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**‘The Economies of Balkan and Eastern Europe  
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# **THE DREAM STATES AND THE NIGHTMARE TO FOLLOW: THE CASE OF BOSNIA AND HERZEGOVINA**

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## **ABSTRACT**

In the late 1990s initiated the break up of Yugoslavia. This process resulted eventually six new countries and Kosovo. These countries could be called as the states of the dream as the main creation was based on dreams of a large proportion of their inhabitants for independence from Yugoslavia. Today, after more than 20 years since their creation in some of them seem the dream turns into a nightmare. One of these cases appear to be and Bosnia and Herzegovina, especially after violent clashes in the town of Tuzla and spread over almost the entire country. Cause these conflicts high unemployment and the economic crisis that plagued the country in recent years. In this paper an attempt is made detection of the causes that led to the dream turned into a nightmare after two decades.

## **KEYWORDS**

Economic crisis, privatization.

## **JEL CLASSIFICATION CODES**

F51,F52,F53

## **1. INTRODUCTION**

Since the establishment of Tito's Yugoslavia, its multicultural-multinational structure has constituted its main axis in domestic policy making. Ethnic relations continued to preoccupy the Yugoslav Communist Party, which in the years to follow invented, configured and attempted to impose the so-called Yugoslav Identity in order to resolve the national issue (Stanimirović 1987: 98) which states what Tito himself said ‘this [diversity of ethnicities] was a determinant whose content influenced the philosophy of the Yugoslav revolution’ (Christidis, 2003: 72). Within the ideological framework of the Yugoslav Identity, what was also formed was the motto ‘Brotherhood and Unity’ (Bratstvo I Jedinstvo ) as well as the stance of the party with regard to the anti-fascist struggle, according to which all the nations of the Yugoslav federation contributed equally to the struggle against the conqueror (Lampe 2000: 236). From its creation in 1945 up to its breakup in 1989, the country was ruled by four institutional-constitutional frameworks, which in fact constituted a constant endeavor to resolve problems, maintain balances and bridge the differences among nations, particularly between Serbs and Croats (Christidis 2003: 71) .

1960 sparked the beginning of a period characterized by the extension of democratization and in 1963 a new constitution was passed which established the ‘Socialist Republic’, while granting greater autonomy to Republics as well as introducing the term ‘Socialist Self-Administration’ into the political life of the country. These changes aimed at creating a governance model which would be different from that of the Soviet Union, while attempting to diminish tensions among the numerous ethnic groups that made up the multicultural society of the country (Ivanović 2002: 72).

The decentralized policy implemented in Yugoslavia, especially during the 1960s, eventually led to the strengthening of national identities, the separation among diverse ethnicities as well as the reduction of tolerance to members of different ethnic groups (Kuzmanović 1995: 241). The result was the reinforcement of national

identities over the collective-Yugoslav identity which the Communist Party tried to promote-impose during the first era of Tito's Yugoslavia.

In 1974 a new Constitution was enacted, which in essence was a new attempt to solve the problems among the Yugoslav Republics, though it turned out that it rather escalated them. In terms of this Constitution, the provinces of Kosovo and Vojvodina were converted into de facto Republics, adopting behaviors that resembled those of official Republics. That is, they gradually started to act and behave as independent states.

Finally, the implementation of Tito's governance program resulted in exciting nationalism, undermined the long-term unity of the country and led to its breakup in 1989 as, after Tito's death in 1980, politicians whose positions were nationalistic-sectarian rather than unifying loomed in the political scene of the country (Ivanović 2002: 117). The period 1987-1991 sparked changes in Yugoslavia's society which were characterized as the end of the one-party governance system, the growth of nationalist demand and the claims put forward by Croatia and Slovenia.

<b>CONSOCIATIONAL DEMOCRACY</b>	<b>DAYTON AGREEMENT</b>	<b>SOCIALIST SELF-ADMINISTRATION</b>
Big governmental coalitions	Creation of a governmental scheme in which all nations of the country participate	Participation of all country's nations in the governmental scheme
Possibility to exercise mutual veto over the decision making process	Mutual right to exercise veto	
Proportionality principle	Proportional representation of all country's nations	Proportional representation of all country's nations as well as civilians in various decision making levels (Collective Presidency).
Federalism or Regional Autonomy	National autonomy through the creation of two entities	Federalism or Regional Autonomy

Table 1: Collective citation of the principles of Consociational Democracy, Dayton Agreement and Socialist Self-administration

Thus, it becomes clear that a constant internal problem of Yugoslavia throughout its existence from 1945 until 1990 was the formation of interethnic relations among its ethnic communities and the stabilization of its society, a problem faced by all pluralistic societies.

At the same time, the reinforcement of sectarian nationalist tendencies contributed to the acute economic problem which the Post-Tito Yugoslavia had to face, a phenomenon which greatly contributed to creating dream states to its residents. The reason for this was the economic hardship incurred by a considerable amount of the country's population, which led to searching a better future through the creation of independent national states, by Croats and Slovenes, or resorting to another form of state structure, the former Yugoslavia, by Serbs. Through this cycle of pursuing a better future or a better life, independence was to be sought by the residents of both the former Yugoslav Republic of Macedonia and the Muslim inhabitants of Bosnia and Herzegovina, two population groups which did not seem to seek their secession from Yugoslavia at the beginning of its breakup.

## **2. THE DAYTON AGREEMENT AND LIJPHART'S THEORETICAL MODEL OF CONSOCIATIONAL DEMOCRACY**

The Dayton Agreement constituted one of the two interventions of the international community which, on the one hand, aimed at achieving peace and, on the other hand, at ensuring the territorial integrity of the countries that emerged from the breakup of Yugoslavia, by means of bridging the ethnic differences among the nations residing in their territories (Ni Aiolain 2001: 63). In order to achieve their goals, the agreements ought to be able to reconstruct the multi-ethnic societies of the countries, whose consistency had been devastated by the inter-

ethnic armed conflicts that had preceded, particularly in the case of Bosnia where the methods followed and the severity of combats caused the reaction of the international public opinion.

In order to reconstruct the consistency of the multi-ethnic society of Bosnia and Herzegovina, the method chosen to be implemented by the Dayton Agreement was based on the ‘distribution of power’ among the ethnic groups involved in the combats, which had been described by Lijphart as ‘Consociational Democracy’ in his work entitled ‘Democracy in plural societies’.

Lijphart's approach was based on four basic principles (Lijphart 1977) which are the following:

a) The creation of large governmental coalitions. In this way, what is assured is the opportunity to express the views of the largest possible section of society on the formulation of governmental work.

b) The possibility to exercise mutual veto over the decision-making process. According to this principle, all groups have the ability to exercise veto over decision-making as Lijphart believes that in this way the stability of the system is ensured. However, this is contradicted by the fact that this possibility may lead to inability in policy making and, finally, political stagnation in the lives of countries since many decisions may affect privileges or vested interests of various population groups.

c) The principle of proportionality. According to this principle, the country's citizens are proportionally represented through the proportional representation of population groups into the country's parliament, which then is proportionally represented into the government. This allows for decision-policy making behind closed doors in the light of mutual concessions and compromises among the political leaderships of various groups, which in fact constitute the government of the country, preventing thereby any social-nationalist tensions throughout the country, which would not possibly occur if the decisions were to be made by a wide representative body such as the country's parliament. This principle, along with the principle of large coalitions, has drawn severe criticism as these Lijphart's considerations are regarded as highly undemocratic. As pointed out, there is, on the one hand, enforcement of decisions made by the political elite of the country on parliamentary groups and, on the other hand, actual weakness to overturn these decisions by a weak opposition whose negative vote in fact plays no role, forcing it towards political submission to the system constructed in the country. At the same time, it thereby leads the electoral process to a process taking inventory of the forces of the various groups that make up the society of the country.

d) Finally, the fourth principle is Federalism or Regional Autonomy. According to this principle, the diverse population groups are separated into autonomous administrative structures within the state structure of the country. Even though this has not been stated by him, it is a prerequisite for the exercise of mutual veto as in this manner it is ensured that this process will not lead to deadlocks and inefficiency.

At this point, we should generally refer to positions being developed by Lijphart in terms of the consideration towards finding a solution in countries with deep ethnic clashes. According to his positions, there are three ways to resolve ethnic-political problems of a divided society without any abolition of democracy:

The first way is assimilation which, according to Lijphart, may happen in cases that there is a large dominant ethnic group on whose outskirts there is another smaller group and ultimately, because of their cohabitation and through this interaction, the dominant ethnic group assimilates the smaller group.

The second way is Consociational Democracy.

Finally, the third way, which should be implemented if no solution is reached through the two previous ways and is ultimately the only way to avoid bloodshed, is the partition into nation states, just like the case of Czechoslovakia. However, this solution presents a major problem in its implementation, as the members of ethnic groups do not reside in distinct ethnically homogenous areas which would allow for their separation into homogeneous states. This becomes especially conspicuous in the case of Yugoslavia, particularly in Bosnia - Herzegovina.

It becomes clear, even from Lijphart's theoretical approach, how hard it is to resolve ethnic conflicts in the area of former Yugoslavia. On the one hand, the effort to assimilate various ethnic groups in Yugoslavia through the creation of a common national identity, Yugoslavianism, had failed, whereas, on the other hand, the attempt towards a permanent solution through ethnic partition to avoid bloodshed brought about the opposite result.

For these reasons, what should be sought is a different approach to resolving ethnic disputes in the area of the former Yugoslavia; a solution which was first sought hastily under the pressure of international public opinion to resolve conflicts in Bosnia and which, subsequently, after updating its proposals, was selected for FYROM as well, since it seemed that it could lead to the peaceful coexistence of the ethnic groups living in these two regions.

Another factor that influenced the selection of the theoretical model of Consociational Democracy as a model for resolving ethnic disputes in the area of Yugoslavia was the commitment not to change the existing borders (Owen 1995). The ethnic partition in Bosnia would change the existing borders, as the Croatia-Bosnians would pursue the annexation of their territories in Croatia as the Serbo-Bosnians would do, who had a clear position with regard to creating a greater Serbia.

During this period, not only does Consociational Democracy seem to be a good approach to solve this complex problem in the area of former Yugoslavia, but it also answers to the crucial question of how to restore

social cohesion in an area so severely affected by armed conflicts, achieving in this way the territorial integrity of the country.

Lijphart's model of consociational democracy appears to resemble the model of Socialist Self-Administration implemented in Yugoslavia after 1960 (See Table 1). This is the reason why it is regarded as the most appropriate one towards achieving social cohesion while safeguarding the territorial integrity of both countries, since it could create a governance system that would be familiar to its citizens and in this way it could achieve their acceptance, while it would create a sense of security to them.

It is likely that the familiarity which was exhibited by the structured governance system arising from the framework agreement for Bosnia-Herzegovina to the earlier governance system in Yugoslavia was partly grounded on the phenomenon of Yugonostalgia, which was apparent in a part of its society.

When the Yugonostalgia phenomenon initially arose, it was considered to encompass, on the one hand, nostalgia for the communist governance system of Yugoslavia and, on the other hand, nostalgia for a common national identity (Yugoslav), which was indeed a special event particularly after the multi-casualty conflicts in Croatia and Bosnia-Herzegovina. However, this phenomenon has much more to do with social factors rather than political and national ones. As Tanja Petrović mentions at her work 'Nostalgia for Space': "... ex-Yugoslavs lost a great deal of space when Yugoslavia broke apart. In Yugoslavia, a Serb could easily travel and vacation on the coast, but, now, the coast is no longer too viable an option ..." (Tanja Petrović. "The Territory of the Former Yugoslavia in the Mental Maps of Former Yugoslavs: Nostalgia for Space. Sprawy Narodowościowe, Seria Nova, Zeszyt 31, 2007). That is, as a matter of fact, Yugoslavia might not have been better than today's countries but that does not mean that life in them is better. For this reason, when the former Yugoslavs talk about Yugoslavia, they enter a secure area in which they felt more comfortable, shared common values and lived with dignity during the time they lived in unity (Petrovic: 11). As unemployment rates were low, people lived in a stable, rich country that had a good educational system. These characteristics are substantially reproduced through the collective memory of the former Yugoslavs and rise to prominence through the Yugonostalgia phenomenon. For this reason, this phenomenon is by no means associated with the reconstitution of Yugoslavia and its political system but it is rather linked to reconstructing its lost social structures and values in the countries that emerged upon the breakup of Yugoslavia.

Taking the above into consideration, it is confirmed that a significant role in the breakup of Yugoslavia was played by social factors rather than national and political ones indicating, at the same time, that the dream for a 'better life' eventually became a nightmare for the citizens of the new countries, especially for the citizens of Bosnia and Herzegovina.

### **3. THE CONDITIONS THAT FORMED ECONOMIC LIFE IN BOSNIA - HERZEGOVINA**

Yugoslavia was the only country of central economic planning that had the closest commercial ties with Western countries as it was not a member of COMECON and, as a result, the EU countries constituted its most important economic partners, with its total import and export activities amounting to 40% of its total activities (Papazoglou : 202). At the same time, it also constituted an exception in relation to other countries of central economic planning in that its trade structure as well as trade in manufactured products, machinery and equipment constituted the greatest part of its total commercial transactions (Papazoglou : 204).

After the breakup of Yugoslavia and during the transition period of the emerging countries, Bosnia-Herzegovina (BE) showed similar characteristics to the rest countries of the region. FYROM as well as Croatia originally presented the lowest drop in exports but subsequently they presented a moderate increase while the case of FYROM followed a highly unstable path. In contrast, BE exhibited a dramatic increase in exports but this fact was phenomenal and it was a result of its particularly limited export base due to the war, which amounted to only 36 million dollars (Papazoglou:206). On the contrary, while imports initially showed a decline, afterwards they increased much faster, especially for BE (Papazoglou : 211). This event demonstrates the lack of competitiveness in the economy of Bosnia and Herzegovina, since in reality the broadening of trade deficit reflects the collapse of its production system and hence the ability to confront international competition in product markets. This fact was boosted by the slow pace of reforms for one thing and, for another, the outbreak of various wars in the region as well as the economic conditions that were shaped through the Dayton Agreement. More specifically, BE in 2003 was the country with the most intraregional transactions, which however focused on two countries, Serbia-Montenegro (SM) and Croatia, whereas trade with other countries fluctuated at low levels. This is noteworthy since it demonstrates the trade relations between two entities that made up the country and were formed through the Dayton Agreement.

During the first years following the creation of the Bosnia and Herzegovina state, the situation appeared to be at the worst possible point in the social sector as out of 1,2 million Bosnian refugees abroad only 222,000 had returned until 1998 and out of 2.2 million total refugees up to 1999 only 600,000 had returned to their homes and

out of these only 100,000 had returned to areas where they were a minority. This situation was a result of the failure to comply with the provisions of Annex 7 of the Dayton Agreement because of the nationalist policy exercised on the entities and the inability in many cases to enforce different policies on the part of the institutions of the international community, despite the interventions of the UN and SFOR.

At the same time, the economic repercussions of the war still kept plaguing mainly the refugees with unemployment moving at high rates. The country's economy was inflicted by deindustrialisation, corruption and unemployment. The description made about the economy and society of the country by Vesna Bojičić and Mary Kaldor in 'The Abnormal of Bosnia-Herzegovina' is typical:

*.....On the one hand, the public sector is destroyed and has been replaced by a humane economy, which is entirely supported from abroad on the basis of textbooks, in which nobody is paid and nobody works while the beneficiaries of social benefits are experiencing a repetitive humiliation. On the other hand, the new market economy is largely driven by illegality and consists of a 'gangster economy' based on products from looting, black market, arms trade, drug trafficking, etc. These two types of economies support each other, perpetuating the basis for nationalism. Both types of economies communicate with abroad through networks of refugees as well as various links of the Mafia and other international criminal networks.* (Bojičić 1999: 98). Even though some regard this view as highly pessimistic, it captures, maybe in the best possible way, the situation that was created in Bosnia after the Dayton agreement, as the public sector and its infrastructure had been destroyed and replaced either by the action of international institutions or by mechanisms of the nationalist parties that emerged during the conflicts. These mechanisms, in combination with the existence of two entities in the country and their operation as independent states within the limits of Bosnia, made it impossible to control them despite any efforts to create a regime of legal order within them. On the other hand, armed conflicts and withdrawal from Yugoslavia led the country to deindustrialisation and paralyzed economic life. The greatest number of plants was destroyed and the remaining ones faced serious problems due to the outdated technology they used, which made them uncompetitive, and because of the collapses of communist regimes, which consisted the markets they primarily aimed at. As a result, there were no exports and any products being produced aimed only at domestic consumers. At the same time, the vague legal regime governing foreign capital influx created a defective environment for investment and privatizations which, in conjunction with the great corruption and criminality, complicated the situation even more (Friedman 2004: 92-110).

Corruption in Bosnia was directly linked to nationalism and extended to all aspects of political, social and economic life. Corruption empowered nationalism into the vicious circle which was created with the necessary funds, rendering it the economic driving force of nationalist political parties, whereas nationalism acted as a smokescreen for the criminal acts of illegal networks in the country; thus, there was no field of action for individuals who were not integrated into some national formation as many areas were dominated by uninational mechanisms while the national parties had control of the administrative, judicial and economic areas. The breakup of Bosnian society still exists and can be traced between those in power and those who do not have access to it, or more substantially to those who started the war and managed to enjoy their privileges in the postwar Bosnia through the tolerance, in many cases, of the international community, and those who were the victims of conflicts and were still helplessly suffering the effects of the conflicts. The perpetuation of this situation was due to the failure to create, through the Dayton agreement, a political - economic system that would be conditioned by transparency and legal regulations. 'The division of the country into two fundamental national entities with the central state structure depending on them, did not help to eliminate the factors that led to the crisis but perpetuated it. It did not allow for the creation of a pluralistic society and, consequently, the sole transnational activity is crime.' (Statement to the Legal Affairs And Human Rights Committee of the Council of Europe by the Special Representative of the UN in Bosnia, Secretariat of the Parliamentary 2000).

These phenomena still seem to dominate the political-social-economic life of the country nowadays even though it has been around 20 years since signing the Dayton Framework Agreement. At the beginning of 2014, the perpetuation of this situation led to social explosion which was called 'Bosnian Spring'. Although statistics fluctuate as for the unemployment rate, as others elevate it to 45% while others drop it to 25%, which is still high, it is certain that the 'gray economy' dominates all social and political relations in the country, the judicial system is still under great political pressure and, as a result, there is a country whose six or seven most powerful people are corrupted (Euronews, 2014). For these reasons, we can say for sure that the dream for a better life in a new state in the case of Bosnia and Herzegovina has turned into a nightmare for its citizens as long as it has existed.

#### 4. CONCLUSIONS

The creation of Bosnia and Herzegovina was originally based on a framework of social expectations held by a large part of its inhabitants. On the one hand, they expected to exit the stagnant economy of the former Yugoslavia and, on the other hand, to live in a Western-style liberal democracy, free from any type of communist structures and the opinions prevailing it, anticipating a better life. At the same time, though, a large

part of the same population, Bosnian Muslims and Croats residing Bosnia, sought to be disengaged from any control that they thought was exercised over their lives by Serbia, despite the constitutional changes that were made during the early 1970s. The mixture of the above led to the creation of a dream state for a large proportion of the inhabitants of this new country.

As years went by following its creation, the expectations gradually began to degrade as the best days never were never around the corner. It is at this point that the phenomenon presented as ‘Yugonostalgia’ rested in, as references to a past that appeared to be better than the present and the future created a security gap at an economic, social and individual level which was experienced by the citizens. Initially, this feeling fueled celebrations of events - symbols of the past, that is, of Yugoslavia. But gradually the gap found no bridging yet, to the contrary, over the years it turned into a nightmare. Thus, the dream state became a nightmare for its citizens. This fact also triggered the violent reactions observed at the beginning of the year in the area of Bosnia, called ‘Bosnian Spring’.

Aiming to further analyze the events, we directly take into account the adverse initial conditions in the creation of Bosnia. On the one hand, there were the disasters that occurred in its productive structures, and, on the other hand, the inadequate institutional framework shaped by the Dayton Agreement, which enabled the elites formed during the war in the region to continue preying on the country's resources, leading residents to poverty and despair.

Taking the above into consideration, it becomes apparent that it is high time the institutional framework of the country was reviewed through a new intervention of the international community so as to help them overcome any obstacles placed in this process by the dominant political, social and economic elite.

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# OFFICIAL & UNOFFICIAL TRADE BETWEEN TRANS BORDER AREAS DURING THE ECONOMIC CRISIS: THE CASE OF FLORINA/GREECE AND BITOLA/FYROM

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## ABSTRACT

Many border and perimeter areas were in the past the “dead ends” of a country. Nowadays their strategic position is recognized as communication and trade centers in a globalized economy and their “regional identity” is strengthened. Sometimes places of conflict, E.U. border regions, are undoubtedly those undergoing the most profound changes. These areas face a number of problems. Despite the problems, or perhaps because of them, the border cooperation is developing actively into official and unofficial forms.

The subject of this paper is to examine the official and unofficial trans-border trade relationship between the market of Florina and that of the neighbour town, Bitola. The two towns share a common economical background which has been through many phases. These phases were the result of the decisions made by the two countries and by the general political circumstances. Despite some alternations at times, there is a constant mobility between the two towns. In economical terms, this mobility is translated into both import-export activity and consumption.

Based on official statistics, this paper examines and presents the import-export activity between the two areas, the consumers’ mobility and their purchasing preferences.

The dimension of this “unofficial” economic mobility is presented in an empirical research. By the means of questionnaires, the research records the characteristics (age, education level, profession, etc.) of the people moving to and from the two towns, the reasons of this movement and what kind of products or services are being purchased.

The processing of the data can help us reach several conclusions regarding the export dynamics, the potentials of this unofficial economic activity, the probable changes in consumers’ preferences due to the economic crisis and finally the close relationship between the two towns.

## KEYWORDS

Trans-border areas, trade, economic crisis

## JEL CLASSIFICATION CODES

F50, F59, D40

## 1. INTRODUCTION

During the past few years, there has been observed a rise in trans-border cooperation due to the opening of borders, which has caused mobility in the market and at the same time it has brought about consequences in the area and its economy. The opening of the borders has facilitated commercial exchanges, has rendered foreign investment easy and direct and has caused greater immigrant flow. The border obstacles set aside, the mobility of individuals, products, capitals and even ideas has been raised and trans-border trade has flourished. The trans-border policies that have been adopted by both sides have succeeded in supporting the cooperation and in “rationalizing” the consequences of the interaction (TopaloglouL&PetraKosG., 2008).

The trans-border transactions are crucial for the businessmen of the area because they provide them with the opportunity to access large numbers of consumers and workers. However, they are also important for the consumers who are offered with a wide range of shopping opportunities, which in certain cases are cheaper (TopaloglouL&PetraKosG., 2008).

“Open” borders mean reduction of the trade’s cost and rise of accessibility for both countries. Furthermore, a stronger immigrant flow appears and the trans-border economic interaction becomes more intense.

The proximity between the border periphery and the centre of the city in the neighbour country plays a fundamental role. To be more particular, border peripheries that are far from the city/town centers –due to the further demand caused by a new market- run the risk to become either high-opportunity peripheries or high-danger peripheries (TopaloglouL&PetraKosG., 2008). Market opportunities are presented in case of vicinity with a larger market or in case of considerable price differences. In the latter case, there is access to the less expensive market.

Respectively, there can be dangers when the existing production structures are unable to keep the local specialization and the jobs intact from the new competitive situation that is created. The cost of production is the key point in trans-border interaction as the bigger the difference in the cost between the two counties the deeper

and more intense the economic consequences are. According to the neoclassic approach, what really generates the trans-border mobility for employment reasons is the difference in wages.

As far as trade is concerned, it adopts an either “interdisciplinary” (exchange of different products) or an “intradisciplinary” (exchange of similar products) character through trans-border interaction (Kallioras D., Topaloglou L., Venier S 2008). The imposition of taxes, percentages or other restrictions (such as bureaucracy and technical requirements for imported products) when crossing the borders has brought about a negative economic impact on the volume of trade (Topaloglou L. & Petrakos G., 2008).

The development of trans-border relationships is directly connected to idea of the European integration and the aim to build a “Europe for its citizens”. The strategy followed by the E.U. regarding its neighbours –abolition of borders and free movement of both people and production factors- is one of the most important aspects of the European integration (Topaloglou L., 2008).

## 2. RESEARCH BACKGROUND AND METHODOLOGY

Many border, perimeter and trans-border areas were in the past the “dead ends” of a country. Nowadays, in the context of a globalized economy, their position has changed. Sometimes places of conflict, E.U. border regions, are undoubtedly those undergoing the most profound changes. These areas face a number of problems. Despite the problems, or perhaps because of them, the border cooperation is developing actively into several forms and in many cases, trans-border positions offer various alternatives and create new situations.

The economic crisis and recession that struck the Greek economy has caused significant aggravation in the financial state of the Greek citizens and households. Briefly, there are problems concerning the income due to the very low wages, the part-time employment and the economic situation of many professionals and businesses. The standard expenses of a household (loans, bills, transportation etc.) are rising. Both individuals and households are suffering from the high prices of many mass-consumption products and services. Consumers are trying to use their limited financial resources in order to cover many different purchasing needs and desires. Thus, they have changed their consumer behaviour and their criterion is the price of a given product/service.

A special research realized by IME GSEVEE ([www.imegsevee.gr](http://www.imegsevee.gr)) in cooperation with the company MARCAE (Institute for Small Businesses, 2012), verifies this situation and its findings showed that: half of the population in Greece is in a highly dangerous economic zone, 93,1% of the households have seen their annual income reducing during crisis, in 40% of the households there is at least one unemployed member, pessimism prevails, many households are very close at being unable to pay their debts to the state (loans, electricity bills etc.), the Greek economy is going through quality crisis, tax awareness is being dangerously reduced and finally that consumption has been dramatically restricted.

According to the special research conducted by GESEVEE (INEM Research: “Cross-border travel and trade: The case of Florina”, 2013) almost all the households (97,3%) situated at the border regions of Florina have limited their expenses and cut their spending on clothes and footwear (47,6%), on entertainment (39,4%) and on fuels (36,4%).

Both the households and the consumers that live in border regions face the same difficulties. However, they have the alternative to purchase some necessary products by the bordering countries, where the prices are lower. Hence, what used to be considered a disadvantage for decades, is now a comparative advantage of those living in border regions.

Those people buy clothes, shoes, fuels and food from the neighbouring Bulgaria, FYROM and Turkey. There are also some people who visit these countries in order to get dental services or to have their cars fixed by mechanics in Bulgaria and FYROM. More than 600,000 Greek consumers cross the borders every month in order to go shopping in the cheaper, neighbouring markets of Bulgaria, FYROM and Turkey. Approximately 500 million euro are spent annually on either legal or illegal supplies of goods (Kolonas Ch., 2014).

The research conducted by the National Confederation of Hellenic Commerce (INEM Research: “Cross-border travel and trade: The case of Florina”, 2013) focuses on the way residents of border regions are benefited by moving from and to the two countries (Greece-FYROM), creating, thus, cross-border consumer flows. The research recorded the disappointment of both the residents and the businessmen of Florina regarding the possible beneficial outcomes resulted by the mobility between the two countries.

A field research in January 2014 was issues in order to examine the trans-border unofficial trade mobility between Florina and Bitola during the economic crisis.

For impartiality’s shake, we used the function RANT (EXCEL), which provides a random number between 0 and 1. Afterwards, we multiplied this random number with the number of days in January (31) and we rounded the result towards the closest integer. We thus came up with a random day of January 2014.

$$\text{RANR} () = 0.727154$$

$$\text{Random day} = 31 \times 0.727154 = 22.541777 = 23$$

This is how the day of the research was chosen: Thursday, 23<sup>rd</sup> January 2014.

The research took place on Thursday 23<sup>rd</sup> January 2014 and it lasted all day long, from 8am to 12pm at the customs office in Niki.

A properly structured questionnaire was prepared for the needs of the research. The questionnaire was completed by means of personal interview with permanent residents of Florina and Bitola who crossed the borders through the customs office of Niki and their final destination were these two towns- Florina and Bitola. Residents with different destinations and professional truck drivers were excluded from the research. 144 questionnaires were completed on the whole, 68 from Florina residents and 76 from Bitola residents.

### 3. BILATERAL CROSS-BORDER TRADE

Greece is one of the most important trade markets for FYROM. In 2011, Greece is the 4<sup>th</sup> biggest supplier and the 6<sup>th</sup> biggest client for FYROM. When it comes to Greece, in 2011 FYROM was in the 12<sup>th</sup> place of Greek exports and in the 37<sup>th</sup> place of Greek imports. FYROM is the 4<sup>th</sup> biggest trade market for Greece in the Balkan Peninsula, following Turkey, Bulgaria and Romania.

The balance of trade has been always pleonastic for Greece even though it presents a decreasing inclination. This inclination can be explained by the fact that the Greece products deal with the extremely competitive markets of other European and Balkan countries-former Yugoslav Republics. Furthermore, the domestic industry of FYROM is now able to produce a wider range of products than it used to in the past. On the other hand, the volume of the bilateral trade during 2003-2007 has been more than doubled.

The imports of the prefectures of Macedonia and Thrace in 2011 corresponded to 7,160,276,541 euro while in 2012 they corresponded to 7,438,340,825 euro (3, 88% raise). The exports of the prefectures of Macedonia and Thrace in 2011 corresponded to 5,197,835,380 euro while in 2012 they corresponded to 5,785,834,464 euro (11, 31% raise). The imports of the prefectures of Macedonia and Thrace in 2011 accounted for the 14, 77% of the total of imports in Greece while in 2012 they accounted for the 15, 07% of the total imports in the country (Bureau of Economic Affairs, 2013).

The exports of the prefectures of Macedonia and Thrace in 2011 accounted for the 21, 35% of the total exports in Greece while in 2012 they accounted for the 20, 95% of the total exports of the country. During 2011 the coating index (exports/imports) for both the prefectures of Macedonia and Thrace was 72, 59% while in 2012 the index was 77,78%. During 2011 the balance of trade of the prefectures of Evros, Thessaloniki and Florina was negative (trade deficit) while in the rest of the prefectures it was positive (trade surplus). During 2012 the balance of trade of the prefectures of Evros, Thessaloniki, Kozani and Florina was negative while in the rest of the prefectures it was positive. During 2012 in the prefectures of Imathia, Thessaloniki, Kastoria, Xanthi, Pella, Rodopi, Serres, Florina and Chalkidiki there was a rise in exports compared to 2011. On the contrary, in the prefectures of Grevena, Drama, Evros, Kavala, Kilkis, Kozani and Pieria there was a decrease in exports. In both 2011 and 2012 Florina occupied the last place as far as exports are concerned.

The weak export identity of the prefecture of Florina is presented in the following tables:

Table 1: IMPORT- EXPORT PREFECTURE OF FLORINA (2012, 2011)

PREFECTURE	2012		2011	
	VALUE OF IMPORTS (€)	VALUE OF EXPORTS (€)	VALUE OF IMPORTS (€)	VALUE OF EXPORTS (€)
FLORINA	10.608.636,00	5.182.216,00	10.534.422,00	4.499.013,00
TOTAL	7.438.340.825,00	5.785.834.464,00	7.160.276.541,00	5.197.835.380,00

Source: Bureau of Economic Affairs, 2013

Table 2: IMPORT- EXPORT PREFECTURE OF FLORINA (2012, 2011)

PREFECTURE	2012				2011				% CHANGE OF EXPORTS 2011-2012
	IMPORT 2012 mil.€	EXPORT 2012 mil.€	BALANCE	INDEX OF COATING EXP/IMP 2012	IMPORT 2011 mil.€	EXPORT 2011 mil.€	BALANCE	INDEX OF COATING EXP/IMP 2011	
FLORINA	10,6	5,1	-5,4	48,85	10,5	4,4	-6	42,71	15,19
TOTAL MACEDONIA THRACE	7.438	5.785	1.652	77,78	7.160	5.197	1.962	72,59	11,31

Source: Bureau of Economic Affairs, 2013

The main export products (Bureau of Economic Affairs, 2013) of the prefecture of Florina and the respective destination countries for 2012 were:

Peanuts (groundnuts), produced or reserved, except those reserved in sugar (to FYROM and the United Arab Emirates)  
Cars, trucks, vehicles (to FYROM)  
Chocolate and other alimentation products that contain cocoa (to FYROM, Saudi Arabia and Oman)  
Heatsinks which are parts of devices, appliances and vehicles (to Spain)  
Shelled nuts and other seeds (to FYROM)  
Paper and kraft paperboard, bleached and homogenous in mass (to FYROM)  
Mechanic appliances, even manual, for the dispersion and spaying of liquid or dust used in agriculture or in gardening (to FYROM)

The main export products (Bureau of Economic Affairs, 2013) of the prefecture of Florina and the respective destination countries for 2011 were:

Peanuts (groundnuts), produced or reserved, except those reserved in sugar (to FYROM and the United Arab Emirates)  
Chocolate and other alimentation products that contain cocoa (to FYROM, Saudi Arabia and Libya)  
Heatsinks which are parts of devices, appliances and vehicles (to Spain)  
Fibreboard of wood or other ligneous material, whether or not agglomerated with resins or other organic binding substances (to FYROM)  
Shelled nuts and other seeds (to FYROM and the United Arab Emirates)  
Wine of fresh grapes (to Germany, the USA and Cyprus)  
Blouses and shirt-blouses, knitted with synthetic fibres for women or girls (to FYROM)

#### **4. RESEARCH FINDINGS**

After processing the answers to the questionnaires, we extracted the following conclusions:

The Greek respondents are mainly men (63%) and fewer women (37%). All of the respondents are permanent residents of the town of Florina. 93% of the participants are Greek citizens while only 7% are permanent residents of Florina from Albania. The age range of the respondents that crossed the border to the neighbour country is wide. More particularly, people from 20 to 29 years old represent the 35%, from 30 to 39 the 37% and from 40 to 49 the 29%. The rest of the participants are beyond 50 years old.

Their marital status is as follows: 66% are married with children and 34% are single. As far as their level of education is concerned, 36% of them are graduates of primary education, 27% are Senior High School graduates (secondary education), 32% are graduates from Higher Education and Technological Education Institutes and 5% own a postgraduate degree (Master's degree).

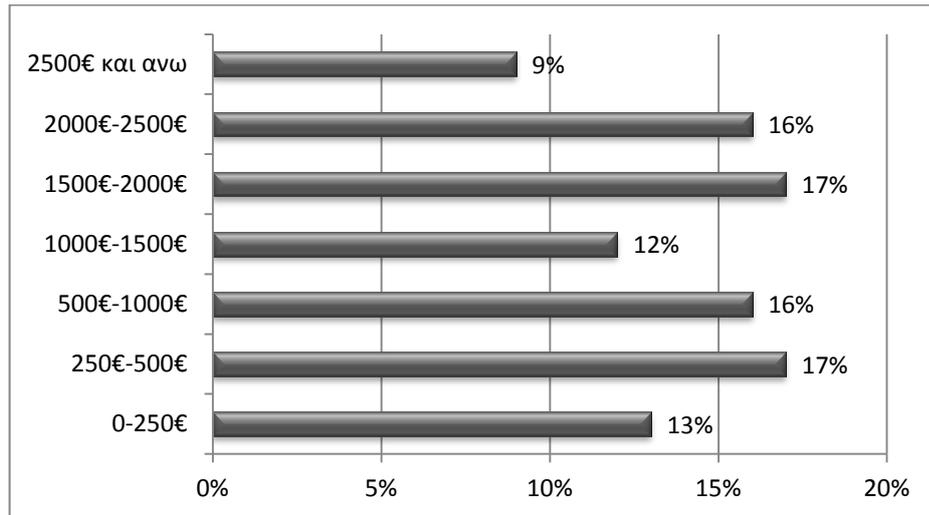
The visitors from Bitola are mostly men (68%) and fewer women (32%). All of them are permanent residents of Bitola. All of the participants are citizens of FYROM. Their age range varies. To be more specific, 48% of the respondents are 20-29 years old, 34% of them are 30-39 years old, 12% are 40-49 years old and the rest of them are beyond 50 years old. It is obvious that visitors from Bitola are generally younger than visitors from Florina.

Their marital status shows that 42% of them are married with children and 34% are single. The level of education is similar to that of the Greeks visitors.

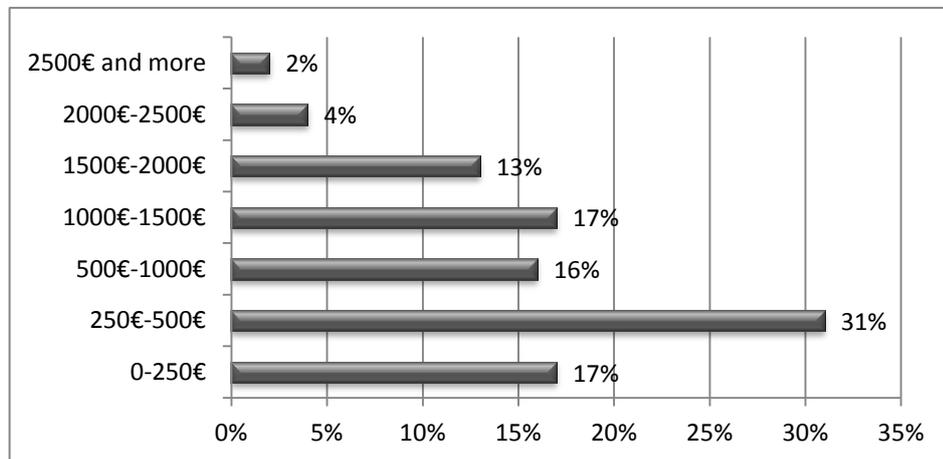
The visitors' jobs from both sides cover all the spectrum: scientists, freelancers, employees in both the public and the private sector, traders, workers, farmers, householders, unemployed, students.

The average income of the respondents of both sides is presented in the two following graphs (3<sup>rd</sup> and 4<sup>th</sup> graph). It is apparent that more than the half (58%) of the residents of Florina that visit the neighbouring town for shopping have a monthly family income that goes up to 1,500€.

Graph 1: Average monthly family income of Florina's visitors



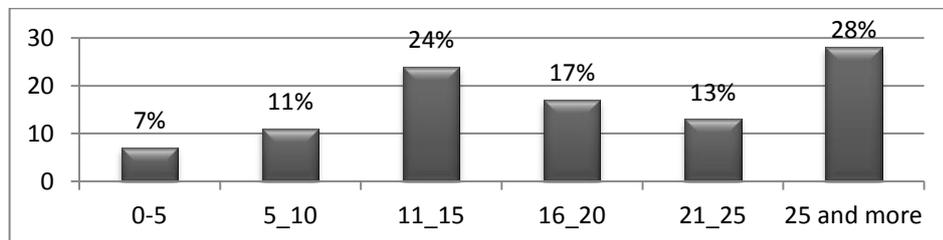
Graph2: Average monthly family income of Bitola's visitors



The range and frequency of visits from Florina to the neighbouring market shows that a considerable percentage (75%) take this trip for 6 to 20 years, a fact that establishes the belief that the relationship between the two local communities is very good.

The average annual visits from the side of Florina is presented in the following graph:

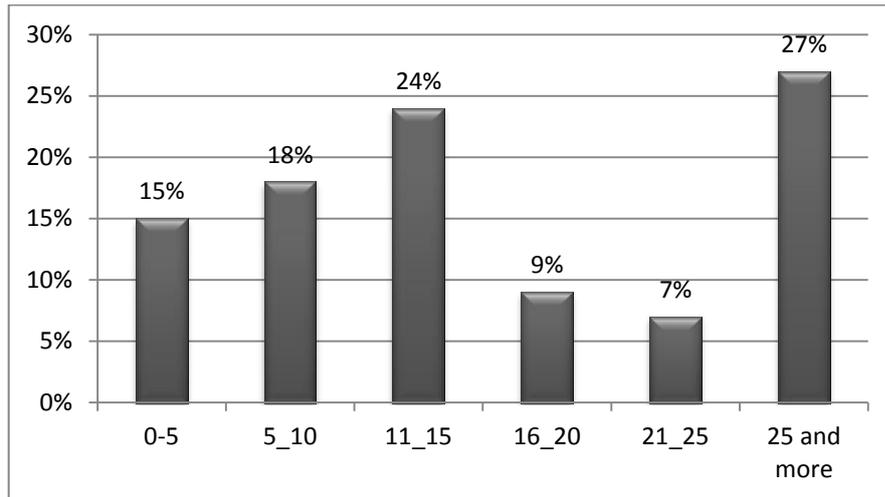
Graph 3: Average annual visits from Florina's side



The range and frequency of visits from Bitola to the neighbouring market shows that a considerable percentage (79%) has been taking this trip for the past 15 years, a fact that on the one hand establishes the belief that the relationship between the two local communities is very good and on the other hand it differ a lot from the case of Florina. This difference is explained by the fact that FYROM entered the open markets in 1989.

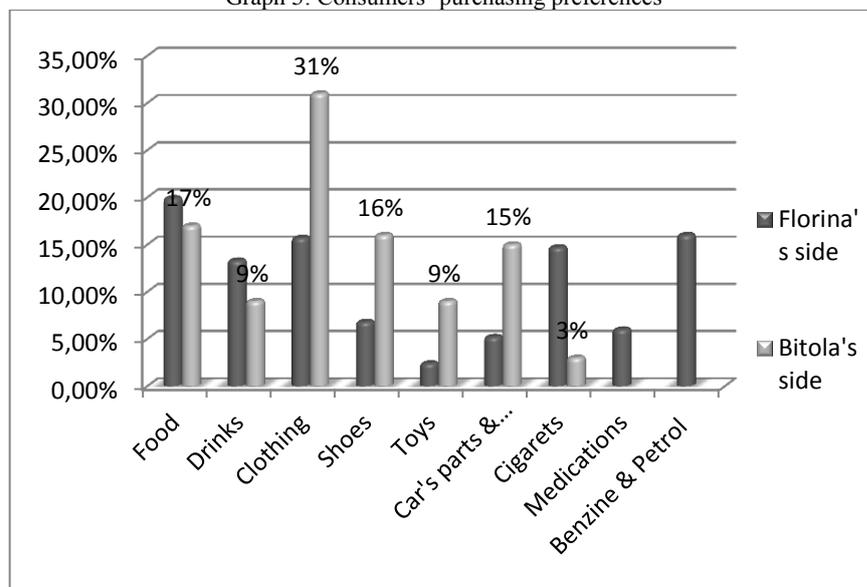
The average annual visits from the side of Bitola is presented in the following graph:

Graph 4: Average annual visits from Bitola's side



The products the residents of Florina purchase from Bitola are: gasoline and petrol (16%), food and beverages (33, 20%), menswear/womenswear and footwear (22, 50%), cigarettes (14, 07%). The residents of Bitola seem to have different purchasing preferences: menswear/womenswear and footwear (47%), food and beverages (26%), spare parts for cars (15%) and toys (9%).

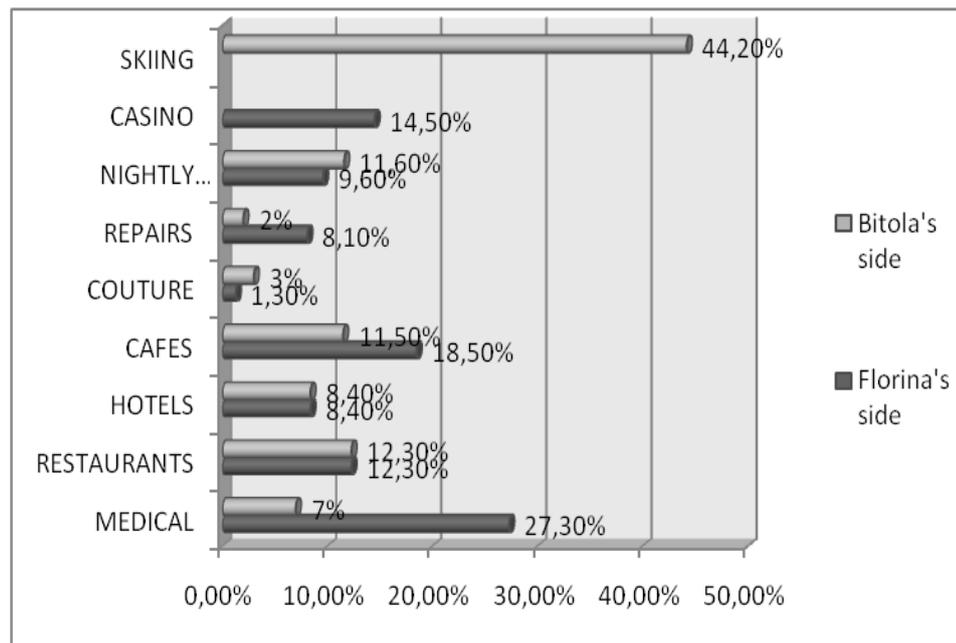
Graph 5: Consumers' purchasing preferences



56% of the residents of Florina prefer the local stores in Bitola. Only 15% of them shop from branch stores of multinational corporations. 59% of the residents of Bitola combine their shopping from the multinational corporation Lidl with the local stores. Only 24% of them do their shopping exclusively from local markets and 27% exclusively from Lidl.

As far as services are concerned, the residents of Florina visit the neighbouring town of Bitola mainly and for medical reasons (27, 30%) and also for entertainment. For the residents of Bitola, the main reason to visit Florina is to go skiing (44, 20%) and to entertain themselves as well.

Graph 6: Consumers' purchasing preferences



## 5. CONCLUSIONS

During the past few years, there has been observed a rise in trans-border cooperation due to the opening of borders, which has caused mobility in the market and at the same time it has brought about consequences in the area and its economy

The trans-border transactions are crucial for the businessmen of the area because they provide them with the opportunity to access large numbers of consumers and workers. However, they are also important for the consumers who are offered with a wide range of shopping opportunities, which in certain cases are cheaper.

Many border, perimeter and trans-border areas were in the past the “dead ends” of a country. Nowadays, however, trans-border regions are offered with various alternatives and new opportunities.

The trans-border export identity of Florina is steadily weak. The prefecture of Florina constantly occupies the last place regarding exports (2011-2012). Its balance of trade in 2011 and 2012 was negative. Compared to 2011, in 2012 the exports raised with the main export destination being the neighbouring country, FYROM.

The economic crisis and recession that struck the Greek economy has caused significant aggravation in the financial state of the Greek citizens and households.

Both the households and the consumers that live in border regions face the same difficulties. However, they have the alternative to purchase some necessary products by the bordering countries, where the prices are lower. Hence, what used to be considered a disadvantage for decades, is now a comparative advantage of those living in border regions.

The research in the trans-border area of Florina-Bitola showed that residents of border regions are benefited by moving from and to the two countries (Greece-FYROM), creating, thus, cross-border consumer flows.

Approximately four out of ten residents of Florina have purchased basic products from the neighbouring country. The main reason for trans-border purchases is the existence of better prices and the purchase of fuels (gasoline and petrol), food, clothing/footwear and medical services.

The frequency of visits made by the residents of Florina to Bitola, especially for consumer reasons, show that this phenomenon has been established as a way of life. In other words, these visits are organized consumer habits.

Respectively, there is a considerable flow of consumers from Bitola to Florina. The consumers' aim is to purchase goods and to visit the ski resort. This incoming flow towards Florina is stable and at certain extent it is the result of the respective outgoing flow.

Businessmen in Florina seem to be disappointed as they consider that the trans-border mobility harms the local market, that there is an intense inclination towards the weakening of trade mobility in Florina. The local businesses seem to have lost a big part of their clientele.

The local businesses have lost many local clients but they restore this loss at a considerable degree by the incoming consumers from Bitola.

However, the percentage of the lost turnover that is restored is smaller than the percentage of the loss because the neighbouring consumers spend a part of their money on a multinational corporation set in Florina.

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# PROFITABILITY OF COOPERATIVE BANKS WITH DUPONT ANALYSIS: EVIDENCE OF GREEK BANKING SYSTEM

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## ABSTRACT

The main field of this work is to study the profitability and efficiency of the Cooperative Greek Banks using DuPont Analysis and make a comparative analysis before and after the Financial Crisis that occurred worldwide.

The analysis of the banking crises, efficiency and profitability has been the study of several researchers all over the world. The DuPont Analysis measures the wealth of the stockholders with the ROE index and the effectiveness of the management with the ROA index and one index affects the other. It is compared the formation of a comparable size, both between individual banks, and over time.

The DuPont analysis for the Cooperative banks became for a time period of 10 years. Thus means 6 years before the world financial crisis (2001-2006) and 4 years after the Financial Crisis (2007-2010). The financial information obtained by the available published financial statements of the Greek Cooperative Banks and the Union of the Greek Cooperative Banks.

In the first chapter we refer to the Cooperative Banks generally and what is the contribution of these banks to the total economy of a country. In the second chapter we explain the methodology used by DuPont Analysis. The definitions and the tables and the diagrams are included here and in the next chapter. In the third chapter we quote the results of the Cooperative Greek banks for their profitability based on the methodology of DuPont Analysis. In the end, we write the conclusions of this work.

## KEY WORDS

Banks, financial institutions, profitability, DuPont analysis.

## JEL CLASSIFICATION CODES

G21

## 1. INTRODUCTION

In early 2001 (01/01/2001) Greece became the twelfth member of the Euro Zone. The adoption of the single currency had benefits and important limitations, such as:

- Loss of the ability of monetary policy.
- Loss of potential currency devaluation.

These two drawbacks make it imperative to change the way of economic policy. From now on fiscal discipline and price stability should be the main pillars on which the Greek economy will move. This was not done, so, many years later, the Greek economy faces pathogenesis.

The government deficit continued to be beyond the limit of the Stability and Growth Pact 3% of GDP and total debt of Greece remained above 100% of GDP. At the same time, the competitiveness of Greek economy has shown significant problems since 2000. Inflation remained considerably higher than the average level of the Eurozone (averaged over 1% higher than the average level of inflation in the euro area). Moreover, the level of wage growth (combined with increased productivity) were comparatively higher than the Eurozone average. The combination of high inflation and strong growth of remuneration of labor in relation to productivity, resulted worsen the competitiveness of the Greek economy. According to the Bank of Greece in the period 2001-2009 competitiveness of the Greek economy fell by 25%.

The strong turbulence, which began in 2007 in the U.S. and broadcast around the world gave the opportunity to Greece to show its big economic problems to the whole world. The deteriorating macroeconomic fundamentals

in conjunction with the announcement of the Greek government deficit increase in 2009 resulted in the markets and rating agencies to focus their attention on the pathogenesis of Greek economy and doubtful about Greece's ability to meet its obligations. This led to soaring borrowing costs of Greece. Under these conditions, the Greek government was unable to borrow from the markets without paying exorbitant interest rates and early May 2010 filed a support mechanism. After successive revisions of this mechanism on 26 October decided to grant a loan to Greece 130 billion Euros and reduce the Greek debt held by private creditors by 50%. Thus, the total debt of Greece (€ 360 billion), securities of € 206 billion will be impaired in value by 100 billion Euros. But alongside the loan required and a restrictive economic policy which has aggravated the economic situation in Greece.

## **2. COOPERATIVE BANKS CONCEPTS AND DEFINITIONS**

Cooperative banks are social enterprises, whose operation is based on joint cooperative principles and rules. By pointing out that the cooperative credit institutions follow specific modes of organization expressed with different rules of law that apply to other capital companies. Additives must not ignore the fact that today the bodies of the cooperative exercise of faith, like all other institutions, having more specific institutional framework applying social legislation and competition rules in the broad context of the single market for financial services in the European Union. It is also noteworthy that the cooperative bank can obtain a significant part of the local social savings at very low cost and to capitalize fully on the local market, both for the financing of SMEs and professionals as well as for the provision of personal, mortgage and consumer loans. The recycling of these local resources can indeed coexist complementary to commercial banks.

On the other hand, the proper use of the potential of the cooperative credit institutions would cause in Greece a good sense tension at local and regional level for the benefit of the transacting public, since commercial banks will have extra good reason to offer better and cheaper services and new financial products to their customers. Emphasized again that the membership of the cooperative bank in no way prevent or exclude transactions with any banking institution or with Post bank.

The success and longevity of a mature cooperative bank depends on the competitiveness, governance and relationships with its members. The Brazda and Schediw (2001) noted that emotional loyalty membership in the cooperative bank is only partially transmitted from generation to generation. This implies that as the cooperative bank grows and is consolidated, the faith of members are directly dependent on the ability of the cooperative to offer products that are competitiveness in the market. The swelling of the internal parts, the weakening of the cooperative ideology and the disappearance of the real *raison d'être*, all together tend to threaten the survival of a cooperative bank. Those that remain tend to be successful in active markets is competitive with high yields, but based on authoritarian management style charismatic leaders. Ultimately the survival of cooperative movements tend to accept a professional sense and develops structures that are hierarchical. Similarly the Heblebower (1980) notes that the survival and spread of a cooperative bank typically ends when adopt administrative procedures and policies commensurate with those of commercial enterprises.

### **2.1 Contribute to the efficiency of the banking system and therefore the economy**

Today the Cooperative banks operate in highly competitive markets. Successfully implement cooperative principles which are their business model. Owners of members / clients, the original mission is to offer the best service as opposed to maximizing profit for shareholders. Profits are necessary, however, to ensure the course and development of the business. Given this unique market approach and structural characteristics, cooperative banks are able to offer services that meet customer needs, while maintaining fair pricing. Because of their proximity to their members and their introduction locally stable, cooperative banks operate effectively in gathering comprehensive information on their customers, at the lowest cost. This provides the ability to assess the needs and the solvency of their clients with more detail than other banks. The information asymmetry is reduced and thus potential risk of wrong choice minimized. Cooperative banks are able both to achieve a higher credit policy and to provide products and services tailored to the real needs of customers and the best prices. Thereby intensifying competition with other operators, who have the effect of improving the efficiency and competitiveness of the entire banking sector and hence the economy.

Cooperative banks also contribute to the efficiency of the European economy, with the financial support offered to all entities. Specifically, the media, farmers, professionals, and residents of rural and remote areas, due to the presence of Co-operative banks, have full access to the banking sector. Because of their close links with the media, which represent the most significant source of funding, Cooperative banks also assist in creating new businesses, thereby contributing to a competitive and growing economy. Briefly we can say that Cooperative banks, according to the specific legal regime applicable to them and the organizational system, represent a unique form of enterprise coexists with other forms such as commercial banks or savings banks, and to ensure an appropriate response to diversity of market needs. This pluralistic approach to the economy and actors, is one

of the key components of competitive spirit, is the cornerstone of an efficient and competitive market, as opposed to the standardization of processes and centralized monopolies.

## 2.2 DuPont Analysis for Banks

The profitability of the banking sector, has improved significantly in the first seven years of the new millennium before the crisis start up. This was a result of the general reform of the banking system (write off of non-performing loans, privatization of state-owned banks, the introduction of modern banking techniques, credit expansion, and the introduction of the euro) and the high intermediation spread in these countries (Kyriazopoulos, Petropoulos, 2011).

The analysis of the financial statements of a business includes besides the selection of the appropriate index and the comparison, without which the resulting conclusions do not have any meaning and most probably they do not lead to the correct explanation. The comparison makes sense when it is done in relation to time and in relation to the similar businesses or the sector. This double comparison gives the capability of a more correct explanation of the indexes and consequently of the business condition (Papoulias, 2000).

Profitability of banks is measured mainly by two ratios. The Return on Equity (ROE) that increase the wealth of the shareholders and the Return on Assets (ROA) that show to the investors how cable is the bank management to yield earnings and how profitably use the hole assets of the bank.

Saunders (2000) provides a model of financial analysis for financial institutions that is based on the DuPont system of financial analysis return on equity model. The return on equity model disaggregates performance into the three components that determine return on equity: net profit margin, total asset turnover, and the equity multiplier. The profit margin allows the financial analyst to evaluate the income statement and the components of the income statement. Total asset turnover allows the financial analyst to evaluate the left-hand side of the balance sheet which is composed of the asset accounts. The equity multiplier allows the financial analyst to evaluate the right-hand side of the balance sheet which is composed of liabilities and owners equity.

Return on equity analysis provides a system for planning (budgeting) in addition to analyzing the financial institution’s performance. The net profit margin allows the analyst to develop a pro forma income statement. An abbreviated income statement would be composed of net income equal to revenues minus expenses. The financial planner can determine the projected revenue level needed to meet the target net income level. The total asset turnover ratio permits the analyst to determine the total asset level needed to generate the projected total revenue level. The total asset requirement can be used to project the pro forma levels of all of the asset accounts based on the target current asset to fixed asset level. The fundamental equation of accounting is that assets equal liabilities plus owners equity. The equity multiplier ratio can be used to determine the pro forma financial needs and the financial structure of the financial institution (Collier, McGowan, Muhammad, 2010).

Return on equity, ROE, is first decomposed into return on asset, ROA, and the equity multiplier, EM. Return on assets is decomposed into net profit margin and total asset turnover:

ROE = (ROA) (EM) and ROA = (NPM) (TAT). Where, ROE = return on equity, ROA = return on assets, EM = the equity multiplier, NPM = net profit margin and TAT = total asset turnover

Return on equity is net income divided by total equity capital and return on assets is net income divided by total assets. The equity multiplier is the ratio of total assets and total equity capital.

$$ROE = (NI) / (TEC)$$

$$ROA = (NI) / (TA)$$

$$EM = (TA) / (TEC)$$

Where, NI = net income

TA = total asset

TEC = total equity capital

The equation for finding ROE is as follow:

$$ROE = \frac{\text{Earnings Before Interest And Taxes}}{\text{Total Sales}} \times \frac{\text{Total Sales}}{\text{Total Assets}} \times \frac{\text{Total Assets}}{\text{Equity}}$$

Which simplifies to:  $ROE = \frac{\text{Earnings Before Interest And Taxes}}{\text{Equity}}$

$$ROE = \text{Net Profits} / \text{Total Equity} (1)$$

Analyzing the specific index of efficiency of the shareholders total equity, we can find out if the purpose of achieving a satisfactory result has succeeded. When a bank has losses ROE index is negative. When a bank has

losses and negative equity then the ROE ratio is also negative. This is because in the numerator we get the absolute value of the negative earnings (i.e. losses) of the bank.

The equation for finding ROA is as follows:

$$ROA = \frac{\text{Earnings Before Interest And Taxes}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Assets}}$$

Which Simplifies to:  $ROA = \frac{\text{Earnings Before Interest And Taxes}}{\text{Total Assets}}$

ROA = Net Profits / Total Assets. (2)

Analyzing the specific index we could:

- Compare the efficiency among the co-operative banks.
- Observe the efficiency through time.
- Compare efficiency of co-operative banks with the efficiency of the banking sector as a whole.
- Investigate the reasons of the changes through time.

### 2.3 The Formula of DuPont Analysis

The DuPont system of financial analysis can be used to construct a financial plan for the bank. The DuPont system of financial analysis provides a means for the firm to monitor performance through the planning period and to post-audit the planning process (Collier, McGowan, Muchammad, 2010; Zane, Kane and Marcus, 2004; Reviewing and Assessing financial information, 2006; DuPont Analysis, 2011).

*DuPont comes from DuPont Corporation that started using this formula in 1920s. DuPont ratio analysis breaks down ROA (Return on Assets) and ROE (Return on Equity) into three basic components that determine profit efficiency, asset efficiency and leverage. This is an attempt to isolate the causes of strength and weakness in the firm's performance. DuPont focuses on the expense control, assets utilization, and also debt utilization (Bodie, Zane; Alex Kane and Alan J. Marcus, 2004).*

The Return on total-Assets can be broken into two components. It equals the product of the profit margin and total asset turnover ratio. Like the Return on total Assets, Return on Equity can be broken down into component parts to tell us why the level of return changes from year to year or why two banks' returns on equity differ. The Return on Equity is identical to Return on total Assets multiplied by the Equity Multiplier. A bank's Return on Equity may differ from one year to the next, or from a competitor's, as a result of differences in profit margin, asset turnover, or leverage. Return on Equity directly reflects a bank's use of leverage or debt. If a bank uses relatively more liabilities to finance assets, the Equity Multiplier will rise, and, holding other factors constant, the firm's Return on Equity will increase. This leveraging of a bank's Return on Equity implies only a greater use of debt financing. This breaking down of Return on total Assets, and Return on Equity into their component parts is what DuPont analysis is.

It is believed that measuring assets at gross book value removes the incentive to avoid investing in new assets. New asset avoidance can occur as financial accounting depreciation methods artificially produce lower ROEs in the initial years that an asset is placed into service. If ROE is unsatisfactory, the DuPont Analysis helps locate the part of the business that is underperforming.

The Return on Equity model disaggregates performance into the three components that determine Return on Equity: net profit margin, total asset turnover, and the Equity Multiplier. The profit margin allows the evaluation of the income statement and the components of the income statement. Total asset turnover allows the evaluation on the left-hand side of the balance sheet which is composed of the asset accounts. The Equity Multiplier allows the evaluation of the right-hand side of the balance sheet which is composed of liabilities and owners equity. Return on Equity analysis provides a system for planning (budgeting) in addition to analyzing the financial institution's performance.

The net profit margin allows the development of a pro forma income statement. An abbreviated income statement would be composed of net income equal to revenues minus expenses. The financial planner can determine the projected revenue level needed to meet the target net income level. The total asset turnover ratio permits the determination of the total asset level needed to generate the projected total revenue level. The total asset requirement can be used to project the pro forma levels of all of the asset accounts based on the target current asset to fixed asset level. The fundamental equation of accounting is that assets equal liabilities plus owners equity. The Equity Multiplier ratio can be used to determine the pro forma financial needs and the financial structure of the financial institution.

DuPont analysis simplified is similar with ROE even though it uses its own formula to present the same results compiling together ROA and Equity Multiplier.

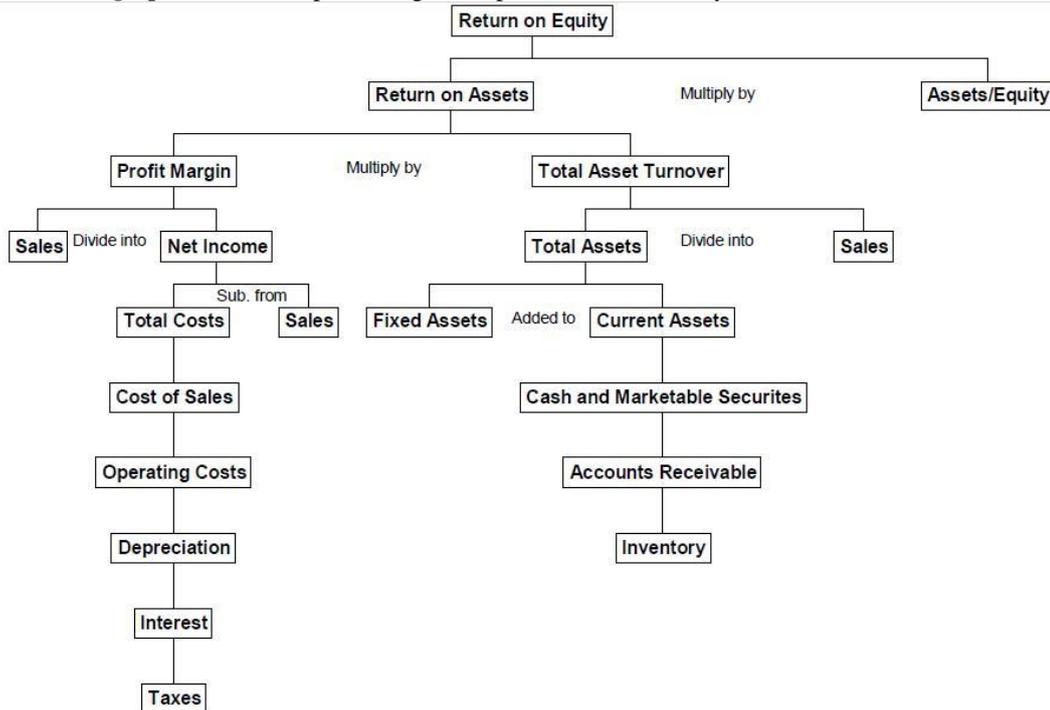
DuPont Analysis:  $ROE = ROA \times \text{Equity Multiplier}$

$$ROE = \frac{\text{Earnings Before Interest and Taxes}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Assets}} \times \frac{\text{Total Assets}}{\text{Equity}}$$

Which Simplifies to:  $ROE = \frac{\text{Earnings Before Interest and Taxes}}{\text{Equity}}$

Equity Multiplier = Total Assets / Equity. (3)

Below in the *graph No.1* it is representing the expanded DuPont analysis.



Source: Van Voorhis, K.R. “The DuPont Model Revisited: A Simplified Application to Small Business”

**Profit equation**

$$\text{Profit Margin} = \frac{\text{Net Income}}{\text{Revenue}}$$

(4)

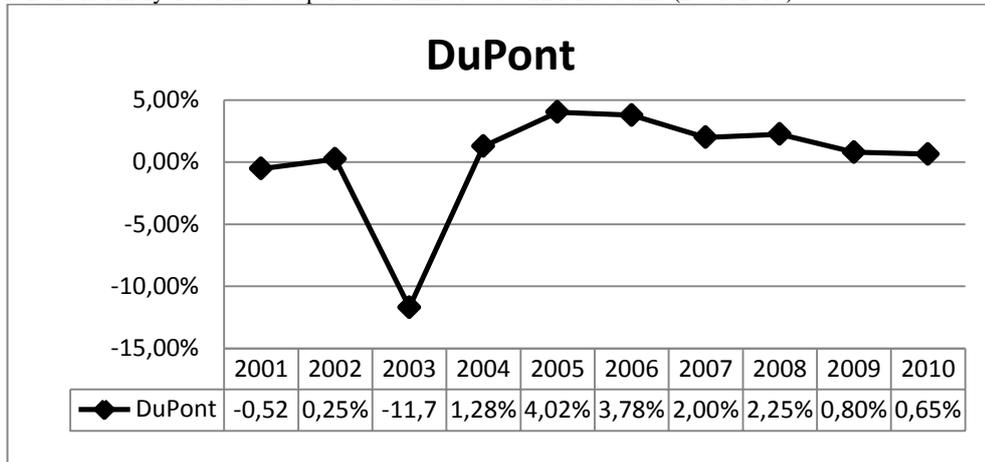
### 3. THE PROFITABILITY OF THE COOPERATIVE GREEK BANKS BASED ON THE METHODOLOGY OF DUPONT ANALYSIS

In this chapter we present the course of profitability ratios during 2001-2010 of the following main 12th Greek Cooperative Banks using the DuPont Analysis. All the calculations in the bellow tables became using the publication of the financial statements of the Greek Cooperative Banks. The 12th main Greek Cooperative Banks that we examine are:

- 1) Cooperative Bank of Western Macedonia.
- 2) Cooperative Bank of Drama.
- 3) Cooperative Bank of Dodekanisou.
- 4) Cooperative Bank of Evros.
- 5) Cooperative Bank of Evia.
- 6) Cooperative Bank of Epirus.

- 7) Cooperative Bank of Thessaly.
- 8) Cooperative Bank of Karditsas.
- 9) Pankritia Cooperative Bank.
- 10) Cooperative Bank of Peloponnese.
- 11) Cooperative Bank of Pierias.
- 12) Cooperative Bank of Chania.

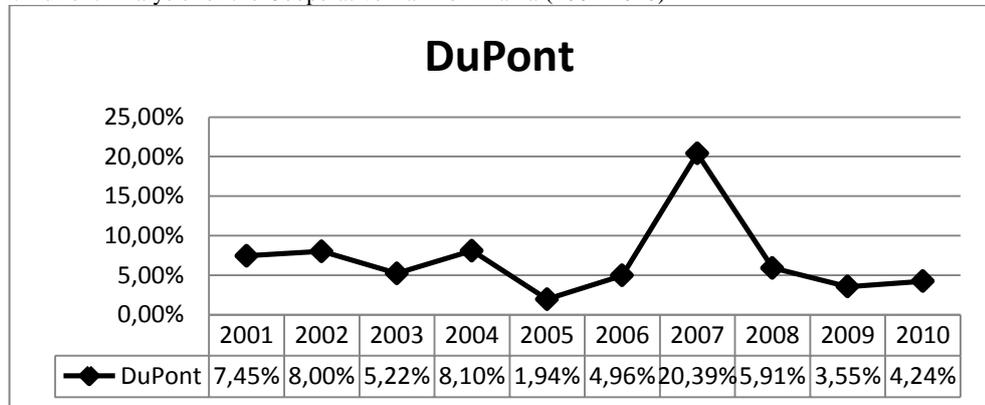
Diagram 1: DuPont Analysis for the Cooperative Bank of Western Macedonia (2001-2010)



Source: Published Financial statements.

From the above diagram 1 we can see that the ROE ratio is very low even the bank manage to pass in the year 2004 from losses to earnings. The ROE ratio has negative curve again after the year 2005 until 2010. The managers of the bank need to make decision so as the bank have to increase its profitability.

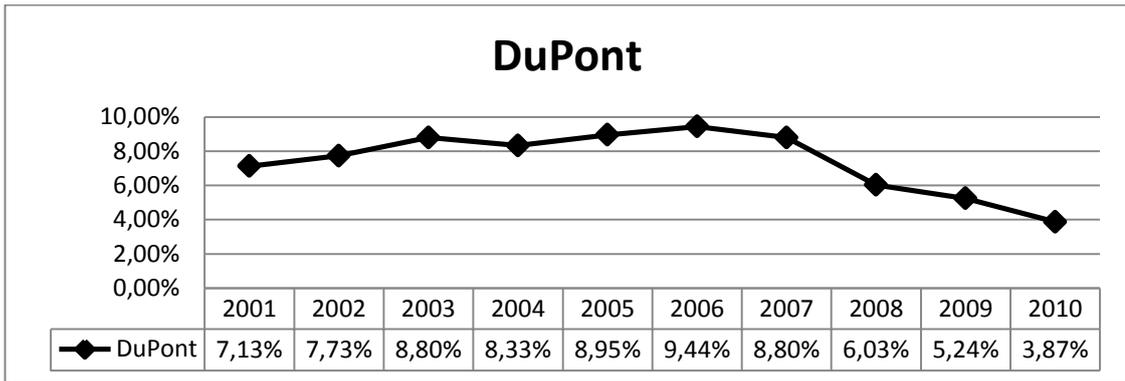
Diagram 2: DuPont Analysis for the Cooperative Bank of Drama (2001-2010)



Source: Published Financial statements.

From the above diagram 2 we can see that the ROE ratio moves in satisfactory level. The ROE ratio in the year 2007 takes the highest level.

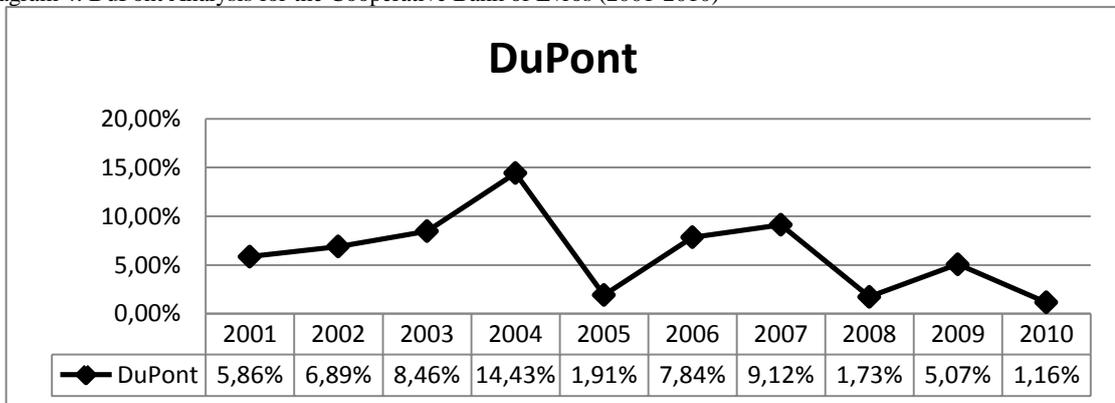
Diagram 3: DuPont Analysis for the Cooperative Bank of Dodekanisou (2001-2010)



Source: Published Financial statements.

From the above diagram 3 we can see that the ROE ratio moves also in satisfactory level. From the year 2001 until 2006 we can see that the curve of ROE has positive course, but from the year 2006 this curve has negative course.

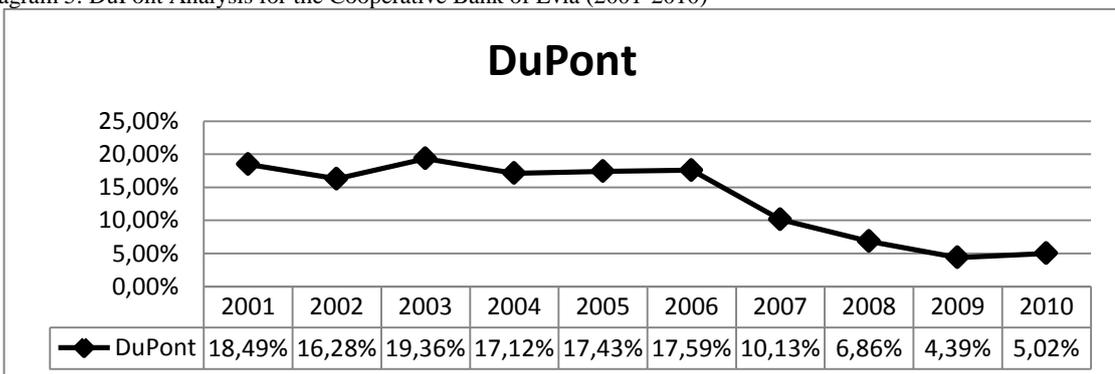
Diagram 4: DuPont Analysis for the Cooperative Bank of Evros (2001-2010)



Source: Published Financial statements.

From the diagram 4 we can see that the ROE ratio has abnormal course with the highest level at 14,43% in the year 2004 and the lowest level at 1,16% in the year 2010. The last price of the ROE ratio show us that the bank need to be considerate its profitability.

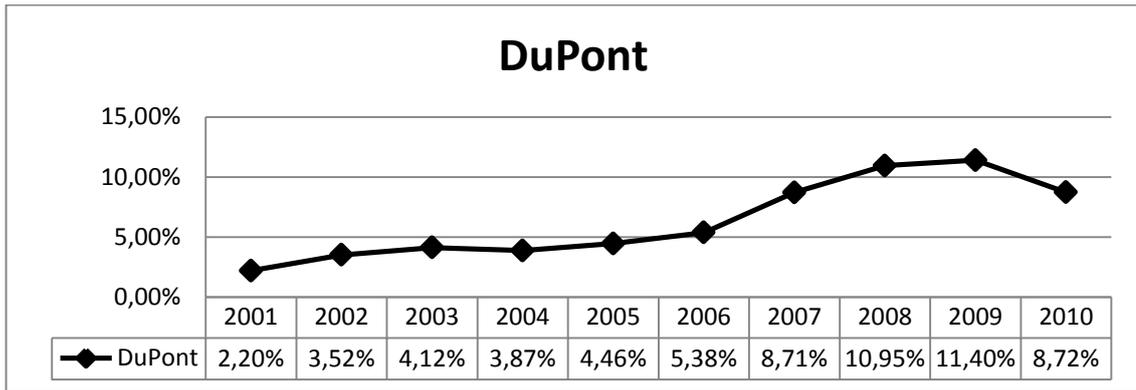
Diagram 5: DuPont Analysis for the Cooperative Bank of Evia (2001-2010)



Source: Published Financial statements.

From the above diagram 5 we can see that the course of ROE ratio follows a negative course from 2001-2010 but in a high level.

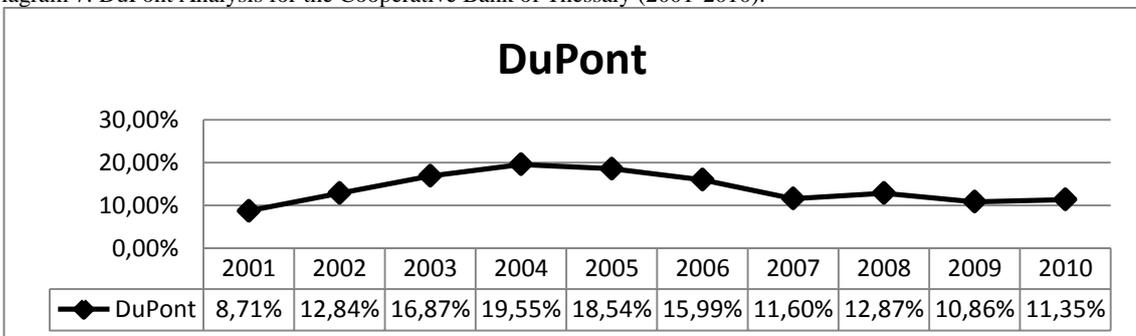
Diagram 6: DuPont Analysis for the Cooperative Bank of Epirus (2001-2010)



Source: Published Financial statements.

From the above diagram 6 we can see that the course of ROE ratio follows a positive course from 2001 until 2009 but in a low level except the years 2008 and 2009. In the year 2010 we observe a small fall of the ROE ratio.

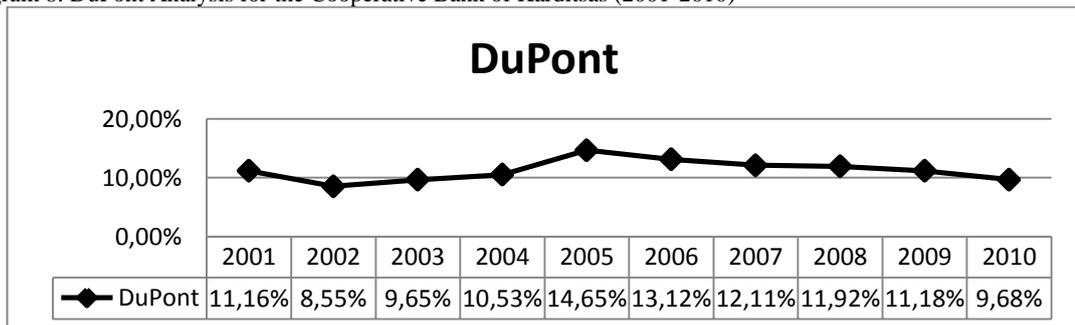
Diagram 7: DuPont Analysis for the Cooperative Bank of Thessaly (2001-2010).



Source: Published Financial statements.

From the above diagram 7 we can see that the course of ROE ratio has positive course from 2001 until 2004. After this year the ROE ratio follows negative course until 2007. In the years 2008-2010 the curve of ROE has a smooth ride. All this moves happened in high level prices.

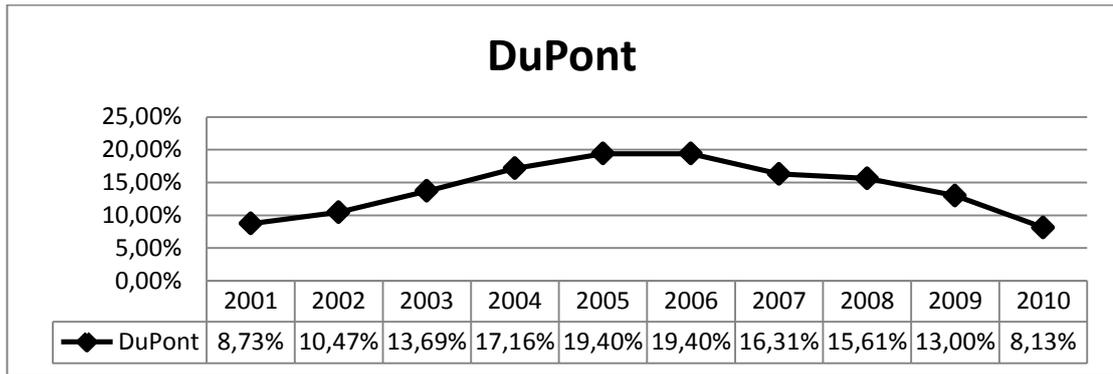
Diagram 8: DuPont Analysis for the Cooperative Bank of Karditsas (2001-2010)



Source: Published Financial statements.

From the above diagram 8 we can see that the course of ROE ratio has a smooth ride. In the year 2005 has its highest level 14,65%.

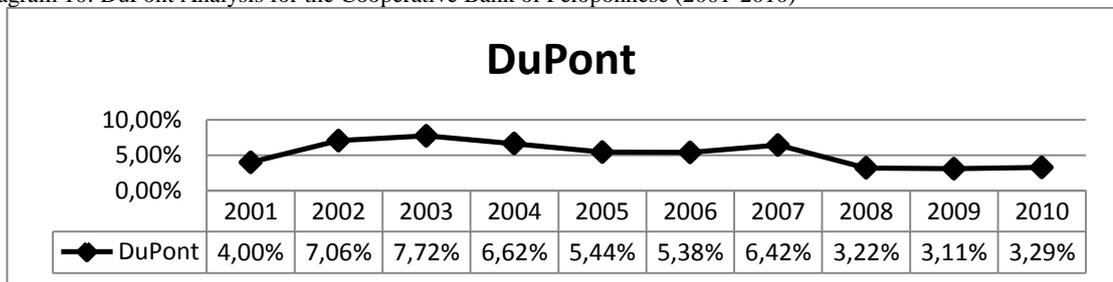
Diagram 9: DuPont Analysis for the Cooperative Pankritia Bank (2001-2010)



Source: Published Financial statements.

From the above diagram 9 we can see that the course of ROE ratio follows a lacking orbit with the highest level 19,40% in the years 2005 and 2006.

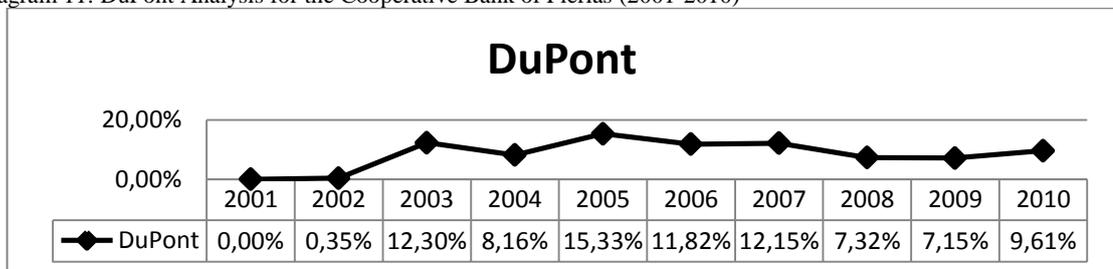
Diagram 10: DuPont Analysis for the Cooperative Bank of Peloponnese (2001-2010)



Source: Published Financial statements.

From the above diagram 10 we can see that the course of ROE ratio follows a negative course from the years 2003-2006 and from the years 2008-2010 follows a smooth ride. This course of the ROE curve takes place in a low level of the ROE prices.

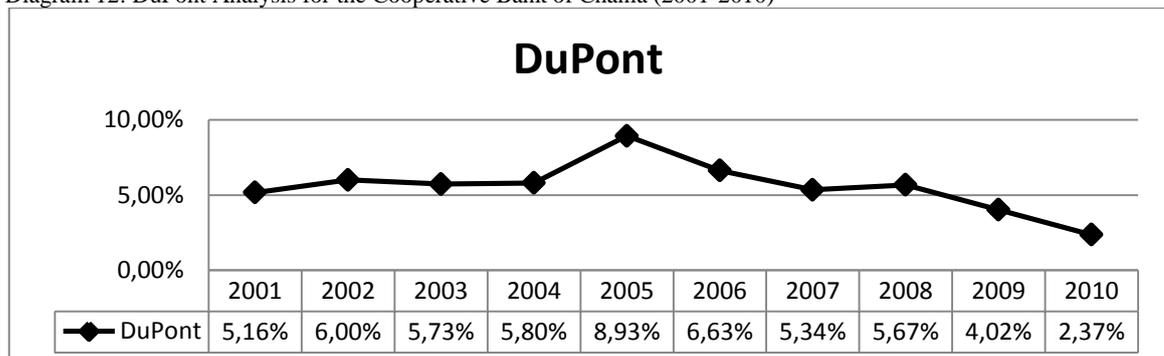
Diagram 11: DuPont Analysis for the Cooperative Bank of Pierias (2001-2010)



Source: Published Financial statements.

From the above diagram 11 we can see that the course of ROE ratio follows a positive trend with big fluctuations. The highest price level of ROE index is 15,33% in the year 2005.

Diagram 12: DuPont Analysis for the Cooperative Bank of Chania (2001-2010)



Source: Published Financial statements.

From the above diagram 12 we can see that the course of ROE ratio follows a smooth ride in the years 2001-2004. In the year 2004 the ROE index takes the biggest price 8,93%. In the years 2006-2010 the ROE ratio follows a negative course.

#### 4. CONCLUSIONS

By researching and determining the efficiency of Equity ROE and efficiency of Assets ROA 12 main Greek Cooperative Banks before and after the global financial crisis, which is still ongoing, we observe that the financial crises adversely affected the profitability of all financial institutions in the world, sometimes less and others more, and to improve the indicator ROE only option is to increase operating profit to be made more effective by using existing assets to generate sales, recapitalization, ie to become better use debt or better control the cost of deposits and lending money.

Financial institutions and not the Cooperative Banks must find ways to reduce their tax liability as well as to become more efficient and competitive should increase sales with the same level of assets or generate the same level of sales with less assets.

It is generally difficult to increase sales than to reduce costs as could large financial institutions to make takeovers and mergers.

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# **SOCIOECONOMIC INTEGRATION OF ALBANIAN IMMIGRANTS IN GREEK PERIPHERAL ECONOMIES**

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## **ABSTRACT**

In the last two decades an influx of economic immigrants from various parts of the world (India, Pakistan, Nigeria, the Philippines, Southeast Europe, the former Soviet Union, etc.) took place in Europe and, more specifically, Greece. In remote and disadvantaged border areas, entry and settlement of immigrants differs as regards not only their country of origin but also the degree of integration into local society. The questions posed to the economy and host society have largely preoccupied academic researchers and institutions and, therefore, extensive research and studies have been made.

The present paper is a case study on the identity and role of economic immigrants in Greek peripheral economies and, more specifically, in the counties of Kozani and Florina, West Macedonia.

Even before the Second World War the specific locations, the welfare indicators of which have been lower than the national average, had fostered relations of cooperation with neighboring Albania and F.Y.R.O.M., which, however, broke up during the Cold War period. Since 1990, the area has welcomed a considerable number of immigrants, mainly from neighboring Albania. This transborder immigration flow towards Kozani and Florina has undergone three stages: initial settlement, the period of "prosperity" and the period of contraction due to the economic crisis.

The objective of the present research is to map the Albanian immigrants' professional status, and explore the difficulties encountered by the immigrants at issue, the financial assistance required from the Greek state and also the social burden on the system, caused as a result of the crisis in the counties of Kozani and Florina. In addition, the data drawn from local services involve immigrants' contribution to employment, contributions to social security and permit issue services, as well as the number of immigrants receiving formal education for the decade 2001 - 2011.

The corpus of data was based on an empirical sampling survey with questionnaires, supplemented by personal interviews with Albanian immigrants, for a two-month period between November and December 2013. The analysis of results revealed the degree of socioeconomic integration, the immigrants' attitudes towards the specific host societies, the degree of suffering the impacts of the Greek financial crisis and their expectations for the future.

## **KEYWORDS**

Border economy, Albanian immigrants, socioeconomic integration, expectations

## **JEL CLASSIFICATION CODES**

Z10, F220, J11

## **1. INTRODUCTION**

In the last two decades, an influx of economic immigrants from various parts of the world (India, Pakistan, Nigeria, the Philippines, Southeast Europe, the former Soviet Union, etc.) took place in Europe and, more specifically, Greece.

According to the Migration Policy Institute (MPI, 2014), immigrant integration is defined as the process of economic mobility and social inclusion for newcomers and their children. Various approaches made by scholars and relevant bodies or institutions have attempted to explain the term 'integration' in order to address the complexity and diversity inherent in the concept of integration. The approach made by the European Commission places particular emphasis on integration as "a two-way process based on mutual rights and corresponding obligations of legally resident third country nationals and the host society which provides for full participation of the immigrant" (CEC, 2003). In addition, a key issue in the debate about immigrants is the process of integration and cohesion, starting from full retention of immigrants' multiculturalism in the host country to the other end concerning assimilation, which requires the absorption of minority cultures in the culture of the majority (Borooah and Mangan, 2009).

## **2. RESEARCH BACKGROUND AND METHODOLOGY**

In Greece, migration has been considered a mainstream aspect of the contemporary Greek state. Although in the past it was Greek nationals who were forced to immigration, mainly due to the poor economic conditions in Greece, nowadays and since the 90s, due to the migration flow to Greece, immigrants have been made an essential component of social organization, employment and the labour market. Apart from the institutional slack, factors, such as the primary sector of the economy, the large number of SMEs as well as black economy, have contributed to facilitating migrant labour, often seasonal or occasional, particularly in construction, agriculture, service delivery and small or family industries (Georgarakis, 2009).

In terms of Vermeulen, H. (2004), structural or sociocultural and identity dimensions are perceived as the major sectors-aspects of integration. However, the process of integration and its impacts are varied across different groups of immigrants and social environments.

According to E. Durkheim, "integration" has been used to imply: a) integration of society (integration de la société), a meaning adopted by classic American anthropologists, and b) integration of individuals (integration a la société) (Papadopoulou, 2003; Schnapper, 2008), an approach adopted in the present research.

Immigrants' efforts to achieve integration in the host society involve various stages (Papaioannou, 2003: 1982). The first involves immigrants' arrival in the host country and their efforts to accommodate and cope up with adversities. During this stage the level of integration is minimum and immigrants are convinced that their stay in the host country will be short.

In the second stage, immigrants change their plans to return to their homeland, feel more confident to cope up with problems and, depending on their employment status, make efforts to establish their social status.

In the third stage, the problems, which are likely to arise as a result of their identity as immigrants, are easier to encounter and their intention to return to their own homeland seems to weaken. During this stage immigrants' lifestyles begin to change.

Finally, during the fourth stage, immigrants have already completed at least 20 years in the host country and make efforts to ensure the best possible conditions and prospects for their own children and future retirement.

It is worth noting that the Chicago School called the process of immigrants' settlement in the host country, "a race relation cycle", comprising four steps: a) contact b) conflict c) accommodation d) assimilation, during which all ethnic differences disappear (Martikainen, 2005, p. 3).

Overall, the various approaches are directly related to the causes of migration, among which financial prosperity is, remarkably, the major motivating and attracting force. In this perspective, migration is associated mostly with economic integration (access to the labor market, economic self-sufficiency, etc.), whereas social integration (access to social security, public goods, etc.), and political integration (active participation in public affairs) are additional aspects, in parallel with transculturality, namely cultural integration (Kontis, 2001, pp. 190-1).

Remarkably, even nowadays immigrants to Greece have been frequently faced with entry problems, and issues related to inclusion and integration into Greek society. According to a research made by INE (2008), in Greece, service delivery to immigrants is largely affected by strong stereotypes, which, in the absence of an explicit and organized immigration policy, have largely determined the efficiency of service delivery and of the entire system of legalizing and integrating immigrants.

West Macedonia has been the main entry point mostly of Albanian immigrants due to its vicinity with Albania, the morphology of Greek borders and also due to inefficient security measures against facilitating immigrants' entry.

Even before the Second World War cooperation between the researched areas, the welfare indicators of which are lower than the national average, and the neighboring countries of Albania and F.Y.R.O.M was substantial. Since 1990, the area has welcomed a considerable number of immigrants mainly from neighboring Albania; however, during the period of the Cold War such relations broke up. Notably, the transborder immigration flow towards Kozani and Florina has involved three stages: initial settlement, the period of "prosperity" and the period of contraction due to the economic crisis. Baldwin-Edwards, M., (2005) states that in the region of Attica Albanian immigrants "*seem to favour an assimilationist strategy, with flexibility about religion, adoption of Greek names, baptism of their children as Orthodox. Albanian history suggests that the culture is accommodatory, adapting to different power regimes whilst trying to retain identity. Therefore, there is a doubt about whether they really will assimilate and turn into Greeks. There is also great doubt about whether they could show classical assimilation, or be confined to underclass formation. It is possible, owing to the sheer numbers and non-cohesiveness of the Albanian community in Greece, that they could exhibit both patterns.*"

Since, in previous studies, the process of integration seems to depend on the ethno-racial background of immigrants and the structural characteristics of the microenvironment in which they are integrated (Wu et al., 2010), the objective of the present case study was focused on the investigation of the demographic aspects of Albanian immigrants in a Greek peripheral economy, namely, of Kozani and Florina, West Macedonia, and the process of immigrants' integration. In detail, the present survey investigates the degree of socioeconomic integration, the immigrants' attitudes towards the host society, the degree of suffering the impacts of the Greek financial crisis and also immigrants' expectations for the future. The survey was carried out in a two-month

period between November and December 2013 in Florina and Kozani via personal interviews based on a structured bilingual (Greek - Albanian) questionnaire. The survey sample was convenient and the corpus of data was drawn from a total number of 50 questionnaires in Florina and 28 in Kozani. The statistical data analysis was performed using SPSS.

### 3. RESEARCH FINDINGS

Data analysis derived a significant amount of information. In detail, the age of Albanian immigrants (table 1) living in Florina ranges from 20 to 60 years; the highest concentration ranged from 31 to 40 (32%). Similarly, in Kozani the percentage of Albanian economic immigrants in the age group of 41-50 (35%) is higher.

Table 1. Immigrants' Age

Age	Florina	Kozani
up to 20	2%	
21-30	26%	14%
31-40	32%	28%
41-50	20%	35%
51-60	20%	21%
61-70		2%

The survey participants are mostly men, the percentage of whom comes to 74% and 62% in Florina and Kozani, respectively. Of these, 96% were born in Albania and 4% were born by Albanian parents in Florina and Kozani.

The majority of economic immigrants entered Greece (Table 2) from 1990 to 1995, whereas the percentage of those who entered Greece from 2001 to 2005 is significantly lower. After 2005 there is no evidence of settlement in the two regions.

Table 2. Entry Time

Date of entry in Greece	Florina	Kozani
1990-1995	52%	48%
1996-2000	30%	31%
2001-2005	14%	21%

The results of the survey demonstrated that a major problem during settlement in the specific areas was language (53.7% in Kozani, 48% in Florina), whereas finding work was second in rank (21.5% in Kozani, 19% in Florina).

During the long period of settlement in Florina and Kozani the participating economic immigrants have exercised a variety of professions, mainly manual labour. In detail, the largest percentage during the initial period of settlement includes the professions of : Manual workers (18% in Kozani, 22% in Florina), Construction workers (19% in Kozani, 21% in Florina), Waiters (10.81% in Kozani, 12% in Florina). Notably, however, in the last few years, the relevant percentages in the two regions have changed: Manual workers (7%), Electricians (7%), Construction workers (7%), Engineers (7%), Cleaning staff (7%), Students (7%), Farm workers (3.6%), and Microbiologists, Dressmakers, Nurses, Drivers, Hairdressers, Cooks, Contractors, Delivery boys, Pizza makers, Plumbers, Tile workers , Elderly care assistants (3.6%). It is worth noting that 78.6% have got social security coverage in the Social Insurance Fund (IKA –ETAM), 7% in the Freelancer Insurance Organisation (OAEE), 7% in the Organisation of Agricultural Insurance (OGA), and 7.4% have got no coverage.

The above description demonstrates the gradual career progress of immigrants, which is comparable to social integration.

Social integration is indicated by the fact that 90% of the participating immigrants have fostered friend relationships among Greek local people (from Kozani or Florina), are very familiar (50%) with wedding and funeral local customs and that in difficult situations they were helped by Greeks (57%).

Their relationship with their place of origin and place of residence is reflected in the following table (Table 3):

Table 3. Relationship with place of origin and place of residence

Have you regretted leaving your hometown?	YES	21%
	NO	89%
Would you return to your hometown for permanent residence?	YES	32%
	NO	68%

Would you like to live in your recent place of residence for the rest of your life?	YES	53%
	NO	47%
Is there any other country (except Albania and Greece) you would like to live in?	YES	21,5%
	NO	78,5%
Have you got any relatives in another country outside Greece & Albania	NO	29%
	YES	71%

The survey results demonstrated that immigrants’ social integration and social relationships with local people are significantly high and a considerably high percentage (53%) intends to live permanently in the host communities.

The results also demonstrated that immigrants keep contact with their own place of origin, which they visit (21.5%) at least 4 times a year, they send money transfers (38%) and communicate with relatives by phone (68%) at least once per fortnight.

The degree of respect for employers, neighbors, friends and local Greek people and local authorities is shown in Table 4.

Table 4. Degree of respect

	No	Minimum	Moderate	High	Very high	Extremely high
Employers	0%	3%	4%	26%	40%	27%
Neighbours	3,6%	3%	4,2%	14%	28,6%	46,7%
Friends	3%	32%	36,4%	17,9%	7,1%	3,6%
Local authorities	7%	21%	46,8%	17,9%	7,1%	0%

Table 5. Impact of Economic Crisis

	Minimum	Moderate	Serious	Very serious	Extremely serious
Work (Florina)	8%	12%	6%	62%	12%
Work (Kozani)			11%	61%	28%
Income (Florina)	4%	14%	6%	64%	12%
Income (Kozani)			7%	50%	43%

The Greek economic crisis has affected the Albanian immigrants (Table 5). More specifically, the researched immigrants have encountered very serious work and income problems (61-62%).

In addition, immigrants have got very serious problems with paying their rent (42-39%) and also serious problems with buying their food (Table 6).

Table 6. Impact of Economic crisis on paying for Clothing - Food - Rent

	Minimum	Moderate	Serious	Very serious	Extremely serious
Rent (Florina)	8%	8%	24%	42%	14%
Rent Kozani		5%	28%	39%	28%
Food (Florina)	16%	16%	56%	12%	
Food (Kozani)		22%	36%	28%	14%
Clothing/Footwear (Florina)	10%	22%	28%	30%	20%
Clothing/Footwear (Kozani)	4%	14%	46%	32%	24%

The results have also indicated serious and very serious problems concerning clothing - footwear and health issues.

As regards their attitudes towards future prospects (Table 7), immigrants are optimistic; the respondents believe (43% in Florina and 50% in Kozani) that the Greek economy will improve.

Table 7. Attitudes towards the progress of the Greek economy

	The Greek economy will improve		
	YES	NO	PERHAPS
Florina	43%	39%	18%
Kozani	50%	11%	39%

However, they are pessimistic for their occupational status and quality of life, which they believe it is not going to be appreciably improved.

## 4. CONCLUSIONS

The economic immigrants in the cross border region of West Macedonia have so far undergone four stages as regards their relationship with the local communities and economy.

The early stages, in 1990s, involve their entry in Greece, and their efforts to find a job, which was mostly manual (construction or manual workers). Their major problems were learning the language and communicating with state services.

After having lived for more than 20 years in the researched areas, immigrants have been now in the fourth stage, during which they are making efforts to ensure the best possible conditions and prospects for their children and their own future retirement.

They have significantly improved the quality of their professional and employment status and expanded their range of professions. The percentage of manual workers has decreased, whereas in fields such as service delivery there is a significant increase; in addition, the percentage of qualified work has risen to a great extent (Microbiologists, students, etc.).

The vast majority of immigrants has got social security coverage and is entitled to public goods (i.e. education), has gained a social status and assimilated local culture.

Social integration is demonstrated by the fact that they have fostered friend relationships with Greek people, are very familiar with local customs and in case of having problems they are helped by Greeks. They maintain relationships with their place of origin, but do not deeply wish or expect to return to their own country.

To conclude, after twenty years, the economic immigrants from Albania who live in Florina and Kozani appear to have been satisfactorily integrated in the host economy life and society.

The economic crisis has had a significant impact on their social lives, as the drop in or absence of income has caused welfare problems and forced large parts of the population to poverty.

The impact of the economic crisis is varied and has significantly affected manual workers, low educated people and economic immigrants.

Finally, immigrants exhibit optimistic attitudes towards future prospects and believe that the Greek economy will improve.

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# SATISFACTION VALUE FOR MONEY AND BEHAVIORAL INTENTION OF YOUNG ATHLETES PARENTS

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## ABSTRACT

This study investigates and determines the factors that affect the overall satisfaction, value for money and behavioral intention of parents whose children participate as athletes in sport organizations and researches the relationships among them. In order to achieve the goals of the study, a structured questionnaire was used which consisted of 6 meaning sections, with totally 36 Likert Scale items and some questions about the club in which the child participated. The respondents were 63 parents whose children (aged 7-15 years, girls and boys) participated in different departments, according to their gender and age, of a Greek amateur basketball team and parents had to pay a monthly fee for their children's participation. For the analysis of the responses exploratory factor analyses were conducted, one for each meaning section, a reliability analysis for each emerged factor and multiple linear analyses. After the factor analysis eleven factors emerged. Satisfaction of children's non-sport benefits ( $\alpha=0,796$ ), Satisfaction of children's sport benefits ( $\alpha=0,769$ ), Satisfaction of coach's behavior and interest ( $\alpha=0,892$ ), Satisfaction with coach's knowledge, transmissibility, organizational ability and justice ( $\alpha=0,900$ ), Satisfaction of administrators' behavior and interest ( $\alpha=0,885$ ), Satisfaction of administrators' organizational capacity ( $\alpha=0,733$ ), Satisfaction sports grounds and equipment ( $\alpha=0,849$ ), Perceived children's overall satisfaction ( $\alpha=0,920$ ), Parents' overall satisfaction ( $\alpha=0,871$ ) and Value for money ( $\alpha=0,952$ ). The results show that perceived children's satisfaction is a common factor that affects parent's overall satisfaction, value for money and behavioral intention of parents and that the behavioral intention is more affected by the value for money rather than the parents' overall satisfaction. The results of this research can be used for the improvement of the provided services by the teams who deal with young athletes.

## KEYWORDS

Satisfaction, Value for money, Behavioral intention, Parents of young athletes

## JEL CLASSIFICATION CODES

M, O

## 1. INTRODUCTION

A lot of studies support the parental influence on young people's participation in sports. Hoyle and Leff (1997) point out that parents often assume the role of motivator, facilitator, and even coach in the life of the young athlete. Horn & Harris, (1996) point out that parents have a significant impact on many of the positive outcomes of their child's sport participation. Children usually make the decision to participate intensively in sport, but that decision is closely tied to an awareness of alternatives and rewards shaped by important adults in their lives (Coakley et al., 1993; Lee, 1993). According to Howard & Madrigal (1990), parents typically make the initial decision to enroll their children in sport. Parental support, as well as the value accorded to sport, is related positively to children's perceptions of sport or participation in the past (Fredericks & Eccles, 2005; Eccles & Harold, 1991). Within the youth sport context, coaches, parents, siblings, peers, and officials form a multifaceted and complex social network, which influences the experiences young athletes gain from participating in sport (Babkes & Weiss, 1999; Brustad & Partridge, 2002; Côté, 1999; Weiss & Smith, 2002). Researchers have shown that the time and effort that young athletes are able to devote to training and competition, depends on material and emotional support, provided particularly by parents and coaches (Bloom, 1985; Brustad, 1993; Scanlan & Lewthwaite, 1988; Weiss & Hayashi, 1995). In addition to parental support, the enjoyment of participation has been highlighted as critical for the development of talent (Csikszentmihalyi et al., 1993). Previous researches on sport dropout are characterized by a focus on parental influence (e.g., Fredricks & Eccles, 2005).

Many sport clubs, especially the amateur, largely base their sustainability on the financial contribution of the parents of young teams who learn sports. Therefore managing and marketing youth sport brings its own set of

challenges, as parents are the consumers although children are the users of the service (Green & Chalip, 1998). Previous work has demonstrated that there can be centrifugal social forces that work against the stability of youth sport leagues (Chalip & Scott, 2005), and that the values, needs, and expectations of the parents need to be factored into program design and club administration (Kirk & MacPhail, 2003). Chalip (1989) suggests that the use of post-season surveys on parents has been used to provide information that can be useful to club and league organizers.

Oliver and Swan (1989) defined satisfaction as a total psychological state, when there is an existing discrepancy between the emerging emotion and the expectation and such an expectation is the consumer's feeling which is anticipated and accumulated from their previous purchases. Satisfaction has been considered as a central concept in the marketing literature (Erevelles & Leavitt, 1992; Oliver, 1997). It is generally accepted that consumer satisfaction is the most efficient and least expensive source of market communication because consumers who are satisfied with a product or service will be more likely to disseminate their favorable experience to others. As satisfaction arises from meeting or exceeding the expectations of the customer, satisfaction over time strengthens the reliability of the service provider and cultivates loyalty (Ganesan, 1994; Tax, Brown & Chandrashekar, 1998).

The mean of perceived value in the marketing literature is differentiated in several types. One of them is the “the value for money.” Sirohi et al. (1998: 228) define “the value for money” as the evaluation of what consumer gets for what he/she pays. Prior studies find strong and consistent results for a positive relationship between value for money and behavioral intention (e.g., Grewal et al., 1998; Zeithaml, 1988).

According to Petrick and Sirakaya (2004) the loyalty of the consumer constitutes a critical orientation towards the organization. Loyal customers increase the volume of sales of the organization (Gwinner, et al., 1998), reduce the communication costs of attracting new customers (Payne, & Frow, 2005) and create brand equity (Bhattacharya, & Sen, 2003). In practice, action loyalty is difficult to be measured and thus most researchers employ behavioral intentions, as a compromise of action loyalty (Yang, & Peterson, 2004). Oliver (1997) defines behavioral intention as “a deeply held commitment to repurchase or re-patronize a preferred product or service in the future”. Zeithaml et al. (1996) claims that the favorable behavioral intention includes elements such as the suggestion of the service to others.

## 2. DEVELOPMENT OF RESEARCH QUESTIONS AND HYPOTHESES

Several factors seem to be important for the ongoing stability of youth sport organizations because they can affect parental satisfaction and the consequent retention or termination of membership. The degree to which children are thought to improve their skills and learn to strive have been demonstrated to be important (Martin *et al.*, 2001). According to Jowett and Timson-Katchis (2007) the parents' perception about coach's ability and behavior can influence their satisfaction. If the parents are not satisfied with the coach-athlete relationship, they may develop strategies such as negative feedback, search for a new coach, and change of sport club. In addition, the coach's role as a manager and communicator is as important to parental evaluations of the sport experience as is the coach's role as an instructor. Friendships formed or strengthened through the sport experience are also important to children, adolescents, and their parents (McCarthy & Jones, 2007; Ullrich-French & Smith, 2009). The sense of community that parents obtain in their children's sport program may be important (Vieno *et al.*, 2007). Kanters (2002) points out that much of the literature suggests that parent's satisfaction and their enduring involvement in their child's sport depends on their child's satisfaction with their sport experience. Following the above, the subsequent questions should be asked:

*Q1. What partial factors of parents' satisfaction affect parents' overall satisfaction because of their children's participation in a sports club?*

*Q2. What partial factors of parents' satisfaction affect parents' value for money perception?*

*Q3. What partial factors of parents' satisfaction affect parents' behavioral intention?*

Cronin and Taylor (1992) suggest that among others, good value for money might enhance customer satisfaction and subsequently behavioral intentions. Similarly, Parasuraman and Grewal (2000) point out that perceived value influences satisfaction and intentions to recommend and repurchase at the post purchase stage. Several studies have examined the association between customer satisfaction and service switching. Crosby and Stephens (1987) find that the reasoning behind customers' switching behavioral correlates with overall dissatisfaction. So it can be hypothesized that:

H1. Parents' perceived value for money is positively correlated with parents' overall satisfaction.

H2. Parents' behavioral intention is positively correlated with parents' perceived value for money.

H3. Parents' behavioral intention is positively correlated with parents' overall satisfaction.

## 2.1. Aim

The main aim of the present study is to determine the factors that influence the overall satisfaction, value for money and behavioral intention of parents whose children participate as athletes in sport organizations. The secondary aim of this study is to research the relationships among satisfaction, value for money and behavioral intention.

## 3. METHODOLOGY

### 3.1. Sample

The sample of the present study consisted of 63 parents whose children (aged 7-15 years, girls and boys) participated in different departments (depended of gender and age) of an amateur basketball team in Greece. In order for their children to participate in these activities, parents had to pay a monthly fee.

### 3.2. Instrument

In order to achieve the aims of the study was carried out an empirical research, using a structured questionnaire. The measurement instrument consisted of 6 meaning sections. The first section referred to the satisfaction of the parents with the perceived benefits of their children because of their participation in the teams of the specific sport club. This section consisted of 10 items identified by the literature and related to security, sociability (Smoll & Smith, 2002; Ullrich-French & Smith, 2009), moral, team work (Duda & Ntoumanis, 2005), strengthening of character (Lin & Chalip, 2011), goals achievement (Schwab *et al.*, 2010), health (Bergeron, 2007) and improvement of fundamentals, physical condition and team playing (Martin *et al.*, 2001). The second section referred to the satisfaction of the parents with the child's coach. This section consisted of 10 items which were identified by the literature. The items referred to the behavior and the interest of the coach and to his training/coaching ability (Jowett & Timson-Katchis, 2007; Black & Weiss, 1992; Smith & Smoll, 1996). The third section consisted of 6 items and referred to the parents' satisfaction from the behavior and the interest of the club's administrators toward children as well as to the administrators' organizational capacity (Hoye, 2006; Mason *et al.*, 2006). The fourth section consisted of 5 items which referred to parents' satisfaction about the sports facilities and equipment (Cumming, & Ewing, 2002). The fifth section referred to the marketing constructs which identified the parental overall satisfaction about children's perceived overall satisfaction (3+3 items, in the spirit of Cronin *et al.*, 2000), the value of money (3 items, in the spirit of Cronin *et al.*, 2000) and the behavioral intention (3 items, in the spirit of Zeithaml *et al.*, 1996 and Oliver, 1997). In all items of the first five sections the responses measured on a 5 point Likert scale, from 1 to 5. The point 1 meant the "strongly disagree" and point 5 the "strongly agree." Finally, the sixth section included questions related to the specific section of the club in which the child participated, the residence time in the rank of the club and the name of the coach.

### 3.3. Validity and reliability of the instrument

In order to test the validity and the reliability of the measuring instrument, 5 Exploratory Factor Analysis were conducted, one for each meaning section. Furthermore, reliability analyses were conducted for every factor that emerged. The first section, after removing 2 items because of low loadings, yielded 2 factors (Table 1).

Table 1. The results of exploratory factor analysis and reliability analyses of the first section of the measurement instrument.

	Factors	Loadings	
<b>I</b>	<b>Satisfaction of children's non-sport benefits (<math>\alpha=0,796</math>)</b>		
1	Safety	0,660	
2	Moral	0,575	
3	Goals achievement	0,669	
4	Health	0,767	

5	Team work	0,646	
<b>II</b> <i>Satisfaction of children's sport benefits (a=0,769)</i>			
1	Improve fundamentals		0,931
2	Improve physical condition		0,686
3	Improve team play		0,761
KMO = 0,769, Sig. = 0,0, Total variance explained = 61,35			

The second section yielded 2 factors (Table 2).

Table 2. The results of exploratory factor analysis and reliability analyses of the second section of measurement instrument.

	Factors	Loadings	
<b>III</b> <i>Satisfaction of coach's behavior and interest (a=0,892)</i>			
1	Interest for my child	0,849	
2	Interest in child's progress at school	0,872	
3	Pedagogical behavior	0,922	
4	Healthy motivation	0,824	
<b>IV</b> <i>Satisfaction with coach's knowledge, transmissibility, organizational ability and justice (a=0,900)</i>			
1	Transmissibility		0,830
2	Knowledge about basketball fundamentals		0,757
3	Knowledge about physical condition		0,919
4	Ability to coach basketball team		0,781
5	Organizational skills		0,601
6	Fair treatment		0,625
KMO = 0,624, Sig. = 0,0, Total variance explained = 77,93			

The third section yielded 2 factors (Table 3).

Table 3. The results of exploratory factor analysis and reliability analyses of the third section of measurement instrument.

	Factors	Loadings	
<b>V</b> <i>Satisfaction of administrators' behavior and interest (a=0,885)</i>			
1	Impeccable behavior towards children	0,891	
2	Obvious interest in children	0,869	
3	Interest in the section my child trains with	0,878	
<b>VI</b> <i>Satisfaction of administrators' organizational capacity (a=0,733)</i>			
1	Organizational skills		0,617
2	Frequent organization of games		0,912
3	Organization of supporting events		0,838
KMO = 0,801, Sig. = 0,0, Total variance explained = 79,27			

The fourth section yielded 1 factor (Table 4).

Table 4. The results of exploratory factor analysis and reliability analysis of the fourth section of measurement instrument.

	Factors	Loadings	
<b>VII</b> <i>Satisfaction sports grounds and equipment (a=0,849)</i>			
1	The court on which my child plays/exercises is safe	0,754	
2	The court on which my child plays/exercises is suitable for playing	0,836	
3	The premises of the court are clean	0,735	
4	The sport's equipment is in good condition	0,819	
5	The sport's equipment is adequate	0,823	
KMO = 0,817, Sig. = 0,0, Total variance explained = 63,15			

The fifth section yielded 4 factors (Table 5).

Table 5. The results of exploratory factor analysis and reliability analyses of the fifth section of measurement instrument.

	Factors	Loadings		
<b>VIII</b> <i>Perceived children's overall satisfaction (a=0,920)</i>				
1	My child cannot wait to go to training	0,871		
2	My child is enthusiastic with this club	0,880		
3	My child enjoys the sport	0,836		
<b>IX</b> <i>Parents' overall satisfaction (a=0,871)</i>				
1	I am satisfied with the decision to enroll my child in this club		0,822	
2	I did not regret my decision to enroll my child in		0,802	

	this club				
3	This club was a good choice		0,841		
<b>X</b>	<b>Value for money (<math>\alpha=0,952</math>)</b>				
1	The experiences acquired by my child deserve the money			0,693	
2	The money I pay correspond to benefits for my child			0,784	
3	The offer of the club to my child deserves the subscription			0,729	
<b>XI</b>	<b>Behavioral intention (<math>\alpha=0,823</math>)</b>				
1	I intend to continue to send my child to this club				0,856
2	I intend to recommend the club to friends with children				0,908
3	I intend to speak with kind words for the club				0,872
KMO = 0,827, Sig. = 0,0, Total variance explained = 88,11					

With the values of KMO being over 0,6, the tests of the Bartlett's sphericity significant, at 0,00 level of significance (Hair *et al.*, 1995) and the total variances explained bigger than 60% (Hair *et al.*, 1995) in all 5 exploratory factor analyses, is accepted the existence of 11 valid factors, whose reliability is confirmed by the values of Cronbach alpha, which are over 0,7 (Spector, 1992).

## 4. RESULTS

In order to investigate the first research question (Q1), a multiple linear regression analysis was conducted with dependent variable the “Parents’ overall satisfaction” and independent variables the 7 partial factors of parents’ satisfaction and the “Perceived children’s overall satisfaction”. The results are presented in Table 6.

Table 6. The results of investigation of the correlation among the parents’ overall satisfaction and the 8 partial factors of parents’ satisfaction.

Dependent variable	Independent variables	<i>B</i>	<i>t</i>	<i>Sig. t</i>
Parents’ overall satisfaction	Satisfaction of children’s non-sport benefits	-0,199	-1,591	0,117
	Satisfaction of children’s sport benefits	-0,058	-0,423	0,674
	Satisfaction of coach’s behavior and interest	-0,109	0,764	0,448
	Satisfaction of coach’s knowledge, transmissibility, organizational ability and justice	0,425	2,845	0,006
	Satisfaction with administration’s behavior and interest	0,128	0,966	0,338
	Satisfaction with administration’s administrative capacity	0,036	0,316	0,753
	Satisfaction with sports grounds and equipment	0,229	2,194	0,033
	Perceived children’s overall satisfaction	0,488	4,720	0,000
<b><math>R^2 = 0,54, F = 78,22, Sig. F = 0,000.</math></b>				

The results showed a statistically significant positive correlation of the “Parents’ overall satisfaction” with the “Satisfaction of coach’s knowledge, transmissibility, organizational ability and justice”, the “Satisfaction with sports grounds and equipment” as well as the “Perceived children’s overall satisfaction” ( $\beta > 0, p\text{-value} < 0,05$ ).

To investigate the second research question (Q2), a multiple linear regression analysis was conducted with dependent variable the “Value for money” and independent variables the 7 partial factors of parents’ satisfaction and the “Perceived children’s overall satisfaction”. The results are presented in Table 7.

Table 7. The results of investigation of the correlation among the value for money and the 8 partial factors of parents’ satisfaction.

Dependent variable	Independent variables	$\beta$	<i>t</i>	<i>Sig. t</i>
Value for money	Satisfaction of children’s non-sport benefits	-0,126	-1,026	0,310

	Satisfaction of children’s sport benefits	0,313	2,308	0,025
	Satisfaction of coach’s behavior and interest	-0,006	-0,046	0,964
	Satisfaction of coach’s knowledge, transmissibility, organizational ability and justice	0,262	1,771	0,082
	Satisfaction of administration’s behavior and interest	0,193	1,455	0,152
	Satisfaction of administration’s administrative capacity	0,047	0,417	0,678
	Satisfaction of sport grounds and equipment	0,048	0,454	0,652
	Perceived children’s overall satisfaction	0,249	2,412	0,019
<b><math>R^2 = 0,56, F = 8,26, Sig. F = 0,000.</math></b>				

The results showed a statistically significant positive correlation of the “Value for money” with the “Satisfaction of children’s sport benefits” as well as the “Perceived children’s overall satisfaction” ( $\beta > 0, p\text{-value} < 0,03$ ).

To investigate the third research question (Q3), a multiple linear regression analysis was conducted with dependent variable the «Behavioral intention» and independent variables the 7 partial factors of parents’ satisfaction and the “Perceived children’s overall satisfaction”. The results presented in Table 8.

Table 8. The results of investigation of the correlation among the behavioral intention and the 8 partial factors of parents’ satisfaction.

Dependent variable	Independent variables	$\beta$	$t$	Sig. $t$
Behavioral intention	Satisfaction of children’s non-sport benefits	-0,051	-0,401	0,690
	Satisfaction of children’s sport benefits	0,237	1,702	0,094
	Satisfaction of coach’s behavior and interest	0,015	0,103	0,918
	Satisfaction of coach’s knowledge, transmissibility, organizational ability and justice	0,154	1,007	0,318
	Satisfaction of administration’s behavior and interest	0,340	2,506	0,015
	Satisfaction of administration’s administrative capacity	-0,034	-0,295	0,769
	Satisfaction of sport grounds and equipment	-0,031	-0,294	0,770
	Perceived children’s overall satisfaction	0,251	2,376	0,021
<b><math>R^2 = 0,52, F = 7,19, Sig. F = 0,000.</math></b>				

The results showed a statistically significant positive correlation between the «Behavioral intention» and the “Satisfaction of administration’s behavior and interest” as well as the “Perceived children’s overall satisfaction” ( $\beta > 0, p\text{-value} < 0,03$ ).

To investigate the first research hypothesis (H1), a linear regression analysis was conducted with dependent variable the «Value for money» and independent variable the «Parents’ overall satisfaction». The results showed a statistically significant positive correlation between «Behavioral intention» and «Parents’ overall satisfaction» ( $R^2 = 0,29, F = 24,32, \beta > 0, p\text{-value} = 0,0$ ).

To investigate the second research hypothesis (H2), a linear regression analysis was conducted with dependent variable the «Behavioral intention» and independent variable the «Value for money». The results showed a statistically significant positive correlation between «Behavioral intention» and «Value for money» ( $R^2 = 0,76, F = 150,57, \beta > 0, p\text{-value} = 0,0$ ).

To investigate the third research hypothesis (H3), a linear regression analysis was conducted with dependent variable the «Behavioral intention» and independent variable the «Parents’ overall satisfaction». The results showed a statistically significant positive correlation between «Behavioral intention» and «Parents’ overall satisfaction» ( $R^2 = 0,17, F = 12,39, \beta > 0, p\text{-value} = 0,001$ ). However it should be noted that the value of  $R^2$  statistic is not particularly satisfactory.

## 5. DISCUSSION - CONCLUSIONS

The primary aim of the present study was to determine the factors which influence the overall satisfaction, the value for money and the behavioral intention of parents whose children practice in sport organizations. The results show that there is a common factor, the perceived children’s satisfaction, which influences parents’ overall satisfaction, value for money and behavioral intention. This result extends Kanter’s (2002) ascertainment

that parent's satisfaction is dependent on their child's satisfaction with their sport experience. Additionally, parents' overall satisfaction is influenced by their satisfaction with the coach's knowledge, transmissibility, organizational ability and justice and by the satisfaction of sport grounds and equipment. The value for money is influenced by children's sport benefits and the behavioral intention is influenced by satisfaction of club administration's interest and appropriate behavior for children.

The findings of this study show that parents' interest is mainly focused on their children satisfaction, on tangible elements of sport service and on the progress of their children in sport. The influence of sport on the character of their children seems to be ignored. For instance, the coach's knowledge, transmissibility, organizational ability and justice influence the parental satisfaction, on the other hand the behavior of the coach and the interest that he shows for the athletes does not influence the parental satisfaction. Moreover, the value for money is evaluated on the basis of sport benefits which the children gained but not on non-sport benefits such as safety, health, morality, goals achievement, team spirit. These ascertainment may suggest that parental expectations from their children's participation in sports are associated more with the possibility to follow their child a professional sports career, rather than child's treatment.

The Secondary aim of this study was to research the relationships among satisfaction, value for money and behavioral intention. The results showed positive correlation between the three constructs. The findings are in line with those of Cronin and Taylor (1992) and Parasuraman and Grewal (2000). However, it is worth mentioning that the behavioral intention is more affected by the value for money rather than the parents' overall satisfaction. Perhaps the poor economic conditions of Greek society are forcing parents to give more emphasis on managing their money.

In conclusion, sports organizations that offer services to young children should be aware that the most crucial factor to keep children in their ranks is the satisfaction from participation. Furthermore, they must demonstrate more interest and appropriate behavior toward children, and employ coaches with a very good knowledge of the specific sport, so that young athletes can show visible progress and provide appropriate facilities and equipment.

This study is subject to certain limitations, mainly due to the small number of participants. Future studies could be devoted to further investigation of parents' satisfaction in different teams and individual sports.

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## AND NOW WHITHER..? EUROPEAN UNION LIFELONG LEARNING POLICY: A TWO LEVEL ANALYSIS

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### ABSTRACT

The present paper aims to elucidate the development of an integrated European Union (EU) policy framework for Lifelong Learning (LLL) in light of the ‘Lisbon’ and ‘Europe 2020’ Strategies, for enhancing employment, combating unemployment and increasing competitiveness of the EU. Through an two-level analysis of policy texts with high political significance representing a point of reference for a given discourse, it seeks to explore trends and identify interrelations between EU LLL policy and emerging challenges within the Union, as well as global socioeconomic mandates that inform contemporary education policy. On the first level of analysis, Critical Discourse Analysis has been employed, categorizing the data according to its forms and functions in five main categories: LLL Policy, Scope of LLL, Context challenges, Funding, LLL Tools. On the second level of analysis, the data underwent Implicative statistical analysis. Findings have indicated a substantial shift in the relationship between education and politics, with education becoming the lever for supporting policies endorsed to stimulate economic growth. Hence, LLL has been assigned a strategic role in providing for an ‘up-to-date’ workforce with a better skills match and ‘flexible’ enough to adapt to changing labor demands, so as to enable EU remain a strong global actor.

### KEYWORDS

European Union, lifelong learning, human resources, growth policy, discourse analysis Implicative statistical analysis

## 1. INTRODUCTION

What gained adult education and training a new momentum as an overarching policy goal was the development of the Human Capital Theory (HCT) during the 1960s, with individuals’ skills and knowledge, assumed to account for a large portion of productivity over and above tangible capital (Becker 1964, Schulz 1963). HCT has greatly impacted education and training policies throughout Western countries, while on these grounds, under the umbrella term Lifelong Learning (LLL), adult education and training has been retheorized a ‘*conditio sine qua non*’ for sustainable growth and social stability (de la Fuente and Ciccone 2002, Psacharopoulos and Patrinos 2002), while being increasingly regarded as a ‘global commodity’ (Green, 2002).

In light of this wider policy consensus that turned LLL into a powerful ‘tool’ for the reform and modernization of education and training systems in western nations (Field 2001), the reconceptualized LLL framework was espoused by the European Union (EU), plagued in the 1990s by a massive unemployment crisis. The White Paper on Growth, Competitiveness, and Jobs, issued by Delors in 1993 (CEC 1993) was the launching point for the structural reform agenda needed to turn around the unemployment crisis undermining the very fabric of European society (Jones 2005). Nevertheless, it took several years to launch an integrated policy agenda on investment in human resources. A milestone in this policy shift was the Lisbon European Council (CEC 2000a, 2000b, 2001a, 2001b), inaugurating an ambitious strategic framework so as to turn EU into the most competitive economy worldwide, based on knowledge.

Hence, at the turn of the century, with EU enlargement in process and amid increasing competitiveness in the global market, the Lisbon European Council prioritized the increase in investment and participation rates in adult education, within the context of LLL. In order to attain the maximalistic goal of building ‘the most dynamic knowledge-based economy in the world’, a comprehensive policy agenda known as the ‘Lisbon Strategy’ was endorsed, comprising a set of ‘soft policy’ technocratic tools. The convergence mechanism towards strategic goals was provided through the ‘Open Method of Coordination’ (OMC), serving the purpose of spreading best practice and setting guidelines and timetables in policy implementation, along with consolidating the policy direction (CEC 2001b, 2002a, EC 2001, 2003), initiating thus a new era in community collaboration in educational matters, practically leading to a ‘European area of education’ (Ertl 2006, Hingel, 2001).

After three enlargements, in 2004, 2007 and 2013, the Union today represents 28 Member States, while eight candidates and potential candidates may join the Union in the years to come, putting forth even greater

challenges for integration, economic prosperity, social cohesion and political stability (CEC 2007a). The economic crisis at the end of the decade 2000-09, which was assumed to have accounted for the limited effects of the Lisbon Strategy on growth and employment (CEC 2009, 2010a), has further reinforced the strong interdependencies among member states and indicated closer cooperation as the only way out of recession. Thus, in light of the poor results of the Lisbon Strategy and the ongoing economic crisis, the Council adopted a new strategic framework for European cooperation in education and training in May 2009 (OJEU 2009). The new agenda, ‘Europe 2020’, mainly focuses on ‘smart and inclusive growth’, so as to build a smarter, greener and more competitive economy, with new jobs and lower levels of unemployment (CEC 2009, 2011). It combines strategic long term objectives with short term priorities and is built on four pillars: a) LLL and mobility, b) quality and efficiency of education and training, c) equity and social cohesion, and d) creativity and innovation (CEC 2009, 2010a, EC 2010, OJEU 2009). In effect, LLL has become a modern ‘panacea’, with political discourse repeatedly accentuating multifarious potential benefits in economic, social, cultural and political spheres (CEC 2003a, 2006a.), feeding a cautious optimism in that it may generate opportunities for tackling forthcoming challenges, such as increased global competitiveness and growing demand for knowledge and innovation.

In this regard, the present study aims to elucidate the development of an integrated EU policy framework for LLL in light of the “Lisbon” and “Europe 2020” Strategies, for enhancing employment, combating unemployment and increasing competitiveness of the EU. Through a two-level analysis of policy texts with high political significance representing a point of reference for a given discourse, it seeks to explore trends and identify interrelations between EU LLL policy and emerging challenges within the Union, as well as global socioeconomic mandates that inform contemporary education policy

## 2. METHODOLOGY

Initially, a systematic review of policy texts was conducted following a four-stage process, including research of preliminary sources, use of secondary sources, study of primary sources and synthesis of the literature (Gall, Borg and Gall 1996). Preliminary source research was conducted using the ‘Europa’ official documents database ([http://europa.eu/publications/official-documents/index\\_en.htm](http://europa.eu/publications/official-documents/index_en.htm)). Resting on the assumption that the Commission of European Communities (CEC) is at the centre of European governance, concentrating most administrative and professional resources (Rasmussen 2014), a search was run within the Commission official documents (Reports, Staff-working Documents, Communications, Memoranda), using ‘Lifelong Learning’ as a title key word. Initial search yielded a set of 74 documents endorsed by the European Commission from 2000 to 2014. References within preliminary sources helped draw up a comprehensive list of primary material, comprising fifty policy texts, conditioned for relevance to the topic and issuing year so as to enable equal allocation in the period under scrutiny (Table 1).

Table 1. List of policy texts included in the study

Title	Year
A Memorandum on Lifelong Learning	2000
Strategies for jobs in the information society	2000
Making a European area of lifelong learning a reality	2001
Education Policies and European Governance: Contribution to the Interservice Groups on European Governance	2001
The concrete future objectives of education systems	2001
European benchmarks in education and training: follow-up to the Lisbon European Council	2002
The Lisbon Strategy: making change happen	2002
European report on quality indicators of lifelong learning	2002
Implementing lifelong learning strategies in Europe: Progress report on the follow-up to the Council resolution of 2002	2002
Implementation of the "Education and Training 2010" programme	2003
Education and Training 2010: the success of the Lisbon strategy hinges on urgent reforms	2003
Investing efficiently in education and training: an imperative for Europe	2003
Achieving the Lisbon goal: The contribution of VET	2004
Mobility within the Community of students, persons undergoing training, volunteers and teachers and trainers	2004
The new generation of community education and training programmes after 2006	2004
Exploring sources on funding for lifelong learning	2004
Creating the “youth in action” programme for the period 2007-2013	2004
Key competences for lifelong learning	2005
Modernising education and training: a vital contribution to prosperity and social cohesion in Europe	2005
Developing local learning centres and learning partnerships	2005
Towards a European qualifications framework for lifelong learning	2005
Establishing for the period 2007-2013 the programme "Citizens for Europe" to promote active European citizenship	2005

Adult learning: It is never too late to learn	2006
Efficiency and Equity in European Education and Training Systems	2006
Progress towards the Lisbon objectives in education and training	2006
Establishing an action programme in the field of lifelong learning	2006
Implementing the Community Lisbon Programme: Fostering entrepreneurial mindsets through education and learning	2006
A coherent framework of indicators and benchmarks for monitoring progress towards the Lisbon objectives in E&T	2007
Action Plan on Adult learning It is always a good time to learn	2007
Towards more knowledge-based policy and practice in education and training	2007
Towards Common Principles of Flexicurity: More and better jobs through flexibility and security	2007
Promoting young people's full participation in education, employment and society	2007
Progress towards the Lisbon objectives in education and training	2008
An updated strategic framework for European cooperation in education and training	2008
Improving competences for the 21st Century: An Agenda for European Cooperation on Schools	2008
Key competences for a changing world	2009
Progress towards the Lisbon objectives in education and training	2009
A new impetus for European cooperation in Vocational Education and Training to support the Europe 2020 strategy	2010
An Agenda for new skills and jobs: A European contribution towards full employment	2010
Youth on the move: promoting the learning mobility of young people	2010
Progress towards the common European objectives in education and training	2011
Implementation of the Strategic Framework for European cooperation in education and training (ET2020)	2011
Mid-term review of the Lifelong Learning Programme	2011
Rethinking education: investing in skills for better socio-economic outcomes	2012
Vocational education and training for better skills, growth and jobs	2012
Partnership and flexible pathways for lifelong skills development	2012
Evaluation of the European Qualification Framework (EQF)	2013
Single Community framework for the transparency of qualifications and competences	2013
Establishment of a European Quality Assurance Reference Framework for Vocational Education and Training	2014
Report on Progress in Quality Assurance in Higher Education	2014

On the first level, the mode of analysis employed to conduct the study rests within Critical Discourse Analysis approach (Chouliaraki and Fairclough 1999, Fairclough 1992, 1995), systematically exploring ‘often opaque relationships of causality and determination’ between (a) discursive practices, events and texts, and (b) wider social and cultural structures, relations and processes. In light of the constructivist assumption that language is a form of social practice, shaped and informed by wider processes within society in a reciprocal interaction, a textual analysis of the selected European Commission documents was conducted, exploring political processes, institutions and systems, and interrelatedness of textual properties and socio-cultural practices. Hence, following Fairclough’s (1995) integrated levels of discourse, initially the formal properties of the text were studied identifying nodal points. Further on, an interpretation of the relationship between text, interaction, and the wider socioeconomic context was attempted, categorizing the data according to its forms and functions in five main categories: LLL Policy, Scope of LLL, Context challenges, LLL Funding and LLL tools.

On the second level of analysis, the data underwent implicative statistical analysis. It is a data analysis devoted to the extraction and the structuration of quasi-implications and was originally developed by Gras (Gras and Kuntz 2008). According to Coutourier (2008) Implicative Statistical Analysis establishes the following properties between the variables it handles: 1. the relationship between variables that are dys-symmetrical, 2. the association (wording) of measures that are not linear and are based on probabilities, and 3. the user’s possibility to use graphical representations that follows the semantic of the relationship. For the analysis of the collected data of this research, the Hierarchical Clustering of Variables and Gras’ Implicative Statistical Analysis method was conducted using a computer software called Classification Hiérarchique, Implicative et Cohésitive (Bodin, Coutourier and Gras 2000). For the needs of the present study, Similarity and Hierarchical and Implicative diagram have been released by the application of Classification Hiérarchique, Implicative et Cohésitive software on the research data (Bodin, Coutourier and Gras 2000). Classification Hiérarchique, Implicative et Cohésitive software given a set of data enables the extraction of association rules. Based on the implication intensity and the similarity intensity, C.H.I.C. allows the building of two trees and one graph (Coutourier and Gras 2005, Coutourier 2008).

### 3. RESULTS

#### *First level: Qualitative analysis*

Applying critical analysis in EU primary texts since 2000, such as communications, official reports, memoranda and staff-working documents, in order to grasp insight into political processes, institutions and systems, and

interrelatedness of textual properties and socio-cultural practices, five categorical labels were identified, each one comprising a set of further descriptive codes (Table 2).

Table 2. Discourse analysis data

Categorical labels	Descriptive codes				
<i>LLL Policy</i>	P1 pivotal role		P2 subsidiary role		
<i>Scope of LLL</i>	L1 economic growth	L2 social justice		L3 personal fulfillment	
<i>Context challenges</i>	C1 skilled workforce	C2 unemployment	C3 aging population	C4 innovation	C5 Europeanization
<i>LLL Funding</i>	F1 by the state	F2 by stakeholders		F3 by individuals	
<i>LLL tools</i>	T1 flexibility	T2 employability	T3 quality assurance	T4 policy convergence.	

### *LLL Policy*

Since 2000, in light of enhancing EU competitiveness in a globalised ‘knowledge economy’, political discourse has been drawing on ‘urgent’ reforms, with adult education, in the wider perspective of LLL, assigned a critical role accompanied by a grandiose rhetoric, so as to allow Europe remain a strong global actor (EC 2000). In effect ‘LLL’ has become a political slogan packed in a rhetoric that systematically stresses the critical role of investment in human resources (CEC 2003a). As outlined in the Memorandum on LLL (CEC 2000b) ‘people are Europe’s main asset and should be the focal point of the Union’s policies’. Hence, LLL policies endorsed since 2000 have signified a substantial shift in the relationship between education and politics, with education becoming the lever for supporting, enhancing and promoting structural changes at political level and especially macroeconomic policies endorsed to stimulate economic growth. In this context LLL has been accredited a role that ranges from *subsidiarity* (P2) forming a significant ‘part of the EU’s Lisbon strategy’ (CEC 2007b), to constituting the *pivotal* political ‘tool’ (P1) in enhancing EU competitiveness and raising employment rates, depending largely on the agenda it is informed by. According to the Commission, LLL policies are ‘central to the implementation of the Union’s new economic, social and environmental strategy defined in Lisbon in March 2000’ (CEC 2003b).

### *Scope of LLL*

As mentioned afore, the strong human capital rationale accompanying LLL was espoused by the EU in the 1990s, plagued by a massive unemployment crisis. Hence economic growth and social justice have been inextricably interrelated with LLL and the purposes it serves. According to the Commission ‘lifelong learning’ pertains to all learning activity undertaken throughout life, with the aim of improving knowledge, skills and competences within a personal, civic, social and/or employment-related perspective (CEC 2001a). The specific definition actually pertains to all three closely interrelated spheres, a) human capital (*economic growth* – L1), b) social capital (*social justice* – L2), c) identity capital (*personal fulfillment* – L3), which empirical analysis has indicated adult education to deliver benefits in (Clemens, Hartley and Macrae 2003, Panitsides 2013a, Schuller et al. 2002, 2004). As eloquently put forward ‘more than ever before, access to up-to-date information and knowledge, together with the motivation and skills to use these resources intelligently on behalf of oneself and the community as a whole, are becoming the key to strengthening Europe’s competitiveness and improving the employability and adaptability of the workforce’ (CEC 2000b). Furthermore, ‘although the main challenges implied by the Lisbon strategic goal are obviously related to the labor market, the contribution of education and training to the knowledge economy can hardly be dissociated from its contribution to society in general and to the individual citizen’ (CEC 2003b).

However, even though the political discourse has been repeatedly drawing on various LLL benefits in personal, social, cultural and political spheres (CEC 2003a, 2006a), there exists a conspicuous lacuna in EU rhetoric, with an apparent laxity in perceiving non-economic returns (Schuller et al. 2004). In effect, ‘investing in people’ has mainly been regarded as ‘a growth factor, particularly in the current context of rapid technological change’, while secondarily presumed to serve as a ‘key instrument for enhancing social inclusion’ (CEC 2003b). In the same vein, personal empowerment tends to be inherently related to economic growth, with LLL assumed to be ‘first and foremost a need for all individuals in a knowledge society’ (CEC 2002a), serving the purpose of empowering citizens ‘to move freely between learning settings, jobs, regions and countries, making the most of their knowledge and competences, and to meet the goals and ambitions of the EU’ (CEC 2001a).

Hence, LLL contribution to social justice and personal fulfillment tends to be assumed of secondary importance, with the emphasis shed on the primary objective of ‘helping make adults more efficient workers’ (CEC 2006a). In this regard, the Commission’s repetitive appeal to the personal benefits and social impact of adult participation in LLL is under scrutiny as to whether it informs the endorsement of an inclusion and social justice

policy agenda or the addendum for enforcing a growth policy and legitimating the demise of the welfare state model.

#### *Context challenges*

Amid the swift technological and scientific evolution, economic globalization and concomitant structural changes in employment and society, the dominant objective propounded in EU LLL policies, especially since the turn of the millennium, has been restoring its competitiveness in the globalised economy. In this context, major challenges have been associated with a growing demand for knowledge and innovation, combating unemployment, catering for labor market shortages, along with tackling the overwhelming phenomenon of population aging (CEC 2006b).

Thus, in order to attain the maximalistic goal of becoming ‘the most dynamic knowledge-based economy in the world’, there is a strong mandate to build a *skilled workforce* (C1), both by ‘providing the right mix of skills’ (CEC 2010b), as well as ensuring that individuals ‘can adjust their skills to the labor-market needs of an environmentally sustainable economy founded on competence-based training concepts’ (CEC 2010c). Additionally, closely interrelated with workforce skills improvement is the increasing demand for *innovation* (C4). As interestingly posited ‘the case for better skills development in Europe is even more urgent in the light of the global race for talent and rapid development of Education and Training systems in emerging economies such as China, Brazil or India’ (CEC 2010c).

Actually, the current decade has started with a global economic crisis, while further socio-economic and demographic challenges in the EU have been associated with a rapidly *aging population* (C3), a large number of low-skilled individuals and high rates of youth *unemployment* (C2). In particular, existence of high rates of low-qualified, mismatches between skills and the labor market, and the aging labor force constitute the major structural challenges of the current decade (CEC 2008, 2012a). A prerequisite in effectively tackling the foregoing challenges is the impetus of a European identity that may promote solidarity and understanding among EU peoples, while facilitate human resources’ mobility flows across member-states. According to the Commission (2005a) ‘the EU is currently facing a paradox: despite the successes and achievements of the Union since its creation, European citizens seem to have developed a certain distance towards the European institutions and to have difficulties in identifying themselves within the process of European integration’ (CEC 2005b). In this respect, there has been repetitive appeal to enhancing the ‘*Europeanization*’ (C5) process through ‘building a European or international dimension into national education and training systems, as a means of promoting an understanding among people about the EU’ (CEC 2005b). To this end, a premium has been put on reinforcing ‘the role of LLL in creating a sense of European citizenship based on understanding and respect for human rights and democracy, and encouraging tolerance and respect for other peoples and cultures’ (CEC 2006b).

#### *LLL Funding*

The issue of LLL funding has been of growing concern for the EU, constantly reemerging in the political discourse, especially towards the end of the previous decade with the onset of the economic recession negatively impacting public investment in education and training. Hence, with *state funding* (F1) in decline, the role of *stakeholders* (F2) has been propounded, outlining that ‘creating partnerships for funding can be effective, such as sectoral training funds based on social partner agreements’, as ‘it can mobilize private resources and share the costs of learning’ (CEC 2006b). What is more though, there have been several addresses to the necessity of *individuals* (F3) to finance themselves their participation in education and training. This attempted shift in LLL funding schemata, has been characteristically reflected in the Commission’s appeal to Member States for ‘encouraging individuals to invest in their own learning, both for reasons of personal fulfillment and employability’ (CEC 2007c), indicating a substantial trend in diminishing public expenditure on education, while entrenching LLL in commodification and utilitarianism patterns.

#### *LLL tools*

As mentioned above, the central plank defining LLL policy since 2000 has been enhancing EU competitiveness in the global arena, strongly conditioned by committing member-states to a *convergence education and training policy* (T4), so as to ensure effectiveness and efficiency in educational reforms. As outlined, ‘reforms, while decided and conducted at national level, need to take serious account of their increasingly important European dimension, which has become a critical factor for their efficiency’ (CEC 2010c). Hence, mainstreaming the use of European tools catering for the comparability and transparency of qualifications, and the validation of prior learning (CEC 2006b, 2007c), has been a breakthrough in EU education policy, with the ultimate aim to enhance *employability* (T2) namely ‘the capacity to secure and keep employment’, presumed as ‘a decisive condition for reaching full employment and for improving European competitiveness and prosperity in the new economy’ (CEC 2000b).

The main European tools that have been developed are: a) the European Qualifications Framework (EQF) and National Qualifications Frameworks (NQF), b) the Europass, c) the European Credit System for Vocational Education and Training (ECVET), d) the European Quality Assurance reference framework for Vocational

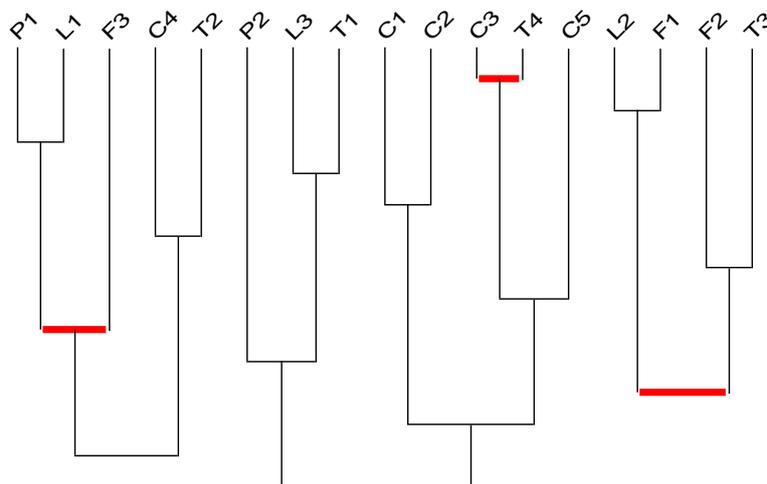
Education and Training (EQAVET) and e) the European Skills/Competences, qualifications and Occupations classification (ESCO). They practically form a lingua franca that facilitates communication not only between the labor market and education but also between education systems among member states, enabling greater *flexibility* (T1) for both employers and individuals, while providing for *quality assurance* (T3) in education and training in that they may allow comparability of knowledge, skills, competences and qualifications, and ensure transparency, contributing to reinforcement of human resources’ mobility flows (CEC 2011). Precisely, it is assumed that catering for ‘flexible qualification structures which integrate the different streams and levels of education and learning’, bears an ‘important potential for encouraging participation in lifelong learning as it allows individuals to build upon prior learning, and link competences and qualifications gained across different phases and contexts of life – leisure and working life, inside and outside formal education and training’ (CEC 2002b, 2012b).

**Second level: Quantitative analysis**

On the second level of analysis the data underwent implicative statistical analysis. The **similarity dendrogram** (Fig. 1) depicts the similarity clustering of the five main categories, *LLL Policy*, *Scope of LLL*, *Context challenges*, *LLL Funding* and *LLL tools*, originally identified through the qualitative analysis of policy texts endorsed by the European Commission from 2000 to 2014. The similarity relationships identified are significant at 99% significance level.

Taking into account the above similarity dendrogram, three distinct clusters (Cluster A, Cluster B, Cluster C) can be identified.

The first cluster (Cluster A) depicts the similarity relationships among variables P1, L1, F3, C4, T2, which relate to P1 pivotal role, L1 economic growth, F3 funding by individuals, C4 innovation and T2 employability. The similarity linkages identified in the first cluster of variables indicate that the descriptive labels P1, L1, F3, C4, T2 were coherently addressed in the policy texts analyzed. Additionally, within cluster A, two further groupings/sub-clusters (sub-cluster A1, sub-cluster A2) have been traced. The first similarity sub-cluster (sub-cluster A1) refers to the linkage between variables P1, L1, F3. Likewise, the similarity in this subset of variables reflects the coherency in policy texts in addressing variables P1, L1 and F3. More specifically, the similarity in sub-cluster A1 between P1, L1, F3 is moderate (Classification level: 9: ((P1 L1) F3) similarity: 0.587326), while the similarity identified between items P1 and L1 is high (classification level: 3: (P1 L1) similarity: 0.798923). The second sub-cluster (sub-cluster A2) refers to the relationships between variables C4, T2, presenting a strong similarity (Classification level: 6: (C4 T2) similarity: 0.698548). The average similarity in the first cluster is insignificant (Classification level: 13: (((P1 L1) F3) (C4 T2)) similarity: 0.157143).



**Fig. 1** Similarity Dendrogram

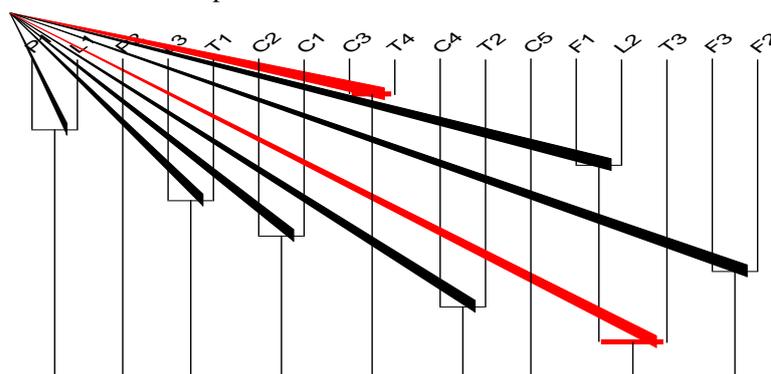
The second similarity cluster reflects the relationships among variables P2, L3 T1, C1, C2, C3, T4, C5 (Cluster B), which relate to P2 subsidiary role, L3 personal fulfillment, T1 flexibility, C1 skilled workforce, C2 unemployment, C3 aging population, T4 innovation, and C5 Europeanisation. The similarity in the second cluster of variables indicates that the descriptive labels P2, L3 T1, C1, C2, C3, T4, C5 were coherently addressed in the policy texts analyzed. Additionally, in cluster B two sub-clusters (sub-cluster B1, sub-cluster B2) have been identified. The first similarity sub-cluster (sub-cluster B1) refers to the linkage between variables P2, L3, T1 (sub-cluster B1). The similarity in these subsets of variables also reflects the coherency in policy texts in addressing variables P2, L3 and T1 (sub-cluster B1), C1, C2, C3, T4, C5 (sub-cluster B2). The similarity

between variables L3 and T1 is high (Classification level: 4: (L3 T1) similarity: 0.777496). The average similarity of sub-cluster B1 is moderate (Classification level: 10: (P2 (L3 T1)) similarity: 0.440162). The second sub-cluster (sub-cluster B2) refers to the similarity relationships among variables C1, C2, C3, T4, C5 (sub-cluster B2). In particular, the most significant similarity in this sub-cluster has been between items C3 and T4 (Classification level: 1: (C3 T4) similarity: 0.910974). A strong similarity has also been identified between variables C1 and C2 (Classification level: 5: (C1 C2) similarity: 0.747955), while there has been a significant similarity between variables C3, T4 and C5 too (Classification level: 8: ((C3 T4) C5) similarity: 0.634928). However, the average similarity of sub-cluster B2 is low (Classification level: 12: ((C1 C2) ((C3 T4) C5)) similarity: 0.263287). Likewise, the average similarity of cluster B is insignificant too (Classification level: 14: ((P2 (L3 T1)) ((C1 C2) ((C3 T4) C5))) similarity: 0.035569).

The third similarity cluster reflects the linkage among variables L2, F1, F2, T3 (Cluster C), which relate to L2 social justice, F1 funding by the state, F2 funding by stakeholders and T3 quality assurance. The similarity in the third cluster of variables indicates that the descriptive labels L2, F1, F2, T3 were coherently addressed in the policy texts analyzed. Two further sub-clusters (sub-cluster C1, sub-cluster C2) have also been identified. A strong similarity was presented between variables L2 and F1 (Classification level: 2: (L2 F1) similarity: 0.904533), along with a significant similarity between variables F2 and T3 (Classification level: 7: (F2 T3) similarity: 0.67751). Finally, the average similarity of cluster C has been rather moderate (Classification level: 11: ((L2 F1) (F2 T3)) similarity: 0.326102).

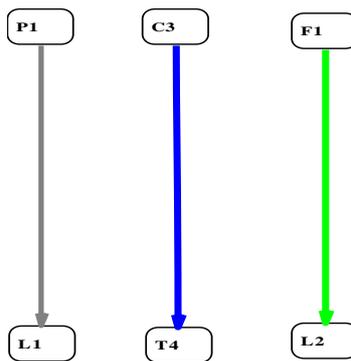
The **hierarchical dendrogram** (Fig. 2) portrays the hierarchical relationship among variables in order of importance. Furthermore, the hierarchical dendrogram depicts the direction of the hierarchical relationships identified. The concomitant implications are significant at 99% significance level.

The first hierarchical clustering refers to variables P1-pivotal role and L1-economic growth (cohesion: 0.946). Specifically, the hierarchy P1-L1 (cohesion: 0.946) indicates that the presence of the variable P1 conditions the presence of variable L1. The second clustering depicts the linkage of variables L3-personal fulfillment and T1-flexibility (cohesion: 0.724). More specifically, the hierarchy L3-T1 (cohesion: 0.724) demonstrates that the presence of variable L3 conditions the presence of variable T1. The third cluster is related to the hierarchical linkage between items C2-unemployment and C1-skilled workforce, (cohesion: 0.664), indicating that the presence of variable C2 conditions the presence of C1. The fourth hierarchical cluster, presenting the strongest cohesion (cohesion: 0.988) is related to variables C3-aging population and T4-policy convergence. In detail, the hierarchy C3-T4 relationship indicates that the presence of variable C3 conditions the presence of T4. The fifth hierarchical cluster refers to the variables C4-innovation and T2-employability (cohesion: 0.436), demonstrating that the presence of variable C4 conditions the presence of T2. The sixth hierarchical cluster refers to variables F1-funding by the state, L2-social justice and T3 quality assurance (cohesion: 0.362). More specifically, the hierarchy F1-L2 (cohesion: 0.92) shows that the presence of variable F1 conditions the presence of L2. Additionally, the hierarchy F1-L2- T3 (cohesion: 0.362) demonstrates that the presence of variables L2 and F1 conditions the presence of T3. The last hierarchical clustering is related to variables F3-funding by individuals and F2-funding by stakeholders (cohesion: 0.624), indicating that the presence of variable F3 conditions the presence of F2.



**Fig. 2** Hierarchical Dendrogram

Finally, the **implicative diagram** portrays the relationships between variables (Fig.3). Specifically, the implicative diagram presents three interrelation chains, which are as follows: P1-> L1, C3-> T4, F1-> L2.



**Fig. 3** Implicative Diagram

In the implicative chain P1-> L1, the presence of variable P1 (pivotal role) implies the presence of variable L1 (economic growth). In the implicative chain C3-> T4, the presence of variable C3 (aging population) implies the presence of variable T4 (policy convergence). Finally, in the implicative chain F1-> L2, the presence of variable F1 (finance by the state) implies the presence of variable L2 (social justice). It should be noted that the results from the implicative diagram come in line with the results of the hierarchical diagram.

## 4. DISCUSSION

The results of the present study entail significant implications, in that they indicate a coherency of the political discourse in addressing various issues associated with LLL policy in the EU.

Precisely, the first cluster (Cluster A), depicting the similarity relationships among variables related to LLL’s pivotal role (P1), economic growth (L1), funding by individuals (F3), innovation (C4) and employability (T2), provides compelling evidence as to the central role attributed to LLL in fostering a growth policy in the EU. In detail, all similarity, hierarchical and implicative diagrams, have indicated that there is a strong interrelationship between variable P1 (pivotal role) and L1 (economic growth), denoting that economic growth is highly conditioned by the endorsement of an integrated policy agenda in which LLL has a pivotal role to play. In effect, the human capital rationale, presuming LLL to be a *conditio sine qua non* for sustainable growth and social stability (de la Fuente and Ciccone 2002, Psacharopoulos and Patrinos 2002), has been systematically informing EU policies since 2000. As posited by Jones (2005), the agenda launched by the Lisbon European Summit with ‘a fanfare of trumpets’, actually signified a substantial shift in the relationship between education and politics, with education becoming the lever for boosting the policies endorsed to stimulate economic growth.

Furthermore, what is noteworthy implied by our results is the fact that this growth policy tends to be increasingly associated with funding patterns that rely on individuals (F3), in the face of retaining their ‘employability’. In this regard, it needs to be stressed that the impetus for encouraging individuals to invest in their own learning may signal the ushering in of new schemata, with LLL becoming a global commodity (Green 2002), while serving the purpose of preparing a ‘homo ergaster’ flexible and employable, forced to learning for life, not however in line with personal interests and often at his own expense (Panitsides 2013b).

What is more, the rising demand for innovation (C4) has been indicated to condition employability of the workforce (T2). Apparently, in the light of the global race for talent and innovation, employment tends to be highly dependent on those skills and competences that may attribute competitive advantage to organizations and economies. As suggested by the qualitative analysis of political texts, the dominant concepts in EU political discourse are associated with ‘competitiveness’, ‘innovation’, ‘efficiency’, ‘effectiveness’ ‘quality assurance’, while a high premium has been put on the ‘-ility’ word group (flexibility adaptability, employability and mobility), denoting discontinuity and instability in individuals’ working and personal lives. In this respect, Coffield (1999) has argued that the rhetoric developed over the last decades around LLL is rather diversionary, as it advocates “flexibility” and “employability”, legitimating escalating demands of employers, intensification of workloads, retreat from the policy of full employment and reduce of public expenditure on welfare measures. LLL actually tends to signify part of a strategy through which “active citizens” are mobilized in support of their own destinies, wherein the state acts as a monitor and regulator rather than provider of services (Edwards 2002). In this context, being a participant in LLL appears to be mostly promoted as a moral obligation rather than as an opportunity, with ‘learning a living’ becoming the norm (Biesta 2006, Walker 2009, OECD 2005).

Additionally, our results have recorded a strong interconnection between an individual’s development and fulfillment stemming from his/her participation in LLL (L3), and flexible learning structures and contexts (T1) (Cluster B). In effect, flexible structures which integrate the different streams and levels of education and learning, may substantially enhance accessibility and encourage participation in LLL, allowing thus individuals

to build upon prior learning, and link competences and qualifications gained both from leisure and working life contexts, inside or outside formal education and training.

Flexibility may also account for combating the main challenge of the current decade associated with inflating unemployment rates (C2), which was actually indicated by the hierarchical dendrogram to be highly dependent upon catering for a skilled workforce (C1). Actually, according to Cedefop's (2010) projections, skills needs for the next decade show that technological change will increase the demand for high and medium qualified at the expense of low-qualified individuals. Even in occupations that used to require mostly low-level skills the landscape is changing, a fact which signifies that for low- and unskilled workers it will be rather difficult to find employment in the future.

A further challenge imposed within the EU concerns the swiftly aging population. In 2013, 18.2% of EU population were over 65 years old (Eurostat 2013), whilst future projections indicate that the number of people over 60 will nearly double by 2025 (Muenz 2007). Our findings have advocated that in tackling the exigencies of the aging phenomenon, it is a mandate for member states to commit to a convergence policy, with LLL undertaking a weighty role to play. In effect, the strongest hierarchical linkage in the study has been recorded between the aging population (C3) and policy convergence (T4), highlighting that the interdependencies among member states have been growingly reinforced, pointing thus to closer cooperation and coherent policies as the only means in confronting arising socioeconomic problems.

Finally, what is noteworthy in the third similarity cluster (Cluster C) is the intense relationship between social justice (L2) and funding by the state (F1), implying that in order to enable LLL to play a decisive role in reinforcing a social justice agenda in the EU, it is necessary to ensure that there is adequate public financing of LLL initiatives. Hence, it can be argued that the widely articulated priorities of 'widening of access to knowledge and skills' and 'inclusion' should be not limited to the rhetoric level, as there is growing evidence that disparities in participation in LLL have been continually growing in benefit of the 'included' and not the 'unincluded' ones (Edwards and Nicoll 2001, Macrae, Maguire and Ball 1997, Walker 2009). As a consequence, if LLL is to live up to its potential as a powerful lever for structural change, providing all citizens with a wide range of skills in order to flexibly adapt to a rapidly changing and highly interconnected world, reinforcing equity and inclusion, the tendency recorded in political discourse for a de facto shift towards private financing schemata has to be suspended.

## 5. CONCLUDING REMARKS

Our two level analyses have indicated that political discourse patterns evolving around LLL have dramatically changed since 2000, identifying a substantial shift in the relationship between education and politics. In this context, LLL has been assigned a strategic role in providing for an 'up to date' workforce, with a better skills match and 'flexible' enough to adapt to changing labor demands, so as to enable EU remain a strong global actor. Hence, in an increasingly 'Europeanized' space of education, discursive patterns have been evolving mainly around three axes: i) increased accountability within a quality assurance framework, ii) a strong mandate for LLL to respond to labor market needs, iii) new financing schemes either through rolling the cost away from the state to social partners or to individuals themselves.

Our findings come in line with relevant literature, arguing that the description of LLL and the purposes it serves are undoubtedly both inclusive and expansive (Walker 2009). However, whether the rhetoric on inclusion bears a substantial meaning is an issue widely disputed. Despite a humanistic façade, earlier aspirations have been increasingly washed away in EU documents, moving from a somewhat idealistic social justice to a more utilitarian HCT based model (Borg and Mayo 2005, Schuetze 2006). In effect, LLL tends to evolve into a means that diminishes the public sphere, undermines educational activity, introduces new mechanisms of self-surveillance and reinforces the view that failure to succeed is a personal responsibility (Crowther 2004). In this vein, Negt (2012, quoted in Rasmussen 2014), advocates for the necessity to redirect EU strategies and institutions to include social justice, while he points out that driving flexibility too far might signify the fragmentation of identities and energies that make work meaningful and provide a sustainable basis for productivity, bringing about the exact opposite results than those expected.

It might therefore be high time to move beyond the present limitations in LLL practices and develop more ambitious and unambiguous policies for proliferating economic prosperity and social justice. This entails disentangling from the 'naïve' rhetoric developed over the last decades that LLL, entrenched in narrow economic considerations, is a wonder drug which, on its own, will solve a wide range of economic, social and political ills (Coffield 1999, 2000). Consequently, if LLL is to be perceived as a lever for growth and social justice, as the 'holly grail' in helping EU citizens restore their functionality in swiftly changing environments, at personal, professional and social levels, and not as the 'Trojan horse' of modern enslavement in a vicious cycle of professional and/or ontological insecurity (Giddens 2001), it has to be 'unhooked' from unilaterally serving

‘employability’ and ‘commodification’ schemata, ensuring that it will assume its active and redistributive role, while countenanced by adequate public financing.

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# THE ECONOMIC CRISIS AND ITS IMPACT ON MUNICIPAL ENTERPRISES: THE MUNICIPAL ENTERPRISE “WATERFALLS OF EDESSA”

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## ABSTRACT

The economic crisis and recession that the Greek economy is going through has significantly influenced all the socio-economic factors of the country.

The adverse economic circumstances have a negative impact on the municipal enterprises, which were established during the past twenty years in a different, much better economic environment. The municipal or communal public benefit enterprises offer services on several domains: social protection and solidarity, education, sports, civilization, environmental protection, etc. Their main objective is to support the local societies and economies.

In January 2014, a research was carried out in order to measure the impact of the economic recession on the operation of municipal enterprises. The field of the research is the Municipal Enterprise *Waterfalls of Edessa*, in the Municipality of Edessa. The choice of this particular case study was based on certain criteria: it is a municipal enterprise that has been operating for more than five years and its aim is to utilize the area's important and famous touristic resources.

The research was first based on the financial data of the enterprise and afterwards it was completed by the means of thorough interviews.

The research leads to several conclusions which show that the economic recession has brought the municipal enterprises into a difficult position and consequently they are compelled to limit their social contribution. Furthermore, the research analyses the impact on the different components of the municipal enterprise (reduction of personnel, merging or shutting down departments, lack of funding and liquidity etc.)

## KEYWORDS

Economic crisis, Municipal Enterprises

## JEL CLASSIFICATION CODES

H75, H70, R58

## 1. INTRODUCTION

The municipal enterprises in the E.U have a special value. This value derives from the total macroeconomic figures that they administer. There are sixteen thousand (16,000) municipal enterprises (Dexia, 2004) registered in the European Union, up until 2005, with a total turnover of 140 billion euro and 1,1 million employees. At the same time, though, the municipal enterprises play an important, if not fundamental, role in the local development and also in the provision of services that improve the quality of the citizens' lives. The European municipal enterprises are engaged in several domains that could be listed in eight (8) main fields (Campbell C., 1982): economic development, tourism, civil development and public infrastructure, urban water supply and energy production, provision networks, protection of the environment, transportation, telecommunications and other services, representing on the whole more than 30 areas of jurisdiction. Most of these enterprises traditionally belong to the domain of local administration.

The ever expanding role of the Organizations of Local Administration (OTA) included, mainly since the 90s and forth, the field of social policy. This expansion derived from converging trends on both central and local level. The institutions of Local Administrations, being by definition closer to the level of emergence and thus to the level of better handling concrete social issues (family, neighbourhood etc.), are in a vantage position compared to other public institutions to exercise politics on a social level. Because of the highly anthropocentric nature of these politics, Local Administration tried to assume responsibilities compatible with the intrapersonal nature of political relationships on local level. Inversely, the central government, trying to control and surpass the so called “local government is critical times” stress –that is the ever growing inability for central efficient

management of the countless application and technical problems-, tried to delegate administrative issues to local institutions.

The number of the certified municipal enterprises varies significantly from country to country: from 60 in Slovenia to 2,400 in Poland and with more than seven countries having more than 1,000 (Germany, Finland, France, Greece, Italy, Poland, Sweden).

As stated in a recent study by United Cities and Local Governments «UCLG», (Boyd, D. 2009) which advocates for democratic local self-government, the weak level of control that local authorities have over their own resources and their strong degree of dependence on transfers from the State makes their situation even more fragile in times of crisis, since for budgetary reasons, national governments reduce, slow down or simply eliminate the amounts allocated for local authorities (Martinez et al. 2009, p.5).

The crisis has begun to promote efforts to target benefits more precisely. How has the financial crisis in Europe affected local governments? How have they and their national governments responded?

Answers are the purpose of this stocktaking (Boyd, D., 2009), conducted with the help of country surveys by members of CDLR and CEMR and a pool of independent observers, together with presentations at two Strasbourg conferences. Some conclusions are clear. From the surveys and from data published by Eurostat and Dexia we know that:

- ✓ Local budget revenue contracted in real terms in most Council of Europe member states surveyed over the period 2008 to 2010.
- ✓ The fall was due chiefly to declines in tax revenues (including shared taxes), particularly in 2009.
- ✓ In 2009 revenue falls were cushioned in many states by compensating increases in intergovernmental transfers, either for general budget support or for “fiscal stimulus” capital programs, but this intervention lessened in 2010. In 2011 transfer reductions have intensified in states affected by sovereign debt crises (Greece, Ireland, Italy, Portugal and Spain) and were introduced in Romania and the UK in medium-term programs to reduce national budget deficits.
- ✓ Local public services have suffered from reduced funding but not commensurately. There have been efficiency gains while capital expenditure has been widely deferred.
- ✓ Local budget expenditures on social welfare and support have increased as a result of economic pressures on households and will continue to do so as the proportion of the population over 65 maintains its rise.
- ✓ But future developments are far from clear. We do not know:
- ✓ When economic growth will resume. A weak recovery in 2010 has been halted in much of Europe during 2011 by the expansion of the sovereign debt crisis and threats to the Euro; even German growth halted in the second quarter.
- ✓ Future trends in commodity prices and their impacts on local budget revenues and expenditures.
- ✓ Impacts of the crisis and its aftermath on governance, including the ability of individual governments to sustain austerity measures and possible extension of E.U influence on national and local fiscal management.
- ✓ Effects on society and their incidence on different groups.

We also do not know what else will happen to destabilize the environment within which local budgets operate. The unexpected is sure to happen.

The declining route of subsidies began in 2010 when austerity measures were imposed. The decline became rapid in 2011. The delegation of responsibilities towards the Local Administration was reduced by 4, 9% in the European Union.

Despite the fact that the past two years subsidies were limited, 2009 was a year during which revenues blasted off by 6, 7%, in the context of a plan whose aim was to strengthen and economically support the local authorities by increasing subsidies in order to cover operational needs and investments. The plan also included the activation of emergency subsidies, of equilibration mechanisms and the also the creation of new capital for purchasing equipment etc.

In 2010, and especially in 2011, the cuts on the budgets of the central governments –a result of austerity policies and of the severe crisis of the fiscal dept- contributed in the reduction or “freeze” of transfers for investments (-9%), the reduction of operational expenses (-4, 3%) from central government to the local authorities. In 2010, subsidies for investments were reduced (-6, 5%), while the current subsidies appear to be relatively steady (+0, 2%) (Central Union of Municipalities and Communities of Greece, 2013)

## **2. RESEARCH BACKGROUND AND METHODOLOGY**

In Greece, according to the census of 2004 by PETA (PETA, 2006), there were 1,800 municipal enterprises with an annual turnover of approximately 500 million € and 35,000 employees. In the number of the employees we should add more than 10,000 people, elected or not, who participate in the Administrative Councils held by the municipal enterprises. One of the particularities and at the same time one of the biggest problems for the Greek municipal enterprises is the high percentage of idle companies. Although the turnover of the municipal

enterprises is increasing, the worrying fact is that the total result (profit minus damage) is damaging for all the municipal enterprises. Damages have been increased by 65% during the past three years.

The ability of the Local Administration Organizations (OTA) to exercise social policy is institutionalized by the regulations of the new Code for Municipalities and Communities on the sector of social policy (article 75 of the Law 3463/2006) (Rallis I., 2009). OTAs are in the position to administer, on an organizational and operational level, the expanded context of social activities either by establishing self-sufficient legal persons (legal person governed by public or private law, that is Municipal Enterprises or Civil Non-Profit Companies) or by setting up Social Service (Institute of Local self-administration, 2006)

The existence of adequate resources is an absolute prerequisite for exercising efficient Social Policy on a self-administrative level (Institute of Local self-administration, 2006). The problem of inadequate funding for OTAs in our country is much more complex than the problem of inadequate resources for self-administrative social services and the way these resources are allocated to the Municipalities. This issue is a subject of endless concern (Institute of Local self-administration, 2006)

In almost all the countries, the income of the Local Administration institutions comes from their own profits and by governmental fiscal transfers from the local government (and by state governments in federal systems) (Nickson A., 2010).

The economic crisis that Greece is going through during the past five years has undoubtedly influenced the operation of the municipal and communal enterprises. In the midst of this adverse situation, municipal enterprises are expected not only to withstand the economic difficulties but also to respond to all the requirements and to the increase of demand for services of social solidarity, despite their limited staff.

Obviously, the municipal and communal enterprises play a key role in the establishment of social cohesion as well as in the foundation of the proper circumstances for sustainable development in local level, through their policies and interventions. However, the Greek authorities do not seem to value their significance. Two years ago the Greek government launched the program “Callicrates” (Law 3852/2010) which brought the OTAs of first degree to a financial dead-end, to bureaucratic dysfunction and administrative overload. As result, the citizens’ service is inefficient and the social and development purposes of OTAs are not met.

The local administration has suffered from the crisis more than any other public institution. Its resources are reduced by 60%, the staff is limited, the position of its elected members is degraded, its infrastructure and operation is in danger and many employees have been fired (Central Union of Municipalities, 2013). A study on the minimum municipal expenses has shown that regular subsidies cover only 50% of the minimum expenses that the local administration institutions need to operate (Central Union of Municipalities, 2013). The evolution of the staff in municipal and communal enterprises in 2013, compared to the rest of the public sector, is presented in the following table.

Table 1: Evolution of employment in Public sector/OTAs in 2013

<b>Employees’ evolution</b>	<b>2012</b>	<b>2013</b>	<b>Decrease</b>
Public sector	629.101	603.319	-25.782 (-4,09%)
OTAs	94.380	85.638	-8742 (-9,26%)
OTA’s percentage	15,0%	14,2%	

Source: Register of employees in the Greek Public Sector (<http://apografi.yap.gov.gr>)

The deficit of OTAs for the years 2009-2010 reached 569 million €. However, the following years OTAs presented a surplus of 693 million €. According to the Ministry of Domestic Affairs this fact is explained by the increase of the institutions’ own income and more particularly by State fees, taxes, rights, provision of services etc.

Table 2: Deficit – Surplus OTA 2009 – 2012 in million euros

<b>Year</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
General Government	<b>-36.166</b>	<b>-23.715</b>	<b>-19.869</b>	<b>-17.414</b>
Central Government	-35.543	-26.185	-18.839	-15.876
Local Administration Organizations (OTAs)	-84	-569	496	693

Source: ELSAT

For all those reasons the municipal and communal enterprises have begun to turn to structural changes, promoting and implementing different models of administration unlike those that prevailed the past years. The purpose was to limit their expenses and reintroduce the provision of its services. The aforementioned aims are to

be accomplished though the utilization of European and national funding programs, the cooperation with several local institutions and with the private sector, the partnership with volunteer acts for social and environmental initiatives, the investments on local development (tourism, civilization, local products etc.)

A case study was conducted in order to examine in practice the actual situation and the position of the Municipal Enterprises, which provide Greece with social and developmental benefit. More particularly, the chosen enterprise is the Municipal Enterprise “Waterfalls of Edessa). The choice was based on the criterion of the existence of developmental background and resources.

In order to meet the needs of the research, we gathered data and fully recorded the profile of the enterprise. On a second level, we prepared an appropriate questionnaire that was completed by the director of the enterprise. The purpose of the questionnaire was to examine the consequences of crisis on the Municipal Enterprise.

The questions, carefully chosen for the needs of the research, are about the degree at which the activities of the Municipal Enterprise have been affected by the economic crisis. They are also about the funding inadequacy, the state of the employees, the investment needs, the provided services and the future expectations.

### 3. RESEARCH FINDINGS

The Municipality of Edessa founded the Municipal Welfare Enterprise of the municipality of Edessa (DI.KE.DE), following the merger of the “Municipal Welfare Company of the municipality of Edessa” with the denomination “Intervention” {Paremvasi} with the "Municipal Welfare Company for the Vegoritida of the Municipality of Vegoritida ". The merger of these two companies was conducted on the legal basis of Article 109 of Law 3852/2010 and was completed with the publication of the relevant Government Gazette issue, which constitutes the statute of the company.

The objective of the enterprise pertains to the realization of activities which positively contribute to the economic growth rates of the region, while simultaneously its aim is to promote and exploit the wealth-producing resources of the region through its entrepreneurship and to provide high quality services to the citizens and visitors of Edessa. Likewise, the multiplying effect of the intervention in the creation of new job posts should be added to all the aforementioned, fact that is achieved through the continuous re-investments of the company benefits in the region (promotion-advertising-public relations). The Company is governed by a Board of Administration; it equally has a director and heads of departments, while its cooperation with the people of local associations and institutions is excellent.

Financial information about DI.KE.DE. was recorded on the spot in the context of a visit. The following table shows the revenue and the corresponding costs for the years 2011 - 2012

Table 3: Revenue-Expenditure DI.KE.DE. 2011 – 2012 (in €)

Department	Expenditure		Revenue	
	2011	2012	2011	2012
Culture	602.747,39	612.134,89	279.500,00	287.885,00
Sports	107.121,40	108.748,90	16.000,00	16.480,00
Social Policy	53.592,40	55.969,06	843.400,00	868.702,00
European Programs	600.061,63	618.081,19	10.500,00	12.150,00
Environment and Cultural Tourism	153.295,42	155.485,42	2.000,00	3.000,00
Administration- Disposal Operation	614.581,76	623.206,76	1.151.400,00	1.186.717,00
Total	2.131.400,00	2.173.626,22	1.151.400,00	1.186.717,00

The level of funding from the Municipality of Edessa to the DI.K.E.D.E. concerns the difference between the respective expenditure and revenue of the Municipal Company.

Table 4: Level of funding 2011-2012 (in €)

	2011	2012	Total
Expenditure	2.131.400,00	2.173.626,22	4.305.026,22
Revenue	1.151.400,00	1.186.717,00	2.338.117,00
Funding from the Municipality	980.000,00	987.909,22	1.966.909,22

The following conclusions were made by the interview along with the data collected:

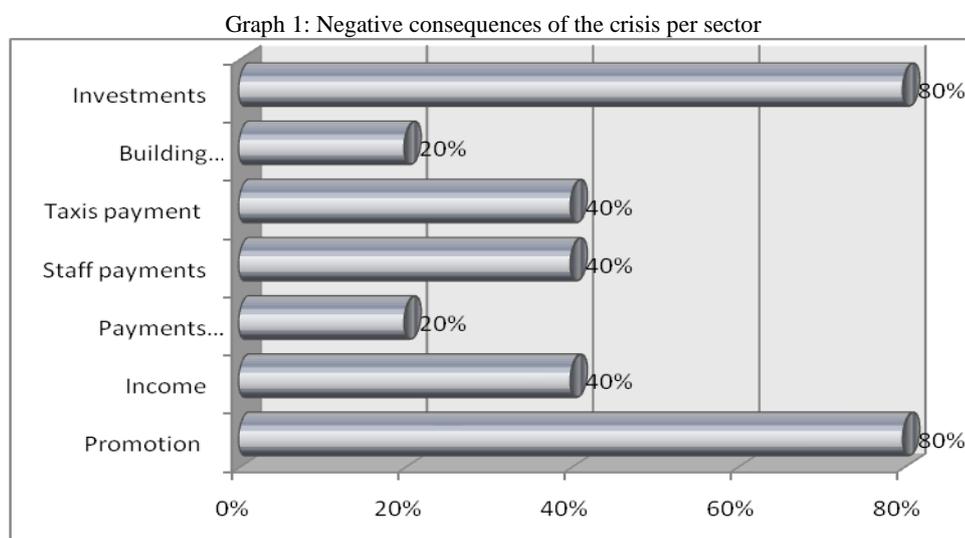
The economic crisis and the deep depression to which the Greek economy is subject, have negatively affected, and to a varying degree, the activities of the Municipal Enterprise “Waterfalls of Edessa”. Specifically, promotion has been decreased by 80%, while the revenues have declined at a significant rate of 40%.

The enterprise managed to be fairly consistent in the payment of its obligations while the difference from previous years pertains to a delayed payment by 20%. The cooperation with the Economic Service of the Municipality of Edessa is most problematic as there are no regularly scheduled disbursements for the coming years. The funding from the Municipality of Edessa was not sufficient enough to meet the needs of the Municipal Enterprise “Waterfalls of Edessa” for the years 2013 and 2014. The income of the Municipal Enterprise is likely to suffice, after cuts and following a prudent management, for efficient operation in 2014.

The allowances of the staff, as well as the yield of taxes and social security contributions are affected; there was a difficulty, fact that has led to their limitation and the delay in their payment by a percentage of 40% in comparison with previous years, prior to the economic crisis.

The maintenance of buildings is affected to a lesser degree than the other functions and sectors. The investments, which the enterprise implemented for development purposes, have been almost suspended. The liquidity and funding problems have forced the enterprise to limit its investments to 80% compared to the pre-crisis period.

The negative consequences of the crisis upon the Municipal Enterprise are displayed in the following graph:



The Municipal Enterprise has reduced, during the last five years 2010-2014, the number of its employees due to the impact of the economic crisis. The executive personnel do not suffice to cover the need of the Municipal Enterprise’s full operation.

There are needs for buildings (maintenance/repairs) which cannot be satisfied due to the lack of revenue while the Municipal Enterprise cannot equally cover its needs in equipment due to the lack of economic resources.

The Municipal enterprise, despite the difficulties it faces, tries to cover all the needs for the services it provides, with its existing resources, while these needs are constant. A program of promotion / advertising of the Municipal Enterprise exists and is currently implemented, although it has been significantly reduced because of the depression. Despite the current economic conditions, the estimates show that an increase in tourist flow may occur in the Municipality of Edessa.

With the change in the economic environment, which has become difficult, particularly for municipal enterprises, it has been estimated that the weakest among them will be forced to close.

Finally, the strategy employed by the Municipal Enterprise in order to affront the existing problems and exploit opportunities and possibilities includes:

- ✓ The primary strategic direction, which is the tendency of producing integral products and services as opposed to simply consuming.
- ✓ Encouraging and reinforcement of the local production capacity on a level of products and services.
- ✓ Integration of structures presenting cultural heritage and capital in European projects for financing the fixed assets by ensuring a reduction in operating cost on the basis of agreements with cultural associations and groups.
- ✓ Support of activities or upgrading through the development of multifaceted athletic events (Routes of Water, Routes of Cherries) for an additional active diffusion of information to specific target-audiences.
- ✓ Support of the primary sector of the local economy through the integration of respective activities in the cultural events (Peach, Cherry, Kiwi festivals).

- ✓ Support of the secondary sector of economy and integration of the former in respective activities (Routes of Water, Cherries) on the basis of local raw materials (identified agricultural and livestock products, wood) in order to develop local processing industries and entrepreneurship.
- ✓ Organization and set up of a database in line with technological development and diffusion of the usability of the Internet for promotion, information and self-education. The existence of valuable tourist resources and the development of forms of tourism like skiing, mountain, lake, mountaineering and nature tourism, create employment opportunities in the tertiary sector, as well as in the establishment of new areas of cooperation.
- ✓ Support through the development of information of modern organizational forms of enterprises and businesses within the aim of establishing economies of scale and improving the economic multipliers which constitute additional opportunities to improve the competitiveness of the region.

#### 4. CONCLUSIONS

The municipal enterprises in the E.U have a special value. They play an important, if not fundamental, role in the local development and also in the provision of services that improve the quality of the citizens' lives. The European municipal enterprises are engaged in several domains that could be listed in eight (8) main fields (Campbell C., 1982): economic development, tourism, civil development and public infrastructure, urban water supply and energy production, provision networks, protection of the environment, transportation, telecommunications and other services, representing on the whole more than 30 areas of jurisdiction. Most of these enterprises traditionally belong to the domain of local administration.

The economic crisis that Greece is going through during the past five years has undoubtedly influenced the operation of the municipal and communal enterprises. In the midst of this adverse situation, municipal enterprises are expected not only to withstand the economic difficulties but also to respond to all the requirements and to the increase of demand for services of social solidarity, despite their limited staff.

Obviously, the municipal and communal enterprises play a key role in the establishment of social cohesion as well as in the foundation of the proper circumstances for sustainable development in local level, through their policies and interventions. However, the Greek authorities do not seem to value their significance as they have brought the OTAs of first degree to a financial dead-end, to bureaucratic dysfunction and administrative overload. As result, the citizens' service is inefficient and the social and development purposes of OTAs are not met.

The local administration has suffered from the crisis more than any other public institution. Its resources are reduced, the staff is limited, the position of its elected members is degraded, its infrastructure and operation is in danger and many employees have been fired.

It seems really difficult for the municipal enterprises to achieve their goals given the fact that the changes of the past years are rapid when it comes to the employees (huge wave or retirements, sparing status, premature retirements, big cuts in wages etc.) and the lack of possibility to renew the personnel (restriction or prohibition for recruitment).

The economic crisis and the deep recession the Greek economy is going through have negatively influenced, at various degrees, the activities of the Municipal Enterprises. More particularly, promotion has been limited, revenue has been considerably reduced, payments are often delayed, the allowances of the staff, as well as the yield of taxes and social security contributions are affected and investments for developmental reasons are inhibited.

The municipal and communal enterprises have begun to turn to structural changes, promoting and implementing different models of administration unlike those that prevailed the past years. The purpose was to limit their expenses and reintroduce the provision of its services.

The aforementioned aims are to be accomplished through the utilization of European and national funding programs, the cooperation with several local institutions and with the private sector, the partnership with volunteer acts for social and environmental initiatives, the investments on local development (tourism, civilization, local products etc.)

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# HUMAN RESOURCES DIMENSIONS: AN APPROACH OF GREEK MANAGERS

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## ABSTRACT

The present research study explores the human resources dimensions as they appear in the current economic Greek reality. The responses of 150 managers and employers to the LLEHUREDE Scale, which depicts the impact of Lifelong Learning on Human Resource Development, revealed a number of considerable dimensions. The hierarchy of those dimensions, as well as their inter-relationships, emerged through the implementation of the implicative statistical analysis. Results brought to light new pathways for the development and management of human potential.

## KEYWORDS

Human resources, human resource development, management, lifelong learning, economic situation

## JEL CLASSIFICATION CODES

O150, M100

## 1. INTRODUCTION

Difficult economic situations, including economic crisis are common in various historical eras all over the world. In recent years, important focus was put on the European countries among which on Greece. Quite often, economic crisis in Greece has been considered to be a home-made problem and thus, reflecting a country that was consuming more than it was earning rather than as a regional case among the different countries within the euro area with growing divergences and imbalances in total performance (Tsakolotos, 2010). Instead, it was also true that Portugal, Spain and Malta were experienced a growing deficit. Indeed, the case of Greece has attracted the attention, not only of the European Commission but also of economists, councils, financial organizations, banks worldwide mainly in terms of fiscal policies. Even though, many analyses of the Greek problem has been concentrated on the social issues and development strategies, some of which suggesting important solutions (Karagiannis & Kondeas 2012), unfortunately, little attention was paid to human resources and this mainly limited to statistical data and unemployment indicators.

The focus on human resources instead of the financial ones describes the different direction of the present research study opposite to the other similar studies where financial terms are overemphasized. In addition, the main consideration of this research was that the solution to the difficult economic situation depends on the human resources development. To this direction, critical questions raise such as: what beliefs and attitudes would managers and employers have to face difficult economic situations? How lifelong learning could influence human resources? Which corporate strategy could support the facing of difficult economic situations? Answers to this kind of questions were the content of the scope of the present research.

## 2. THE MAIN AIMS OF THE RESEARCH

The main aims of the present research study were to investigate how the impact of lifelong learning on human resources development could upgrade the development and management of human potential and which human resources dimensions could add value to the gaining of competitive advantage among enterprises and organizations which decided to face difficult economic situations in a dynamic way.

The selection of a sample concerning enterprises and organizations dealt with extroversion confirms a unique approach towards facing of difficult economic situation under the belief that exports is the solution to the problems appeared due to difficult economic situation.

### 3. RESEARCH METHODOLOGY

#### 3.1 Sample

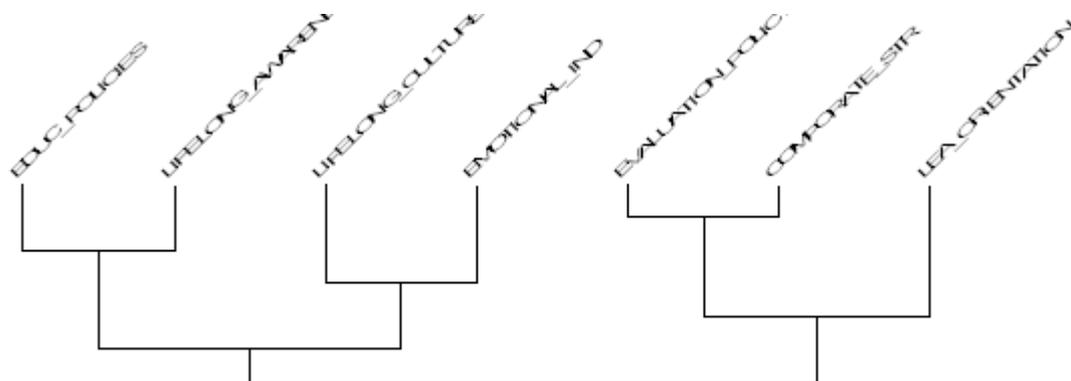
The research population consisted of Greek managers and employers from enterprises and organizations already involved in exports, those with a mediator role in export processes and those companies having plans to export in the near future. From this population, 150 managers and employers were randomly chosen to constitute the sample of the present research study. The main demographic characteristics of the research sample, investigated in the present research, were gender, age and job position. Concerning the gender, 96 (64%) out of 150 were men, while the remaining 52 (34.7%) were women and the 2 (1.3%) of them did not give a response. The age distribution of the research sample was as follows: 9 (6%) were in range 18-29 years old, 35 (23.3%) were 30-39 years old, 64 (42.7%) were 40-49 years old, 40 (26%) were 50-59 years old, 2 (1.3%) were 60-69 years old. Referring to job position, 3 (20%) respondents were involved in managerial activities, 33 (22%) in financial issues, 11 (7.3%) in production, 5 (3.3%) in computer and information technology, 7 (4.7%) in supportive services, 2 (1.3%) in educational and training services, 3 (2%) in product position issues, 2 (1.3%) in quality issues, 38 (25.3%) in sales, the 2 (1.3%) in marketing, 5 (3.3%) in consulting services and finally, 12 (8%) in a variety of other issues.

#### 3.2 Methodology

In order to find out the human resources dimensions which characterized the managers and employers of the research sample, the Statistical Implicative Analysis (SIA) was chosen to be applied on the LLEHUREDE scale, as it is a data analysis method applicable to various research areas and disciplines and can provide frameworks for evaluating the strength of implications (Gras & Kuntz 2008). The LLEHUREDE scale depicts the impact of Lifelong Learning on Human Resource Development. Its validity and reliability was thoroughly investigated and its outline consisted of seven factors entitled: Awareness of lifelong learning; Attitudes towards educational, training and development policies; Culture of lifelong learning; Corporate strategy, value system and ethical perceptions; Evaluation policy of the participation in educational programmes; Learner orientation towards lifelong learning; Emotional identity of the learner in relation to lifelong learning (Giossi 2013; Giossi 2012a; Giossi 2012b).

### 4. RESULTS

According to the Statistical Implicative Analysis (SIA), and more precisely, from the Similarity diagram (Diagram 1), seven factors seemed to determine the boundaries of the LLEHUREDE scale (Giossi, 2013). These factors are: Educational, training and development policies (EDUC\_POLICIES); Awareness of lifelong learning (LIFELONG\_AWAREN); Culture of lifelong learning (LIFELONG\_CULTURE); Emotional identity of the learner in relation to lifelong learning (EMOTIONAL\_IND); Evaluation policy of the participation in educational programmes (EVALUATION\_POLIC); Corporate strategy, value system and ethical perceptions (COMPORATE\_STR); Learner orientation towards lifelong learning (LEA\_ORIENTATION).



Arbre de similarites : C:\Users\Drasi5\_PC7\Desktop\stella 3 chie\_Besv

Diagram 1: Similarity Diagram

The investigation of the possible correlations among the factors Awareness of lifelong learning, Culture of lifelong learning, Emotional identity of the learner in relation to lifelong learning, Corporate strategy, value system and ethical perceptions, Evaluation policy of the participation in educational programmes, Learner orientation towards lifelong learning and Educational, training and development policies showed the following (Table 1):

The factor LLL\_AWARENESS appeared a significant positive correlation with the factors EDUC\_POLICIES ( $r=0,205$ ,  $p<0.01$ ), LLL\_CULTURE ( $r=0,366$ ,  $p<0.05$ ), COMPORATE\_STR ( $r=0,182$ ,  $p<0.05$ ) and EVALUATION\_POLIC ( $r=0,196$ ,  $p<0.05$ ). To this point, it is important to note that the correlation between the factors LLL\_AWARENESS and LLL\_CULTURE ( $r=0,366$ ) was the highest and the most significant concerning the correlation of the factor LLL\_AWARENESS with the other remaining factors of the LLEHUREDE scale.

On the contrary, the factor LLL\_AWARENESS did not appear a significant positive correlation with the factors LEA\_ORIENTATION ( $r=0,118$ ,  $p>0.05$ ) and EMOTINAL\_IND ( $r=0,025$ ,  $p>0.05$ ).

The factor EDUC\_POLICIES showed a significant positive correlation with the factors LLL\_CULTURE ( $r=0,309$ ,  $p<0.01$ ), COMPORATE\_STR ( $r=0,455$ ,  $p<0.01$ ) and EVALUATION\_POLIC ( $r=0,363$ ,  $p<0.01$ ).

It is also important to note that on the one side, the correlation between the factor EDUC\_POLICIES and the factor COMPORATE\_STR ( $r=0,455$ ) was the highest and the most significant concerning the correlation of the factor EDUC\_POLICIES with the other factors of the LLEHUREDE scale, while on the other side, the factor EDUC\_POLICIES did not show a significant positive correlation between the factors LEA\_ORIENTATION ( $r=0,088$ ,  $p>0.05$ ) και EMOTIONAL\_IND ( $r=0,125$ ,  $p>0.05$ ).

Also, significant and positive appeared the correlation of the factor LLL\_CULTURE with the factor COMPORATE\_STR ( $r=0,322$ ,  $p<0.01$ ), with the factor EVALUATION\_POLIC ( $r=0,283$ ,  $p<0.01$ ), with the factor LEA\_ORIENTATION ( $r=0,165$ ,  $p<0.05$ ) and with the factor EMOTIONAL\_IND ( $r=0,193$ ,  $p<0.05$ ).

In addition, the correlation between the factors LLL\_CULTURE and COMPORATE\_STR ( $r=0,322$ ) was the highest and the most significant in relation to the correlation of the factor LLL\_CULTURE with the other factors of the LLEHUREDE scale.

The factor COMPORATE\_STR showed a significant and positive correlation with the factor EVALUATION\_POLIC ( $r=0,589$ ,  $p<0.01$ ) and with the factor LEA\_ORIENTATION ( $r=0,246$ ,  $p<0.01$ ). Moreover, the correlation between the factor COMPORATE\_STR and the factor EVALUATION\_POLIC ( $r=0,589$ ) was the highest and the most significant concerning the correlation of the factor COMPORATE\_STR with the other factors of the LLEHUREDE scale. Unlike, the factor COMPORATE\_STR did not appear significant correlation with the factor EMOTIONAL\_IND ( $r=0,064$ ,  $p>0.05$ ).

The factor EVALUATION\_POLIC appeared a significant and positive correlation with the factor EVALUATION\_POLIC ( $r=0,237$ ,  $p<0.05$ ). On the contrary, the factor EVALUATION\_POLIC did not appear significant and positive correlation with the factor EMOTIONAL\_IND ( $r=0,034$ ,  $p>0.05$ ).

Finally, the factor LEA\_ORIENTATION did not show significant and positive correlation with the factor EMOTIONAL\_IND . ( $r=0,111$ ,  $p>0.05$ ).

Table 1: Correlations of the factors of the LLEHUREDE Scale

	LLL_AWARENESS	EDUC_POLICIES	LLL_CULTURE	COMPORATE_STR	EVALUATION_POLIC	LEA_ORIENTATION
EDUC_POLICIES	$r=0,205^*$ , $p=0,012$					
LLL_CULTURE	<b><math>r=0,366^{**}</math></b> , $p=0,000$	<b><math>r=0,309^{**}</math></b> , $p=0,000$				
COMPORATE_STR	$r=0,182^*$ , $p=0,026$	<b><math>r=0,455^{**}</math></b> , $p=0,000$	<b><math>r=0,322^{**}</math></b> , $p=0,000$			
EVALUATION_POLIC	$r=0,196^*$ , $p=0,016$	<b><math>r=0,363^{**}</math></b> , $p=0,000$	$r=0,283^{**}$ , $p=0,000$	<b><math>r=0,589^{**}</math></b> , $p=0,000$		
LEA_ORIENTATION	$r=0,118$ , $p=0,152$	$r=0,088$ , $p=0,285$	$r=0,165^*$ , $p=0,044$	$r=0,246^{**}$ , $p=0,002$	<b><math>r=0,237^*</math></b> , $p=0,003$	
EMOTIONAL_IND	$r=0,025$ , $p=0,760$	$r=0,127$ , $p=0,120$	$r=0,193^*$ , $p=0,018$	$r=0,064$ , $p=0,438$	$r=0,034$ , $p=0,677$	$r=0,111$ , $p=0,177$

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

## 5. CONCLUSION AND DISCUSSION

The statistical implicative analysis offered valuable implications and offered a framework of seven human resources dimensions which were: Awareness of lifelong learning; Attitudes towards educational, training and development policies; Culture of lifelong learning; Corporate strategy, value system and ethical perceptions; Evaluation policy of the participation in educational programmes; Learner orientation towards lifelong learning;

Emotional identity of the learner in relation to lifelong learning. The importance of these dimensions was pointed out through the correlation of each factor with the other remaining factors. Taking into account the highest and the most significant correlations the inter-relationship of the human resources dimensions could be explained.

The correlation between lifelong learning awareness and lifelong learning culture depicts the fact that up to what point managers and employers are aware of what lifelong learning is and which its main aims are, the shaping and implementation of a lifelong learning culture is feasible. That is obvious as culture includes shared tacit assumptions learned and taught to the members of a group as a response to external adaptation and internal integration (Schein 2009) and culture change in terms of human resource development definition (Phillips 2003) can be easily connected to job related skills, education to preparation for the next job and development which constitute a great part of the content of lifelong learning.

The correlation of educational, training and development policies with corporate strategy, value system and ethical perceptions represents their close relationship as corporate strategy includes the management of human resources where decisions about education, training and human resource development concern its vital role. Furthermore, corporate strategy as a strategy has a long term direction and its appropriate decisions as strategic ones are closely related to the achievement of competitiveness (Johnson & Scholes 2002).

The correlation between lifelong learning culture and corporate strategy, value system and ethical perceptions can be explained through the link of both with the human potential.

Also, the correlation between corporate strategy, value system and ethical perceptions and evaluation policy of the participation in educational programmes are congruent with the management of human resources.

Finally, as managers and employers are the main determinants of the shaping of corporate strategy and culture as well as of the decision making concerning the management and human resources development the formulation of these seven human resources dimensions is of great value. Therefore, the awareness of managers and employers of the meaning and benefits of lifelong learning can help them to embody lifelong learning culture in the corporate strategy and put emphasis on the education, training and development of human resources concerning them essential to the survival of enterprises especially in difficult economic situations

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# LESSONS FROM THE PAST: HOW TO CREATE INVESTMENT CLIMATE AND ADAPT IT TO THE CHALLENGES OF THE CHANGING WORLD

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## ABSTRACT

During the transition and post-transition period, through the creation of market-based legal and economic infrastructure, came to appear Serbia's commitment to create an investment climate that should increase foreign capital inflow. This paper examines Serbia's policy in the field of international investment, placing it in the context of new trends in development of international economic relations. The period after the global economic crisis particularly stressed the need for State to take on the role in which accountability to domestic stakeholders and national economy has a greater significance. In such conditions, when national development is compromised and social issues gain importance, clash of interests between host states and foreign investors becomes far reaching from traditional one, which was mainly concerned with making stable conditions for foreign investors to make profit. Through consideration of Serbia's previous experience in creating specific investment climate, this paper focuses on its ability to meet the challenges imposed by international surroundings and its willingness to continue to adjust to new developments.

## KEYWORDS

International investment, crisis, State's social accountability, the creation of new investment climate

## JEL CLASSIFICATION CODES

F63, K33

## 1. INTRODUCTION

In the past Serbia had to deal with a very difficult task of creating favorable conditions for country's economic revival. Its stagnation resulted from socialist economic orientation in which policy of self-sufficiency was followed. Economic sanctions in the nineties, in good part, contributed to the deep crisis of Serbia's economy. On the path to find a way to progress and achieve economic growth, Serbia committed its policy to liberalization of economic system and transition from socialist to market-based economy. In this process, foreign direct investments (FDI) were seen as fuel to accelerate and improve such transition. The national economy needed more funds than could be obtained through international aid or loan lines, and FDI were considered to be the best financial resource, not only because they mean capital inflow, but also because of their capacity to have positive effects on business organization of local companies.

In order to attract FDI, the government had to create the environment that would make the country appealing for foreign investments. Priority was to create optimal investment climate, based on numerous legal and economic measures, which would change the landscape of country's economy. Such systemic reforms did give some results, and Serbia was on the path of slow recovery.

However, global economic crisis emphasized certain vulnerable spots, which needed in-depth analysis and a critical approach, which would generate more sensibility for domestic issues. In post-crisis period there were raised concerns that the states are going to reintroduce protectionism, even though such policies in the past lead to negative effects and meant self-isolation. Following previous experiences, one could reach a conclusion that such outcome isn't likely to happen, but it's clear that the role of the national State has to change. Initial role of the State, which was focused on enabling foreign investors to make profit, has to advance to a more complex one.

This paper analyzes why previous practice of the State can only be considered as an onset in internationalization of domestic economy, and why adopted policies related to FDI need to advance. In this analysis, following elements are considered: real impact of FDI inflows on national economy, interests of domestic stakeholders and domestic social issues, links between international investment and non-investment issues and impact of international environment on local market and economic relations.

## **2. FDI IN SERBIA – THE RELEVANCE OF DOMESTIC ISSUES IN INTERNATIONAL ENVIRONMENT**

### **2.1 FDI inflow in Serbia and domestic issues**

Serbia's commitment to create new economic system based on liberal approach and openness to international market was evident in legal framework created in post-socialist era. Economy was transformed to a market-based system, with clearly defined orientation towards making attractive business environment for foreign investors. Realizing that FDI can only have a positive effect on development goals if suitable political and institutional framework is provided, efforts were made to reach that goal.

After the period of socialism, there was a long period of deregulation with emphasis on liberalization of conditions for developing business. It can be argued that the beginning of this transition period was marked by lack of efficiency and functionality in government's actions. This was due to the fact that there was no precise idea about government's role in creation of the new economic system. Instead to correct and supplement the imperfections of market, the State was quite often characterized as limiting factor to efficient market functioning (Anđelković & Petrović-Randelović, 2011). But with time, the State managed to make the investment climate more appealing to foreign investors.

Restructuring of publicly owned companies and privatization were big steps in that direction.

The State also introduced some special measures, such as: tax exemptions, simplifying procedures regarding foreign trade and foreign exchange operations, direct financial support for foreign investment in order to achieve job creation (Anđelković & Petrović-Randelović, 2011).

In the creation of country's investment climate it was taken into account that the local market is small, and has a modest potential with regard to number and financial strength of consumers. This shortage was overcome by conclusion of numerous international agreements. These agreements enabled access to foreign partners' markets to companies operating on Serbia's territory. Of the great importance is becoming party of the CEFTA agreement, signing agreement with EFTA members, free trade agreement with Russia, free trade agreement with Belarus, free trade agreement with Turkey, Interim trade agreement with EU... (Unković & Kordić, 2011).

As for the standards of treatment, Serbia passed the Law on Foreign Investment in which modern tendencies in regulating investors' rights were adopted. Principles such as: freedom of foreign investments, national treatment, legal certainty, conversion of domestic into foreign currency and freedom of payments, right to transfer profits and assets, are all provided by Law. But Law on Foreign Investment goes one step further, and even though it prescribes national treatment, it leaves room for more favorable treatment to be accorded to foreign investors. The Law stipulates that if international or bilateral agreements provide more favorable treatment for foreign investors than the one provided by the Law, than such treatment shall be applied for investors whose home states are parties to those agreements.

Clearly the State has made the effort to create appealing environment for international investments. Subsequent period was marked by greater inflow of FDI, and certain economic growth was noticed, as well as paving a road to macroeconomic stability. But, even though the emphasis is on positive effects of FDI, there is a need to have a more critical approach to the impact they might have. First of all, there is a need to make a distinction between two kinds of capital inflows from abroad: one focuses on investment through participation in the privatization of existing companies and the other aims at opening the new production and trading capacity. Only a second kind could be registered as a real investment. Unfortunately, foreign investment in Serbia so far has mainly focused on participation in privatization. This structure of foreign capital results in small or insignificant impact of investment from abroad in the process of restructuring and modernization of the Serbian economy (Popov, 2010).

If we want more results for the revival of national economy, then we need to reconsider the adopted policies. Making some progress after hard economic period is a good start, but input of foreign capital through privatization should be seen only as good basis for future development. What needs to be taken into account is that it's not just the scope of FDI that is important, but their structure, too. There should be a sustainable plan how to steer investments. Given the fact that technology in Serbia is underdeveloped, and that there is high rate of unemployment, the imperative must be reaching competitiveness of local companies at home state as well as on the international market. National businesses should get more involved and contribute to ongoing economic struggle. But they need a boost, which could be in a form of positive spillovers from FDI. Foreign companies should play their part by involving local ones in different levels of their business operations, or by transferring knowledge and new technologies. But in the past period none of this was done.

The State needs to reconsider future economic goals. What has been achieved needs to be upgraded, and reflect sustainability for upcoming period. Internationalization and foreign influences don't begin where accountability

for domestic stakeholders ends. On the contrary, it is their coexistence that is relevant for creating policy in the field of international investment. This has even greater importance in times of crisis.

Economies across the globe had to deal with economic crisis. The states had to worry not only about progress of their economies, but, more importantly, about their preservation from collapse under the pressure of negative economic influences. The crisis has put emphasis on domestic issues, and struggle that national economies are going through, in which profit of foreign investors cannot be priority. In such conditions, there was justified fear that the states are going to resort to protectionism. But new concepts that can reconcile ideas for competing roles of the State, have emerged.

The idea of economic patriotism can explain how to deal with new challenges. Economic patriotism can be understood as economic choices that are specifically geared to protect the interests of the homeland. It results from the tension between transnational markets and territorially bound political organizations. Politicians continue to be held accountable for economic activity which they can no longer, or which they can only partially, control. Economic patriotism entails a form of economic partiality: a desire to shape market outcomes to privilege the position of certain actors. Economic patriotism implies that the interests of the homeland should weigh more heavily than individual interests in the economic choices of consumers, producers, workers or politicians. (Clift & Woll, 2012).

Theoretical approach to this concept might be questionable, and academics might find arguments to oppose this idea. But, it is not the theory, but practical aspect that should be considered. The idea of economic patriotism gives legitimacy to deficiencies in State's policy, so that public consensus about the need to overcome them, can be obtained. Only then, adopting new policies, with critical approach to the benefits of FDI in context of specific national interests, can be put in motion.

## **2.2 International environment**

The State's efforts to create business environment that reflects economy's openness to the world and international market, shouldn't be understood solely as prerequisite for doing business with foreign partners. This has greater importance, and sets specific position for national State. Open economy tests State's flexibility and ability to adapt to changing world. New developments in international arena have shown that adopted policies and attitude towards attracting FDI need to be reconsidered. This is because national states are not immune to those influences. Relations occurring on homeland are guided by those being created in international market. To simplify: doing business with the world means that its rules apply to all the players, and the State is just one of them.

The global economic crisis has brought new challenges before national states. Initial task that was on the hands of a state – to create stable conditions for foreign investors to make profit, has become more complex. The State must have clear vision of the desired results and defined means and ways to achieve them. It is of high importance to take into account that in times of crisis there is a need for creation of stable institutions and strict rules, but with realizing that if there is need to protect a greater interest of the State, it should be allowed to apply exemptions to those rules. Of course, if this would occur, the State would have to provide solid arguments for applying these specific exemptions. The economic crisis and the collapse of economies around the world, stressed the need for states to ensure, above all, survival of their economies. Not only has the fear of protectionism revived, but also awareness of the state's greater role within its own territory has increased. It has become clear that as the holder of sovereign power, the State is not just the actor who should provide ground for business, but must also deal with the social dimension.

In order to create investment climate which reflects stability in business environment and legal predictability, the State concludes investment treaties which guarantee specific rights and obligations for both the State and foreign investors, during the period of realization of investment. But, in times of crisis, states can be compelled to undertake measures to enable preservation of achieved economic progress, which might alter the treatment accorded to foreign investors. Investors might challenge those measures before international forums for resolving investment disputes. These developments in international investment relations are particularly well illustrated by the example of Argentina. During crisis in 2002 the government introduced economic measures which were necessary to prevent the collapse of the economy and to preserve social peace. Affecting business operations of foreign investors by these measures could hardly be justified among them, so some of the investors raised claims before international forums to challenge them and seek compensation. A decade later, there is a situation in which the public is questioning whether Argentina will be able to pay under arbitral awards. This is a paradox - in which compliance with arbitral award might bring national economy in deeper crisis that it would be before introducing measures that were supposed to ensure economy's survival.

The example of Argentina shows that in turbulent times balancing of competing interests requires special virtue and strength of the participants in relations arising regarding the investment. They face the traditional question that goes to the core of this balance: should investors be allowed to do business and make profit with no regards to specific needs of the local economy, or should the State be allowed to exercise its sovereign powers

no matter what the consequences to rights of investors gained by investment treaty might be. It can be argued that the State is obligated to act in accordance to rules set in treaties it voluntarily entered into. On the other hand, the State's role is not just to be an economic actor, with sole purpose to make conditions for investors to do business. It has more significant purpose, and its accountability isn't just to foreign investors, but also to domestic stakeholders. If the State is justifiably required to introduce measures that alter the achieved balance between mentioned competing interests, it should be allowed to do so. In this, the complexity of the State's task can be identified. If enforcing those measures is not in line with concluded treaties, the State becomes exposed to compensation claims by foreign investors, that may result in awards that could bring national economy in worst state then it was before introducing them. That would mean that the State did not leave enough space to maneuver, and did not have the clear long-term stability plan. This depicts the State's failure in capacity to act as responsible international actor.

Problems raised in disputes against Argentina are important to consider for one more reason. The subject matter of these disputes goes beyond the scope of international investment law. Contemporary investment arbitrations frequently implicate the scope of the regulatory powers of the respondent states and reach well beyond the traditional concerns with compensation of lost assets or lost profit in simple expropriations and nationalizations. Instead a much broader variety of regulatory and public goods disputes has come to be addressed through investment arbitration, ranging from the provision of basic public services such as water and sanitation to the maintenance of public order (Burke-White & Von Staden, 2010).

Changes in the nature of disputes pending before the tribunals are the result of changed circumstances and reflect the impact of the international environment to business relations that occur in countries participating in the global economy.

This investment disputes are very well described as: “private rights, public problems” in which national laws are being revoked, justice systems questioned, and it is all in the name of protecting rights of foreign investment (Puig, 2013). Of course, it should always be recognized that important disputes such as these will always involve significant social interests. Plus, in times of crisis, the sensitivity of the governments to such matters is especially highlighted, and bearing in mind the state of the economy worldwide, it can be expected that even more states will be forced to resort to such, or similar measures.

Changes in nature of investment disputes have shown that the area of international investment law does not just regulate standard of treatment for investors, but also consists of elements of public law. Investment treaty arbitration arguably involves public law obligations and may raise significant issues of public concern (Roberts, 2013). The arbitrations that we would classify a falling within the public law sphere are those in which the outcome – determinative issue in the arbitration requires a determination of the state's power and legal authority to undertake regulation in the public interest. (Burke-White & Von Staden, 2010).

Compliance of the State with international obligations is subject to more public scrutiny, and affects its reputation in international market. This means that relations concerning international investments are not developing in isolation, and impact of international market cannot be disregarded.

Now the State has to prepare for this complex role. In creating open economy it had to adapt its economic and legal system to the requirements of international market. That meant making possibilities for much wider range of business partners to enter domestic economic scene. But, it also meant making national economy vulnerable and exposed to influences which the State itself can no longer control. Even if the State has done a great job at attracting foreign capital, this doesn't mean that legal framework that was created for that purpose, can serve well in times of crisis, when international community is evaluating compliance with international obligations more strictly.

### 3. CONCLUSION

Attracting FDI might be considered as a prerequisite for economic growth. But it is not solely their scope, but their structure, that should also be paid attention to. The State has to adopt such policies that have a more selective approach to the influences from abroad, and goals for national economy which are defined with greater precision, based on long-term stability plans. Those policies must allow all participants to get involved and contribute to economic progress. Specifically, this means that both the State and local businesses must embrace the notion that FDI are not just financial resource, but can be used to improve business performance and competitiveness. While using FDI as means for more comprehensive exploitation of existing economic strengths, the State must not disregard its obligations that are derived from investment treaties. It must at all times be aware of the importance of preserving international reputation. The State has a dual role – it has to create conditions for sustainable economic activity with inclusion of both local businesses and foreign investors, and to do so by showing more sensitivity for specific domestic issues, while honoring internationally obtained obligations. To be able to fulfill this role, the State doesn't just have to change adopted policies that guide attitude towards FDI, but also, to consider adopting new models for investment treaties that would have more precise and coherent

language. That would allow the State to reflect real needs in international documents, while leaving enough space to protect and steer national economy in desired direction.

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# THE AFFECT OF MEDIA IN CONSUMER BEHAVIOUR - A STATISTICAL ANALYSIS

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## ABSTRACT

In the med of the 20<sup>th</sup> century there has been a rapidly increase of products' advertisement in media. In TV, radio, posters in streets, magazines, social media, emails, mail, etc. advertisement spots and messages for new products and services are everywhere. On one side, the consumer is receiving necessary information to buy and use a product, on the other hand combining information with persuasion, affects in human logic and emotion. In this paper, we study the affect of media in consumer behaviour with an empirical analysis conducted in Greece with a sample of 1041 consumers. The purpose of this study is to examine whether the media through advertising can affect consumers and shape consumer behaviour. We present and analyze the responses of this questionnaire.

## KEYWORDS

consuming behaviour, media, statistical analysis.

## JEL CLASSIFICATION CODES

D12; M3

## 1. INTRODUCTION

In this paper we analyze the affect of media in consumer behaviour, that is achieved mostly through advertising. In the mid-twentieth century a major study of the advertising sector began. Nowadays, is impossible for media and business to exist without advertising (Belch, 1998; Dyer, 2004). People find advertisements everywhere, at home when watching TV, in the car listening to the radio, looking at posters on the street, reading e-mails etc.

Advertising is the creation of an original message, that refers to a material or a product and it is shown in the media, with the final aim of motivating the recipient to buy the advertised product (Arens, 1996; Belch, 1998; Dyer, 2004). Everywhere men hears and sees advertisements for new products and services. The implementation of an advertisement today is basic and essential function for every enterprise, which offers significant positive results due to modern technological developments.

The global experience shows the power and role of advertising, which derives from the media. There is no meaning of massive sales of consumer goods, without the projection of them to media, as more emphasis on the uses of the product is given. As an example of the power of media and advertising can be found in the mandatory use of specific dietary products, that change the diet habits, define models for wardrobe and establish dominant consumer streams (Shimp, 1997; Zotos, 2000a; 2000b).

In other words, one of the most direct effects of media affects and advertising is consumerism. Consumerism is the propensity to consume as many goods as possible, apart from the objective assessment of need. People wish to consume without necessary mental and spiritual connection consuming goods like travel, books, art and any activity that is displayed to them through advertising (Papavasiliou, 1991; Siomkos, 2002; Woods, 1981).

To achieve this, advertisement contains information, usually in a compressed, artistically expressed form with emotional tone, which transfers to the minds of potential consumers the most important features and properties of the product. It is necessary to emphasize that advertising is always information, while the information is not always advertising. Advertising transfers the consumer information that is necessary to purchase a product and

offers information on the use of it. On the other hand, it combines information with persuasion engaging in human logic and emotional impact. Advertising is a social-psychological phenomenon that touches all, even the most hidden, aspects of modern man.

In this paper we analyze the aforementioned affect of media and advertising in consumer behaviour, with the conduction of an empirical analysis in Greece. In section 2 the methodology of the empirical analysis is indicated, with the results of the statistical analysis to presented in section 3. Final, section 4 concludes.

## 2. METHODOLOGY

The study was conducted in Greece from December 2013 to February 2014 by the Department of Accountancy of the Eastern Macedonia and Thrace Institute of Technology. The data were collected using a structured questionnaire containing 59 questions. The questionnaires were distributed randomly to consumers in Greece. They were asked to complete the questionnaires anonymously and return them. The 59 questions were divided into four sections. Section 1 consisted of eight questions related to demographic data. Section 2 consisted of 17 questions regarding their habits when watching TV. Section 3 contained 17 questions regarding their habits when watching listening to radio and section 4 contained 17 questions regarding their habits when reading newspapers and magazines. The purpose of each section is to document and analyze the consumers' perception regarding advertisement as a product (if they watch it, if the like the actors, if they like specific products, etc.) and consuming habits (if they are affected to buy a product, if they trust advertisements, etc.). The questions were of closed type, meaning the consumers had to choose from specific answers. The collected data were analysed using descriptive statistics and the program SPSS v18.

## 3. RESULTS

The number of consumers who responded to our questionnaire was 1041 (valid questionnaires) from all regions of Greece. The majority of the respondents are young people, since almost 37% are 20-30, 21% are 31-40, 24% are 41-50, 13% are 51-60 and the rest are more than 61 years old. Almost half are men and half women (see Table 1).

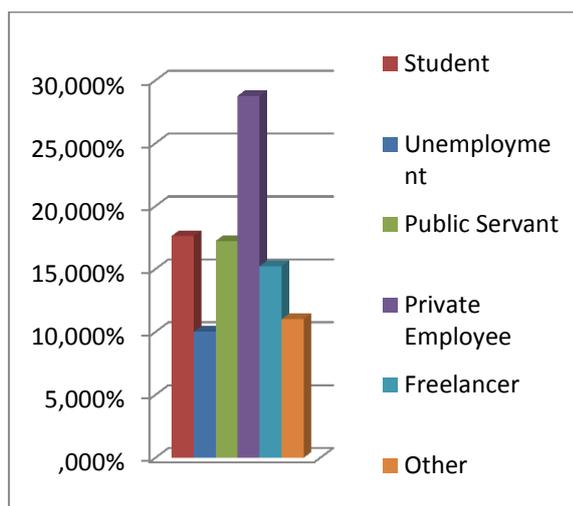
Table 1: Age and Gender

Age	Gender		Total
	Male	Female	
18-30	194	194	<b>388</b>
31-40	119	106	<b>225</b>
41-50	113	138	<b>251</b>
51-60	73	64	<b>137</b>
61+	18	22	<b>40</b>
Total	<b>517</b>	<b>524</b>	<b>1041</b>

The largest percentage of the respondents are residents of the regions of Macedonia, Thessaly and Central Greece. Almost half, 47.64% hold a bachelor degree, 33.90% have secondary education and the rest hold a master or a doctoral degree or they have dropped education.

Regarding their employment, 46.04% of the respondents are private employees or public servants working (Figure 1).

Figure 1: Employment



More than half of the respondents are married. Most of the respondents leave in total with 3-4 members of their families in their houses (56.3%). Only 11.44% leave on their own. In Table 2 the correlation of monthly income and employment status is indicated. As expected, students, unemployed and others (pensioners, people with disabilities who cannot work, etc.) have the lowest monthly incomes. Most of freelancers receive have high monthly incomes. The majority of private sector employees have monthly income of 781-1600 euro and more than half earn more than 1000 euro. One argue that they just cover their basic needs.

Table 2: Income and Employment

Employment	Income					Total
	< 400	400-780	781-1000	1001-1600	>1600	
Student	102	50	21	7	3	<b>183</b>
Unemployed	40	36	11	8	1	<b>96</b>
Public Servant	7	12	35	119	38	<b>211</b>
Private Employee	15	58	101	100	32	<b>306</b>
Freelancer	4	23	40	41	43	<b>151</b>
Other	33	34	16	7	4	<b>94</b>
<b>Total</b>	<b>201</b>	<b>213</b>	<b>224</b>	<b>282</b>	<b>121</b>	<b>1041</b>

Regarding questions for consumers' habits when watching TV, watching listening to radio and reading newspapers and magazines, since it is a quite enough tables and figures, only a few can be presented in this work.

Regarding television, the respondents watch TV 2-4 hours daily and primarily from 9pm and after. They mostly prefer to watch Satellite channels and Web-TV. This is probably because these channels have good and new TV Series and Movies and sports events. It is worth mentioned that Satellite channels have much less advertisements than the others. The respondents declare that they are trying to avoid the TV advertisements, because they are too many and long lasting.

Regarding radio, the respondents are listening to the radio 1-3 hours daily and primarily from 6am until 1pm, preferring private local radio stations. They prefer to listen to music stations, leaving aside other radio broadcasts, since they mostly prefer to get informed by TV and newspapers. As for the advertisements, the respondents have no problem to listen to them, because they are a few and short in duration.

Finally, regarding newspapers and magazines, the respondents are reading one or two per day and, primarily, from 6am until 5pm. They mostly prefer to read domestic and private papers. There is a diversity regarding gender; men prefer to read athletic newspapers/magazines, while women prefer to read fashion magazines. Advertisements are presented with pictures and words, with no motion and sound. So, on the perspective of the

advertisers, they should be very smart and creative to create a good advertisement. The majority of the respondents have replied that they are interested in advertising relating to entertainment, clothing, new technologies and travel and they show particular interest in the text and in the product of the advertisement.

In Table 3, the gender preferences of TV shows are indicated. Men are interested in information programs, sports and series/movies/books, while women are interested in entertainment programs and in series/movies/books.

Table 3: Gender and preferable TV shows

Program	Gender	
	Male	Female
News / information	120	87
Entertainment programs	86	184
Series / movies/ books	156	178
Sports	155	75
<b>Total</b>	<b>517</b>	<b>524</b>

In Table 4, the respondents opinion regarding the most important element of an advertisement is indicated. According to the responses, men believe that the most important element is the song and setup of the advertisement, while women consider as the most important element the actor/actress and the song of it.

Table 4: Gender and most important element of advertisements

Element	Gender	
	Male	Female
Program	77	87
Display channel	72	77
Actor / actress	74	141
Song	141	140
Setup (scene, graphics, theme, location etc.)	153	79
<b>Total</b>	<b>517</b>	<b>524</b>

In Table 5, gender and the content of advertisements are correlated. Men show interest in advertisements related to cars, financial products, personal hygiene and new technologies. On the other hand, women prefer advertisements related to health, cosmetics, housing and clothing.

Table 5: Gender and content of advertisements

Product	Gender	
	Male	Female
Car	79	46
Health	43	53
Grocery	28	43
Cosmetics	14	53
Financial	61	58
Entertainment	45	36

Housing	42	58
Clothing / footwear	37	56
Personal hygiene	57	41
New technologies	69	36
Travels	42	44
Total	<b>517</b>	<b>524</b>

A few summary results of our analysis are indicated. Only 17.5% of the Greeks are suspicious or aware of the advertised products in media. However, 88% responded that they are not affected by advertisements to buy a product. The respondents were asked to reply if they feel comfortable in buying unknown products, which are cheaper than similar branded products. 83% replied that they would not feel comfortable. However, when they were asked if they would buy an unknown product if they had done market research first, 20% said they would buy it and 55% that they would probably buy it. Finally, they were asked what kind of products they have bought from the influence of advertisements and if they were satisfied or not. The majority of the respondents was satisfied with products of clothing, entertainment, health and new technologies and not satisfied with products of cars, cosmetics and travels.

#### 4. CONCLUSIONS

The respondents-consumers prefer to watch TV shows and programs, than listen to radio or read a newspaper. They prefer satellite channels and web-TV, while they prefer private radio stations. During an advertisement the majority changes TV channel or radio station, but in a newspaper or a magazine they read it. When they watch/listen/read an advertisement, they prefer those of health products, entertainment, travel and clothing. They spend no more than 50 euro per month in purchasing these products. The respondents-consumers seem to be certain of their consuming habits and they are not influenced by advertisements, especially in times of the economic crisis.

They believe that advertisements do not present the truth and they are not influenced in buying products they do not know and have tried before. In new and unknown products, they research the market first. They prefer TV and newspapers/magazines than radio to get informed of new products. However, no media affects them to change a product they want to buy. Children are mostly affected by advertisements, especially in TV, and parents are influenced by their children in making their a favor.

Finally, the majority is not affected by media and advertisements and they reply that it is silly, unpleasant and harmful for someone to get affected by an advertisement.

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# GLOBALIZATION IN EUROPE- MEASURING THE EFFECTS IN SEE COUNTRIES

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## ABSTRACT

Examining many different aspects of Globalization, we can easily conclude that in overall terms, Europe has benefited from the openness, free movement and higher flows of goods and services, investment, capital and ideas, and faced an increasingly acute need to facilitate freer movement of high skilled labor. Globalization has given Europe greater access to other nation's markets and resources, while Europe remains the largest trading entity in the world. These gains have not been evenly shared, however, and do not directly benefit every worker, firm, community and state.

Thus, in terms of economy, globalization was said to refer to an increasingly interdependent world. The massive volume and the mobility of world financial capital and International organisations such as IMF, have led nation- states to take a more defensive attitude. Consequently, governments have introduced restrictive fiscal and monetary policies and taken austerity measures for public expenditure and investments, aiming at lower deficits, following the international financial directives.

In Southeastern European countries the structural adjustment that is occurring within the EU's relatively integrated economic space is generating opportunities and threats. The fact is that the economies of Southeastern Europe do not have the ability to cope effectively with globalization. It is not just the unregulated expansion of the neoliberal market economy, it is, also the need to keep a minimum degree of convergence not only in absolute mathematic- economic basis but in deeper social level. Unemployment, inactivity and poverty still affect citizens and huge parts of the society.

The focus of this paper is to describe the multiple effects of globalization in SEE countries, the implementation of neoliberal theories in the social- economic situation.

## KEYWORDS

Globalization, Europe, SEE

## JEL CLASSIFICATION CODES

E50, F6, P3

## 1. INTRODUCTION

Globalization is a process that has resulted in more cross-border trade and foreign direct investments, as well as greater global mobility of people, capital and ideas. Globalization is a new way to describe a very old phenomenon that began when our human ancestors moved out. Different strands of globalization can generate considerably different consequences. Economic globalization can give consumers greater choices at lower costs and might force cosseted industries to compete. Informational globalization through websites might undermine the control of authoritarian governments. Military globalization might enhance the global influence of major nations. Finally environmental globalization might render populations more vulnerable to disease, pollution, or other environmental risks originating beyond their own borders.

The reality is that most people do not understand the difference among these various elements and often think of globalization as a simple phenomenon largely beyond the influence of individuals or nations.

The incredible growth of the world's financial markets during the 1980s and 1990s is frequently put at the centre of theories of economic globalization. From this outlook, economic or financial globalization means something more than a growing influence within domestic economies of the financial dealings of multinational agencies. More important than this is the way that the activities of multinational corporations as banks and other kind of companies have increasingly integrated national markets. The present era of globalization, which really began to take off as the Iron Curtain fell in the 1989. From the 1990's a paradox issue about globalization was the fact that, globalization became the key concept, both in academic debate and in mainstream political discourse.

An example of a previous financial crisis consequence of the rapid speed of the globalization is the result of Thailand's government- central bank monetary policy. In 1997 the government of Thailand was forced to break the long-standing fixed exchange rate between the Thai currency (the bath) and the US dollar, its action precipitated what soon became known as the Asian financial crisis. Of course the Thai economy had enjoyed one

of the highest rates of growth in the world over the previous decade. Although, the explosion of the fixed exchange rate local and foreign investors alike rushed to move their money out of the country (Ravenhill, 2005:4-8).

In terms of the economy then, globalization was said to refer to an increasingly interdependent world. Information, news and knowledge were deemed to be the main source of value in the post-industrial world. In a more favorable climate for investment, capital flows to the developing world would promote growth and reduce poverty. There was thus considerable optimism concerning the global economy, and, indeed, there was a substantial boom in the United States, and a large increase in capital flows to emerging markets in Latin America and East Asia (Kiely, 2005). Some countries and regions did not do so well, such as Japan, much of Western Europe and above all, Eastern Europe and sub-Saharan Africa. But this problem could easily be explained by the champions of globalization. Clearly, the bad performers had not adapted to the demands of globalization, and were adopting bad policies. The correct policies involved embracing ‘global capital markets’, deregulating labor markets, and leaving the state to play a purely facilitating role, such as provision of education and training for the labor market. The uneven development of the 1990s therefore did nothing to dispel the optimism of the supporters of the globalization; indeed, the economic failures reinforced the faith.

Many countries in the 1990s tended to break down into two categories: the countries that made the necessary reforms to attract foreign and domestic investors or to develop their economies in a way to be prepared for any kind of crisis, and those countries that didn’t make the reforms and moved in dangerous paths. Of course this put pressure on developing countries to liberalize their political systems and keep peace with their neighbors so business could carry on peacefully and foreign investors implement their projects (Hamilton & Quinlan, 2008). The result of all these forces and pressures, plus the ongoing cycle of foreign investment and expansion of industrialization, was rapid globalization, not just of economies, but also of cultures in remote areas of the planet that were increasingly being tied to the mainstream.

## **2. THE 2008 FINANCIAL CRISIS**

### **2.1 The kick off**

The financial collapse of September 2008 was foreseeable and predicted by those rare analyses who had no succumbed to the discourse of conventional economics, liberal and others (of the 'left'). This collapse certainly initiated a new period of depression and chaos. And the shape of the system that will emerge is difficult to define precisely with any degree of plausibility. Everything is possible, for better or for worse. It is an open question. Through their successes or failures, political and social struggles will shape the future, which is more uncertain than ever. However, the financial collapse is not only the beginning of the transformations to come. It is also the end of the evolution of the system and of its changes. It is the end, not only of some 20 years of the financial explosion, which is blinding obviously today, but, beyond that, the end of the long crisis that began in 1968-1971 (Amin, 2011).

### **2.2 The consequences**

Almost immediately after the events of the world economic crisis of 2008 and its negative effects on EU economies, there was a huge concern about economic governance in the EU, initiating a widespread dialogue about its improvement. This crisis revealed additional, important, structural problems in the operation of EU institutions. The external debt of many member states, the structural and budgetary deficits and the fragility of their banking system had not been dealt with the required severity in the framework of SGP. Furthermore the crisis added one more problem: the need for liquidity and a bail out mechanism which would not only prevent attacks from speculators but would also guarantee a viable debt restructuring. The EU tried to respond to these challenges by creating new institutions and involving in internal economic affairs the IMF. This involvement was not the first time in history for a member-state of the European Union but it was the first formal “penetration” in Eurozone countries.

On the other hand ECB was not prepared to control and overcome the difficult wave of this systemic crisis. The ECB is a unique supranational organization with powers far beyond what we could have imagined sovereign states would delegate to such an institution. But, the ECB is also notable for being the most independent central bank in the world. Its statute begins by prohibiting the ECB from seeking or taking any directions from “Community institutions or bodies, from any government of a member state or from any other body” (McNamara *et al.*, 2002: 181)

With Germany opposing to the plan of the ECB becoming the lender of last resort and the IMF backing Merkel over this line, the “struggle” between key players and different institutions of similar nature (the ECB for Europe and the IMF, a non-European institution) is set (The European Central Bank (ECB) should not be used as a lender of last resort to national governments, John Lipsky, the International Monetary Fund’s (IMF) First Deputy Managing Director, West, 2011): on one hand, those that are in favour of the ECB’s reinforcement and on the other, a power member state with different interests and a huge historical “luggage” rather than heritage that keeps its leader from listening to the voices of reason that call for immediate actions.

In spite of this deadlock, a temporary solution was found: ECB introduced its longer-term refinancing operations (LTROs), which gives European banks an unprecedented opportunity to refinance themselves with a maturity of three years. In two major operations in December 2011 and February 2012, the ECB injected €1019 billion through LTROs into European banks (Sander, 2012).

Seven years later, in fall 2011, Eurozone crisis came to its peak with markets' unrest and fear for sovereign defaults within the common currency area becoming uncontrollable. Today after a long period of instability few things have occurred and less reforms have been implemented to avoid a new wave of financial instability. Therefore, there is a demand for alternative politics to be implemented.

### 3. EU – SEE AND GLOBALIZATION

Globalization has given Europe greater access to other nation's markets and resources, while Europe remains the largest trading entity in the world. As an emergent “super state” the EU both encourages and seeks to resist processes of globalization. The EU has long sought to encourage the formation of the European multinational corporations that can compete in global markets with those of the USA and Japan in particular. Nevertheless, national governments remain important actors in processes of economic governance and regulations, including the attraction of FDI (foreign Direct Investments) from abroad (Peck & Yeung, 2003).

The European Commission- DG Economic and Financial Affairs (2009) in the report “Five Years of Euro” underlines with sharpness the truth about the global position of the EU and its role as a global institutional economic actor. With regard to the external representation of the EU - and, in particular, of the euro area - in the Bretton-Woods Institutions, several observers as Bini-Smaghi, (European Commission, 2009: 27) have emphasized that the representation could be strengthened if some consolidation were to take place. The current state of fragmentation means that the EU punches below its global economic weight in multilateral fora. This is the main reason why, despite their large aggregate voting share and large number of seats in the IMF the EU countries are perceived as being less influential than the United States, which has only about half the aggregate quota of the EU. In this context, the increasing economic weight of the emerging market countries feeds a growing perception that Europe is over-represented, in terms of both seats and aggregate voting power (European Commission 2009) which in turn increases the pressure for reforming the Bretton Woods Institutions. Additionally, the creation of EMU for many politicians and scientists was a step forward to a more stable macro-economic environment that would protect countries from any speculative currency attacks and would be also a safe way to create growth and employment (Helleiner et al, 2005: 163-166). All these were assumption of a pre-Euro period that unfortunately led to different results not only for countries with domestic structural problems as Greece, but also in countries like Ireland, Italy and Spain. The fears came true and the safe economic and financial environment of EU and Eurozone became, four years after 2008, a zone of domestic deregulation, cut backs to the welfare state, and new constraints on states ability to address unemployment and other social and economic problems.

Although, capitalist development in Europe was and remains uneven, whereas American capitalism has developed in a fairly uniform way throughout the Northern American area, at least since the Civil War. Europe, to the west of historic Russia (which includes Ukraine and Belarus), is itself composed of three unequally developed sets of capitalist societies (Amin, 2013).

- *European region are not “European”; they are still strictly “national,” that is to say, German, British, Swedish, etc., even though their businesses are trans-European and even transnational (carried out on a worldwide scale).*
- *Italy, Spain, and Portugal in which that same dominant model—currently, that of generalized-monopoly capitalism— only took shape much more recently, after the Second World War. Because of this, these societies retain peculiarities in their forms of economic and political governance that obstruct their rise to equality with the others.*
- *Comprising the countries of the former “socialist (Soviet-style) world” and Greece, is not the base for any generalized monopolies proper to their own national societies (Greek shipowners being a possible exception, though their status as “Greeks” is highly questionable). Until the Second World War, all these societies were far from constituting developed capitalist societies like those of the European core. Afterward, Soviet-style socialism suppressed still further their embryonic national capitalist bourgeoisies, replacing their rule with a state capitalism having social, if not socialist, features. Having become reintegrated into the capitalist world through membership in the European Union.*  
(Amin, 2013: 90-91)

### 4. CONCLUSION

Most of the new EU and SEE countries are already highly integrated into the EU economy through trade flows, the EU representing their main trading partner with a share of around 60-90% of both exports and imports

(this is much less so for the CIS countries). In addition, most EE countries (including Russia) are relatively open economies, which render them highly vulnerable to deteriorating conditions on exports markets.

A close examination reveals that Europe in general has clearly benefited from all of these strands, but sometimes quite unevenly. Europe's trade flows have been redirected towards rapidly rising consumption-oriented developing nations. Foreign investments flows to and from Europe have been quite robust over the past decade, boosting the competitiveness of corporate Europe and the EU in general. Financial globalization has also been a benefit to the EU. One key result has been the euro's rise and popularity. The rising mobility of skilled labor along Europe's periphery has taken on added importance in terms of promoting economic growth and addressing the EU's own looming shortage of skilled labor. Globalization has boosted European economic growth. Some European nations are world leaders in innovation, information and R&D, while others lag badly. In short, globalization is a good news story for Europe, but if one reads beyond the headline, it is clear that globalization poses challenges for particular European stakeholders and especially for those you haven't sufficient and stable economies (post communist countries).

In general, northern European countries are well positioned to deal with globalization, thanks particularly to their efficiency in education, their focus on high tech products, and their innovation framework. Most are competing less head on with rapidly developing countries. Moreover the export sector of northern European economies are geared towards fast growing products, and most have large trade surpluses in services, which is likely to remain a key area of European competitiveness. Nordic countries are performing well in every economic sector.

On the other hand EU member and potential member state from southern and eastern Europe are having a harder time coping with globalization because they score below average on all indicators. Not only do these countries tend to be competing head on with rapidly developing nations, they also have less inherent strength to deal with the challenges.

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# ASSESSING THE PERFORMANCE OF ALTERNATIVE MUNICIPAL SERVICES PROVISION IN GREECE: COMPETITION AND CO-OPERATION UNDER THE CONSTELLATION OF BUREAUCRACY

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## ABSTRACT

Presented empirical research analyses and evaluates the viability and effectiveness of the alternative institutional arrangement for municipal services provision in the distinctive environment of Greek local government. The alternative provision appears to lead to cost reduction and quality improvement in the majority of the case studies being analyzed, assuming however the appearance of a series of determinant factors of services performance, relating to the level of the competition and mainly the establishment of relations of trust, mutual collaboration, engagement and common culture among the partners and the stakeholders.

## KEYWORDS

Local government reform, alternative provision, efficiency, consultation, competition, social capital

## JEL CLASSIFICATION CODES

D61, D73, P11

## 1. INTRODUCTION: Theorizing efficiency under the reform pendulum of Greek local government: the odyssey of a forgotten value

Efficiency in the Greek local government, as a notion, comprises on its own a national paradox. Despite the fact that, throughout the past 25 years, it consists of a basic rhetoric and priority of all the reform programs and governmental commitments for the Greek government, it always ends up being incorporated into regulations of minor importance. In essence, a national void is observed in the estimation of the level of performance of Greek public services, in terms both of productivity and efficiency, so as in the presence of mechanisms and tools for efficiency improvement. Efficiency develops again particular interest both due to the strained financial crisis in Greece and the need that arises for cost constraint of the provision of municipal services and the simultaneous development of innovative models covering the growing needs of citizens.

Historically, the Greek local government efficiency comprises a point of reflection and study, both pre-war and in post-war initiatives and projects for the reform of the public sector in Greece. Questioning the operation and efficiency of the mechanisms of central government and local government, although in the majority of cases it is not an independent issue, rather one in the context of promotion and decentralisation of the Greek state and democratisation of local government, however, it comprises an area where, over the years, the necessity for improvement and modernization have been highlighted (Makridimitris and Michalopoulos 2000 and Konsolas, 1997). The provision mechanisms of alternative service provision in Greece are evaluated as flawed and ineffective in all cases in respect of state reform, from Varvaressou's report on the Greek economy to the recent initiative of Kallikratis's reorganization (Makridimitris and Michalopoulos 2000 and Maistros, 2009).

The ascertainment of the need for improvement and modernisation of the provision mechanisms of municipal services in the Greek local government is timeless. An approach however, which through the connection of the efficiency issue with the need for promoting both decentralisation of the central government and democratisation of the local government, resulted in the degradation of the acknowledgement of the role and contribution of the mechanisms improving and evaluating efficiency. Efficiency of the municipal services in Greece is analysed and

incorporated to the debate on modernisation of local government as an aspect of actions and initiatives, improving the operation of municipalities either in the context of implementation of technical and development projects of national programming at a local level, or in the context of undertaking initiatives for the improvement of the financial management and administration of the local government. A national framework of local government reform led to the downgrading of efficiency concept incorporation into the tools of government and the relevant regulation (Maistros, 2009).

Despite the significant lack of national empirical studies and evidence regarding Greek local government efficiency, the results of the available reports and researches present a distinct view of limited efficiency, in terms of productivity and effectiveness of the municipalities (Dexia Bank, 2011). This limited efficiency is reflected in the low standing that Greece holds both on a European and international level in areas such as the efficiency of municipal services provision, which are poorly rated in Europe, the operational cost of municipalities and the association between operational cost of the local government and the number of workforce (Bouckaert and Halligan, 2008, Shah, 2012 and Van de Walle, 2005). Respective low rates are observed in the operation of the Greek local government in a series of determinant factors of efficiency, such as the cost of bureaucracy and red tape, the degree of deregulation of municipal services, the quality of local governance, the adoption of change management principles and tools, the degree of fiscal decentralization, the utilization of e – governance services, the incorporation of auditing in municipalities and the management by objectives. Barriers to efficiency and innovation in the Greek local government also cause wider characteristics of the national social capital, such as public confidence in local government, inter-sectoral trust, corruption, network governance and participation in deliberative institutions (Paraskevopoulos, 2000 and Karakatsoulis, 2011).

In essence, both on a theoretical and empirical level, the problem of efficiency in Greece, is predominantly a problem of governance (Tatsos, 1999). These governance issues include the necessity for further assignment of authorities and resources from the central to the local state, the promotion of pragmatic multi-level governance, the modernization and simplification of local government audit and supervision, and the strengthening of its strategic planning and evaluation mechanisms. Reform initiatives including the incorporation of strategic planning in municipalities, the evaluation of municipal services provision, the implementation of program budgeting, the reduction of administrative burdens, the promotion of inter-municipal and multi – level co-operation and the development of co-operation with the private sector (OECD, 2011). Reforms focus on the improvement of municipal efficiency, through the modernization of the existing governance and management arrangements at local level and the promotion of a new philosophy of local government organization, adjusting to the pressures of fiscal austerity and the growing demand for quality services for citizens and enterprises.

These barriers to the efficiency of the Greek local government emerge from the existing model of local government organization and regulation, as well as from the wider resistance to change, which consist in a national characteristic (Maistros, 2009). The local government restructuring in Greece is considered to be incomplete, despite recent relatively successful reform initiatives for its modernisation, most notably on a level of further democratisation and decentralisation of competences of the central government at prefectural and municipal level (OECD, 2011 and Featherstone, 2008). Maintaining centralisation especially in terms of funding, taxation, revenue and fiscal autonomy of the local government, combined with the increased bureaucracy particularly on a level of costly central control and monitoring of the of municipalities and prefectures operation, cause a setback to efficiency improvement. Resistance to change, an aftereffect of the lack of co-operation, consultation and trust in the objectives and the reform inactions, as well as the limited administrative capacity of municipalities to implement them, lead to the perpetuation of efficiency performance. A restriction to the success of the reforms, which apart from policy design and implementation deficits, is caused from social capital limitations as the sustained low rates of trust, citizens participation, innovation adoption and governance regimes and networks performance (OECD, 2011 and Featherstone, 2008).

The efficiency crisis of Greek local government can be theoretically analyzed according to the theory of the new governance. Local government crisis, caused from the inability of the existing institutional and governance arrangements to support local development challenges and satisfy emerging citizens and social needs, the ineffectiveness of which diminishes municipal efficiency. A new local governance paradigm, which despite its national variations, appears to consist the leading and increasingly diffused international model for public services reorganisation, characterized from a new special place of private in policy making and especially in policy implementation (Hood, 2006). Partnership with the private sector comprises the main political choice for the provision of efficient public services and the cost constraint of their operation. Moreover, the development of partnerships contributes towards the introduction of expertise and innovation to the public sector and the inflow of new private sources of funding for the provision of public services. The participation of the private sector is promoted through the development of partnerships, the inter-sectoral provision of services, and the provision of services by private contractors and in the context of policy networks (Agranoff, 2004).

Correlating the scope of implementation and the principles of the new governance theory with the environment and the efficiency problems of the Greek local government, its explanatory value is quite apparent. The crisis of efficiency in the Greek local government can be theoretically explained through two basic levels of

theoretical analysis. The incompleteness of authorities' delegation from central to local state, particularly those of funding and taxation, limits the organizational capacity and flexibility of municipalities, impairing both the effective regulation of distinctive local needs and the performance of municipalities. This institutional ineffectiveness is further enhanced by the substantial lack of networks and mechanisms of multi-level governance and co-ordination (Karakatsoulis, 2004 and OECD, 2011). In direct connection with this institutional inefficiency of Greek local government, lie the inadequate integration and implementation of modern tools and mechanisms of governance, on a level of provision of municipal services and implementation of public policies at local level (OECD, 2011). The incorporation of these alternative mechanisms for municipal services provision and the promotion of citizens and stakeholder participation at the management of the municipalities have proven to be troublous.

## **2. METHODOLOGICAL FRAMEWORK FOR THE ASSESSMENT OF ALTERNATIVE PROVISION PERFORMANCE IN GREECE**

Based on the above mentioned factors determining the efficiency of municipal services in Greece, current empirical research analyses efficiency issues in respect with the institutional choice of the alternative models selection by municipalities (Yetimis and Marana, 2005). The empirical and evidenced based analysis of the efficiency of the alternative provision in Greek local government comprised a complex task. A complex and difficult task of efficiency assessment, due to the inadequate record keeping of performance and management data from the Greek municipal authorities, the restricted publicity and accessibility of the data and the lack of previous relevant empirical research. The extent of the research sample concerns 28 municipalities and totally 89 services contracts, which have been assigned to individuals during the period 2012-2014 and which originate from 11 different categories of municipal services. In terms of the institutional models examined, four particular forms of alternative provision are evaluated under the scope of the research, such as the contracting out, concession contracts, public – private partnerships and hybrid partnerships with private and public partners.

Overcoming the restrictions specified previously on finding empirical data, the comparative analysis between municipal and alternative – private provision of municipal services, was based on the quantitative and qualitative analysis of a series of specialized independent and dependent variables assessing the alternative provision of municipal services. Variables emerged from the extensive analysis of international bibliography and their harmonization with the particular environment of organization and operation of the Greek local government (Boyne, 1998, Fernandez, 2009 and Wollmann, 2008). The selected independent and dependent variables of the research analysis based on both quantitative and qualitative data (Patton, 2008). Apart from the quantitative data and official evidences, a qualitative research was conducted between 2012 – 2014 for the analysis of independent and dependent variables and factors affecting the performance of alternative provision in Greece. In the context of qualitative research, 86 semi - structured interviews and 3 focus groups were conducted, while 282 questionnaires were filled in by involved parties and recipients of services, with a response rate of 32%.

## **3. COMPARATIVE ASSESSMENT OF ALTERNATIVE PROVISION EFFICIENCY AND IMPACT**

Continuing with the evaluation of the impact and effects caused by the introduction of private sector in the provision of municipal services, a definite reduction of the cost of municipal services provision through alternative models emerges, which, however, requires further analysis in respect of the factors reducing the cost (Boyne, 1998, Ferris, 1986 and Fernandez, 2009). Cost of provision reduction varies between 8 and 24%, a strong sectoral differentiation and despite the presence of increased transaction cost and bureaucratic barriers to private sector participation. It should also be noted that the fact that limitation of the provision cost of services, in the majority of the case studies and according to the results of the qualitative research, did not result in a simultaneous deterioration of the quality and the accessibility of the provided services, a common problem as well as accusation in cases of private provision of municipal services.

According to Table 1 in areas of municipal services where constraint of cost of provision occurred, the greatest benefits emerged through treatment and supply of drinking water with substantial, however, issues in respect of the quality of the provided service in one out of the three case studies, waste management and recycling, followed by maintenance of street lighting and small-scale energy production from renewable sources. The cost of maintenance of municipal infrastructure and premises also appear to be reduced, while management of previous municipal undertakings, such as municipal car parking and maintenance services of the municipal fleet vehicles, and have also been reduced at around 20%. Significant limitation of the provision cost between 15 and 19% was also noted in areas of the administrative support services, such as accounting services, IT services, project management and training programs, services which are beyond the traditional categories of technical services and which municipalities most commonly assign to private sector. In the area of social services, the cost

constraint was of a lower scale, of a range between 5 and 10% with substantial, however, issues in respect of the quality and accessibility to the provided service, accessibility that was limited in some instances by 30% of the total beneficiaries.

Examining distinctively the crucial issue of quality and accessibility to the services provided by individuals, statistically and in the majority of the case studies, the assignment of services provision to individuals does not appear to have led to deterioration of the quality and the accessibility to services (Edwards, Shaoul, Stafford, and Arblaste, 2004). In contrast, in a substantial number of cases of around 60%, the quality was improved based on the views expressed by the beneficiaries and the engaged parties of the services, excluding the employees of the municipal authority, which was priorly competent for the service provision, who at the vast majority (80%) consider that the quality of the service has deteriorated and therefore, competency should be restored to the municipality. Social services comprise a clear exception, as a clear view of quality deterioration of the provided services is observed.

Accessibility of the delegate services is of particular interest, since except from the case of social services where their provision by private sector led to a reduction of the beneficiaries between 10 and 25%, in almost all the rest of the areas, accessibility by residents was enhanced. Increase of the citizens being served by recycling services, increase of roads being lightened and the incorporation of new estates to the municipal drinking water network are indicatively referred to. It is therefore observed, in respect of the efficiency of the alternative provision in the Greek local government, a direct link between the degree of complexity of the provided service by individuals and the rate of the constraint of the provision cost, always in association with issues of quality and accessibility to services, which are comparatively examined in the context of the particular research.

Table 1. Qualitative and quantitative results of the empirical research

Service	Number of case studies	Efficiency	Efficiency range	Quality	Accessibility	User satisfaction
Waste management and recycling	18	+ 22%	10 – 25%	improvement	improvement	improvement
Cleaning services	12	+ 21%	10 – 30%	improvement	improvement	improvement
Catering services	8	+ 19%	15 – 22%	improvement	downgrading	downgrading
Vehicles maintenance	8	+ 20%	18 – 28%	-	improvement	improvement
Water provision	2	+ 120%	90 – 150%	improvement	improvement	downgrading
Social services	7	+10%	-10 – 18%	downgrading	downgrading	downgrading
Administrative support / IT services	10	+15%	10 – 21%	improvement	unchanged	improvement
Infrastructures management	9	+21%	10 – 25%	improvement	unchanged	improvement
Street lighting	4	+50%	30 – 60%	improvement	improvement	improvement
Energy production	6	+27%	20 – 33%	improvement	unchanged	improvement
Parking facilities	5	+12%	5 – 20%	improvement	improvement	improvement

In consistency with the degree of complexity and the constraint of a service provision cost the factors regarding the size and the location of the municipality are placed, for which, however, a reversal of international experience is observed, namely rural and small municipalities illustrate a higher percentage of reduction of the provision cost for municipal services provided by individuals (Boyne, 2000, Bouckaert and Halligan, 2008 and Savas, 2000). This fact, according to the illustrative results of the empirical research, is due to the increased cost of the previous municipal provision, which resulted from the lack of differentiation of the cost policy of the small and rural municipalities in comparison with the large and metropolitan municipalities, which resulted in an increased asymmetry between workload and provision cost, mainly salary costs, equipment usage and fixed costs.

Based on the above, consistency between the metropolitan location of the municipality and the increased cost constraint of the private provision of services does not provide from the results of the empirical research, despite such connection being documented in international bibliography (Fernandez, 2009). That national differentiation comprises two characteristics of the current organization of the municipal services among the metropolitan areas in Greece. First of all, from the comparatively higher degree of unionization of municipal employees in metropolitan areas, compared to rural and semi-urban, which acts as a barrier in respect of the participation of private contractors to the provision of municipal services? A second source of that national differentiation consists in the size and the administrative capacity of the municipalities, which due to their size fulfil more adequately their residents' needs for services, compared to the problems of adequate budgeting and administrative capacity that smaller municipalities face. The degree of fiscal pressure of municipalities appears

to impair the provision cost, as from the empirical research it emerged that there is correlation between the degree of constraint of the available funding of the service provided and the reduction of the provision cost. Financial pressure impact is channeled to the private contractors’ solution selection, being imprinted within the service provision contracts, through the incorporation of references about meeting particular quantitative mainly provision standards, providing the service according to the limited available budget.

Correlation is also observed between the reduction of the cost of provision and the extent of private participation in a municipality. In municipalities with a larger percentage of delegation of services from the municipalities to private sector, the cost savings appears to be higher, mainly due to the capacity of the municipality to effectively monitoring the execution of the contracts and the trust based relations being developed among the partners. On a similar basis, reaped delegation of a particular service to private contractors or the extension of existing contracts also leads to cost reduction, estimated to be 5% higher compared to the individual assignments and the first assignment to private contractors, for reasons that also relate with the development of trust among partners, the progressively more effective understanding of the real needs of the provided service and the development of specialized skills for monitoring the provision contracts, by relevant staff and organizational units of the municipality (Fernandez, 2009 and Bell, 2008).

Continuity in the leadership of the municipal authority and the re-election of the municipal authority that originally promoted private sector participation, also contribute towards the increase of the efficiency of the alternative municipal services provision. Political leadership appears to also have two non-discrete parameters influencing the efficiency of alternative service provision. The first parameter relates to Mayors’ working experience, which appears to operate in favour of the efficiency, when associated with Mayors’ working experience in the private sector. Supplementary to the stability and continuity of the municipal authority, the degree of political consensus in the administration of the municipality is also beneficial, as in case studies where the decision for private provision of particular municipal services was made with increased majority and with no objections made by the opposition, cost constraint appears to be greater, due to the lack of protests and conflicts. Of particular interest are the elements that demonstrate the lack of effect in the selection and operation of the alternative provision by the political ideology of the municipal authority. An uncommon political neutrality regarding a politically strained model of local government reform and especially in an environment of particular politicization, as the political competition of the Greek local government.

In contrast according to Table 2, the degree of employees’ opposition appears to be in contradistinction with the level of cost reduction of the alternative service provision. The management capacity of municipal authorities also comprises a significant factor in favour of the efficiency of the assigned municipal services provided by private contractors (Bell, 2008 and Fernandez, 2007). The empirical research presented data illustrating that the development and staffing of specialised units – offices for monitoring private contractors in the municipalities, assists the improvement of efficiency and the quality of the alternative provision. In addition to the management capacity of the municipalities, it also operates beneficial to integrate alternative provision into the operational planning of the municipalities and produce specific monitoring indicators, on a basis of the business plan and the implementation of the assigning contract (Osborne, 2004). The support of the alternative service provision by maturation studies and planning of alternative provision beforehand, maximizes further the level of efficiency and cost constraint of the provision, particularly in the areas of waste management, alternative energy production, maintenance of street lighting and construction of car parking.

Table 2. Qualitative and quantitative results of the empirical research

Variable	Hypothesized association	Impact on alternative provision efficiency – empirical results	Significance
Size of municipality	+	Unchanged	0.06
Fiscal stress	+	Affects – Improve efficiency	0.32
Balance of municipal budget	-	Unchanged	0.02
Municipal borrowing	+	Affects – Improve efficiency	0.42
Public spending limitations	+	Affects – Improve efficiency	0.51
Metropolitan municipality	+	Unchanged	0.02
Urban municipality	+	Unchanged	0.02
Rural municipality	-	Affects – Improve efficiency	0.21
Mountain municipality	-	Affects – Improve efficiency	0.18
Island municipality	-	Affects – Improve efficiency	0.26
Municipal GDP	-	Unchanged	0.07
Citizens income	-	Unchanged	0.02
Local unemployment rate	-	Unchanged	0.02
Problems in current municipal provision of the service	+	Affects – Improve efficiency	0.71
Successful previous experience of partnering with the private sector	+	Affects – Improve efficiency	0.59
Alternative provision of multiple services	+	Affects – Improve efficiency	0.54
Promotion of municipal administrative	+	Affects – Improve efficiency	0.31

reform			
Continuity in political leadership	+	Affects – Improve efficiency	0.58
Local political consensus	+	Affects – Improve efficiency	0.56
Initiatives for the resolution of problems for the participation of private sector	+	Affects – Improve efficiency	0.60
Political leadership ideology	+ / -	Unchanged	0.01
Political leadership work experience	+/-	Affects – Improve efficiency	0.27
Opposition of municipal employees	-	Affects – Limits efficiency	0.38
Level of municipal employees unionism	-	Affects – limits efficiency	0.16
Local – regional market of vendors	+	Unchanged	0.07
Municipal administrative & monitoring capacity	+	Unchanged	0.09
Quality of municipal strategic planning	+	Affects – Improve efficiency	0.29
Public consultation initiatives	+	Affects – Improve efficiency	0.28
Preparation of the municipality for the promotion of alternative provision	+	Affects – Improve efficiency	0.41
Level of trust among the partners	+	Affects – Improve efficiency	0.68
Citizens opposition	-	Affects – limits efficiency	0.57
External pressures for private participation promotion	+	Unchanged	0.02

#### **4. CONCLUSION: BEYOND THE LIMITS OF EFFICIENCY: ALTERNATIVE INSTITUTIONAL ARRANGEMENT AND THE DEMAND FOR THE EMERGENCE OF A NEW MODEL OF LOCAL GOVERNANCE**

From the comparative analysis of case studies regarding the state of art of alternative provision in Greece, emerges the definite cost reduction of services provision and the improvement of the efficiency level. However, this perspective requires further analysis on a case-study level by taking into account the non-economic factors, which are also found in the Greek case to co-form the degree of efficiency improvement, through private participation and either the successful or the unsuccessful incorporation of alternative institutional arrangement from the municipalities (Bouckaet, 2011). These factors relate to the degree of trust and co-operation among the involved municipal and private partners, and the interconnection of the alternative provision with the emergence of a new model of local governance, based on the inter-sectoral co-operation, the establishment of local consensus and the introduction of innovation in service planning and provision.

In all best performed case studies the level of confidence and trust were particularly high among the partners. The development of high level of trust, which contradicts to the low national average rate and the respective rates in local government, is based on a number of special characteristics. These special characteristics comprise the gradual transformation of individualistic and piecemeal co-operation with the private sector, in a long-term and repeated successful collaboration, which contributes towards the development of mutual trust. High level rates of trust between public and private partners are reflected in the analysis of projects' contracts, which are less complex and with more space for flexibility in the provision of services. Alternative provision which is evaluated in respect with the achievement of services specific objectives and standards, in terms of service cost, quality characteristics and outputs, and not according to the traditional and counterproductive strict accounting evaluation and legal procedures compliance assessment.

The high rate of inter-sectoral trust among partners of alternative provision projects, contradicts to their low national average rate in the central government and the responsible agencies for the promotion of private participation in local government, as the special secretariat for PPPs and the Ministry of the Interior, due to the increased bureaucracy and the successive and costly control mechanisms. Lack of trust in the central government and an increased level of trust among partners of the partnership, which led the decision made by the involved parties, i.e. municipalities, to select the alternative provision choice, as a policy tool against the ineffectiveness and delays of the responsible central government authorities to support the expansion and performance of alternative provision, through the promotion of decentralisation and the provision of the adequate financial resources. The influence of inter-sectoral trust is of equal importance, also in the context of selection made by municipalities of the alternative routes of regulatory framework for the development of the alternative provision, beyond the narrow limits of hardship of the PPPs legislation.

Significant contribution towards the promotion of trust between the involved parties regarding the co-operation between public – private sector, is made through the institutionalized participation of municipal authorities in the management of projects, as well as the provision consultative and open procedures of disclosure and publication of their results. Deliberative and participatory processes and mechanisms, improved the quality of the municipal planning and the innovative provision of municipal services. The implementation of

these initiatives for promoting the engagement of partners and stakeholders and strengthening public accountability operates positively in terms of the formation of the required alliances and the creation of a supportive environment for alternative provision introduction. Participation and consultation, comprise principles that contribute towards the lift of the common social contradiction and mistrust against municipal authorities and in favour of alternative provision and promotion of trust.

An emerging model of local governance that exceeds the narrow limits of public – private spheres and sets under the spotlight the effective regulation of the long lasting local issues and the more efficient accomplishment of citizens’ needs, based on the mutual utilisation of public and private resources, financial or not, and the establishment of wider development alliances with the participation of central government agencies, local government institutions, private sector enterprises and civil society. A new model of local governance, the viability and effectiveness of which, however, necessitates the implementation of a new framework of co-operation between public and private sector at local level, beyond centralization boundaries and the competition between central – local state and based on the development of a new culture of co-operation, among public authorities, as well as of those of the private sector and the civil society. Therefore, the challenge of the alternative provision in the Greek local government should not be considered to be simply the percentage reduction of the cost of provision of the municipal services, but more widely the development and diffusion of a new participatory and less bureaucratic model of local governance, where competition will be linked to consultation and efficiency improvement will be connected with the social effectiveness of the local state mechanisms.

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## THE POVERTY REDUCTION AND SUSTAINABLE DEVELOPMENT, A BINOMIAL CHALLENGE.

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### ABSTRACT

Albania has undergone deep social- economic changes during the transition time which according to different periods are interpreted both, positive and negative. Unfortunately, compare to other European Union countries, it is ranked as the poorest, a status which makes it more difficult to equate it with level of countries, members of the European Union. The poverty term and consequently a sustainable development even if are mostly promoted by UNDP in Albania ,especially ten last years, are not yet in the focus of a common strategy. Till now economic, physical and human capital are not used in the service of the present and the future of Albanians poverty reduction. Important issues like migration or emigration , unemployment increase , problems with health and education as well as environmental issues have had a rather small focus or not to say an unimportant one, because the politics related to the improvement of these issues are not taken or too little considered.

The absolute poverty increase again from 12.4 % in 2008 to 14.3% in 2012, and unemployment rate jumps from 12% to 20-21% all these alert and means a lot. Apart of the importance of economic growth and development, an important dimension is having even social and environment dimension which form the phenomena of a stable development, the subject of national objectives of many countries especially those under development.

The social dimension is closely related with concepts like poverty level, welfare level, social deprive and standard of living of an individual. Based on statistic and many reports done, Albania has shown improvements in different indexes of poverty measurements and human development for example the woman development index , the multi-dimensional poverty index or human poverty indexes. Anyway , the fact that there is still a percentage included on a group of absolute poverty or extreme poverty means that the main challenge is putting an end to the existence of this group and help these people propel the ladders of social-economic development.

Finally bringing together facts and figures we argue: The poverty reduction is a necessary process, not only for the fact that it is closely related with social and economic dimension which consequently affect the stable development of a country, but at the same time this objective is a duty to be realized if we are looking for the integration into the European Union, where the standard of living is many times higher compare to our country. Despite the possible membership in the EU, the importance Albania has to give to ,social agenda is closely related with its definition as a modern government, fair and equal. That one requires for executive actions in achieving objectives and not just passive actions.

### KEYWORDS

Poverty, poverty reduction, sustainable development, health, education, environment.

### JEL CLASSIFICATION CODES:

I31, I32, O11,

## 1. THEORY FRAMEWORK

Sustainable development consists of two terms, where “development” is closely related with welfare and life quality, while the term “stability” means maintenance and saving the actual resources for the future generations. Welfare is a concept which depends on some elements such as : Financial resources , human resources, natural resources , political resources and social resources which are respectively related to : wealth, education, ecosystem , democracy and social groups. (World Bank, 2001)

As a global concept the sustainable development is based on three major pillars:

1. ENVIRONMENTAL MODEL
2. ECONOMIC MODEL
3. SOCIAL MODEL

Both the organization of United Nations and European Union have their own strategies for the sustainable development and they have in common co-ordination of the development of the three main components which are economic, social and ecologic . Albania doesn't have such a strategy yet, almost twenty years after Rio-Earth Summit, even the considerable economic growth and poverty reduction. Approach for education, health care and drinking water insurance are among indicators which show improvement as well as the first participations of

civil society in policy making, cannot be denied, that all these have had their positive impact in the policies of economic growth and poverty reduction. Beside these positive improvements, challenges and gaps are still considerable in implementation.

The main aim of European Union and other organization is deciding of objectives, indicators and monitoring procedures in the sustainable development process. The change of customer behavior, production, approach to policy making aim at becoming from an unstable development to a sustainable development and poverty reduction. In this contest, the main objectives include: environmental protection, social cohesion, economic prosperity and finally the end of world poverty.

These four directions include many initiatives and programs centered by sustainability development. (European Council, Brussels June 2006)

Components of sustainability development are closely related and interdependent from each other. According to Brundtlandt's report in 1990, poverty and environmental degradation are in a vicious circle because poverty may be considered as the cause but the consequence is environmental degradation. Normally, it is hard for a poor person to think about the environmental improvement when he has basic needs related to his/her survival. The theses was proved better than in other countries, in Albania especially after 1990 where the destruction of social structures was accompanied with social incohesion and environmental degradation as well as economic chaos.

According to conventional approach, if a person is poor, he damages or destroys the environment, thus poverty has negative connection with sustainable development (CMED Rapport Brundtland, 1987).

The most important objective of the social component is its fight against poverty through consumption and income growth, education and goods. There are other elements closely related with poverty such as inequality, injustice and social exclusion.

Achieving the sustainable development in social components means:

- Improvement of people ability to increase their welfare
- The ability of capacity distribution( assets , the rights, skills) within the actual generation
- The chances to transfer skills from generation to generation

Assessment of progress toward sustainable development should take into consideration (Bossel & Hartmut, 1999)

- Environmental conditions from which the life of actual and future generation depends
- Economic development and other non -trade activities which contribute to the social welfare
- Inequality, injustice and social exclusion.

There are two ways of approaches towards sustainable development; once they appear as efforts for quality improvement (DALY) and once as efforts for quantity improvements (Sabine Alkire, 2005).

Sustainable development arises some questions related to post- war claims which still dominate the general economic policy that international prosperity and people welfare can be achieved by global trade and industry increase. It accepts that the previous models of development have failed in disappearing the global poverty or the poverty within countries because "there is no tendency program or policy offering any real hope to narrow the gap between rich and poor nations". This lack of development and economic prosperity has not narrowed inequality, get rid of poverty but it has caused serious damages to the environment where we live.

Brundtlandt knowing this failure calls for another form of development, changing qualitatively the growth, completing the essential needs. Decision making for economic issues focused on both environment and human development, participation in decision making and equality in profits. This proposal is seen as an alternative to get rid of poverty, to fulfill human needs and to realize a correct distribution of resources. Social justice today and in the future remains an important component for the concept of sustainable development. ( Mellor Mary & Hopwood Bill, 2005).

Markets and technology are seen as alternative chances of a future world that will be "less polluted, more stable ecologic ... and richer world people" by Simon and Kahn. The World Business Council for sustainable development in 1998 doesn't see any conflict between development of global market and environmental stability: "We may have an open strong and healthy trade market system to achieve a sustainable development".

OECD, in 2001 asks for fiscal changes for taxes and subventions and the increase of private property of resources to make markets work for sustainable development , as well as it believes that globalization want weaken the social and environmental protection. Lomborg says that to improve the quality of world environment, it is important to insure that the poor people don't suffer from poverty or hunger because only when we are rich enough we can start to deal with the environmental problems" ( Mellor Mary & Hopwood Bill, 2005).

A repeated issue in these discussions related to development is the question if the focus should be concentrated on the economic growth or on that of poverty, or in equality. The answer can be expressed in two points: *firstly*, the quick elimination of absolute poverty, in all its forms, it's a meaningful objective for development. *secondly*, to achieve the quick aim of absolute poverty reduction , strong combination are needed specific to policies of development and distribution (François Bourguignon, 2004).

The absolute poverty reduction can be translated differently as a basic objective of sustainable development. In this point of view, sustainable development must be seen as a multi dimensional indicator where a poverty

border is included related only with income which can be realized financially or none financially borders for other needs. This cannot be the same for all societies but not unchangeable as well from time to time. (François Bourguignon, 2004). Sustainable development seems as a three dimensional challenge for both developed and under – developed countries.

If we use the “Baker’s levels” to evaluate at which level sustainable development is conceived and implemented in Albania, we can consider that the situation of the country belongs to the rung of “weak sustainable development”, with some exceptions that may be classified lower in the “pollution control” trend, or a little bit higher in the “strong sustainable development” trend ( The Baker’s, 2006).

## 2. POVERTY PHENOMENON IN ALBANIA

Sustainable development and poverty seems to be binomial challenge mostly for Albania than other European countries. The objective of poverty reduction is supreme; growth is not the general aim but a tool to achieve the objective which is extreme poverty elimination and relative poverty reduction (data provided by INSTAT).

Sustainable development in Albania and poverty elimination can be realized only through stable growth of economy, public private partnership, stable investments and reconstruction of energy sector, infrastructure, food insurance, agriculture development and help for trade. The importance of growth is accepted but this is not enough and cannot be an indicator for the human development. Growths without effective policy for redistribution and nonstructural social defense systems and for a long time have led to inequality and instability in the poverty indicators. (2008-2012 ISTAT).

Although we accept that until 2008 the absolute poverty reduction is obvious which has been one of the objectives for development, the results of LSMS in 2012, we cannot put a connection between development, growth and distribution.

Millennium Development Goals (M.D.G.), signed by 147 state leaders and which supervises war and peace issue, health and illnesses, wealth and poverty decided on some objectives which are important obligations to achieve sustainable development for the poorest countries in the world.

Each country signing this declaration has developed the objective of Millennium Development Goal’s according to the features and needs of each country respectively. Aims of Albania for objectives of millennium development are as follows ( S.E.D.A., 2005):

- ✓ Halving of the population living in extreme poverty between 2002-2015
- ✓ Achive universal primary education.
- ✓ Promote gender equality and empower women
- ✓ Reduce child mortality 2/3
- ✓ Improve maternal health. (Reduce of maternal mortality by  $\frac{3}{4}$ )
- ✓ Combat HIV and AIDS malarly and others
- ✓ Inssure the environment suistability
- ✓ Water drinks, slum dwellers, withaout santation by  $\frac{1}{2}$
- ✓ Development partnership for development. (internet users for 100 habitants)

Referring to poverty level, countries should be cosidered in a contest with common charastericts ,so as they can be compared with each other. If we refer Albania, it should be compared with other western Balkan countries because these countries are located in the same geographical zone, but they have the same political aspirations which is the integration into European Community.

The Western Balkan is considered as the poorest in Europe and the priority of these goverments is poverty level reduction always based on objectives of the Millennium Development Goal’s adopted accordingly to each state (Matkovic Gordana, 2010).

In order that the projects for poverty reduction to be effective, primarily it is necessary to be known the reasons of the apparence of this phenomena in Western Balkan, which can be listed as following:

- The long and difficult transition for these countries passing from a central regime to a democratic one.
- The reduction of due to the fact that during transition many plants were closed and the production decreased .
- The lack of legal regulations as well as the worsening of functions of decision making institutions.
- The insufficient income and resources as result of badly using of human and national resources.

This region is facing some challenges as well among which :

- High level of unemployment and reduced number of vacant job places
- Informal economy
- Destruction of social groups and reducing of solidarity among people considered as post communist trauma

- The increase of Budget Deficit reflected even in public Debt
- Low level of Direct Foreign Investments
- A slow reformation of legal system and institutional reformation

Considered in this point of view, Albania has the highest level of poverty in western Balkan while Croatia has the lowest level of poverty. According to microeconomic data the Western Balkan countries have had economic growth but on the other hand they haven't had a reduction of poverty ; on the contrary the last survey for Albania shows an increase in the number of the poor from 12.4% in 2008 to 14.3% in 2012 as well as a big increase of the extreme poverty group from 1.2% in 2008 to 2.2% in 2012.

Another problem, in connection with poverty concept in Albania and in any other country is the concept of being poor. People in these countries compare their actual situations with their previous one, which was structured by the totalitarian regime where all the people were equal and protected by the state. With regime changing these individuals thought to become rich within a short time because they thought that democracy was closely related with wealth term but they were disappointed. As a result, during this time a small part of population was quickly rich while the other part was sank in poverty thus creating a huge gap among strata of society.

Poverty has different definitions according to some specific elements (World Bank, 2002). For instance, income poverty is the case where the income of a family or its expenses under a given level, design as national line of poverty which varies from one country to another.

Another type of poverty is basic needs poverty according which someone is poor if he doesn't have the basic human needs as food or shelter. Beside these definitions, through focus groups, interviews or different surveys, people have given their own explanations as what poverty means for them, which are summarized in table 1.

Table 1: Poverty understanding according population

<b>Poverty understanding</b>	<b>Percentage</b>
Lack of hope	45.8
Minimum ability for food , clothes , shelter himself or family	44.5
To feel excluded from social life	40.4
To feel unprotected	32.7
Inability to follow tradition like weddings, funerals etc	23.9
To not take true information	15.2
Others	5.8

Source of information: World Bank 2002

With the passing of time, poverty definition has undergone different transformation, the biggest problem in poverty term is that between absolute and extreme poverty. Absolute poverty defines the adult population living with less than two dollars per day while the extreme poverty is that part of adult population living with less than one dollar per day. In Albania, the millennium objectives aim at disappearing extreme poverty and obvious absolute poverty reduction up to 2015, according table 2.

Table 2: Poverty level in Albania

<b>Indicator</b>	<b>2002</b>	<b>2005</b>	<b>2008</b>	<b>2012</b>	<b>2015 Objective</b>
Absolute poverty	25.4 %	18.5 %	12.4 %	14.3 %	13 %
Extreme poverty	4.7 %	3.5 %	1.2 %	2.2 %	0%

Source of information: INSTAT

According to previous definitions , even the poverty level will be divided in some groups shown in table 3, where the poverty line is decided (in Lek) and percentage of population found under this line.

Table 3: Defining the poverty line

<b>The poverty line according:</b>	<b>Value in LEK</b>	<b>Percentage</b>
Feeding poverty	3,047	4.7 %
50% average consumption per person	3,349	7%
\$2 PPP	3,775	10.8 %
60% average consumption per person	4,019	13.5 %
Total poverty	4,891	25.4 %
\$4 PPP	7,550	59.3 %

Source of information : UNDP 2005

In Albania, there are clearly seen four social economic groups: very poor, poor, not poor and relatively rich. The percentages of these groups in Albania are as following (World Bank, 2002):

Table 4: Social-Economic groups in Albania

Social economic state of a family according self assessment	Percentage	Groups
Do not have enough food to feed their family	28.8	Extremely poor
Are able to feed themselves but not to buy clothes	29.2	Poor
They can buy clothes but not arrange their house	16.7	Not
They can eat , dress and arrange house but can't buy expensive devices	13.4	Poor
Can eat , dress and arrange house but can't buy luxury devices	7.6	
Can buy luxury devices	2.8	
Have bought or can buy a second house or land property	1.5	Rich

Source of information: World Bank 2002

From geographical point of view, the poorest regions are: Kukesi region, Kurbini and Gramsh towns. A higher level than these towns are Saranda and Korca. The highest level are kept by Mallakstra , Vlora, Mirdita, Shkodra and Tirana.

Considering causes of poverty in Albania, they can be grouped in three main groups (World Bank, 2002):

- Long unemployment and lack of employment strategies
- Lack of policies assisting the development of strategic sectors
- Lack of pure social policies especially for target groups ( children, Egyptian community, groups in need as women ,etc)

The most sensible groups are easily vulnerable are:

- The unemployed
- Dependants
- The uneducated
- Egyptian community
- Disabled people

### 3. POVERTY MEASUREMENT AND INTERNATIONAL REPORTS.

Apart classical indicators like absolute poverty line or extreme one, attempts for real poverty assessments has led to the creation of indicators. There are prepared and developed to many indicators to assess poverty, which cannot be totally considered as correct but they can reflect the actual poverty level and situation in developing countries.

These indicators which are called indicators of human development are divided in five indexes, three of which are closely related to poverty level (U.N.D.P., 2010)

- Human Development Index (HDI)
- Human Poverty Index (HPI-1)
- Human Poverty Index (HPI-2)
- General Development Index (GDI)
- Gender Strengthening Index (GSI)

The human development report for Albania is created by data of LSMS for 2002, 2005, 2008, 2012 and has given the results for the following indexes.

HDI is an indicator which shows the development level of a country by combining three important dimensions of human development (U.N.D.P., 2010)

- A long healthy life measured with longevity
- Knowledge , measured with level reading at adults
- Satisfied living level measured from General Domestic Production (GDP) per person

If we analyze table 5, we will see that HDI from 2002 to 2008 is less for seaside regions, but is increased for mountainous and central zones, and in total as well; anyway considered in total, it has had an increase from 2002 to 2005 but then it has had a slight drop compared to 2008.

Table 5: HDI according geographical zones

Zone	Longevity	Education level	Registration to school level	GDP per person	Life Expectancy Index	Education Index	GDP Index	HDI 2008	HDI 2005	HDI 2002
Tirana	77.4	98.5	83.1	9240	0.873	0.934	0.755	0.854	0.819	0.83
Seaside	77.4	96.5	70.3	6748	0.873	0.878	0.703	0.703	0.818	0.798
Central	77.4	95.7	67.8	6389	0.873	0.864	0.694	0.81	0.769	0.725

Mountainous	77.4	96.1	64.6	4975	0.873	0.856	0.652	0.794	0.759	0.632
Total	77.4	96.5	70.5	6886	0.873	0.878	0.706	0.706	0.819	0.771

Source of information: UNDP 2010

HPI-1 is more specific than HDI and eliminates some of the lacks which HDI has. HPI-1 is used specifically for developing countries because it contains some components which are easily seen in these countries for example drinking water access, children weight under five years old or the ability to survive in over 40 years old. HPI-1 in Albania case, compared with 2005 and 2008 shows a drop in the value which means the improvement of conditions and drop of poverty level, if we see the following table for three years.

Also, compared in geographical level, there have been improvements in that mountainous and seaside regions while in Tirana it is kept in minimum. (U.N.D.P., 2010)

Table 6: HPI-1 according geographical Albanian zones

Zone	Probability of not surviving up to 40	The level of non education for ages 15 and above	Population without access to drinking water	Children under five being under weight	HPI-1 2008	HPI-1 2005	HPI-1 2002
Tirana	5.5	1.7	2.1	7.5	4.5	5.53	6.65
Seaside	5.5	3.9	22	7.5	10.5	14.09	15.22
Central	5.5	4.8	23.7	7.5	11.1	14.84	18.29
Mountainous	5.5	4.4	22.7	7.5	10.7	15.07	19.67

Source of information: UNDP 2010

HPI-2 is focused more in population movement which is under poverty level as well as the change of unemployment level. It also contains two other elements which are illiteracy level and the probability of not surviving up to the age of 60.

If you consider the following tables, the level of HPI-2<sup>nd</sup> has considerably fallen comparing the year 2005 and 2008, which means that the number of poor people under poverty line has decreased. Also, the number of illiterate is smaller. Seen in geographical level, HPI-2 has had changes in Tirana, central and seaside zones, but unfortunately there is no change in mountainous zones (U.N.D.P., 2010)

Table 7: HPI-2 according geographical zones.

Zone	Probability of not surviving up to age 60	Level of non education	Population under the poverty line	Level of unemployment (Over a year)	HPI-2 2008	HPI-2 2005
Tirana	7.4	1.5	8.7	2.2	6.5	8.2
Seaside	7.4	3.5	13	5.8	8.9	11.4
Central	7.4	4.3	10.7	5.1	7.7	14.3
Mountainous	7.4	3.9	26.6	8.6	17.1	16.8
Total	7.4	3.5	12.4	6	8.6	12.6

Source of information: UNDP 2010

If we study the following table, we will conclude that in rural zones there has been a considerable reduction of poverty especially for years 2005-2008, while in urban zones this change has been inexistent.

Table8: Poverty according to urban /rural zones

Poverty according to urban /rural zones	YEARS			Change in poverty	
	2002	2005	2008	% change for 2002-2005	% change for 2005-2008
Total number of poor in both zones	813,196	575,659	373,137	-29	-35
Total number of poor in urban zones	257,690	151,811	150,052	-41	-1
Total number of poor in rural zones	555,506	423,848	223,085	-24	-47

Source of information: UNDP 2010

Another index that is used to measure the poverty is even MPI, which defines the absences in individual level in fields of education, health and living level.

The limit of this index includes these elements: at least one of the family members has not finished the minimum 5 years of education and at least there is a child who doesn't attend school, to have at least a family member who is badly feed or to not have drinking water access, electricity or other domestic devices. (U.N.D.P., 2010).

Table 9: Assessments of Multi dimensional Poverty Index

Population prohibited in one of the points	Population under
--	------------------

Years 2000-2008	MPI	Population in multidimensional poverty	Population at risk of MD poverty	Education	Health	Living Conditions	poverty line	
							\$1.25 PPP	National poverty line
Albania	0.004	1%	9.40%	6.6	7.2	0.9	< 2	18.50%

Source of information: UNDP 2010

Table 10: Assessment of MD Poverty Index

	People without access					
	Programs of CO per person	People living in degrading land	Water	Drainage	Deaths from water pollution	Population suffering from nature disaster
Albania	2.3	6	3	2	97	21,349

Source of information: UNDP 2010

Starting from 1990, UNDP prepares the report for human development for 186 countries where the main focus is put in sustainable development and equality as the future for each country.

The last report of the year 2010 discusses the most important global challenges which are sustainable development and equality which should be addressed together so as the undertaken policy have a clear connection with those two target aims.

The last reports have shown a growth in the living level, but that shown by the report of the year 2010 reveals worsening of environment and an increase of inequality especially in the developing countries. The problem is that the poor affects the environmental degradation and a damaged environment does not help the living level of the poor and it is important to undertake policies related to both environment and poverty reduction. (U.N.D.P. , 2010)

According to the report of human development by UNDP for the year 2013 where 186 countries are compared , a report which has started since 1990 until today , Albania is ranked in 70 position thus being included in the group of countries with high human development. If it is compared from 1990 to 2012, there has been a growth of HDI which has not been significant, but the positive side is that it has been increasing.

Table 11: Ranking of Albania among 186 countries listed and compared to Western Balkan Countries.

	HDI	Life Expectancy at Birth	Mean Years of Schooling	Expected Year of Schooling	Gross National Income per capita
47-CROATIA	0.805	76.8	9.8	14.1	15,419
52-MONTENEGRO	0.791	74.8	10.5	15	10,471
64-SERBIA	0.769	74.7	10.2	13.6	9,533
70-ALBANIA	0.749	77.1	10.4	11.3	7,822
78-FYRO-MACEDONIA	0.740	75	8.2	13.4	9,377
81-BOSNIA I HERCEGOVINA	0.735	75.8	8.3	13.4	7,713

Source of information: UNDP 2013

Table 12: HDI of Albania between years 1990-2012

Date	H.D.I.	HDI Health	HDI Education	HDI Income
1990	0.661	0.814	0.66	0.541
2000	0.698	0.854	0.693	0.576
2005	0.729	0.883	0.72	0.61
2007	0.733	0.886	0.721	0.618
2008	0.737	0.889	0.723	0.625
2009	0.741	0.891	0.724	0.633
2010	0.743	0.893	0.725	0.635
2011	0.748	0.896	0.726	0.639
2012	0.749	0.898	0.726	0.644

Source of information: UNDP 2013

The report of human development, except HDI has other detailed indicators such as the measurement of individual pleasure from social dimension in three angles: work, personal health and living conditions. Also it is made even the measurement of happiness again in three angles: the existence of a living with a goal in itself, being or not being respected and having a supportive social group. Welfare measurement according individual is made in 5 angles: Air quality, water quality, medical service quality and educational system quality. (U.N.D.P. , 2010). These measurements are found in table 13.

Table 13: Social dimensional measurement for Albania

	Satisfaction in these social dimensions					Satisfaction elements		
	General Life Satisfaction	Work	Personal Health	Standard of Living	A reasonable life	Respected	Supportive social group	Index of negative experiences
Albania	4.6	72	75	43	78	68	79	20

Source of information: UNDP 2010

## CONCLUSIONS

- ✓ Twenty years after, Albania has experience denotable economic growth and reduction in poverty.
- ✓ Access to education, healthcare and water has also seen improvements and there has been a major increase in the participation of civil society in policy-making, not least thanks to improved internet communication.
- ✓ Despite positive developments however, considerable implementation gaps and challenges remain.
- ✓ Environmental challenges remain unsolved and have become more acute.
- ✓ Climate variability and change can further compound and add to existing environmental problems in Albania.
- ✓ Human Development Index Ranking, which takes into account the 3 dimensions of long and healthy life, knowledge, and decent standard of living, Albania has a medium high HDI of 0,749 and ranks 70th out of 186 countries.
- ✓ Still Albania has no explicit “National Strategy for Sustainable Development”, but the country approved its “National Strategy for Development and Integration” (NSDI, 2007-2013) in 2006.
- ✓ Social agenda in Albania still isn’t closely related with its definition as a modern government, fair and equally.
- ✓ Social component, civil society and non-governmental organizations must be invited to offer their inputs in the drafting and implementation of policies.

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# **THE INFLUENCE OF HIGHER EDUCATION DEVELOPMENT ON THE GLOBAL COMPETITIVENESS OF THE SOUTHEAST EUROPEAN COUNTRIES**

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## **ABSTRACT**

Higher education plays an important role in promoting economic and social development of the country, given that the development should be based on advanced knowledge and skills in various areas. With this in mind, the World Economic Forum developed the Global Competitiveness Index, which represents a portrait of the economic environment and the ability of the state. Southeast European countries are in the second phase of development - efficiency-driven stage. The exception is Slovenia, which is the third stage, ie. innovation-driven stage. The research presented in the paper is the assessment of the competitiveness of the countries of South Eastern Europe in the time horizon in 2008 - 2013, based on the higher education and training, as well as one of the components of the GCI. According to the latest Global Competitiveness Report 2013-2014 of the World Economic Forum, Slovenia is the most competitive country in Southeastern Europe, in terms of higher education and training. Quality of the educational system and Internet access in school during the analyzed period, positively affected the high field of education and contribute to improved competitiveness of countries. Investing in higher educational and training is the best way of investment, improve competitiveness and achieve sustainable levels of prosperity and growth of national economy.

## **KEYWORDS**

Higher education, the Global Competitiveness Index, development, Southeast European countries

## **JEL CLASSIFICATION CODES**

I2, O15

## **1. INTRODUCTION**

Economic growth and the development of economic competitiveness in a country is not possible without continuous improvement of qualified labor force as a main production initiator. It is necessary to invest into professional education and that the concept of national economic development is based on the knowledge and high technologies. In this way, it is possible to overcome the period of recession and slowdown by using creative ideas, acquired skills and information. Global Competitiveness Forum has developed Global Competitiveness Index (GCI), which provides an opportunity to a country to perceive its own competitiveness in comparison to other countries both in the region and world. Due to the index, a country can try to do all in its power in order to make progress faster and better year after year. Also, foreign direct investors can use it as a handbook on the attractiveness of investment in some economies. The Global Competitiveness Report has the purpose of measuring competitiveness in national economy and this one of twelve pillars refers to higher education: “Higher education and training”. The pillar has eight components, whose analysis can determine the most important strengths and weaknesses as well as to determine the key priorities for achieving better performance of higher education, thus, of total competitiveness, too. The subject of the research in this work is a competitiveness overview of countries in Southeast Europe in the period from 2008 to 2013, based on higher education and training. The aim of the study is to identify the influence degree of higher education and training components on the overall pillar value of higher education and training.

## **2. LITERATURE OVERVIEW**

Higher education has a significant role in stimulating industrial and social development of national economy. Generally, education means: “An individual be equipped with information, capability and behaviors which one makes use of to come into one's own in society and to attain always honorable aims for society and oneself thanks to the position or the profession in society“(Adem, 1993). Others define it as the “system of planned

effects providing certain developments in peoples' behaviors in accordance with pre-determined aims“ (Öztürk, 2011). In the report of OECD (1982), it is stated that since 1960 higher education institutions have been regarded as a regional development instrument in many European countries and popularized in undeveloped/collapse regions. Education should create necessary professional standards and enable individuals to apply the acquired knowledge and information.

Education system is an important generator of creating and developing a country competitive force. Competitiveness is defined in a relative way by using comparative terms. An economy is considered more competitive than others if it has better performance taking into consideration certain criteria. “An economy/educational system is perceived as more competitive when it has a higher capacity to harness the national, material or spiritual “productive forces“ (Popa, I., Belu, M. G., Paraschiv, D., M., 2013). According to OECD (1994), competitiveness is “the capacity of companies, industries, regions, nations or supranational bodies, engaged in international competition, to ensure a sustained relatively high income by capitalizing on the factors of production, as well as a higher income by capitalizing on the labor force“. On higher education influence on development, H.M. Richard (2006) discusses: “The growth is more pronounced in countries where there are well-developed higher education systems“. There are two international organizations which deal with measuring economic competitiveness in countries and perform their ranking according to the level and dynamics of competitiveness: World Economic Forum (WEF) and International Institute for Management Development (IMD).

World Economic Forum measures competitiveness by Growth Competitiveness Index (GCI), Business Competitiveness Index (BCI) and Global Competitiveness Index (GCI). Since 2005, competitiveness analysis has been based on the global competitiveness index, which includes micro and macroeconomic foundations of national competitiveness (WEF, 2013). An increasing number of countries and institutions are using this index as a benchmark of economic competitiveness.

According to WEF, competitiveness is the set of institutions, policies and factors that determine the level of productivity of country. The level of productivity determines the yield rate in economy, which is, at the same time, the main initiator of its growth. This suggests that a more competitive economy is the one which grows faster during time. The Global Competitiveness Index aims to encompass the phenomenon complexity of national competitiveness, which can be improved only by a number of efforts in different areas that affect long-term productivity of a country and consequently, the performance of the economy growth.

The Index is made of 12 pillars which consist of different productivity measures. Pillars of the index are: I–Institutions, II–Infrastructure, III–Macroeconomic stability, IV–Health and primary education, V–Higher education and training, VI–Goods market efficiency, VII–Labor market efficiency, VIII–Financial market sophistication, IX–Technological readiness, X–Market size, XI–Business sophistication, XII–Innovation (WEF, 2013).

Each of these pillars has a certain number of components and they are obtained as their weighted average. Values of components are obtained by two source types – primary and secondary. Primary data are obtained by standardized questionnaires, which are conducted every year. Answers to the questions raised are given by the representatives from the highest level of company managements which form a representative sample. The number of analyzed companies depends on the size of a country, and a sample consists of small, middle and big companies. Every year, a half of the samples are formed by the companies which were in the sample the year before, and the other half is chosen by a random method from the defined sample frame. Keeping a half of the sample elements contributes to a bigger stability of the questionnaires, which allows the validity of analysis. The data from international comparative database are used for calculating index components. In their calculation for the current year, secondary data from previous year are mainly used, because at the moment of preparation of the Competitiveness Report, database is not mostly available. All the data are valued on a scale from 1 to 7, with 1 being the worst rating and 7 the best. Also, it is the range of possible values for all of the components, pillars and a summary value of the GCI. The Global Competitiveness Report is made by SEF and it is the best competitiveness estimation of national economies. In fact, it represents a useful portrait of economic environment and countries' capability to reach a sustainable level of prosperity and growth.

“The GCI is adjusted to potential bias in favor of developed countries by setting the index according to the phase of country economic development. According to this index, it is assumed that countries go through 3 stages of development and 2 transitory stages of industry development. In the first stage (factor-driven phase) for productivity growth, the following basic factors of competitiveness are important: institutions, infrastructure, macroeconomic stability, health and primary education. By further development, countries enter the second stage - efficiency-driven stage, where they achieve more efficient production processes and increasing product quality. In this phase, competitiveness growth is influenced by: higher education and training, goods market efficiency, labor market efficiency, financial market sophistication, technological readiness and market size. Finally, countries transit to the third phase (innovation-driven stage) where innovation and sophistication are of central importance for the competitiveness of countries based on highly developed innovations.

Analyzing these 12 pillars, it can be noticed that education is included in many of them, directly or indirectly. As different indicators, higher education can be found directly or indirectly in the following pillars - labor

market efficiency (7.09 Brain drain); technological readiness (9.01 Availability of latest technologies); innovation (12.02 Quality of scientific research institutions, 12.03 Company spending on R&D, 12.04 University-industry research collaboration, 12.06 Availability of scientists and engineers); and higher education and training. In the frame of seventh, ninth and twelfth pillars, there are components which refer to education, while the fifth pillar is completely dedicated to higher education. The quality of higher education and training is crucial for economies that strive to improve simple production processes and products. Globalization, which is every-day reality, requires highly qualified workers who are able to adjust to rapid changes in the surrounding. Within this pillar, the following can be seen: secondary enrollment, tertiary enrollment, quality of the educational system, quality of math and science education, quality of management schools, internet access in schools, local availability of research and training services, extent of staff training (WEF, 2013). Level of staff training contributes to the competitiveness because of the importance of vocational and continuing training in business, which will secure a constant improvement of worker skills and adjust to the needs of the developed economy.

## 2.1 Methodology

The subject of the analysis in this work is to determine how higher education and training, as a pillar of the Global Competitiveness Index, influence the competitiveness of the countries in Southeast Europe. By a comparative analysis, the values of the pillar are compared for a chosen group of countries (Serbia, Albania, Bosnia and Hercegovina, Croatia, Hungary, Bulgaria and Slovenia). Respectively, the analysis of a relationship character of certain GCI elements and the total GCI will be performed. The initial hypothesis:

*Slovenia is the most competitive country of Southeast Europe when analyzing higher education and training as the influential factors of economic development.*

Considering the composite structure of the GCI, the aim of the work is to determine the influence degree on certain pillar components of higher education and training, on its summary value and how that value of the pillar affects the overall value of the GCI. In fact, it has to be realized how big influence higher education and training has on competitiveness, as well as which components should be improved with the intention of promoting competitiveness.

In the work, the following methods of statistical analysis were used: correlation, regression analysis and multiple regression. With the methods, it is possible to determine the character of a relationship, the significance of relationships and the impact of certain pillars on the GCI.

For the needs of methodological explanations and analysis, the data from the Global Competitiveness Report, the Global Economic Forum were used for the period of 2008 to 2013.

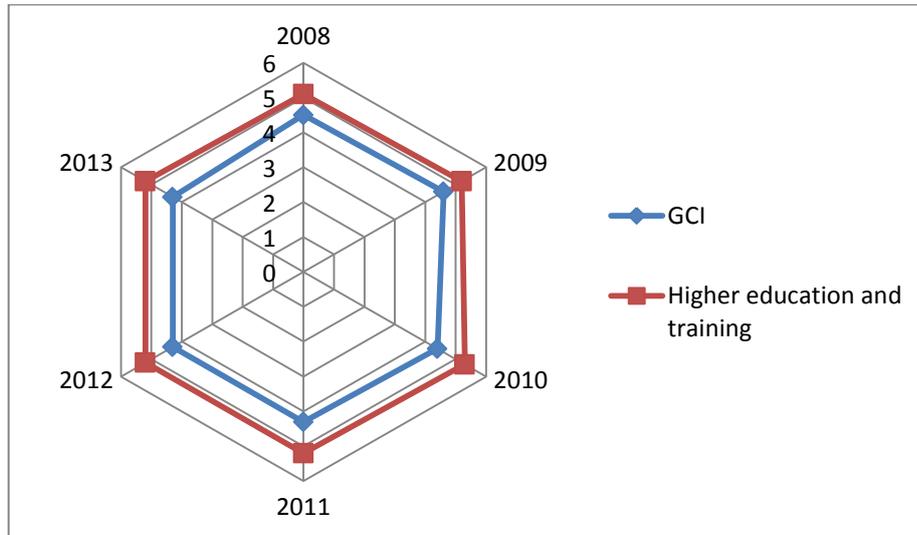
In the first part of the paperwork, the value of the Global Competitiveness Index is discussed, as well as ranking of the countries. Then, the score of higher education and training is analyzed, and placement of countries based on it. Furthermore, through the work, a more detailed research is conducted for the value of higher education and training pillar and its components for each analyzed country. Using the correlation, the connection between the GCI value and the fifth pillar is examined. By using the regression analysis, the influence degree of higher education and training on the Global Competitiveness Index is determined, while, the multiple regression examines the impact of higher education and training components on its summary value.

## 2.2. The results of research and discussion

The countries of Southeast Europe are in the second phase of the development. The exceptions are Slovenia, which is in the third development phase, and Hungary, which is in a transitory period between the second and third phases of economic development.

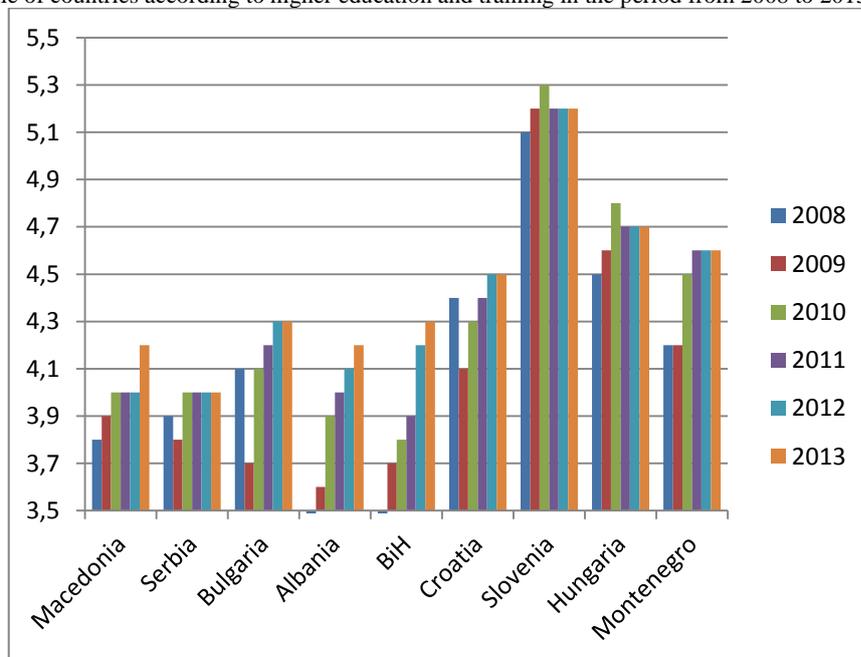
The value analysis of the Global Competitiveness Index was performed on the basis of the indicators in the report of the index for the years 2008, 2009, 2010, 2011, 2012, 2013. In the time period covered by the analysis, the number of countries ranked by the World Economic Forum has increased (in 2008 (134), 2009 (133), 2010 (139), 2011 (142), 2012 (144), 2013 (148)). The comparison between the determined groups is done by the comparative analysis of the value or rank. Observing ranking of countries over the years, it can be seen that Slovenia is the most competitive country in South Eastern Europe in the first three years and in the fifth year, while in the fourth and sixth analyzed years, it was Hungary and Bulgaria. Even though Slovenia has the status of the best placed countries in this group, the value of the GCI has been decreased from 4.5 (2008) to 4.3 (2013), and from the place 42, it has descended to the place 62 in the ranking list. Macedonia, Bulgaria and Bosnia and Hercegovina significantly improved their position from the initial year to 2013. Year after year, they were improving their position observing the rank and value of the GCI. Serbia is the only country from the group of analyzed ones which significantly made its placement worse. Comparing to the initial year when it was in the place 85, Serbia was in the place 101 in the last analyzed year, even though the result decreased only for 0.1, i.e. from 3.9 (2008) to 3.8 (2013).

Chart 1 Movement display of values of the GCI and higher education and training for Slovenia in the period from 2008 to 2013



If the rank of a country and the value of the GCI are considered based on higher education and training, Slovenia is the most competitive country in Southeast Europe during all these years. It improved its score from 5.1 (2008) to 5.2 (2013), but from 22<sup>nd</sup> place, it fell to 25<sup>th</sup> place in the ranking list. Hungary is the next country according to competitiveness, after it, Montenegro takes the place. Except them, Macedonia, Bosnia and Herzegovina, Montenegro and Albania were continuously improving their score annually, which resulted in their rank as well. Bosnia and Herzegovina made the biggest “jump”, which succeeded to move from the place 109 (2008) to the place 63 (2013). She improved the value of higher education and training for 1.2, i.e. from 3.1 (2008) to 4.3 (2013). On the other hand, Serbia, Bulgaria and Croatia are lower placed in relation to their initial position in the ranking list.

Chart 2 Schedule of countries according to higher education and training in the period from 2008 to 2013



Statistical analysis, correlation, examines the connection between the values of the Global Competitiveness Index and the values of higher education and training. Based on Pearson’s coefficient, when two variables are considered, in the time period from 2008 to 2013, it can be seen that the correlation in the first two analyzed years is very positive, and from 2010, moderately positive, the rest of analyzed years are characterized by relatively weak correlation. The highest degree of linear correlation between the variables is in 2008, where Pearson’s coefficient has the value of 0,989, which shows a high degree of linear correlation of the GCI and

higher education and training. Except Pearson's coefficient, Spearman's coefficient is used, which describes ranked values. The highest level of correlation is in the first year of analysis (2008), and the lowest in the last year of analysis (2013). Also, it can be noticed that, in the period from 2008 and 2013, downward trend value of Spearman's coefficient is present, so the rank during the years as well. By this analysis, it can be stated that the value of the GCI during the years correlates with the value of higher education and training decreasingly.

By applying regression analysis on the Global Competitiveness Index, which represents a dependent variable, and higher education and training (independent variable), the degree of the independent variable influence on the dependent one was questioned. The first year of the analysis is characterized by the fact that the growth of a value unit of higher education and training contributes to the increase of the GCI value for 0,482. In the period from 2009 to 2012, the value unit increase of higher education and training had an impact on the increase of the Global Competitiveness Index in the range from 0,593 to 0,331. It can be noticed that, in the mentioned period, there is a decline in the value of the GCI increase due to the change of the higher education and training value for a unit price. In the last year, 2013, a unit change of the independent variable value affected the value increase of the dependent variable for 0,376. During all these years, the regression model is statistically representative, and based on it, it is possible to foresee changes of the Global Competitiveness Index due to the increase of higher education and training for all the countries. In the regression model, it can be noted that it is possible to predict the movement of the dependent variable values based on the changes of the independent variable.

Multiple regression is done based on available data for the period from 2011 to 2013, where the impact of the fifth pillar component values on its total value is discussed. In all the years, the model of multiple regression is statistically representative, so according to this, predicting the movements of higher education and training summary values can be done in all the countries. The component secondary enrollment with the increase of 1% contributed to the slight increase in the value of higher education and training in 2011 and 2012, while in 2013-2014, the component influenced on its decrease for 0,024. By value increasing of tertiary enrollment for 1%, it comes to a small increase of the higher education and training value (0,010-0,017) during all analyzed years. The unit value increase of quality of the educational system and internet access in schools for the mentioned period affects the value increase of the fifth pillar more significantly in the range from -0,046 to 0,240. Components that lead to the decrease of higher education and training, but not significantly, are quality of math and science education in 2013 (for 0,229) and extent of staff training in the same year (for 0,456). In the first two analyzed years, quality of math and science education influenced considerably the value increase of higher education and training due to this unit price. In the same way, the component extent of staff training had also an influence in the amount of 0,2. During all these years, the components local availability of research and training services and quality of management schools had an impact on the value increase of higher education and training with the increase in the value of one, where the biggest impact was in 2011 for 0,109 (local availability of research and training services), i.e. in 2013, for 0,980 (quality of management schools). Investing in the quality of the educational system, internet access in schools, quality of management schools and local availability of research and training services would contribute to the higher value of higher education and training.

### 3. CONCLUSION

It is essential for the achievement of greater competitiveness to invest in education and science. This is very important for the contemporary conditions of business which is characterized by uncertainty, and therefore, it is necessary for the performance of economy development and prosperity to be based on higher education. By the Global Competitive Index, the Global Economy Forum measures the competitiveness of countries, ranks them in 3 phases and two sub-phases of economy development. A clear structure of the GCI is useful for priority development reforms because it allows each country to determine its weakest links which restrict its economic development and encourage improvement. Good quality higher education is a "lever" for developing economies that seeks to improve the simple manufacturing processes and achieve the highest level of economic development.

According to the last Global Competitiveness Report 2013-2014 of the World Economic Forum, Slovenia is the most competitive country in Southeast Europe based on higher education and training. According to this criterion, it was, also, in the first place for the competitiveness of a particular group of countries (countries of Southeast Europe) during all analyzed years, but its rank, compared to all the countries that were reviewed by World Economic Forum, declined. If the ranking of the countries is done based on the GCI, in the last analyzed year, the most competitive country in Southeast Europe is Bulgaria, and Slovenia and Hungary follow it. The development of higher education and training, speaking for all the selected countries, was inhibited by the quality of math and science and extent of staff training, because they influenced on the development decrease in the range from 0,229 to 0,456. In order to achieve as big result of the pillar as possible, it is necessary to invest in the educational system, internet access in schools, quality of management schools and local availability of research and training services.

Over time, the Global Index Competitiveness has proven to be a very useful tool for improving the competitiveness of all countries of the world. More competitive countries are able to generate a higher income per capita, because they are more productive. For that reason, it is necessary to establish such kind of educational system, which, except theoretically, can achieve results in practice as well and its competitive predispositions can be used for economic development. limitations and possible applications.

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