitment processes and methodologies.
- **Case study method** – research strategy to obtain primary data on quantitative and qualitative aspects of using different e-recruitment channels. Quantitative evidence is included for six different events, based on two sources to ensure objectivity and relevance. Qualitative evidence is gathered through interviews with managers involved in the recruiting process, to obtain a better understanding of the benefits and drawbacks of certain e-recruitment methods. As per their request, the names of the sources (companies) used to obtain data from are kept anonymous in the paper, while their size is shared as a demographic characteristic for understanding the context of the research. The case study took place from 01.02.2019 through 01.04.2019 in several instances, which are further described in the Research part of the paper.
- **Analysis and synthesis method** - this method is used for logical representation of the subject of research, that is, the efficiency of the recruitment process with the introduction of the e-recruitment method, the analysis of the traditional methods of recruitment, and the drawing general conclusions.

### 3. LITERATURE REVIEW

HRM systems are deemed crucial in managing the workforce, to ensure that the right man is placed at the right job (Malik & Ullah, 2013). Potential candidates for open job positions can be attracted through traditional channels (such as advertising in newspapers, referrals, university recruitment, employment agencies etc.) or digital channels (company web-site, digital platforms for employment and SNWs). Since the process of recruitment starts with attracting potential qualified candidates, choosing the appropriate channels to advertise the position is of crucial importance. Utilization of digital (Internet) channels dates from the beginning of the millennium, where Pin et al.,

(2001) has demonstrated that 83% of the analyzed companies are showing higher performance when utilizing the then available online HRM systems. Although in the past (Kaur P., 2015) e-recruitment has been generally divided into two types of uses (corporate web-sites and commercial job boards), the increasing popularity of SNWs has put these digital platforms at the forefront, with many companies using them exclusively for e-recruitment. Companies find e-recruitment attractive because of several different advantages (Sabha, 2018):

- **Cost effectiveness** – job advertisements on the Internet are considered to be a lot cheaper than traditional channels. Some e-recruitment channels (such as SNWs and corporate web-sites) even offer free job advertisements. Another benefit for companies is the payment model, which is usually based on a “pay as you go” system, meaning that no payment is needed upfront and the company has flexibility on the budget, as well as start and end date.
- **Improved reach** – Unlike traditional channels, which are mostly geographically limited based on the region/country of the company, e-recruitment channels have a potentially unlimited reach through the Internet. This is important for companies seeking to hire the top talent, regardless of the geographic location.
- **Instant feedback** – Traditional channels tend to be more rigid than e-recruitment channel, meaning once the job advertisement is placed, there is little direct feedback from the target audience. Furthermore, if any corrections are needed in the job advertisement, the process is significantly longer and more complex, and in some cases, changes are even impossible.
- **Improved standardization and automation of data** – Collection of data from candidates is usually a tedious process, involving a lot of manual steps from recruiters and managers. E-recruitment offers different tools and databases which can be configured to standardize data and update candidate files (and databases) automatically.
- **Faster time to appointment (TTA) and time to employment (TTE)** – Automation of data can lead to faster screening and selection processes, which in turn leads to producing shortlist significantly faster than traditional channels. On average, the e-recruitment process is about 70% faster than

traditional methods, and the recruitment cycle is accelerated at every possible stage (Ramaabaanu and Saranya, 2014)

### 3.1. Types of e-recruitment channels

E-recruitment channels can be divided into three general types, with each having a subset of variations:

1. **Corporate web-sites** – Companies can utilize the power of their brand to attract potential candidates and recruit them through their own web-site. Since no direct promotion is used, this type of recruitment has no direct cost impact. However, this is mainly utilized by large enterprises, as part of the employer branding (or HR branding) process, which can be defined as a targeted strategy to maintain awareness and perceptions of current and potential employees for a particular company (Sullivan, 2004). This process of branding can lead to significant resource usage, with no tangible return on investment (ROI).
2. **Online job boards** – external web-sites or platforms which contain candidate data (profiles) and allow job advertisements for a certain compensation. Currently in the Republic of North Macedonia the most popular online job boards are vrabotuvanje.com.mk, najdirabota.mk and karijera.mk. Payment models are usually fixed and offered as packages, either at a monthly or a yearly level, with a limit of job positions per month.
3. **SNWs recruiting** – Utilizing available social media channels (such as Facebook or LinkedIn) which enable the company to place advertisements directly and have instant access to candidate data. LinkedIn statistics show that candidates find new jobs through referrals (39%), job boards (32%) and SNWs (30%)<sup>4</sup>. SNWs can be utilized by posting open positions, headhunt potential candidates and screen candidates (Lewis, 2015), which can be limited by the introduction of GDPR and data protection laws. Recruiters usually utilize Facebook and LinkedIn, albeit for different purposes. As Facebook has a much larger base of

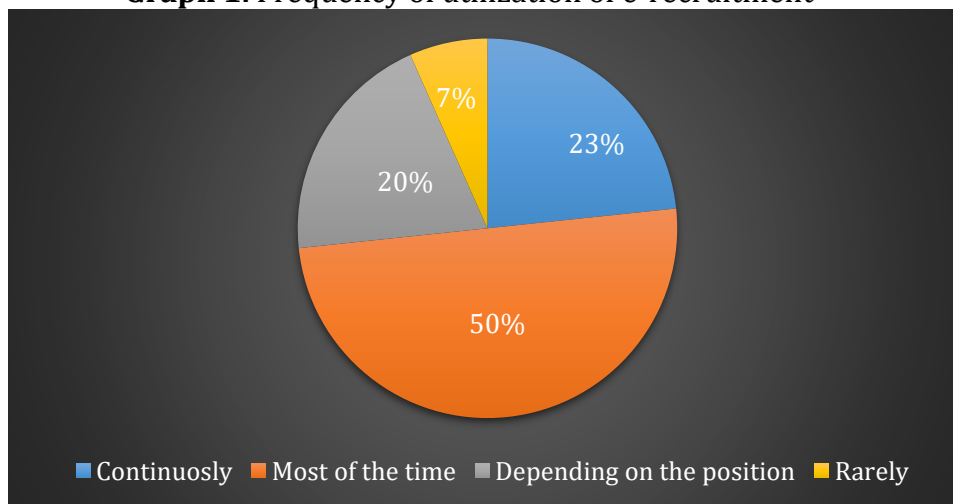
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<sup>4</sup> <https://business.linkedin.com/talent-solutions/blog/trends-and-research/2016/linkedin-new-report-reveals-the-latest-job-seeking-trends>

users compared to LinkedIn (2.27 billion<sup>5</sup> compared to 610 million<sup>6</sup>), this SNW is used for posting open job positions due to its extended reach, usually for lower end positions in the company. Managerial and crucial positions in the company are mostly attracted (and headhunted) through LinkedIn, as it is the first and largest professional social networking web-site<sup>7</sup>.

Since corporate web-site recruiting is reserved for large enterprises, which comprise only 0,3% of the total active business entities in the Republic of North Macedonia<sup>8</sup>, focus in the research is given on the other two channels for e-recruitment – online job boards and recruiting through SNWs. Recent statistics show that 42% of employers are worried that they won't be able to find the adequate talent for their open job positions, 73% of candidates are passive job seekers, while top candidates stay available for approximately 10 days before they get hired<sup>9</sup>. Previous authors research in the Republic of North Macedonia shows that 39% of companies recruit through their web-site, while 71% of companies utilize online job boards. The most popular job boards are "Vrabortuvanje.com.mk" with 94% and "Najdirabota.com.mk" with 86% (Kiselicki et al., 2018).

**Graph 1.** Frequency of utilization of e-recruitment



Source: Kiselicki et al., 2018

<sup>5</sup> <https://www.nbcnews.com/tech/tech-news/facebook-hits-2-27-billion-monthly-active-users-earnings-stabilize-n926391>

<sup>6</sup> <https://about.linkedin.com/>

<sup>7</sup> Ibid

<sup>8</sup> <http://www.stat.gov.mk/PrikaziSoopstzenie.aspx?rbtxt=79>

<sup>9</sup> <https://www.talentnow.com/recruitment-statistics-2018-trends-insights-hiring-talented-candidates/>

Graph 1 shows the level of usage of e-recruitment by companies in the Republic of North Macedonia. Companies are very active in utilizing e-recruitment, while focusing on social media channels, 73% of companies utilize SNWs in their recruitment process, with Facebook being the most popular (83%), followed by LinkedIn (67%).

#### **4. RESEARCH**

Based on the available secondary data, an observation can be made that e-recruitment methods offer great advantages compared to traditional research methods. However, there can be great discrepancies in the cost effectiveness, as well as candidate quality between different e-recruitment channels. Since corporate web-sites are rarely utilized in the Republic of North Macedonia as a relevant source for attracting candidates, the focus is shifted on researching the effectiveness of job boards compared to SNWs for attracting potential candidates for open job positions. For the purpose of obtaining relevant primary data for research and analysis, a single (holistic) case study methodology is utilized. We have included one group for analysis (SMEs), including two different data sources to compare relevant differences. The first source is a small enterprise with 12 employees, operating solely on the territory of the Republic of North Macedonia. The second source is a medium enterprise with 63 employees, also operation solely on the territory of the Republic of North Macedonia. These two enterprises represent a small segment (small and medium) within the homogenic group of SMEs. Further conditions for participation in the case study include recruiting for lower level positions, recruiting for one position at a time and having fixed budgets comparable across both enterprises. This is done to eliminate as many variables as possible in comparing quantitative and qualitative results. The case studies were observed from 01.02.2019 through 01.04.2019, with three instances for recruiting and employment from both data sources, equaling a total of 6 observed instances (job openings that are advertised through three different social media channels). Quantitative data was followed by non-structured interviews with managers responsible for the recruiting process, to better understand other aspects which could be relevant.

The case study observed three different approaches for e-recruitment:

1. **Utilization of online job boards** – Web platforms which offer opportunities to place job advertisements for a certain price or as a part of a fixed package.

Specific names of the web-sites utilized will not be provided. Both companies analyzed had monthly contracts with fixed prices for either unlimited or a certain number of job ads

2. **Utilization of combined SNW forms** – This method utilizes a combination of Google Forms to create an application form and sharing the link on any SNW (either Facebook, Instagram etc.), with a certain amount of paid promotion. This gives the company freedom to share a single application form across multiple SNWs.
3. **Utilization of Facebook job ads** – The newest method of promotion on Facebook, which enables the company to post open job positions directly on their fan-page, making it visible with organic or paid promotion, promising great ease of use and cost-effective results<sup>10</sup>.

Table 1 compares the advantages and disadvantages of each e-recruitment method, as based on the data and observations done during the period of the case study.

**Table 1.** Comparison of e-recruitment methods

Aspect	Online job boards	Combined SNW forms	Facebook job ads
Database	No database, applications sent via e-mail	<b>Automated database</b>	Automated database (with unnecessary information)
Ease of implementation	<b>Easy implementation, outsourcing to professionals</b>	Requires technical knowledge, experience and training (most difficult to implement)	Requires technical knowledge and training (moderate implementation difficulty)
Reach	Active candidates	<b>Active and passive candidates</b>	<b>Active and passive candidates</b>
Targeting	None	<b>Detailed targeting options</b>	Limited targeting options (only location)
Visibility	Limited visibility	<b>Full visibility</b>	<b>Full visibility</b>
Control	Limited control and changes	<b>Full control and changes</b>	<b>Full control and changes</b>
Cost effectiveness	High cost per applicant/ fixed cost	<b>Low cost per applicant/variable cost</b>	Low cost per applicant/variable cost

<sup>10</sup> <https://www.facebook.com/business/pages/post-job>

	High cost per employment/ fixed cost	<b>Low cost per employment/variable cost</b>	Medium cost per employment/variable cost
<b>Candidate quality</b>	<b>Medium quality of candidates</b>	<b>Medium quality of candidates</b>	Low quality of candidates
<b>Time to employment</b>	Long TTE	<b>Short TTE</b>	Medium TTE
<b>No. of employed candidates</b>	0	5	1

Source: Own research

## 5. DISCUSSION AND CONSLUSIONS

There are 10 different aspects which are analyzed, composed of 4 quantitative measures (reach, cost effectiveness, TTE and number of employed candidates) and 6 qualitative measures (database quality, ease of implementation, targeting, visibility, control and candidate quality) for each e-recruitment method. Detailed analysis can be found below, while for simplicity each best option is highlighted for every aspect.

- **Database quality** – the first aspect of relevance is concerned with the process of collecting candidate information. Through online job boards, companies receive e-mails from candidates or a summarized weekly report, which have to manually be entered in a database. Combined SNW forms offer an automated database which is immediately filled with candidate applications. While Facebook job ads also offer an automated database, companies feel that there is unnecessary data retrieved from the profiles of applicants (with direct links to their profile), which can even breach GDPR principles<sup>11</sup>.
- **Ease of implementation** – Online job boards offer the easiest implementation option, where companies can provide the job description and let the intermediary construct the job ad and application process. Compared between each other, Facebook job ads offer moderate difficulty (as there is great support and guidance from Facebook), while combined SNW forms are most difficult to implement and require knowledge, experience and training.

<sup>11</sup> <https://eugdpr.org/>



- **Reach** – Comparing reach, online job boards offer access to a significantly smaller group, containing only active candidates. One of the most popular online job boards in the Republic of North Macedonia – vработување.com.mk has around 16,600 daily unique visitors<sup>12</sup>, compared to Facebook with more than 1,5 billion daily users, with around 900,000 users being from the analyzed country<sup>13</sup>. Furthermore, SNWs offer access to both active and passive candidates, which is greatly appreciated by companies.
- **Targeting** – Online job boards don't offer specific targeting of any kind, meaning the company places the job ad and it is visible by any visitor, regardless if he is from the target group for employment. Combined SNW forms offer detailed targeting options by demographic characteristics, which greatly contribute to applicant quality. Facebook job ads offer limited targeting, meaning companies can specify the location (regions) of the candidates, but no demographic targeting is offered at all, since it is viewed as possible discriminatory practices.
- **Visibility** – Job ad visibility is of great importance for the companies. On online job boards, the ad may be placed with many others, offering limited visibility, especially if the company has a lower priced package. SNWs offer full visibility of the job ad (through organic and paid promotion), where the ad is by itself and the potential candidate has complete focus on it.
- **Control** – Since online job boards usually offer outsourcing for ads, control is limited, while the process for changing elements of the job ad can be significantly long, usually through e-mail communication. Both combined SNW forms and Facebook job ads offer full control by the company itself, with instant changes any element of the job placement.
- **Cost effectiveness** – As a significant quantitative factor, cost can be viewed through two measures – CPA (cost per applicant - average cost for each application received) and CPE (cost per employment - average cost for each employed individual). Online job boards have the highest CPA (~12€) and highest CPE (infinite in this case). Facebook job ads have impressively low CPA

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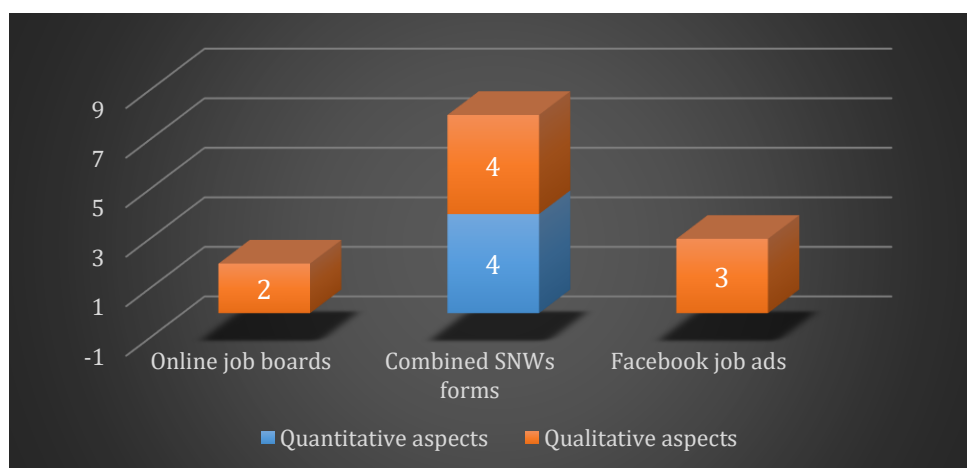
<sup>12</sup> <https://www.vработување.com.mk/MK/Info/Contact/#advertising>

<sup>13</sup> <https://www.statista.com/statistics/346167/facebook-global-dau/>

(0,6€), while the CPE is high (200€). The most cost-effective method for both entities analyzed proved to be combined SNW forms, with a low CPA (1,2€) and low CPE (40€).

- **Candidate quality** – Cost is not the only resource companies spend on recruiting, with time spent screening candidates another major concern. Both online job boards and combined SNW forms offer medium quality of candidates, as evaluated by managers, with the difference being combined forms providing much higher candidate count to make a difference. Facebook job ads proved to be inefficient in this area, with many unsuitable candidates applying and costing time in the recruitment process. This ultimately led to an uneven CPA (low) to CPE (high) ratio.
- **Time to employment** – Online job boards usually offer long TTE, with candidate applications being received on an uneven basis and through the course of several weeks. Combined SNW forms and Facebook job ads initially offer very short TTE, with candidate application being received instantaneously, however, Facebook job ads have a significantly longer screening process and unsuitable candidates (as mentioned before), leading to longer TTE.

**Graph 2.** Quantitative and qualitative summary of e-recruitment methods



Source: Own research

Graph 2 shows the full comparison of the analyzed e-recruitment methods during the case study. It can be clearly viewed that combined SNW forms prove superior compared to the other two methods – online job boards and Facebook job ads. Online job

boards are the least desired among managers, offering two qualitative aspects as an advantage, which include ease of implementation and relative quality of candidates which helps during the screening process. Facebook job ads offer three qualitative advantages, with the ability to attract both active and passive candidates, have full job ad visibility and full control during implementation. The most comprehensive e-recruitment method preferred by both SMEs are the combined SNW forms, which are ranked the highest in 8 out of all 9 aspects, including four qualitative aspects and all quantitative aspects. This represents a clear indication that combined SNW forms offer optimized cost and time resource consumption, as well as yielding the best possible results (5 out of 6 employed candidates come from them).

The paper is a continuation of the previous research of the authors concerning the optimal utilization of SNWs in the Republic of North Macedonia. By providing insights into real case studies in a given time period, the data can be used by other companies in the country when choosing the appropriate recruitment methods. Further research can be done on a larger scale in the Balkan region, as well as controlled experiments to expand quantitative and qualitative findings presented in the paper.

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## **THE IMPACT OF SOCIAL MEDIA ON BUILDING LONG – TERM RELATIONSHIPS WITH THE CUSTOMERS**

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### **ABSTRACT**

One of the main goals of every company is to be profitable. The modern marketing conception positively ties the financial performance of the company with consumer retention, and one of the best ways to retain consumers is by building long-term relationships with them. Social media, used as a marketing channel can significantly help and facilitate communication between them and their customers. Every business, in order to be successful and profitable, must focus on communication and building long-lasting relationships with its consumers. Today it easy to achieve this relationship by using social media. This paper focuses on examining the impact social media have on the process of building long-term relationships with consumers, and aims to offer recommendations that will enable companies to better use social media with their consumers. A descriptive, one-time, individual research was conducted using the method of examination and the application of a deliberate sample. Research has shown that social media definitely have an impact on the process of building long-term relationships and businesses should undoubtedly include and use social media more widely among other tools. Companies should focus their efforts on building long-term relationships through social media to younger consumers, also companies should have to have a more humane attitude towards their consumers and they should try to overcome their expectations on social media. As a result from the research it is shown that companies should be use social media in combination with other traditional methods of building long-lasting relationships

**KEYWORDS: Social media, Long-term relationships, CRM, Internet Marketing**

**JEL CLASSIFICATION: M30, M31**

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## 1. INTRODUCTION

According to the marketing philosophy, for an enterprise to be profitable, the market should offer products and services that will satisfy the needs, demands and wishes of its customers. Key to satisfying needs is because satisfaction leads to re-purchase, increased positive "mouth-to-mouth" communication, increased sales, profitability and value of shares, reduction of consumer complaints, marketing costs and guarantees, business risk, while increasing the good corporate image (Frank and Enkawa, 2009). Consumer satisfaction is a direct determining factor for consumer loyalty, which is actually the central determinant of consumer retention (Ristevska-Jovanovska, 2013). The modern marketing conception positively ties the financial performance of the company with consumer retention (Ristevska-Jovanovska, 2013), and one of the best ways to keep customers is by building long-term relationships with them.

Relationship-Marketing is a relatively new concept of marketing, which began to develop in the last quarter of the 20th century (Wingo, 2017). Morgan and Hunt defined marketing in 1994 as marketing activities aimed at establishing, developing and maintaining successful relationships. Basically, it is suggested that for the successful conduct of transactions, there must be links between the firm and the consumer. Companies now focus on attracting new customers and turning them into loyal consumers, which in a way are ambassadors of the brand, or brand ambassadors. Marketing of relationships can be really beneficial for the company. Loyal consumers will talk well about the firm, which will attract new customers, which in the long run expands the business (Myler, 2016). They are also ready to first try new products of the company and provide their feedback, which the company can use to advance its future products. Reicheld and Sasser in 2001 propose an increase in consumer retention of only 5% leading to a 25 to 85 per cent increase in profitability. Building long-term relationships has advantages for consumers themselves. Companies care for their customers and strive to meet all their expectations, demands and needs - meaning consumers get high quality products and services.

Social media is a tool that enables people or companies to create, share or share information, ideas and images or videos in virtual communities and networks (Obar and Wildman, 2015). The emergence, development and use of the Internet and social

media have a huge impact on people's everyday lives, ways of communication and people's behavior. Previously, communicating with companies was generally one-way, the flow of information ranged from businesses to consumers. With the help of the Internet and social media, today, communication is two-way, not only from companies to consumers, but vice versa, from consumers to companies (Gaitho, 2018). This change in the way of communication creates a huge opportunity for creating deeper and more meaningful interactions between enterprises and their customers, ie the possibility of building closer and long-term relationships between them, leading to many advantages for both parties. That's why companies must not miss this chance, they need to learn how to properly use and use social media in order to build as good a relationship as possible with their consumers (Achen, 2017).

Social media is a new, modern way of interpersonal communication between people, and according to the trends and their constant development, it is realistic to expect that even in the future they will be used even more. The use of social media on a global scale is constantly increasing. In 2017, 71 percent of Internet users were users of at least one social media and it is expected that these numbers will continue to grow. Using social media is one of the most popular online activities with a high level of interaction and the ever-expanding mobile capabilities. In 2018, it is estimated that there will be 2.62 billion social media users around the world, compared with 2.46 billion in 2017. With over 1.86 billion active monthly users, Facebook is the leading social media in terms of coverage and scope<sup>1</sup> Macedonia has 1,100,000 active Facebook users (Facebook, 2018).

These statistics undoubtedly show that many people actively use the Internet and social media. It is clear that social media are tools that can significantly help and facilitate communications between businesses and their public. Every business, in order to be successful and profitable, must focus on communication and building long-lasting relationships with its consumers, and for this purpose, in modern terms, it must be used by social media.

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<sup>1</sup> <https://www.statista.com/statistics/278414/number-of-worldwide-social-network-users/> - visited on 06.02.2018



## 2. RESEARCH METHODOLOGY

The main goal of the research for this paper is the detailed description of the influence that social media have in the process of building long-lasting relationships and relationships between enterprises and their consumers. The purpose of this paper is to examine in detail how companies and consumers use social media in their interactions with each other and how much the use of social media in the establishment and maintenance of mutually beneficial, useful, positive and long-term relationships between these enterprises and their consumers, which can make certain suggestions and recommendations about what companies need to change and improve in order to fulfill this goal, which serves as a tool for achieving a greater number of satisfied customers, and thus greater profitability. So, the problems of decision-making and research can be defined as follows:

Problem decision-making: Should social media be used to build long-term relationships with consumers?

Research Issue: Determine the impact of social media on building long-term relationships with consumers and determine how to effectively use social media to meet this goal. The research questions were formulated as follows:

- Companies strive to build long-term relationships with their customers.
- Companies use social media as a tool for communicating with their consumers.
- Social media has an impact on building long-term relationships between companies and consumers.
- The impact of social media on building long-term relationships between companies and consumers is significant.
- Companies are insufficiently using social media to build long-term relationships with their customers.

A descriptive, one-time, individual research was conducted, using a deliberate test sample. Descriptive research is a kind of conclusive research, which, as the main objective, has to describe something, which is usually the characteristics or functions of the market. During the research, a purposive sample was used, which is not based on probability theory, rather a deliberate specimen. The deliberate sample is selected on the basis that an expert believes that these special units will contribute to

answering questions that are asked and that they are representative. So, the elements of the sample are deliberately selected, because they are expected to serve the researcher's purpose. The sample was chosen in this way, because the purpose of the research is to examine the influence of social media in building long-term relationships between enterprises and their consumers, so only people who already use social media entered the survey. Different types of questions were asked in the questionnaire:

- Structured - questions that define more alternative responses, from which the respondent should choose one or more answers.
- Unstructured - open questions where the respondent is free to respond in his own words. Only one unstructured question was asked in the questionnaire, because the respondents generally do not want to answer open questions.

The questionnaire was conducted from November 5, 2018 to November 18, 2018 on the social media Facebook and Twitter. Of these, the questionnaire was opened by 184 people, and responded to a total of 168 respondents. This means that the response rate is 91.3%.

### **3. RESEARCH RESULTS**

Of the 168 respondents who answered the questionnaire, most are aged 18 to 34 (53.6%), while the rest are aged 35 to 64 (46.4%). The gender structure of the respondents is relatively balanced - 55.9% of the respondents are women, while 44.1% are men. About the educational structure of the respondents, almost all educational groups are represented - 10.1% of the respondents have completed secondary education, 72% have higher education, 14.3% are M.Sc. and 3.6% are PhDs. With this structure of the sample, all significant demographic groups of the population are adequately represented, which means that relevant conclusions can be reached.

The most used social media among the respondents are Facebook (88.1%), YouTube (81.5%) and Instagram (66.1%). But high ranked by the number of users is also Twitter (53%).

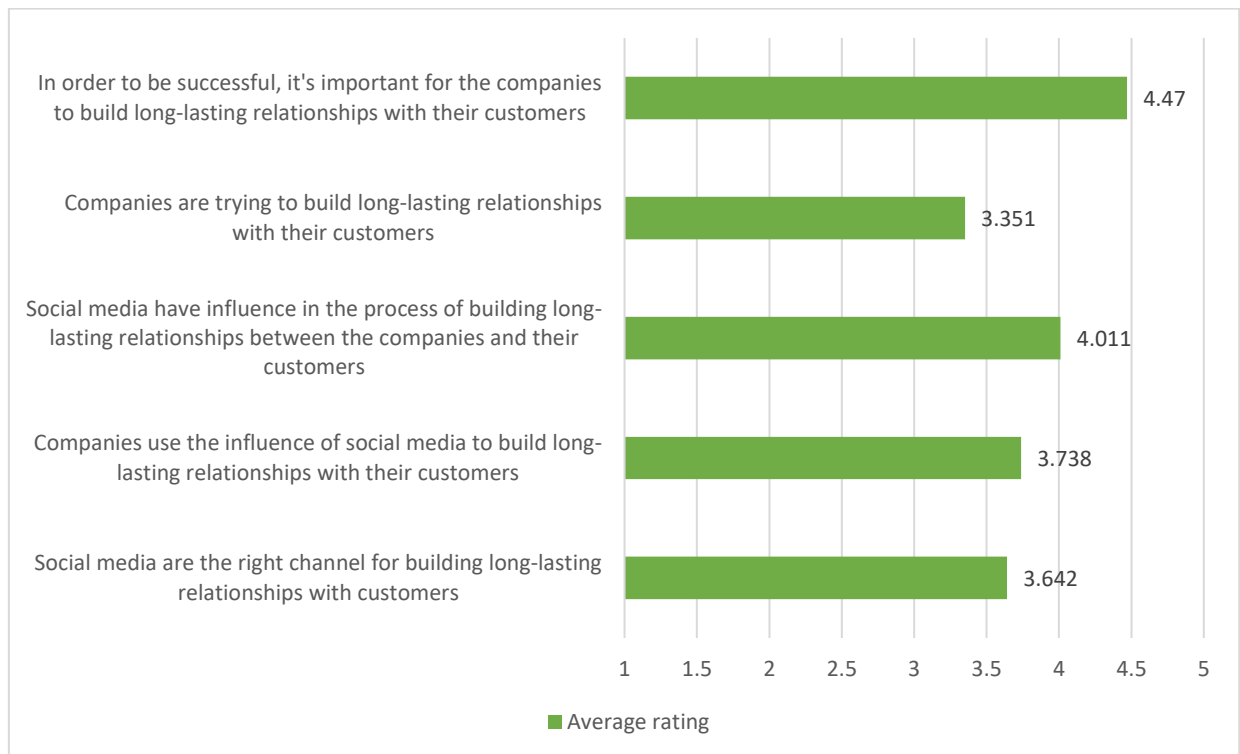
On social media 16.7% of the respondents from the sample spend less than an hour per day in total, most of the respondents spend one to three hours, 45.8%, from four to five hours a day they spend 26.2%, while more from six hours a day spend 11.3%.

Social media is mostly used for informing (39.3%), then for communication (35.1%) and ultimately for entertainment (25.6%).

A very large proportion of the respondents, a total of 81%, notice the announcements of social media companies among other offered content. However, only 45.4% of the respondents actively use social media to connect with companies and monitor their announcements, which, although a smaller percentage, still constitute a significant part of the sample.

In the next set of questions, the respondents were presented with several statements. Subsequently, an average grade of the answers for each statement was calculated, indicating whether the opinion of the respondents about the claim strives more towards consent or disagreement.

**Graph 1. Average intensity of agreement with the statements**



**Source: Own research**

The first statement reads (Graph 1): “In order to be successful, it’s important for the companies to build long-lasting relationships with their customers”. This was stated to evaluate the importance that the respondents attribute to building long-lasting relationships between the companies and the customers. Most of the respondents (121 or 72%), rated the importance with the grade 5 (I completely agree). The average rating of 4.47 confirms that

the respondents completely agree that it is important for the companies to build long-lasting relationships with their customers.

The second statement, which reads: “Companies are trying to build long-lasting relationships with their customers”, was stated in order to test the respondents’ opinions on whether the companies try to build long-lasting relationships with their customers or not. The average rating of 3.351 shows that the organizations put in a relative amount of effort into building long-lasting relationships, but when that rating is compared to the previous rating that shows the importance of building long-lasting relationships, it can be determined that the companies don’t put in enough effort, which means that they have to try harder to build long-lasting relationships with their customers.

The third statement reads: “Social media have influence in the process of building long-lasting relationships between the companies and their customers”. The average rating of 4.011 shows that the respondents agree with the statement, which means that social media sites have a significant influence and they should be used in the process of building long-lasting relationships between the companies and their customers.

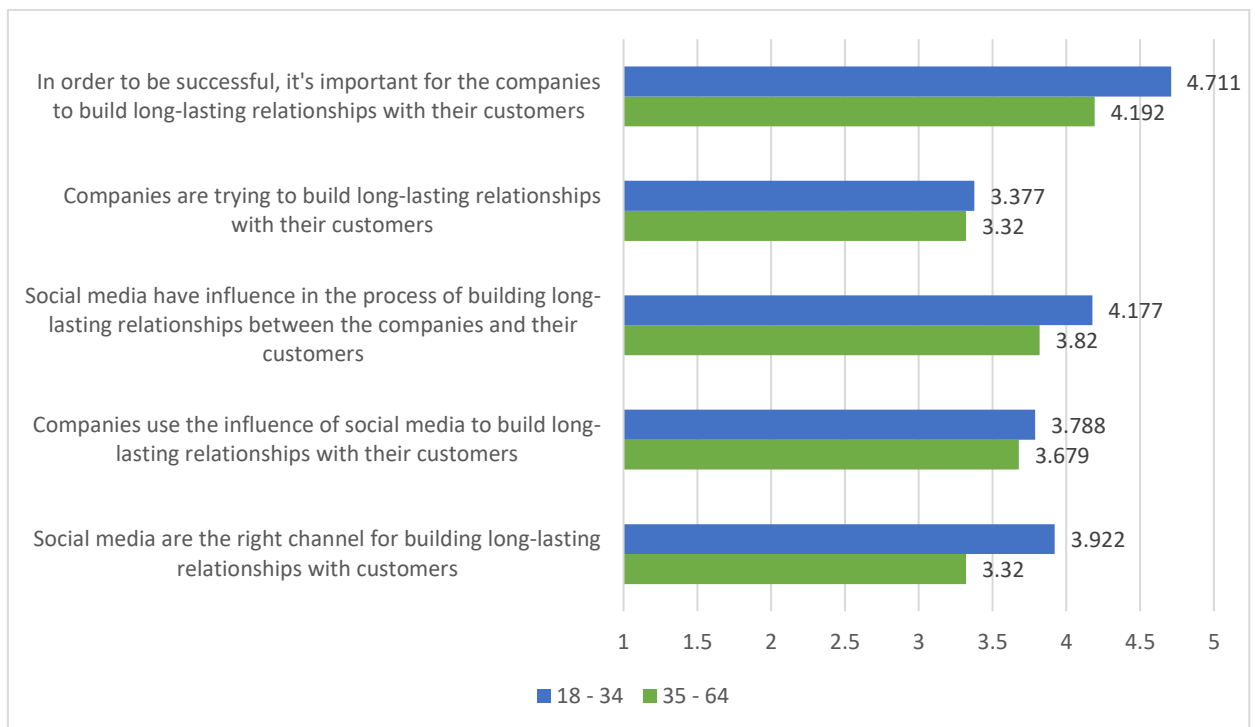
The next statement reads: “Companies use the influence of social media to build long-lasting relationships with their customers”. The average rating of 3.738 shows that the respondents partially agree with the statement. However, the average grade is not too high, which means that the companies don’t use the influence of social media to build long-lasting relationships with their customers enough.

The last statement reads: “Social media are the right channel for building long-lasting relationships with customers”. The average rating of 3.642 shows that, even though most of the respondents (105) agree with the statement, the average grade isn’t that high, which means that the respondents partially agree that the social media sites are a right channel for building long-lasting relationships with the customers.

Significant conclusions can be reached if a correlation analysis between the demographic characteristic of the respondents and their opinions on the aforementioned statements is made. If such an analysis in regards to the opinions of the different age groups of respondents is made, it is clear that the younger group has higher levels of agreement (higher average rating/grade) for all of the statements, when compared to the older group of respondents. Highest difference between the two groups can be seen for the statements: “Social media are the right channel for building long-lasting relationships with customers”, then “In order to be successful, it’s important for the companies to build long-lasting

relationships with their customers” and “Social media have influence in the process of building long-lasting relationships between the companies and their customers”. All of this clearly shows that young people are more interested in building long-lasting relationships between the companies and the consumers, they feel that the influence of the social media sites in this process is more significant, and at the same time are more convinced that the social media sites are a right channel for building long-lasting relationships with the customers, when compared to older people.

**Graph 2. Comparisons between the opinions of different age groups**



**Source: Own research**

The respondents were also asked whether they actively use social media to engage and communicate with brands or not. The comparison between the opinions of the respondents who actively use social media to engage brands and those who do not (3), in regards to the aforementioned statements, clearly shows that the respondents who actively use social media leave higher grades and ratings for all statements about building long-lasting relationships. They leave especially higher grades for the last statement: “Social media are the right channel for building long-lasting relationships with customers”. That means that, if companies want to build long-term relationships with their customers through social media, in order to increase their chances of success, mainly have to focus their efforts

on those customers who already actively engage and follow the brand on social media, as well as those customers who are more prepared to actively engage the brand.

**Graph 3. Comparison between the opinions of the respondents who actively use social media to engage brands and those who do not.**



**Source: Own research**

At the end, a comparison between the current and the ideal use of the methods and techniques for building long-lasting relationships with the customers was made (Graph 4). The goal of this analysis was to compare the current use of the methods and techniques with what the respondents feel the ideal use should be. The chart clearly shows that there is a significant difference between the current and the ideal state. For all of the stated methods, the average ratings for the current use are much lower than the average ratings for the ideal use. This means that the companies have to put in a lot more effort in using all of the methods and techniques, to use them more often, as well as better, in order to build higher quality long-lasting relationships with their customers.

However, the highest difference in the average grades between the current and the ideal use can be seen for the methods: “Being human”, “Implementing customer feed-back” and “Surpassing the customers’ expectations”. That means that the companies, in order to successfully build long-lasting relationships with their customers through social media,

should work on improving their use of these methods and techniques the most. Basically, they have to be more human towards their customers, they have to implement the feed-back that they receive to improve their operations – which will show the customers that their opinions is valued and it is important for the companies, and they have to try to surpass the customers’ expectation. In the short term, this will lead to more satisfied customers and in the long term, it will lead to higher quality long-lasting relationships with the customers, as well as increased profitability.

**Graph 4 Comparison between the current and the ideal use of the methods and techniques for building long-lasting relationships**



Source: Own research

#### 4. RESEARCH CONCLUSION

Based on the analysis of the gathered data, it can be determined whether the previously formulated hypotheses are confirmed or rejected. That provides a basis for drawing conclusions, as well as creating recommendations that will help companies improve their use of social media in order to build higher quality relationships with their customers.



- **H1:** Companies are trying to build long-lasting relationships with their customers - The average rating for the respondents' agreement on this statement is 3.351, which even though isn't too high, still leans towards agreement. That means that the companies are trying to build long-lasting relationships with their customers i.e. the hypothesis is *confirmed*.
- **H2:** Companies use the social media sites as tools for communicating with their customers - Most of the respondents (81%) notice the posts that brands make on social media. On the other hand, only 45.5% of the respondents actively use social media sites to connect, engage and communicate with the companies. In other words, even though there is room for improving the communication, as well as to motivate the consumers to engage in communication, still, it can be concluded that the companies try to use the social media sites as tools to communicate with their customers. That means that the hypothesis is *confirmed*.
- **H3:** Social media have influence in the process of building long-lasting relationships between their companies and their customers - This hypothesis was tested by measuring the level of agreement with the statement on a scale of 1 - 5. The average rating of 4.011 confirms that social media indeed have influence in the process of building long-term relationships between the companies and the customers i.e. the hypothesis is *confirmed*.
- **H4:** The influence of social media on the process of building long-lasting relationships between the companies and the customers is significant - If the average rating for the statement, which is 4.011 out of 5, is analyzed, it can be concluded that the influence of social media on the process of building long-lasting relationships between the companies and the customers is indeed significant. That means that the hypothesis is *confirmed*.
- **H5:** Companies don't use social media to build long-lasting relationships with their customers enough - The average rating for the statement about the use of social media for building long-lasting relationships with the customers is 3.738 out of 5. That means that the opinion of most respondents about this statement leans towards agreement i.e. companies use social media to build long-lasting relationships with their customers, even though there is room for that use to be improved. In other words, the hypothesis is *confirmed*.

## 5. CONCLUSION AND RECOMMENDATION

Based on the gathered data and its analysis, certain recommendation can be made, which will help guide companies in improving their social media use, with the goal to build long-lasting relationships with their customers:

- The respondents completely agree that it is important for companies to build long-lasting relationships with their customers, which means that the companies should put more effort in building long-term relationships through social media.
- The respondents think that social media have a significant influence in the process of building long-lasting relationships with the customers, so the companies definitely need to use social media as a tool to build long-term relationships.
- The respondents partially agree that social media are a right channel for building long-lasting relationships with the customers. This means that companies should use social media in combination with other, more traditional media, tools and methods for building long-lasting relationships, instead of focusing only on social media, or not using social media at all.
- Young people are more interested in building long-term relationships between the companies and the consumers, they feel that the impact of social media on this process is larger, and they are also more convinced that social media sites are a right channel for building long-lasting relationships, when compared to older people. That means that the companies should focus their efforts for building long-term relationships through social media on their younger customers.
- Companies that want to build long-lasting relationships with their customers through social media, in order to increase their chances of success, mainly need to focus on customers who already decided to follow their posts (they “follow” or “like” their page), as well as on those customers who are more interested in actively engaging and communicating with the brands.
- The respondents don’t agree that the companies are “being human” towards their customers on social media. That means that the companies should work on improving their relationship with their customers, by using more personalization on social media especially what they are providing content to consumers, in their day to day communication.

- When it comes to which methods to use, companies should mostly “publish content that helps customers make a purchasing decision”, then they should “quickly answer all of the customer questions, comments and complaints” and they should “implement customer feed-back”.
- Companies should “listen” to their customers when communicating through social media and then implement that feed-back in their work. That will improve the quality of the products or services that the company offers, but it will also show the customers that their opinions are valued and are used to improve the company operations. This will make customers more satisfied in their communications and overall experience with the company, and this will make them want to continue the process of building long-lasting relationships with that company.
- For all of the methods, the average ratings on the current use are much lower than the average ratings on the ideal use. That means that companies should work harder on implementing and using all of the available methods and techniques, they should use them more often, but also better, in order to build higher quality long-term relationships with their customers.

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## Appendix

### Appendix 1: Research questionare in original form.

1. Во која возрастна група спаѓате?
  - a. До 17 години
  - b. 18 – 24
  - c. 25 – 34
  - d. 35 – 44
  - e. 45 – 54
  - f. 55 – 64
  - g. Над 65 години
2. Кој е вашиот пол?
  - a. Машки
  - b. Женски
3. Кој е степенот на вашето образование?
  - a. Основно образование
  - b. Средно образование
  - c. Високо образование
  - d. Магистер на науки
  - e. Доктор на науки
4. Наведете кои социјални медиуми ги користите.
  - a. Facebook
  - b. Instagram
  - c. Twitter
  - d. Snapchat
  - e. LinkedIn
  - f. YouTube
  - g. Pinterest
  - h. Tumblr
  - i. Reddit
  - j. Други (наведете кои)
5. Колку време поминувате на социјалните медиуми во текот на денот?
  - a. Помалку од 1 час
  - b. 1 – 3 часа
  - c. 4 – 5 часа
  - d. Повеќе од 6 часа
6. За што најмногу ги користите социјалните медиуми?
  - a. За забава
  - b. За информирање
  - c. За комуникација
7. Дали при користењето на социјалните медиуми ги забележувате објавите на компаниите меѓу останатата понудена содржина?
  - a. Да
  - b. Не
8. Дали активно ги користите социјалните медиуми да се поврзете со компаниите и да ги следите нивните објави?

- a. Да  
 b. Не

9. Наведете до кој степен се согласувате со наведените тврдења:

Тврдење	Воопшто не се согласувам	Делумно не се согласувам	Ниту се согласувам, ниту не се согласувам	Делумно се согласувам	Потполно се согласувам
За успешно работење на компаниите во современи услови, важно е компаниите да градат долгорочни односи со своите потрошувачи	1	2	3	4	5
Компаниите настојуваат да градат долгорочни односи со своите потрошувачи	1	2	3	4	5
Социјалните медиуми имаат влијание во процесот на градење долгорочни односи меѓу компаниите и потрошувачите	1	2	3	4	5
Компаниите го користат влијанието на социјалните медиуми за да градат долгорочни односи со своите потрошувачи	1	2	3	4	5
Социјалните медиуми се вистински канал за градење долгорочни односи со потрошувачите	1	2	3	4	5

10. Оценете во која мера компаниите ги користат наведените методи или техники за градење долгорочни односи со потрошувачите преку социјалните медиуми:

Методи и техники	Воопшто не се согласувам	Делумно не се согласувам	Ниту се согласувам, ниту не се согласувам	Делумно се согласувам	Потполно се согласувам
Одговараат брзо на поставените прашања, жалби и коментари	1	2	3	4	5
Ги надминуваат позитивните очекувања на потрошувачите	1	2	3	4	5
Имаат проактивен однос кон потрошувачите	1	2	3	4	5
Се фокусираат на еден-на-еден комуникации	1	2	3	4	5
Го персонализираат искуството и комуникациите со потрошувачите	1	2	3	4	5
Ги наградуваат најдобрите потрошувачи	1	2	3	4	5
Го споделуваат искуството на задоволните потрошувачи	1	2	3	4	5
Во својата работа го применуваат фидбекот добиен од потрошувачите	1	2	3	4	5

Објавуваат содржини кои навистина ги интересираат потрошувачите	1	2	3	4	5
Објавуваат содржини кои им користат на потрошувачите во процесот на донесување одлука за купување	1	2	3	4	5
Им се заблагодаруваат на своите потрошувачи	1	2	3	4	5
Градот заедница со потрошувачите	1	2	3	4	5
Претпријатијата имаат хуман однос кон потрошувачите	1	2	3	4	5

11. Според вас, кои од наведените методи или техники сметате дека компаниите треба подобро и/или почесто, отколку сега да ги употребуваат на социјалните медиуми, за да изградат долгорочни односи со своите потрошувачи? Оценете на скалата:

Методи и техники	Воопшто не се согласувам	Делумно не се согласувам	Ниту се согласувам, ниту не се согласувам	Делумно се согласувам	Потполно се согласувам
Да одговараат брзо на поставените прашања, жалби и коментари	1	2	3	4	5
Да ги надминуваат позитивните очекувања на потрошувачите	1	2	3	4	5
Да имаат проактивен однос кон потрошувачите	1	2	3	4	5
Да се фокусираат на еден-на-еден комуникации	1	2	3	4	5
Да го персонализираат искуството и комуникациите со потрошувачите	1	2	3	4	5
Да ги наградуваат најдобрите потрошувачи	1	2	3	4	5
Да го споделуваат искуството на задоволните потрошувачи	1	2	3	4	5
Во својата работа да го применуваат фидбекот добиен од потрошувачите	1	2	3	4	5
Да објавуваат содржини кои навистина ги интересираат потрошувачите	1	2	3	4	5
Да објавуваат содржини кои им користат на потрошувачите во процесот на донесување одлука за купување	1	2	3	4	5
Да им се заблагодаруваат на своите потрошувачи	1	2	3	4	5
Да градат заедница со потрошувачите	1	2	3	4	5
Претпријатијата да имаат хуман однос кон потрошувачите	1	2	3	4	5

12. Што мислите за употребата на социјалните медиуми како алатка за градење долгорочни односи меѓу претпријатијата и потрошувачите? Наведете го вашето мислење со кратко објаснување (отворено прашање).



## INTERNET MARKETING CHANNEL IMPLEMENTATION IN THE TRADE INDUSTRY IN THE REPUBLIC OF NORTH MACEDONIA

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### ABSTRACT

Modern companies are utilizing the benefits of Internet marketing, which can prove as a crucial tool in communicating with consumers. While the obvious goal of Internet marketing is to sell products and services or to promote them online, companies can communicate, transmit or exchange messages about themselves, conduct research, analyze competitors and other activities.

From a marketing point of view, social media are also becoming more and more important, but many businesses are uncertain whether accepting social media will advance the line if there are difficulties in aligning marketing activities through social media with rising sales. The paper conducts primary research in a specific industry in North Macedonia, focused on small and medium companies, with key findings that Internet and social media marketing is considered a powerful tool with a lot of benefits by participants.

**KEYWORDS:** Internet marketing, products, SME, business, online promotion

**JEL CLASSIFICATION:** M31, M37

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## 1. LITERATURE REVIEW

Internet marketing represents advertising, creation of marketing activities and campaigns via the Internet, i.e. the realization of marketing goals through digital technologies and utilizing Internet marketing strategies (Aleksoska, 2010). It is considered to be more effective than traditional marketing because it emits digital marketing messages to consumers for lower costs in terms of TV advertising or print campaigns, where information is disseminated at anytime and anywhere, for a wider audience that can grow into potential consumers (S'Gara, 2014). Internet marketing along with internet marketing strategies is considered the future of modern and modern marketing (Chaffey & Chadwick, 2015). Today it's important that the majority of customers are present online to find the product or service they want or need, with special focus on social media - 71% of internet users are more likely to purchase from a brand that they are following on a platform such as Facebook. Social media can be defined as platforms with profile creation and visibility of relationships between users (Boyd & Ellison, 2008) or as providing as a communication platform that facilitates two-way communication between a company and their stockholders (Siddiqui & Singh, 2016). The majority of marketers (59%) are using social media for 6 hours or more each week (Schwarzl & Grabowska, 2015). If the company has a wrong brand strategy online, it can significantly hurt the brand value and create a huge viral disadvantage.

According to the State Statistical Office of North Macedonia, in the first quarter of 2018, 79.3% of households had access to the Internet. In the first quarter of 2018, of the total population aged between 15-74, 79.2%, used the Internet and 68.7% used it daily or almost every day. Mobile phones or smartphones were the most utilized Internet access devices for in this period, and most of the users were people aged 15-24 (91.8%). 74.9% of people used computers, laptops, smartphones, tablets or other portable devices at work. 31.6% of the people who used the Internet ordered/purchased goods or services over the internet in the last 12 months, and the majority (54.9%) of them bought clothes or sports equipment.<sup>1</sup> Worldwide data shows that digital advertising continues to rise from 32,7% in 2015 to 43,6% in 2018, with expectations to overcome 51% in the year 2021. Net expenditure in 2018 was 105,4

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<sup>1</sup> <http://www.stat.gov.mk/pdf/2018/8.1.18.29.pdf>

billion dollars, with it expecting to grow up to 129,3 billion dollars in 2021, when it will finally overtake traditional advertising. While investing in online advertising and internet marketing strategies continues to grow, investments in television advertising and advertising will no longer be in focus<sup>2</sup>. One of the key problems of the companies in North Macedonia is the mistrust companies have in the marketing agencies because of not seeing the real benefit of using Internet marketing strategies and digital advertising. Online advertising can be really helpful and a great opportunity provider for new entrants and existing companies in the market (Jain et al., 2016). In 2018 in the North Macedonia, 94.4% of business entities used a computer in their work. Broadband Internet access had 81.5% of business entities with ten or more employees. Of the total number of business entities, 53.9% had a website or home page. Of these, 89.6% of the website provided a description of the products/services, pricelists, 51.7% indicated links/references to their social media profiles, and 21% secured online ordering or reservations. Regarding e-commerce, 5.7% of business entities received orders via e-commerce and 4.4% of business entities received orders for goods or services through Web-sales.<sup>3</sup>

In order to perceive the practical implementation of Internet technologies and digital advertising, a questionnaire was prepared focused on SMEs (small and medium enterprises) that work with the manufacturing and sales of electric and manual equipment and tools. The choice of these specific companies is made primarily because of the specificity of this kind of products, their purpose and way of sale. In large part, despite the fact that such products are sold in large stores, they are also sold through catalogs - printed and electronic which was a serious basis to consider that they can develop and use Internet marketing strategies for easier and faster to present and sell their products to their target customers.

## **2. METHODOLOGY**

To research the topic in detail, primary and secondary data was used. Secondary data was gathered via the exploratory method, while primary data was

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<sup>2</sup> <https://marketing365.mk/digitalna-revolucija-se-blizi-krajot-na-tv-oglasuvanjeteto/>

<sup>3</sup> <http://www.stat.gov.mk/pdf/2018/8.1.18.31.pdf>

collected by designing and implementing a survey questionnaire, focused on SMEs on the territory of the Republic of North Macedonia. The selected companies are from the SME category, because there are only small and medium-sized companies in the Register of companies that work with tools in the Republic of Macedonia. The questionnaire was submitted to 19 companies, where complete questionnaires were received from ten companies, which were utilized as the basis for further analysis. The results were completely anonymous and were under further quantitative and qualitative analysis.

The survey questionnaire contained 19 questions, composed of three types:

- **Multiple-choice questions** - The goal of this group of questions is to give the respondents some concrete answers, one or more of the answers being an expression of the essence of the activity under review or representing the content of the company.

- **Dichotomies** or questions with only two choices - the purpose of asking these questions is the respondents with the answer Yes to confirm the activity or to point out that the company does not perform such activities.

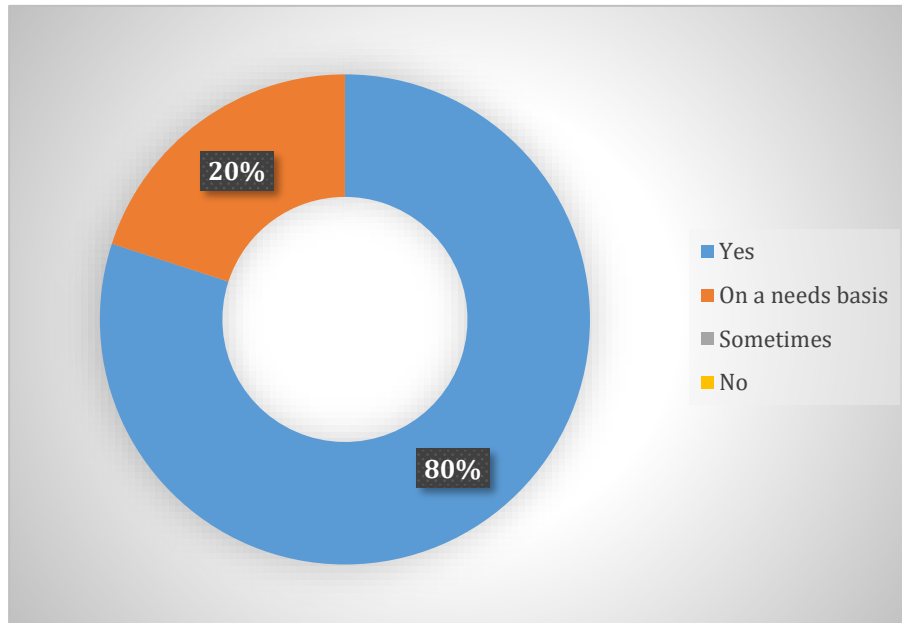
- **Open questions** - set up in order to enable the respondents to express their opinions and conclusions and activities.

### 3. DISCUSSION

The quantitative and qualitative analysis from the questionnaire has given us insight into the functioning of this specific industry in the Republic of North Macedonia. From the analyzed companies, 1 stated that it was a sales salon, 7 are registered as trading companies, 1 company is involved in manufacturing and trading and 1 is a representative subsidiary of a foreign corporation. The data presented shows that the companies have significant experience in working with these products, half of them have working experience over ten, even more years, 20% with experience from five to 10 years and 30 % with experience from two to five years. This points to the fact that these are companies that know their work and develop in the business they work for. 60% of the companies conduct their business only in the country capital Skopje, while the other 40% function both on the territory of Skopje and other regions as well.

These statements show that the main business activities with products from this activity are realized in the capital city.

**Graph 1.** Internet usage by employees



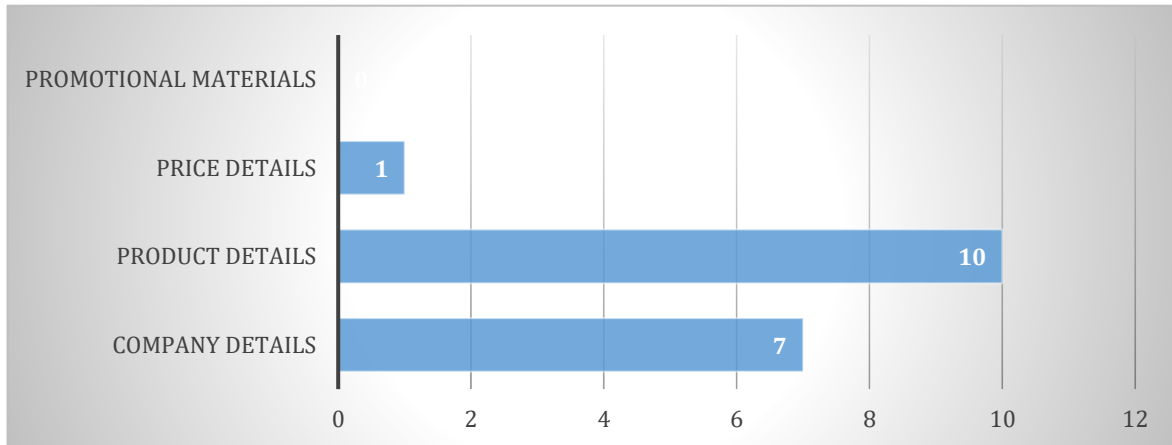
Source: Own research

Graph 1 points out that companies use the Internet in their work, with 80% using in constantly and 20% as needed, emphasizing its importance in everyday operations. Using the Internet from a business perspective today is no longer a choice, but rather a must. Even 63% of potential customers when searching for a business online, first do it on one of their social media channels. Using the Internet, if properly implemented, is one of the best methods for communicating with the client. (Trembelieva, 2017).

90% of the analyzed companies stated that they own a web-site, while 10% stated that the web-site is in development. The web-site represents the core of online presence and Internet marketing strategy. The professional web-site describes the business, provides a description of the employees, and the services and products that are offered. It offers information that can be searched online and is really available from any device that has an internet connection. The availability of internet on mobile and portable electronic devices increases the need for the website to be available on these devices. In 2016, 53% of companies (10+ employees) in the Republic of

Macedonia have a website that is well below the European average of 77%. Of the companies that own a website, only 27% have the option of online job application and advertising on open positions (Stojkoski, 2018).

**Graph 2.** Type of information published on corporate web-sites



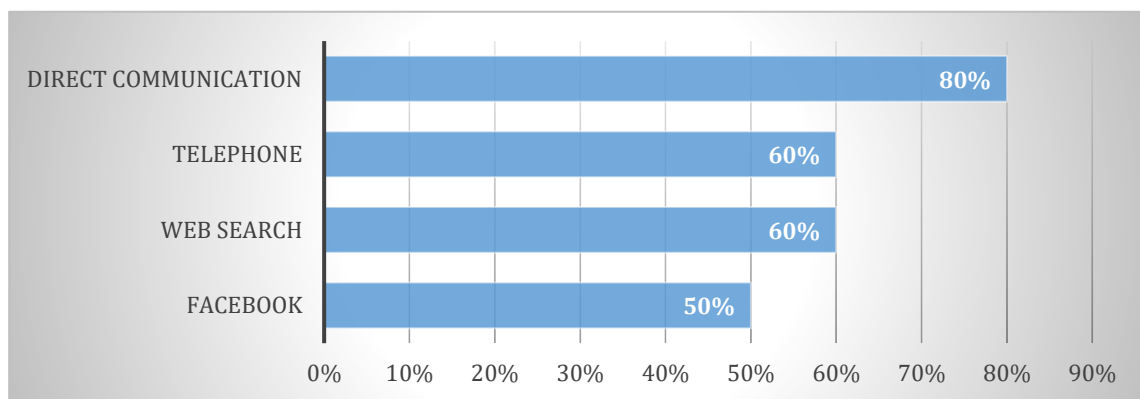
Source: Own research

Graph 2 demonstrates that all of the analyzed companies promote their products online. It is surprising to see that not one company utilized their web-site to push promotional materials and only a small percentage (10%) are sharing details regarding pricing. The digital presence continues through social media, where the most popular network is Facebook (80% of companies have profiles), followed by YouTube (50%) and Twitter (30%). Effective usage of social media channels can lead to numerous benefits for the company. Companies utilize their Facebook fan-page for promoting their products (70%), following by promoting the company itself (60%) and communicating with friends (20%). In 2016, 53% of companies in the Republic of North Macedonia used at least one social media, while 51% of companies used social networks. 39% of companies have a website and use social media. It is characteristic that companies use only one type of media in North Macedonia, i.e. 37%, while at the European level this percentage is 24%. Most Macedonian companies pay for advertising based on Internet targeting, i.e. 17% while for EU this is 9% (Stojkoski, 2018).

Among the analyzed companies, 80% possess a presence on the social network Facebook, followed by YouTube with 50% and Twitter with 30%. This gives clear

indication of the popularity of Facebook in North Macedonia. Social media can be a powerful tool for companies to interact directly with consumers, especially in this industry. Respondents state that they utilize Facebook for promoting company products (70%), followed by promotion of the company (60%) and communicating with friends (20%). Still, for the most part, companies contact with their consumers directly (80%) or via telephone (80%), while less used is the Internet (60%) and Facebook (60%). This means that the traditional methods of communication are still dominant in this specific industry.

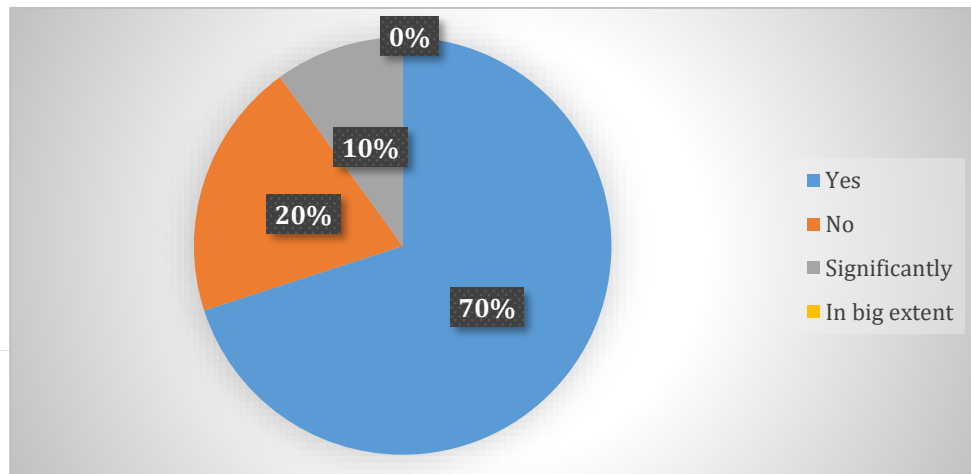
**Graph 3.** Sources for information regarding consumers



Source: Own research

Graph 3 reinforces the previous notion that companies in this industry tend to be more traditional, with research regarding consumers being done mostly through direct communication or telephone. Digital media are mostly seen as tools for promotion, not as research tools that could give valuable information. The most utilized traditional methods for communication with consumers are presentations (60%) and radio (40%), while magazines and newspaper ads are seen with lower value.

**Graph 4.** Has Facebook influenced in acquiring new customers?





Source: Own research

Graph 4 demonstrates that Facebook and social media in general are viewed as beneficial by companies in increasing their business. The reach of social media enables companies to find new customers, especially from geographically remote areas that were previously unreachable with traditional media. Furthermore, over half of the companies (60%) state that Internet technologies and social media have made communication with customers a lot easier. Besides social media, company web-sites are viewed as a primary method of communication in the digital world. Focusing on blogs as part of their digital presence, half of the companies (50%) state that they have an active blog that is updated on a regular basis. Blogs can represent a powerful tool for companies to showcase their expertise.

#### **4. CONCLUSIONS**

The research has shown that although companies have access to the Internet and have their own Facebook pages, the opportunities offered by this type of means of communication with customers are not appropriately used. Theoretical research clearly shows that Internet technologies offer a great opportunity for online promotion and for companies to implement Internet marketing strategies, but it is necessary to choose the appropriate platform to achieve the presence of internet space. The Internet allows to reach the final consumer, that is, to realize the marketing activities of the company and to direct them towards the target audience. The surveyed companies use the websites and the Internet as communication media, but they lack a strategic approach to the tool market. In order to successfully accomplish the set marketing goals, it is necessary to align the Internet marketing strategy with the resources, organizational structure, ethics and culture of the company. The company's offer should match its capabilities and potential, but the current market conditions need to be taken into account and future market changes should be perceived.

Websites are primarily a great way for a company to be found. The website is the virtual presence address and creating a general image for the company. In

companies that sell tools, manual and electric, websites are a means by which products that are the subject of their operations are represented. The Facebook platform plays a major role in increasing the company's image and offers the opportunity to offer content for representation of companies in order to interact with future and existing buyers and to increase the popularity and strengthen the image of the company. With this medium it has never been easier to get in touch with the target consumers, but also to get a feedback from the end user about his experience of using the product of the company. Facebook is currently the most powerful tool for promoting a particular web-site. Whether it is through paid advertisements, or by using a Facebook page on which promotional materials are presented, exchanges can be made with other Facebook pages or by using a Facebook profile that would add people who would thereby get to know the page the company.

The conducted research points to the following conclusions:

- Companies in the Republic of North Macedonia are aware of the advantages and necessity of using the Internet and are developing Internet marketing strategies so that they can perform more successfully by using social media and other digital channels
- The companies from the Republic of North Macedonia that work in the production and trade of manual and electric tools are mainly trade enterprises, and there are also companies operating as a production and sales company and a representative office of a foreign company.
- These companies have been operating on the tool market for a long period of time and are familiar with their customers and have an adequate database that indicates that they are companies that know their work and develop in the activity in which they work.
- Companies from this specific industry are aware of the importance of using social media and the website for improving the performance of their operations and achieving numerous benefits for the company, especially taking into account the fact that the main business activities with products from this activity are realized in the capital of country Skopje.

- All companies use the Internet as a means of communication, where the web site is the core of the online presence of companies in the Internet space. Companies present their products and prices on their respective web-sites. With the use of the Internet and social media, a greater number of buyers are provided, and the operation is made easier.
- Facebook is the most used social media platform, followed by YouTube and finally by Twitter. Facebook as a social media network is mostly used to promote the company, to present products, to carry out promotional activities, as well as to communicate with friends. According to the survey, the Facebook profile has a big impact on increasing the number of company buyers.
- For communicating with customers, companies use all forms of communication, both traditional and digital, but still to a greater extent do so by direct communication and by telephone. Part of the traditional marketing channels that are still present in companies from this industry are the radio presentations, as well as newspapers and magazines.

Companies that sell tools, manual and electronic, are constantly present on social networks, most of which are Facebook, but they do not use it expediently to get aggressively on the market. Transactions carried out over the Internet represent interactive transactions, i.e. they are realized as a dialogue, gathering information, delivering product and service notifications, collecting addresses for buyers and producers, and the like. The use of the Internet is realized through the development of Internet marketing strategies by which companies are oriented towards customers, i.e. to meet their needs that are always innovative, with their own content and design, different from those of the competition. In order to conduct marketing activities online, it is necessary to prepare an internet marketing plan that will determine the goals of internet marketing, determine the tactics that will be applied, and anticipate the funds that will be used for the realization of Internet marketing activities. Social media today is an effective means of interactively communicating directly with customers and sharing information about the products or services of the company.

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## Articles

presented at the

### **First International Conference on Sustainable Development in Business and Economics**

In the following section of the Journal of Sustainable Development selected papers presented on the First International Conference on Sustainable Development in Business and Economics are published.

The Conference was held on 12<sup>th</sup> of April 2019 at the Integrated Business Institute and Integrated Business Faculty in Skopje, Republic of North Macedonia.

It was a unique event combining different approaches of the sustainable development of business and economics such as economics of sustainable development, finance and accounting, entrepreneurship, business administration, legal environment of businesses, corporate social responsibility, ethics in business and education and knowledge management.

The conference brought together an international community of experts and researchers from various fields of business, economics, education and social and behavioural sciences to discuss the state-of-the-art, new research results and perspectives of future developments relevant to the topics of the conference. All of them have shared their knowledge, experience and achievements so far thus enabling to set the future directions of the sustainable development in business and economics.

The Book of Abstracts of the First International Conference on Sustainable Development in Business and Economics can be found on the [following link](#).

## **FINANCIALIZATION OF GDP - DYSFUNCTION OF THE REFERENCE MEASURE**

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### **ABSTRACT**

Financialization is one of the most important trends limiting the sustainable development of economies. Despite of growing significance of finance in market economy, the perception of these new phenomena is not unambiguous. Theoretical discussion over financialization oscillates between acceptance of natural evolution of the market economy towards growing importance of financial sector on the one hand, and warnings of destructive role of finance in economic, social and ethical aspects of sustainable development on the other hand. A framework of the discussion over financialization should embrace pursuing the answers to the following key questions: what are the key drivers of financialization, what are the key symptoms, what is its impact on real economy and finally how to cope with it. To make financialization manageable, however, it must be measurable in the first place. Applied measures should take into account primarily the scale of financialization (total size of financial assets, employment in financial sector, revenues from the financial activity of the real industry and so on) and secondarily, its impact on the economic growth. The most commonly used measures that address the above mentioned both aspects of financialization refer to the GDP aggregate. This can provoke the question about reliability of the obtained outcomes. Starting from the second half of the twentieth century, the set of economic inputs used to calculate the GDP began to skew rapidly towards finance. Therefore, there is a fear that, on the one hand, the scale of financialization is underestimated and, on the other hand, its impact on economic development is overappreciated.

The main aim of the paper is to present the key constituents of GDP with a particular focus on those, directly and indirectly originating from the financial sector. Review of literature will be conducted to identify the key implications of

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financialization of the GDP for selected aspects of macroeconomic debate. Finally, the paper will lead to a conclusion, that despite being imperfect, the GDP fulfils its role of a reference measure in assessing the scale of financialization. However, to evaluate the impact of financialization on economic growth and other aspects of real economy, it should be replaced with another reference aggregate which would be free from the overwhelming impact of finance.

**KEYWORDS:** financialization, economic growth, GDP

**JEL CLASSIFICATION:** G21, F65, O40

## 1. INTRODUCTION

Financialization is considered to be one of the most important trends limiting the sustainable development of economies. Main stream debate on these relatively new phenomena has focused on identifying expansion of the financial sector into various fields of economies and societies, as well as analysing its effects on economic growth, employment, inequality and democracy. At the backstage of the discussion over financialization lays the thesis of an “increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operation of the economy and its governing institutions, both on national and international level” (Epstein, Jayadev, 2005). Theoretical discussion over these ideas oscillates between acceptance of the natural evolution of the market economy driven by the growing importance of the financial sector and related industries such as real-estate and insurance, grouped together under the FIRE acronym (Assa, 2016) on the one hand and forecasting destructive role of finance in economic, social and ethical aspects of sustainable development on the other hand. In any case for the financialization to be manageable, its measurement is necessary first of all. Applied measures should embrace primarily the scale of financialization (total size of financial assets, employment in financial sector, revenues from the financial activity in the industry etc.) and secondarily, its impact on the economic growth. The most commonly used measures covering above mentioned aspects of financialization refer to the GDP aggregate. It should be noted, nevertheless, that the GDP has undergone a radical transformation in recent decades due to the way financial activities are treated in the national accounting framework (Assa, 2016). The direction of GDP evolution can be



described as **financialization of the GDP** itself. It leads to an excessive increase in the total value of the GDP, as well as an increase in the contribution of the FIRE sector. This consideration could provoke the key question, whether the concept of GDP still fulfils its role as an appropriate measure of the economic growth.

## 2. CONTEMPORARY METHODOLOGY FOR GDP

In 1758 François Quesnay developed the so-called "economic board" (Tableau Economique), the first in the history of economic thought simple reproduction scheme and the first prototype of national accounts. It enabled the diagnosis of the economic situation which is also the task of national accounts today (Zienkowski, 2007). Quesnay's work has brought a new look at the concept of „productive work” as giving an „additional product.” Today, the compilation of the gross domestic product accounts consists of an independent compilation of the GDP from the sides of expenditure and production, which are then subject to balancing, using additional income information. Expenditure side approach includes the following categories: total consumption, investments, government spending and foreign trade turnover. Due to the availability of the data, the production side is considered to be a more reliable one. It requires calculation of:

- global production,
- intermediate consumption,
- gross value added
- product taxes less subsidies on products.

**Global production** equals to the sum of global output of products and services of all institutional sectors. They form separate sections distinguished in the national classifications of economic activities. **Intermediate consumption** includes the total value of net materials consumed, raw materials, fuels, energy, technical gases, external services and other costs. **Gross value added** is the difference between global production and intermediate consumption. Final aggregate, **Gross Domestic Product** is the sum of the gross value added of all sections, plus taxes on products reduced by subsidies on products. The national accounts compiled today focus on production, its creation and division. However, there are numerous differences of views as to the

concept and definition of production activity and its effects (Zienkowski, 2007). Some of them refer to the contribution of finance.

### **3. THE EVOLUTION OF FINANCE PARTICIPATION IN NATIONAL ACCOUNTS**

The general structure of the GDP does not provide for a reliable measure of the impact of finances on its final value. The inclusion of financial revenues (from the FIRE) in the national income is relatively new. In the 1930s, the government sector was included in the GDP estimates for the first time, thus complementing the catalogue of market sections of the national economy with non-market ones (such as public administration, national defence, social security, education, health care and others mentioned above). However, financial services were not figured in at that time.

Until the mid-twentieth century (System of National Accounts, 1953) financial activity was considered as having a small or even negative contribution to the economy. In the sectoral classification, the interest income from financial intermediation of the financial industry was excluded, and only revenues from fee-based activities remained sometimes being even lower than the general operational costs. After the changes of the SNA scheme in 1968, a net interest income started to be treated as an input to the imaginary sector. Thus, from that time on, "finance has become productive" (Christophers 2011). This change did not affect the final estimate of the GDP because the net interest income recognized as an intermediate cost, has been deducted at the last stage of the GDP calculation. Nevertheless, the productivity of the financial industry was sanctioned, which established new relations between productivity of various sectors of the economy.

Starting with the 1993 revision of the SNA, the finance sector ultimately and unequivocally "became productive" and added to the GDP (instead of being excluded or deducted). The changes inflated the size (in terms of the GDP) of the economy in many countries where the FIRE sector accounts for 20-30% of the national income (e.g. the US and UK). The transformation of finance created numerous inconsistencies in the GDP calculation, caused by the differences in approach to various types of financial incomes in the calculation of national accounts (Table 1).

**Table 1. Financial incomes in the calculation of national accounts**

<b>Financial Income</b>	<b>Treatment in SNA</b>	<b>Rationale</b>
Capital gains	<b>Excluded</b> from GDP	No productive activity
Net interest income (FISIM)	<b>Deducted</b> from GDP	Intermediate input to other industries
Fees from financial services	<b>Included</b> in GDP	Productive activity

**Capital gains** have always been excluded from the GDP, because of lack of any activity undertaken by the capital asset holder, which can be considered productive. On the other hand, a **net interest income** of financial institutions (financial intermediation services indirectly measured - FISIM) after the changes of the SNA in 1968, began to be treated as an input to the imaginary sector, thus legitimizing the productivity of such activities (The Measurement ..., 2010). Nevertheless, FISIM recognized as indirect costs deducted at the last stage of the GDP calculation without affecting its ultimate estimate. What is most important, **fees from financial services** are treated as payment for productive services provided by financial institutions to the real economy and are therefore included in the GDP estimate.

#### **4. SELECTED ASPECTS OF FINANCIALIZATION GDP**

In the context of the national accounts, it is often claimed, that the GDP does not correctly show the changes in the level of wellbeing. Discussion about this issue has been going on for decades. It has intensified nowadays in the face of financialization (Zienkowski, 2007). It is commonly suggested that the GDP has primarily nothing in common with the "quality" of income. It sums up all consumption, investments, government spending and exports, subtracts imports, receives a certain monetary value, but does not distinguish between consumption financed with credit and savings, profitable and unprofitable investments, and does not evaluate government spending in terms of their rationality.

The euphoria of many European countries caused by growth in the GDP driven by the inflow of money from the European Union, can also become a trap for a real increase in the wealth of the society. It has been shown many times that subsidies from

the European Union are allocated for qualified rather and not necessarily important purposes, and additionally own resources are wasted because of the requirement to contribute to the EU supported investments (Stodolak, 2011).

The illusion of economic growth is often associated with rebuilding after the wars or the cataclysms (Stodolak, 2011). This seemingly correct reasoning does not take into account the fact that the capital that otherwise would have been used for reconstruction would otherwise would have been invested in completely different and new ventures. Catastrophes reverse the economic development of the economy instead of pushing it forward (Bennett, 2008).

Some propositions of changes in the methodology of the GDP contradict the currently used distinction between the concept of accumulation and consumption. This could refer in particular to the expenditure of the government sector on the administration and on defence, which should be rather treated as indirect consumption and not as final production. They should not be dealt with in the same way as spending on consumed or accumulated goods. Actually, they are considered as intermediate consumption not assigned to any sector in the same way as financial services measured indirectly (FISIM) (Zienkowski, 2007).

One of the key aspects is impact of investments on the GDP financialization. The GDP covers both consumer and investment goods. However, these investments do not include the purchase of securities or other financial instruments. The category "investments" in the calculation of the GDP includes only real investments such as factories, offices, shops or computers (Taylor, 2017). Those sectors of the economy that show greater propensity to invest, have larger contribution in GDP. The structure of investment today is likely to indicate the future profile of the economy and its ability to generate real growth (Taylor, 2017). However, financial investments, not included directly in the GDP calculation, indirectly affect its size and dynamics. The more the financial capital is transformed to the factors of production, the stronger the impact of financial investments on real growth. For example, investments in new shares of enterprises, purchase of mutual fund units investing in the real economy or purchase of corporate bonds, indirectly strengthen investment activity of the whole economy. On the other hand, investments in the secondary market, oriented mainly on financial speculation, may even deteriorate economic growth (displacement effect) with the

simultaneous increase of instability and risk. Financial investments can also have indirect impact on other GDP factors, such as consumer spending, job creation and increasing customers' purchasing power.

## **5. ECONOMIC AND POLITICAL IMPLICATIONS OF GDP FINANCIALIZATION**

The strong financial contribution to the GDP has given rise to a lively discussion of possible implications for various aspects of political and economic debate. An interesting voice in the discussion was raised by Assa (2016) pointing at three fields of the debate:

- Breakdown of Okun's Law,
- The Great Moderation phenomenon,
- GDP as misleading predictor

Okun's Law establishes a relationship between the rate of growth (GDP) and the changes in the rate of unemployment. On average it could be said, that one percent reduction in economic output corresponded to half a point increase in the unemployment rate (Wen, Chen, 2012). The validity of this law has recently been questioned. Basu and Foley point out that during the 2007-2008 crisis a significant anomaly affecting this law could be observed. The U.S. unemployment rate in 2009 increased twice as fast as conventional models would have predicted given the drop in output. Also the recovery of the real GDP in the second quarter of 2009 "had even less impact on the aggregate unemployment rate than in the previous two jobless recoveries" (Basu and Foley 2013). The debate about the fallacy of Okun's law takes into account numerous and various issues. One of them refers to the GDP as a reference measure. The growth in financial services leads to overestimating real output at the aggregate level, which explains part of the apparent breakdown of Okun's Law. The incomes of the FIRE sector have either a negative influence or no significant influence on employment in their sector. Including FIRE in the GDP weakens the overall links between the GDP and employment.

Another debate about the GDP concerns the so-called "Great Moderation", that is reduction in the volatility of the economy output (measured by GDP) which began around 1994. On one hand it could be explained by structural decline in the variance of shocks and a narrowing gap between economic growth rates during booms and

recession (Kim, Nelson, 1999). Other researchers focus on shrinking contribution of non-technology shocks to output volatility and stabilizing impact of low inflation (Galí, Gambetti, 2009). However, recent studies question the existence of this moderation and claim, that volatility since the mid-1990s has only moved from shorter cycles (and higher frequency) to longer ones (and lower frequency) (Crowley, Hallett, 2014). Also, here, both parties use standard GDP to define volatility. The problem is, that the financialization of the GDP has reduced aggregate volatility. During economic cycles, the FIRE sector's ups in the "value-added" systematically compensate for simultaneous downs in real sectors. It leads to the conclusion, that "Great Moderation" is ultimately a statistical fiction (Assa, 2012)

One of the basic expectations of economists is the ability to forecast the future. An analysis based on a large number of indicators is associated with the inevitable modelling errors. Quite often, therefore, analysts try to use synthetic measures of high informative importance. Undoubtedly, the GDP can be considered as one of them. However, empirical studies show that the GDP-based observations proved to be poor indicators of the upcoming declines in demand and employment. The GDP may suffer from a statistical bubble, recognizing income from loans and debts as if it would increase demand for goods and services instead of being detrimental to demand and causing its instability.

## 6. ALTERNATIVE REFERENCE MEASURES

Numerous disadvantages of the GDP lead to the search for of a better aggregate measure of the quality of life. Some of them have been focused on the quality of the natural environment. The others suggested isolation of the growth rate from the excessive impact of finances. An example of such a measure is the FGDP - Final Gross Domestic Product (Assa, 2016). The FGDP treats fee-based incomes of financial institutions in the same way as the SNA deals with interest income, deducting it rather than merely excluding from GDP as a cost for other sectors. It can be clearly demonstrated, that the FGDP performs better than the GDP as for confronting the discussed dilemmas.

The FGDP is closer than the GDP to Okun's law predictions. Even if presumed relation between growth and unemployment is undermined in various periods of

analysis, the FGDP still proves the strong relevance of Okun's observation. Following historical movements of the FGDP one can find out, that it is significantly more volatile than the GDP. It shows more sharp spikes than the GDP and, furthermore, predicts some recessions which the GDP does not capture. The Great Moderation, examined with the FGDP, is an illusion created by the increasing contribution of finance which has a smoothing effect on the GDP. Moreover, the FGDP proved more useful in forecasting. Whilst the GDP completely missed the drop-in demand and employment in the eve of the 2007-2008, the FGDP showed the coming downturn. For each period of analysis, the FGDP is well ahead in tracking stagnation and recession. The FGDP should be performing better because it deducts financial fees as overall economic costs treating them as leakages out of the aggregate demand, while in the GDP they belong to final consumption expenditures that are associated with creation of debt.

## CONCLUSION

Inconsistencies in classification of various financial categories result in methodological and empirical problems undermining the usefulness of the GDP as a reference measure in assessing the effects of financialization (Zienkowski, 2007). The arguments reflected upon in the article indicate its deficiency in several areas:

- the GDP is theoretically inconsistent (since all FIRE incomes originate from creation and trade of claims or assets rather than goods and services),
- the GDP is empirically problematic (i.e. the breakdown of Okun's Law, the great moderation, misleading predicting of the future trends)
- the GDP leads to numerous instrumental problems such as measuring wellbeing, neglecting environmental costs, growing indebtedness, excluding care work and other normative issues.

The practice of national accounting has therefore been, from its origins, a political exercise rather than statistical measurement. It can be thought of as policy-based evidence rather than a tool of evidence-based policy (Leonhardt, 2018). Financialization of the GDP itself distorts the assessment of both the scale of financialization and its impact on the economic growth. With strong and undefined contribution of finance the GDP has become a judge in its own case.



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## **MONEY BETWEEN ECONOMIC PRINCIPLES AND POLITICAL POWER**

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### **ABSTRACT**

Power as an ability to produce certain changes in separate societies and in the world has a great influence on national economies and global economic relations. However, it is rarely found as a factor in economic analyses. It does not mean that power is not present in economic relations. It comes to the fact that the changes made under the influence of power are considered to be something which is presented objectively and thus they are not discussed. In fact, they are “taken for granted”. Subjects only have to find a way to adjust the made changes and under such conditions to gain a place in the domestic and foreign markets even when the “produced changes” generate unfavourable results both in the domestic and international economic relations.

In this context, the relation of power in terms of money functioning is particularly illustrative.

**KEYWORDS:** Political power, the USA, Money, Economic principles, Global currency, Commodity-money relations, Gold standard, Paper money systems

**JEL CLASSIFICATION:** E42, E02, F02, F15, F33

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## 1. INTRODUCTORY REVIEW

There has been established a relation between political power<sup>1</sup> and money (as part of the commodity-money relations) since the emergence of money and state. However, this relation was the strongest and mutually stimulating in the course of the period of the most developed commodity-money relations, overlapping with the liberalistic' phase in the development of capitalism. In fact, it is a period when the political élites used it in order to reject the mercantilist policies and tried to provide an expansion of the capitalist relations in the world by supporting the mechanism of a gold standard (with gold as commodity-money). Moreover, it is a period when the political power had a function of developing capitalism by applying economic principles of specialization, comparative advantages, and international labour division. At the same time, these processes were carried out on the basis of a worldwide criterion of profitability provided by the gold parities of national currencies and freedom of trade and payments.

The spontaneously established relation started to fall apart by changing the political élites' relation to money. The process began along with the inflationary financing of the First World War's preparations. Then, it got intensified by abandoning the system of a gold standard, and it canalized by introducing the gold exchange standard (instead of the pure gold standard). Due to these postwar undertakings and nationalistic practices, it was abandoned the rule of advantage in relation to the foreign stability maintenance in favour of the domestic one (as they are contradictory interests). This twist is crucial for the weakening of commodity-money relations on the basis of international criteria of profitability and for strengthening the political élites' power in relation to the role of money. In the course of inflation, it was found out a means for mitigating the contradictions between labour and capital without affecting the capital relations more seriously, and thus an opportunity for running the country in a more relaxed way.

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<sup>1</sup> Power of individuals and political élites is most often found as an obstacle to changing those practices which have an unfavourable influence on domestic and/or global situations. The reason is the power they use for satisfying some partial and/or personal interests in the first place. However, as a rule, the solutions are justified by satisfying wider social interests in the country, and by meeting the national interests concerning their relations abroad, regardless of the interests of others. And it seems to be a normal situation only because they have power.

In the course of making efforts for overcoming the consequences of Great Depression, it was imposed inevitably (due to preventing the market from overcoming the crisis) greater involvement of the state in the instigation of demand (which appeared to be a reason for the crisis' outbreak). However, the expansion of public expenditure was achieved by increasing taxes, i.e., by redistributing the income. Instead of having an influence on the distribution of income between labour and capital (being the main contradiction and source of social tensions), the political élites increased the state's share in GDP's distribution and began a fight lasting more decades in order to increase or decrease taxes. That fight continued with a lower intensity along with the functioning of Bretton Woods IMS. However, it fell apart under pressure of its inner contradictions and capital interests. It breakup the relation of national currencies with the gold as a global commodity currency, and the national currencies got promoted in the role of world money. The outbreak of the Great Depression only confirmed that power is not omnipotent. It can ignore economic regularities, but it must pay the bill sooner or later.

By embedding the inflation in the IMS, and by strengthening the state's economic role, it was opened a way for demolishing the system of a global commodity currency and weakening the economic regularities both in the national economies and in the global economy. Given this situation, a key role played the value erosion of the monetary units as an accounting unit at the world market and the state's (political élites') power increase regarding the regulation of economic flows in the country. At the same time, it included not only the inflation but also the use of protection and stimulation measures needed for the national economies being out of the internationally agreed limits.

Taking into account these institutional changes made after the World War I, the governing structures of the most developed capitalist countries either underestimated the importance of the monetary unit or consciously gave up on the obligations extorted by its functioning. However, there is a smaller possibility that they did not understand the importance of its functioning effects (causing inflation of the national systems and the global one by introducing a gold exchange standard). Moreover, it is more probable that they consciously tried to evade the consequences of the objective appreciation of

the world commodity values under conditions of free movement of the production factors and unlimited free competition. It is most likely that political élites saw an opportunity to create relaxing conditions for leading the countries' domestic and foreign policies by throwing up their hands regarding the western civilization's constant . Or as Joseph A. Schumpeter would say, they found out an opportunity to evade the unpleasant truth<sup>2</sup> told by the gold's functioning as commodity-money, including the truth about their responsibility for a possible weakening of the national economies' economic positions in the global market.

We shall start the analysis with the fact that the capitalist country's policy in the system of a gold standard had a function of implementing economic principles. Under the guise of a gold lack, it was proclaimed the gold exchange standard after the World War I with the intention to satisfy the international liquidity not only with gold but also with currencies convertible into gold. In Bretton Woods, it was established a system which helped to be recognized the advantages of the global currency's functioning. However, due to certain systematic weaknesses, the agreed economic principles in Bretton Woods started to be ignored, and it came to a system's breakdown only after a quarter century of the system's functioning. It can be best seen in the imposition of national currencies to play the role of world money whereas the undertaking of stimulation and protection measures of national economies went out of the framework of agreed terms in the World Trade Organization. We shall also show the need for bringing back the principles extorting integrative processes inspired by achieving peace and progress in the world.

## **2. POLITICAL POWER IN THE FUNCTION OF IMPLEMENTING ECONOMIC PRINCIPLES**

Having in mind the elaboration of the relation between political power and money's functioning, it is of a great importance the fact that regarding the gold standard system (such a system can be simulated even by a paper global currency like the euro in the

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<sup>2</sup> Schumpeter writes: „They link up with neo-mercantilist attitudes and with the increasing strain in international relations that began to be felt around 1900, also with increasing public expenditure. Arguments against the unfettered gold standard multiplied. It was losing its popularity like a naughty child that tells embarrassing truths. (Joseph A. Schumpeter, HISTORY OF ECONOMIC ANALYSIS, edited from manuscript by Elizabeth Boody Schumpeter, New York, Oxford University Press, 1954 Ctp.771) “

Eurozone), the political élites (the state) were interested in the free commodity-money relations' functioning at the world market with the gold as commodity-money and as a global commodity currency carrying out all money functions: a value measurement, a medium of exchange (a means of trade), a means of payment, a means of piling up treasures and world money. And it did not happen without any reasons. Given the countries' gold standard system, everyone could count on a long-term basis that he or she could sell or buy any kind of goods under the most favourable conditions at the global market. This opportunity was a signal for directing both the production and every subject's buying rationally at the world market and for allocating the capital. It also extorted and enabled the inclusion of national economies in the global one according to their comparative advantages. For this reason, on the territories where the gold standard functioned, it was achieved the highest growth compared to the previous periods, lasting a longer period of time, and it was also achieved the highest growth of productivity<sup>3</sup>.

Knowledge about economic benefits of the gold standard's functioning was a reason the political power fought against mercantilism in separate countries due to the fact that practice has limited the further development of commodity-money relations and capital expansion on a global scale. At that moment, the market (along with the market institutions) and capital were in a strong interdependent relationship. In their synergy, the market got rid of its regularities' potential restrictions imposed by national countries, of course, thanks to the dominant capitalist relations having need of freedom in terms of international trade and payments.

Despite the elimination of mercantilist policies, the political power made some efforts to ensure the gold standard's free functioning. In the system of a gold standard, the economic policy was subordinated to relieve the functioning of automatism in order to balance the relations with foreign countries. Under conditions of subordination of the domestic stability to the foreign one, central banks were used for managing money with inflation and deflation, having only a function to ensure the rise

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<sup>3</sup> "An annual productivity growth in North Atlantic countries has fallen from the 2% rate to which we have been accustomed since 1870 to about 1% now". ([J. Bradford De Long](#). Are we missing the economic big picture? [Project Syndicate](#), 01 Dec. 2016)

or fall of prices in order to achieve stability of the balance of payments' flows and also to maintain the stability of the national currency's rate of exchange. Central banks of the countries with a gold standard did not prevent the proper functioning of the mechanism of a gold standard, and they also made some efforts to relieve it in order to increase its efficiency. For instance, when there was an outflow of gold, the central bank undertook measures to decrease more or less the money circulation in the country automatically. And conversely, in case of a gold inflow, their measures went in the direction of increasing the money circulation in the country. The disrupted balance could be re-established because the monetary authorities obeyed the rule the gold inflow to serve as a base for increasing, and the outflow as a reason for decreasing the money circulation. In doing so the unsustainable booms were stopped and the inevitable slumps that followed, were avoided, and thus there was a constant growth in the national economies and in the global economy on the whole. However, we have already said that foreign trade and exchange restrictions were not typical of the countries participating in the system of a gold standard. In fact, it was the main precondition for its functioning. Due to the free movement of the production factors, it was made a competition where all economic subjects fought on the basis of market criteria for more profitable functioning. Under such conditions, it was carried out a rational international labour division.

### **3. POLITICAL POWER DEMOLISHING THE COMMODITY-MONEY RELATIONS BY DECREASING THE MONETARY UNITS' VALUE AND ELIMINATING THE GLOBAL CURRENCY**

The previous review shows that power and money do not have to be in a collision as nowadays it is the case resulting from the practice. However, power and money were in synergy in the gold standard. Power played the role of free functioning of its mechanisms because they affected the development of capitalist relations worldwide. Therefore, what is the reason for the political power to change its relation to money, above all, to the connection between the national currencies and the global one? What are the reasons for the political power to approach the gradual demolition of the



system (“the symbol of sound practice and the badge of honor and decency”<sup>4</sup>)? Who had an interest in giving up gradually on the benefits of the international gold standard “which symbolized a unique organization of world economy”<sup>5</sup>? Who had an interest in throwing up their hands regarding, as Karl Polanyi says, “the western civilization’s constant”<sup>6</sup>? In each case, as Schumpeter says, “The reasons for this were more political than purely economic: They link up with neo-mercantilist attitudes and with the increasing strain in international relations that began to be felt around 1900, also with increasing public expenditure”<sup>7</sup>.

But, first of all, let’s talk about the moves of demolishing the system of a gold standard and making a decision of demonetizing the gold in the International Monetary System (IMS) and imposing the national currencies having floating rates of exchange above all, the dollar in the role of world money. There is no doubt that the American influence was really strong in terms of establishing monetary relations after World War I and overcoming the consequences of the Great Depression. Regarding the first activity, they showed an interest in extending the gold standard into a system of a gold exchange standard<sup>8</sup> where besides the pound, the dollar (or vice versa) being convertible into gold will serve in addition to the gold as a monetary base for emission of money in other countries. However, by implementing the New Deal, they definitely broke through the defence of overcoming the depression at the market and because of concealing the market mechanism they marked out the practice of engaging the state openly in the recovery of the economy, undertaking interventions being incompatible with the liberalistic phase in the development of capitalism.

By embedding inflation in the IMS through the gold exchange standard and by increasing the country’s role in the national economies (and due to the consolidation of war damages and mitigation of social tensions, particularly after the Great

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<sup>4</sup> Joseph A. Schumpeter, HISTORY OF ECONOMIC ANALYSIS, edited from manuscript by Elizabeth Boody Schumpeter, New York, Oxford University Press, 1954, p.771.

<sup>5</sup> Karl Polanyi: The Great Transformation, p.4

<sup>6</sup> Economic Encyclopedia, (Modern Administration, Economic Encyclopedia I, Belgrade 1984, p. 71).

<sup>7</sup> Joseph A. Schumpeter, HISTORY OF ECONOMIC ANALYSIS, edited from manuscript by Elizabeth Boody Schumpeter, New York, Oxford University Press, 1954, p.771.

<sup>8</sup> In “The Monetary Sin of the West”, Jacques Rueff pointed out that “the gold-exchange standard was a formidable inflation factor”, p.19

Depression), economies started to be exposed on more intensive inflation<sup>9</sup>. However, it is not coincidental the fact that in the course of the postwar period, there were made unsuccessful attempts at bringing back the gold standard, there were also competitive devaluations of national currencies, it was abandoned the currency convertibility into gold, and it was made an attempt at taking protection and stimulation measures regarding the national economies. These happenings led the postwar period to a situation of identifying it as a period of increase in protectionism and nationalistic policies which ended up in the outbreak of World War II<sup>10</sup>.

The process of declaring the wishes of building a new regime generating peace and progress in the world after the end of the war clashed with the different concepts of institutions and mechanisms suggested by the USA and Great Britain as leading forces. The compromising suggestion needed for overcoming the chaos between the two world wars and for establishing a multilateral system based on rules in the money sphere has ended up in a gold exchange/gold dollar standard. In fact, it is a system with the same name as the previous one, but with specifics reflecting the changes made in relation to the forces between Great Britain and the USA, being in favour of the latter one as a leading economic, political, and military power in the world. In the IMF Statute, it was stated that the value of national currencies would be determined in a particular quantity of gold or in dollars being convertible into gold. It reflected the US power to impose the dollar in parallel with the gold in the system as a means for improving the international liquidity. In fact, it was not an implementation of bare force but rather a decision upheld by possessing 2/3 of the world's gold reserves. Formally, other countries could provide such a position for themselves, of course, if they could actually maintain their currencies' convertibility into gold or dollars convertible into gold.

The Americans strengthened their privilege (although it was an obligation) provided by the IMF's Statute after a two-year time period when they obliged

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<sup>9</sup> Against that practice and the defence of inflation usefulness, Ludwig Mises expressed himself most consequently by criticising the Inflationist View of History. And the former practice confirmed his opinion that "Inflation cannot be employed as a permanent policy because it must, when continued, finally result in a breakdown of the monetary system". (Mises Ludwig, Human Action Books / Digital Text )

<sup>10</sup> These events justify Karl Polanyi's opinion that "final failure of the gold standard was the final failure of market economy". ("The Great Transformation, The Political and Economic Origins of our Time", p. 199).

themselves unilaterally to satisfy the requirements of other countries' central banks to convert the dollars into gold at the cost of 35 dollars for an ounce of pure gold. Thus, they ensured an even greater attraction of the dollar, but they also opened a way for demolition of the IMS when they would not be able to fulfill their obligation to satisfy the requirements of converting dollars into gold for the agreed price that could be predicted. When this situation took place, it was concluded a contract of creating a global commodity currency under the name of SDR as "paper gold" (a project which reflected mostly the inner logic of money development under conditions of its dematerialization). Its value was determined into gold. However, the ideas of its affirmation were not fulfilled because it was soon abolished the convertibility into gold, and the gold was demonetized out of the IMS. The SDRs as "paper gold" transformed themselves into SDRs as "a basket of currencies" with floating rates of exchange. Thus, it was definitely abandoned the need of global money (commodity or paper), and the national currencies were approved to carry out its function.

The Bretton Woods System's inner contradiction came to light after the rejection of the foreign countries' requirements of free dollars' conversion into gold. Thus, it was shaken the trust in the system. The solution to this problem requested a new system's creation. The USA was in an ambivalent position. They wanted a permanent solution, but they were upset by the problems it generated. They had to create deficits in the balance of payments and to increase the debt in order to satisfy the need of international liquidity. Moreover, if they fought against debts, the world economy would suffer from deflationary pressures increasing dissatisfactions with the system. This contradictory position of the dollar in the system has clearly shown that national currencies cannot be good world money (which integrally carries out all money functions).

It is symptomatic the fact that this kind of knowledge and suggestion ended up only with the creation of SDR as "paper gold" and its rapid transformation into SDR as "a basket of currencies" with floating rates of exchange. And only the top political élites know what their real intention was. It is a fact that the Americans knew about the problem, they dealt with it as much as they could, but they did not want to give up on the privileges (seigniorage) they are provided with by the dollar's position in the IMS.

And now, what are the reasons the political power approached a gradual demolition of the system (on whose basis the capitalism has prospered)?

One has to look for the main reasons in the rapid development of capitalism and the sharpening of its contradictions in the national economies and among the national capitals. This situation showed itself in the sharpest form in the two world wars and the Great Depression. In the course of this period, it suffered the market, the market institutions, and relations both in the national economies and on a global scale, and the state showed itself as an inevitable dominant factor in terms of consolidating the war damages and overcoming the Depression. Thus, it has actually started (despite the verbal defence of the market) to increase constantly the state's role of regulating the economic flows both on a national and global scale at the expense of the functioning of market forces. They have derogated by a systematic depreciation of the money units. And instead of looking for solutions in agreement with the changes made in the capitalist societies in the direction of building up a model for balancing the relations between labour and capital, the USA as a dominant power allowed the state's relations to develop in accordance with the power of groups with contradictory interests. At the same time, they inclined themselves once to capital interests, and the next time to labour interests. Nevertheless, in international relations, they used power to create relations in accord with the national interests, therefore providing themselves with important privileges (in spite of the obligations).

After a century of periods of ups and downs, it is a fact that as a result of distorting the consequent commodity-money relations both in the national economies and in the global one, the capitalist system of reproduction came to a certain phase of development. As it happened, it was such a phase when (due to the increase in domestic and foreign tensions) it had to overcome the practice of solving the development and unemployment problems by using ad hoc measures of redistribution and transfer (through political struggles for the volume and structure of budget expenditure). It is a fact that the state has been doing successfully for more decades what capitalists were not prepared to do (both in relation to the labour and society), imposing some taxes on them to an extent of solving the social problems which sharpen the tensions leading to explosion unless they are solved. However, due to the

fact that the funds have proven to be both insufficient and ineffective so far, despite the requirements for larger revenues needed for distribution, there are also requirements of pre-distribution measures<sup>11</sup> out of which it draws greater attention the suggestion for introducing universal individual basic income<sup>12</sup>. It is a matter of more fundamental (not cosmetic) interventions in the capitalist relations, having in mind the knowledge “that value is created collectively and build more symbiotic partnerships between public and private institutions and civil society”<sup>13</sup>.

#### **4. POWER CAN EXTORT IGNORING OF THE GLOBAL CURRENCY, BUT IT CANNOT OVERCOME THE CONSEQUENCES OF ITS ABSENCE**

The gradual demolition of the commodity-money system with such a global currency as it is (in the gold exchange standard) could logically end up in ignoring it and imposing national currencies (first of all, the dollar as a start) in the role of world money as it practically happened. However, it could also end up in implementing a fundamental reform of the IMS focused on introducing a global (commodity or paper) currency. The USA chose and imposed the solution of the first alternative, of course, leaning themselves upon the country’s power, and the dollar’s power and dominant presence in the international transactions and payments.<sup>14</sup> It happened after the most powerful state had stopped being able to solve on time the current problems generated by the functioning of the inflationary gold exchange standard, and even more after having rejected the requirements for conversion of dollars into gold for a price of 35 dollars per fine ounce (oil crisis, foreign exchange crises...). It was used soft power (reevaluations of the mark, yen and other European currencies instead of a dollar’s devaluation) in the course of overcoming the problems on time. When both rises of the dollar’s price of gold (first to 38,8 and then to 42,2 dollars per ounce) did not settle the crises, the president of the USA, Richard Nixon, announced unilaterally in August 1971

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<sup>11</sup> It is referred to the previous distribution of economic gains, and among other things to the provision of more justified wages and greater participation of employees in companies.

<sup>12</sup> “Rolling out a universal individual basic income is more important than ever”. (Guy Standing *Battling Eight Giants with Basic Income* Jan. 14, 2019)

<sup>13</sup> Mariana Mazzucato (2019). *Let’s Get Real About Purpose*, Project Syndicate, Jan. 14

<sup>14</sup> The choice was made easier because the USA has a right of veto in the international monetary system, and it is known in advance that any kind of change of the global currency made without their consent would be prevented. Professor Mundell shows that “the United States maximizes its seigniorage” in the existing IMS. “The United States would be the last country to ever agree to an international monetary reform that would eliminate this free lunch”. (Robert Mundell, Lecture, Page 13 and 16)

that it was abolished the convertibility of dollar into gold, it was abandoned the fixed rate of exchange, and it was made a transition to a dollar's floating rate of exchange. Later on, it was carried out a demonetization of the gold in the IMS. Thus, it was put an end to the practice of functioning of the global commodity currency, and the national ones got promoted themselves in the role of world money even though it is contradictory to the sense of money. In that direction, it was carried out a transformation of the SDR as "paper gold" into SDR as "a basket of currencies" with floating rates of exchange. Thus, it was definitely abandoned the idea of creating a global (commodity or paper) currency, whereas the relations of bare force were presented as new market relations (neo liberalism), particularly due to the transition to floating rates of exchange. The contradictions between labour and capital and the imbalances in national economies were mitigated by improving the companies' price competitiveness instead of making better productivity and innovation. Ultimately, the functioning of floating rates of exchange<sup>15</sup> created an opportunity (for the basket's currencies) for using inflation intensively in the financing of social needs (in the broadest sense). However, it proved to be true in the past fifty years, especially after 1971<sup>16</sup>.

The solution of imposing national currencies to carry out the function of world money is a par excellence solution being in a position of power, and unilateral use of

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<sup>15</sup> Mainstream economists accepted political decisions as exemplary in relation to the US interests and focused themselves on indications of how to manage the national economy, including the relations with the world under such conditions. While looking for arguments to justify themselves, they did not dare to point out the inadequacy of abandoning the fixed, but adjustable rates, and instead they inconsistently defended the floating rates. They even had an argument that at the moment the economies would stabilize, the floating rates would function as fixed ones. While not having that in mind, they predicted that the leading economies would approach the floating rates because they had lost their trust if they could lead such policies to maintain the fixed rates after the embedding of inflation both in the national and global system (in spite of the decisions made in relation to its low-level targeting of 2%). The Nobelist Milton Friedman was included in that policy's defence. He defended the floating rates in a dialogue with Robert Mundell even though it was pointed out to him with arguments that they are not a solution as the fixed rates in a particular IMS.

<sup>16</sup> The data presented by the bearer of the Nobel prize, Robert A. Mundell, is illustrative: "If we measure the magnitude of inflations both the product of its rate and the total value of commodities affected by it, we can be sure that more inflation has been created since 1914 than in all preceding millennia put together". "But a fundamental change came about with the breakdown of the international monetary system in 1971. As already noted, both countries inflated, but the British price level rose by 750% while the US price level rose by 390%." (Robert Mundell, Lecture Page 1, The International Monetary System in the 21st Century: Could Gold Make a Comeback? Robert A. Mundell, Columbia University Lecture delivered at St. Vincent College, Letrobe, Pennsylvania, March 12, 1997)



bare force under conditions of a previously created institutional structure needed for a dominant use of the dollar in the international transactions and payments. It is a matter of a radical change made in the sphere of money with unfortunately predictable negative consequences not only in the national economy but also in the relations with other countries. The sharpening of domestic and foreign contradictions resulted in the outbreak of the Great Depression, difficulties in the recovery of economies, anti-globalization processes, the growth of protective measures<sup>17</sup>, and threats of currency and trade wars. The point is about phenomena which characterized the interwar period between World War I and World War II, and which bear no resemblance to a quarter of the centuries-old economic boom, peace, and progress made in accordance with the rules of Bretton Woods institutions (in spite of the system's internal contradictions).

Till the breakdown of the Bretton Woods IMS, it could be talked that after World War II, the dominant power, i.e., the creator of the system decided to make an attempt in accordance with the postwar conditions to respect the economic principles adjusted to the interests of the country. However, as the most powerful force, it asserted the dollar's privilege in addition to its responsibility for ensuring the international liquidity. It also took responsibility for the system's functioning, and it instigated a process of intensifying multilateralism as an interest of all countries. Moreover, it showed some respect to the insufficiently developed countries in such a way that it provided funds for encouraging their development with the help of the World Bank, and it predicted periods of transition needed for implementing a liberalization policy and establishing convertibility of national currencies. After all, objectively speaking, it was not realistic to expect the most powerful country to crash the global system's pillars by making a unilateral decision (abolishing the dollar's convertibility into gold, transferring from fixed to floating rates of exchange, establishing additional customs). It left the project on SDR as "paper gold". It was used political power for imposing relations of bare force under conditions of adjusting the world to use dominantly the

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<sup>17</sup> The Trade Analysis and Information System (TRAINS) database report that about 2,852 product lines were subject to one NTM type in 2015, compared to 1,456 product lines in 1997. (**Saileshsingh Gunessee, Chris Milner, Zhaohui Niu** (2018), Growing non-tariff and overall protection, VOX CEPR's Policy Porta, 19 June



dollars as world money. Thus, there were arisen opportunities for proceeding with the dominance which is in accordance with the interest of political and business élites (of course, up till the moment when it will bring into question other countries with strong currencies).

It has been shown times without number that the powerful hardly give up the opportunity to use power when they face some difficulties. They most often choose the momentary advantages even when it is evident that they pick out a way full of great uncertainties and dangers, given the fact that the power extorts a defence of counter-power. The beginning of the trade war between the USA and China is only a tip of the iceberg, which unless it stops soon, it can lead not only to a global recession but also to conflicts of a larger scale. The intimidations in relation to currency, trade and even real wars do not have such a meaning as they used to. The changes made in terms of the realistic relation of forces are such that no country is sure that any of those moves are in its favour. They are so interdependent that any activity regarding the mentioned directions can lead to catastrophic damages not only to the competitive countries but also to their own.

The consequences resulting from the abandonment of the idea of creating a global (commodity or paper) currency clearly show that the powerful can extort ignoring of the global currency, and can momentarily impose more favourable solutions for them. However, they cannot overcome the consequences resulting from the absence of a global currency.

There is no doubt that the USA has successfully evaded the possible solutions for creating a global currency by using the power they possess. Nevertheless, it is clearly shown that the materialistic basis of their political power gets weaker because they are forced to use more often both soft and hard forces and to threaten with currency and trade wars even despite the privileges they have in the international monetary "non-system". The use of such power causes resistance to the imposed solutions, and it strengthens the powers which demand to be built-up new rules of conduct in the international economic relations. Without their participation in such activities, there is a great possibility that the power (economic, political, and military)

will reduce itself to a military one, and it can be used for destruction, including both their country and the planet Earth.

There is no need of repetition that the contemporary problems in the world are consequences of the absence of a global currency and in order to overcome them it is inevitable to bring back the world on the way of creating a global currency, no matter whether commodity or paper. The trust in the commodity currency (even as an accounting unit) would be greater, however, if the paper one was created after the pattern of the euro in the Eurozone, the problem with the trust would be relativized if the creators had serious intentions to overcome both the national and global problems for real. Along with the trust, the rivalries between the national currencies for supremacy would disappear, and the competition of the national currencies would be directed towards increasing productivity and innovation as the main economic factors needed for enlarging the population's well-being. As a result of the functioning of the global currency (after the sample of the euro in the Eurozone, of course, being improved), there would be created conditions for a greater stability, integration, peace, and progress in the world, and the rivalry competitions would transform themselves into competitions for satisfying the population's well-being.

## **5. CONCLUSIONS**

1. It is almost a general perception that Power is the main factor in terms of money management, being even independent of the economic principles and money's inner logic. However, the changes it produces were not always inspired only by the protection of the dominant power's interests as it looks like nowadays.
2. The relation between political power and money is the strongest and it is mutually instigating in the period of the most developed commodity-money relations, overlapping with the liberalistic phase of capitalist development. In fact, it is a period of a gold standard when the bearers of power were interested in the free development of capitalist relations in the world. In that direction, the power, on the one hand, rejected the mercantilist policies, whereas, on the other hand, it made an effort to give an advantage to the maintenance of the foreign stability contrary to the domestic one (which has to be provided by increasing productivity and innovation). Thus, the political power was given a function of

developing capitalism by implementing economic principles of specialization, comparative advantages, and international labour division. The bearers of power have understood the advantages of development based on a world criterion of profitability provided by the gold parities of national currencies and the freedom of trade and payments. In fact, it is a period when the political power was given the role of free functioning of the mechanism of a gold standard in order to gain benefits from respecting the mentioned economic principles.

3. The political power did not stay consistent in respecting the economic principles when it decided to give the domestic stability advantage over the foreign one. It first did that by changing its previous relation to money. Willingly or unwillingly, it approached the inflationary financing of the upcoming (first) world war necessities. Thus, it has started the process of eroding the value of the monetary units and distorting the gold parities. In the course of inflation, the Power found out a means for mitigating the contradictions between labour and capital without affecting the capital relations more seriously, and thus an opportunity for running the country in a more relaxed way.
4. The following changes, under the influence of the US political élite, are more or less on the line of such a twist with the intention of controlling inflation by embedding rules and obligations of achieving stability, liberalisation, multilateralism (maintaining fixed, but adjustable currency rates, implementing currency convertibility) in the Bretton Woods system.

However, on the one hand, the system did not bear the burden of the self-imposed obligation to meet the requirements of converting dollars into gold at the cost of 35 dollars for a fine ounce, and on the other hand, the burden of satisfying the international liquidity by building up deficits and public debts in the USA. And again unilaterally, the most powerful person in the USA, the president Nixon, announced the decision of abolishing the dollar's convertibility into gold, abandoning the fixed, and transiting to a floating rate of exchange of the dollar, and introducing customs service of 10%. Thus, the Power evaded the ideas of creating a global (commodity or paper) currency. It was rejected the only hope for the development of the concept of SDR as "paper

gold”, as a global commodity accounting unit and it was made a transition to SDR as “a basket of paper currencies” with floating rates of exchange. It means that the US political élite abandoned the dominance of particular material responsibility in the gold exchange/gold-dollar standard, and it imposed relations of bare force on the money sphere. Thus, it was made a transition to relations with no rules, which mostly pleased the dollar due to its dominant partaking in the international exchange reserves and its presence in the international transactions and payments. Additionally, one should not underestimate the damages in the USA.

5. Due to the reversal in relation to money, the Power (political élite) decided on a solution which provides it with relaxation in terms of running the economy. Nevertheless, it is far from respecting the economic principles (particularly of the rational international labour division). They were sacrificed on the altar of the country’s “interests” (allegedly, the national ones). However, if it is taken into account the increase of inequality both in the USA and in the world and the outbreak of the Great Recession, the interests are far narrower, and they are brought down to the rich that amount to 1% in the country. It confirms that the promotion of the dollar and the other currencies of the SDR’s basket and the elimination of the global (commodity of paper) currency were in a function of supporting the capitalist relations, above all, the big capital.

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## **CAVEAT EMPTOR VS FIDUCIARY OBLIGATIONS OF FINANCIAL INSTITUTIONS. ETHICAL PERSPECTIVE. CURRENT TRENDS AND IMPLICATIONS.**

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### **ABSTRACT**

The complex nature of financial services and the importance of finance in the economy may imply that more protection is needed. Too much protection, however, may diminish alertness, ability to make knowledgeable decisions and acquire knowledge. Financial institutions' operations are based on trust whose sources are different in nature. Results of an online survey carried out among young people which addressed the issue of trust in financial industry and its foundations will be discussed to provide for profound understanding of potential threats and opportunities the industry may face. Trust in financial institutions may be undermined by moral deficiencies in the industry which are not rare.

They should be identified as having potential in making customers' position disadvantaged. On the other hand, new customers' stance towards ethical issues, their expectations and new trends in behaviour have potential to affect changes. The emerging new business models are, to great extent, based on trust. Peer to peer transactions and sharing economy are signs of consumers' more active role and evolving attitude to ethical issues. Are the trends in parallel to consumers strength, and level of education? Should the new consumer be empowered to make decisions, also financial, based on own experience and knowledge? Or should there be regulatory protection, and if so, in what form? The new generation of creators rather than passive consumers, more users than owners need independence which often results in selecting offerings of new players - "disruptors" - also in the financial services industry.

**KEYWORDS:** banks, financial industry, trust, ethics

**JEL CLASSIFICATION:** G210, G40, P34

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## 1. INTRODUCTION

*Caveat emptor*, the Latin phrase meaning "Let the buyer beware", primarily the contract law principle in real estate deals is also applicable in sales of other goods and implies that a buyer should check the goods he intends to purchase are not faulty. If the goods are sold without a warranty, the buyer takes full responsibility for the consequences of defective goods. (Merriam-Webster)

Buyer's position is disadvantaged because defects in a good or service may be hidden and only known to the seller. The fact that buyers usually have limited information and know much less about the product than sellers is referred to as information asymmetry. When trade took place in the local marketplace where buyers knew sellers the principle was reasonable and easy to apply. Today's complex and global nature of commerce significantly impairs buyers' position.

Moreover, proliferation of technology translates into even more complicated and intricate ties between buyers and sellers. The position of the former might be even weaker if it were not for the regulations at different levels- transnational, such as EU directives and national which provide for consumers' protection against defective products or fraudulent practices.

While it can be claimed in all industries buyers' position is feeble because they lack expertise and knowledge about all products they need to buy, the complex nature of financial industry products makes the asymmetry gap wider than in other sectors so clients seem to be even more exposed to risks.

Too much regulation, however, might result in diminished individual drive to assume control and responsibility. Similarly, too much protection, control and responsibility on the part of the state and its institutions is believed to lead to a poor level of economic education in today's society.

## 2. PROSPECTS OF CONSUMPTION ANCHORED ON ETHICS

Lack of or fragile trust is detrimental to the society and economy for many researchers. According to Professor Douglass North, the economic historian and Nobel Prize winner it can cause stagnation and economic collapse. For Young (2003) trust is needed for the economy to survive and the self-regulatory mechanism of free markets activates ethical behaviour of market participants. Czapiński (2007) understands trust



as a foundation of social capital needed for much more than coexistence with others, ie. healthy social relations, well-being and cooperation. From this perspective the negative average value of the trust index in Poland (-0,89) showing that lack of trust in relations predominate over trustful and open stance (CBOS, 2018) seems worrying.

On the other hand, the new emerging business models such as sharing or access economy are profoundly based on trust in peers. These models, interestingly, promote re-using, re-cycling and sharing, all activities leading to reduction of environmental impacts and thus contributing to ethical values of CSR and sustainability. Their impact may be particularly strong in sectors where consumers' reliance on new technology will necessitate evolution of traditional business models like in financial services industry. Here, the traditional models based on strong intermediating institutions may evolve towards decentralized transactions as a response to customers need for mobility, independence and frugality. On top of that, clients undermined trust in financial institutions is likely to shift towards trust in peers.

Young people who are said to have embodied the zeitgeist of the societies they grew up in demonstrate, *inter alia*, drive towards creating communities around different interests ("communaholics") and choosing ethical companies offerings (McKinsey, 2018). 70% of the surveyed claim to try and purchase products from companies they consider ethical. About 65 percent try to learn the origins of anything they buy. This may imply that further development of new models based on technology, trust and ethics is very likely.

### **3. SOURCES OF TRUST IN FINANCIAL SERVICE INDUSTRY**

The role of trust in financial industry can be perceived as this of a bridge over the (asymmetry) gap. As service providers in the industry are conferred upon a special status of institutions of public trust, clients are confident they will perform their fiduciary duties. Different sources of trust in financial institution can be distinguished. First of all, activities taken by banking institutions are subject to statutory regulation and limitation to certain types of activities by the legislator. The conditions of undertaking banking operations are specified and there are sanctions for operating without a license. Banks are obliged to possess equity and maintain own fund and are allowed to invest the funds entrusted to them only in certain categories of assets. The legislator specifies areas and formal measures of supervision and violation of the

prescribed procedures is considered a financial crime and penalized (eg illegal obtaining of loans, bank guarantees or money laundering). The fact that all banking documents are conferred upon a status of an official document *ex lege* seems to be particularly important from the perspective of clients. Also bank employees have to adhere to specific requirements of professionalism, ethics and responsibility for the effects of their work. All of these steps contribute to creating banks' prestige and special status.

These underlying legal principles seem to often fall within obscurity of regulations and therefore are not realised by mass population. There must be other considerations clients confidence in banks is founded on, such as their historically established authority. It is also the mass scale of banking operations that make customers believe the institutions are trustworthy.

In order to identify the sources of trust in banking, students of the University of Economics in Katowice (Faculty of Business, Finance and Administration) carried out an internet survey at the end of 2018. The survey was based on answers provided by 110 respondents, vast majority of whom (90%) were aged 18-30. The young age of the surveyed is attributed to the Internet channel used. It was also reflected in the preferred communication channel of the respondents as only 15% of them claimed to use traditional banking. Majority of the surveyed being clients of four banks: ING, mbank, PKO BP and Millenium stated they trusted their bank. When asked to grade their trust according to the 0-5 scale (with 0- no trust, 5- complete trust) over 50 % of them chose 4, about 30% decided on 5 while 16,7% marked 3 on the scale. No trust attitude was claimed only by 3% of the surveyed. These results show that vast majority of clients place implicit trust in their bank. Interestingly, referring to the question about the source of their trust the biggest number of clients marked the well-established market position (50%), good offer (56.6%) and fairly presented offer (40.6%). Renown mattered for nearly 36%, a big number of customers that banks have was important for nearly 37% and no hidden fees for 36% of the surveyed. Surprisingly, guarantees of the Deposit Protection Fund (BFG) were considered important only by 23,6% of the respondents. In the opinion of 34% of the participants of the survey professional service can be a source of trust, while 30% of them rely on the opinion of peers and family and 27.4% think innovative solutions and development

can be treated as material evidence the institution is trustworthy. Among the bank clients who stated they did not trust banks, the factor which prevailed was high cost of commissions and fees (43.8%). Scandals involving banks breached trust of 37% of respondents, lack of transparent pricing conditions undermined trust of 31.5% of them and 30% claimed they could lose trust as a result of unfair bank practices.

Answers also shed light on clients' perception of info given in fine print which was stated to limit trust of 44.4% of the respondents. For 42.6% of them it is as important as other content and only 9.3% of them never pay attention to this info. 47.3% of the surveyed claimed the information presented in bank' offers was not quite clear or transparent and according to 42.7% of them financial institutions deliberately complicate the offer to hide additional fees. The proportion of clients who claim to always read the contract with the bank before signing it – 61.7% - seems to testify of varied status of trust in financial institutions. While nearly 38% of the clients do not read what they sign, this deficiency in knowledge must be remedied by trust. Interestingly, over 60% of the respondents claimed to have confidence in reliability of technology in banking such as mobile payments, card payments and contactless payments.

The second part of the survey addressed a broader range of institutions with a variety of roles related to financial industry and showed the biggest proportion of the surveyed -over 70% - think that the Central Bank of Poland (NBP) can be trusted and 43.8% have confidence in Deposit Protection Fund (BFG). The lowest numbers of the surveyed (18%) trust the financial industry supervisory body (KNF), insurance companies (11%), Stock Exchange (GPW) (17%), the Polish Bank Association (ZBP) (8%), Social Security (ZUS) (9%), Pension Funds (OFE) (5,6%) and investment funds only 4,5%. KIR, a key entity of the Polish payment system infrastructure was evaluated as trustworthy by only 3,4% of the surveyed which may imply this institution operating from back office rather it is not known. Institutions of shadow banking (SKOK- cooperative saving and credit unions) were thought to be trustworthy only by 2,2% of the surveyed.

In service industry based on human relationships trust is of particular importance because it determines their character formed on the basis of personal reliability, respect of moral norms commonly observed, other people's rights as well

as assumption of good will of an individual whose intentions are not known. (Seligman, 1997, p. 43).

In the contemporary world transactions are more important than relations so that patience, loyalty, stability, confidence in partners - that all used to be pillars of relationships – are weakened and undermined by suspiciousness. Although trust is reciprocal with and required to maintain good ethics, in uncertain environment people are concerned about whether or who can be trusted rather than how ethical they are.

Financial crises of the first decade of 21st century was attributed to ethical crises in the personal, institutional and social dimension (Argandoña, 2012).

#### **4. PARADIGM OF PUBLIC TRUST IN TODAY'S BANKING**

Although high moral standards of staff in banking industry should be taken for granted, today this seems not to be the case. Numerous precedents of unethical practices in banking still exist. One of them is common use of legalese and sophisticated economic terminology in banking documents which has an effect of intimidating clients, making them vulnerable or susceptible to accepting conditions which are not beneficial at best and can even be detrimental to their finances.

An example of such morally dubious routine is a Cash Loan Agreement issued by one of the high street banks operating in Poland (available online in 2018) 7 pages long and including long and complicated clauses, such as:

“The scope and direction of the tariff change and the amount of fees and commissions:

1. The fee or commission may not increase by more than 200% of its prior amount.

The aforementioned restriction does not apply to change in the tariff in the event of:

- 1) a new fee or commission,
  - 2) a fee or commission whose value was PLN 0 or 0%
2. Changes in the tariffs may result from a change in:
- 1) The reference rate, the deposit rate, the Lombard rate, the change in the opposite direction to the rate change,
  - 2) The mandatory reserve rate or WIBOR for one-month or three-month deposits on the interbank market, any of the consumer price growth rates, average monthly wages and salaries in the enterprise sector, excluding

payments from profit – the change in line (the same direction) with the change in these ratios”.

Wordy phrasing and legalese are common in credit agreements in Poland that clients sign without understanding what is at stake because there is no other way to obtain financing. Moreover, it is impossible to get a template of a credit agreement from different banks to compare. Potential creditors must provide personal details for an agreement to be issued and still comparison is hardly possible since many different components contribute to the final price making comparing inviable. It can be stated, therefore, that competition in banking is unfair and clients finally quit looking for better options because it is not only time consuming but also ineffective. Thus, credits are usually acquired in the same institution a client banks with. In the society whose financial education is poor financial institutions may practice morally dubious conduct.

In Poland as well as in other countries a vital, persisting issue in banking are credit agreements in Swiss Francs. In the opinion of the European Central Bank (ECB) issued for Slovenia, solutions for restructuring „consumer loans denominated in, or linked to, Swiss francs” were suggested requiring „credit institutions established in Slovenia to convert Swiss franc loans [...] into loans denominated in euro.” It was argued, “conversion mechanism was to place borrowers of Swiss franc loans in the same position that they would have been in had their loans been denominated in euro from inception” (ECB, 2018)

The practice of granting Swiss Franc denominated mortgage loans was common in Poland in the early 2000s when the exchange rate was low. When the Polish zloty depreciated after the crisis hit, borrowers faced serious problems. State institutions, such as the Office of Competition and Consumer Protection or Polish Financial Supervision Authority failed to protect borrowers against unfair market practices. In spite of abusive contractual terms and unfavourable clauses commonplace, nothing was done to shield the borrowers or support them by legislative intervention.

Individual clients can be also exposed to legal, although not moral practices of financial institutions. These practices are disclosed only after they become widespread and acute or a scandal is revealed. Practices of the banks in Poland were criticised in 2018 when Polish debt collector GetBack after selling bonds went into default

(Euromoney). Customers claimed that they were not informed about the risks, instead they were persuaded to purchase the bonds by banking institutions' staff.

In the period 2011-2017 the Office of Competition and Consumer Protection in Poland analysed the offering of credits, in particular mortgage and the general information policy on credit and risk. It was concluded, the way of informing consumers about the interest rate and risk involved in credit with variable rate of interest was not efficient. Mortgage with fixed interest rate for the whole period of the credit agreement or its bigger part was not offered. It was suggested banks work out procedures of complex and clear information about risks which should be provided at the initial stage before the agreement is signed as well as in the course of crediting. It was recommended that banks apply systems of early warning of detrimental changes on the markets that can result in increased interest rates and suggest stabilization mechanism to mitigate negative effects.

A frequent ethically dubious practice in banking is "hidden" payment for services which are claimed to be "free-of-charge". Small charges for certain services are specified in an agreement to be activated on certain conditions so they "lay dormant" until they are activated usually when clients forget about them. As a rule, clients decide not to lodge a complaint because the amount is miniscule. Still, a scale of such practices being huge, banks earn significant amounts of money without negative publicity.

A serious problem in banking is lack of independent impartial advisors who could offer financial services of different institutions without the imperative to be loyal to their employer irrespective of the needs of clients. Also, the bonus systems in banking is derivative of the volume of sales.

Research by R. Rogowski (2016) based on an Internet forum of the banking employees including 817 comments revealed poor morale of objectified and depersonalized staff and pressure to constantly increase sales. Comments referred to strong tendency to only employ staff who guarantee high increase in sales irrespective of their professional knowledge or education. Pressure on sales was identified as the main element of corporate culture exercised even at a cost of ethics. Employees claimed they had to resort to lies to reach sales targets set by managers.

Quality of management was evaluated poorly as lacking competence and managerial skills, main focus being placed on sales and results, constant controls of effects and the requirement to make excuses when targets were not met, stressful atmosphere and “instrumental treatment” of workers, lack of fairness in bonus schemes, atmosphere of destructive competition, mobbing, bullying and threats of redundancies or transfers to another branch. Managers’ role was purely to increase sales and therefore constant controls by directors, regional directors and headquarters were common so everyone focused on gaining the best results in selling banking products, in particular those most profitable. Low quality of training which focused on repeating sales scenes was addressed too. Particularly noticeable and striking was the fact that negative comments dominated. (Rogowski, 2016). While there is reference to employer-employee relations in the mission statement or strategy of the majority of the big banks operating in Poland, immoral treatment of employees seems to be commonplace.

This sort of morality was addressed by A. Dylus at the beginning of 21 century and defined it as “marginal” (“borderline”) morality, ethos “operating in the reverse”, incorporated in activities taken in order to prove smarter than others in the pursuit of success at any cost. In terms of the economic principles of efficiency it is the lowest possible “input of morality” to maximize the financial result. This specific, distorted business pseudo-culture is formed and then transformed into pressure imposed on the members of the organization. This pressure was identified as a factor making people act in morally questionable way still promising success and being in line with common practice (Dylus, 2002, p.p.273-303).

A survey carried out by the Conference of Financial Enterprises (KPF, 2017) proved that clients do not trust they are fair and trustworthy. 84% of the surveyed thought the information from banks, insurance and leasing companies was not clear or transparent, offering was not fair and lacked full and clear information. The negative experience resulted from persuasion to purchase products which were not tailored to the needs or risky, “hidden” detrimental conditions in agreements, ignoring risk and fraudulent or misleading advertising. Only every sixth person believed the offering was fair and had “no strings attached”.

Similarly, lack of reliability of product offering was addressed in a project “Nienieodpowiedzialni” whose respondents claimed that banks (78%), insurance



companies (80%) and consumer loan companies (87%) make attempts to persuade clients to buy unnecessary products. (Furman & Maison, 2017,p.p 6-8). The percentage of people whose perception of financial institutions in Poland is negative is exceptionally high. In the opinion of nearly every four in five respondents the financial market communicates in an unclear way, underestimates due amounts of compensation in insurance while overestimating own commission. A new term „bankster”, a portmanteau word for banker and gangster has been in use for some time which demonstrates the attitude to employees in banking.

## **CONCLUSION**

If trust is displaced by external constraints (legal, regulatory), an abstract matrix of rules and group sanctions which are inimical to the development of trust, it may ultimately lose its unifying power. Then the individual is no longer a repository of rights and values (Seligman, 1997, p. 43). Additionally, too much external regulation and systemic protection diminishes the alertness and care of individuals when choosing financial service providers and alters perceptions of responsibility. It is commonly believed that it is the imperative of financial institutions and their regulators to guarantee the security. Poor financial education and confidence in state protection lead people to exonerate themselves from their duty of care as they take it for granted that government bodies will take over individual burdens of control and supervision. If the role of the state, its institutions and regulators is perceived as sufficiently protective, this can overwhelm the individual's sense of reasonable care.

As distrust can be detrimental, it seems, some changes are definitely on the way. If perceptions of financial institutions do not change, public trust may become “dispersed” ie, be targeted to peers or fintechs offering services on a smaller scale. Development of access economy models is likely in the wake of technological proliferation, young generations skills in mastering technology and their drive towards connectivity.

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## ECONOMIC FREEDOM, NEOLIBERALISM AND MORALITY: FROM JOHN LOCKE TO ROBERT NOZICK

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*"When plunder becomes a way of life for a group of men in a society, over the course of time they create for themselves a legal system that authorizes it and a moral code that glorifies it."*

— Frédéric Bastiat

### ABSTRACT

In this scientific article we will focus on the moral foundations of economic freedom and neoliberalism through the prism of the political economies of John Locke and Robert Nozick. Through the analysis of their arguments about the minimal state and the ethical power of capitalism, we will try to emphasize the danger of new forms of economic statism such as crony capitalism, corporatocracy, fiscal 'slavery', legal robbery and government bailout, as well as the need for organized ideological and social resistance against the growing state consumption and state control of economic processes. We believe that a 'slave' can not be released until it understands the nature of its 'slavery', ie tax policy. Therefore, in this paper, we will point out this new nature of 'slavery', believing that this type of philosophical-economic reflections on the nature of 'slavery' (the morality of the taxation) is necessary if we want to exert political pressure for a lower (minimum) public spending and more responsible disposal of public funds. On the other hand, through the analysis of the Nozick theory of distributive justice and the connection between justice and the free market, we will try to answer questions about the ethical, political and economic nature of redistribution, unlimited capitalism and free market.

**KEYWORDS:** economic freedom, neoliberalism, fiscal slavery, economic statism, freemarket, minimal state, distributive justice.

**JEL CLASSIFICATION:** E00, E66

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## INTRODUCTION: NEW NATURE OF 'SLAVERY'

In the last almost tree decades we are witnessing a serious problem in the sustainable development in business and economics in R. Macedonia. We think that this is a direct consequence of our failure to establish a legal and economic system in which economic freedoms and free market ideology will function. Instead of sustainable development in business and economics, we testify new forms of problematic economic statism such as:

- 1) Enormous and decadent state consumption<sup>1</sup>
- 2) Crony capitalism<sup>2</sup>
- 3) Legal robbery<sup>3</sup>
- 4) Forms of corporate welfare<sup>4</sup>
- 5) Government bailout<sup>5</sup>

Generally looking, more than two decades we witness everyday corruption affairs, cronyism, nepotism, abuses of public money etc. Because of inherent greed, right people can not exist in politics, but there may be systems of consistent economic rules in which wrong people will have to make right decisions. We believe that these rules are the principles of economic of the free market. The less money the state spends, the less corruption, cronyism, nepotism, decadence and abuse od public money. Minimum state means minimal political and economic crime. Maximum state means maximum corruption and missuse of public funds. We think that one 'slave' can not be released until it understands the nature of its 'slavery'. We will try to explain thought this historical irony. In the 19th century we had only 10% of the flat tax in the Ottoman Empire and, subsequently to this, our collective written history

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<sup>1</sup> Historically the recent budget the highest since the beginning of the independence of the R. Macedonia. <<https://www.finance.gov.mk/files/u3/BUDGET%202019%20SOBRANIE.pdf>>

<sup>2</sup> In the last two decades we are witnessing extreme crony economy in which businesses thrive not as a result of risk, but rather through a nexus between a business class and the political class

<sup>3</sup> Very devastating example is how ended our transformation of the social capital of the 90s as a legal robbery and also our recent 2014 Skopje project which was a new form of legal robbery. See "Dark time of transition", Republic September issue 2014 and Skopje 2014 under magnifying glass. <<http://skopje2014.prizma.birn.eu.com/>>

<sup>4</sup> Economic policy of subvention for investors and capitalism per se in recent years remained as one satirical Italian comic book character Super Hike in Alan Ford comic books series who was anti Robin Hood hero and has a moto: "I'm stiling of the poor to give to the rich".

<sup>5</sup> Most ironic exemplar of bailout failure is mayor of Struga and his spending of public money from government bailout for luxury automobiles and his public statements. <<https://24.mk/details/merko-vo-24-analiza-sramota-e-gradonachalnik-da-se-vozi-so-shkoda>>

teaches that it was a 'Turkish slavery'. On the other hand, in the 21st century, according to the Macedonian legislation we have legal obligations to fill the state treasury in this mandatory ways:

1) We must pay almost 50% of the our salary income. It is taken form us for personal income tax and mandatory pension and health insurance contributions, financial duties end etc.

2) We must pay additional progressive 10% income tax if the earnings are more than 1500 (one thousand and five hundred) euros per month

3) We must pay 19% a value-added tax (VAT) or goods and services tax (GST) on nearly each economic transaction,

4) We must pay additional charges for the transfer of goods from one place to another or the so-calle customs duties and taxes on products we do not produce,

5) We have a legal obligation to return and repay the public debt, although we have not been asked and nor agreed on the amount of the borrowing nor on the interest rates,

6) We have legal obligation to pay public broadcasting service,

7) We must pay additional excise tax on goods (oil, cigarettes and alcohol)

8) We must pay many state charg of a small million administrative fees, duties and many more forms of payment,

9) We must pay income tax for a gift, for a received an inheritance, for profit from games of chance etc.

10) We must pay for state license for almost any activity

And, subsequently to this, we learn and think that we live in freedom. But, from this fiscal policy, this etatistic situation is obviously a form of state fiscal repression. What is more problematic is the fact that we don't have visible economic liberal in public discourse, neither within the intellectual and academic community. We don't have economists or social thinkers contra economic statism. We don't have effective social and ideological resistance to the legal robbery and paternal aggression. We think that this fiscal 'slavery' situation is a consequence of not organized social or ideological resistance against it. The people here wants to live on the expense of the state. But they forgat that the state wants to live on the expense of everyone. We are explaining this consternation and nonresistant with awareness of the nature of 'slavery'. We need

philosophical reflection or awareness of the nature of 'slavery'. Because of absence of this awareness we have a situation where legal robbery becomes a way of life for a certain group of people. In the name of their lucrative purposes, they create such a legal system in which the robbery not only empowers, but attaches and the moral context that glorifies it. This moral context causes the eyes of a citizen to be captured by a Turkish 10% called 'slavery', and this fiscal repression calls it 'freedom'. This philosophical reflection or awareness of the nature of 'slavery' and morality of state fiscal policy and redistributive models are necessary if we want to exert political pressure for lower public spending and more responsible disposition of public funds. We extend the meaning of the word 'slave' motivated by the following thought experiment of R. Nozick:

Consider the following sequence of cases, which we shall call the Tale of the Slave, and imagine it is about you.

1. There is a slave completely at the mercy of his brutal master's whims. He often is cruelly beaten, called out in the middle of the night, and so on.
2. The master is kinder and beats the slave only for stated infractions of his rules (not fulfilling the work quota, and so on). He gives the slave some free time.
3. The master has a group of slaves, and he decides how things are to be allocated among them on nice grounds, taking into account their needs, merit, and so on.
4. The master allows his slaves four days on their own and requires them to work only three days a week on his land. The rest of the time is their own.
5. The master allows his slaves to go off and work in the city (or anywhere they wish) for wages. He requires only that they send back to him three sevenths of their wages. He also retains the power to recall them to the plantation if some emergency threatens his land; and to raise or lower the three-sevenths amount required to be turned over to him. He further retains the right to restrict the slaves from participating in certain dangerous activities that threaten his financial return, for example, mountain climbing, cigarette smoking.
6. The master allows all of his 10,000 slaves, except you, to vote, and the joint decision is made by all of them. There is open discussion, and so forth, among them, and they have the power to determine to what uses to put whatever percentage of your (and their) earnings they decide to take; what activities legitimately may be forbidden to you, and so on.

Let us pause in this sequence of cases to take stock. If the master contracts this transfer of power so that he cannot withdraw it, you have a change of master. You now have 10,000 masters instead of just one; rather you have one 10,000-headed master. Perhaps the 10,000 even will be kinder than the benevolent master in case 2. Still, they are your master. However, still more can be done. A kindly single master (as in case 2) might allow his slave(s) to speak up and try to persuade him to make a certain decision. The 10,000-headed monster can do this also.

7. Though still not having the vote, you are at liberty (and are given the right) to enter into the discussions of the 10,000, to try to persuade them to adopt various policies and to treat you and themselves in a certain way. They then go off to vote to decide upon policies covering the vast range of their powers.

8. In appreciation of your useful contributions to discussion, the 10,000 allow you to vote if they are deadlocked; they commit themselves to this procedure. After the discussion you mark your vote

on a slip of paper, and they go off and vote. In the eventuality that they divide evenly on some issue, 5,000 for and 5,000 against, they look at your ballot and count it in. This has never yet happened; they have never yet had occasion to open your ballot. (A single master also might commit himself to letting his slave decide any issue concerning him about which he, the master, was absolutely indifferent.)

9. They throw your vote in with theirs. If they are exactly tied your vote carries the issue. Otherwise it makes no difference to the electoral outcome.

The question is: which transition from case 1 to case 9 made it no longer the tale of a slave?<sup>6</sup>

## **ECONOMIC FREEDOM AND MORALITY: FROM NOZICK'S AND LOCK'S PERSPECTIVES**

In times of new post-leftist populisms and economic etatism, it is helpful to recall to the ideas of the American philosopher Robert Nozick and the father of liberal thought, John Locke. Robert Nozick's book "Anarchy, state and utopia", which in 1975 received the prestigious U.S. National Book Award in the category: Philosophy and Religion, is the most vital moral critique of redistribution models of social justice and the most complete apology of market freedoms. Robert Nozick, like all consistent liberal thinkers in his economic and political philosophy, believes in his two axiomatic premises:

- 1) The free market by nature is fair and justice,
- 2) Economic freedom is a precondition for the preservation of civil and political freedoms.

Nozick assures that the minimum state limited to narrow functions of protection from violence, robbery, and fraud is justified. But every wider state with more credentials is not at all justified because it violates the right of the person not to be forced to do certain things. He starts from foundation of Kant's ethical imperative in which man must be a goal, not a means. Namely, Immanuel Kant in the *Criticism of the Practical Mind* advocated supreme moral autonomy of the person expressed in the commandment: " Act in such a way that you treat humanity, whether in your own person or in the person of any other, never merely as a means to an end, but always at the same time as an end."<sup>7</sup> Then Nozick applies John Locke's ideas from *Two Treatises of Government* where he asserted political-economic justification of the **natural state** of the perfect freedom and equality of man to act as he wishes, to dispose his own

<sup>6</sup> R. Nozick, *Anarhija, država i utopija*, CID, Podgorica, 2010, 235-236.

<sup>7</sup> И. Кант, *Критика на практичниот ум*. Метафорум, Скопје, 1993, 74.



property as he will find for convenience, without seeking permission or dependency on any other person and the *natural law* in which no one may harm the life, health, freedom or property of the other. John Locke unconditionally believed that man should not abandon the rights and privileges in the natural state and the moral power of natural law.

However, as Locke warns us, the attributive justice in the natural state is compromised because: a) for most people, natural law is incomprehensible; b) there is no neutral instance in those situations in which the opponents cannot agree on, and c) the damaged party in the conditions of the natural law is not always strong enough to execute justice, more precisely, to realize the natural law itself. Therefore, says Locke: "people quickly see the bad conditions in which they are in the natural state and do not given up from the privileges of that natural state, and they move into an organized society." More precisely, the state is necessary for realization of the natural law and natural state. Hence, for Lock, the state is a consequence of a social contract that should secure the life, health, freedom and ownership of the individual. Therefore, people have the rights, and the government or state has the duties.<sup>8</sup>

Nozick recognizes the power of this theoretical position of the state as apparatus, and therefore this model of the night-watchman state is actually his initial position that the minimum state is the maximum that is allowed and morally acceptable. But Nozick goes a step further. He inserts the idea of ultra-minimal state. In it, the right to life, security, property and free market will be guaranteed only to those who decide to use the protective role of the state. Nozick defends this concept, but it continually develops the theory to a logical consequence called anarcho-capitalism in which there is no state, but individuals agree with private contractors/companies that provide all social services. Nozick assures that anarcho-capitalism, in which the role of the state is demonopolized and handed over to private companies, will inevitably be transformed into a single locally dominated private defense and legal agency for which everyone will show an interest, precisely to advocate it and to provide social services. Thanks to the emigration of the market of this single locally

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<sup>8</sup> Locke, John. *Two Treatises of Government*, 106-108.

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

dominated private defense and legal agency. So the agency will actually be the minimum state.<sup>9</sup>

In *Anarchy, State and Utopia*, Nozick argues with John Rawls' "social democracy" and his capital study *Theory of Justice*, which came out three years before Nozick's book. The idea of Rawls is focused on the apology of the concept of social justice and social distribution. And that, in short, means social guarantees for those who have suffered in the social processes of horizontal and vertical mobility. There are two principles in his theory of justice. The first, every individual should have the right to the equal personal freedoms that is similar with freedoms for others. And, secondly, social and economic inequalities should be so arranged that it would be reasonable to expect everyone to benefit. What does John Rawls mean with the second principle? Yes, the individual must have the greatest possible imagined freedom that must be combined with the freedom of the other. Here, John Rawls does not deviate from the classical liberalism and the idea that the limit of my freedom is the freedom of the other. But for John Rawls, wealth in a community must be distributed and redistributed. And so, according to John Rawls, the state must bring those who are in the worst economic situation, those who are socially vulnerable and those who are losers in social-economic processes, with social transfers and social packages, as close as possible to those social groups and individuals who are good at that society. This classic social-democratic concept of John Rawls has the idea that the duty of the state is to maximize the well-being of those members of society which live on a social minimum.

But here comes the destructive libertarian logic of Nozick. The state does not create wealth. The state only distributes. Wealth is created by individuals. So, state has nothing to distribute, if it does not get it before. State will not have anything to give if state does not take it. According to Nozick and libertarian economic thought, all of this are essentially compelled by force. And completely immoral. How is it morally just, someone else's right to be my duty to pay? Therefore, he says, no one has the right to anything whose realization requires certain use of things and actions on which other people have rights and powers, including tax to pay for those with "undeserved

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<sup>9</sup> R. Nozick, *Anarhija, država i utopija*, op. cit. IX.

inequalities". The idea of compensating for "undeserved inequalities" seems attractive, but the person has absolute right of the possession of an even deeper moral principle. Free society is a reflection of free people. A free man is a man who is not a means, a person who can not be sacrificed or used to achieve other goals without his consent. This is a consequence of the philosophy of freedom that is based on the principle that we own ourselves. Nobody else, neither an individual nor a group, has the right to our life. Nor do we have the right to someone else's life. The product of our life and freedom is called property. Hence our absolute right to it. This also applies to all interventions in the free market trade. Only unlimited capitalism values freedom and my self-esteem. Thus, the free labor and capital market is morally justified. It is necessary to keep in mind that Nozick and for every consistent libertarian think under the absolute assumption that the original authorization of income and property is in line with the original principle of just acquisition

### **NEOLIBERALISM AND FREEDOM AS PERSONAL UTOPIA**

The notion of "neoliberalism" today by some academic and leftist circles is used as a completely unimaginable mantra based on a complete adulteration context in the sense of a certain political fantasy that the world is captured in neoliberal cancer, so any conscious leftist should defend himself from the public space of neo-liberalism metastases. It would all be good when those academic and leftist would have the strength and ability to formulate what is meant by "neoliberalism". Political and philosophical, neoliberalism means Nozick's reduction of the state to a minimum. Therefore, the claim that contemporary socio-economic problems are a consequence of the neoliberal economy does not correspond with the fact that not only does not have a reduction of the state, but the forms of state interventionism are larger than ever. Therefore, such use and mis-contextualization of the notion of "neoliberalism" is nothing but a complete failure and misunderstanding of the basic concepts in political philosophy and economics.

Nozick's reduction of the state to a minimum means that no one has the right to anything, the realization of which requires certain uses of things and actions on which other people have rights and powers. More precisely, according to Nozick, we can not tax people to pay for those with "undeserved inequalities" because we have the absolute right to our income. Above all, ethically and politically-economic, Nozick, as a

consistent libertarian, tries to point out the immoral nature of redistribution. Not to abolish it, but to minimize it and tie it to special qualities. For Nozick, there is no such thing as a social body, public interest, etc. There are only individuals. To use one of them, for the welfare of another, simply just means he used one at the expense of the other and nothing else. If the philosophy of freedom as self-possession is accepted, then those with "undeserved inequalities" or market failures have no legitimate or moral right over my gifts and my market success. Unless we decide otherwise. This also applies to all interventions in the free market trade.

After this Nozick's conclusion is unequivocal: the minimal state, limited to the protection of life, freedom, market and property, is morally justified. Any expansion of the authority of the state leads to unequivocal coercion, and thus to political and civil injustice. Nozick claims that if property is justly acquired, then being authorized for it means an absolute right to get rid of it, if so decided. In other words, Nozick does not object to voluntary private philanthropy. However, he objects to the moral thread of the seizure, in deciding not to give good fortune to my property, because no one has the moral right to take away my own, even though it was used to compensate for the most vulnerable in society.

## **CONCLUSION**

Nozick, anarchism began to be a conceptual concept against the paternalistic aggression of the fiscal repressive state in which freedom is possible only as a personal utopia of the free individual who decides who and under what conditions it will: defend, heal and educate. This utopia of personal freedom free from force strongly expresses in its moral normative qualia: from each as they choose, to each as they are chosen. Hence, the duty of every consistent liberal and critic person is to debunk the moral context that state is inventing so that they can proclaim the plundering for "Crusade" war. The history of the last two centuries testifies to us that societies that aspire to material egalitarianism (the socialist states) and not to forms of liberalism, have not achieved equality, and even less freedom. On the contrary, societies that pursued the principles of economic and civil liberties did not achieve equality, but they allowed the so-called vertical mobility, prosperity, withdrawal from poverty as in any other political and economic system developed so far.

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## **ANALYSIS OF PROJECT MANAGEMENT AND PROJECT MANAGEMENT OFFICE PRACTICES IN REPUBLIC OF NORTH MACEDONIA**

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### **ABSTRACT**

The purpose of this paper is to offer understanding and analysis of the current practices, status and position of project management and Project Management Offices (PMO) in Republic of North Macedonia. This paper presents own research data from a survey where more than 40 organizations from various industries and 155 participants relevant for the research from Republic of North Macedonia took part. By analyzing the research data, this paper gives conclusions and answers to important aspects about project management and PMO status in Republic of North Macedonia. This paper also offers a compilation of recommendations for organizations interested in improving their PMO position and project management practices and in the contemporary business environment.

**KEYWORDS:** project management; project management office; portfolio management; resource allocation management; project manager

**JEL CLASSIFICATION:** M10; M19

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## INTRODUCTION

Today's contemporary business environment is being characterized by a universal uncertainty. This uncertainty imposes great levels of pressure for the organizations to implement the right strategy that delivers the right results (Biedenbach & Söderholm, 2008). Organizations are turning more and more towards project management as a means to realize the set strategy and as a means to deliver the results as soon as possible. This situation, without a doubt, imposes greater pressure on project management from two aspects: on one hand side there is the pressure of successful project delivery (Whittington & Melin, 2003) and on the other hand side, there is the pressure of undertaking the right projects (Dinsmore & Cooke-Davies, 2006). The continuous heaviness to achieve greater business results, with less and less resources, only crystalizes the need to choose the right projects and to deliver these projects successfully, leading its way to the concept of Project Management Office (PMO). PMO is an organizational unit that from a central point, coordinates, supports and controls the projects under it's' domain. Typical responsibilities of the role of the PMO are standardization of processes and methodologies for project management, facilitation and coordination of the project portfolio, mentorship and training for the project managers etc. (Santosus, 2003).

The goal of this paper is to offer an understanding of the project management and PMO status in Republic of North Macedonia through an analysis of primary data received via a survey conducted in 2018 on the territory of Republic of North Macedonia. The survey itself includes more than 40 organizations and 155 respondents from various industries: IT; pharma, telecommunications, finance etc. Additionally, this paper offers conclusions and recommendations for improving the project management and PMO position in the organizations working in contemporary business environment.

### 1. KEY CONCEPTS OF PROJECT MANAGEMENT AND PMO

There are numerous definitions in the literature that help us understand the concepts of project management. According to Project Management Institute, PMI, (2013, p.3), a **project** is a "temporary endeavor undertaken to create a unique product



or service". Some examples of a project include a new product, a new service, implementation of a new software solution or a modification of an existing software solution, reorganization/restructuring in an organization, and other examples that show a more complex and unique undertaking. Furthermore, PMI, (ibid, p.4) defines the **project management** concept as "the application of knowledge, skills, tools and techniques to project activities to meet the project requirements". The person responsible for leading the project and its' delivery is the **project manager**. In project context, we often have another role, project sponsor. According to Kloppenborg et al. (2007) a **project sponsor** in an organization is a senior manager, that acts as an owner of the project, responsible for the project success. Most common, we find the manager of the business unit where the idea for the project derived to be the project sponsor, or the business unit that will benefit the most from the project realization. The main difference between a project manager and a project sponsor is that the project manager is responsible for the day to day organization, coordination and control of the project activities and the project sponsor is more of an escalation point, that has a general understanding of the project and in case of a need for escalation, outside the scope, domain and power of the project manager, steps in, in order to ensure successful project delivery.

Other important concepts that need distinction in the project management model are portfolio and program. According to PMI, (2013, p.35) a **portfolio** is a "collection of projects or programs and other work that are grouped together to facilitate effective management of that work to meet strategic business objectives. The projects or programs of the portfolio may not necessarily be interdependent or directly related". A **program** on the other hand, ( PMI, 2013, p.25) is a "group of related projects managed in a coordinated way to obtain benefits and control not available from managing them individually." The distinction between the concepts of program and portfolio, can be elaborated through an example of an organization that has many projects for gas, water, etc. To these regards, a program can be the grouping of all gas projects and another program can be the grouping of all water related projects. And together, both programs will form a portfolio. The portfolio itself can have other projects that are not part of any program. The concept of portfolio management strives to prove the benefit of having an overview of all projects as a whole, and therefore the

ability to exploit the benefits from project prioritization, resource allocations as well as consistent management of the portfolio towards the strategic determination of the organization.

In regards to a project management office, known most commonly in the literature as a PMO, we refer again to the PMBOK Guide (Project Management Body of Knowledge) for a definition and understanding of this organizational entity. According to PMI (2013), a **PMO** is a relatively new function developed in the organizations in order that it develops, monitors and sustains the project management activities in that organization. According to PMI, the PMO is “a management structure that standardizes the project-related governance processes and facilitates the sharing of resources, methodologies, tools and techniques.” (PMI, 2013a, p.10). The role of the PMO in organizational context can vary greatly from organization to organization. Some of the functions of the PMO are: creating project management culture; improving and maturing project management practices in an organization; portfolio management; training and mentorship for project managers; creation of various project management reports; monitoring and controlling project status; resource allocation management within a portfolio etc. (Dai, 2001; Crawford, 2002; Charavat, 2003; Kerzner, 2003; Levine, 2005; Hobbs & Aubry 2010). In this paper, we group the role of the PMO in the following categories: 1) Standards and Tools; 2) Data Management 3) Training and Mentorship; 4) Portfolio Management; 5) Project Management; 6) Resource Management.

The PMO is a contemporary concept gaining greater and greater public interest. If we look at books that have been published on this topic in the period from 2005-2010 we will see that there were around 3800 books on the topic of PMO (Ward, 2010). We could see a similar trend from the number of PMO group members on linkedin.com. To these regards the PMO group has 124,588 members (LinkedIn, 2019) which is an outstanding number that grows every day. PMO is gaining such a global popularity that even the Pope has a PMO. (2014, PM Network, A PMO for the Pope).

## 2. ANALYSIS OF THE RESULTS FROM THE RESEARCH OF PROJECT MANAGEMENT AND PMO IN REPUBLIC OF NORTH MACEDONIA

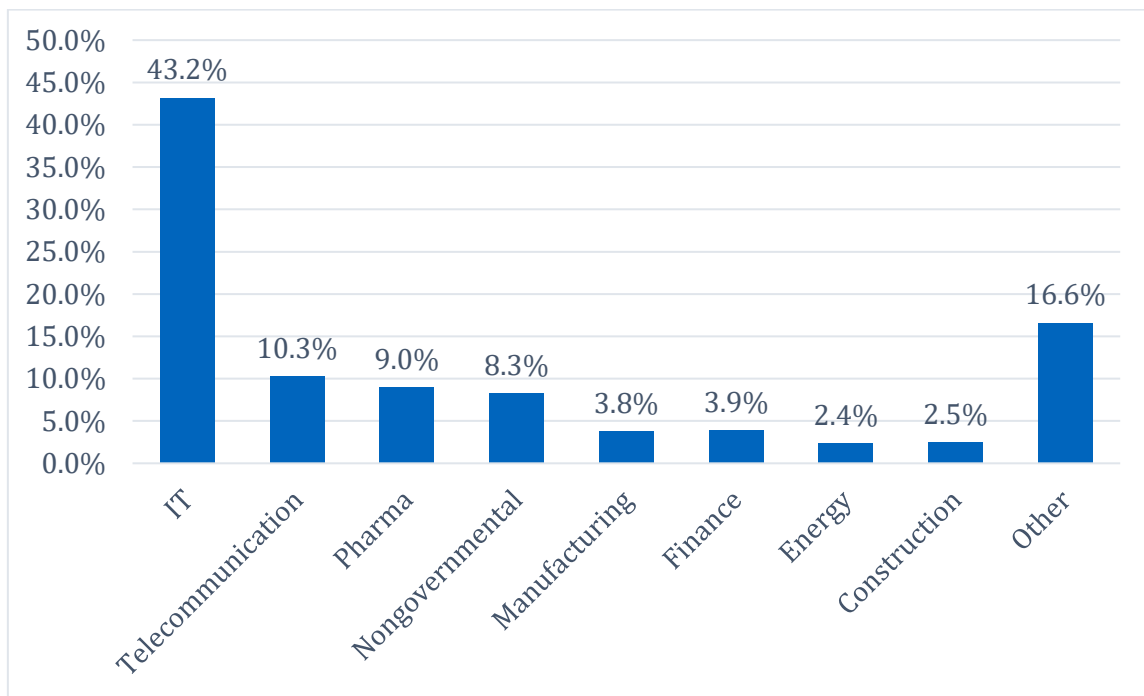
### 2.1. Research Methodology and Background

This paper offers own research data from a survey conducted in 2018, as part of a PhD research, targeting organizations in North Macedonia, relevant for the research of project management and PMO. The sample is not random, but rather it is a purposive sample and therefore the conclusions that we derive in this research apply only to the selected organizations in the research. Furthermore, in this paper we use the term “organization”, referring to all business entities like companies; non-governmental organizations, institutions etc. as an umbrella term.

The research included 155 respondents from more than 40 organizations. The respondents were grouped by: 1) industry; 2) size of the organization 3) role/title of the respondents in the organization.

Most of the respondents were from the IT industry (43.2%), then telecommunications (10.3%), pharmacy (9%) etc. The details of the respondents per industry is depicted in Graph 1.

**Graph 1. Respondents grouped by industry**

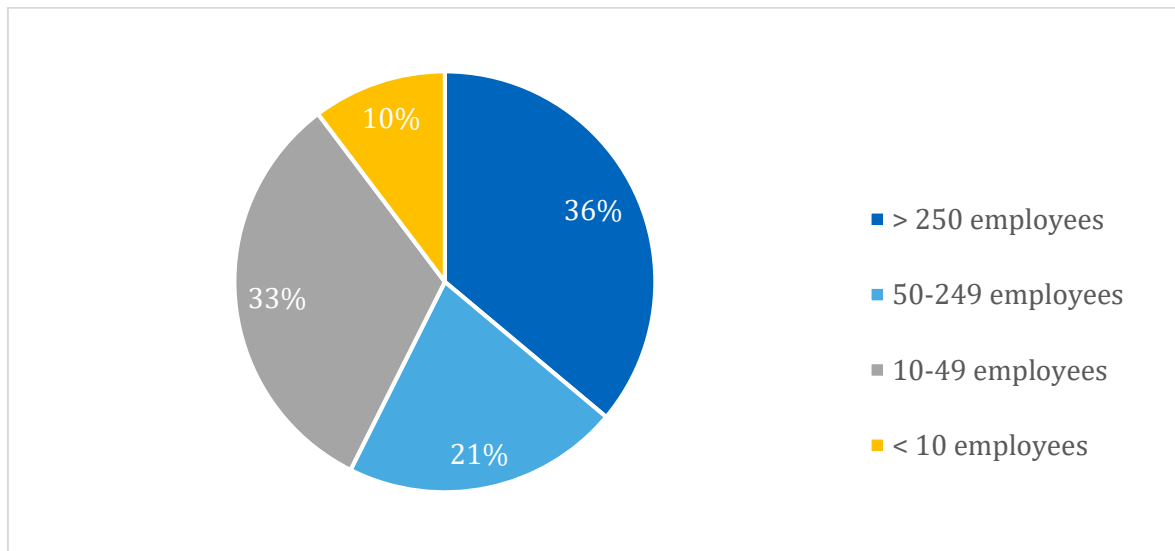


Source: Own research

As a reference, according to the data of the State Statistical Office (2018), the number of active business entities in Republic of North Macedonia in 2018 was 72 315. As a further rereference, according to the State Statistical Office, the IT industry in 2018 is present with (9.9% or 167 entities), Other service activities with (8.5% or 377 entities), Manufacturing (11%), Electricity, gas, steam and air conditioning supply (0.3%), etc.

In regards to organization size, the research included respondents from organizations of all sizes, dividing them into four groups: 1) >250 employees; 2) 50-249 employees; 3) 10-49 employees; 4) <10 employees (Graph 2).

**Graph 2. Respondents grouped by size of organization**



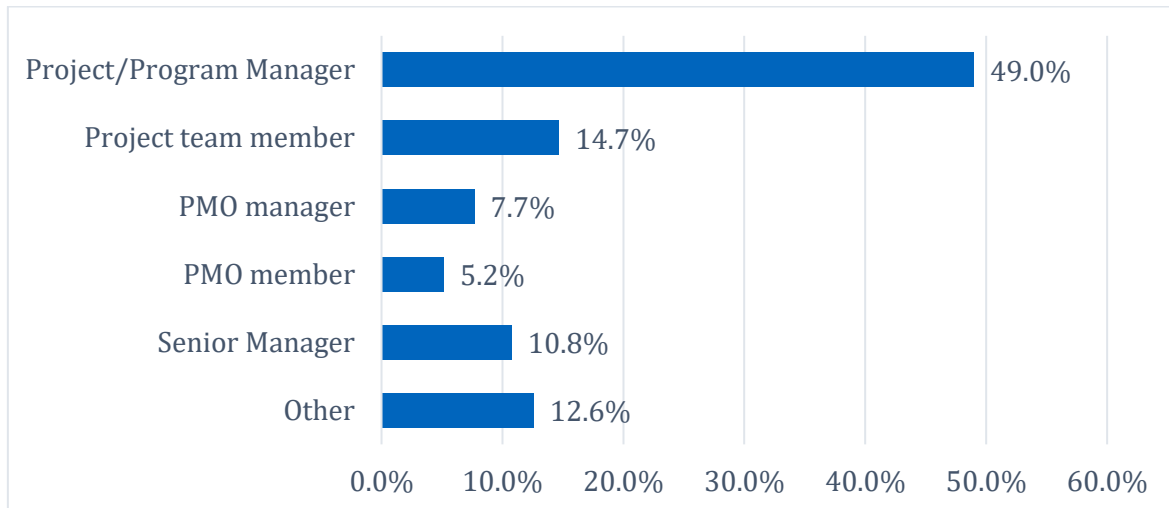
Source: Own research

Again, as a reference, according to the State of the Statistical Office (2018), the data on the structure of active business entities according to the number of persons employed show that the highest share of 79.1% belongs to business entities with 1-9 persons employed. This is followed by business entities with no persons employed or entities with unascertained number of persons employed (no data on persons employed) with 11.4%, and entities with 10-49 persons employed with 7.2%. Those with 50-249 persons employed participated with 1.9%, while entities with 250 or more persons employed had a share of only 0.3%.

The third parameter for the grouping of the respondents in this research is in regard to respondents' background. Accordingly, the research included mostly project

managers, then project team members, PMO managers, PMO members, senior managers etc. (Graph 3). All respondents targeted were relevant for the survey and applicable to enable high quality research data. And again, as stated before, the sample taken for this research was not random. The purpose behind the targeted sample was to gather quality data from respondents applicable for the project management field of research.

**Graph 3. Respondents grouped by role/title in the organization**



Source: Own research

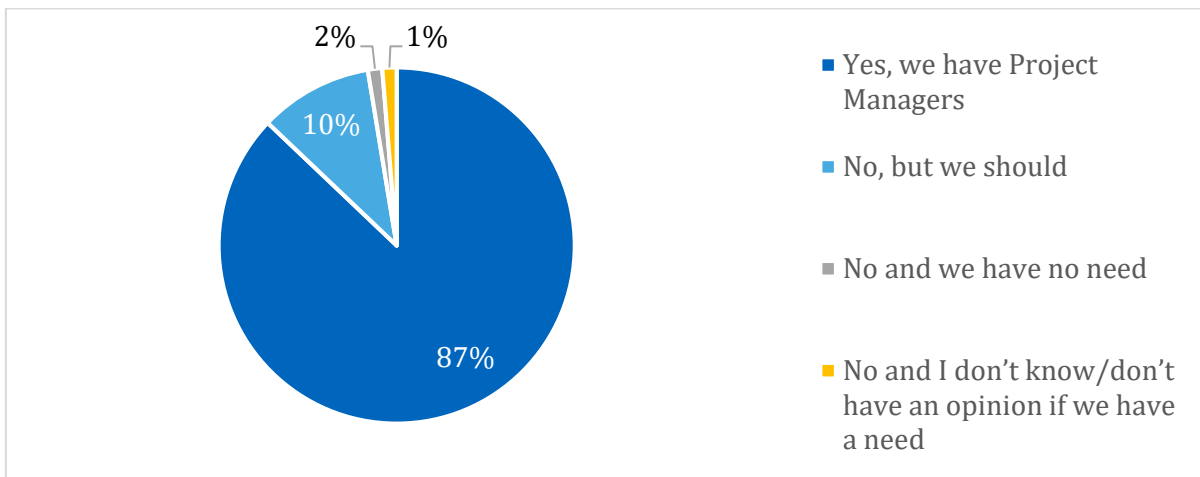
In the next part of the paper, we focus first on the analysis of project management status and position in North Macedonia, followed by the analysis of PMO status and position in North Macedonia.

## **2.2. Analysis of Project Management Status and Position in Republic of North Macedonia**

This research paper answers some of the burning topics connected with project management status and position on the territory of Republic of North Macedonia. Questions that this research addresses include percentage of organizations that have project management in North Macedonia; the position of project managers in organizational context; the percentage and types of standards/methodologies used for project management. It continues with most common reasons for project pitfalls and challenges; project management maturity in the organizations as well as analysis whether project management is a contributor to added value in the respective organizations.

In regard to the percentage of organizations that have project management in Republic of North Macedonia, the research shows high percentage of organizations that have project management as a practice (87.1%). It is interesting to note that of those organizations that do not have project management, 10.3% believe that it should be established, and only a small percentage, 1.3%. believe that they have no need of project management in their organizations (Graph 4).

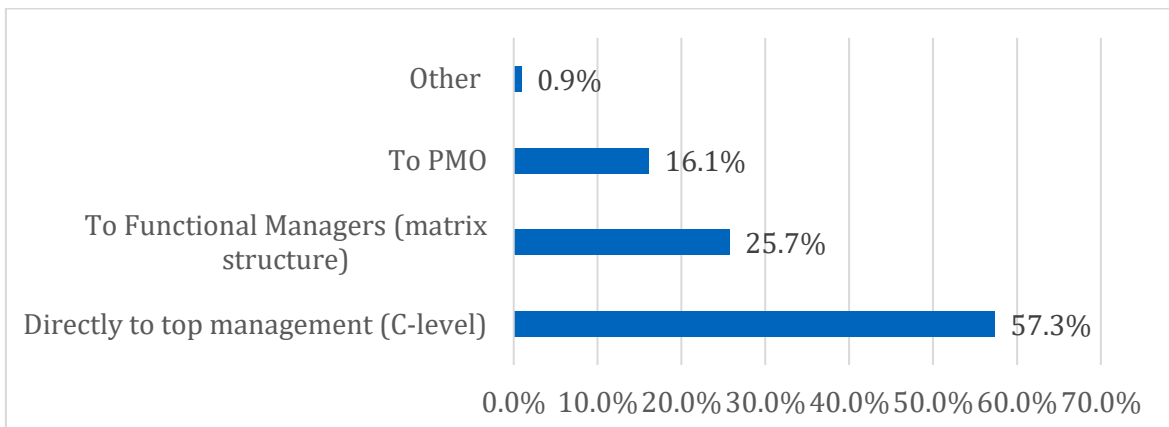
**Graph 4. Percentage of organizations with project management/project managers in North Macedonia**



Source: Own research

In regard to the positions of Project Managers in organizational context, presented in Graph 5, the research shows that most of the Project Managers report high in the organizational structure, which puts project management on a high and important scale in the organizational context.

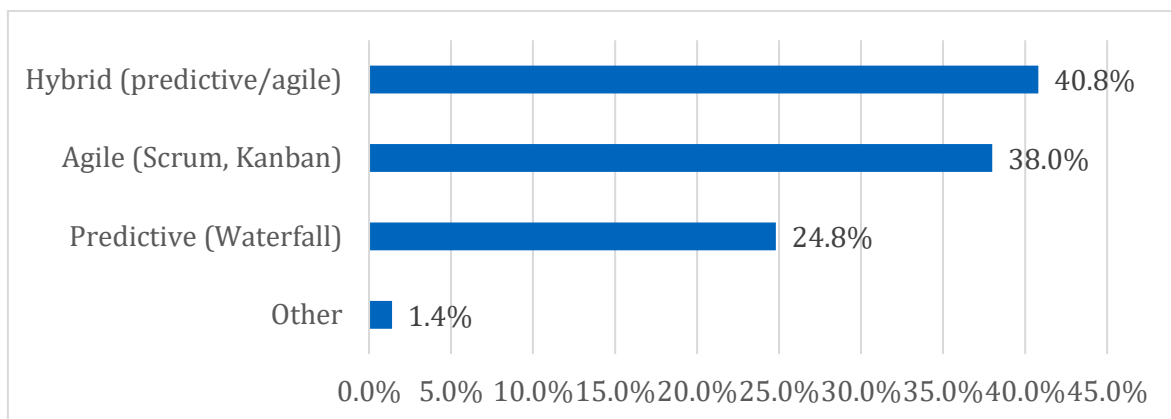
**Graph 5. Position of Project Managers in organizational context**



Source: Own research

This research also opens the question regarding usage and application of standards/methodologies for project management. According to the research, most organizations in North Macedonia (62.8%) do use some standards for project management. 27.7% of the organizations do not use any standards/methodologies for project management and 9% of the respondents did not know if they used and applied standards for project management. The research goes further on this topic and analyzes the types of standards for project management that the organizations are using. The details are shown on Graph 6. Accordingly, most of the organizations that use standards, use the hybrid (mix from agile and predictive) with 40.8% and 38 % use pure agile (Scrum, Kanban). Knowing that most of the respondents in the research were from the IT organizations, this data is understandable and justifiable.

**Graph 6. Types of standards for project management that organizations in North Macedonia use**



Source: Own research

Furthermore, the survey also included analysis of the challenges and pitfalls connected to project management work. The respondents were asked to do a multiple-choice selection of applicable challenges for their organizations in terms of project management. The table below (Table 1) summarizes and ranks the challenges in project management according to the feedback from the respondents.



**Table 1. Most common reasons for challenges and pitfalls in project management for the organizations in North Macedonia.**

Rank	Challenges	%
1	Limited resource availability	51.1 %
2	Inappropriate/incorrect project requirements	48.9%
3	Incorrect planning of the time/resources needed to complete the project	37.8%
4	Changes in the priorities of the organization	37.8%
5	Project risks not defined	28.9%
6	Inexperienced Project Manager	22.9%
7	Non-availability of standards/processes/templates for project management	22.2%
8	Inexperienced Project Team	18.5%
9	Insufficient support by Project Sponsor/Senior Management	11.9%

Source: Own research

Respectfully, we addressed the possible ways to overcome these challenges through the perspective of a PMO. Table 2 summarizes and maps how PMO, more specifically, which domains of PMO, could support in overcoming these challenges.

**Table 2. Most common reasons for challenges and pitfalls in project management and the role of the PMO in their overcoming**

Rank	Challenges	PMO as support
1	Limited resource availability	Portfolio Management and Resource Management
2	Inappropriate/incorrect project requirements	Standards and Tools
3	Incorrect planning of the time/resources needed to complete the project	Data Management
4	Changes in the priorities of the organization	Portfolio Management
5	Project risks not defined	Data Management
6	Inexperienced Project Manager	Training and Mentorship Resource Management Project Management
7	Non-availability of standards/processes/templates for project management	Standards and Tools
8	Inexperienced Project Team	Resource Management
9	Insufficient support by Project Sponsor/Senior Management	Standards and Tools

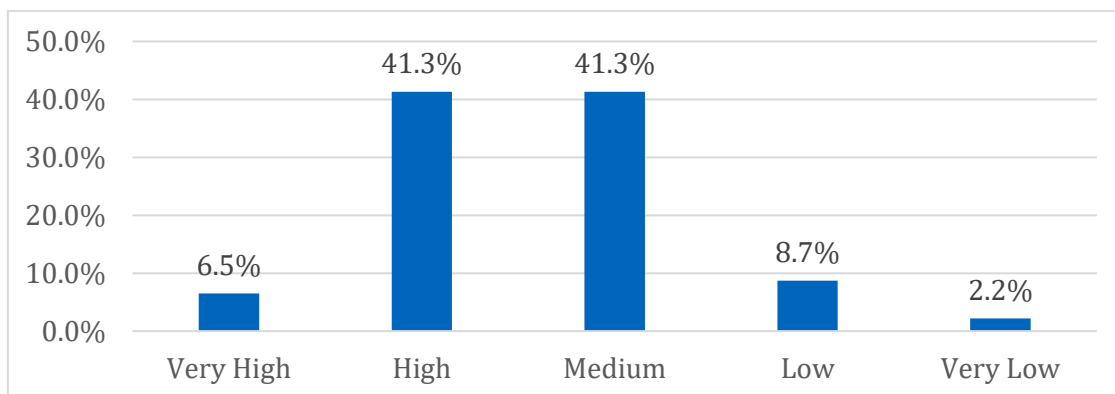
Source: Own research

In more details, the PMO has several ways in which it could help in overcoming these challenges. According to the respondents, the no.1 challenge reason for project management is the limited resource availability. The PMO can support in this challenge, as one of the domains of the PMO is resource allocation management on projects as well as portfolio management. In its respects the portfolio management should support this challenge by enabling the organization to choose the right projects for realization as well as by balancing the resource availability within the portfolio and approving the projects for which there is enough resource capacity (both budget wise and human resource wise). Regarding the second challenge, the PMO can support by setting up standards for project management that would impose certain analysis and criteria, certain approvals prior starting or during the realization of the project. Furthermore, the PMO can support with the challenge of incorrect planning of the time/resources needed to complete the project with offering a well rolled out data management. The PMO can share past experiences from similar projects; can share their history data, as well as lessons learned so that the new project team does not have to reinvent the wheel every time they start a new project. The fourth challenge, changes in the priorities of the organization can be supported by the important domain of the PMOs -> portfolio management and by having an organized prioritization of projects instead of having ad hoc and random project priorities. In respect to the risks definition, a PMO can support this, again, by fulfilling the functions under the domain Data Management. By sharing the risks from previous projects, the PMO can help with brainstorming and knowledge sharing needed for the respective risk definition. The PMO has a key role to support and develop the project managers in an organization (through Training and Mentorship), thus should address challenge number six "inexperienced project manager". In addition to offering Training and Mentorship, the PMO can support this challenge by looking into Resource Management and by allocating the right projects to the right project managers. Finally, for this challenge, the PMO manager and/or staff can take the role of project manager to set examples for professional project management practice and walk the talk. Furthermore, the establishment of a PMO should directly address the issue with non-availability of standards/processes/templates for project management. One of the main responsibilities of the PMO is to set exactly that, the standards, processes, templates

for project management. Going further in the challenge list, the inexperienced project team can in some form be mitigated with the resource management allocation capability of the PMO although this challenge to great lengths is dependent of the functional managers or team leads that are working on developing the employees in the right direction. Finally, a PMO can support overcoming the last listed challenge in this research by setting up appropriate standards/processes for project escalation, for project reporting, steering bodies etc.

This research also evaluates the project management maturity level in the organizations in Republic of North Macedonia. According to the research data, 41.3% of the organizations view their organization’s project maturity on a medium and high level (both with 41.3%). The full spectrum of the project management maturity level in the organizations in Republic of North Macedonia is depicted in Graph 7.

**Graph 7. Project Management Maturity Level in the organizations in North Macedonia**



Source: Own research

The last aspect of this part of the research focused on the contributing factor of project management in adding value for the organizations. To these regards, the survey showed a remarkable 97.1% of the respondents praising project management as a positive value adding contributor with only 2.9% of the respondents disagreeing.

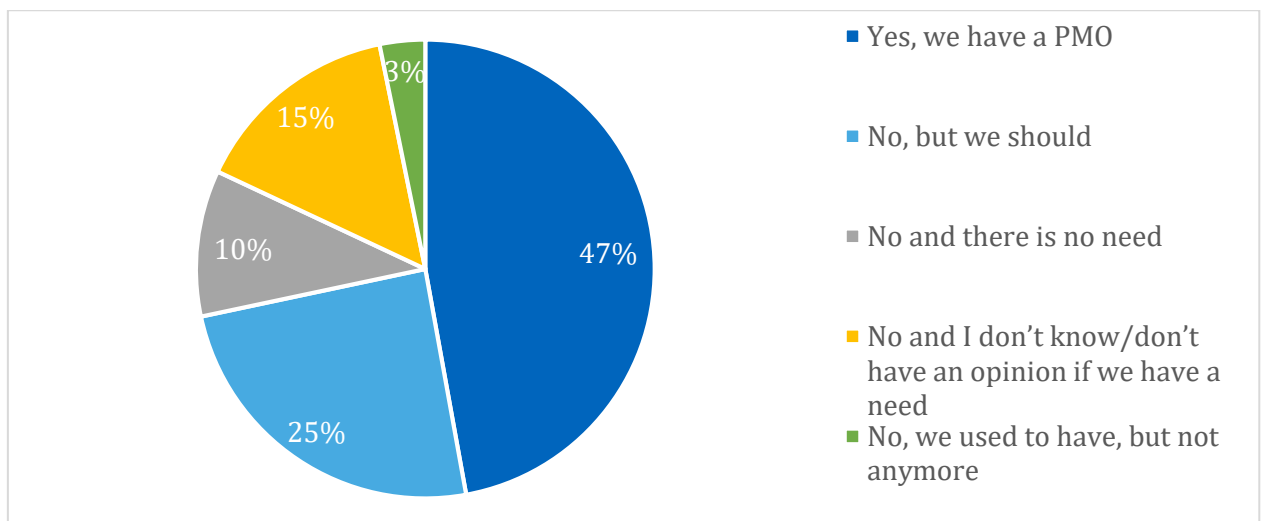
The next part of the paper, we focus on the PMO analysis and the status, acceptance and practices of PMO in Republic of North Macedonia.

### 2.3. Analysis of PMO status and position in Republic of North Macedonia

This paper also addresses the concept of PMO and analyzes the status and position of PMO in the Republic of North Macedonia in aspects like percentage of organizations that have PMO; the position of PMO in organizational context; PMO's life span. Furthermore, it looks at PMOs maturity; evaluation of the role of PMO as a contributor in adding value as well as at the most common reasons for challenges and pitfalls in PMOs.

In regard to the percentage of organizations that have PMOs in North Macedonia, according to the research data, 47.1% of the organizations have a PMO (Graph 8). Furthermore, most of the organizations that do not have a PMO, believe that they should (24.5%) and 3.2% of the organizations had a PMO, but do not have one any longer. In comparison with worldwide data (Pulse of the Profession, 2018), 68 % of the organizations have a PMO.

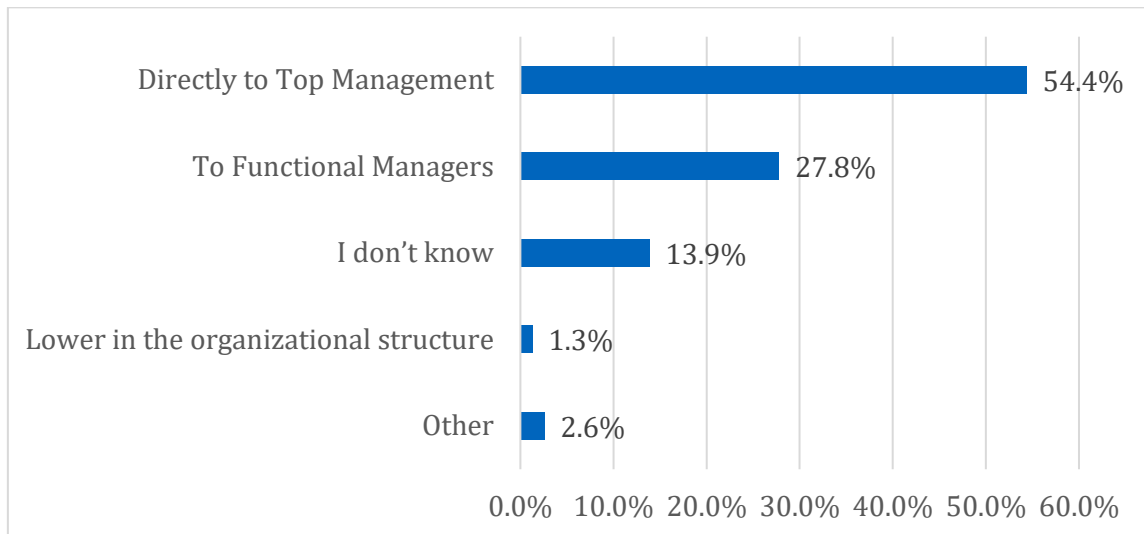
**Graph 8. Percentage of organizations with PMOs in North Macedonia**



Source: Own research

In regard to the position of the PMO in organizational context, Graph 9 shows that most of the PMOs are found high in the organizational structure, reporting directly to top management (54.4%). In comparison with worldwide data (State of the PMO, 2016), 49% of the PMOs directly report to the C-level, and most of them report to a VP or higher.

**Graph 9. Position of PMO in organizational context**



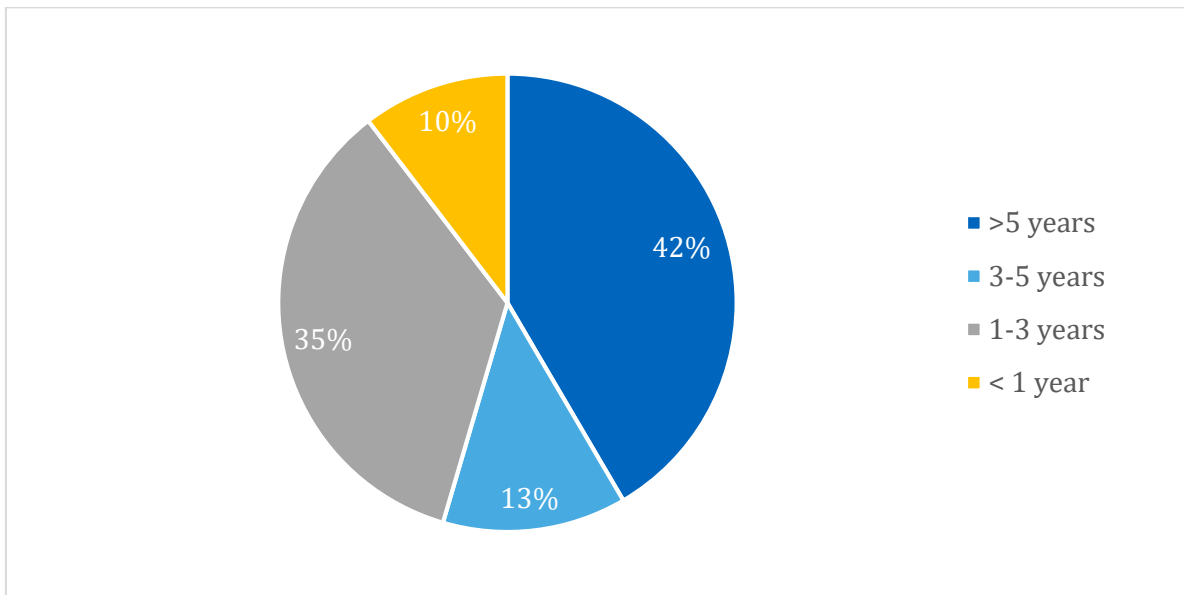
**Source: Own research**

This chart also shows how 13.9% of the respondents do not know where in the organizational structure the PMOs are, which speaks of a need for the PMOs to do more self-promotion and marketing and present their role in the organization, and show how they can contribute in the project management context and in organizational context at large.

Additionally from a structure perspective, this research also looks deeper into the types of PMO most commonly used, dividing it into organizational PMO (has all organizational projects under its domain); divisional PMO (has only divisional project under its domain) or if it is per project (PMO responsible and dedicated per project). According to the research, most PMOs are either divisional (48.7%); than organizational (42.1%); and then per project (26.3%).

Furthermore, as PMO is a generally new concept, this research also included the analysis of the PMO's age in organizations, that is how long the PMO has been up and running. According to the data, most of the PMOs (41.6%) are operating for more than 5 years. A larger portion of the PMOs (35,1%) are younger PMOs, operating in the period from 1-3 years. Details are shown in Graph 10.

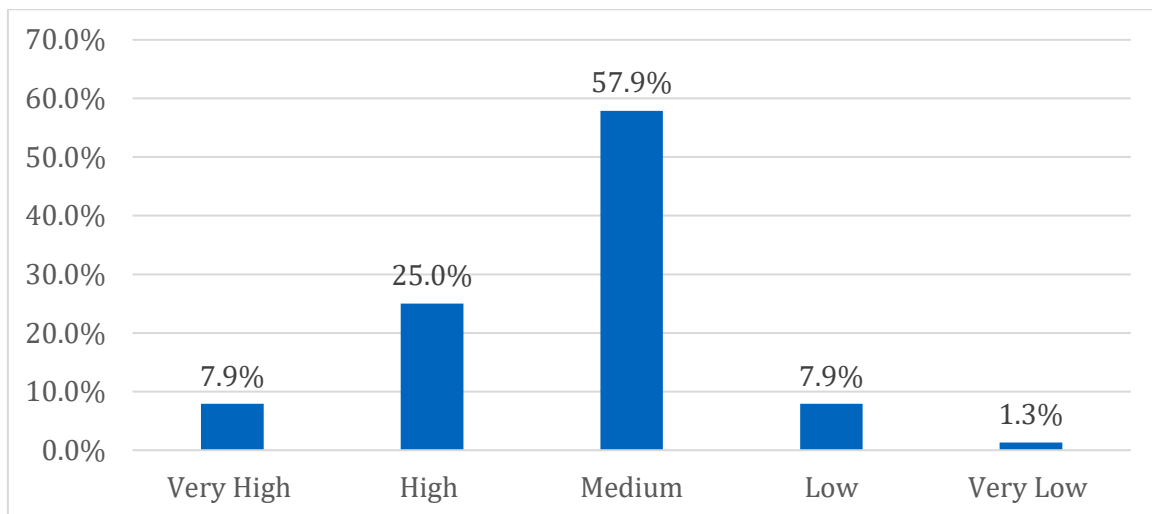
**Graph 10. PMO Age in the organizations**



Source: Own research

We opened up the topic of maturity again, now from the perspective of a PMO (Graph 11)

**Graph 11. PMO Maturity Levels in the organizations in North Macedonia**



Source: Own research

Here, most of the organizations value their PMOs maturity levels as medium (57.9%). If we compare this information with the maturity levels of project management, we can see that the maturity levels of the PMOs are lagging a bit behind, which is understandable knowing that this concept is much more recent than project management.

Looking into the PMO value, this research opened the following provocative question for PMOs “Do you believe that the PMO contributes to improved and more successful project management?” Positively, 72.6% of the respondents answered that the PMO does contribute to better project management, where as 23.6% believe that the PMO only partially contributes to better project management and 4% do not believe that the PMO has a positive effect on project management.

As a last question, we focused on the challenges and hurdles that the PMOs are facing in their day-to-day operation. Table 3 shows the details and ranking of the challenges according to the survey’s feedback.

**Table 3. Most common reasons for challenges in PMOs work and room for improvements**

Rank	Challenges	%
1	The project managers do not have enough project management experience and know-how	30 %
2	The PMO does not have the support for the other departments with which it has close cooperation	25.7%
3	The PMO does not invest in the training and development of the project managers	24.3%
4	The PMO leader/manager doesn’t have enough project management experience and know-how	22.9%
5	The PMO doesn’t have a clear goal and role in the organization	22.9%
6	The Project Managers view the work of the PMO as unnecessary and birocratic	18.6%
7	The PMO doesn’t have the support of top management	8.6%

Source: Own research

Knowing these challenges, we focused next on the recommendations in this context, as a means to improve the PMO and project management practices. According to the research data, the biggest challenge that the PMOs are facing is connected with the insufficient experience and expertise of the project managers. The PMO is in great extent responsible for this challenge as it is the role of the PMO to work on expanding the expertise of the project managers in project management and to invest in their knowledge expansion. The PMO could also support this challenge by offering mentorship and “shadow” coaching to the project managers. The research also ranks high the challenge of insufficient support with the other departments with whom the PMO closely cooperates. This phenomenon is seen in the worldwide trends as well. The



PMO must work on improving the cooperation it has with the stakeholders and prove to them that their presence affects positively the project performance and thus affects positively the organization at large. Another high ranked challenge is the insufficient training that the PMOs offer to the project managers. The PMOs must work on making a training plan for the project managers and invest in the expansion of the know-how of the project managers. Another challenge that this research points out is the insufficient experience and knowledge of the PMO leader/manager. The most effective PMO managers possess rare skills. They have to be strong leaders, easy to work with, communicative, with vision and strategy for the department, respected in the organization and of course with great knowledge and experience in project management. Additionally, they need to have industry specific know-how or be willing and able to learn quickly the industry specific technicalities. These people are rare and hard to get. If the PMO manager leans more towards using the technical and industry specific knowledge, instead of project management and organizational, this will lead to a reactive PMO and a PMO with mostly operational mindset (Margules, 2009). Such PMO will lose great extent of the benefits that it can bring via its practice to the organization. Furthermore, as the research shows, PMOs need to define clearly their goal and role in the organization to avoid falling in the trap of a generic PMO that has no goal and vision. In addition, the research shows the importance of simple and scalable processes for project management to avoid overbearing the project managers with bureaucracy and un-necessary paperwork. Last, but not least, the PMO needs to ensure it has the support of top management. A lack of this support could lead to PMO's failure or a PMO that is not fully utilized and exploited.

Addressing these recommendations would lead to a better standing PMO, that in its respect will influence to better project management and a one that will be able to address and overcome the project management challenges that were pointed in the previous section of this paper.

## CONCLUSION

Taking a deep dive in the analysis of project management and PMO in North Macedonia, we observe and conclude that project management, today, has a widespread adoption in North Macedonia. More than 87.1% of the organizations use and apply project management in their daily practice. Of the remaining, 10% of the respondents believe that they should incorporate the role project managers in their organization and only 2% do not believe that there is a need for such role in their organizations. Furthermore, we can conclude that the project managers are generally situated high in the organizational structure, which leaves room, and maneuver for pushing through their projects and using their power and authority as well as experience to see through and realize their project's success. In terms of project management standards and methodologies, we can summarize that more than half of the organizations use project management standards in their project management practice. Referring to the type of standards that are being used, most of the organizations use hybrid project management standards (40.8%), followed by agile (38%) and last waterfall (24.8%). The research also included the analysis of the challenges and hurdles in project management's practice and mapped the contribution of the PMO to each challenge. The highest-ranking challenge according to the research is the limited resource availability that could be mitigated and/or avoided with the Portfolio Management and Resource Management activities of the PMO. Regarding project management maturity, in summary, 82.6% of the organizations rank the project management maturity level of their organization as medium-to-high (41.3% medium and 41.3% high) which is a positive trend for the organizations in North Macedonia and the level of project management in this territory. Furthermore, this research shows a great correspondence and belief that project management contributes in adding value with remarkable 97.1% of the organizations believing that it does. Such positive trend leads us to the conclusion that the concept of project management in North Macedonia is not only present, but also has positive affirmation from the mass majority of the organizations.

In regard to PMO, the analysis shows a presence of 47.1% of the organizations having a PMO. It is interesting that from the remaining, 24.5% believe that their

organizations should implement a PMO, 10% do not believe that they have a need for a PMO, and interestingly 3% of the organizations had a PMO, but do not have one anymore. Regarding the position of the PMOs in organizational context, we can observe that the PMOs are situated high in the organizational structure, which enables the PMOs authority and autonomy. Further analysis of the organizational context show that most of the PMOs are divisional, 48.7%, followed by organizational PMOs, 42.1%, followed by PMOs on project level, 26.3%. Regarding maturity levels of the PMOs, we can conclude that the maturity level of the PMO is on a medium level scale (57.9%), which is lower compared to the maturity level these same organizations are demonstrating in project management. This phenomenon can be further confirmed, knowing the recent appearance of the PMO concept, compared to project management. This paper also analyzes the contribution of PMOs in better and more successful project management. In terms of numbers, we observe that 72.6% of the organizations believe that the PMO is contributing towards better project management. In the final segment of this paper and in the research, we focus on the challenges and hurdles that the PMOs are facing in their day-to-day operation and summarize recommendations for improvements that should help overcome these challenges. Addressing these recommendations should in turn lead to a better standing PMO, that in its respect will influence to better project management and more successful projects delivery.

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## DIGITAL STRATEGIES FOR MUSEUMS

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### ABSTRACT

This article aims to explore the influence that digital technology have on museums and their core activities in order to be able to meet the real needs of society: building bridges between various disciplines and types of knowledge, and people. Based on theoretical knowledge and successful case studies on the subject, the article addresses fundamental issues as a base for future primary research focused on the role digital technology has in transforming museums into informal centers for learning and entertainment. The article introduces the basics of museums, global cultural policies that are defining them, overview of the digital technology and its penetration in museum industry, current trends and case studies. It aims to explore how digital technology can transform the way museums manage their collections, present and communicate their vast information to everyone or engage the audience, the most beneficiary digital tools for museums, the major opportunities and constraints digital technology can impose to museums, as well as digital strategies for museums. The findings in the paper benefit the way museum institutions are facing the crucial challenge in their alignment with the needs of contemporary societies of 21. Century. They will serve as a guideline in adopting and benefiting from the digital technology as an essential part of museum's development in sustainable manner, without jeopardising basic values and principles of their work.

**KEYWORDS:** Digital strategies, museums, digital marketing

**JEL CLASSIFICATION:** M30, M31

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## 1. INTRODUCTION

We are all witnessing the rapid change of societies in the last several decades. The fast paced changing rhythm is affecting every aspect of everyday life – political, economic, cultural, educational, the whole social eco-system. Technology is one of the main causes of the major alterations of today's engaging, communicating, creating, producing, working and learning environment. The penetration of technology in the past 30 years has been part of the wider phenomena of globalization, free market capitalism, rise of information and communications technologies, as well as the power and influence of science. The rapid development of computer science and technology is a major game-changer for every aspect of contemporary 21. Century society – business, politics, healthcare, communications, education, culture, entertainment, leisure etc. A simple historical fact from the industry is closely depicting how technology had changed our world. Moore's<sup>1</sup> law says that, for a fixed amount of money, the amount of computer processing power you can buy doubles every 18 months. Gordon Moore, electrical engineer and one of the founders of Intel formulated this observation in 1965 which has held true since the early 1970s. This hard paced race of computer power is continuing today without any constraints, meaning that today's personal computers are more powerful than the computers used by governments and entire corporations 20 years ago.

The technology itself in terms of hardware and the machines is only one side of the term; the digital technology today is understood in much wider perspective. It is hard to grasp the full extent of digital transformation, which, in the developed world at least, can be observed in almost every characteristic of modern living by the alteration of the ways we trade, buy, work, learn, inform, travel, leisure etc. Every type of information that we are generating and using is in digital form so we can freely say that digital technology is not only influencing all these developments, but is actually determining their form and progress. "The concurrent development of science, media and capital under the aegis of digital technology produces a kind of fast-forward effect in which everything appears to take place at an accelerated rate and to produce dramatic change in a very short time" (Gere, 2008)

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<sup>1</sup> <http://www.moorelaw.org/> accessed April 2019

## 2. A MUSEUM OVERVIEW

Museums and other institution that are derivatives from the very important part of the society such as culture are no immune to these widespread trends. In fact, these organisations which were born in completely different social setting couple of centuries ago are in immediate need of realigning their future path of development in order to answer the needs of contemporary societies. Even though the very first understanding of museum concept is connected with collecting objects with magical powers form prehistoric times, the use of word “museum” to describe something similar to modern museum was in 15th century for collection of Lorenzo de Medici in Florence. Earliest museums were private collections that were only accessible to narrow circle of people and displayed rare and curious natural objects and artefacts. Some of them worked as “wonder rooms” or “cabinets of curiosities”. (Marojevic, 1993) The museums in rather modern sense of the world and with mission to research, preserve and present objects were established in late 18<sup>th</sup> century in Europe. Starting from some of the contemporary definition of museums today as “a permanent museological institution which preserves collections of corporal documents and generates knowledge about this corporal documents (Van Mensch 1992), and continuing with the latest definition of ICOM<sup>2</sup> as “a non-profit, permanent institution in the service of society and its development, open to the public, which acquires, conserves, researches, communicates and exhibits the tangible and intangible heritage of humanity and its environment for the purposes of education, study and enjoyment.” (From the ICOM Statute, 2007<sup>3</sup>), it is obvious that museums are seriously challenged to establish their social role by building bridges between various disciplines and types of knowledge and people. This quest is not focusing solely on internal transformation of the institutions but it is further burdened by the current policies that are imposing different approach to cultural development. It is expected that national policies and

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<sup>2</sup>ICOM International Council of Museums, a non-profit organisation and a non-governmental organisation which is committed to the research, conservation, continuation and communication to society of the world's natural and cultural heritage, present and future, tangible and intangible established in 1946. <http://www.icom.org>

<sup>3</sup> ICOM considers that over recent decades museums have radically transformed, adjusted and re-invented their principles, policies and practices, to the point where ICOM's museum definition no longer seems to reflect the challenges and manifold visions and responsibilities. So, they are currently in the process of writing a new museum definition which will be finalized in September 2019 in Kyoto.



measures are implemented to promote creation, production, distribution and access with regard to diverse cultural goods and services and contribute to informed, transparent and participatory systems of governance of culture. (UNESCO Global Report 2018, Reshaping Cultural Policies). Monitoring the implementation of UNESCO's 2005 *Convention on the Protection and Promotion of the Diversity of Cultural Expressions*<sup>4</sup>, UNESCO set several goals<sup>5</sup>:

- Support of sustainable systems of governance of culture;
- Achieve a balanced flow of cultural goods and services and increase the mobility of artists and cultural professionals;
- Integrate culture in sustainable development frameworks;
- Promote human rights and fundamental freedom.

The UN directions for sustainable growth and development are acknowledging the role of cultural institutions, museums included, as contributors to the prosperity and well-being of people. They are recognising the culture as one of the pillars of sustainable development along with the economy, ecology and society. "Cultural vitality is as essential to a healthy and sustainable society as social equity, environmental responsibility and economic viability" (Hawkes, 2001). In the digital age, all social eco-systems, including culture, are closely intertwined with technology as an important and fundamental part of their transformation and development. Museums are no exception in this process, as technology is deeply affecting core museum functions - research, preserve, protect and promote tangible and intangible heritage. Museums can benefit from the digital change in all basic functions that can clearly be advanced in terms of using hardware and software systems as tool for improvement. Given the fact that museums work for the purpose of education, study and enjoyment of the public (understood in the broadest context possible), the most dramatic and swift transformation can be expected in the function of promotion through carefully built strong and sustainable relationship with all stakeholders, especially the visitors and the public.

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<sup>4</sup> [https://en.unesco.org/creativity/sites/creativity/files/convention2005\\_basictext\\_en.pdf#page=15](https://en.unesco.org/creativity/sites/creativity/files/convention2005_basictext_en.pdf#page=15) accessed April 2019

<sup>5</sup> <https://en.unesco.org/creativity/global-report-2018#wrapper-node-14115> accessed April 2019

### 3. THE PHENOMENA OF DIGITAL TECHNOLOGY

Acknowledging the fact that digital refers to data in form of discrete elements, and that it could refer to almost any system, numerical, linguistic or other type, today it has become synonymous with the electronic binary computers, the machines that can generate, store and process binary data. If we explore the term further we see digital as wide spectrum of complex phenomena that include the actual technology, the way we engage and communicate with each other, with our customers and other stakeholders, the new way of doing business, the way we entertain and travel, the way we learn etc. "To speak of the digital is to call up, metonymically, the whole panoply of virtual simulacra, instantaneous communication, ubiquitous media and global connectivity that constitutes much of our contemporary experience" (Gere, 2008).

To better understand the role of digital technology in doing business today, there are several aspects of it that surpass the fundamental influence of computer technology in everyday processes. Today, the management and consulting companies are seeing digital as less as a thing and more a way of *doing* things. In order to make definition more concrete, digital is broken it down into three attributes<sup>6</sup>:

- *creating value at the new frontiers of the business world* by reexamining the entire way of doing business and understanding where the new frontiers of value are - for some may be about developing entirely new business in adjacent categories, for others it may be identifying and going for new value pools in existing sector. Unlocking value from emerging growth sectors requires a commitment to understanding the implications of developments in the marketplace and evaluating how they may present opportunities or threats;
- *creating value in the processes that execute a vision of customer experiences* by implementing a cyclical dynamic where processes and capabilities are constantly evolving based on inputs from the customer, fostering ongoing product or service loyalty. This requires an interconnected set of four core capabilities: proactive decision making, contextual interactivity, real-time automation, journey focused innovation;

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<sup>6</sup> <https://www.mckinsey.com/industries/high-tech/our-insights/what-digital-really-means>

McKinsey&Company is leading global management and consulting firm based in USA (accessed April 2019)

- *building foundational capabilities that support the entire structure*, that is the technological and organizational processes that allow an enterprise to be agile and fast. This foundation is made up of two elements: mind-set that institutionalizes cross-functional collaboration, flattens hierarchies, and builds environments to encourage the generation of new ideas, and system and data architecture that is committed to building networks that connects devices, objects and people.

Having in mind the business environment, there are several technologies crucial for the reshaping the way things are done: (Cited from an educational materials in an ongoing project MuSA, Damianou, 2018)

1. Mobile Solutions - Every aspect of your business can be handled from remote locations if your smart device or tablet is loaded with the correct software.
2. Cloud Computing- Cloud computing allows businesses large and small to move some of their operation to third-party servers accessible via Internet connectivity.
3. Extreme Customer Segmentation - It's easier to understand the customers you are looking for in order to target them specifically.
4. Connectivity - Technology has also increased the ease with which we can all stay in touch. Having your coworkers and employees available via text/video chat.
5. Decreasing Cost/Increasing Functionality - The hardware and software necessary to create software solutions has become increasingly easy to use.
6. Changing Consumer Base- Millennials are becoming the primary driving force behind business. They are the people who were raised on digital technology.
7. Social Impact- The rise of social networking has figuratively shrunk the world and now users can connect without regard to geographical obstacle.

#### **4. HOW DIGITAL TECHNOLOGY CAN ALTERS MUSEUMS?**

With all the differences form one another, there is a common denominator for all museums – they are mission driven non-profit organisations that serve the public. Going back to their definition, museums are organised around collections, which means that they share the goals of acquiring and conserving their collections and interpreting and exhibiting this human and natural heritage to public audiences. They

are expected to care for and preserve their collections as a public trust for future generations, but at the same time museums are places where visitors encounter authentic, aesthetic, inspirational, and learning experiences. (Kotler et al. 2008). Pushing the boundaries of the museum work of the future even further – “The museum of the future either will be a collective work or will not exist. It will be developed and cocreated with the larger communities, which will support it and share decisions on it” (Museum of the Future, 2017).

Considering *what museums should do*, we will explore *how works can be done* in today’s museum working environment. The fore mentioned digital technologies that are impacting the businesses are relevant for museums as well, and we will further discover which and how these technologies can be used by the museums in the process of their digital transformation. All fundamental museum functions are deeply affected by the penetration of the digital technology:

- The management of collections, that includes researching, collecting and preserving artefacts;
- Designing and interpreting exhibition, presenting the information in creative ways; and
- Creating participatory visitor experience.

#### **4.1. The management of collections**

This is the first obvious step in introducing the digital concept in the museum work through digitisation of the collections and museum funds. It is an evergreen theme for museums in recent decades, driven by the need of openness of the collections for public access imposed by the global cultural policies.

*Digital technology and tools:* The mobile solutions, cloud computing, decreasing cost/increasing functionality are the most applicable technologies in the process of digitisation of museum data. The rise of 3D technology (scanning and modeling) and various ICT tools (information management systems) are enabling creation of a comprehensive digital museum databases with fast and easy access for all users – both internal and external, for different purpose – scientific, researching, educational or entertaining. The level of digitisation of museum collections varies from one institution to another.

*Best practice examples:* Some of the biggest museums in the world have already made much of their heritage public, such as Smithsonian (USA). Their comprehensive research centre<sup>7</sup> is counting 14.1 million records of museum objects, archives and library materials including more than 3.0 million online images, audio & videos and blog posts. It is well organised and structured search engine that can browse by key words, types of collections, subject of interest, names, items on exhibit, etc. The British Museum (London, UK) has over eight million objects in its collections, and more than half of that is now online<sup>8</sup>. There are more than a million listings with images that can be downloaded under Creative Commons license<sup>9</sup>. British museum has also 3D representation for museum objects that can be viewed either via browser or in virtual reality. Another great example of an online cultural platform that is currently developing in EU is Europeana<sup>10</sup>. It provides access to a wide array of digital content from Europe's libraries, archives and museums. It is an ongoing project whose content is created by different European cultural institutions which are uploading high-quality content and metadata, available for use.

*Opportunities and constraints:* The effort for innovative digitalisation is an ongoing process for many museums. On one hand is the number of objects, artefacts and other museum materials that should be digitally transformed. For larger museums these numbers are in millions, which can be a costly operation as well. On the other hand there are technical constraints such as searching for the most suitable display systems to put museum digital catalogue online or the time needed for creating ICT solutions that should meet the requirements of the museum and certain software standard that can be very challenging. Museums should also consider the curating of digital art, which can substantially contribute to the vast data that these institutions are producing on everyday basis. In this context, it is very important to properly address this issue in terms of manipulating and processing the big data, as well as creating infrastructure for publishing and managing large volumes of high quality content.

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<sup>7</sup> <https://collections.si.edu/search/> (accessed April 2019)

<sup>8</sup> [https://www.britishmuseum.org/research/collection\\_online/search.aspx](https://www.britishmuseum.org/research/collection_online/search.aspx) (accessed April 2019)

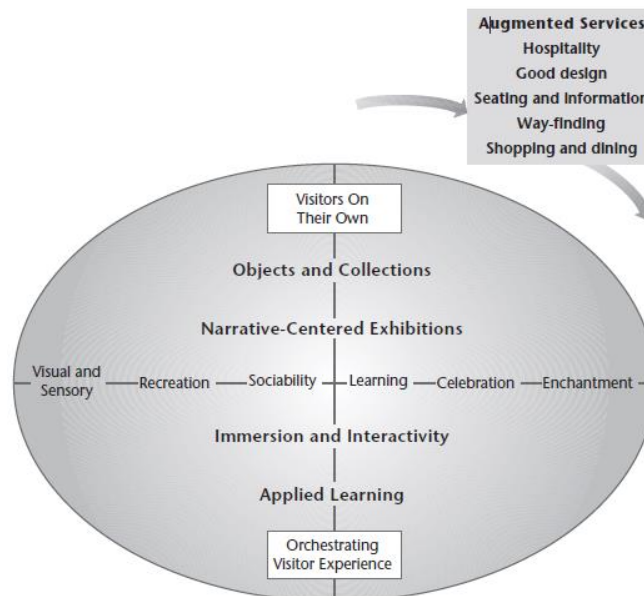
<sup>9</sup> Creative commons is a project that provides images or other copyrighted material for people to use with the original creator/author getting attribution and recognition

<sup>10</sup> <http://www.europeana.eu> (accessed April 2019)

#### 4.2. Designing and interpreting exhibitions

Museums should leave behind the passive one-way communication of a museum object to museum visitor, and step forward into creating a multilayered interpretation of the displayed materials that can initiate and provoke a unique participatory experience for the public. The wide spectrum of degrees and orchestration of the museum experience is illustrated on Picture 1, with horizontal axis that presents a range of potential museum experiences, including various reasons for museum's visit – social, recreational, educational etc. The vertical axis highlights ways that visitors engage with museum offerings, starting from the visitors left on their own, to orchestrating their museum experience, through interactivity, immersion and applied learning. (Kotler et al, 2008).

**Picture 1:** Degree of Design and Orchestration of Museum Experience



Source: Kotler et al, 2008

*Digital technology and tools:* Aside from developing mobile solutions for interpretation of the exhibits, there are numerous ICT tools that can be integrated into contemporary museum exhibitions. Location based services, smart codes - QR codes<sup>11</sup>, beacons<sup>12</sup>, and other Bluetooth devices that can transmit data, are very useful gadgets

11 Abbreviation for Quick response code - a machine-readable code consisting of an array of black and white squares, usually used for storing URLs or other information that is read by using the camera of a smartphone. These codes will not expire, can be customized, and simply printed on paper. The apps for scanning these codes are free and available for smartphones. (Cesário et al. 2018)

12 Small devices that can send short messages to nearby mobile receivers using a low-power version of Bluetooth. They have a 10-meter reach and are used in museums, not only as content

for creating a unique museum path that contains specific location spots based in museum and out of it, in order to enable visitor's unique experience. Another important way of altering the museum experience is technology of augmented reality that in recent decade has become major museum trend. Since all our handheld devices nowadays are having high-quality cameras, by simple image recognition the augmented reality concept is allowing the visitor access additional information about an object such as interpretative material (video, audio, interactive etc.). It is very useful for museum presentation and interpretation, because of the concept of multilayered content, especially effective in presenting the images of things that no longer exist. In addition to the various ICT tools that can be used in museums, the digital content that museums are producing is equally important. In today's "invasion" of mobile devices in our hands that are becoming as fast and powerful as our computers, the ability to access the information and the external communications of museum through different platforms and devices is a must. Responsive and adaptive web designs are today's standards when creating a web location for museum organisations. These standards allow creation of optimized web experiences that function across a host of devices – from the desktop computer to the smart phone. Responsive web design provides the optimal viewing experience of a website, no matter what type of device the user is seeing it on. While in adaptive web design there are several distinct layouts for multiple screen sizes, so the layout used depends on the screen size.

*Best practice examples:* Cleveland Museum of Art (USA) uses application ArtLens 2.0 that is connecting these devices and smartphones to the internal network of multimedia devices implemented by the museum providing personalised access to the collections with specific user created and museum created tours (Blake, 2016). The Museum of London (<http://www.museumoflondon.org.uk>) has a successful augmented reality APP called Street Museum that allows to see locations from the present day with layered historical image of the same location from years past (Ludden, 2014).

*Opportunities and constraints:* On one hand, the technology is becoming more and more affordable with the rise of free or cheap software solutions and applications

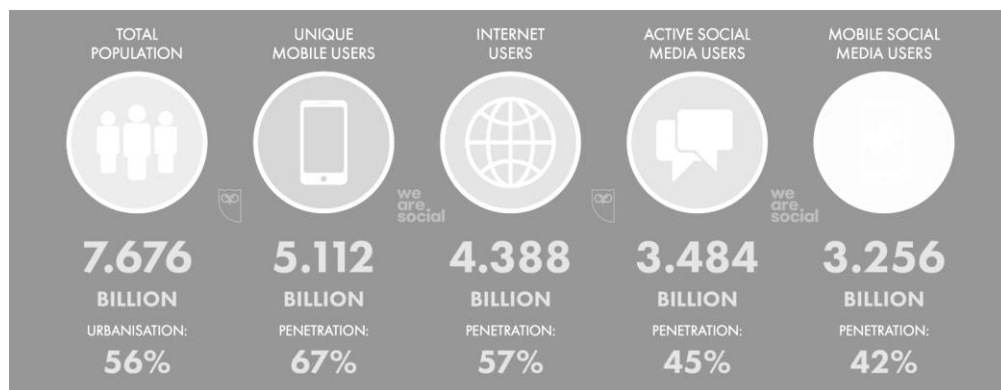
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transmitters, but also as visitor information systems.



that are on the market and can be used by museum organisations, such as HP Reveal, Blipparr or Metaverse. On the other hand, the majority of museum visitors are tech savvy users with high quality mobile devices that can easily use and benefit of this kind of museum interpretation. A glimpse of the digital statistic shows the scope of the penetration of internet, social media and mobile devices users across the world. The numbers are clearly illustrating the importance of carefully build connection with the current and potential museum audience both internet users and social media users.<sup>13</sup>

**Picture 2:** Digital trends and penetration of internet, mobile devices, social in January 2019



Source: Datereportal

### 4.3. Creating participatory visitor experience

As in other business, creating satisfactory experience for museum customers/visitors is an ultimate goal. The interactive participative experience of museum visitor is especially important in order to comprehend and relate to the exhibited material in an entertaining and relaxed way. Majority of the museum audiences are younger generations that are raised on digital technology, so they can easily immerse in a museum environment that offers interactive and challenging experiences. The participatory experience does not end in the museum. The social networks and sharing platforms, the power of shared information and the new channels of communications are another habitat where museum's digital identity is equally important to be sustained.

*Digital technology and tools:* Recent efforts of museum community are shifting towards the concept of gamification. This is a more serious and certainly more expensive attempt that is requiring firm partnership with game creators, software

<sup>13</sup> <https://datereportal.com/reports/digital-2019-global-digital-overview> (accessed April 2019)

engineers and other computer experts. Digital games provide interactivity, a fun plot and challenges to the visitor. They are also important in the communication of the contents, as experiencing is a relevant step towards understanding. Another big change for museums is completely switch of their perspective from “do not touch” signs and ban on using cameras to openly adopting the phenomena of sharing content and experience. Visitors are now invited to use social media and social networking and communicate with museum, before during and after their museum visit.

*Best practice examples:* Though these projects can be very challenging, still there are examples of good practice of museum created games. The game “Father and Son” which was released in 2017 is 2D interactive game and the first fully produced and distributed by a museum. The National Archaeological Museum of Naples, among the most visited in the world, that is hosting exclusive collections from Pompeii and Herculaneum, as well as the Farnese and the Egyptian collection, has produced the game that has over million downloads on Android platform and has been recognized as one of the pioneer project of this kind. The Ace Academy: Black Flight<sup>14</sup> (2016) is a simulation game of airplanes that combines simulation game experience with historical narratives at World War I sites, brought by Canadian museums. (Cesário et al. 2018). Tate Gallery<sup>15</sup> (London, UK) has one of the most successful online and social presence that has been fostering for decades. Aside from the official profiles on the most popular social networks (Facebook, Twitter, Instagram, Pinterest, YouTube) Tate is running several other interactive platforms, Tatekids, Tate Collectives, turbinegeneration, blogs that are seen as “significant opportunities for social media and new digital platforms to revolutionise the visitor experience as well as transform the practices of learning, research, curating and fundraising within the museum”. (Stack, 2013)

*Opportunities and constraints:* Although, the gaming market is seriously concurrent with the competition from the attractive sport (NFL, FIFA, NBA) and movie franchises games (Spiderman, Avengers, Batman...), museums are continuing their efforts in gamification. It opens the possibility for new relations and interaction

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14 <https://ingeniumcanada.org/aviation/whats-on/mobile-app-aceacademy-black-flight.php>  
(accessed April 2019)

15 <http://www.tate.org>

between visitors and museums and for attracting new customers in museums, that can justify the money and expertise spend in the developing a museum game. The social media presence, on the other hand, with direct communication between museums and their visitors can be part of carefully build marketing strategy in order to constantly increase the number of satisfied visitors and to foster unique and meaningful relations with the wider community. This opens new opportunity for museum marketing to better understand its potential audience in order to target them specifically with tailor made content for each segment.

## **5. DIGITAL STRATEGY AND CHALLENGES**

### **5.1. Crafting strategy**

Major museum institutions are considering and adopting digital strategy for their work. It is often written strategic document that is reflecting the vision, major principles and values, and the processes to achieve the set goals. “The future of the museum may be rooted in the buildings they occupy but it will address audiences across the world – a place where people across the world will have a conversation. Those institutions which take up this notion fastest and furthest will be the ones which have the authority in the future” (Sir Nicholas Serota Director of Tate, 2009). The document Digital Strategy 2013-2015, has envisioned the direction Tate has taken into fulfilling its mission by completely embracing the digital transformation. They have stated that “digital will need to become a dimension of everything that Tate does”.

It should be closely connected to the mission and the core values of the organisation, but enhanced for the digital age, as in Smithsonian example. “For the Smithsonian to remain a vital institution at this important time in our history, we need to fully engage younger generations with our collections and our knowledge. We need to use new digital technologies to their fullest potential so that we can fulfill the Smithsonian’s 19th-century mission—‘the increase and diffusion of knowledge’— in a thoroughly 21st-century way for the benefit of all Americans and people around the globe.” (Statement of the Smithsonian Secretary G. Wayne Clough, January 2009).

Other museums might consider it, or maybe non-officially applying it in their work and some might be far from the digital operations because of other priorities, related to basic museum functions. Whatever the case is, museum need digital strategy.

Not in any form, but as complex challenge that requires a complete mobilisation of all parts of the organisation, starting from the very top. “The goal of digital strategy is a statement of vision with objectives for the organisation’s digital programmes, based on evidence, ‘owned’ by leadership, backed up by adequate resources and used as a guide by management and operations” (Morrison, 2017).

## 5.2. Challenges

Adopting and executing digital strategy can be very difficult for museums because of the constant lack of financial resources, the competences of museum workforce, but also the right leadership that is able to manage the change. Like every other strategy it is necessary all the museum employees and collaborators to be informed about the potential and benefits that digital technology can generate for the institutions. It has to have clear set of goals that has to be known and supported by all employees, and aligned with the overall mission of the organisation. Every organisation is different and therefore faces different challenges. Knowing the examples of good practice and the opportunities that technology brings to museums, it can be concluded that there are several crucial segments in digital transformation of museums.

**The technology:** The increase the accessibility of museum collections, both on-site and online is a primary goal that has to be in the core of every digital museum strategy. Museums should be aware of the factor of constant state of change of technology development. This is raising issues on the right investments in infrastructure, as well as devices, interfaces and services. The institutions should not waste resources for “trendy” products that are little in line with its overall strategy. Sometimes, using too many digital products can have a misleading effect, compromising the overall mission of the organisation. (Museum of the Future, 2017). For example investing in data analysis as a tool for measuring the impact of taken operations is a significant way of improving decisions and directions taken. Another worthwhile asset is a quality website which will bring new opportunities for communicating museum content online, as well as generating traffic, increasing the business volume etc.

**The people:** The technology development is not altering only the material costs for the various products and services, but has dramatic effect on behaviors and attitudes of people. This means that museums have to know its public and foster

adequate relations with all their stakeholders. This should be done through various channels of communication, both physical and digital, with special attention on social media and using the culture of “sharing” that is dominating the modern social behavior. The emphasis should be put on younger generations that are tech savvy and eager for participatory museum experiences, since in near future they will dominate the global museum audience.

**The competences:** We should not neglect human factor in museums that can set the pace of the museum digital race. The competences of the staff that works in the future museum should be varied ranging from art history to digital communication, from online marketing to cultural management and information technology, as well as intermixing and collaboration among different professionals, team work and project management. These serious digital competences are imposed in front of the future workforce, not only in museums, but in all other industries. In times of changes of technology, we should not forget that the organisations are depended of strong and resilient workers that can readily accept and answer the challenges of the needs of modern society. The “new” museum workers should be able to combine “traditional” knowledge with a thorough knowledge of the new digital media. (Museum of the future, 2017)

## 6. CONCLUSION

Digital transformation is inevitable for heritage organisations. Although there is no written formula for proven success of this process, museums can learn from the best practice examples –some of the flagship museums around the globe have already managed to transform their core functions in a digital form (Smithsonian, British Museum, and Tate Gallery etc.). Its scope, dynamics and priorities can differ from one museum to another, but digital transformation is a reality that has to become one of the main priorities of museums work. This will not be a simple task, but a complex process of multidisciplinary approach to museums primary functions in order to become dynamic organisations that can readily answer all challenges from their surroundings, now and in the future. The good management of museum data, keeping the pace with the development of technology and trends, embracing the innovation, creativity and collaboration, commitment to audiences, along with a complete mobilisation of the organization, are several key factors around which museums can

build a successful digital strategy for serving the present and future generations. The presented findings can be used as a guideline for museums in their effort to adopt and benefit from the digital technology as an essential part their development in sustainable manner, without jeopardising basic values and principles of their work.

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## THE ROLE OF USAGES AND BUSINESS PRACTICE IN THE INTERNATIONAL TRADE – CHALLENGES AND CONTROVERSIES

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### ABSTRACT

The trade usages are very important in both - the internal trade and international trade. Indeed, the gap – filling is almost always made with the trade usages. The usage is a social rule, and the court whenever encounters a legal gap in addressing certain issues, refers to a custom rule. Therefore, the contracting parties are bound in certain conditions by the trade usages even if they knew about them or not. The purpose of this paper is to give an answer to the following questions:

1. How are the usages important in filling in the legal gaps in the international sales contract and
2. Whether application of usages is limited or is controversial due to the different interpretations by the courts.

The role of the usages in the international trade and in the international sales contract in general, is very important in creating the unification of the rules that apply to the contractual relationship with an international element. In order to provide answers, a comparative analysis of the international rules for the sales contract was made, through the provisions of United Nations Convention on Contracts for the International Sale of Goods (CISG), the Principles of European Contract Law (PECL) and the UNIDROIT Principles on International Commercial Contracts (UPICC) on the one side, as one of the most significant sources of the sales contract in international law and the Macedonian Law on Obligations, on the other side. It can be concluded that the application of trade usages in the sales contract in general, plays an important role in creating the unification of the rules that apply to the contractual relationship with an international element. However, at the end, even if we strive for uniformity of

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international rules relating to the sales contract, the last decision remains to the arbitrators and judges.

**KEYWORDS:** usages, trade usages, business practice, international trade, gap - filling

**JEL CLASSIFICATION:** K12

## INTRODUCTION

International trade undoubtedly has enormous significance and is a driving force of the change and development in a modern market economy. For years, international trade has been on the rise as a result of the numerous benefits that international trade offers around the world.

The rapid development of the globalization and the market economy led to opening and connecting the markets, where as the creation of novel and faster means of communication, modern manufacture techniques and rapid industrialization enables safer and faster development of the international transactions.

The companies, competing a greater financial power, are trying to place their services and products out of their countries, in order to win the world markets and earn as much profit as possible. As a matter of fact, many businesses often tend to regard trade usages and business practices as very powerful tools to ensure the stability of their bargain and, at times, transact business solely based on such usages and practices, without any written contract (Graffi, 2011, p. 273). Thus, *de facto* the financial power not only for the companies, but also for the countries that maintain stable economic systems is strengthened, which on the other hand contributes towards increasing the GDP, the development of economies, and so on. By selling products outside their borders, the companies have the opportunity to become more profitable, to expand their business, thus allowing them to reduce the risk and dependence on the domestic market. In fact, international trade allows increasing the profit of different businesses and offers opportunities for new challenges unlike the domestic market, which offers limited growth and profit.

Therefore, the purpose of unification of law is in fact to facilitate international trade transfers, as the traders would increase legal certainty in the interpretation of

certain issues of the sales contract. The growth of world economy and the trade exchange caused creation of rules by the traders and professional trade organizations and associations, not from states, for facilitating the trade transactions. Those rules came out from the necessity of certain relations and matters to be regulated in accordance with the modern working conditions and practices of the everyday working activities of the traders. Mostly the created rules differ from national laws, as they are incurred or arise from the everyday practice of the parties, so it has been given to the parties opportunity in the freedom of negotiating and in the freedom of determination or selection of the rules that will apply to their contracts to regulate their terms.

The need for unification of the rules applied in the international sale has contributed for creation of many legal documents (acts) that will be applied on the international market. The process of unification of the international law began primarily through spontaneous unification (*lex mercatoria*), and afterwards through unification carried out in accordance with interstate agreements (conventions) (Плавшиќ, 1990, p. 20).

Hierarchically the contract as a source of the international sale law is set up on the first place because it expresses the principle of autonomy of will, which implies that the parties are agreed to regulate the contractual relations completely with the contract itself (so-called self-regulatory contract), but certainly respecting the regulations, rules, trade usages and practice. In fact, the principle of disposition is also perceived, that is, with the contract, the parties can regulate the relations differently, and not as prescribed by law, through the application of the rules of the international conventions, as well as their derogations or variations of the effects of any of its provisions (Perović, 2004, p. 12). Hence, the contract is considered as the first, or the basic source of the law, whereas all the other sources are derived from it in order to ensure its practical realization in real life.

## 1. THE ROLE OF TRADE USAGES AND BUSINESS PRACTICE IN INTERNATIONAL TRADE THROUGH THE PROVISIONS OF CISG, UNIDROIT AND PECL PRINCIPLES

The application of the usages in the international trade dates many years ago. They have emerged as a need in the everyday practice, spontaneously, in order to facilitate the relations and transactions in sales, especially those relations that are not provided in the legal regulations. Such usages are often codified or transferred to other sources of law, such as conventions, general conditions, etc. The codified rules were created by applying long-standing rules and procedures in international trade operations. When these usages after the long-standing application will be accepted by the entities, especially the economically stronger ones, they are codified by the international trade organizations. For example, the International Chamber of Commerce in Paris has codified rules and procedures that are related to transport, risk taking, shipping, damage during transport, etc. This codification is known as INCOTERMS.<sup>1</sup>

Due to the great importance of applying the usages in the international trade, CISG expressly accepts the usages as a source of law. They are supplementing the law. In that case we talk about *praeter legem* usages. These usages are in accordance with the legal regulations. But in the case when the usages are contrary to the legal provisions, it is said that they are *contra legem* usages.

*Contra legem* usages are contrary to the provisions of CISG. Having in mind that the usages have priority before applying the provisions of CISG, the question if usages that are contrary to such provisions are applicable and have advantage during application still remains them.

Article 9 of CISG predicts application of usages and practice. The contracting parties are in fact bound by the usages to which they have agreed and agreed upon, but unless otherwise agreed, it is considered that the parties have been impliedly accepted those usages which the parties knew ought to have known, and which in international trade are widely known to, and regularly observed by the contracting parties to contracts of the same type involved in the particular trade concerned. In fact, it can be

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<sup>1</sup>Čolović.Vladimir. Međunarodno poslovno pravo. Skripta. str. 9  
<http://www.scribd.com/doc/117831653/Medjunarodno-Poslovno-Pravo-Skripta>

noted that paragraph 9.2 refer to a category that is different from the usages and the practice mentioned in paragraph 9.1. In this respect, Franco Ferrari (2006, p. 17) stressed that the usages to which Article 9.1 refers should not be confused with those in Article 9.2 (Oviedo Albán, 2017, p.266). It is about the usages and practice that are regularly observed in international trade in contracts of the type involved in the particular trade concerned.

CISG starts from the theory that the parties have agreed to apply the usages if they were known or had to be known before the contract was concluded.

When it is considered that the contracting parties impliedly accepted the usages, or when they did not agree to apply the usages, then in theory and practice, it is considered that the conditions referred to Article 9.2 should be applied cumulatively since the mere existence of knowledge of usages is not enough:

1. if the usages were known or ought to have known to the contractual parties,
2. if the usages are widely known to the contractual parties,
3. if the usages are regularly observed by contracting parties to contracts of the type involved in the particular trade concerned.

Therefore, the contracting parties must be familiar also with those usages that are new to the market and must take care of all the circumstances, since in the future those new usages could be applied, whether the contractual parties knew about them or not. Hence, it can be observed that CISG notes that it is about usages that are widely known in international trade, meaning that it is not just about international trade usages, but also about the usages known at regional, local or national level, if they are applied in contracts of the same type and in the particular trade. It can be also noticed that CISG includes the INCOTERMS clauses through Article 9.2, as they are known and widely applicable in international trade.

It can be also noticed that in order to avoid misuse in the application of usages, CISG has qualification of the term „international trade“. It also helps to avoid the application of those usages that are applied at local level, but not recognized in international trade to contracts of the type involved in the particular trade concerned. Therefore, it is noted that the usages ought to have widely known in international

trade. As an example, the German plaintiff (seller) sold wood to the Austrian defendant (buyer). The seller contended that the "*Tegernseer Gebräuche*" (regional trade usages) were applicable to the sales contract. The court of first instance found that the "*Tegernseer Gebräuche*" are terms of contract commonly used for sales contracts on wood between German and Austrian parties and were thus applicable according to article 9.2 CISG. Both the Court of Appeal and the Supreme Court confirmed this decision. The Supreme Court found that article 9 of CISG is a provision on the applicability of a usage but not on its validity. While article 9.2 assumes that the parties wish to be bound by usages of international trade, under article 9.1 the usages the parties have agreed upon expressly or impliedly need not be international usages. In the sense of article 9.2 a usage is widely known and regularly observed when it is recognized by the majority of persons doing business in the same field. To be applicable such usages must be known or at least should have been known by the parties having their place of business in the area of the usages. The Supreme Court affirmed the findings of the court of first instance, noting that since the plaintiff in its acceptance of the order expressly stated the applicability of the "*Tegernseer Gebräuche*" and had delivered wood to the defendant before, the defendant must have known these usages.<sup>2</sup> If contracting parties want to exclude the application of usages, they must do it explicitly.

As noted above, Article 9 of the CISG, except to the usages, also refers to the practice that the parties have established in their relations. In fact, CISG does not define usages and practice, but can be concluded that the convention in this way makes a distinction between the usages that the contracting parties have agreed and the practice they have established in their previous relations. Such, it is not about the usage as a generally accepted rule of conduct in a particular trade concerned, but a special rule of conduct that has been established between the parties (usage *inter partes*) (Perović, 2004, p.103). Therefore, it can be concluded that in order to recall on the established practice between the contracting parties, such conduct should be established between them in the previous mutual relations, and it should be expected to be established and applied in the future, as well. For example, according to one

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<sup>2</sup> <https://cisgw3.law.pace.edu/cisg/wais/db/cases2/000321a3.html>

court<sup>3</sup>, "contrary to usages, which must be observed in at least one branch of industry, practices within the meaning of article 9 CISG are established only between the parties. Practices are conduct that occurs with a certain frequency and during a certain period of time set by the parties, which the parties can then assume in good faith will be observed again in a similar instance. Examples are the disregard of notice deadlines, the allowance of certain cash discounts upon immediate payment, delivery tolerances, etc."<sup>4</sup> According to some courts, a practice is binding on the parties pursuant to article 9.1 only if the parties' relationship has lasted for some time and the practice has appeared in multiple contracts. According to one tribunal, this requirement is met where the parties had previously concluded a dozen transactions.<sup>5</sup> One court asserted that article 9.1 "would require a conduct regularly observed between the parties ... [of] a certain duration and frequency ... Such duration and frequency does not exist where only two previous deliveries have been handled in that manner. The absolute number is too low".<sup>6</sup> According to the court, an established practice requires a long lasting relationship involving more contracts of sale.<sup>7</sup>

Similar to CISG, both UNIDROIT and PECL Principles incorporated provisions for usages and practice. But what can be noted is that both UNIDROIT<sup>8</sup> and PECL<sup>9</sup> have determined in detail that although the parties are bound by the usages however, when the application of such a usage would be unreasonable, it would not apply. It can be observed that although, according to Article 8 of CISG, one of the most important criteria for interpreting an international sale of goods is the criterion of "reasonable person" but it can be considered that UNIDROIT and PECL Principles give stricter criteria in determining the same criterion in the application of usages. It means that conditions can be created in which one or both parties will have to apply a usage that is not of a typical nature for the parties. In order to be taken into consideration, such application must be of a reasonable nature, otherwise it will not apply. For example,

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<sup>3</sup> <http://cisgw3.law.pace.edu/cisg/text/digest-2012-09.html#26>

<sup>4</sup> <http://cisgw3.law.pace.edu/cases/050831a3.html>

<sup>5</sup> <http://cisgw3.law.pace.edu/cases/050000c2.html>

<sup>6</sup> <http://cisgw3.law.pace.edu/cases/000413g1.html>

<sup>7</sup> <http://cisgw3.law.pace.edu/cases/971203s2.html>

<sup>8</sup> Article 1.9 UNIDROIT Principles of International Commercial contracts 2016

<https://www.unidroit.org/english/principles/contracts/principles2016/principles2016-e.pdf>

<sup>9</sup> Chapter 1, Section 1, article 1:105 The Principles of European Contract Law (2002)



according to the UNIDROIT Principles, a usage exists in a commodity trade sector according to which the purchaser may not rely on defects in the goods if they are not duly certified by an internationally recognized inspection agency. When A, a buyer, takes over the goods at the port of destination, the only internationally recognized inspection agency operating in that port is on strike and to call another from the nearest port would be excessively costly. The application of the usage in this case would be unreasonable and A may rely on the defects it has discovered even though they have not been certified by an internationally recognized inspection agency.<sup>10</sup>

Also, the question whether the contracting parties can impliedly refer to the application of UNIDROIT and PECL Principles is arised, since Article 9.2 states that the parties can impliedly made applicable their contract or its formation to the usage known by the parties and is widely known in international trade, as well. It can be noted that except for the fact that INCOTERMS can be used in accordance with this provision, the previously mentioned principles can also be used, but the difference is that the parties have known about them, had to know or regularly observed them in their work. Since the principles are available in all major world languages and are more commonly used in negotiations, it can be concluded that their application is of great importance in business practice. But the question arising in this case is whether the principles can be classified as usages or these are general principles on which the Convention exists. There is a dilemma in science, that is, regarding the issue, the opinions are divided. However, in the end, arbitrators and judges will decide on the usages' application (although it can be seen that they increasingly rely on the principles in their decisions), unless otherwise stipulated by the contract.

## **2. THE ROLE AND APPLICATION OF TRADE USAGES AND BUSINESS PRACTICE IN DOMESTIC LAW**

The Macedonian Law on Obligations, as a domestic law, also points to the application of usages and business practice, but it also extends the application to the uzanses. Article 15 stipulates that the parties of the obligations are bound to act in the legal trade in accordance with the fair trade customs.

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<sup>10</sup> <https://www.unidroit.org/english/principles/contracts/principles2016/principles2016-e.pdf> p. 26

- (1) In the obligations the customs shall apply when their application is agreed or provided for by law.
- (2) In the obligations between traders the trade usages shall apply when they have agreed upon and the business practice they have established even when trade usages are contrary to the dispositive norms.
- (3) In the obligations the uzanses (general and special) are applied when their application is agreed or undoubtedly arises from the case circumstances.

On the basis of the provisions established in Article 15, it can be noted that the legislator makes a clear distinction between „customs," „trade usages," and „business practice". The question arises for the distinction between the term of "custom" and "trade usage". The custom can be defined as a kind of social norm created by the long repetition of some behavior in a particular situation, so that after a relatively long time is created awareness that such behavior is obligatory (Pezo, 2006 p. 861 and Visković, 2001, p. 191). Unlike customs, trade usages are characterized by a shorter period of creation, a faster change in their content and a shorter life than the "classical" customs (Hasić, 2014, p. 240). Such a distinction is made in order to avoid the confusion that arises in practice, which clearly indicate that only trade usages and business practice are applied among traders.

On the obligations uzanses are applied too, if the parties have agreed their application or if from the circumstances it arises that uzanses application is wanted. Despite the fact the Uzanses are considered as a mean for stabilizing the current market practices, they can also serve for modifying and revising those Uzanses that weren't treated as such. The Uzanses could be: general ones (worth for all economic/market activities), and special ones (worth only for particular kind of markets and services) (Krasniqi, 2013, p. 165-166).

Uzanses are written systematized customs (regulations), which are published by authorized bodies (chambers of commerce, stock exchanges, etc.). For example, In the former Yugoslavian Federation, the general Uzanses for the Sale of Goods<sup>11</sup> from 1954 were published by the Supreme Commercial Court, while the special uzanses

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<sup>11</sup> Општи узанси за прометот на стоки („Службен лист на ФНРЈ" бр, 15/54)

were collected and published by the Economic Chamber of Yugoslavia (Чавдар и Чавдар, 2012, p. 47).

But, contrary, the application of the uzanses (the general and the special) that have been referred by Macedonian traders is already impossible, because with decision of the Government of the Republic of Macedonia<sup>12</sup> they were abolished. As a result of this decision, the uzanses do not apply anymore, and since the new ones are not defined yet, the traders are left in a vacuum space. The question that arises here is whether the court will apply the uzanses when traders will call on them or will accept them as unwritten customary rules applied in trade, since their application are used in everyday practice for years.

Given that the Republic of North Macedonia strives to implement such rules established in international sources, in order to harmonize the Law on Obligations with international solutions, a Commission for drafting the Civil Code of the Republic of Macedonia<sup>13</sup> was formed. In this way, the process of codification of civil law of the Republic of Macedonia officially started, with, of course, this process takes place gradually.

In order to achieve the harmonization, and to minimize the weaknesses appearing the Macedonian obligation law, the Commission for drafting the Civil Code of the Republic of Macedonia, in the third book that relates to obligations, draws the solutions from the international sources of contract law, applying CISG, UNIDROIT Principles, PECL Principles and Draft Common Frame of Reference (DCFR).

In the provisions of the Civil Code of the Republic of Macedonia, the solutions were either inserted or comparatively consulted by the above mentioned international sources, therefore it is expected that functional solutions and harmonization with them will be achieved, given that the current Macedonian law on obligations is not entirely clear in certain offered solutions.

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<sup>12</sup> Уредба за престанување на важење, односно на примена на прописите опфатени со Проектот Регулаторна гилотина (Службен весник на Република Македонија 34/2008)

<sup>13</sup>The Decision was published in official gazzete (Одлука за формирање на комисија за изготвување на граѓански законик на Република Македонија, „Сл. весник на РМ“ бр. 4/2011 и 19/2012)

For example, instead the Article 15 from the Law on Obligations, which refers to the Application of Customs and Practice, an ALTERNATIVE is offered which would be stated as "The Principle of Applying Customs and the Practice", whereby the solutions offered in the article are drawn from UNIDROIT, PECL Principles and partly by CISG.<sup>14</sup>

This alternative gives a complete approximation to the international rules for the sales contract, which refer to the provisions on the application of customs and practice, certainly in order to eliminate or reduce legal obstacles in international trade.

## CONCLUSION

The application of a national law to contracts with an international element causes a number of discrepancies and ambiguities that increase the degree of legal uncertainty. In order to eliminate the uncertainties and the conflict of different national laws, the rules applied to contractual obligations with an international element must be unified at international level. The findings from the comparative analysis made so far, show that the international sources elaborated in this paper have greatly contributed to the unification and harmonization of international contract law. Given that each area has its own characteristics with different customs and trade usages, it is very important to have compliance in the universal principles of law, as well with the law of the European Union and with the whole international law (Мицковски, 2017, p.138). But while we strive for the unification and harmonization of international law, which relates to the sales contract, we can still conclude that the interpretation and application of trade usages and business practice largely depend on courts and arbitrators.

CISG has not fully established the application of usages in sales contracts, which may leave space for manipulation and controversy, whether a particular usage can or cannot be applied in a particular case. Of course, it can be concluded that UNIDROIT and PECL defined in more details the conditions for the application of usages,

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<sup>14</sup> Трета книга на Граѓанскиот законик на Република Македонија: „Облигациони односи“ – работен материјал.2015: 11

especially taking into account the application of usages in reasonable, i.e. unreasonable circumstances. Hence, the question arises as to whether UNIDROIT and PECL can be classified as usages or as general principles. However, as mentioned previously, the judges and arbiters will decide on the application of the aforementioned principles, unless otherwise stipulated by the agreement.

Concerning the Macedonian Law on Obligations, significant corrections are needed. The application of the uzanses (general and special) in accordance with Macedonian law is already impossible, since they are abolished and new ones are not yet defined. Although the process of codification has started in 2012, and in 2015 was prepared the third draft version of the Third Book of the Civil Code of the Republic of Macedonia, the process has not completed yet. In this way, urgent corrections in Macedonian law on obligations are required in order to avoid further dilemmas and thus would contribute to the harmonization with the international rules. Summarizing, the unification and harmonization of international contract law facilitates the sales of goods to the parties in international trade and greatly increases the level of legal certainty.

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