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Editorial

Dear readers,

As the editor-in-chief of the IJSRM I would like to promote the diversity of content and quality of the research papers provided by our esteemed authors. That is why our intention is to introduce a special section in the journal, Communications, a chapter in which our readers will be able to share their professional and scientific opinion related to the journal subjects, and in general, topics that have been in focus of our master's and doctoral studies. Continuing the good custom of previous IJSRM editors and striving for the highest standards, we will keep publishing the best quality articles and invite guest editors to work on individual thematic numbers of the journal.

This issue of IJSRM contains five research papers. The first, entitled "Political Economy of Corruption and Its Implications on Financial Systems", examines systemic corruption in a large number of countries. While trying to provide answers to its cause, the authors also offer certain strategies and measures for preventing such kind of corruption. In the paper "Satisfaction with Independent Fashion Stores' Environment", authors present the results of investigating U.S. generational cohort differences of female consumers' satisfaction with store environment variables from the standpoint of a small business chain with 18 locations in the Southeastern United States.

The research titled "The Influence of Entrepreneurial Strategies on Creating Export Capacity of Bosnia-Herzegovina Production Enterprises", reviews the choice three generic entrepreneurial strategies which are mostly used by managers and owners of production enterprises and their suitability in the export policy of B-H companies.

The chapter "Improving SMEs Cross-Border Cooperation by Upscaled Program Management", analyzes the level of achieved impact of an IPA programe between Bosnia-Herzegovina and Serbia. The final article "The Application of the Gravity Model in the Evaluation of the Foreign Trade of Agricultural and Food Products between Bosnia and Herzegovina and Montenegro" examines the volume of foreign trade between two countries through the gravity model, tending to find an answer to the question how the foreign trade exchange between these countries could be improved.

Hoping that The International Journal of Sales, Retailing and Marketing would be of great use in your professional and academic career, I thank you for reading it and encourage you to continue sending us your papers so that we could maintain our high quality.

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POLITICAL ECONOMY OF CORRUPTION AND ITS IMPLICATIONS ON FINANCIAL SYSTEMS

(The case of the transitional societies of the Western Balkans)

Kadrija Hodžić, Željko Rička

Abstract

The corruption in transitional societies has undisputed qualification of "systemic corruption." Its causes are initiated by: the institutional imperfection of society, high levels of poverty and an unprepared privatization. In this manner, the corruption has become a normal way of life in the already ruined transitional societies. The issue of corruption is associated with the organized crime, as the problem of corruption, as a rule, became a regional problem. In accordance with this fact, solution of the problem of corruption is dependent on the regional and international coordination. The result is the corruption money from corrupt activities, which enters financial systems and destroys the basic postulates of the financial profession, and at the macroeconomic level weakens national and regional financial systems. The authors focused their research in two directions. On the one hand, the authors point out the open theoretical and ideological dilemmas on the nature of the occurrence of corruption:

(1) Whether the corruption is linked to the inability of the government to establish effective control of public flows through the legal system and to prevent the use of public service for private ends, or

(2) The corruption is linked to the lack of markets and creation of an opportunity for the establishment of a monopoly in decision making. The answer to this dilemma determines the strategy and measures to prevent corruption. On the other hand, the authors explore the international standards and anti-corruption policies and they analyse trends of regulation and supervision of financial markets, which would constitute a barrier to the use of the financial systems for the legalization of corruption.

Keywords: corruption, transition, financial system, money laundering, regulation of financial markets.

Category: Original scientific paper

INTRODUCTION: CORRUPTION – WHERE DOES IT COME FROM AND WHERE IS IT GOING?

Corruption is a serious social illness that almost no country in the world is immune to, which is why the problem of corruption is rightly labeled „the problem of the century"[1], although corruption is a historical constant from the time of the first civilizations to today's democratic forms of government. Reports by *Transparency International* regularly warn that corruption is "a major threat facing mankind", „destroying lives and communities, undermining countries and institutions" and „threatening to further destabilize societies and exacerbate violent conflicts". Starting from standard methodologies in economics, and disregarding moralizing approaches as the basis of analysis and critique of corruption, then according to Begović's approach (2007), in the analytic structure of corruption, four common methodological foundations of the economic theory are articulated: the first relates to the possibility of choice by individuals, that is to say, the question of whether to engage in corruption or not; the second points to the belief that an individual is sensitive to incentives from the environment when making decisions, i.e. that depending on them, an individual makes his or her own decision; the third shows that an individual, when deciding whether to engage in corruption, starts from the incentive by doing a calculation of the potential benefits and costs of that action,

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1| Corruption and bribery were identified as the "problem of the century" at the International Conference on the Prevention of Bribes and Corruption, held in Istanbul on 16-17 April 2005.

trying to maximize his function of utility; and the fourth methodological basis refers to the analyst whose point of view is that corruption is not always „bad in itself, but only when it turns out that its total (net) effects are negative". Only such a value-neutral, „cold approach", as Begović labels it, allows a rational analysis of corruption and its effects, much better than the sentimental-moralistic approach.

What remains open as a theoretical issue that falls into ideological value systems, and which opens a dilemma of whether corruption can be tied to the (in)ability of governments to establish, through the legal system, effective control of public flows and disabling the use of public services for private purposes, or whether corruption ties in with the lack of markets and the opening up of space for the establishment of a monopoly in decision-making. The conceptualization of strategies and measures to prevent corruption is largely dependent on the answers to this dilemma. In the first case, the answer in simplified terms implies the establishment of a strong state and a government ready to tackle corruption (hence, increased public control and regulatory networks), and in the second, the absence of a monopoly, therefore, the expansion of market freedoms.

However, this dilemma can be overcome if we find that a "strong state" is actually necessary for the smooth functioning of the market mechanism and its basic institutions, above all the protection of property and contracts, rather than the establishment of a Leviathan bureaucracy.

In Western democratic countries, especially in the countries of northern Europe, corruption is only a curiosity, although here it is not uncommon for "public" officials to be involved in corruption affairs.[2] The most common reason for lower exposure to corruption in these societies lies in the so-called "Scandinavian honesty", "Protestant ethics", or trust in state institutions for which citizens of these societies, for example, are always willing to pay taxes, even if they are opposed to their increases. At the same time, in developing countries (where corruption per year takes between 1-1.5% of national income) and

transitional crumbling societies, corruption has become an integral part of the general social condition, a regular "systemic illness" deriving from the lack of institutional arrangements. There is no need to disregard the cultural and historical context of society where this "system error" is possible.

At the general appearance level, however, corruption is most commonly referred to as an expression of the rule of corrupt politics. Countries in transition are particularly vulnerable to corruption because they go through the phase of institutional restructuring. It is an inevitable "initial transformational shock" that, as a rule, arises in the conditions of sudden abandonment of the previous social system before the institutions (socio-legal, economic) of the new social system has been built and accepted.

A special subset in this group of countries is composed of the countries of the Western Balkans, which, in the context of the consideration of corruption, are classified into collapsed transitional societies. In the case of these countries, we point out the „susceptibility to the phenomenon of corruption", which is manifested through underdeveloped institutional capacity for law enforcement and the unfulfilled democratic culture in society - that is, the present proto-democracy (Hodžić, K., Vukadinović, S., 2004). Along with the transitional systemic immanence of corruption, these societies also have a socially and historically „built-in" tendency towards predatory mentality, which is designated as „Prince Marko's syndrome" (Rendić-Miočević, I., 1996).

In the Balkans, the collapsed transition societies, such as the Bosnian-Herzegovinian, Serbian and Montenegrin society, the issue of corruption is connected and in conjunction with organized crime, which crosses the borders of states, so the problem has a regional dimension. N. Mappes-Niedik, e.g. speaks of the "Balkan Mafia" (2003). None of the three aforementioned societies, like most of the others in the Western European environment (Croatian, Macedonian, and Albanian) can not solve this problem alone. It is necessary to get the help of international institutions, above all the Council of Europe, to build a normative infrastructure in order to combat corruption, and, after that, something that is much more important to monitor, namely the implementation of laws by providing support in strengthening the capacities of police and judiciary bodies, as well as local authorities and institutions in the fight against corruption and organized crime

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2 | In developed countries, corruption is most often linked to various investment funds, covering tax liabilities, bank fraud, and the combination of politics and business. Amongst the various politicians and party presidents or prime ministers involved in corruption affairs are those from Spain, Germany, Japan, France and Italy, including F. Gonzalez, Kohl, Hosokawa, Shirac and Jupue, Berlusconi, and NATO Secretary General Willy Claes and others. Even Mother Teresa was accused of inappropriate donations (Brioschi, CA, 2007).

At the end of this introductory part, as announced by its title, it is also advisable to ask the question of the future of corruption ("where is corruption going?"). Determining the existence of corruption and determining the level of corruption of society is a serious problem, and the objective tools or mechanisms of early warning or ethical prevention are virtually impossible as benchmarks. If the parliamentary democracy is undeniably the greatest achievement of civilization in the domain of political rule, the future of possibilities for corruption is quite open: according to Prezzolini (1993), "democracy is the form of government that can be most easily corrupted and especially the parliamentary kind creates opportunities and temptations for representatives to derive benefits from public funds, either directly for themselves and for their families, or indirectly to buy certain voters in their city or in a particular class."

Inability to determine exact relevant criteria for revealing corruption is overcome by examining the perception and attitudes of citizens about the existence of corruption. Such a test gives results that can not be taken as completely reliable, but may very realistically point to the existence and spread of corruption.

Precise or approximate measures of scope of corruption are very difficult to measure. Measurement is usually done on the basis of different parameters that analysts create from the available data. Different analysts can, quite legitimately, assign different polarized results to different partial results and conditionally derived findings, treating them as more or less important.

This approach has also modeled various types of corruption, the assumed carriers of corrupt behavior, their simplified characteristics, and even, with the simplifications that appear in such an approach, mathematical models that represent the degree of corruption are being created. It is important to keep in mind that such mathematical models need to be analyzed while maintaining a degree of skepticism because their reliability depends on the perception of the creator of the input parameters of the model.

1. ECONOMIC TRANSITION PROCESSES AND CORRUPTION

The establishment of democratic society, the rule of law and market economy in transition countries make it difficult and complex to tackle phenomena related to crime and which are contrary to fundamental social and civilization principles. The corruption virus in the collapsed transition societies has largely affected the public sector, so this phenomenon has a systemic character.

In the conditions of sudden abandonment of the previous social system, before the new social system is built and accepted, a vacuum arises in which, on the one hand, there is a confusion of moral values, and, on the other hand, a "mixture of politics and crime" is established, in which corruption becomes "peace-time crime" (Mappes-Niediek, 2003), and politicians are a new class of financial accumulators. Morality and politics are in the ultimate dichotomy, and the tissue of the state and social institutions is significantly reduced, on which we base the thesis of *collapsed societies*. A number of post-communist countries have experience a failure to implement this transition. In those countries, with the foundation for transition still lacking, the prospect for systemic corruption is present, which is attributed to the "imposed" and „one-sided and swift application of economic liberalism." By forcing stabilization and short-term development effects, and almost exclusively the forced quantitative side of the rapid ownership transformation, the emergence and development of capitalism in these countries could not be anything but "fast, immature ... and problematic" (IDS Bulletin, 1998). It is the result of the application of the neo-liberal model of economic growth, such as the *Washington Consensus*, installed in the economic policies of post-communist countries (Hodžić, K., 2004).

The market economy, however, requires adequate institutional structures, the "adaptive efficiency" of economic entities and private property in a competitive milieu, and thus transition can only be carried out gradually, since these are complex and long processes based on a completely new organization, new laws, changing the behavior of various economic entities." This is in line with Stiglitz analyses, according to which the neoliberal model neglects the instructions of neoclassical theories according to which competition and private property are equally necessary for the functioning of the market economy (in terms of *Pareto efficiency*). Shock-therapeutic model of privatization is easy to implement, but such privatization does not contribute to the creation of a market economy. "It is true that, if privatization

is carried out in more or less non-genuine ways and in an environment that does not have the necessary institutional infrastructure, this can jeopardize the long-term prospects for building a market economy. Worse yet, thus created interests of private property contribute to the weakening of the state and undermining of the social order through corruption meddling with legislation" (Stiglitz, J., 1999).

The disintegration of the post-socialist state is based on the assumptions about the communist institutions as "criminal" and "unjustly corrupt" in the process of transition, which is why they need to be quickly replaced with market institutions that will themselves come with privatized property. Namely, the experience of other post-communist countries shows that the initial role of the state in the process of transition to the market economy must be emphasized.

This is a confirmed rule regardless of the concept of the country's economic role. In the conditions of a weak or dysfunctional rule of law, „corruption becomes – which is a paradox - one of the regulators of the social and economic system" (Vuković, S., 2003). Neoliberal and activist (state-interventionist) concept of transition strategy requires a "strong (democratic) state." „A strong state" is, firstly, necessary for the smooth functioning of the market mechanism and its basic institutions, primarily the protection of property and contracts.

It has been shown that the expectation that market institutions will arise from themselves with defined proprietary rights was a big illusion. Liberal reformers were convinced that institutions would pursue private ownership, and that in accordance with *Coase's theory* (1937) property would be quickly redistributed to efficient entrepreneurs. For the critics of neoclassical recipes (Stiglitz, 1999, Kolodko, 2000), it is a reverse process: private property is followed by institutions, i.e. for the creation of markets in transition countries institutional setting is the most important factor for the constant economic growth. Neoclassical economists, these critics interpret, simply do not understand the institutional requirements that are valid for creating a market, as they "simply take it as a given". Already after ten years of transition, it turned out that critics are right: Coase's arguments are not valid because, on the one hand, the primary and secondary market did not become a reality - "so that the property was plundered more than it was re-sold," and, on the other, for sustainability to be viable, it is not only important for property rights to be clearly defined, what also matters is how they are defined.

The beginning and implementation of the transition process in Bosnia and Herzegovina is characterized by the deepest transition crisis in South East Europe. These processes are accompanied by a strong social differentiation and rapidly occuring poverty of most of the population. In addition, Bosnia and Herzegovina, on the one hand, also experienced the physical, biological and substantial deconstruction of society caused by terrible war destruction.

The enormous enrichment of a small number of individuals accompanies social movements, social differentiation, pauperization and destruction. Acquisition of "overnight" wealth is most often associated with corruption as a perceived negative phenomenon of transition. But, as is pointed out, no society is immune to corruption, even those that have successfully completed the transition.

The difference is that in ruined transition societies corruption develops at such a rate and intensity to seriously exacerbate and attack social tissue as a carcinogenic substrate; meanwhile, this phenomenon in developed societies is placed under the control of institutions. The phenomenon and dimensions of corruption threaten to become one of the most serious problems that these societies and the Western Balkan countries are facing.

The transition process, therefore, makes the locus of corruption standpoints, whose sources are structured according to a systematized approach to: [3]

(1) *institutional non-construction*, a vacuum in which the ruling parties "capture the state", which encourages and develops a confusion about moral values and behaviors, in which corruption becomes the usual "way of life";

(2) *state control of economic flows*;

(3) *poverty* society, that "favors the discrediting of professional ethics and encourages the illegal acquisition of material benefits";

(4) *unprepared privatization* (through money laundering, violations of legal procedures in the process of privatization, corruption of public officials involved in the very act of privatization);

(5) widespread *tolerance* for corruption among citizens in the sense of the slogan "every government is corrupt" and the usual "gratitude" to individuals in

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[3] Proceedings *Corruption in the absence of rights.* Experiences from Bosnia and Herzegovina, Croatia, Serbia and Montenegro (2004), Henrich Bell Foundation, Sarajevo (contributions by Z. Golubovic, S Kukić, N.Mapes-Niedika).

specific activities (e.g. doctors, teachers, attendants, etc.);

(6) the appearance of a *new class of tycoons* recruited from the ranks of the former regime and war profiteers;

(7) *the war destruction of the society*, which allows for the looting and war profiteering, and the consolidation of organized crime (the regular appearance of bringing criminals to the civil service).

Thus, the rapid disintegration of totalitarian regimes according to state participation in the economy created a legal and institutional vacuum, longer than expected, and corruption is a natural consequence of a combination of the way in which transition itself is taking place (Stiglitz, 1998, 1999, 2002). In societies with unorganized institutions, corruption is mostly associated with the so-called *political corruption*, and related malversations and omissions in the privatization process. Abuses during privatization (designated in literature as *privatization of nomenclature* or *tunneling*) are reminiscent of the worst forms of initial accumulation of capital. Moreover, the interwovenness of the new political elites and the newly-formed financial mafia is more than visible.

There is almost no transition country in the privatization of which there was no occurrence of corruption and various forms of malversations in general. The privatization process was regularly followed by major or minor scandals, which often led to the conclusion that the plunder of state / social property was in favor of a very narrow group of people who, either through suspicious financial transactions, or through newly formed political connections and influence, acquired a substantial part of yesterday's state / social property.

2. ECONOMIC SOURCES OF SYSTEMIC CORRUPTION IN BOSNIA AND HERZEGOVINA

Focusing on the situation in Bosnia and Herzegovina shows that corruption is not an uncommon condition, but rather a rule with the qualifications of "systemic disease", whose causes can be sought in institutional and civil-cultural facts. In Bosnia and Herzegovina, these sources lie in the new (1995) ethnically divided structure of the state and its economic neoliberal functioning, in which the political national elites cover their corruptions with divergent visions of Bosnia and Herzegovina. Post-war economy of Bosnia and Herzegovina was formed two-dimensionally: on the one hand,

based on neoliberal ideology, and on the other, provisions of the Dayton Agreement. For Bosnia and Herzegovina, the country of "specific specificities", however, such a package combined with general macroeconomic and political instability can not only make it difficult to achieve an environment for economic development, but just its maintenance seems a delicate and almost unsolvable problem; of course, if it is left to "its own" ethnonational strategies (Stojanov, D., 1999). The transfer of fiscal sovereignty to the two entities and Brčko District favors the untouchability of the actors of corruption, since "the corruption of some high-ranking officials and politicians is still largely interpreted as an attack on national integrity and identity of the entire ethnic group. Under such conditions, Bosnia and Herzegovina is incarnated in a very ambivalent situation, in which Bosnian-Herzegovinian society lost its internal capacity for self-sustainability, and whose future is tied exclusively to "external incentives."

This created a weak state. With a non-constructed political culture for a transparent service of citizens and entrepreneurial society, this weak state simply encourages the formation and maintenance of paralel structures that have real power, and that carry out organized crime and corruption. The Dayton Agreement made Bosnia and Herzegovina a loose union, which has no possibility of macroeconomic management of its economy and realizes *ethnic privatizations*. As quasi-state institutions, the entities are strong enough to jeopardize the functioning of Bosnia and Herzegovina as a whole, but are also so weak that they can neither secure the functioning of the market mechanism nor prevent the corruption of their quasi-state apparatus. All this, in fact, says that a real vacuum has emerged in terms of the political and economic functions of the state, and that, at the same time, democratic institutions and mechanisms of the market system have not been created. For example. the new Criminal Code of Bosnia and Herzegovina envisages the possibility of confiscating illegally acquired property, and the recently adopted criminal procedure law gives more powers to public prosecutors and the possibility for investigative bodies to record and search. However, the issue is not the laws, but rather the fact that they are not applied, because there is no political will.

The Criminal Code of Bosnia and Herzegovina[4] in Chapter XIX uniquely treats criminal offenses of corruption and criminal offenses against official and other responsible duties (Articles 217-229), whereas

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4| Criminal Code of BiH, Official Gazette of BiH, 3/03; 32/03; 36/03; 54/04; 61; 04; 30/05; 53/06; 55/06; 32/07; 8/10; 47/14; 22/15; 40/15

the Criminal Code of the Federation of BiH[5], within its competence, defines corruptive acts in Chapter XXII, which carries the title "Criminal offenses against the economy, business and security of the payment system." The provisions of the Criminal Code at the same time point to, thus far recognized forms of corruption, most of which reflect on the financial system of the country. In assessing the level of corruption, that is, the achieved level of the fight against corruption, in addition to the aforementioned assessment methods, the survey

and comparison method based on a representative sample can provide relevant data.

In the following text we present the assessment of corruption provided by Transparency International (CPI – *Corruption Perception Index*) in the countries of Western Balkans, adding Slovenia. The period from 2007 to 2016 has been adopted, while the 2012 estimation, given the new methodology of CPI calculation and the inevitability of the new indicator with previous years' ratings, is presented separately.

Table 1. Corruption Perception Index (CPI) in Region Countries 2007-2016.

Country	2007	2008	2009	2010	2011	2016	Rank in 2016 (among 176 countries)
Slovenia	6.6	6.7	6.6	6.4	5.9	61	32
Croatia	4.1	4.4	4.1	4.1	4.0	49	55
FYR Macedonia	3.3	3.6	3.8	4.1	3.9	37	90
Montenegro	**3.3**	**3.4**	**3.9**	**3.7**	**4.0**	**45**	**64**
Serbia	**3.4**	**3.4**	**3.5**	**3.5**	**3.3**	**42**	**72**
Bosnia and Herzegovina	**2.9**	**3.3**	**3.0**	**3.2**	**3.2**	**39**	**83**
Kosovo	-	-	-	2.8	2.9	36	95

Source: Transparency International (2016, 2011, 2010, 2009, 2008, 2007). "Corruption Perceptions Index".
Note: Corruption Perception Scale 0 to 10 (0 = Absolute Corruption, 10 = No Corruption)
New perception 2012-2016 0 to 100 (0 = Absolute Corruption, 100 = No Corruption)

According to the Global *Corruption Perceptions Index* (CPI) report for 2016, the highest places among the countries of the Western Balkans were: Slovenia (31st place among 176 countries), Croatia (55), Montenegro (64), Serbia (72), Bosnia and Herzegovina (83), Macedonia (90), Kosovo (95). In interpreting the CPI, however, a certain reservation should be given since this is a subjective perception of citizens (which in some situations is critically aggravated, such as those at the time of more intense privatizations or sudden discovery of corruption affairs among politicians) and different (from 2012) methodologies. In any case, wide prevalence of corruption in all countries of Western Balkans is uncertain. This is confirmed by other sources of research (Podumljak, M., 2010), focused on the perception of managers on corruption. At the regional average level, the survey shows that 42.2% of managers believe that corruption is "a huge or important obstacle to business in the region" (within

this average, managers' opinions across countries vary considerably, ranging from 86.8% in Kosovo to 23, 6% in BiH and 24% in Montenegro).

Viewed through the regional average in the last decade, the common feature of the countries of the Western Balkans is a certain stagnation in the fight against corruption, which on the one hand points to a lagging behind in development (corruption is in a negative correlation with economic growth), threatening macroeconomic, political and social stability, and destimulation of investments coming in, and, secondly, failure to implement anti-corruption programs in these countries.

5| Criminal Code of FBiH; Official Gazette of FBiH, 36/03, 37/03, 21/04, 69/04, 18/05, 42/10, 42/11, 59/14/76/14

3. AREAS WITH WIDE-SPREAD CORRUPTION IN BOSNIA AND HERZEGOVINA

Corruption research focuses on the areas of social engagement favorable to corruption. A favorable environment in the areas of corruption creates an opportunity for its influences and expansion into the smallest structural pores of the social structure. It should also be borne in mind that given the specific nature of corruption research, in specific corruption-prone segments it is possible to sometimes have differentiating perceptions of citizens, based on whether the research is focused on the local community or the whole society . However, the shifts and misunderstandings in the hierarchy of areas that are vulnerable to corruption are not reflected in a more significant general trend.

A decade and a half ago, *Transparency International* BiH (2002) concluded that "one of the most pronounced forms of corruption in BiH is the avoidance of obligations towards the state", which is manifested through: avoiding payment of customs, evasion of taxes and duties and bribery of inspectors, which reduced public revenues in Bosnia and Herzegovina by one third.[6]

A review of trends in corruption in the previous decade and after (2002-2016) shows that areas where citizens most often perceive corruption generally remain high intensity levels (segments of society that citizens consider the most corrupt include political parties, legislature, judiciary, tax obligations, with education and public procurement joining them in recent years).

A frequent statement is that the state is „a den" of corruption. As a rule, any state intervention, potentially, represents the opening of a space for corruption. State intervention changes the position of subjects in the economic system. State intervention creates changes that improve the position of some subjects and exacerbate the position of others. This creates a space for corruption because those who see their position improve will be ready to give the creators of systemic solutions some of the new effects with an additional motive to make favorable changes even more favorable. This part of corruption is often not included as part of the overall estimated extent of corruption. Motivation for this kind of corruptive behavior can be different. According to Lambsdorff (2002, pp. 114-120), the most frequent phenomenon is the complicated instability of institutional solutions as well as administrative procedures, whereby state intervention aims to achieve more than is objectively possible.

Thus, the space opens up to develop corruption through the "overcoming" of these complicated procedures and institutional solutions.

4. PARAMETERS OF BATTLE AGAINST CORRUPTION

In stereotypical approaches, the success of the battle against corruption and the future of corruption itself, to a great extent, as seen from the attitudes of respondents in previous research, depends on the establishment of valid legislation, then the development of institutions of the system, civil society and education. In the case of Bosnia and Herzegovina, it is usually referred to the necessary changes to the Election Law and the Law on Financing of Political Parties, and to improving the Law on Public Procurement. Normally, this set of measures is added to the role of the media as the media can play a powerful role in putting corruptive actions in the limelight, so it is necessary to harmonize the entity's laws on freedom of access to information with the state law, with the introduction of penalties for non-compliance. In a situation where it is difficult to prove the existence of corruption in fact and on the part of the judiciary authorities, a media campaign to expose and appoint corruptors can yield significant results. Free media have a stimulating role in economic development, especially in the fight against poverty. In itself, such activity means less corruption, since, sometimes, the media rating has a higher weight than some conviction coming from a political, state or judicial authority.

Of course, the explanation that corruption can be suppressed by the appropriate institutional structure and laws, the development of civil society, the advancement of education and the greater focus of the media on the public stamping of phenomena and actors of corruption is indeed a global theoretical focus on curbing corruption, but not a complete framework for eradicating both the normative public space and the corruption mentality in which corruption phenomena are emerging and expanding. Especially since corruption in some situations does not always produce negative effects, which is the case when a bad or kleptocratic state administration imposes harmful regulation and thus impedes normal business transactions, so the best way to eliminate not only corruption but also its harmful effects is to eliminate bad and harmful regulation (Mijatović, B., 2007).

6| *Transparency International BiH* (2002), Study on Perception of Corruption of BiH, Banja Luka/Sarajevo, p. 71.

The elaboration of parameters for the fight against corruption is placed in two opposing theoretical-ideological frameworks:

● The first is interventionist; it refers to the marked political will of political and legislative power and the determination of the authorities to systematically tackle the challenges of corruption, which in principle assumes a "strong state". The absence of a "strong state" in this approach, which is widespread among analysts in corruption in the Western Balkans, always implies a violation of the law and the absence of procedures, and ultimately results in corrupt behavior of civil servants.

● The other is libertarian; this approach is present in the Western Balkans only through the opus of rare individuals. In all likelihood, the leading libertarianist economist in this area is Boris Begović (2007), according to whom corruption is analytically positioned to reduce the benefits of corruption and increase costs for participants in corruption work. The benefit of corruption exists in conditions of counterproductive state intervention, i.e. lack of competition, in conditions where a large rent is created. In this approach, through deregulation and liberalization, the benefits of corruption for corruptors are removed. Increasing costs for participants in corruption involves increasing the transaction costs of such businesses, as well as the expected penalties for the crime of corruption. The resolve, that is, the political will and good elements of a strategy embedded in sound, liberal economic policies, are the preconditions for effective fighting against corruption. If this is achieved, concrete institutional or organizational solutions are not of crucial interest - different solutions can work well if the above preconditions are met. The previous positive experiences from countries fighting against corruption show that the strategy of combating corruption was based on three complementary anti-corruption levels (Roljić, L., 2016):

1) well-developed "situational prevention", that is, the limitation of opportunities for corruption,

2) increasing repression against offenders,

3) changes in cultural patterns in society.

5. CORRUPTION REPERCUSSIONS ON THE FINANCIAL SYSTEM

The most dramatic consequences of corruption are: a decline in employment, a slowdown in economic activity, rising prices, losing confidence of foreign investors and, consequently, the growth of public debt.

In various parts of the market, corruption leads to an unequal position those entities that act in accordance with existing market conditions and rules, when compared to entities that, using corruptive mechanisms, achieve an apparent competitive advantage. At the same time, there is a false picture of the cost effectiveness of those who base their competitive advantage on corruptive behavior. The inadequate market conditions further reduce investments in technical progress and innovations whose return and verification period is incomparably slower than "verifying" the effects of corruption.

As a result, healthy entrepreneurship and competition (on which the comparative advantage and efficiency of the market economy system rests) are declining, and at the same time, the entrepreneurial power within the country is being destroyed.

Distrust in the functioning of state institutions and the state's legislation is rejected by foreign investors, those who are inclined to comply with national legislation and attract investors who themselves show high preference for corruption and who base their competitive advantage precisely on corruption. That is why many investment projects hardly prove their economic viability, which reduces investment in the country. Consequently, the overall economic activity and employment in the country are reduced.

The result of corruption is the creation of a special type of "businessmen", namely renters, in the transition countries called "tycoons", which increase their wealth by renting rather than investing. By restricting the process of privatization mainly non-profit public enterprises remain on the market; they are not exposed to market verification by proving they are capable of making profits. At the same time, they their doors wide open for further strengthening of corruption by passing the burden of losses onto public revenues with unproductive employment contrary to real needs. Finally, the traditional manifestation of corruption is represented by various types of tax evasion, which, by limiting the state's potential to finance public needs, directly reduces employment and the possibility of capital investment.

Countries that, through their mechanisms, fail to contain corruption quickly get a bad reputation in terms of realiability of business dealings, and thus they only succeed in attracting businessmen who only deal in unregulated markets. As stated in the preceding part of the text, there are no exact indicators of corruption that would allow a reliable measurement of the level of corruption in a country. Measurements used in scientific and professional circles are based on the determination of selected indicators according to which the method of comparison establishes trends of this phenomenon. In these comparisons, regional comparisons are of particular importance because they are about the approximate geographical, societal and political conditions in which economies are developing.

For this analysis, we will use several economic indicators that indicate the trends in which it is possible to accept the conclusion that these developments are, in part, the consequences of corruption, among other factors.

In the analysis, we will use the following indicators (which do not end only with the list offered): GDP, movement of foreign direct investments, trends in the labor market and movement of the country's credit rating.

Comparison is done between Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Kosovo and Macedonia.

Table 2. Certain Macroeconomic Indicators in the Countries of the Region 2010-2015.

Country	GDP growth rate		DSI (mil USD)		Labor market / employment rate		Credit Rating (S & P)	
	2010	2015	2010	2015	2010	2015	2010	2015
Slovenia	1.2	2.3	-119	-1,370	73.0	69.1	A-	
Croatia	-1.7	1.6	-1,272	-176	64.9	60.5	BB-	
BiH	0.8	3.0	-363	-246	39.0	39.2	B	
Serbia	0.6	0.8	-1,501	-2,001	47.3	52.1	BB-	
Montenegro	2.5	3.4	-731	-687	47.6	51.4	B+	
Macedonia	3.4	3.8	-207	-230	43.5	47.8	BB-	
Kosovo	3.3	4.1	-440	-302	26.1	25.2	-	

Sources: 1.World bank, Data, GDP, growth, annual %; 2.World bank, Foreign direct investment, net;
3. Eurostat, Key figures on Europe -2016 edition Labour market; Eurostat;
Candidate countries and potential candidates: SI - employment

The greatest dynamics of the GDP growth rate is expressed by Kosovo as well as Macedonia, which is not only an economic result, but also the result of the engagement of international forces and institutions that support the stabilization of their political circumstances. Montenegro is ranked third in the circle of selected countries and its growth is based on joining the NATO pact and investments in its infrastructure, while Slovenia and Croatia are showing growth in line with the commitment to European funds. BiH and Serbia are showing all the characteristics of countries that are still not supported by the international community to the extent expected, and they show slow growth in which it is realistic to believe in the consequences of various forms of corruption.

In the FDI area, all the countries of the region show a decline in foreign investments, which is an indicator of the continued presence of insufficient investor confidence, in part due to the current corruption ratings. The volume of investments is modest, especially considering the fact that most foreign investment are composed of mutual investments of countries in the region, and that "real" foreign investments from developed countries are still modest.

The consequences of the GDP and FDI trends have also resulted in a drop in employment, which is particularly pronounced in the case of BiH and Kosovo. Institutional trust and investor safety, in addition to the geographic benefits of the region and many of the benefits of available labor capacities, are still

apparently unsuccessful gaining market verification. In support of these conclusions, all the countries of the region have mostly the same ratings.

Analyzing the problem of corruption in monitoring the movement of economic indicators, we arrive at a more reliable picture of the consequences of corruptive activities, and can make more reliable judgments on the principle of perception than the detection of corruption.

5.1. Money laundering as a result of corruption and organized crime

Corruption results in material and non-material benefits. There is no objective data on the extent of corruption expressed in monetary value, but when it comes to the form analyzing the form that corruption activities ultimately take, it is undoubtedly money. Money enables the actors of corruption with increased mobility in the further use of corruption results, and the primary focus of countries and the international community is aimed at preventing money laundering. Monitoring the trace of money is amongst the most effective methods to reveal corruption activities. Money laundering is the legalization of financial assets acquired through criminal activities, or financial transactions to hide the true origin of money and other forms of capital.

Through the monitoring and assessing of the scale of money laundering activities, it is possible to arrive to relevant estimates of the extent of corruption and other forms of organized crime.

The basic procedures for money laundering are the following (Vuković, S., 2003):

● replacement or transfer of property arising from the performance of the prohibited activity;

● concealment or evasion of the origin of money or concealment of the place where the money is invested, concealment of the purpose of using the property and the rights arising from the performance of an illegal activity;

● concealment, privatization of enterprises, unlawfully acquired assets and social and state capital;

However, in order for someone to use the funds thus obtained without hindrance, those funds must be legalized and thus included in legal financial flows. Participants in money laundering resort to various financial transactions to hide the true origin of money, to make it a legal means of exchange in the money markets, but in doing so, they directly threaten the financial system of the country.

In these activities, there is a whole chain of participants who use the knowledge of financial experts to show the money thus acquired as legally acquired and place it in domestic or international business activities. For the purpose of money laundering, weaker regulated and supervised banking systems are most often used. In practice, the so-called underground banking system that is beyond the control of state authorities is being used for these purposes.

There are a number of different techniques of money laundering, and they are commonly referred to as money passing through three stages:

- investing,

- concealment,

- integration

There are numerous forms of money laundering, and the most important are: cash transactions, electronic transfers, offshore financial centers, non-corporate groups, professional financial advisers, online banking, gambling, terrorism and others, such as the role of lawyers, notaries, accountants, auditors and other professionals in the process of money laundering.

Corruption and money laundering are shifting from higher to lower levels of political decision-making, including entire social strata. There are many causes of corruption in the economy, but its manifestations can take various forms. Criminals spend and invest illegal money in different ways, and are usually grouped into the following, four basic forms (Vuković, S., 2003):

1. Spending illegally acquired profits through the purchase of goods and investing in restaurants and hotels;

2. Investing "dirty" money into service activities (especially taxi services), and for such money transactions to be professionally executed criminals hire attorneys and other financial professionals;

3. Criminals provide themselves and their associates through investments, which they have illegally realized, a high social status, thereby gaining an opportunity to associate with politicians and to influence the legislative activity that they adapt to their interests;

4. Criminals have "their" politicians who they pay and thus participate in the political life of the country by ensuring their interests in the highest social life.

The economic and political component of corruption and money laundering are changing rapidly so as to be more difficult to detect, in order for the state authorities not to be able to prevent and suppress corruption. Therefore, knowledge of emerging forms of economic crime, in particular corruption and money laundering, is necessary in order to: examine the conditions, causes and other relevant circumstances favoring the creation of these acts in a given period and to take timely and / or effective measures by the state and other entities of the society with the aim of preventing and combating corruption.

Removing such circumstances, with the conscious and organized activity of state institutions and the whole society, is sure to reduce the risk of the devastating consequences of corruption. Control, as one of the powerful ways of prevention, should cover all areas of economic and non-business activities that are endangered by corruption and money laundering. Control enables timely recognition of new forms of economic crime and identifies criminal acts of corruption and money laundering. It should be kept in mind that with the development of international and other relations, corruption and money laundering get new forms, with continuous improvement and utilization of new and diverse methods and tools that are increasingly applied in practice. Some of the basic characteristics of money laundering resulting from corruption and other predicate offenses are (Birks, P., 1995):

First, the global nature of the phenomenon of money laundering makes geographical boundaries more and more irrelevant. Money launderers tend to shift their activities to jurisdictions where small or poorly established anti-money laundering measures are in place.

Second, a large number of traditional money laundering techniques are revealed, such as structuring transactions to avoid reporting requirements, cash smuggling, currency conversion, and the use of offshore financial centers, which remain the most prominent methods for hiding profits obtained through criminal activities. Various forms of Internet usage, such as casino gambling and banking related activities, as well as electronic internet banking are increasingly providing mechanisms that could be used for fast money movements, which are increasingly deviating from the use of traditional paper currency in industrialized countries.

Third, there is an upward trend among money makers to move away from the banking sector to the non-banking financial institutions.

Fourth, there is a steady increase in the amount of criminal cash that is being smuggled out of countries for placement in financial systems abroad. In many jurisdictions, there are no border records that would follow the path of cash flows, and it is quite easy for money launderers to move large sums of cash over land borders to other countries.

Fifth, the trend most frequently observed in money laundering is the increase in the use of non-financial businesses or professions that are not related to banking institutions. Money launderers are increasingly receiving help from professional helpers such as accountants, notaries, lawyers, real estate agents and brokers in the purchase and sale of luxury goods, precious metals, and even durable consumer goods, textiles and other products that are part of imports and exports. All of these benefits use a wide range of resources to obscure the origin and ownership of problematic assets. The use of outsourcing companies, usually established within the jurisdictions of offshore financial centers, is one of those common resources.

Money laundering needs to be treaded as an accompanying occurrence of organized crime because, according to the degree of social danger, it is one of the most dangerous aspects that affects the foundations of the national economy. Unlawful activity, based on these criminal offenses, gives the organizers enormous material gain, since after their "legalization", it is possible to use it in the process of all other legal activities. Money laundering is often performed as an important part of the activities of organized groups, and in many cases the very organizers are persons in important positions in the state administration or the private sector, i.e. persons with a high social status. Professional criminals often, in order to organize money laundering, are linked to creating powerful groups, gangs, which have a foothold in the police, the judiciary authorities and among politicians. The psychological component of money laundering indeed points to political aspects, because those who decide to get involved in such dealings are typical representatives of that part of the authorities who are skillfully involved in political activities.

The amount of money laundering can hardly be reliably estimated, although estimates are made using indirect indicators of payment transactions, the amount of money in circulation, and the like. The latest estimate was published by PWC (*Price Woterhouse Coopers*) according to which in the USA the volume of money laundering reaches 2-5% of GDP or about 1 trillion USD per year.[7]

7| PWC, https://www.pwc.com/gx/en/services/advisory/forensics/economic-crime-survey/anti-money-launder-ing.html, accessed September 1, 2017

The problem of money laundering is directly reflected on Bosnia and Herzegovina, which, due to insufficiently harmonized legislation and insufficient commitment to this issue, suffers market consequences. Namely, despite establishing the basic legislative basis, there are strong risks of money laundering based on inefficiency in the fight against organized crime and corruption, as well as attempts to use the territory of Bosnia and Herzegovina to finance terrorism. In the report of 17 September 2015, published by Moneyval Commity, Bosnia and Herzegovina is classified as a group of countries with a very high risk of money laundering.

In the conclusions of this report, Bosnia and Herzegovina has been warned of the shortcomings of the money laundering system, with particular emphasis:

Conclusion 3 - Many indicators show that BiH is vulnerable to money laundering and terrorist financing and is attractive to organized criminals and tax evaders

Conclusion 6 - BiH has improved its ability to freeze and confiscate assets and introduce a provision for confiscating the reverse burden and applying them in practice which would undoubtedly strengthen the confiscation regime. However, effective implementation needs to be improved, in particular with regard to the routine application of provisional measures and the effective execution of confiscation orders.

Conclusion 9.- The effectiveness of the system for controlling physical cross-border currency transport is an issue of concern

Conclusion 11. There remains a concern regarding the level of implementation of the monitoring committee for the fig.

CONCLUSION

Corruption is cutting deeply into the most living and working segments of the collapsed transitional societies. Since the beginning of transitional processes, authoritarian regimes, under the pretext of parliamentary democracy, influence the creation of formal and informal networks of corruption at all organisational levels. These networks are facing corruption or gaining illegal benefits in the immediate structure of the state leadership and management at all levels. The unmistakable conclusion is that the ruling political establishments of these countries are marked with proto democracy, which includes democracy as the supremacy of

the law, but in terms of normative crisis, without democratic or political structures that can support it (interdependent triangle: democracy- economic growth-corruption).

The corruption is the rule in the ruined transitional societies, with qualifications of "systematic disease", causes of which could be sought in institutional, historical and cultural facts. In Bosnia and Herzegovina, these causes lie in divergent political visions resulting from the ethnically divided structure of the state union and in the imposed neo-liberal model of economic development. The current rating on the state of corruption in the Western Balkans says that there is a certain stagnation in the fight against corruption, which on the one hand, refers to growth retardation (corruption is negatively correlated with economic growth), endangering the macroeconomic, political and social stability, and discouraging the arrival of investment, and on the other hand, failure of the implementation of anti-corruption programs to a certain extent. State institutions simulate efforts to combat corruption, but actually have no interest in the success of the project of fighting corruption and strengthening the capacity of the police and local authority. The main problem of implementation of anti-corruption programs is the lack of political will, regardless of the existence of laws in this area that are normatively very good, in most countries of the Western Balkans. Monitoring the process of fighting corruption requires, in addition to the participation of state bodies and the international community, the active participation of the media and the civil sector.

Because of the different corruption networks and their inter-relatedness, any isolated actions to curb it cannot provide results in the long run. Due to the fact that corruption is the sis-tem (at) is authority project, temporary effects that become more transparent at some point of the pressure from the international community, will not be healing for this "social disease". The measure, which would be enforceable and which would give results in the long run, refers to the establishment and development of the rule of law and raise of the living standards of citizens and economic levels of society in general. This would gradually lead to the exclusion of the sources of corruption. The success of the struggle and the future of corruption depend on the establishment of valid legislation to a large extent, as evident from the attitudes of the respondents in the study, and on the development of state institutions, civil society and education. The amendments to the legal provisions, such as the Election Law and the Law on Financing Political Parties, and improvement of the Law on Public Procurement are necessary. We should not ignore the role the media can play in denouncing the corrupt acts. It is necessary to

harmonize the entity laws on freedom of information with state laws, with the introduction of penalties for non-compliance with the law. In a situation where it is difficult for judicial authorities to prove the existence of corruption, one media campaign can bring significant results in exposing and naming the carriers of corruption. Unrestricted media have a stimulating role in economic development, especially in the fight against poverty. Therefore such activity means less corruption because, sometimes, the media rating carries more weight than the condemnation of any political, state or judicial body.

Corruption and organized crime as parts of the same problem, disturbing the established legislation in the country, are primarily attacking financial system of the country. The motive of corruption and crime is money. Money, or "dirty money" leads to damage to the reputation of the country and rejection of those who want to achieve comparative

advantages at the market with their knowledge and attracts those who have the ability to "wash money" and through the legal institutions of the system to achieve their own goals only, neglecting social values. The extent of corruption and organized crime cannot be measured and it is difficult to assess it comprehensively. Despite the accepted perception of the extent of corruption, there remains a reserve in terms of its reliability and representativeness of the samples used and the adopted parameters. A perception based on exact indicators that indicate movement directions and trends of selected economic indicators of those economic activity through which, by experience, holders of corruption and organized crime legalize their ´dirty money´ in the easiest way, seem much more reliable. On the other hand, macroeconomic indicators arising from the business relationship in the international communication of the country and investors whose primary motive for the competition is the profit attained, confirm this perception.

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SATISFACTION WITH INDEPENDENT FASHION STORES' ENVIRONMENT

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Abstract

This study seeks to investigate U.S. generational cohort (Swing, Baby Boomer, Generation X, and Generation Y) differences of female consumers' satisfaction of store environment variables—store atmosphere, ease of shopping, and sales associates—from the standpoint of a small business chain with 18 locations in the Southeastern United States. Results reveal no significant overall mean differences in satisfaction for store atmosphere and ease of shopping; however, the Swing Generation differs from Generation Y for sales associate satisfaction. Additionally, results indicate generational cohort differences for two sales associate measures and one ease of shopping measure.

Keywords: Small, independent retailers; Consumer satisfaction; Store environment

Category: Research paper

INTRODUCTION

Small businesses make up 99.7% of U.S. employer firms, account for 54% of all U.S. sales, and consist of fewer than 500 employees (U.S. Small Business Administration, 2014). Many small, independent retailers face intense competition from national department store chains and oftentimes struggle to survive (Grewal, Roggeveen, Puccinelli, & Spence, 2014). Many have limited financial resources and are faced with the daunting task of deciding where and how to allocate funds for marketing, company expansion, and the introduction and development of new inventory lines. Furthermore, employee training, if available, is often conducted in-house by the owner and/or existing employees. Despite the challenges faced by small, independent retailers, they provide valuable resources to communities.

These retailers enhance the community landscape by increasing the diversity in shopping opportunities, employment, and acting as sales tax resource generators.

Retailers throughout the industry, including big box, franchise, chain store and independent companies alike, are realizing that products and/or services alone are not sufficient to keep an organization profitable, since marketplace competition is at an all-time high. To be successful long-term, retailers must go beyond "selling products and services"; they must be in the business of satisfying consumers (Hosseini, Mosayebi, & Khorram, 2013; Muhammad, Musa, & Ali, 2014). The challenge however, is identifying how to best satisfy consumers (Turhan, 2014). Research suggests that retailers take a holistic approach whereby a variety of consumers' needs are examined (e.g., Kim & Damhorst, 2010). Shopping convenience, breadth and depth of products offered, store environment, ambiance, and sales associates are all aspects that retailers try to adapt in a pleasing way to entice and retain consumers. Altogether, consumers' shopping behavior (i.e., their willingness to stay in the store, browse merchandise, and make purchases) is ultimately influenced by the store environment (Sinha & Uniyal, 2005). The deciding factor of a consumer's level of satisfaction with a store is often not based on the purchase or the product; it is the

mood and intensity of emotions garnered from the store environment and experience (Sachdeva & Goel, 2015).

The study of shopping environment is not unique to the consumer behavior research literature, nor is female consumers' perceptions of the shopping environment (e.g., Michon, Chebat, Yu, & Lemarie, [2015] recently studied female consumers' perceptions of the shopping mall environment). The juxtaposition of researching female consumers' level of satisfaction with the small fashion chain store environment, via generational cohort, is where the gap in the literature lies. Since small, independent fashion chain stores face considerable competition and must set themselves apart (i.e., gain a competitive advantage) from national retail chain stores, this study seeks to investigate female consumers' satisfaction in regards to the following store environment variables: store atmosphere, ease of shopping, and sales associates from the standpoint of a small business chain. In doing so, this study will: (1) utilize data obtained via a survey conducted for a small, independent fashion chain store located in the Southeastern United States; (2) analyze female consumer data via generational cohort; and (3) test six hypotheses (two per store environment variable). A privately owned small, independent fashion chain store's consumer email database is used consisting of 18 brick-and-mortar locations in five states. Generational cohorts examined in the study include: Swings (those born between 1933 and 1945); Baby Boomers (those born between 1946 and 1964); Generation Xers (those born between 1965 - 1980); and Generation Yers (those born between 1981 - 2000).

THEORETICAL BACKGROUND

Person, Situation, and Person-within-Situation Antecedents of Satisfaction

Millions of dollars are spent annually by retailers on marketing and advertising in an attempt to encourage consumer traffic, entice patronage, and instill satisfaction. These resources are often wasted as a result of negative in-store scenarios (Chang, Cho, Turner, Gupta, & Watchravesringkan, 2015; Grewal, Baker, Levy, & Voss, 2003). A boring or ineffective store atmosphere, ineffective or insufficient number of sales associates, or lack of shopping ease can override advertising efforts. Instead of satisfying consumers with the promise of new merchandise, a negative environment taints the shopping experience. Building upon previous research (Bloemer & Odekerken-Schroder, 2002; Chang et al., 2015; Cho & Lee, 2017; Fatima & Razzaque, 2013; Grewal et al., 2003; Kim & Kim,

2012; Sachdeva & Goel, 2015), the authors propose that store atmosphere, ease of shopping, and sales associates significantly influence female consumer shopping experience satisfaction. Through the use of Dickson's (1982) general framework for analyzing the antecedents of store satisfaction, Bloemer and Odekerken-Schroder (2002) distinguish a person antecedent as consumer relationship proneness, a situation antecedent as store image, and a person-within-situation as a positive effect. Bloemer and Odekerken-Schroder (2002, p. 69) define consumer relationship proneness as "a consumers relatively stable and conscious tendency to engage in relationships with retailers of a particular product category", store image as "the summation of all attributes of a store as perceived by the shoppers through their experience of that store", and include a positive effect as a person-within-situation antecedent of satisfaction because "the positive affect a person experiences is elicited by a particular store situation or environment." This general framework is applicable to the current study, since the authors are analyzing consumer (person antecedent) satisfaction in regards to store environment (i.e., store atmosphere, ease of shopping, and sales associates) (situation antecedent) of a small, independent fashion chain company (person-within-situation antecedent). According to Dickson (1982), person-situation segmentation can be analyzed via groups of persons (e.g., generational cohorts), since individuals or groups of persons view physical and social settings differently. As such, this study analyzes differences among generational cohorts.

LITERATURE REVIEW

Shopping is a popular past time for consumers, whether they are in their hometown, relaxing on the weekend or vacationing (Sirakaya-Turk, Ekinci, & Martin, 2015). Motives and perceptions of shopping activities are classified into two categories: hedonic and utilitarian. Hedonic shopping is undertaken for the sheer enjoyment of the activity (e.g., shopping for jewelry or a new outfit). Utilitarian shopping consists of an activity that fulfills a necessary household task (e.g., shopping for groceries, filling the gas tank, purchasing supplies for yard work). The type of shopping a consumer undertakes may influence the level of satisfaction received from the experience (Molinillo, Gomez-Ortiz, Perez-Aranda, & Navarro-Garcia, 2017; Sirakaya-Turk et al., 2015). A safe assumption may be made that many, although not all, consumers enjoy shopping for a new outfit significantly more than they do for groceries. While the financial bottom line continues to be the ultimate deciding factor in the viability of a company, research suggests that consumer satisfaction is a critical component to any company's long term success (Evanschitzky, Sharma, & Prykop, 2012).

The store's environment is one area that retailers are able to directly control, and therefore can alter and influence consumers' level of satisfaction. Specific areas within the store environment that may influence consumers' satisfaction, and ultimately their loyalty and purchase behavior with the retailer, include the store atmospherics, ease of shopping within the store, and sales associates.

Store Atmosphere

Retailers, regardless of size, shape the store's atmosphere in an attempt to maximize consumers' satisfaction and ultimately purchasing behavior (Chang et al., 2015; Cho & Lee, 2017; Kim & Kim, 2012). Store atmosphere is broadly defined as anything within the store that influences the retail environment (Grewal et al., 2014). Retailers spend millions of dollars annually updating the store's environment in an attempt to enhance the store's atmosphere (Muhammad et al., 2014). Components of the atmosphere include lighting, displays, mannequins and fitting rooms. The authors propose that consumers' satisfaction with store atmosphere is the sum of their experiences with the retail physical environment. Research supports the premise that a pleasing store atmosphere significantly influences consumers' satisfaction with a retail store (Cho & Lee, 2017; Muhammad et al., 2014). Building upon the previous research, the authors propose two hypotheses related to consumers' satisfaction with store atmosphere. The hypotheses are:

H_1: Satisfaction of store atmosphere will demonstrate generational cohort (Swing, Baby Boomer, Generation X, and Generation Y) differences.

$H_{2(a-e)}$: Satisfaction of the store atmosphere measures—(H_{2a}) cleanliness, (H_{2b}) inviting atmosphere, (H_{2c}) enjoyable music, (H_{2d}) comfortable temperature, and (H_{2e}) appealing window displays—will demonstrate generational cohort (Swing, Baby Boomer, Generation X, and Generation Y) differences.

Ease of Shopping

Regardless of the type of shopping activity, hedonic or utilitarian, the ease in which consumers are able to navigate the retail store environment significantly influences their level of satisfaction with the company (Grayson & McNeill, 2009; Pons, Giroux, Mourali, & Zins, 2016). Research reveals that ease of shopping significantly influences consumer satisfaction with the shopping experience (Grewal et al., 2003; Skallerud, Korneliussen, & Olsen, 2009). For example, consumers who are not bound by time constraints typically perceive the shopping experience to be easy, more pleasant and therefore are more satisfied with the experience. In addition, the effectiveness, or lack thereof, of the store's design can greatly enhance or detract from consumers' perception of the ease of shopping (Turhan, 2014). Ease of shopping as it relates to the store's environment is not a new concept. Indeed, as early as 1973, Kotler cites the importance and relationship between store atmospherics to that of ease of shopping and consumers' level of satisfaction. Other research (Baker, Parasuraman, Grewal, & Voss, 2002; Ridgeway, Dawson, & Bloch, 1990) suggests that the store's environment significantly influences a consumers' decision to patronize the establishment.

When retailers focus on offering shopping ease, they are essentially attempting to make consumers comfortable within the retail environment. The desired comfort level is for consumers to feel as if they are part of the retail family. Browsing, selecting, and purchasing products and services from a retailer with a shopping ease environment is one that brings delight, enjoyment and/or feelings of convenience (Turhan, 2014). As competition increases, the authors propose two hypotheses related to consumers' satisfaction with ease of shopping. The hypotheses include:

H_3: Satisfaction of ease of shopping will demonstrate generational cohort (Swing, Baby Boomer, Generation X, and Generation Y) differences.

$H_{4(a-e)}$: Satisfaction of the ease of shopping measures—(H_{4a}) layout, (H_{4b}) timely purchase, (H_{4c}) checkout service, (H_{4d}) shopping baskets, and (H_{4e}) packaging—will demonstrate generational cohort (Swing, Baby Boomer, Generation X, and Generation Y) differences.

Sales Associates

Many retailers state that "customer service" is the number one priority for success. The difficulty with ensuring high quality customer service is that it entails predicting consumers' expectations and successfully satisfying the expectations and requirements (Katarachia, 2013). An emphasis on customer service lends itself to an extensive amount of research on the subject matter (e.g., Bradford, Crant, & Phillips, 2009; Chang et al., 2015; Homburg & Stock, 2005).

Retailers would be unwise to presume that the primary role of a sales associate is to complete sales transactions. Perhaps a more important role is that of developing personal connections with the consumers (Gremler & Gwinner, 2000). It is through enjoyable business-to-consumer interactions that satisfaction with the retailer is built (Fatima & Razzaque, 2013).

Research reveals that sales associates' appearance (e.g., how they are dressed) and the perceived level of friendliness, significantly influences consumers' response toward them (Kim, Ju, & Johnson, 2009; Tsai, 2001). Other research indicates that consumer satisfaction is influenced by the sheer presence of sales associates (e.g., number and availability of sales associates) (Kim & Kim, 2012). Too few sales associates results in dissatisfaction among consumers, whereas the ability to obtain assistance throughout the store generates consumer satisfaction (Kim & Kim, 2012).

Based on prior research, the authors propose two hypotheses as they relate to consumers' satisfaction with sales associates. The hypotheses are:

H_5: Satisfaction of sales associates will demonstrate generational cohort (Swing, Baby Boomer, Generation X, and Generation Y) differences.

$H_{6(a-f)}$: Satisfaction of the sales associate measures— (H_{6a}) periodical check back, (H_{6b}) assistance with selection, (H_{6c}) knowledge of merchandise, (H_{6d}) advice on trends and fashion, (H_{6e}) friendliness, and (H_{6f}) fashionably dressed—will demonstrate generational cohort (Swing, Baby Boomer, Generation X, and Generation Y) differences.

METHODOLOGY
Data Source

Using the independently owned fashion chain store's consumer email database, an online survey (via Qualtrics) is employed to measure the hypotheses. Based upon prior research (e.g., Kim & Kim, 2012; Muhammad et al., 2014; Turham, 2014), quantitative questions are posed to actual customers. The online survey consists of four sections: (1) store atmosphere; (2) ease of shopping; (3) sales associates; and (4) demographics. Demographic questions include gender and age. The demographic question regarding age is segmented by generational cohort for ease of data analysis and due to the information being sought by the chain store owner.

The independent chain store regularly updates the consumer's email address at the time of purchase. Additionally, consumers are asked for consent to be contacted via email regarding promotional merchandise and updates on store news and events. Consumers who agreed to be contacted by email for promotional purposes are included in the sample population. Consumers are randomly selected to participate in the survey by the first letter of their email address from a database of 7,000 names. The final random sample consists of 1,500 consumers who (a) regularly patronize the local independent chain store retailer and (b) have made a purchase in the past 12 months. The study yielded a return rate of 33.8%; thereby, providing the researchers with 507 useable, completed surveys for data analysis. The participant breakdown is as follows: 18 (3.55%) Swings, 203 (40.04%) Baby Boomers, 195 (38.46%) Generation Xers, and 91 (17.95%) Generation Yers. All participants included in the study were female, because they are the company's target market.

Measures and Analysis Procedures

Store atmosphere satisfaction ($H_{1-2[a-e]}$) is captured by asking respondents to indicate on a five-point Likert-type scale (4 = strongly agree, 3 = agree, 0 = neutral [neither agree nor disagree], 2 = disagree, and 1 = strongly disagree) their level of agreement for five individual measures/statements: (1) the store is clean, (2) the store environment is inviting, (3) the music being played is enjoyable, (4) the temperature is comfortable, and (5) the window displays are appealing. For $H_{3-4[a-e]}$, ease of shopping satisfaction consisted of five measures/ statements: (1) the layout is easy to shop, (2) I am able to complete my purchase in a timely manner, (3) good checkout service is provided, (4) shopping baskets are provided, and (5) store packaging is an important part of the shopping experience, while sales associate satisfaction ($H_{5-6[a-f]}$) consists of six measures/statements: (1) sales associates check back with me periodically during my shopping experience, (2) sales associates assist me in selecting merchandise, (3) sales associates are knowledgeable about the merchandise, (4) sales associates offer trend and fashion advice, (5) sales associates are friendly, and (6) sales associates are fashionably dressed. The same five-point Likert-type scale used to measure H_{1-2} is also used for H_{3-6}.

Prior to hypotheses testing, a confirmatory factor analysis is used to test the adequacy of the variables (store atmosphere, ease of shopping, and sales associates). The goodness of fit index is 0.92 (X^2 = 319.66, p = <0.0001); therefore, there is evidence that the variables are adequately measuring/ capturing the proper information. For $H_{1, 3, 5}$, one-way analyses of variance (ANOVA's) are conducted to find out if significant mean differences are present between the generational cohorts (independent, categorical variables) for the three dependent variables (store atmosphere, ease of shopping, and sales associates).

For $H_{2[a-e], 4[a-e], 6[a-f]}$, ANOVA's are also utilized; however, testing is conducted for each measure (dependent variable) associated with the three variables (five measures for store atmosphere, five

for ease of shopping, and six for sales associates) in order to determine if significant mean score differences exist between the generational cohorts (independent, categorical variable). Following ANOVA testing, post-hoc pairwise comparisons using Tukey's HSD procedure for unequal sample sizes are then conducted to test for mean score differences between generational cohorts. The statistical program SAS is used for all analyses and all significance levels for are set at α ≤ .05.

FINDINGS AND DISCUSSION

ANOVA testing among the generational cohorts on the three store environment variables reveal no significant ($p \le .05$) mean differences: (H_1) store atmosphere ($F = 1.49$, $p = 0.22$); (H_3) ease of shopping ($F = 1.67$, $p = 0.17$); and (H_5) sales associates ($F = 2.34$, $p = 0.07$) (see Table 1); therefore, all three hypotheses (H_1, H_3, and H_5) are not supported. Based on the overall mean scores, all generational cohorts appear to be more satisfied with store atmosphere

(mean score = 3.40), than that of sales associates (mean score = 3.21) and ease of shopping (mean score = 3.09) (see Table 2). It is important to note that all generational cohorts appear to be somewhat satisfied with the three store environment variables since all variables receive mean scores within the range of three (agree). On average, the individual generational cohort mean scores for the three store environment variables are as follows: store atmosphere (Swing = 3.69; Generation X = 3.42; Generation Y = 3.38; Baby Boomer = 3.35); ease of shopping (Swing = 3.41; Generation Y = 3.14; Baby Boomer = 3.08; and Generation X = 3.03); and sales associates (Swing = 3.64; Baby Boomer = 3.23; Generation X = 3.19; and Generation Y = 3.10). Following ANOVA, pairwise comparisons using Tukey's HSD reveal that sales associates is the only variable to experience significant mean differences among the generational cohorts. As such, it is found that the Swing Generation (mean score=3.64) significantly differs from Generation Y (mean score = 3.10).

Table 1. ANOVA results: Generational cohort effects of mean scores by variable and measure (H1-6).

Variable & Measure	n	df	F	p-value
Store Atmosphere (Overall)	506	3, 503	1.49	0.22
The store is clean.	504	3, 501	2.04	0.11
The store environment is inviting.	504	3, 501	0.65	0.58
The music being played is enjoyable.	454	3, 451	0.77	0.51
The temperature is comfortable.	500	3, 497	2.19	0.09
The window displays are appealing.	501	3, 498	1.04	0.38
Ease of Shopping (Overall)	506	3, 503	1.67	0.17
The layout is easy to shop.	502	3, 499	0.98	0.40
I am able to complete my purchase in a timely manner.	502	3, 499	0.41	0.74
Good checkout service is provided.	502	3, 499	0.29	0.83
Shopping baskets are provided.	455	3, 452	2.73*	0.04
Store packaging is an important part of the shopping experience.	500	3, 497	1.98	0.12
Sales Associates (Overall)	506	3, 503	2.34	0.07
Sales associates check back with me periodically.	505	3, 502	1.87	0.13
Sales associates assist me in selecting merchandise.	495	3, 492	3.60*	0.01
Sales associates are knowledgeable about the merchandise.	501	3, 498	2.99*	0.03
Sales associates offer trend and fashion advice.	479	3, 476	1.35	0.26
Sales associates are friendly.	503	3, 500	1.95	0.12
Sales associates are fashionably dressed.	500	3, 497	0.13	0.94

Note: *Significant: $p \le .05$.

Table 2. Mean vectors: Testing for differences among generational cohorts (H1, 3, and 5).

Generational Cohort	Variable	n	Mean	Standard Error	Standard Deviation
Overall (All Cohorts)	Store Atmosphere	507	3.40	0.03	0.68
	Ease of Shopping	507	3.09	0.03	0.75
	Sales Associates	507	3.21	0.04	0.81
Swing	Store Atmosphere	18	3.69	0.10	0.41
	Ease of Shopping	18	3.41	0.15	0.63
	Sales Associates	18	3.64[a]	0.12	0.49
Baby Boomer	Store Atmosphere	203	3.35	0.05	0.70
	Ease of Shopping	203	3.08	0.05	0.78
	Sales Associates	203	3.23	0.06	0.80
Generation X	Store Atmosphere	195	3.42	0.05	0.65
	Ease of Shopping	195	3.03	0.05	0.76
	Sales Associates	195	3.19	0.06	0.83
Generation Y	Store Atmosphere	91	3.38	0.07	0.71
	Ease of Shopping	91	3.14	0.07	0.65
	Sales Associates	91	3.10[a]	0.09	0.86

Note: Mean scores having the same superscript letter in the mean column represent generational cohort effects that are significantly different at α ≤ .05 (Tukey HSD procedure). Based on a five-point Likert-type scale where 4=Strongly Agree - 1=Strongly Disagree; Neutral=0.

ANOVA testing among the generational cohorts on each of the measures (H2[a-e], 4[a-e], and 6[a-f]) associated with the three store environment variables reveal significant ($p \leq .05$) mean score differences for one ease of shopping measure and two sales associate measures: (H4d) shopping baskets are provided (F = 2.73, p = 0.04); (H6b) sales associates assist me in selecting merchandise (F = 3.60, p = 0.01); and (H6c) sales associates are knowledgeable about the merchandise (F = 2.99, p = 0.03) (see Table 1). Further analysis, using Tukey's HSD procedure reveal significant generational cohort mean score differences for each of the three previously mentioned measures (see Table 3).

Baby Boomer's (2.82) mean score significantly differs from Generation Xer's (2.38) for the "shopping baskets are provided" measure for ease of shopping, while Baby Boomers (3.28) significantly differed from Generation Yers (2.84) for the "sales associates assist me in selecting merchandise" measure for sales associates. Finally, the Swing Generation's (3.89) mean score for the sales associate measure "sales associates are knowledgeable about the merchandise" significantly differed from Generation Yers (3.17).

Table 3. Mean scores and statistically significant mean score differences by variable and measure (H2[a-e], 4[a-e], and 6[a-f]).

Variable & Measure	Generational Cohort			
	Swing	Baby Boomer	Generation X	Generation Y
Store Atmosphere (Overall Score)	3.69	3.35	3.42	3.38
The store is clean.	4.00	3.79	3.86	3.86
The store environment is inviting.	3.89	3.71	3.74	3.68
The music being played is enjoyable.	3.11	2.71	2.77	2.98
The temperature is comfortable.	3.56	3.40	3.43	3.13
The window displays are appealing.	3.89	3.63	3.61	3.71
Ease of Shopping (Overall Score)	3.41	3.08	3.03	3.14
The layout is easy to shop.	3.61	3.37	3.26	3.41
I am able to complete my purchase in a timely manner.	3.61	3.49	3.55	3.55
Good checkout service is provided.	3.67	3.54	3.52	3.58
Shopping baskets are provided.	3.07	2.82[a]	2.38[a]	2.64
Store packaging is an important part of the shopping experience.	3.61	2.73	2.73	2.78
Sales Associates (Overall Score)	3.64	3.23	3.19	3.10
Sales associates check back with me periodically.	3.67	3.36	3.35	3.14
Sales associates assist me in selecting merchandise.	3.65	3.28[a]	3.13	2.84[a]
Sales associates are knowledgeable about the merchandise.	3.89[a]	3.31	3.42	3.17[a]
Sales associates offer trend and fashion advice.	3.39	2.78	2.70	2.87
Sales associates are friendly.	3.94	3.58	3.55	3.48
Sales associates are fashionably dressed.	3.50	3.35	3.37	3.35

Note: Pairwise comparisons are only across generational cohorts. Mean scores having the same superscript letter in each row are significantly different at α ≤ .05 (Tukey HSD procedure). Based on a five-point Likert-type scale where 4=Strongly Agree - 1=Strongly Disagree; Neutral=0.

CONCLUSION AND IMPLICATIONS

Small retailers are the lifeblood of many communities throughout the United States, and indeed the world. Their contributions include the generation of employment, sales tax revenue, and a vast array of product and service offerings to the community. The significant challenge each small retailer undertakes is satisfying a specific target market (e.g., Baby Boomers) while simultaneously drawing in a sufficient customer base to be profitable. Retailers all too often realize that they must focus on one specific target market while trying not to alienate the other customers (e.g., Swings, Gen X).

Brick-and-mortar fashion retailers place heavy emphasis on the store's shopping environment. The underlying premise is that the more pleasant the environment, the higher the probability customers will stay in the store, select items, and complete a sales transaction. This study examines persons (customers), situation (18 locations of a fashion store environment) and person-with-situation (small, independent fashion chain company) antecedents of satisfaction. The findings reveal that regardless of generational cohort (i.e., Swings, Baby Boomers, Gen X, Gen Y), consumers level of satisfaction with the store's atmosphere are similar and positive. This finding is important. This particular retailer, with 18 locations, is successful at creating a store atmosphere where females of varying ages are comfortable shopping. The authors believe this is the first research to examine a small independent fashion retailer across 18 locations. Typically studies of this type analyze customers' from only one or a few store locations. This is indeed one of the first and most important steps of any brick and mortar retailer. After all, if a customer is not satisfied with the store's atmosphere, she is less likely to patronize the store (Muhammad et al., 2014).

The research reveals that this particular fashion chain store is able to satisfy the various customers across generational cohorts in terms of shopping layout, timeliness of checkout, store packaging, and checkout service. There are slight discrepancies in opinions regarding the availability of shopping baskets. Gen X customers are slightly less satisfied than Baby Boomers at the availability of shopping baskets. The baskets are small (approximately 8" x 8" x 5" in size) and located on the floor at the front entrance of the store. Customers not familiar with the store, in a hurry, or unaccustomed to such a small basket would have a difficult time finding the baskets. The shopping basket size is capable of holding approximately 50% of the merchandise offered. The other merchandise is too large to fit in the shopping basket. The company's justifications for the small shopping basket include: (a) it is used solely for the jewelry and (b) the store aisles cannot accommodate large baskets.

Differences between two generational cohorts are found regarding sales associates (a) ability to assist in merchandise selection and (b) knowledge about the merchandise. Generation Y significantly disagreed with Baby Boomers regarding the level of assistance provided by sales associates. Overall, despite the level of disagreement, the generational cohorts tend to agree that the retail associates are able to assist in their fashion needs. The second significant finding regarding sales associates deals with knowledge about the merchandise. Swings strongly agree that associates are knowledgeable whereas Gen Y simply agrees with the statement. The success of the independent fashion chain store examined in this study can be explained in part by these findings.

This retailer develops a multidimensional and interactive store environment that is positive and satisfying to a variety of generational cohorts. Overall, customers respond satisfactorily to each dimension of the environment. While classified as a small retailer, the successes of the company are building strength one location at a time. It seems as if this retailer's model is beneficial and satisfactory for the company and its customers.

LIMITATIONS AND FUTURE RESEARCH

The findings from the study add to the body of knowledge regarding small, independent retailers. The existing study consists of the examination of one company with 18 locations. The retail locations are situated in five southern states, primarily in college towns. The fact that the authors are examining a small, independent retailer automatically generates strengths and limitations to the study. An obvious strength of the study is the addition to the body of knowledge for practitioners and academics. Unfortunately, the limitation is that the results of the study cannot be generalized. Indeed, the results of this study are applicable most strongly to the company under investigation.
Small retailers are the lifeblood of many families and communities. Indeed, the company that this data was collected is an important source of employment for college students. It is critical to continue research on the nuances of a retail store's environment on consumers' satisfaction level. Gone are the days when retailers can rely solely on satisfying consumers with a product or brand. The continual examination of independent store retailers' environment is warranted.

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EFFECTS OF ONLINE NTERACTIVITY ON CUSTOMER RELATIONSHIP IN THE BANKING INDUSTRY IN KENYA

Githuku Wanjiku Margaret & Reuben Kinyuru Njuguna

Abstract

Adoption of digital banking as a platform for banking services has continued to rise globally as consumers become more and more comfortable with using mobile and Internet channels for banking. Despite the increasing acceptance of these digital banking platforms by both banks and customers, little is known about how the online interactivity associated with these digitization of banking have influenced customer relationship among commercial banks in Kenya. Drawing on theory of disruptive innovation, Technology Acceptance Model (TAM) and Theory of Reasoned Action (TRA), this study focused on investigating the effects of the online interactivity among other key variables of digital banking, on bank-customer relationship in banking industry in Kenya. It is evident from the findings that online interactivity significantly and positively influence the nature of customer relationships. The study thus recommends that for banks to keep up their needs and remain competitive, there is a need to embrace digital banking as a strategy and enhance user friendliness for easier interactivity in order to develop and sustain a good customer relationship especially with the techy savvy generation customers.

Keywords: *digital banking, customer relationship, banking industry, online transaction processing, online customer care and online interactivity.*

Category: *Review article*

Introduction

Digital banking has become an irresistible business trend. McKinsey (2014) research in personal financial services shows that Asian consumers are becoming more and more comfortable with using mobile and Internet channels for banking services, with their use increasing on average more than 35 percent in the past three years. In Kenya and world over, banks are continuously embracing digital banking mainly to win the young tech-savvy customers who are fully embracing digital communication and are the customer group with whom banks need to establish customer primacy relationships (McKinsey & Company, 2014).

This trend is not only in Kenyan market or Asia, in the US the research done by Netbanker, (2012) shows that more than 60 million households in the US alone use online or mobile banking. The research further estimated that by 2016 it's expected that 107 million consumers (55 percent of U.S. adults) will use mobile banking, Smartphone and Tablet

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for their banking and financial management both personal and for business.

According to Ngugi (2013), banking over the Internet an example of digital banking has attracted increasing attention from bankers and other financial services industry participants, the business press, regulators, and law makers. Among the reasons for adoption of digital banking are the notion that electronic banking and payments will cut banks 'costs, increase banks 'revenue growth, and make banking more convenient for customers and improve bank-customer relationship (Ngugi, 2013).

In Kenya, a PWC (2015) report on Retail Banking in 2020 shows that, most banks are adopting digital platforms to meet the increasing demand for convenient banking mostly by their retail customers. These include the utilization of social media notifications, mobile banking, and e-wallet to provide basic banking services to their clients without necessarily visiting the branch. This has been influenced by advances in mobile devices and networks, enhanced digital security and the ability to access the Internet from anywhere.

These new channel integration technologies, has enabled a more seamless end-to-end experience for customers with their bank. This basically cut off bank-customer face-to-face interaction, a key component in building customer relationship, hence creating a new challenge on how to manage the digital customer relationship.

Literature Review

The advancement in Technology has played an important role in improving service delivery standards in the Banking industry. In its simplest form, Automated Teller Machines (ATMs), deposit machines, mobile banking and internet banking now allow consumers carry out banking transactions beyond banking hours(Njuguna, Riitho, Olweny&Wanderi, 2012). According to Mesiravo (2003), from the customer perspective, perceived value of using digital channels and interacting with service provider can come in several ways among which time, access to information, convenience, assistance, interactivity, prestige or something else the customer appreciates.

In their research on Impacts of internet banking on customer satisfaction and loyalty in Australia, Nguyen and Singh (2004) found that better internet banking system quality such as the transaction speed, ease of use, convenience of transaction, interactivity, cost/benefits and customer service delivery is likely to have a positive impact on customer relationship. However, these findings did not consider the factors that may limit the use of technology like age, education, income, disability and emotion, accessibility to internet which are likely to moderate the customer relationship and satisfaction as a results of internet banking. This can affects bank-customer relationship for any bank that digitalizes all its processes without giving a consideration to these key factors. According to Brondmo (2000), other factors like limitation of accessibility to technology and internet bandwidth can limit access to the very benefits that digital banking promise to offer thus diminishing customer relationship. There is a need to establish how these demographic factors affect the customer relationship despite the perceived convenience associated with easy interactivity in digital banking. As with any information processing system, security and reliability are considerations for many customers. In their study on Variables influencing the customer relationship management of banks, Rootman and Bosch (2008) observed that, unlike traditional transactional processing, online transaction systems are generally more susceptible to direct attack and abused than their offline counterparts. Rootman and Bosch further observed that when organizations choose to rely on online transaction processing, operations can be severely impacted if the transaction system or database is unavailable due to data corruption, systems failure, or network availability issues. However, it's very important to observe that as far as this may affect the clients feeling and attitudes towards the online transaction processing system, it may not necessarily influence the way the customer relate to the bank.

Additionally, like many modern online information technology solutions, some systems require offline maintenance which further affects the cost-benefit analysis. It's important to note that while Rootman and Bosch (2008) made their conclusions based on the benefits of online processing, the duo didn't look at how online interactivity and transaction processing impacts the customer relationship but instead, they focused on how in long term affects the bottom line. It is very imperative not to give customers a key consideration while looking at this subject given their vital role in achieving the business bottom line.

Interactivity in digital media offers customers better options to search for information, work as initiators, and gets help. Interactivity also offers new ways to spend time with a product and the banks customer's service providers on a web chat. According to Mesiravo (2003), digital service has a potential to provide customers with better choice, access, control, and convenience over traditional service channels. This in turn enhances customer satisfaction and loyalty. However, Masiravo's conclusion was based on TAM theory on perceived usefulness and not a field study.

The interactive elements of digital platforms can be used to create self-service options, like allowing customers to track their account movements. With growing number of e-customer service and marketing channels, there seems to be a focus on short-term operational issues, like carrying out online marketing campaigns Mesiravo (2003). Instead, among many others, Godin (1999), Novak (2000) and Brondmo (2000) have given emphasis to the customer relationship and service perspective of digital channels. It is believed that digital channels can be used to create unique and positive experiences to customers trust and relationships in the long term by mixing all aspects of products, service, brand, and communication-not just transactions.

In his research on the impact of perceptions of interactivity on customer trust and transaction intentions in mobile commerce, Min Lee (2005) found that addition of mobile commerce specific components of interactivity improves customer trust. Min Lee also concluded that the perception of user control, responsiveness, connectedness, ubiquitous connectivity and contextual offer have a direct positive effects on transaction intention and customer relationship in mobile commerce. Min Lee (2005) is limited in a way that he only focused on mobile commerce an aspect of e-banking thus leaving out the larger part of e-banking functionalities. On the other hand.

The importance of interactivity will increase in MC environment. Through mobile devices, business entities are able to reach customers anywhere at any time. Technological advancement in MC makes it feasible to deliver customized service; Min Lee (2005) observed that perceived responsiveness is primary focused on response speed or time. Users gauge responsiveness of a system from direct communication as in a reply to an e-mail. It is related to how quickly bank respond to consumers' request or questions.

Research suggests that technology assists CRM efforts in banks by integrating computer and telephony to support call center operation, improve business intelligence, assists in mass communication, transaction through web and customer self-service. (Krasnikov and Jayachandran, 2009). A study of Bank of America about E-CRM concluded that E-CRM to a large extent leads to easy access to customer information, increase in quality and efficiency of communication with customer, increase service consistency, enhance customer relationship, increased service consistency and leads to high retention rate of customers (Krasnikov and Jayachandran, 2009).. On the contrary, Rootman (2008) suggests that knowledgeable, trained and empowered employees are the one who can deliver successful customer relationship management. For a bank employee courtesy and justice is very important because the perception of unfair treatment in the mind of customer would destroy the relationship more quickly than anything else hence the need for human contact. It's very difficult to agree with any of the two research findings without considering the important aspect of customer relationship each of the two brings out. Is only imperative to take a middle position and consider the vital aspects in each findings of the researchers.

First, Rootman (2008) agrees that, the introduction of E-CRM and advanced technologies in the banking sector has improved the quality of services in the banks that ultimately improved bank to customer relationship and satisfied the customer's needs in a better way. The E-CMR brings benefits for both parties; the banks from one side and the customers form the other. The bankers have the ability to access the customer's historical data what enables them anticipate the customer's timing of purchase and to make better decisions about the services and products they offer. However, systems fail, and they can fail when the customer needs them most. This can put the customer relationship in jeopardy thus is only good to dig further on this subject and establish that could the relationship suffice in event of such failure.

In his study on the effects of digital marketing on customer relationship Merisavo (2003), found that digital channels allows brand communication and contacts to be more frequent at a lower cost than traditional channels. He also found that online services gives customers better choice, access, control, and convenience on interacting with his service provider to access any help as compared to traditional channels. According to Merisavo, this builds up satisfaction and loyalty. The study suggested that digital channels have positive effects on customer relationship through personalization. However, Merisavo (2003) agrees that the effect of personalization can be different on different customers.

According to a research conducted by Deloitte (2015) on the digital transformation of customer services, digital age has disrupted the traditional customer service models. Today, customers are driving the buying process and interacting with their service providers using websites, blogs, vlogs and social platforms. In their research on impacts of online banking on service delivery in the Malaysian banking industry Raja, Pahat and Ta'zim (2013),concluded that, the context of online banking has no direct bearing in influencing customer service delivery, rather the behavioral factors like cost, convenience and security. This means that customers do value and satisfied with online banking ones the bank charges is low or affordable, the service is user friendly and their financial transaction is secured. In long run, customers may prepare for normal queuing branch banking once they perceive the online banking and purported decision support as solely based on normal services (Raja, Pahat & Ta'zim, 2013).

Communication technology adopted by banks to create a seamless channel of sharing information with customer has been perceived as a key contributor to an improved relationship between banks and their customers. Previous research by Sharma and Patterson (1999) shows that communication among the system participants leads to mutual trust which thus cultivate customer relationship.

However, it has been argued that the customers must first trust the system they interact with in order to build trust in it and improve the perceived relationship. For instance, according to Ganesan (1994), trust in the system is central to a customer's intention to continue the relationship. Geffen (2000) suggested that trust in an e-commerce vendor has a positive impact on people's intention to use the vendor's Web site could it be for communication or transaction. Further, Pavlou (2003) has also shown that trust is positively related to customers' intention to transact in e-commerce environment. From the empirical literature, Adewoye (2013) empirically examined the impacts of Mobile banking on service delivery in the Nigerian commercial banks, failing to capture important independent variables such as online interactivity, online transaction processing, online customer care and online decision support systems. Still on digital banking, Ngugi (2013) empirically examined the effect of online banking on financial performance of commercial banks in Kenya. Similarly, Njuguna, Riitho, Olweny & Wanderi (2012) empirically investigated the internet banking adoption in Kenya. Although digital banking has received a great deal of research interest, no research has focused on the specifics of interactivity in digital banking, or its effects on customer relationship.

Figure 1: Conceptual Framework

Independent Variable

Interactivity
- Confirmation of execution
- Direct help/tutorial
- Plausibility check

Dependent variable

Customer Relationship
- Customer loyalty
- Customer satisfaction
- Customer trust
- Customer attitudes
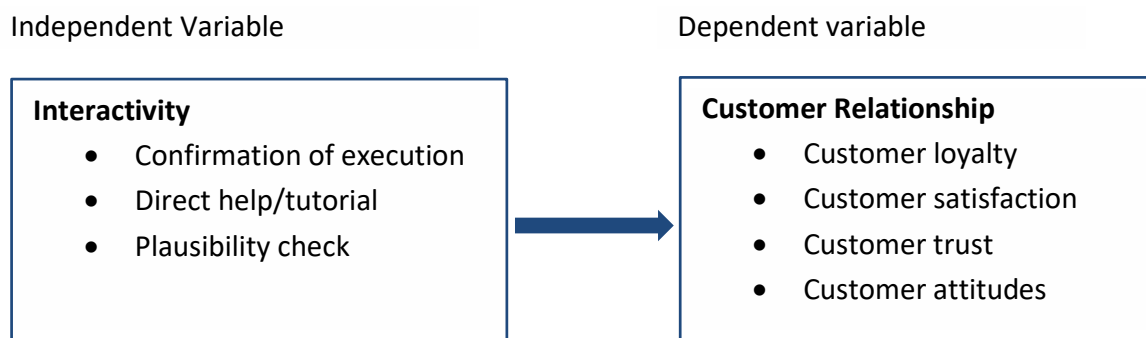
Source: Author (2017)

Research Methodology

This research adopted an explanatory approach using survey technique. The exploratory approach was ideal as it allows samples to be selected and explanatorily studied. The design permit the collection of original data meant for describing large population with individual as unit analysis (Kothari, 2004). The choice of field survey approach allowed collection of qualitative data from a population in a more economical way. The target population of this study consists of the 42 registered commercial banks in Kenya on which the work will be generalized. The study employed two sampling techniques, stratified and convenience sampling. Stratified sampling was used to enable the researcher target a specific number of staff from each selected bank so as to enhance inclusivity. Using convenience sampling, the researcher interviewed any bank customer willing to participate in the research at the selected bank branch thus the sample size for this study was 120 customers. The sample was evenly distributed per the bank as indicated in the below table.

Table 1: Sample Size.

Stratum	Sample
Bank of Africa (k) Ltd	35
KCB	20
Barclays	25
DTB	25
Family Bank	15
Total	**120**

Research Findings

The research elicited primary data through questionnaires and simple percentage was used to analyze the research questions and a multiple regression was drawn to test the research hypothesis. The below model was employed and regression results drawn from the primary data.

$$Y = A + \beta IX I + \beta 2X2 + \beta 3X3 + E$$

Where:

Y=Percentage surplus/Change in membership
A =Constant
β= Coefficient of X
XI=Confirmation of execution
X2= Direct help/tutorial
X3 = Plausibility check
E=Error term

Table 2 shows the pooled regression results on the primary data collected.

Table 2: The Pooled Regression Results

Dependent variable: **EXTENT**

	Model 1
Explanatory variable	**Interactivity**
Constant	2.86
coefficient	0.833
t-ratio	3.87
Std.error	0.215
p-value	0.0304***
R-Squared	0.834
Significance	Significant at all levels

Notes: *** indicates statistical significance at all conventional levels i.e 1%, 5% and 10%.

From the above estimated model, it can be deduced that customer relationships in banks are influence positively by online interactivity offered by the digital banking platforms evidenced by the positive signs of the coefficients. This can be interpreted to mean that heightened levels of interactivity go a long way in guaranteeing improved customer relationships which is a function of a happy and contented clientele.

Through this analysis, the major finding was that, online interactivity was found to have major influence on customer relationship. This means when customers effortlessly interact with their accounts online a better customer relationship is established.

The above conclusion is in line with earlier researchers who agreed that online banking significantly and positively influence the nature of customer relationships such that banks keen at investing in a more interactive and user friendly online platforms will most likely register high levels of customer satisfaction and loyalty. Among the reasons for adoption of digital banking are the notion that electronic banking and payments will cut banks 'costs, increase banks 'revenue growth, and make banking more convenient for customers and improve bank-customer relationship (Ngugi 2013).This can be explained by the fact that online banking covers larger geographical areas reaching out mass population with little man power as compared to direct sales representative.

Notwithstanding the risks that come with technology including cybercrimes, banks need to invest in safeguards to protect client information as this may instill fear and anxiety while customers interacting with their accounts online a factor that may jeopardize customer relationship improvement efforts.

Conclusion

The main objective of the research was to establish the influence of digital banking on customer relationship among commercial banks in Kenya. In reviewing the literature on this research, it was observed that the commercial banks in Kenya and the world over are currently competing to establish good customer service that enhances good bank-customer relationship. In reviewing the literature of this research it was observed that the commercial banks locally and globally are immensely implementing digital banking to minimize the costs related to the traditional brick and motor banks and also to stay competitive and retain market share in the digital oriented market. The banks are constantly investing in information technologies that aims to put them above their rivals. The banks main assets are the customers and therefore these customers are meant to be treated well and a profitable relationship sustained.

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THE INFLUENCE OF ENTREPRENEURIAL STRATEGIES ON CREATING EXPORT CAPACITY OF BH PRODUCTION ENTERPRISES

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Abstract

Conceptual solution for the largest number of BH export enterprises is not possible to design, develop and implement without clearly established entrepreneur orientation towards creating such production enterprises which are, in competitive terms, the equivalent to what the competitor has already introduced in the market. If local BH enterprises are not able to have at least one advantage in their favour regarding the competitive strategy, then their enterprise should not be export-orientated. Regarding this, it is necessary to have an adequate preparation of entrepreneur strategies and compatibility of state infrastructure with the production enterprises whose business intent is to export its products to foreign markets in simpler, faster and more profitable manner. In the largest number of BH enterprises, the management at every level does not possess the adequate capacity to create entrepreneurial strategies for making business at local market, and even less number of enterprises decide to create export business strategy. In addition, the business of BH production enterprises is threatened at local market as well, then the question has to be asked which managers and their business capacities are prepared for the market game in the international business. Besides the readiness of the entrepreneurial infrastructure at the national level, all business activities at level of production enterprise need to be led to excellence – business excellence which shall increase their export capacity and competitiveness regarding the enterprises from the same branch.

Therefore, it is necessary to explore, analyse and define the role, importance and influence of entrepreneurial activities as well as the willingness of management towards the export orientation of production enterprises, and to research and analyse all relevant determinants and factors which are determine participants in creating export capacity and strategy of appearing production enterprises at international market. The ultimate goal of influence research of entrepreneurial activities at export capacity of BH production enterprises is creating entrepreneurial strategies which, by its influence, contribute to creating the effective concept of building export orientation of local production enterprises at foreign markets.

The research results show that Cost leading strategy is the most implemented one in export enterprises in Bosnia and Herzegovina, the following is the Focus strategy, while the Differentiation strategy is among a number of strategies least implemented. The results obtained in the research suggest that only those production enterprises that shall be implementing adequate export strategies supported by an efficient infrastructure at the state level have a serious chance of operating in selected target markets.

Keywords: *the capability of management, management strategies, international competitiveness, export orientation, production companies.*

Category: *Preliminary communication*

INTRODUCTION

Creating entrepreneurial strategies as well as development of entrepreneurship itself takes place in unprepared BH surroundings burdened by unpredictable changes that come as treats or opportunities but without the adequate understanding among those who make the most significant business as well as political decisions. There is a small number of those BH managers who have enough courage to place their business abroad and outside the local market and to direct their business strategies towards export to foreign market. In the effort of local entrepreneurs there is the problem of inadequate business infrastructure at the state level of BH, where production enterprises, each in their own way, apply different methods in creating and managing their own export commercial orientation, which to a significant extent weakens their export capacity and competitiveness compared to companies in developed countries.

Strong international enterprises build their entrepreneurial activity and competitiveness on differentiation, innovation, cost reduction and the introduction of modern technological procedures which lead the production to its perfection. Of course, these are just some of the elements that become an integral part of a strategic approach to building competitive strength in entrepreneurship. The BH enterprises, if they want to survive in the global economic environment, need to define an area of their business in which they can achieve top-world results and build a base for their overall future business. The necessity for the introduction of specialization that focuses on the most powerful and the most profitable parts of the enterprise, requires discharge of anything that company has not got a leading position in the market, while focusing on that part of the business in which the enterprise achieved outstanding results which are comparable to the strongest in the same activities of business. How to achieve competitive advantage as one of the preconditions for export orientation in the business of production enterprises is the dilemma that has been questioned by many companies and their managers. In an attempt to clarify this issue the idea is to always start with the analysis of your own business and exploration of those areas of business where you can introduce and apply new profitable ideas, which can lead to improvement larger than the competition. The export capacity based on competitive strength is estimated according to enterprise with the leading position in its branch and when above average results in business are achieved comparing to the competition. However, there are several ways for achieving export capacity: price, differentiation, responsible business, advantage in owning and using resources, creating superior

values, creating effective business strategies, quality business environment and others. Experiences from other countries show that responsibility in business in the conditions of severe market game becomes one of the main managing tools for creating competitive advantage, therefore, why shouldn't this be accepted by our local employers as well. The improvement of entrepreneurial activities regarding the strengthening of competitive ability of Bosnian and Herzegovinian production enterprises who want to place their products on international market is necessary to be based on fast and strategic orientation of management who is able to use all business opportunities from wider business surroundings, regardless of inadequate business infrastructure at the state level. Numerous inventions in the world leading enterprises have changed the business organisation in different ways regarding the reducing operational business costs, increasing income, positioned themselves in the minds of customers and provide these companies an advantage over the competition. One way of providing export capacity is constant introduction of new business ideas, innovation of products, services, business processes combining with other important factors in business process.

Innovations can be found in small countries in transition such as Bosnia and Herzegovina, and in minor companies, in particular if they are brought to attention on time and accepted by management and if it is possible to manage them successfully.

RESEARCH ON THE EFFECT OF ENTREPRENEURIAL STRATEGIES ON EXPORT CAPACITY OF BH PRODUCTION ENTERPRISES

In the structure of empirical part of this research article "*The influence of entrepreneurial strategies on creating export capacity of BH production enterprises",* it is necessary to examine, analyse and theoretically present the theoretical positions of 37 managers or owners of production enterprises in BH, who are engaged in export. Research, analysis and processing are directed towards three generic entrepreneurial strategies mostly used by managers and owners of production enterprises and considered most suitable and applicable in the export policy of Bosnian companies.

Empirical research has been conducted using the survey questionnaire containing four questions. The analyses of data collected tries to prove and present generic strategies which are the most frequently used, more efficient than others, and the most competitive and applicable by the producers of BH. In addition, it is possible that all three generic strategies are equally important, or important

enough regarding the difference in opinions of survey participants which is statistically a minor difference. Therefore, T-test has been conducted as well. Regarding this, T-test indicates whether exists significant statistics difference in the participants' opinions regarding the generic strategies, i.e., whether the difference between the participants is significant. Besides T-test, descriptive statistics has been conducted as well, for each question, in order to obtain a clear picture of attitudes of managers or the owners of importance of individual generic strategies in export policy of BH. In addition to the arithmetic mean, standard deviations and coefficient of variation, measures of central tendency have been obtained, as well, i.e. mode and median. Since this is a minor sample, less than 50 observations, in order to examine the arithmetic mean, it is preferred to work mode as the most common response of participants and median, which poles the appearance into two equal parts.

Based on the five factors which affect the appealing to industrial sector Porter developed possible strategies whose main dimensions are competitive advantage and level of market coverage. For the purpose of conducting research procedure in this article, three types of generic strategies are listed, namely: Cost leadership strategy, Differentiation strategy, and Focus strategy.

Cost leadership strategy is based on competitive advantage of lower costs in order to reach an increase market share and increase in target market segments. The basis of this strategy is the efficient management of resources, and through the flow of experience, economies of scale, tight costs control, lowers the cost price of the product. In this way organizations build their competitive advantage.

Differentiation strategy is based on differentiation in relation to competition. The main aim of the company is to offer the products/services different from other competitors in the same industry, but to reach larger number of target market segments.

The most important requirement for success of this strategy is analysing customers' needs and their behaviour and establishing what is most preferable for the customers.

If the differentiation strategy is successfully conducted, the company has the opportunity to: determine higher prices (premium prices), secure customers' loyalty and increase sales volume. The most preferable is differentiation on several bases, smaller the similarity over the competition, larger increase of market share and protection from the competition.

Focus strategy is based on implementation on focused market segment on the entire market. The focus is on satisfying the needs of certain group of customers, while the limits of market segments can be defined geographically or based on product line. The focus strategy is derived from two basic strategies- Cost leadership strategy and Focus strategy.

Survey questionnaire is set according to Likert -type scale, and answers provided are rated according to scale from 1-5, where 1 means the lowest level of agreement with the statement set, and 5 the highest level of agreement with the statement set:

1- Strongly Disagree,

2- Disagree,

3- Undecided,

4- Agree,

5- Strongly Agree

Survey questionnaire used for research of managers and owners' opinions, which are in export business, was as follows:

1. Rate which of the three possible generic strategies largely contributes to creating a positive export policy in Bosnia and Herzegovina?

Cost leadership strategy	1	2	3	4	5
Differentiation strategy	1	2	3	4	5
Focus strategy	1	2	3	4	5

2. Rate which of the three possible generic strategies largely increase the export capacity of the BH enterprises?

Cost leadership strategy	1	2	3	4	5
Differentiation strategy	1	2	3	4	5
Focus strategy	1	2	3	4	5

3. Rate which of the three possible generic strategies largely contributes to a better competitive position in the international market of enterprises engaged in the export of products from Bosnia and Herzegovina?

Cost leadership strategy	1	2	3	4	5
Differentiation strategy	1	2	3	4	5
Focus strategy	1	2	3	4	5

4. Rate which of the three possible generic strategies is mostly used in positioning in the international market?

Cost leadership strategy	1	2	3	4	5
Differentiation strategy	1	2	3	4	5
Focus strategy	1	2	3	4	5

Collected responses, which are obtained, are processed in statistical program for data analysing SPSS, and the results are as follows:

Table 1. Rate which of the three possible generic strategies largely contributes to creating a positive export policy in Bosnia and Herzegovina?

		Cost leadership strategy	Differentiation strategy	Focus strategy
N	Valid	37	37	37
	Missing	0	0	0
Arithmetic mean		4.6216	3.5135	3.3514
Median		5.0000	4.0000	4.000
Mode		5.00	4.00	4.00
Standard deviations		.59401	1.04407	.97799
Minimum		3.00	2.00	1.00
Maximum		5.00	5.00	5.00
Coefficient of variation		0,126	0,296	0.291

Source: Author analysis in statistical program SPSS 20.

Analysing data collected from 37 managers and owners of production enterprises engaged in exporting, it can be concluded that the strategy largely contributing to creating a positive export policy in BH is a generic Cost leadership strategy. The average survey response rate from managers and owners surveyed is high 4,6216.

Considering the small sample (under 50 participants), in order to analyse arithmetic mean, the mode and median have been found and in both samples they are 5 – strongly contributes to creating export policy, as the most common response. The coefficient of variation was 12.6 and standard deviation was 0.59401, as a minimum

deviation, and proof that this is a very homogeneous group response.

Data analysis has shown that participants agree with the statement that differentiation strategy contributes to creating positive export capacity in Bosnia and Herzegovina. The average response was 3, 5135, the most common response rate is 4- contributes to creating positive export capacity. The coefficient of variation is 29, 6%, therefore, it can be concluded that this is a homogeneous group response. Standard deviation is 1, 044, which is not a large deviation of arithmetic mean, and hasn't got a negative influence on arithmetic mean. Participants partly agree that Focus strategy contributes to creating positive export capacity in Bosnia and Herzegovina.

The arithmetic mean is 3, 3514, and the most common response rate (mode) is 4- contributes to creating export policy. Standard deviation is 0, 977, which is not high and hasn't got a negative influence on arithmetic mean. Coefficient of variation is 29, 1%, and it can be concluded that this is a very homogeneous group response.

In the previous table, through descriptive statistics the results obtained have been analysed and theoretically processed. Descriptive statistics have shown the existing difference between participants' attitudes in three generic strategies, and whether these differences are statistically important or not it shall be determined in the following part of this paper, applying the T-test.

Table 2. Comparing the existence of differences using t - test Differentiation and Focus strategy

| | | Difference compared | | Test | difference | Sig. (2-way) |
		Difference of arithmetic mean	Standard Deviation			
Pair 1	Differentiation Strategy Focus strategy	.16216	1.48162	.666	36	.510

Source: Author analysis in statistical program SPSS 20.

P = 0, 510 > 0, 05, therefore it can be concluded that there is no significant statistic difference between the response of manager and owner regarding the differentiation strategy and Focus strategy, i.e. these strategies are similar for managers and owners of production enterprises engaged in export.

Table 3. Comparing the existence of differences using t - test Differentiation and Cost leadership strategy

| | | Difference compared | | Test | difference | Sig. (2-way) |
		Difference of arithmetic mean	Standard Deviation			
Pair 1	Cost leadership strategy - Differentiation Strategy	1.10811	1.14949	5.864	36	.000

Source: Author analysis in statistical program SPSS 20.

P = 0, 000 < 0, 05, therefore it can be concluded that there is a significant statistic difference between the response of manager and owner regarding the differentiation strategy and cost leadership strategy, i.e. these strategies are not similar for managers and owners of production enterprises engaged in export. As described, managers and owners prefer cost leadership strategy which contributes to creating a positive export policy in Bosnia and Herzegovina.

Table 4. Comparing the existence of differences using t - test Focus and Cost leadership strategy

		Difference compared				Sig. (2-way)
		Difference of arithmetic mean	Standard Deviation			
Pair 1	Cost leadership strategy – Focus Strategy	1.27027	1.12172	6.888	36	.000

Source: Author analysis in statistical program SPSS 20.

P = 0, 000 < 0, 05, therefore it can be concluded that there is a significant statistic difference between the response of manager and owner regarding the Focus strategy and Cost leadership strategy, i.e. these strategies are not similar for managers and owners of production enterprises engaged in export, and they have a different contribution to creating a positive export policy.

Table 5. Rate which of the three possible generic strategies largely increase export capacity of BH enterprises

		Cost leadership strategy	Differentiation strategy	Focus strategy
N	Valid	37	37	37
	Missing	0	0	0
Arithmetic mean		4.5135	3.1081	3.7838
Median		5.0000	3.0000	4.000
Mode		5.00	4.00	4.00
Standard deviations		.73112	1.17340	.94678
Minimum		3.00	4.00	3.00
Maximum		2.00	1.00	2.00
Coefficient of variation		5.00	5.00	5.00
Arithmetic mean		0, 16	0, 35	0,24

Source: Author analysis in statistical program SPSS 20.

Analysing data collected has shown that managers and owners of production enterprises engaged in exporting strongly agree that the Cost leadership strategy is largely increasing export capacity of BH enterprises. The average survey response rate is high 4,5135, and the most common response is 5- strongly agree. Standard deviation shows a minor deviation from arithmetic mean, and the coefficient of variation proofs that this is a homogeneous group response.

Participants agree to a small extent that Differentiation strategy is increasing export capacity of enterprises. The average survey response rate is 3, 108, and the most common response is 4 – I agree. Standard deviation is 1, 173 which represent an acceptable deviation from arithmetic mean.

Coefficient of variation shows that this is a homogeneous group response. Participants agree that Focus strategy is largely increasing export capacity of BH enterprises. The average survey response rate is 3, 7838, which is less than cost leadership but more than Differentiation strategy. The most common response is 4 – I agree with the statement which largely confirms the statement itself. Standard deviation is minimum and has not got a negative influence on arithmetic mean as well as coefficient of variation which shows that this is a homogeneous group response.

In the following part, by applying the t-test, it is analysed whether exists significant statistic difference in generic strategies, and which of the mentioned strategies is increasing export capacity of BH enterprises.

Table 6. Comparing the existence of differences using t - test Focus and Cost leadership strategy

		Difference compared		Test	difference	Sig. (2-way)
		Difference of arithmetic mean	Standard Deviation			
Pair 1	Cost leadership strategy – Focus Strategy	.72973	.99019	4.483	36	.000

Source: Author analysis in statistical program SPSS 20.

P = 0, 000 < 0, 05, therefore it can be concluded that there is a significant statistic difference between the response of manager and owner regarding the differentiation strategy and cost leadership strategy, i.e. these strategies are not similar for managers and owners of production enterprises engaged in export. Managers and owners prefer Cost leadership strategy and it largely contributes to increasing export policy of BH enterprises.

Table 7. Comparing the existence of differences using t - test Differentiation and Cost leadership strategy

		Difference compared		Test	difference	Sig. (2-way)
		Difference of arithmetic mean	Standard Deviation			
Pair 1	Cost leadership strategy – Differentiation Strategy	1.40541	1.42321	6.007	36	.000

Source: Author analysis in statistical program SPSS 20.

P = 0, 000 < 0, 05, therefore it can be concluded that there is a significant statistic difference between the response of manager and owner regarding the Focus strategy and Cost leadership strategy, i.e. these strategies are not similar for managers and owners of production enterprises engaged in export and they differently contribute to increasing export policy of BH enterprises.

Table 8. Comparing the existence of differences using t - test Differentiation and Focus strategy

		Difference compared		Test	difference	Sig. (2-way)
		Difference of arithmetic mean	Standard Deviation			
Pair 1	Differentiation Strategy- Focus strategy	-.67568	1.58209	-2.598	36	.014

Source: Author analysis in statistical program SPSS 20.

P = 0, 014 < 0, 05, therefore it can be concluded that there is a significant statistic difference between the response of manager and owner regarding the Differentiation and Focus strategy, i.e. these strategies are not similar for managers and owners of production enterprises engaged in export and they differently influence on increasing export policy of BH enterprises.

Table 9. Rate which of the three possible generic strategies largely contributes to a better competitive position in the international market of enterprises engaged in the export of products from Bosnia and Herzegovina

		Cost leadership strategy	Differentiation strategy	Focus strategy
N	Valid	37	37	37
	Missing	0	0	0
Arithmetic mean		4.3784	2.4865	3.8108
Median		4.0000	2.0000	4.000
Mode		5.00	2.00	4.00
Standard deviations		.68115	1.16956	.84452
Minimum		2.00	4.00	4.00
Maximum		3.00	1.00	1.00
Coefficient of variation		5.00	5.00	5.00
Arithmetic mean		0, 15	0, 46	0,22

Source: Author analysis in statistical program SPSS 20.

Analysing data collected it can be concluded that participants largely use Cost leadership strategy which contributes to a better competitive position in the international market. The average survey response rate was 4,3784, therefore, participants strongly agree that Cost leadership strategy contributes to a better competitive position in the international market of enterprises engaged in the export of products from Bosnia and Herzegovina. In addition, this attitude is confirmed by mode as the most common response rate, which is 5 – strongly contributes. Standard deviation of arithmetic mean is 0,68115, a minor deviation and has not got negative effect on the result obtained, as well as coefficient of variation which shows that this is a very homogeneous group response.

Participants agree to a small extent that Differentiation strategy is contributing to a better competitive position in the international market The average survey response rate is, just, 2,4865. Considering the small sample (under 50 participants), it is preferable to find mode as well, which, in this case, confirms the arithmetic mean, which is 2 – strongly not contributes.

Standard deviation is 1, 16956, which represent an acceptable deviation. Coefficient of variation shows that this is to some extent, a homogeneous group response.

Data obtained and analysed show that participants agree with the statement that Focus strategy contributes to some extent creating a better competitive position of BH enterprises in the international market. The average response is 3, 8108, and the mode as the most common response rate is 4- I agree it contributes. Standard deviation is minimum, and has not got a negative effect on result obtained, as well as the coefficient of variation which shows that this is a homogeneous group response.

In the following part, by applying the t-test, it is analysed whether exists significant statistic difference in generic strategies, and which of the mentioned strategies is largely contributing to creating a better competitive position of BH enterprises.

Table 10. Comparing the existence of differences using t - test Differentiation and Cost leadership strategy

		Difference compared		Test	difference	Sig. (2-way)
		Difference of arithmetic mean	Standard Deviation			
Pair 1	Cost leadership strategy – Differentiation Strategy	1.89189	1.28633	8.946	36	.000

Source: Author analysis in statistical program SPSS 20.

P = 0, 000 < 0, 05, therefore it can be concluded that there is a significant statistic difference between the response of manager and owner regarding the Differentiation strategy and Cost leadership strategy, i.e. there is a statistic difference in contributing to creating a better competitive position of BH enterprises in the international market. Managers and owners prefer Cost leadership strategy and believe that it largely contributes to creating a better competitive position.

Table 11. Comparing the existence of differences using t - test Focus and Cost leadership strategy

		Difference compared		Test	difference	Sig. (2-way)
		Difference of arithmetic mean	Standard Deviation			
Pair 1	Cost leadership strategy – Focus Strategy	.56757	1.01490	3.402	36	.002

Source: Author analysis in statistical program SPSS 20.

P = 0, 000 < 0, 05, therefore it can be concluded that there is a significant statistic difference between the response of manager and owner regarding the Focus strategy and Cost leadership strategy, i.e. these strategies are not similar for managers and owners of production enterprises engaged in export. Managers and the owners share the opinion that Cost leadership strategy largely contributes to creating a better competitive position of BH enterprises in the international market.

Table 12. Comparing the existence of differences using t - test Differentiation and Focus strategy

		Difference compared		Test	difference	Sig. (2-way)
		Difference of arithmetic mean	Standard Deviation			
Pair 1	Differentiation strategy – Focus Strategy	-1.32432	1.29216	-6.2324	36	.000

Source: Author analysis in statistical program SPSS 20.

P = 0, 000 < 0, 05, therefore it can be concluded that there is a significant statistic difference between the response of manager and owner regarding the Differentiation and Focus strategy, i.e. these strategies are not similar for managers and owners of production enterprises engaged in export, and they are not contributing to the same extent to creating a better competitive position of BH enterprises in the international market.

Table 13. Rate which of the three possible generic strategies is mostly used for positioning in the international market

		Cost leadership strategy	Differentiation strategy	Focus strategy
N	Valid	37	37	37
	Missing	0	0	0
Arithmetic mean		4.2973	2.6486	3.7027
Median		5.0000	2.0000	4.000
Mode		5.00	2.00	4.00
Standard deviations		.93882	1.00599	.84541
Minimum		3.00	4.00	3.00
Maximum		2.00	1.00	2.00
Coefficient of variation		5.00	5.00	5.00
Arithmetic mean		0, 21	0, 37	0,22

Source: Author analysis in statistical program SPSS 20.

Analysing data collected has shown that participants i.e. their enterprises mostly use Cost leadership strategy. The average survey response rate is 4 2973, and the most common response is 5- strongly agree. Standard deviation is acceptable, 0, 93882. The coefficient of variation proofs that this is a homogeneous group response.

Participants agree to a small extent the usage of Focus strategy. The average survey response rate is 3, 7027, and the most common response is 4 – I agree. Standard deviation is not high, 0, 845. The Coefficient of variation of 22% shows that this is a homogeneous group response.

The least rated generic strategy in this case was Differentiation strategy.
Participant, to small extent, use the Differentiation strategy which is export orientated. The average survey response rate is very low, 2, 6886, as well as the most common response is 2 – disagree with the statement. Standard deviation is 1, 00599, and is acceptable. The coefficient of variation shows that this is a homogeneous group response.

In the following part, by applying the t-test, it is analysed whether exists significant statistic difference in generic strategies, and which of the mentioned strategies is used for export of production goods in Bosnia and Herzegovina.

Table 14. Comparing the existence of differences using t - test Differentiation and Cost leadership strategy

		Difference compared		Test	difference	Sig. (2-way)
		Difference of arithmetic mean	Standard Deviation			
Pair 1	Cost leadership strategy – Differentiation Strategy	1.64865	1.51321	6.627	36	.000

Source: Author analysis in statistical program SPSS 20.

P = 0, 000 < 0, 05, therefore it can be concluded that there is a significant statistic difference between the response of manager and owner regarding the Differentiation strategy and Cost leadership strategy, i.e. there is a statistic difference in using generic strategies in the goods export. Managers and owners prefer Cost leadership strategy and believe that it is more applicable in the export of local products.

Table 15. Comparing the existence of differences using t - test Focus and Cost leadership strategy

		Difference compared		Test	difference	Sig. (2-way)
		Difference of arithmetic mean	Standard Deviation			
Pair 1	Cost leadership strategy – Focus Strategy	.59459	1.01268	3.571	36	.001

Source: Author analysis in statistical program SPSS 20.

P = 0, 000 < 0, 05, therefore it can be concluded that there is a significant statistic difference between the response of manager and owner regarding the Focus strategy and Cost leadership strategy, i.e. these strategies are not similar for managers and owners of production enterprises engaged in export. Managers and the owners share the opinion that Cost leadership strategy is largely used in the export of local products intended for export.

Table 16. Comparing the existence of differences using t - test Differentiation and Focus strategy

		Difference compared		Test	difference	Sig. (2-way)
		Difference of arithmetic mean	Standard Deviation			
Pair 1	Differentiation strategy – Focus Strategy	-1.05405	1.31119	-4.890	36	.000

Source: Author analysis in statistical program SPSS 20.

P = 0, 000 < 0, 05, therefore it can be concluded that there is a significant statistic difference between the response of manager and owner regarding the Differentiation and Focus strategy, i.e. these strategies are not similar for managers and owners of production enterprises engaged in export, and they are not used to the same extent in the export of local products. In this case, Differentiation strategy is more applicable.

Analysis of data obtained shows that the generic strategy mostly used for export companies in Bosnia and Herzegovina is Cost leadership strategy. In all statements set, in the above part of the paper, Cost leadership strategy is the most persuasive one, with a score of participants of more than 4.3, which is extremely high. It can be concluded that generic Cost leadership strategy gives competitive advantage to production enterprises abroad, primarily, because of cheap labour, and in this segment Western world can hardly compete with local producers. This becomes their opportunity for building a competitive advantage which is highly proved by this research.

Besides the Cost leadership strategy, the following strategy preferred by local producers is Focus strategy. Responses obtained have given the results showing that Focus strategy is less used than Cost leadership strategy, but it has certainly found its implementation in BH producers which are export orientated.

Of all analysed strategies, differentiation strategy is the least used. Managers and the owners disagree that Differentiation strategy has got a decisive role in the international market for BH producers. Differentiation strategy rate is largely smaller than rat of the previous two generic strategies.

It is important to emphasize that, during the analysis, due to thorough examination of average value, values of mode and median are determined. The reason is the small sample (under 50 observations), and arithmetic mean sometimes shows incorrect data, therefore the mode and median are determined. In the previous question, mode and median are improved and confirmed the arithmetic mean obtained. During the analysis, t-test is used as well, and it shows whether a significant statistic difference exists between tested strategies in the same research area. It is important to emphasize the existence of significant statistic difference between the strategies in the same area, which is explained in the above part of this paper.

CONCLUSION

This research scientific article provides an explanation of the concept of corporate entrepreneurship and the importance of applying entrepreneurial strategies in the business of contemporary enterprises. Contemporary entrepreneurship in the circumstances of uncertain global business environment is directed towards finding the best ways of organization which is extremely demanding task. A prerequisite for competitiveness and excellence of entrepreneurs of 21st century involves creating specialized teams, minor and flexible enterprises, team networking and coordination using information and communication technology, reduction of hierarchical levels and democracy in business decision making, increase of employee autonomy and independence in decision making, concentration on excellence in business and core competencies, outsourcing of business activities, continuous investment in skills and education, creating partnerships with suppliers and customers, monitoring, evaluation and measurement of results.

Analysing data collected from 37 managers and owners of production enterprises engaged in exporting, it can be concluded that the strategy largely contributing to creating a positive export policy in BH is a generic Cost leadership strategy. Participants partly agree that Focus strategy contributes to creating positive export capacity in Bosnia and Herzegovina. Therefore it can be concluded that there is no significant statistic difference between the response of manager and owner regarding the Differentiation strategy and Focus strategy, i.e. these strategies are similar for managers and owners of production enterprises engaged in export. Moreover, it can be concluded that there is a significant statistic difference between the response of manager and owner regarding the Differentiation strategy and Cost leadership strategy, i.e. these strategies are different for managers and owners of production enterprises engaged in export. As described, managers and the owners prefer Cost leadership strategy since it contributes to creating a positive export policy in Bosnia and Herzegovina. A significant statistic difference exists between the response of manager and owner regarding the Focus strategy and Cost leadership strategy, i.e. these strategies are different for managers and owners of production enterprises engaged in export and they differently contribute to creating export policy. The analysis of data collected show that surveyed managers and owners of production enterprises engage in export strongly agree that Cost leadership strategy largely increases export capacity of BH enterprises.

Participants agree to a small extent that Differentiation strategy is contributing to export capacity of production enterprises. Participants agree that Focus strategy largely increases export capacity of BH enterprise. The average survey response rate is 3, 7838, which is a minor value comparing to Cost leadership strategy, and larger than Differentiation strategy.

Analysis of data obtained showed that generic Cost leadership strategy is the most applicable strategy for export enterprise in Bosnia and Herzegovina. In all statements set, in the above part of the paper, Cost leadership strategy is the most applicable one, with a score of participants of more than 4.3, which is extremely high. It can be concluded that generic Cost leadership strategy gives competitive advantage to production enterprises abroad, primarily, because of cheap labour, and in this segment Western world can hardly compete with local producers. This becomes their opportunity for building a competitive advantage which is highly proved by this research.

Besides the Cost leadership strategy, the following strategy preferred by local producers is Focus strategy. Responses obtained have given the results showing that Focus strategy is less used than Cost leadership strategy, but it has certainly found its implementation with BH producers which are export orientated.

Of all analysed strategies, Differentiation strategy is the least used. Managers and the owners disagree that Differentiation strategy has got a decisive role in the international market for BH producers. Differentiation strategy rate is largely smaller than rate of the previous two generic strategies.

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IMPROVING SMEs CROSS-BORDER COOPERATION BY UPSCALED PROGRAM MANAGEMENT

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Abstract

This paper investigates the level of achieved impact of IPA 2007-2013 CBC Bosnia and Herzegovina-Serbia Programme. Expected impact level of the Programme is improved business relations and economic activities of participating companies. The paper is addressing the problem:,,successful implementation of the projects does not ensure sustainability of the achieved results at cross-border level. The primary research is testing the attitudes of various groups of beneficiaries regarding achieved impact of projects on cross-border cooperation and on strengthened competitiveness of participating SME companies. Findings from secondary research correspond to results from the primary research. Cross-border cooperation program/project management needs capacity upscaling in order to maintain achieved projects results and to establish long-term partnership.

Keywords: *impact, competitiveness, cross-border cooperation, improvements.*

Category: *Review article*

1. Introduction

The Instrument for Pre-accession Assistance (IPA) 2007-2013 provided financial assistance through five components: transition assistance and institution building, cross-border cooperation (CBC), regional development, human resource development and rural development. According to Final evaluation report (2017, p.5, webpage), *IPA Cross-border cooperation program 2007-2013 initiated promotion of good neighborly relations between the participating countries and aimed to contribute to economic development of border areas,*. Developing capacities of border regions help companies to build networks (Krätke, 1998). Apart from companies, the added value of network building helps cities, individuals, entities in the eligible area (Strihan, 2008). The cross-border character of the projects within the CBC program implies a positive impact on both sides of the border and the sustainability of the achieved project results. CBC programs in general aims to foster cooperation among regions and to reduce inequalities in their development through strengthening the cross-border cooperation and quality of life in border regions.

Calculated effects of pre-accession instruments include short-term effects, visible during the implementation of the projects, and long-term effects manifested when funding is affecting to strengthen production capacities of economy (Kandžija and Tomljanović, 2014, p. 239). With regard to researched IPA I CBC projects, short-term effects relate to the succesfull implementation of the projects and their outcome, while long-term effects relate to impact and sustainability of projects' results at cross-border level. When it comes to the result chain, from inputs to impacts, OECD has developed set of definitions in 2002, Glossary of Key Terms in Evaluation and Results Based Management, (webpage). They may differ in use. Once organization, company or institution adjust terminology to their result chain needs, they should be consistent at all levels..

It is important to determine IPA CBC program and projects impact on creating a favorable business environment for SMEs and their competitiveness in the eligible area. Both IPA I (2009; p. 14, webpage) and IPA II (2014, Annex 2, p.12, webpage) program documents emphasize that there is *'the underperforming economy of the entire program territory.,* In the same documents, SMEs are identified as *'a major pillar of both governments' policies but with no significant contribution to the overall economy and offer very limited employment opportunities,*.

In the document ,,Bosnia and Herzegovina report 2016, Communication on EU Enlargement Policy,, it is identified that *,Bosnia and Herzegovina remains at an early stage in the area of policy on industry and SMEs. Some progress was made in this field. The institutional set-up for SME development and SME policy coordination remains weak and fragmented across state and entity levels or below*, (European Commission, 2016, p.52). When it comes to Serbia, in the document ,,Serbia Report 2016, Communication on EU Enlargement Policy,, it is concluded that *, some progress was made concerning support to SMEs and entrepreneurship but SMEs face a number of challenges, including an unpredictable business environment, a high level of para-fiscal charges, and difficult and costly access to finance,*(European Commission, 2016, p.5). The revised document IPA CBC 2007-2013, Serbia-Bosnia and Herzegovina, states that *,The proposed strategy, therefore, will be centered on building networks and synergies for stimulating economic development, by focusing on creating favorable conditions for SME development in the eligible area,* (2009, p.18).

Although IPA CBC program does not solve the economic problems, it helps creating positive environment for further actions. When it comes to measuring the impact and effects of the CBC programs, there are certain conditions to be fulfilled. They relate to the statistics of CBC beneficiary countries, type of program implementation, appropriate and available program/projects databases; intervention logic. It is also necessary to have analytical capabilities to deal with such complex issue (Jaganjac, Duric, 2014, p. 13-155). The methodology and methods should be uniform for all of the beneficiary countries so that results are comparable on the level of all CBC programs. All of the proposals and identified weaknesses of project/ program management and support tools relate to structural capital (infrastructure).

2. Methodology

For testing the hypotesis *,successful implementation of the projects does not ensure sustainability of the achieved results at cross border level*, primary and secondary research have been conducted. The aim of secondary research was to determine whether there is a possibility to measure the impact of the programme/projects and does programme/project management cycle ensure sustainability of achieved results. Primary research was conducted for testing the attitudes of applicants and beneficiaries of two projects: Safe food region and Beekeeping, in order to identify whether the implementation of the projects was successful and achieved results are sustainable at cross border level.

The research was initially conducted from August 2016 to mid January 2017. The data from the Final Evaluation Report (2017, webpage) were subsequently included, and the survey was completed in mid-August 2017. Research limitations related to availability of data. It was not possible to conduct primary research for some projects from measure 1.2. since only the grant beneficiaries can provide project information and documents. This restriction is in line with contract provisions on ownership, intellectual and property rights. Two projects present small sample for getting statistically significant information at Serbia-Bosina and Hezegovina programme level. Primary research limitation is also mentioned in Final Evaluation report (2017, webpage, p. 23) which covers eleven CBC programmes *,"Given the resources for this evaluation, it was only possible to visit 19 out of 333 projects funded under CBC 2007-2013. While these visits provided worthwhile examples of results reached by projects, the size of the sample is too modest to yield statistically significant information at programme level, let alone for the entire cross-border cooperation in the Western Balkans",* and (2017, webpage, p. 7) ,,*This would have required a much larger sample of projects. However, it was not in the scope of this evaluation to conduct such an in-depth statistical evaluation."*

Since the case studies in this paper are used as test samples, they illustrate and confirm findings from secondary research and initiate proposals with regards to intellectual property; activities for sustainability of project results (ASoPR), validation of sustainability (VoS) and development of CBC knowledge platform.

3. Findings and discussion

In order to determine whether there is a possibility to measure the impact of the programme/projects and does programme/project management cycle ensure sustainability of achieved results, there is a need to analyse following: the statistics of CBC beneficiary countries, type of program implementation, appropriate and available program/projects databases; intervention logic. For identifying the sustainability of the achieved results at the cross-border level, a primary survey was carried out involving two projects.

3.1.1. Statistics of CBC beneficiary countries and type of programme implementation

According to European Neighbourhood Policy And Enlargement Negotiations Report from the Year 2016, not any of countries with the status of the potential candidate or candidate to EU have fully adequate statistical system, so that can measure CBC

impact independently. Statistics in Serbia is defined as moderately prepared. With regard to structural business statistics, *data coverage is not yet in line with the EU acquis, as a number of data are not collected.* Serbia should *improve macroeconomic statistics in line with the European System of Accounts (ESA) 2010* (European Commission, 2016, p. 49-50). Statistics in Bosnia and Herzegovina remain at an early stage for many sectors and while some business statistics are produced in line with the EU acquis, further development of this area is required. Bosnia and Herzegovina has yet to provide per capita GDP figures harmonised at the NUTS II level, in line with SAA provisions. *On macro-economic statistics, there is limited progress in applying ESA 2010 in national accounts* (European Commission, 2016, p. 66).

IPA CBC programmes can be implemented in two ways: by centralized (direct) management, where Delegation of European Union is contracting authority and by decentralized (indirect) management, where Ministry of Finance (beneficiary country) is contracting authority. One of the three factors for measuring absorption capacity of the country is macroeconomic absorption capacity representing the total amount of EU fund allocated to a state, presented as the percentage of GDP of that state. IPA CBC programme Serbia-Bosnia and Herzegovina 2007-2013 was implemented under centralized management in both countries. In the case of centralized management, the contribution of EU funds to GDP is difficult to measure, since a large number of grants do not go through the treasury (J. Jaganjac, 2014). Final evaluation report emphasises (2017, webpage, p. 61) ,,*We recommend that national authorities (operating structures with the statistical office) strengthen the availability and quality of local and regional statistics, alongside their analytical capacities,,*.

One cannot expect that IPA CBC beneficiary countries will develop their statistics simultaneously. Development of joint CBC knowledge platform would be useful and operational for all CBC beneficiary countries, taking in consideration both tangible and intangible impact factors. Knowledge platform would help CBC beneficiary countries to measure effects on the macro level and to use data for common cross-border strategies. Joint CBC knowledge platform can be a source for creating a value-added model measuring the long-term impact of the entire funding through CBC programs. A hierarchical model would enable measurements of the impact at projects and programs level. Knowledge platform would overcome lack of program/project databases as well.

3.1.2. Intervention logic and databases

Final evaluation report of IPA 2007-2013 (2017, p.5, webpage) stated that , *It is not feasible to measure rigorously the combined program outcomes and impact in the absence of effective monitoring and reporting systems,*. The same report (p.7, webpage) highlights, it *is near impossible for evaluators to measure with any accuracy the performance of individual programs and the cumulated results across the entire CBC. This is even more so given that very few program/country-level evaluations seem to have been carried out over the period. It proved impossible to obtain a single list of contracted/ disbursed amounts from CRIS for all projects funded under the eleven CBC programs* and (p. 39) ,,*Results of calls for proposals and related statistics are not published immediately. There is hardly any information about strategic projects on program websites."*

Prior to the availability of Final Evaluation Report, issued online in February 2017 author faced the same limitations, while conducting research. Detailed project data was not available on program websites. Availability of data depended on the readiness of applicants to share project documents and beneficiaries contacts for primary research purposes. The research was initially conducted in accordance with CBIB call for research papers (2016, webpage) and sent in January 2017 to CBIB. Despite research limitations, conclusions and suggestions were made on the basis of available data and a small statistical sample. In order to obtain representativeness of the research, findings of Final evaluation report are used to verify or reject initial findings of this paper. A database is crucial for effective evaluations and researches related to CBC programs/projects, especially for measuring the impact through case studies only. The lack of information management of CBC projects and programs IPA 2007-2013, as well as the lack of monitoring and evaluation during and after the implementation of projects/programs is evident through the fact that the first version of the Final Evaluation Report was twice rejected due to gaps in desk and field phases' outputs and lack of sufficiently reliable data (2017, webpage, p.7).

The IPA Cross Border Program 2007-2013 CBC Serbia-Bosnia and Herzegovina program (2016, p.30, webpage) introduced "light" impact indicators, in addition to the required output and results indicators. ,, *In line with the "proportionality principle", indicators measure "perceived benefits" of various groups of beneficiaries (in the form of case studies, through surveys), rather than measure standard economic indicators,* Defined impact of IPA CBC 2017-2013 Serbia-Bosnia and Herzegovina program is ,, *Improved business relations and economic activity for participating firms,,* (2016, p.30, webpage). In order to identify level of

achieved impact, sufficient data is a precondition. Insufficient database of CBC projects and programs for monitoring, evaluation and research, as well as insufficiently developed statistics of CBC program beneficiaries are obstacles for further monitoring and evaluations of results, regardless of the fact that intervention logic and program management can be improved. Creating online CBC knowledge platform with access to data for primary and secondary research would be of wider social importance.

For all types of measurements, there is a need to differentiate the outcome (short and intermediate effects) from impact (long-term effects). Intervention logic of IPA 2007-2013 CBC Program, Serbia and Bosnia and Herzegovina defines following (2009; p. 30, webpage): *Inputs (financial and human resources; Activities (programming, implementation); Output (cross-border networks established in target sectors); Result (networks are active and function effectively); Impact (improved business relations and activity for participating firms).*
Short-term effects relate to output level, intermediate effects relate to results and impact relate to long-term effects. The critical point of

sustainability of projects' result chain is the shift from the results to the impact. Involving activities for sustainability of project results (ASoPR) and validations of sustainability (VoS) in projects/ programs design stage would enable a successful shift from results to impact. These steps should be undertaken after implementation of the projects. Interim evaluations were required under IPA I regulations, but mostly not undertaken. The issue of obligations and interests to monitor progress after the implementation of projects can be regulated accordingly. Upscaling this step in result chain would be of benefit to both partners/ beneficiaries and to financiers.

The impact can be measured through changes in socio-economic indicators; primary surveys; or changes in the level of intellectual capital. For identification of the improved economic activity, it is needed to follow performance indicators of the companies, within certain period of time. Will the programs/projects be evaluated at full scale, including the macro indicators of socio-economic development, depends on what level of impact is expected.

Figure 1. Evaluation of Project/Program Implementation and Sustainability
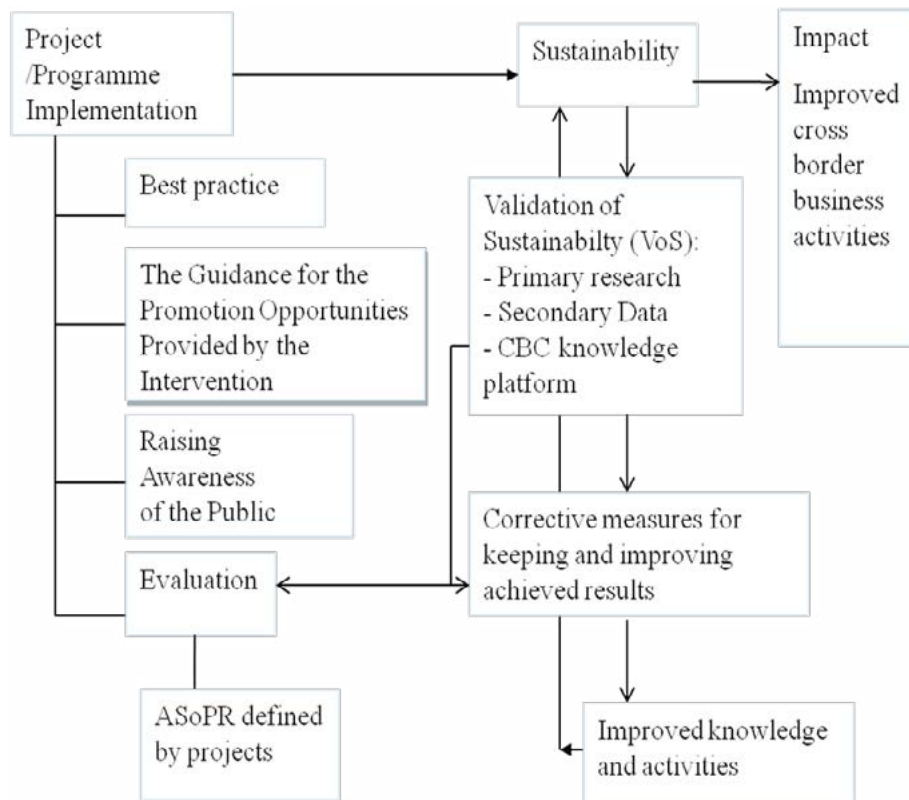
A cost benefit analysis can demonstrate the cost-effectiveness of the investment in the development of the CBC knowledge platform. Considering the size of total investments in CBC programs 2007-2013 (2017, webpage, p.6) € 100,053,000 and the problems in determining their overall efficiency, the platform would be profitable in the long run. If there is no sustainability of the results of projects / programs in the long run, then investing in cross-border projects is profitable only in the short and medium term and at the output level. *"As they were designed, CBC projects funded under IPA 2007-2013 delivered cross-border benefits at output levels but rarely at impact level,"* (2017, webpage, p. 28). The readiness of all participants and beneficiaries of the projects/programs to share knowledge and provide information for impact identification can be regulated formally. Using all the advantages of IT technology, joint CBC knowledge platform would be of great benefit for multiple users. The level of authorization for data entry and the use of data and reports can be defined accordingly.

The analysis of secondary data showed that cross-border cooperation of SMEs, as well as other forms of cooperation, can be improved through the upscale of project management. Evaluation and reporting of successfully implemented projects go only up to the third level of the value chain. There is no monitoring or evaluation of results and impact after project implementation. Although most of the projects foresee a continuation of activities, there is no effective monitoring mechanism between project applicants, until the level of impact and self-sustainability is reached. The biggest obstacle for evaluating intervention logic phases is data. Data on programs website provide only general information and there is no common database. For testing attitudes of partners/applicants and target groups, data availability depends on the readiness of applicants to share info and contacts. IPA 2007-2013 Serbia-Bosnia Herzegovina program measure impacts only through case studies.

In order to achieve impact and sustainability of results, there is a need to define ASoPR and monitor them through VoS; to develop CBC knowledge platform and to redefine intellectual property over project documents. These are preconditions from project/program management point of view, while other preconditions are not part of this research.

3.1.3. Sustainability of achieved results at cross-border level

The primary research of projects Safe food region and Beekeeping, taken as a case studies, is testing: a) attitudes of target groups b) comparison of the attitudes among different target groups within the projects, as well as c) the comparison of respondents attitudes between both projects in terms of the achieved results and importance of the project activities. The research was carried out two years after the implementation of the projects. All of the respondents stated that they have not previously participated in any research related to implemented projects.

3.1.3.1. Project Safe food region-attitudes of applicants and target group

Project applicants are Regional Chamber of Commerce Valjevo, Serbia and Regional Chamber of Commerce, Bijeljina, Bosnia and Herzegovina. Target groups are SMEs participating in the project. A statistical sample of the two applicants is too small to process in a statistical program and to present as the independent result. The average value of their response is compared with the attitudes of target group SMEs of Safe food region and with attitudes of applicants/ partners of Beekeeping project. Most of SMEs companies have up to 50 employees (cumulative 58.3%) and are in business over ten years (80.8%).

Table 1: Importance of project activities for strengthening the competitiveness of companies (target group)

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Training for consumers organizations	20	1.00	5.00	4.3500	.98809
Training for HORECA sector	20	1.00	5.00	4.2500	.96655
Training for food processors	19	1.00	5.00	4.5263	1.02026
Training for export oriented food companies	18	1.00	5.00	4.2778	1.01782
Training for food retailers	14	1.00	5.00	4.0000	1.03775
Visit to Food Safety agency in Mostar	20	4.00	5.00	4.7500	.44426
Visit to food safety good practices in Serbia	16	4.00	5.00	4.8125	.40311
Food safety guide creation	26	3.00	5.00	4.6923	.54913
Importance of all activities undertaken during project implementation	22	3.00	5.00	4.4545	.73855

Respondents indicated that the three most important activities for the enhancement of competitiveness are: study visit to Food safety good practice in Serbia has the highest average mean of 4.812 and an acceptable deviation from the mean (.40311); Study visit to Food safety agency in Mostar has average mean of 4.75 and acceptable deviation from the mean (.44426); Creating Food safety guide has average mean of 4.69 and acceptable deviation from the mean (.54913). Average value for other project activities is high. Deviation from the mean is low, negligible and acceptable.

Table 2: Importance of project activities for strengthening the competitiveness of companies (comparison of results between applicants and target group)

Paired Samples Test				
	Paired Differences	t	df	Sig. (2-tailed)
	Mean			
Applicants/Target group: Training for food processors	1.00000	1.000	1	.500
Applicants/Target group: Training for export oriented food companies	1.50000	3.000	1	.205
Applicants/Target group: Training for food retailers	1.50000	3.000	1	.205
Applicants/Target group: Food safety guide creation	.50000	1.000	1	.500
Applicants/Target group: Importance of all activities undertaken during project implementation	1.00000	1.000	1	.500

There is no significant statistical difference between the attitudes of two different groups of respondents, because of p> 0.05. The test did not react to the identical responses for the activities: Training for consumers; Training for the HORECA sector; Study visit Food safety agency in Mostar; Study visit to Food safety good practice in Serbia.

Table 3: Results achieved by project activities (target group)

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Implementation of practical knowledge throughout whole food chain in cross border region	20	3.00	5.00	4.4000	.68056
Direct implementation of food safety principles in Serbian and Bosnian SME's	20	3.00	5.00	4.2000	.83351
Strengthening Consumer Protection in Serbia, Bosnia and Herzegovina and the EU	21	3.00	5.00	4.0476	.86465
Exchange and application of best practices in the field of food safety among cross-border food participants	23	3.00	5.00	4.3043	.76484

Table 4: Results achieved by project activities (comparison of results between applicants and target group)

Paired Samples Test				
	Paired Differences	t	df	Sig. (2-tailed)
	Mean			
Applicants/Target group: Implementation of practical knowledge throughout whole food chain in cross border region	1.00000	1.000	1	.500
Applicants/Target group: Direct implementation of food safety principles in Serbian and Bosnian SME	.50000	1.000	1	.500
Applicants/Target group: Strengthening Consumer Protection in Serbia, Bosnia and Herzegovina and the EU	.50000	1.000	1	.500
Applicants/Target group: Exchange and application of best practices in the field of food safety among cross-border food participants	.50000	1.000	1	.500

There is no significant statistical difference between attitudes of two independent groups regarding the questionnaire, because of p> 0.05.

Table 5: Increased cross-border cooperation and business networking (target group)

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
To what extent you have increased cross-border cooperation and business in general	19	1.00	5.00	3.3158	1.45498
Valid N (list wise)	19				

The average mean of this question is 3,318, with a deviation of 1.45498. Standard deviation shows that the deviations from the mean are quite high. That indicates a significant difference in the responses between respondents. The range from the minimum 1 to maximum 5 means there is a wide dispersion of responses to this statement.

Project applicants have responded to the following question:, If you believe that the results of the project decreased in the period from the year 2014 to the year 2016, please list some of the reasons,. Regional Chamber of Commerce from Valjevo cited following reasons: lack of funding needed to maintain the achieved results; lack of incentives for these programs; impossibility of applying to the calls for projects of this type within the IPA projects. The Chamber proposed further development of food safety systems and standards under financial, consulting and other support from appropriate institutions. Regional Chamber of Commerce Bijeljina stated that the results are the same level as they were after the realization of the project, at local level. After completion of this cross-border project, the Chamber of Bijeljina implemented the project of Safe Food Region at the local level. The Project is co-funded by the USAID, SIDA Gold Project. Considering ASoPR activities, conclusions are: business cooperation among target group SME's is not significantly increased; cooperation among

Chambers through joint projects is not continued after project completion; food safety education is continued locally; SMEs business networking is not significantly increased. Both applicants and target groups are satisfied with the project activities and achieved results during implementation of the project. On the other side, they stated that there are no significant further cross-border cooperation activities after project implementation.

3.1.3.2. Project Beekeeping-attitudes of applicants, partners and target group

Project applicants are Municipality of Gorazde, Bosna and Herzegovina and Association of beekeepers Prijepolje, Serbia. Partners of applicant one are Beekeepers Association "Behar" and Fruit Growers Association "Drina". Partners of applicant two are Municipality of Prijepolje and Association of Fruit "Golden Raspberry". Target groups are members of associations of beekeepers and fruit producers. Considering the contribution of the project to the improvement of conditions for beekeeping development, the average mean of the response of target groups was 4.5, with a minimum deviation around the mean. Assessment of the contribution of project activities for improving conditions for the development of beekeeping derives from implemented activities.

Table 6: The importance of the project activities for your business and for sustainability of project results (target groups)

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Trainings for beekeepers and fruit growers	12	4.00	5.00	4.7500	.45227
Visits to learn about best practices	12	4.00	5.00	4.9167	.28868
Establishing joint cross-border committee on beekeeping	12	2.00	5.00	4.3333	1.07309
Procurement of equipment for beekeeping	12	3.00	5.00	4.5000	.79772
Introducing bee production to preschool children	12	3.00	5.00	4.0833	.90034
Organization of the 2 tribunes in Prijepolje and Goražde	12	4.00	5.00	4.7500	.45227
Participation in beekeeping fairs	12	4.00	5.00	4.8333	.38925
The importance of all the activities implemented during the project	12	4.00	5.00	4.6667	.49237
Valid N (list wise)	12				

In general, respondents considered important all the activities conducted during the implementation of the project. As with the previous project, the target groups gave the highest importance to best practice visits.

Table 7: The importance of the project activities for target groups' business and for sustainability of project results (applicants/partners)

Descriptive Statistics					
	N	Min	Max	Mean	Std. Deviation
Trainings for beekeepers and fruit growers	5	4.00	5.00	4.8000	.44721
Visits to learn about best practices	6	4.00	5.00	4.3333	.51640
Establishing joint cross-border committee on beekeeping	6	2.00	5.00	3.5000	1.22474
Procurement of equipment for beekeeping	6	4.00	5.00	4.8333	.40825
Introducing bee production to preschool children	6	4.00	5.00	4.8333	.40825
Organization of the 2 tribunes in Prijepolje and Goražde	6	4.00	5.00	4.5000	.54772
Participation in beekeeping fairs	6	3.00	5.00	4.1667	.98319
The importance of all the activities implemented during the project	6	4.00	5.00	4.5000	.54772
Valid N (list wise)	5				

Respondents consider the transfer of knowledge through trainings for beekeepers and fruit growers as highly important for the sustainability. The average mean for establishing a joint cross-border committee on beekeeping is 3.5 with significant deviation of the mean. That shows that there are differences in responses.

The purpose of the Committee is to continue cross-border activities through ASoPR (joint projects, seminars, fairs, networking) and to maintain and develop established networks. The attitudes of the respondents therefore indicate that there are deviations from planned activities. Applicants/partners proposed activities for further development of cross-border cooperation: organizing meetings of the Border Committee twice a year; visits to learn about best practice; market research; to align the objectives of the public calls to the needs of the population in the cross-border area; to have more frequent contacts in order apply for new projects that will continue joint activities; the Committee to organize visits to companies and NGO's dealing with the same or similar activities; to implement joint projects and enhance competitiveness of products through the introduction of EU standards and product branding.

Table 8: The level of results achieved through project activities (target group)

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Improved managerial capacities of existing beekeepers'	12	3.00	5.00	4.0000	.85280
Improved institutional and productive capacities of existing beekeepers	12	3.00	5.00	4.0833	.79296
Improved competitiveness of bee products and market access	9	3.00	5.00	4.0000	.70711
Overall results achieved through project activities	12	3.00	5.00	4.1667	.71774
Valid N (list wise)	9				

The standard deviation of all statements does not exceed the acceptable limit, and as such has no negative impact on the results of research. Comparing to the importance of the project activities listed in Table 6, the level of achieved results is somewhat lower. This indicates a slight difference between the perceived and achieved value for the target group.

Table 9: The level of results achieved through project activities (applicants/partners)

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Improved managerial capacities of existing beekeepers'	6	3.00	5.00	3.6667	1.03280
Improved institutional and productive capacities of existing beekeepers'	6	4.00	5.00	4.5000	.54772
Improved competitiveness of bee products and market access	6	3.00	5.00	3.6667	1.03280
Overall results achieved through project activities	6	3.00	5.00	4.1667	.75277
Valid N (list wise)	6				

Applicants/partners are satisfied with overall results achieved through project activities. They are less satisfied with the level of improved managerial capacities of existing beekeepers'; competitiveness of bee products and market access. These three elements are significant for the sustainability of project results and beekeeping development. Managerial capacities have a great influence not only on production but also on marketing and relational capital. Good products can remain unknown to market if access is limited or if product presentation is unconvincing.

Table 10: The level of results achieved through project activities (Comparison between target groups and applicants/partners)

Paired Samples Test				
	Paired Differences Mean	t	df	Sig. (2-tailed)
Improved managerial capacities of existing beekeepers	-.33333	-.542	5	.611
Improved institutional and productive capacities of existing beekeepers	.50000	2.236	5	.076
Improved competitiveness of bee products and market access Target groups: Improved competitiveness of bee products and market access	-.25000	-.397	3	.718
Overall results achieved through project activities	.16667	.415	5	.695

Analyzing the set of sub-questions between the two questionnaires, one can conclude that there is no significant statistical difference. The tested samples from two groups are similar because of p> 0.05.

Table 11: The expansion of business networks and cross-border cooperation as a result of the project (target groups)

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
To what extent you have increased cross-border cooperation and business networks as a result of this project.	12	3.00	5.00	3.8333	.95346
Valid N (list wise)	12				

Respondents are slightly more satisfied with achieved expansion of business networks and cross-border cooperation than it was the target group of the project Safe Food Region. Standard deviation is 0.95346 and is acceptable. Respondents state that the following activities continued after implementation of the project: participation at local beekeeping fairs; procurement of equipment for beekeeping from other programs; training for beekeepers at local level. Most of the activities did not continue at cross-border level.

Considering ASoPR activities, Cross-border beekeeping Committee did not initiate activities at cross-border level, because: fairs and seminars are organized only locally; there were no joint projects and networking is not growing at cross-border level.

Both groups have pointed out the importance of all project activities and satisfaction with achieved results, as the short-term effect. In order to ensure the sustainability of achieved results, it is necessary to activate joint Cross-Border Committee or involve new mechanism.

3.1.3.3. Comparison of the attitudes of applicants from project Safe food region to applicants/partners from project Beekeeping

There is no significant difference in attitudes between the applicants/partners of two projects regarding the importance of implemented activities and overall results achieved through projects.

Table 12: Importance of all activities undertaken during project implementation

Paired Samples Test				
	Paired Differences	t	df	Sig. (2-tailed)
	Mean			
Safe Food Region: Importance of all activities undertaken during project implementation Beekeeping: Importance of all activities undertaken during project implementation	-.50000	-1.000	1	.500

There is no significant statistical difference between the two samples tested because 0.500> 0.05.

Table 13: Overall results achieved through project activities

Paired Samples Test				
	Paired Differences	t	df	Sig. (2-tailed)
	Mean			
Safe Food Region: Overall results achieved through project Beekeeping: Overall results achieved through project activities	-.33333	-1.483	11	.166

There is no significant statistical difference between the two samples tested since the p = 0,166 > 0, 05. Most of the activities after the project implementation take place at the local level, while cross-border cooperation is in stagnation when it comes to ASoPR of these two projects.

Both primary and secondary research confirmed the hypothesis that successful implementation of the projects does not guarantee the sustainability of the achieved results at cross-border level. The results of the primary research are supported by findings from the Final Evaluation Report CBC 2007-2013 as well. *,,A truly cross-border dimension was often missing at the design stage even for the most successful projects i.e. only a minority of projects resulted in intensified cross-border links and long-term partnerships (2017, p. 28),,*. In accordance with the findings, a model of evaluation of Project / Implementation and Sustainability (Figure 1) goes beyond design deficiencies in terms of ASoPR planning, their validation through VoS and the creation of a CBC knowledge platform.

As per intervention logic, short-term effects are achieved at the level of program output. Cross-border networks are established in target sectors. The result (networks are active and function effectively) and impact (improved business relations and activity for participating firms) are not achieved at cross-border level. Restrictions on access to information also make it difficult to evaluate and to research projects. It is also necessary to redefine the issue of intellectual property relating project data in order to share knowledge and to improve the sustainability of projects.

Conclusion

Research based on available primary and secondary data showed that implementation of CBC programme was successful. As for researched projects, respondents' opinion is that the biggest benefits of projects are the acquisition of new knowledge and study visits to learn about best practice. Sustainability of achieved results and reaching the impact on a wider community in the eligible area depend on the continuation of activities at cross-border level. It is necessary to activate and follow up defined mechanisms by which the applicants and target groups are guided to maintain and improve the established positive trends after implementation of the projects within the programme. Most of the activities resulted in the formation of a joint committee or other forms of associations with the aim to continue established cooperation. It is necessary to monitor the implementation of planned joint activities which may have a greater impact on the wider community.

To monitor the overall effects of CBC programmes in all beneficiary countries and to measure a long-term impact, development of a joint knowledge platform would be of great benefit. Joint CBC knowledge platform would eliminate restrictions regarding the identification of impact through macro indicators and availability of information. The platform would provide better access to information for primary research and to overcome shortcomings in the statistics of the beneficiary countries. The scope and content of the information would depend on the objectives of monitoring impact and cost-effectiveness of investing in a platform. The platform could be useful for creation and implementation of local and regional development strategies. For monitoring the sustainability of results and analyzing the success of implementation of the programme and its projects, by testing the beneficiaries' experience, availability of data is the first precondition. Each beneficiary country and financiers should have the interest to monitor the effects of realized projects in order to determine the degree of progression in particular field, as well as the sustainability of the activities implemented through the projects. Corrective measures can prevent the situation that some of the projects finish as good cross-border activity at a given time.

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THE APPLICATION OF THE GRAVITY MODEL IN THE EVALUATION OF THE FOREIGN TRADE OF AGRICULTURAL AND FOOD PRODUCTS BETWEEN BOSNIA AND HERZEGOVINA AND MONTENEGRO

THE APPLICATION OF THE GRAVITY MODEL IN THE EVALUATION OF THE FOREIGN TRADE OF AGRICULTURAL AND FOOD PRODUCTS BETWEEN BOSNIA AND HERZEGOVINA AND MONTENEGRO

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Abstract

Analysis of foreign trade exchange imposes the need of activities based on modern and classical methods of assesment and measurement of trading flows and macro economic indicators of growth and stability. This paper begins with the idea and the need to assess the impact of foreign exchange of agricultural and food products between Bosnia and Herzegovina and Montenegro by application of the gravity model. The gravity method in foreign trade evaluates the potentials between individual countries, taking into account the actual current trade value. Subsequently, the potentials and costs of trade are taken into account, as well as the distance of the analyzed markets. That is to say, the paper was based on the assumption that the gravity model can assess the potentials of export and import of agricultural products between Bosnia and Herzegovina and Montenegro. As the results of the study, the potentials of import and export of agricultural products between Bosnia and Herzegovina and Montenegro were presented.

Keywords: *Foreign trade, gravitation model, evaluation, economic growth, Bosnia and Herzegovina, Montenegro.*

Category: *Review article*

INTRODUCTION

In contemporary conditions which characterize the growing importance of foreign trade between countries, the relations of one country with the international surroundings have an important role for country's economic development. Model used in this paper is gravitation model, where it is important to point out that gravitation model does not contain essential data about import/export structure as well as the influence of movement of the capital between countries, intro-industrial trade, the possibility for a company from a neighboring country or trading area country can have dependent companies in other countries where the trade between "mother" and "daughter" represents the trade of two countries which do not reflect the real state. Gravitation model allows avoiding some of the usual problems related to cross-section or panel specification of gravitation model. First of all, the differences in relative distance of countries from their trading partners affect the systematical bias which, while evaluating cross-section or panel method, depends on geographical position of every country (Brenton and Di Mauro, 1998). The problem of heterogeneity of the countries, which is related with cross-section and panel specifications, also can be soothed by using the equation of one country, which is why sometimes such specifications are used in literature (Brenton, Di Mauro and Lucke, 1999).

1. METHODOLOGY

In its beginnings the gravitation analysis of trading flows is presented as an approach without proper theoretical fundamentals. However, as shown later on, the idea of using the economic potentials and trading costs in the analysis trading flows was based more in theory than it was thought at the beginning. The gravitation model in evaluation of foreign trade was made on the example of Isaac Newton law of physics, where the gravity force between bodies **A** and **B**, with the masses M_a and M_b respectively, and with a distance D_{ab} between that two points is given by the formula:

$$F = cM_a M_b / D_{2a,b} \qquad \text{where } c \text{ is the constant}$$

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In the gravitational model of international trading the equivalent for force and range of trading between countries (e.g. total trading range, or for the components of import and export) between countries i and j (T_{ij}), the mass is represented by the national income of the countries, GDP_i and GDP_j while the distance has kept its specification D_{ab}:

$$T_{i,j} = CGDP_j/D_{i,j} \qquad (1)$$

Traditional approach in the usage of gravitation model historically lies far more on physical law than on the postulates of economic theory, and in the past twenty-thirty years huge steps have been made in "synchronization" economic theory with physical laws of nature.

A significant connection of economic theory with Newton laws has begun with the work of Tinbergen (1962) in order to get a more coherent form with Anderson (1979). After Tinbergen and Anderson there are more and more theoretical expanding which form and set gravitation models in the framework of economic theory. Due to disposition it will be presented briefly the idea which Anderson's classical work is based about initial connection between economic theory and gravitation physical laws.

Anderson (1979) has demonstrated the solution for the consumption, under the assumption that Cob-Douglas functions can have the form of Isaac Newton's gravitation equation. Anderson's approach is basically simple and starts with the assumption of balanced trading between two countries. In the model Anderson simplifies the reality by reducing the world to two countries, and in addition Anderson also assumes that the proportion of domestic and foreign goods consumption is a constant and is independent from the level of income and tax policy. So, the proportion of the income that consumer of country **1** spends on the consumption of goods imported from country **2** is a constant, and the same relation applies vice versa – the proportion of income that consumer of country **2** spends on the consumption of goods imported from country **1** is a constant.

If the next notation is being adopted:

X_i is the export from the country i to country j
Y_i are country, income i
$w_{j(i)}$ proportion of the income that consumers of the country i spend on the consuming the products from the country j
I_i export from country i to country j
$T_{i,j}$ Trade land between countries i and j

Therefore;

$X_i = w_{i(j)}Y_{j'}$
$I_i = w_{j(i)}Y_{j'}$

Because of the assumption about balanced trading this has to be applied:

$$T_{i,j} = X_i+I_j = 2w_{j(i)}Y_j = 2w_{j(i)}Y_j \qquad (1)$$

In addition the incomes of the country i have to, by definition, be equal to sum of spent income on consumption of domestic and foreign goods:

$$Y_i = w_iY_i+w_iY_j = w_i(Y_i+Y_j)$$

But if the Y_i+Y_j are a world's consumption in a simplified model than we introduce the notation:
Y *of the world* = $Y_s=Y_i+Y_j$ $\qquad (2)$

From (1) and (2) follows:

$$j = 2Y_iY_j/Y_j \qquad (3)$$

Equation (3) is a theoretical equation of (1) in simplified world without friction.
According to this tradition, and taking in consideration the specificity of data, trading between countries can be an econometrical model as a combination of time series with cross-sectional elements:

$$TR_{j,k,t}=CGDP_{j,t}GDP_{k,t}/D_{j,k}$$

where: $\qquad (4)$

$R_{j,k,t}$ *is trading from country J to country K in year t*
C *constant*
$GDP_{j,t}$ *Gross domestic product of country J in year t*
$GDP_{k,t}$ *Gross domestic product of country K in year t*
$D_{j,k}$ *Distance between country J and country K*

Data that enter the gravitation model from the time series of several years is taken from statistic publications on national as well as international level. Parameters are set with panel analysis, which is considered more appropriate models than time series (for export in most countries there are data for a long time period) and cross-sectional data which are static in time. Panel data provides a bigger number of observations than the time series and in the same time provide the insight in their changes in time. Due to large number of countries and observed time, every parameter of the model is rated with 168 observations. The model is evaluated with the low square method (OLS – ordinary least squares), parameters are determined by bringing in relations independent variable with the required appearance of – potential export, multiple regression method.
Most of the data about export and import are taken from the foreign trade statistic agencies, and it is also possible to download the data from international publications.

In estimates, the gravitation model mostly includes variables as GDP or GDP per capita of importing and exporting country, population number for both countries, distance between generating and receptive market, common border, preferential arrangements and other.

The most important task in gravitation model is to determine the parameters (coefficient) which correspond to given factors: β1, β2, β3, β4, β5, β6 because they determine the extent of individual independent variable (country's GDP, distance, economical-political distance) affect the dependent variable (import-export). Coefficients show from which of the variables given are significant for import and export of one country and to what extent accordingly with that are going to be included in the model (equation).

In gravitation model the following variables have been tested:

Gross domestic product is marked for the most important import and export destinations considering the value of import and export. There it is included large number of countries of the biggest receptive markets for the country's products according to the ranking list of publications for one country statistics. The data is provided by the national agency for statistics, as well as the World Bank and sites www.trademap.org and www. intracen.org .

In the use of gravitation model the expected sign is positive, because the purchasing power in great deal sets the range of import. Equally often GDP per capita is used, but in this model the demand is largely determined by the total GDP. Namely, total GDP explains the size of the receptive market, which for export has bigger significance than purchasing power of individuals. Although the most common variable in gravitation model, GDP of receptive market shows relatively weak relation (small coefficient of correlation) with the country's export. Despite all of that, this variable is included in the model because it still shows statistical significance and because together with other factors contributes that the observed phenomena is explained.

GDP showed in the model a greater influence on the export than on the GDP of receptive markets. Connection between economic growth and the export growth has proved to be more direct and influential. In simple regression, this variable would have a coefficient of determination around 0.31; respectively it would explain almost the third of the change of export value.

Transport costs in export of any product have a significant influence on the demand. Transport costs

are mostly used for the distance of the trade markets. The effects of trade reduction are the strongest in the transport-intensive activities – activities which are dependent on the import and export of semi-goods. Even when the transport and communicational costs are reduces in time; the distance continues to significantly affect the local income. The improvement of transport and communication (the development of channels, roads, internet, airport network, post office, telegraph, telephone) does not reduce the importance of the distances. New technologies, as well as liberalization of trading policy, can certainly resize some of the transport costs, but lot of their aspects still exist. Because of that the most significant trading partners are always the neighboring countries. However, export directions are by no means depleted in European countries. The model obtained in the manner described shows that the export significantly depends on geographical distance, which is in negative relation with the range of export. The influence of the distance on the export is so big that in simple regression, taken as the only factor of export, it would participate with the 57% of the export value.

The number of population is a common variable in the export gravitation model, because it leads to the connection the size of the mrket with the export value.

Economic-political distance between two countries cannot be measured, so we use dummy, actually the artificial variable, evaluating it by zero or one economic relations and the institutional basis for their improvement. The data used for the evaluation of this variable, are taken mostly from country's Ministry of foreign affairs, which gives the detailed overview of bilateral contracts and agreements relating to regulations of economic cooperation, and an overview in the range and purpose of mutual investments, mutual projects of experts training, the presence from given companies and other. The artificial variable **P** takes the value **1** if there are certain preferential arrangements, agreements on trading convenience, significant volume of investment in the economy, presence of companies and other, and the value **0** if the economic cooperation is relatively underdeveloped and unregulated. This factor in the model of export has showed a big influence – in simple regression as an only factor would explain the 28% of changes in the export value.

This procedure calculates the value of a constant obtained by a multiple regression, as well as the parameters which correspond to the factors included in the regressive analysis. In addition to these values, which will be applied later in the model, every error of a constant and each parameter was given, as well

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as **P**-value which indicates on statistical probability each one of them. As in countries included in the model testing have a large number of observations, the obtained model and coefficients are not limited to any region, but they can be used for calculating the export potential to any country or region of the world. The evaluation of model parameters applying the additional statistic-econometric equipment would significantly overcome the framework of this project and would not give the wanted result.

As an alternative of this model in practice it is often used the model of bilateral exchange based on evaluated model parameters by L.A. Winters and Z. K. Wang which is applied in this case. The basic form of gravitation model of international trade is:

$$\ln X_{ij}=\alpha+\beta_1\ln Y_i+\beta_2\ln N_i+\beta_3\ln Y_j+\beta_4\ln N_j+\beta_5\ln D_{ij} +\beta_6\ln A_{ij}+\sum_\kappa\gamma_\kappa\ln P_{ijk}+u_{ij}$$

Where the:

α - constant
X_{ij} - trade value which is instructed from country i to country j, Y_i, Y_j- GDP of the countries i and j,
N_i, N_j- total population of countries i and j,
D_{ij} – distance between countries i and j,
A_{ij} - dummy variable for representing the common border,
P_{ijk} - dummy variable for the existence of the preferential arrangements or belong to the same economical grouping,

u_{ij}- random model error.

This model can be applied on one country's trading with every country that appears to be interesting for determining the potential export. The data about country's trading and GDP is usually expressed in US dollars, euros or other strong global currency. The experience shows that trade map and respectable data are very useful. The population is expressed in millions and the distance in kilometers.

The model has been rated with the method of OLS (ordinary least squares – OLS). The given results show that the coefficient ratings are statistically important and logical sign.

Gravitation model is used for bilateral trading of one country with neighboring countries. The aim is to determine the potential range of export in each country in the region, and then to compare with the existing export. Simply said, the aim is to determine whether and how much more can the export of one country be increased into the analyzed countries. Chart 1 shows the coefficients for the use of the gravitation model.

Chart 1. Coefficient for application of gravitation models

$\ln X_{ij}$	Coefficient	statistical error	T	P >ItI
$\ln Y_i$	0.93070500	0.0310027	30.02	0.000
$\ln N_i$	0.02466540	0.0386548	0.64	0.524
$\ln Y_j$	0.68298350	0.0310023	22.03	0.000
$\ln N_j$	0.04734422	0.0386642	1.22	0.221
$\ln D_{ij}$	-1.22239100	0.0598855	-20.41	0.000
A_{ij}	0.64014505	0.1234944	5.18	0.000
P_{ij}	0.57892410	0.1033485	5.60	0.000
Cons	-4.65566500	0.5933937	-7.85	0.000

Source: Winters L.A., Wang, Z.K. Eastern Europe's international trade
Manchester University Press, Manchester and New York, 1994.

According to gravity model formula, potential export from country i to country j is established by following:

• all known values – multi-annual average of GDP of exporting country,
• multi-annual average of GDP of importing country,
• population of importing and exporting country and

• distance between them is multiplied with appropriate parameters of Winters and Wang.

Artificial variables take the value 2, in case the countries share the same border or belong to the same economic group or 1, if this is not the case. They are, also, multiplied with appropriate parameters and then added to the sum. For cross-section models the characteristic problem is that of heteroscedasticity, because of the nature of the

data itself and certain deficiencies of this model. On the one hand, there are large variations of data during just one year, and on the other hand, which is more importantly and characteristic for economic occurrences, it is impossible to explain the variations of the dependent variable, as much as we include them into the model. The unexplained factors are through the independent variables included in the model and accumulate in residues. With the variations of independent variables and variations of random error (i and j) they vary and are not equal, which is the assumption of the heteroscedasticity. The problem of removing the heteroscedasticity in cross-section models overcomes the possibilities of this paper. It is certain, that specific inconsistencies of a gravitation model exist, but they are accepted (and mostly removed), because the analytical value of the multiple results is obtained and that is why the gravitation model is still used in empirical researches.

2. The assessment of the foreign trade of agricultural and food products between Bosnia and Herzegovina and Montenegro by the application of the gravity model

According to the economic theory, the export growth is the basis of economic recovery of every country and debates on this subject are acquiring a prominent place, not only in the academic communication, but in the wider professional and public circles as well. The problem is in identification of opportunities of acquirement of an export-oriented recovery, i.e. which macroeconomic policies are aimed at regional reorientation, and the like.

In this regard, the trade of agricultural and food products is of special importance for every country, and such is the case with the trade between Bosnia and Herzegovina and Montenegro as well. This paper provides a review of foreign trade of agricultural and food products (01-24 tariff-lists of the unique customs nomenclature) between Bosnia and Herzegovina and Montenegro, applying the gravity model of foreign trade. The foreign trade of agricultural and food products between Bosnia and Herzegovina and Montenegro will be expressed in convertible marks (KM) in this paper.

Evaluation of export of agricultural and food products, using the gravity model between Bosnia and Herzegovina and Montenegro, i.e. the evaluation of distance variable used data information on the distance between the major cities of Bosnia and Herzegovina and Montenegro, i.e. distance between Sarajevo and Podgorica (www.udaljenost.com) .

2.1. The evaluation of the export of agricultural and food products from Bosnia and Herzegovina to Montenegro by the application of the gravity model
The results of the application of the gravity model in the export of agricultural and food products from Bosnia and Herzegovina to Montenegro are shown in the Table 1.

Table 1. Results of the gravity model in the export of agricultural and food products from Bosnia and Herzegovina to Montenegro (in 000 KM)

	Y_i GDP of Montenegro	N_i Population of Montenegro	Export BiH	Y_j GDP of BiH	N_1 Population of BiH	D_{ij} Distance in kilometres	A_{ij} Dummy Variable Border	P_{ijk} Dummy variable trade groupation
Ln	4.621 8,4383	0,65 -0,4308	34,90 3,5525	21.538 9,9776	4,62 1,5304	229 5,4337	2 0,6931	2 0,6931
-4,655	0,9370	0,0240	0,0560	0,6800	0,0470	-1,2220	0,6401	0,5789
eva.par	7,9067	-0,0103	0,1989	6,7848	0,0719	-6,6400	0,4437	0,4013
		Potential export		88,9611				
								4,5019

Source: The analysis of the authors on the base of data collected from
Statistics Agency of Bosnia and Herzegovina (2017)

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The potential of the export of agricultural and food products from Bosnia and Herzegovina to Montenegro by the application of the gravity model is 88,9611million KM. The data obtained on the potential of the export of agricultural and food products from Bosnia and Herzegovina to Montenegro by application of the gravity model (88,9611million KM) are a lot higher than the original data series based on a number of years average (series of 11 years) of 34.90 million KM.

The economy of Bosnia and Herzegovina has the capabilities to almost 2.5-fold increase in export to Montenegro.

2.2. The evaluation of the import into Bosnia and Herzegovina from Montenegro by the application of the gravity model

Results of the gravity model of the import into Bosnia and Herzegovina from Montenegro are shown in the Table 2.

Table 2. Results of the gravity model of the import into BiH from Montenegro

	Y_i GDP of Montenegro	N_i Population of Montenegro	Import BiH	Y_j GDP of BiH	N_1 Population of BiH	D_{ij} Distance in kilometres	A_{ij} Dummy Variable Border	P_{ijk} Dummy variable trade groupation
	Import from Bosnia and Herzegovina to Montenegro							
Ln	4.621 8,4383	0,65 -0,4308	19,73 2,9821	32,160 9,9776	4,62 1,5304	229 5,4337	2 0,6931	2 0,6931
-4,655 eval.par	0,9370 7,9067	0,0240 -0,0103	0,0070 00209	0,6800 6,7848	0,0470 0,0719	-1,2220 -6,6400	0,6401 0,4437	0,5789 0,4013
		Potential export		74,4910				
								4,3239

Source: The analysis of authors based on data from: ://www.trademap.org/ (taken over on 20/10/2014)

The potential of the import of agricultural and food products into Bosnia and Herzegovina from Montenegro is defined at the level of 74.4910 million KM and it is significantly higher than the actual import into Bosnia and Herzegovina from Montenegro. The data obtained on the potential of the import of agricultural and food products from Montenegro into Bosnia and Herzegovina by application of the gravity model (74.4910 million KM) is almost four times higher than the original data series, based on a number of years average (series of 11 years) of 19.73 million KM.

Conclusion

This paper presented the application of the gravity model in the trade between Bosnia and Herzegovina and Montenegro. In empirical terms, the gravity trade model is considered to be among the more successful. The gravity model relatively well explains the relationships and changes in the world trade. Besides numerous critics, the gravity model may indicate that the positive relation with the gross domestic product and the negative relation with a distance, may be a "cover" for a lot of different economic assumptions.

The results of the gravity models are very often in compliance with reality, which makes the application of this model popular and attractive. At the same time, the results of gravity models show different results of the foreign trade than the actual situation is in the reality, which means that the results of the gravity model can serve as an orientation in the economic policy and the foreign trade policy of a country.

The application of the gravity model in the trade of Bosnia and Herzegovina and Montenegro showed that the potential of the Bosnia and Herzegovina´s export to Montenegro, by application of the gravity model, was 60.1428 million, while the actual amount is 36,60 million KM.

The analysis of the data of the import from Montenegro into Bosnia and Herzegovina shows that the import is 74.4910 million KM and it is higher than the actual import of 19.73 million KM.

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COMMUNICATIONS

Lazo Roljić PhD, professor, Editor-in-Chief

The first topic I would like to offer to our readers as a challenge in the chapter of Communications is the following:

I am not sure whether the situation in sale and retail is still the same as it was in the mid 1970s, when I was a young researcher at the Institute of Economics, but I am sure that the issue has been tackled up to the present. The issue is about crime in marketing, trade and sale. During those years, I participated in an international project "Development of Bosanska Krajina Agrocomplex" (FAO 514/74) where I met an FAO expert, a marketing professor from France. I recall that at the beginning of his presentation he said something like this: "There is only one book in France whose contents keep growing and updating while its sales increases. Its title is "How to Shoplift and Methods and Measures of Preventing Thefts".

Over time, this type of 'activity' in marketing, trade and sale had been constantly increasing, so after introducing the Internet (1993) and gradual transition from classic to electronic business, a new era of criminal started. Today it has spread not only on marketing, trade and sale, but also on all other forms and segments of human action. However, nowadays it is generally called 'crime and corruption' at the top level (state economy).

I have written an article on the phenomenon (*Digital Forensics in Evidence and in Mitigating Corruption Effects*[1]), and in this issue of IJSRM there is also a research by Hodžić and Ričko under the title *Political Economy of Corruption and Its Implications on Financial Systems*. I believe it is worth mentioning that in the academic year 2018/2019 we will introduce an MA program in Cyber Crime and Digital Forensics.

The second topic I would like to offer as a challenge available for our readers' comments is currently very interesting. It regards Bitcoin bubble price and its inevitable burst, according to experts. Recently, its price has demonstrated great oscillations on this market. First it started growing abruptly, and then it fell rapidly. In the Bitcoin trade technology it was said that the total number of the 'printed' coins had been limited to 21 Million. If that is so, I cannot but wonder why its price started dropping and what is the key factor that lead to inflation of its value. Searching for the answers, in this new chapter, I hope we will discuss Bitcoin demand and causes of its price increase and fall.

Your Editor-in-Chief

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1 Roljić, L. (2013). Digital forensics in evidence and in mitigating of the corruption effects. *Proceedings of the Faculty of Legal Sciences* (5) 87-101. University of Vitez