PROCEEDINGS OF THE INTERNATIONAL CONFERENCE OF SOCIO-ECONOMIC RESEARCHERS - ICSR 2016 SERBIA
27-29 May 2016, Zlatibor, Serbia

Editors: Dr Mehmed L. Muric & Dr Clinton O. Aigbavboa
Challenges of multidisciplinary research of socio-economic development at the beginning of XXI century: new approaches, perspectives and opportunities

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Dr Mehmed L. Muric
Prof Clinton O. Aigbavboa

Design
MA Aldin Kalac

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4TH INTERNATIONAL CONFERENCE OF SOCIO-ECONOMIC RESEARCHERS

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FOREWORD

On behalf of the Organizing Committee, it is our pleasure to welcome you to Zlatibor, Serbia, the host of the 4th International Conference of Socio-economic Researchers (ICRS 2016 SERBIA).

Socio-economic development can be defined as a process that seeks to identify both the social and the economic needs within a community and seek to create strategies that will address these needs in ways that are practical and in the best interests of community over the long run. The general idea is to find ways to improve the standard of living within the area while also making sure the local economy is healthy and capable of sustaining the population present in the area. Socio-economic development occurs in neighborhoods in metropolitan areas, section of smaller cities and towns, and even in rural settings.

There are a number of factors that must be considered as part of any socio-economic development effort. Understanding the current circumstances that prevail in the area is the first step toward regional development. By assessing the potential of human capital in the area, allowing for the current unemployment rate and when laws and regulations are currently in place that may be impeding the introduction of new industry into the area, it is possible to begin developing a plan that will ultimately mean more jobs, stable employment for more households and more money flowing through the local economy.

Meeting these needs require a new, multidisciplinary approach, which gives the ability to create synergy of knowledge that will be woven into a long-term strategy of sustainable development. Bearing in mind the importance of multidisciplinary synergy of knowledge the 4th International Conference of Socio-economic Researches has title:

CHALLENGES OF MULTIDISCIPLINARY RESEARCH OF SOCIO-ECONOMIC DEVELOPMENT AT THE BEGINNING OF XXI CENTURY: NEW APPROACHES, PERSPECTIVES AND OPPORTUNITIES

International Conference of Socioeconomic Researchers (ICSR) will promote further international collaboration between socio-economic researchers.

The ICSR aims are fostering cross-disciplinary discussions and networking to further enhance and enrich the knowledge of academicians, researchers, policy makers and socio-economic industry professionals. Also, accumulate new and innovative knowledge and experiences have high priority. The mission of ICSR is to facilitate communication between multi-disciplinary teams and especially those involved in socio-economic studies and research in this regard, interdisciplinary integration and international cooperation are encouraged.

The ICSR 2016 SERBIA will provide an international forum for discussion of topics important to developing new knowledge in socio-economic studies and research disciplines especially in the process of the research methodology developing.
The ICSR program will feature a few keynote speakers who are internationally recognized experts in their areas as well as papers presentation by both academia and industry practitioners alike.

**SCOPE OF THE CONFERENCE**

The tracks and topics for which papers are invited cover (but are not limited to) the following:

- **Track No 1 Contemporary Social and Social Medicine Issues**
- **Track No 2 Economic and Law Issues**
- **Track No 3 Environment, Housing and Infrastructure Issues**
- **Track No 4 Education, Technology and Ethics Issues**
- **Track No 5 Energy and Security Issues**
- **Track No 6 Policies for National Development**

The 4th International Conference of Socio-economic Researchers is the premier interdisciplinary scientific forum for scientist and researchers from around the world.

Warm gratitude is extended to the authors who have successfully gone through a two-tier peer review process in order to have their papers accepted and published in this proceeding. The peer review process would have been impossible without the support of the members of the Scientific and Technical Committee (STC). The Organizing Committee is thankful for this voluntary service that is central to the quality of accepted papers.

Special thank you also goes to all the conference delegates that have travelled to be part of the conference. Thank you for attending the event and please make the most of your time at the conference while enjoying the hospitality of the Zlatibor, mountain with the gold pines.

**Dr Mehmed L. Muric**
Conference Chair
Zlatibor, Serbia
27 May 2016
ACKNOWLEDGEMENTS

The Organizing Committee of the International Conference of Socio-economic Researchers ICSR 2016 SERBIA is grateful to the University of Johannesburg, International Balkan University Skopje, University of Applied Sciences Darmstadt Germany – Faculty of Economics and Business Administration, London School of Economics, University of Wien – Institute for Islamic Studies and other International universities for supporting the conference through their valued contributions.

The contributions and unique support of the International Advisory and Scientific Committees, who worked assiduously to prepare refereed and edited papers, which produced this published proceeding that is of the highest standard. The contributions of Dr Mehmed L. Muric, Prof Clinton Aigbavboa, Ms Sadi Seyama, Prof. Dr. Martin Meyer-Renschhausen, Dr Eddie Gerba, Mag. Michael Ameen Kramer, Dr Shener Bilalli, MA Aldin Kalac, Prof. Dr. Gordana Ajdukovic and Dr Vladimir Ilijevski are recognised.
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PEER REVIEW PROCESS DECLARATION

All the papers in this conference proceedings were double-blind reviewed at abstract and full paper stage by the members of the International Scientific Committee. This process entailed detailed reading of the abstracts and papers, reporting of comments to authors, modification of papers by authors whose papers were not rejected by the reviewers, and re-evaluation of revised papers to ensure quality of content.
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State University in Novi Pazar
THE PEER REVIEW PROCESS

The need for high quality conference proceedings as evident in the accepted papers while complying with the requirements necessitates a rigorous two-stage peer review process by no less than two acknowledged experts in the subject area. In this context, submitted abstracts were twice blind reviewed.

Authors, whose abstracts were accepted were provided with anonymous reviewers’ comments and requested to submit their full papers noting and addressing these comments. Evidence was required relative to the action taken by authors regarding the comments received. The abstracts and resubmitted papers were twice blind reviewed in terms of:

- Relevance to conference theme and objectives;
- Originality of material;
- Academic rigour;
- Contribution to knowledge;
- Research methodology and robustness of analysis of findings;
- Empirical research findings, and
- Critical current literature review.

Authors whose papers were accepted after this second review were provided with additional anonymous reviewers’ comments and requested to submit their revised full papers. These final papers were only included in the conference programme and the conference proceedings after evidence was provided that all comments were appropriately responded to. At no stage was any member of the International Scientific Committee, the editor or the co-editors of the proceedings involved in the review process related to their own authored or co-authored papers.

The role of the editors was to ensure that the final papers incorporated the reviewers’ comments and arrange the papers into the final sequence as captured on the USB memory stick and Table of Contents. Of the 55 abstracts originally received, only 23 papers were finally accepted for presentation at the conference and inclusion in these proceedings, representing a rejection rate of 58%. To be eligible for inclusion these papers were required to receive a minimum score of 3 out of 5 allocated by the peer reviewers during the final review process.

Regards,

Dr Mehmed L. Muic  
ICSR 2016 SERBIA Conference Chairman  
Zlatibor, Serbia  
27 May, 2016
The University of Johannesburg (UJ), is the largest, multi-campus, residential university in South Africa. It seeks to achieve the highest distinction in scholarship and research within the higher education context. Born from the merger between the former Rand Afrikaans University (RAU), the Technikon Witwatersrand (TWR) and the Soweto and the East Rand campuses of Vista University in 2005, the University of Johannesburg’s unique academic architecture reflects a comprehensive range of learning programs, leading to a variety of qualifications, from vocational and traditional academic to professional and postgraduate, across the four campuses – Auckland Park Kingsway, Auckland Park Bunting Road, Doornfontein and Soweto. The campuses vary in size and each has its own character and culture, contributing to the institution’s rich diversity. The University of Johannesburg has benefited from a large pool of researchers bringing together various fields of expertise and research focus areas. The university provides the ideal ground for interdisciplinary research and the university has more than 87 rated researchers. Five of these researchers are A-rated - all of whom are recognized as world leaders in their field. The university is also home to nine research centers. The University fosters ideas that are rooted in African epistemology, but also addresses the needs of South African society and the African continent as it is committed to contribute to sustainable growth and development. We continue to build a culture of inclusion, embracing South Africa’s rich histories, cultures, languages, religions, genders, races, and social and economic classes. Additionally, the University encourages a culture of service as part of the university student experience and it proudly pursues a four-language policy of English, isiZulu, Afrikaans and Sesotho sa Leboa. Our staff and students come from over 50 countries in Africa and around the world. The university has also built links, partnerships and exchange agreements with leading African and other international institutions that further enrich the academic, social and cultural diversity of campuses. It is also the recipient of the highest levels of external financial support, from donors and partners all over the world. This demonstrates the high esteem in which we are held internationally.
The success story of the International Balkan University began in 2006. The Foundation for Education and Culture “USKUP” was founded by a group of intellectuals and academicians (scholars) to establish the INTERNATIONAL BALKAN UNIVERSITY as a cultural bridge between the Balkans and Turkey, with the intent of increasing the quality level of human capital in the region. As a provider of high quality education, International Balkan University has adopted the mission of educating self-confident, multidimensional, socially responsible and globally competitive individuals. In addition, the university produces high quality scientific research that will contribute to technological and economic development in the region. With this mission in mind, International Balkan University aims to become a renowned international educational institution that sees cultural diversity as an asset, and that contributes to the development and stability of the Balkans by producing the best professional individuals who are ready to compete in the workforce.

IBU has 7 faculties, including 19 undergraduate programs and 6 graduate programs in a variety of fields, such as engineering, architecture, economics, administrative sciences, fine arts, educational sciences, communication, humanities and social sciences. Our graduates with their professional qualifications on one hand, and the university’s research output to the development of science through national and international projects, organized symposia, workshops, conferences and academic events on the other, have significantly contributed to the university’s mission of increasing the educational level in the region. International Balkan University is an educational medium that transfers knowledge and experience in higher education from Turkey to the Balkans. Through numerous Mevlana and Erasmus Exchange programs and bilateral cooperation agreements with prominent Turkish universities, IBU has adopted the policy of utilizing diversity to achieve academic competence. Our students come from Macedonia, Turkey, Montenegro, Kosovo, Serbia, Bosnia and Herzegovina and Bulgaria. Students also benefit by being immersed in the multiethnic and multicultural academic environment that the university offers, which has contributed to building cultural wealth and harmony.
**PROFILES OF KEYNOTE SPEAKERS**

**Prof. Dr. Martin Meyer-Renschhausen**


**Dr. Eddie Gerba**

Eddie Gerba (PhD) is a Fellow in (Behavioral) Macroeconomics, working together with Professor Paul De Grauwe on macroeconomic implications of financial and behavioral imperfections. He has a background in both macroeconomics and quantitative finance. He has previously been a Visiting Scholar at the Bank of Spain and Bundesbank.

Eddie’s research interests lie in the fields of macroeconomics and quantitative finance. Of particular interest to his research are the interactions and linkages between financial markets and the macroeconomic. This includes topics such as credit cycles, financial intermediation theory, financial crises, risk management and business cycles. Method-wise, his interests and experience lie in DSGE-models, bounded rationality, computational methods, time-series econometrics, and derivative pricing models.

Most recently, he has published a book on 'Financial Cycles and Macroeconomic Stability: How Secular is the Great Recession?'. The book explores the secular stagnation phenomenon and investigates the role of US financial sector on macroeconomic cycles and growth. The book includes both a theoretical and an empirical analysis of the US macro-financial developments over the past 60 years.
TO WHOM IT MAY CONCERN

It is herewith confirmed that the International Conference of Socio-economic Researchers – ICSR 2016 SERBIA is a fully peer-reviewed scientific conference, where each published paper has undergone an extensive review process.

The process included a minimum of two or more reviewers from the international technical/scientific programme committee review panel.

Papers have been archived via electronic proceedings (eBook) on website and digital repository.

An ISBN: 978-86-920081-0-8 has also been allocated.

For questions/queries, please do not hesitate to reach the conference organizers via e-mail conference@socioeconomica.info.

Regards,

Dr Mehmed L. Muric
2016 SERBIA Academic Chairman
Zlatibor, Serbia
27 May, 2016
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ROUTE TOWARDS STRENGTHEN VALUES IN SOCIETY THROUGH TRAINED STUDENT
Ljupčo Naumovski
INVOLVEMENT OF VULNERABLE PEOPLE IN THE HEALTH CARE SYSTEM

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Abstract

In the field of health, Republic of Macedonia has adopted number of systemic laws and strategic documents. Especially important is the Health Strategy of the Republic of Macedonia, which defines the vision towards promoting health and improving the healthcare system that meets the needs of the population, including the vulnerable groups.

In 2015, we conducted 11 programs: Program for AIDS, mothers and children, early detection of cancer, examining the incidence, prevention and eradication of brucellosis in the population in Macedonia, compulsory vaccination of the population, public health, early detection of malignant diseases, protecting the population from HIV / AIDS, preventive measures for preventing tuberculosis and the program HEALTH FOR ALL.

Keywords: Vulnerable People, Health Care System, Health, Programs, Measures.

1. Introduction

According to the Constitution of the Republic of Macedonia (Official Gazette of R. Macedonia No. 08-4642 /1991) every citizen is guaranteed the right to health care. Citizens have the right and duty to protect and promote their own health and health of the others. Law on Health Care (Official Gazette no. 61/2015) provides that every citizen is entitled to health care through adherence to the highest possible standard of human rights and values, i.e. has the right to physical and psychological integrity and security of his person as well as respect for his moral, cultural, religious and philosophical beliefs.

With this law are regulated the rights of citizens to health care, relationships and health insurance rights, the procedure of using the health care system and organization of health care.
Health care is based on the unity of preventive, diagnostic, therapeutic and rehabilitation measures and
is implemented on the basis of the following principles: the principle of availability, the principle of
efficiency, principle of continuity, principle of fairness, principle of universality, principle of quality and
safe healthcare treatment.

The principle of availability is accomplished by providing appropriate health care of the citizens
that is geographically, physically and economically accessible, particularly at primary level.
The principle of efficiency in health care is provided in achieving the best results in accordance with
available financial resources, achieving the highest level of health protection with the least used
resources.

Principle of continuity allows well-organized system of healthcare on three levels: primary,
secondary and tertiary health care, which allows continuity health protection for population at any time.
Principle of fairness is realized by prohibiting various types of discrimination when health care is
provided.

Principle of unity is provided by the inclusion of every individual in the health care system,
applying the measures and activities that include health promotion, disease prevention, early diagnosis,
treatment and rehabilitation.

Principle of quality and safe health treatment includes improving the quality of health care
through the application of measures and activities in accordance with the latest medical advances.
The Law on Health Insurance (Official Gazette of R. Macedonia No. 01-1296 / 01), the citizens are
determined rights and obligations from health insurance, and the manner of implementation of health
insurance. Compulsory health insurance in the Republic of Macedonia is established for all citizens and
provides health services and benefits, while voluntary health insurance is established for the provision
of health services not covered by compulsory health insurance.

Healthcare protection for citizens is implemented through the provision of health services
provided by public and private health institutions in the country, which are organized into three levels:
primary, secondary and tertiary health care.

With the Law on Health Care (Official Gazette of R. Macedonia No. 61/15) is established
network of primary, secondary and tertiary health care, which is divided into separate geographical areas,
which may include one or two municipalities in accordance with the criteria of this law.

The first contact between the patient and the health system occurs at the primary level by a basic
health care at the local level. It consists of five separate specialties: general medicine, health care for
children / paediatrics (from 0 to 6 years), school medicine (from 7 to 19 years), health care for women
(gynaecology and obstetrics) and occupational medicine. Insurers are obliged to choose their family
doctor, gynaecologist and family dentist in primary care. They are obliged to provide the following
services for their patients: general medical services, prescription of therapy, referral for specialist
examinations, and referral for hospital treatment.

Preventative health care is provided by the Institute of Public Health and the 10th Regional
Centres of the Institute of Public Health in the country. It is provided by Health Centres, Services for
polyvalent nursing service and preventative teams and include: preventive examinations of infants and new-borns,
vaccination of children, systematic examinations of students and education health lectures for school children and youth.

Regarding the use of health services from the secondary health care system, the patient must be referred through referral by a GP. It covers specialist diagnosis, treatment and rehabilitation and it is provided through health centres, hospitals, departments of general and clinical hospitals, medical service and rehabilitation in special hospitals. In terms of tertiary care patients can use medical services within the University Clinics in Skopje, general hospitals, clinical hospitals, offices and institutes as well as private hospitals in the country. It is divided on specialist-consultative and hospital health care. Users’ access to tertiary health care is provided by issuing referral from secondary health care.

The costs of hospital treatment of policyholders are covered by compulsory health insurance and copayments by patients in accordance with the legal provisions.

2. Organizational structure of the health system

The health system in the Republic of Macedonia is constantly undergoing certain transformations, which are implemented through: changes in legislation, changes in the ownership of health facilities, realignment of responsibilities, introduction of new programs and health care services to the citizens.

Government of Republic of Macedonia, Parliament of Macedonia and the Ministry of Health are setting up the national legal framework for the functioning of the health system. Two major laws that are profiling the health care system are the Law on Health Care (Official Gazette of R. Macedonia No. 61/15) and the Law on Health Insurance (Official Gazette of R. Macedonia No. 01-1296 / 01)

Chart. 1: Health Care System of the Republic of Macedonia - Organizational structure
The Chart 1 presents the main actors in the system of healthcare protection\(^1\). With the Law on Health Care (Official Gazette of R. Macedonia No. 61/15) are regulated the responsibilities of the Ministry of Health, which is responsible for its work before the Government. It also manages with the same health system, determines priorities in healthcare, monitors the functioning of the health care system and oversee the implementation of health policy and legislation. Ministry supervises the work and activities between the sectors within the health sector.

Fund for Health Insurance of Macedonia was established by the Law on Health Insurance (Official Gazette of R. Macedonia No. 25/2000) in order to implement compulsory health insurance as institution that performs activities of public interest and public authorities. Fund contracts with health care providers, ex healthcare providers in primary, secondary and tertiary health care.

Based on the authorization given by this law and the scope of work, the Fund is managed by the Management Board, and the work of the Fund is managed by the Director of the Fund. Ministry of Finance in agreement with the Ministry of Health establishes the annual budgets for the operation of health facilities that include preventive and health programs. Ministry of Labour and Social Affairs provides funds for healthcare insurance of beneficiaries of social services and persons with disabilities.

The Ministry of Education is responsible for all educational institutions and study programs where are educated students in medicine, dentistry, pharmacy and operating under the auspices of the Ministry and is responsible for the theoretical and practical training and specialization programs for doctors, dentists, pharmacists and nurses.

Chambers of doctors, dentists, pharmacists, psychologists are responsible for licensing and supervision of professionally conduct in the appropriate group of health workers and health assistants. In order to improve the quality of the work of healthcare workers and associates in the provision of health care services, the Chambers have been given the authority to extend, renew or to revoke work permits (licenses).

Associations of citizens are important in the planning and implementation of various programs and activities in the health sector.

In the field of health, Republic of Macedonia has adopted number of systemic laws and strategic documents. Especially important is the Health Strategy of the Republic of Macedonia 2020, which defines the vision to promote health and improve the health system to meet the needs of the population, including the marginalized and vulnerable groups. It defines measures and activities for strengthening the health system, reducing mortality and morbidity in diseases, which represent the greatest burden for the population and environment.

Other strategic documents include short and medium-term actions to be implemented to feel the impact of these measures for the health of the population. The programs seek prevention and eradication of brucellosis, early detection of cancer, disease present in many countries Europe and the world. According to international principles for health activity it is extended the continuity in the implementation of preventive measures.

\(^1\)Reform of the healthcare system in Macedonia, Study 3, CRPM0 Center for Research and Policy Making, Skopje
In the interest of providing fair access to all basic health services and preventive measures for the whole population and primarily vulnerable groups, is redesigned the basic package of health services under the compulsory health insurance. "Analysis of the health situation of the population in the Republic of Macedonia and in the world shows that priority health problems are and further will remain chronic non-communicable diseases, emerging infectious diseases and emergency situations. Maintenance and improvement of health will be the main instrument for improving the health status of the population, especially vulnerable groups. (Health strategy of Republic of Macedonia 2020).

The National Development Plan of the Republic of Macedonia 2014-2019 in the health sector are planned objectives aimed at social inclusion, such as: reducing the existing disparities in health status between Macedonia and the EU countries; reducing disparities in health between socio-economic groups; improving the health of new-borns, infants and preschool children, and persons over 65 years; improving the psychosocial well-being of people and providing better comprehensive services, especially in rural areas.

Health care for vulnerable groups from health point of view is defined by special strategic documents and health policies that are adopted and implemented. The vulnerable groups from health aspect are: children and adolescents, women, Roma population, rural population, people with mental illness, people with disabilities, people living with HIV / AIDS and people who do not have health insurance on any grounds.

The health insurance is contribution from the salary of persons employed, and for the unemployed people, this contribution is paid by the Employment Agency, for the beneficiaries of the areas of social protection, payments are done by the Ministry of Labour and Social Policy, for pensioners is responsible the Fund for Pension and Disability Insurance and for uninsured people, this contribution is paid by the Ministry of Health or they do it for themselves. The health protection of this category of beneficiaries is done according to available funds from release as total income and without payment if family in the 3 recent months has over 17.600 MKD and total for the year up to 189.864 MKD, would pay only 1.155 MKD and if has received higher income than this is 2.300 MKD.

The Report on the annual data for 2014 of the Fund for Health Insurance of Macedonia has shown decrease of 5,104 persons compared to 2013 at the category "temporarily unemployed people while receiving financial compensation", while noted decrease of 532 persons or 3.8% in the category "other" where are voluntarily insured people, insured by convention, veterans of the Second World War, members of monastic and other religious orders and welfare recipients.

The number of people insured through the Program of the Ministry of Health, i.e. those who are not insured on any other basis, was 230.354 and is decreased compared to the previous year by around 8.4 thousand people. It should be borne in mind that some insurers do not register within the statutory period, but throughout the year when they will need health service.

Most of Roma are insured through the use of welfare and are applying the ESA, and not through employment.

Healthcare programs are available for persons beneficiaries of rights in the area of social protection, including: beneficiaries of financial assistance, persons accommodated in foster care families, persons accommodated in institution for social protection, beneficiaries of allowance for
assistance and care by another person if they can’t ensure upon other base, person up to the age of 18 – years that had the status of children without parents and parental care, up to the age of 26 years and is beneficiary of social assistance, individual victims of domestic violence who are taking protection measure in accordance with the Law on family, persons - victims of human trafficking and person covered by organized independent living with support. At this large group of beneficiaries of rights in the field of social protection is applied one of the conditions for achieving rights their bad financial situation.

The programs that are annually adopted are related to active health care for mothers and children, especially when it comes to children from families who live in conditions of poverty, social isolation and marginalization.

With the Wellness program for all 2016 are conducted free medical examinations, blood pressure measuring, glucose checks, fats in the blood and are provided advices for specific therapies and prevention.

Preventive activities for groups and population at biggest risk of HIV / AIDS (intravenous drug users). The aim is to keep the low-prevalence of HIV in the country with continued implementation of activities envisaged by the National Strategy on HIV / AIDS. Services are free-of-charge and cover: informing, raising awareness of the population for these services, confidential counselling and testing, laboratory diagnosis of HIV carriers. It is accomplished treatment, care and psychosocial support for people living with HIV. All services are free-of-charge, confidential and there is no personal identification or request for additional documents. One needs only to visit services that are offered by the public health care institutions. Marginalized communities may use the services through contacting the associations dealing with these target groups involved in the program of the Global Fund. The services are provided by public health institutions and clinics.

Regarding the health situation of Roma findings from existing literature agree on three key points:

1) There are relatively few and insufficient data on the health status of Roma,
2) The data that exist suggest large differences in health status between the Roma and majority communities,
3) Poor health among Roma is closely related to the fact that they are mostly represented in the group of citizens living in poverty. 27% of Roma men and 31% of women suffer from chronic diseases (compared to 23% of non-Roma living near Roma)16 It may be noted that the chronic diseases among the Roma appear much often than then among non-Roma and they occur at Roma population at much younger age than in the general population.

The objective of the project “Roma health mediators” is introducing of persons Roma health mediators and to facilitate access to basic health and social services and to provide advice on basic health and social needs of young Roma and Roma families from several municipalities. Activities are achieved through civic associations. The program aims at raising awareness among the Roma population in the Republic of Macedonia to care for their own health and their loved ones; raising the awareness of the Roma population in opportunities and access to health care; facilitating access to health care; sensitization of health institutions with the characteristics and needs of the Roma population in terms of
health; facilitating access to the exercise of social rights; improving the access to the exercise of civil rights; increasing confidence in the institutions of health and social care by Roma population; increasing awareness and stimulation of community proactive approach towards the rights and obligations in the context of existing mechanisms for social protection.

Numerous scientific studies that were made in different European countries and other countries in the world have shown that there is huge difference in the health status of Roma population when making the comparison with the general population.

About 10 million Roma in the world who live in difficult economic conditions are continually discriminated against and marginalized and as a result they have bad health and rates of mortality and morbidity are significantly higher compared to other nations. According to the current researches in many countries that have focused on this problem, the health status of Roma is displayed with the highest rates of disease, lower value on life expectancy than others and high rates of child mortality.

Macedonia has achieved a significant reduction in child mortality and maternal over the past two decades, but these achievements are unevenly distributed within regions and between different socio-economic groups. In 1998-2010 under a decrease in the rate of infant mortality.

![Figure 1. The rate of infant mortality per 1,000 live births in 1998-2010 RM](image)

As shown in Figure 1, the rate of infant mortality among Roma is higher than at the majority population, although it has declined in the period from 2004 to 2009.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Macedonian</th>
<th>Roma</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>13.2</td>
<td>9.8</td>
<td>19.4</td>
</tr>
<tr>
<td>2009</td>
<td>11.7</td>
<td>10.6</td>
<td>13.1</td>
</tr>
</tbody>
</table>

Source: Institute for Health Protection of Mothers and Children 2010
Infant mortality is due to the existence of early neonatal causes (0-6 days after delivery). Reducing infant mortality from 1998 to 2009 is due to significantly lower neonatal mortality.

According to the Convention on children’s rights and the Millennium Development Goals envisages reduction of child mortality is still high compared to European values. According to many studies that have been made in European countries concluded that the Roma population has a higher rate of prevalence and incidence of cardiovascular disease, diabetes mellitus, hypercholesterolemia, tuberculosis, malnutrition and others.

Health care for **victims of human trafficking** is an important segment in dealing with the consequences of human trafficking that impair general health of individuals. In accordance with the World Health Organization, mental health of VHT is described as "a condition, in which the individual realizes its abilities, can cope with stress in everyday life, works productively and contributes to their community," which is the ultimate goal of health care. The assessment of physical and mental condition upon admission to the reception Centre for foreigners is carried out by expert team and if necessary it is arranged further care\(^1\).

At the Centre for Victims of Trafficking, the health care is provided through program activities of Associations of citizens\(^2\) through: regular medical checks, gynaecological exams, tests for HIV/AIDS and hepatitis and other appropriate medical treatment. Psychiatric services are provided by the University Clinic of Psychiatry and Psychiatric Hospital. Some of the victims need psycho-therapy for decreasing the subjectively unpleasant experiences and experienced traumas and with aim to improve mental health, which is also provided within psychiatric institutions.

**The program is aimed at reducing the harmful consequences of drug use**, primarily to reduce the risk of HIV / AIDS, hepatitis B, C, and other blood and sexually transmitted infections, overdoses and other health, social harm.

NGO HOPS - Health Options Project, through its services provides assistance through its services according the so-called low threshold and on many services under one roof, and strives to improve the health and welfare of the beneficiaries through: outreach, sharing equipment for injecting and condom distribution, educational information, basic medical care for reducing the effects of long-term and improper injection: repair of wounds, treatment of abscesses, dressings; advice for maintaining health; counselling on HIV / AIDS, hepatitis B, C, anonymous testing and social services such as assistance in issuing documentation and the exercise of the rights in the area of social protection.

NGO HOPS implements the **Support program for commercial sex workers that aims** to promote and advance the rights of sex workers and their families in Macedonia in order to improve their health, social and economic status by providing services, enhancing community awareness capacity of professionals, research, advocacy and lobbying.

NGO HERA - **Association for health education and research has opened the Youth Centre “I want to know” which** provide direct services to protect sexual and reproductive health and HIV / AIDS and the promotion of the model of youth-friendly services for youth and adolescents.
Program **Promotion and advancement of the rights of sex workers and their families** in the R. Macedonia aims to improve their health status, with fieldwork is improved social and economic status by providing service providers, strengthening community capacity building of professionals, research, advocacy and lobbying. And this program is implemented by the NGO HOPS. From the analysis of health services for vulnerable categories of the population it is noted that there is pluralism in their deposit on behalf of the public health institutions, private and non-governmental organizations.

### 3. Access to health services

Monitoring the accessibility of health care services, it is often hampered by disruption in the availability of treatment because of the dynamics of tenders. Some programs do not have sustainability and those are programs for prevention of HIV among groups at particular risk of HIV after the withdrawal of the Global Fund at the end of 2016. It is present lack in treatment programs, socialization and rehabilitation of children who use drugs.

It is noted insufficient coverage of women with primary gynaecological health care for lack of gynaecologists throughout the Republic of Macedonia.

Insufficient coverage of women's health services provided in the Program for cancer screening of cervical cancer. Measures for promoting information and inviting women for screening. Institute of Public Health is caring out the invitation of women for screening at the entire territory of the Republic of Macedonia, but there is need of re-inviting screening.

Insufficient coverage of Roma children with immunization, compared with children from other ethnic groups. Insufficient coverage of Roma mothers and children with actions for Roma communities in the preventive Programs of the Ministry of Health.

Problems in access and treatment of patients with malignant diseases. Insurance Fund to pay the travel costs for patients outside of Skopje that are coming to the Oncology Unit for chemotherapy because there are a lot of patients coming from other places (ex. Dojran, Demir Hisar, Ohrid, Bitola, Gevgelija, Berovo) and whose travel expenses are large and financials are weak and they are unable to travel. For these patients there is no option for a weeklong stay at the clinic same as for those who come to radiation treatment because chemotherapy is prescribed differently from radiation and can be treated every two weeks or once a week.

In the Republic of Macedonia there is lack of treatment programs for people who use drugs. Existing programs are not equipped with sufficient number of qualified staff. The large number of clients of the treatment programs and a lack of qualified personnel is one of the main reasons leading to the violation of treating people who use drugs.

It is done presentation of programs in the field of health care, but having into account the vulnerable groups it is required greater transparency regarding the programs of the Ministry of Health. Ministry of Health on its website publishes the following documents: Reports on the implementation of programs received by the executors of the program; Annual report on the implementation of programs and the Financial report on the implementation of programs. But, are not available the basic information...
regarding the necessary documentation and conditions of use thereof. According to the findings obtained from the work of civil society organizations, only small number of Roma receives educational material for vaccination.

4. Conclusions

It is noted the inconsistent application of the Law on Protection of Patients’ Rights regarding the establishment and effective functioning of the mechanisms for the protection of patients’ rights is disproportionately affecting marginalized communities.

It is necessary to set up a National Commission and Municipal Commissions for promoting the rights of patients, to appoint legal advisers in healthcare institutions where patients are accommodated. To introduce penalty sanctions for municipalities and healthcare institutions which do not comply with the legal provisions. To amend the Law with sanction in cases of discrimination and to introduce discriminatory basis –marginalized group in order to sensitize health workers about the vulnerability of marginalized groups when it comes to respecting the rights of patients.

Fund for Health Insurance and the Ministry of Health to find ways to secure funds from the budget to subsidize gynaecologists who would work in municipalities with socially vulnerable population or rural areas where there is a deficit / there are no offices of gynaecologist. For example, urgently to provide sustainable solution to open the clinic gynaecologist in Shuto Orizari.

Second invitation for women who will not answer the check up in period of three months since the first invitation. To strengthen the media campaign for screening a larger number of broadcasts of TV spots, radio programs, use of social networks; wider distribution of educational materials by visiting nurses and Roma health mediators; organizing educational workshops especially in disadvantaged communities and other necessary measures.

Opening of treatment programs for people addicted to drugs in several communities by providing balanced regional coverage. Appropriate staffing of existing treatment programs for people addicted to drugs with sufficient number of doctors - psychiatrists, psychologists, social workers, medical technicians in order to improve the quality of care of these people.

Education about sexual and reproductive health. Lack of relevant and modern information protection of sexual and reproductive health educational materials for students of medical vocational secondary and higher education. Introduction / improvement of curricula for primary and secondary education in field of sexual and reproductive health and rights.

Preparation of health educational materials for improving child health and vaccination and its distribution into living areas where are living people with very poor material situation.

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PERFORMANCE MANAGEMENT AS PANOPTICISM: EMBEDDING INTELLECTUALLY REPRESSIVE CONDITIONS IN ACADEMIA

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Abstract

This paper explores how performance management (PM) in higher education has become an oppressive panoptic tower in its pursuit of institutional accountability. Panopticism, derived from the panopticon, is used as a metaphor for academic surveillance. Using Foucault’s notion of panopticism, we argue that academics have succumbed to the ‘normalisation judgment’ effected through systemic institutional surveillance practices. In this case study, we explored how PM facilitated through target-setting performance contracts is experienced by a selection of South African university academics. There are indications that performativity is creating a reality that is constraining, alienating and individualising, thereby detracting from the academic enterprise.

Keywords: Panopticism, Neoliberalism, Performance Management, Accountability, Academic Autonomy.

1. Introduction

In recent years, with the introduction of formal performance management (PM) systems for academics, South African higher education institutions (HEIs) have been characterized by increasingly stringent hierarchical and bureaucratic managerialist practices. These are rationalized as reasonable measures to ensure transparent accountability that is intended to maximize efficiency and counter the strategic and operational management deficiencies in HEIs. However, contrary to this justification, such measures are predicated on surveillance that resembles the panopticon in prisons, leading to ‘coercive’ compliance. Strangely, academics seem to have succumbed to the ‘normalization judgment’ effected through systemic institutional managerial practices, to the extent that they ‘willingly’ subscribe (Morrisey, 2013) to this neoliberal rationale for leading and managing HEIs. Neoliberalism is the catalyst for managerialism or New Public Management (NPM), which in HEIs is effected through PM systems. Furthermore, despite the growing discontent with and criticism of managerialism and PM (Amaral, 2009; Lorenz, 2012), HEIs are intent on reinforcing the system.

In response to the pressure to increase performance, academics are opting to engage in careerism, which Clarke and Knights (2015, p.1866) describe as the “frantic pursuit of careers”. In this way academics are redefining their purpose as custodians of knowledge production in order to gain legitimacy and status. This trajectory risks obscuring the primary role of the academic profession, i.e. teaching students to be critical and active citizens. As
the managerialist approach gains more traction in HEIs, it is becoming a threat to education values that are founded on critical, social and political orientations. Claire and Sivil (2014, p.63) argue that it “…undermine[s] academic motivators, such as curiosity, success and recognition by peers rather than money”.

PM, as it currently exists, defies the logic of it being an inherently necessary and worthy management tool. Evidence points to it producing more detrimental effects than benefits (Ball, 2015). In the light of this evidence, this study addresses the following question, ‘How does PM influence academics’ and managers’ professional lives’? We deployed Foucault’s notion of panopticism as an analytical framework to problematise the practice of PM in HEIs. In Discipline and punish (1977) Foucault explicates the notion of panopticism, which is a metaphor for surveillance mechanisms used in prisons, as a technique of power.

2. Panopticism

Jeremy Bentham’s panopticon (1785), which is a surveillance mechanism used in prisons, offered Foucault a precise metaphor to reveal how modern technologies of power function. He then coined the term ‘panopticism’.

The panopticon consists of a tower situated at the center of a large courtyard, surrounded by a series of buildings divided into levels and cells. Each cell window falls under the direct scrutiny of the tower and each inmate is visible to the surveilling alone. The cells thus become ‘small theatres in which each actor alone, perfectly individualized and constantly visible’ (Foucault 1977, p.230).

The panopticon is “an all-seeing individual or institution, which may or may not be watching a certain person or society at any given time” (Foucault 1977, p.205). As a monitoring apparatus, the panopticon enables a few supervisors to control large numbers of prisoners by foregrounding hierarchy through its imposing visibility. Foucault (1977, p.205) argues that the panopticon as a metaphor of control, “…is the diagram of a mechanism of power reduced to its ideal form; its functioning, abstracted from any obstacle, resistance or friction... it is in fact a figure of political technology that may and must be detached from any specific use”.

Panopticism then defines power relations among people in their daily interactions. It serves as a framework for the relationship between the prisoner (employee) and the watchman (organisation). It also delineates the boundaries of each one’s responsibilities, where the prisoner is conditioned to believe that the watchman is on constant watch (Foucault, 1977). Hence the essence of their existence within the prison walls is to obey the rules. The panopticon, as a large structure is physically overbearing, yet it is its psychological dimension that eventually enables the panopticon to achieve its goal, i.e. to control prisoners’ behavior. The structure is visible but unverifiable, as the watchman is not visible to the prisoners (Shore & Roberts, 1995). Accordingly, panopticism manifests its power through its spatial dimensions and its invisible policing. In its structural visibility to the prisoners the panopticon foregrounds a visible power hierarchy that is intended to condition conformity, while threatening to penalize non-conforming behavior.

As the panopticon is enduring and intangible, but felt, it is ingrained in people’s minds, manifesting as fear (Schmelzer, 1993). Fearful that they are always under the radar, inmates of their own accord control their behaviour to conform and avoid punishment. Thus obedience and self-discipline (Soderstrom, 2011, p.17) naturally follows. The physical gaze in extending to the psyche, it attains more potency in its colonizing and repressive impact. One becomes accountable to oneself for one’s own behavior. One is then unconsciously complicit in one’s own oppression. It renders the observed powerless and creates a sense of inadequacy within individuals, a vulnerability that gives others power over you (Shore, 1993). Under these conditions conformity
buys one the appearance of ‘freedom’.

In an organization, surveillance subordinate’s employees. In HEIs “the rise of academic managerialism means deans now have legitimacy and formal power to make decisions about faculty activities based on research outputs” (Alvesson & Spicer 2016, p.35). In the same manner that the panopticon achieves traction through fear, so PM in HEIs is driven by fear, i.e. fear of losing rewards, promotion opportunities and research grants (Saltmarsh, Sutherland-Smith & Randell-Moon, 2011; Clarke & Knights, 2015). This squashes any semblance of performance for self-actualization that is known to be self-sustaining and propelled by passion (Alvesson & Spicer, 2016). Given that fear is a heightened emotion that translates to a physiological response that prepares the body for fight or flight, it cannot be sustained for extended periods of time without being detrimental to both body and mind i.e. exhaustion and burnout that lead to demotivation and low productivity (Schmelzer, 1993).

Foucault (1977, p.230) warns of the individualizing effect of a panopticon, as inmates are not in a position to canvass support for resistance, “if the inmates are convicts, there is no danger of a plot, an attempt at collective escape, the planning of new crimes for the future, bad reciprocal influences”. However, unlike inmates in isolated prison cells, academics do have the organizational space to offer resistance. Yet, despite their discontent with PM, mentioned earlier, panopticism’s numbing and threatening effect dissuades academics from offering resistance (Flemming & Spicer, 2008). Butler (1997, p.84), in her interpretation of Foucault’s position on power, argues that power “not only unilaterally acts on a given individual as a form of domination, but also activates or forms the subject”.

Panoptic surveillance is presented (Foucault, 1977, p.293) as a “widely applicable mechanism in multitude of settings whenever one is dealing with a multiplicity of individuals on whom a task or a particular form of behavior must be imposed, the panoptic schema may be used”. Thus the panopticon as a metaphor for surveillance provides a pragmatic lens through which the impact of PM in HEIs can be analyzed. The prison analogy is demonstrative of systems put in place for academics to account for their performance through binding performance contracts that encompass key performance areas, key performance indicators and targets. Academics’ apprehension with the demand for accountability lies in the extent to which they perceive the system to be prescriptive and hence controlling (Seyama, 2013; Ball, 2015). Through prescribed intelligence gathering strategies institutions have knowledge of and are privy to academics’ every move, thereby holding power over academics (Soderstrom, 2011). Finally, HEI’s practice of panopticism implies that academics cannot be trusted, thereby justifying their surveillance. This all begs the question of how PM can be justified as a tool intended to manage performance?

3. Neoliberalism Encroachment in Higher Education

For the past three decades HEIs have been managed within the NPM paradigm, which sought to control finances and people in an attempt to strengthen institutional accountability to stakeholders and to offer quality service (Broad & Goddard, 2010). Academics, as HEI employees, have their services measured against institutional key performance areas and indicators and performance targets (Besley & Peters, 2006). All these are considered in terms of the economic value-add to the institution. From this perspective, academic value has shifted from intellectual capital as a good in itself to an economic commodity. Pressure is on academics to redefine their identities and roles as those of economic agents (Morrissey, 2013). Consequently, the focus of academic purpose, i.e. social advancement, is being skewed towards that of entrepreneurship. Webb, Briscoe and Mussman (2009, p.4) argue that, “this particular economic value is oppressive and dehumanizing”.

Webb et al. (2009) assert that neoliberalism, as a political-economic theory, is based on the assumption that free market systems have optimum potential to stimulate economic growth and therefore provide the resources
governments need to fulfil their social roles, i.e. enhancing human capital development and therefore further economic growth. Some, however, argue that with this approach, the state abandons its responsibility to safeguard citizens’ rights, that require it to partly or fully provide, for example, “education, welfare, security, health, etc.” (Lorenz, 2012, p.602). In this view, corporatizing public institutions at the expense of serving the public good, is a social injustice.

Buller (2014) observes that neoliberalism has resulted in the emergence of strongly diverging purposes in academia: First, social purpose, which is “to produce an informed electorate, train the leaders of tomorrow in critical thinking, engage students in serious reflection on ethical and social issues and second, economic purpose, which is to prepare their graduates for meaningful lives of service, work, and leisure”. Prior to the introduction of neoliberal thinking in HEIs, the two purposes were integral to what academics perceived as their role in education (Buller, 2014). Currently, the economic purpose dominates higher education discourse and practice. These two diverging purposes reflect the sharp contrast between what university management views as the economic benefit of PM and how academics view PM as detrimental to a university’s social purpose. Empirical evidence emanating from some South African HEIs reveals escalating tensions as management takes an increasingly autocratic and bureaucratic stance with respect to PM (Claire & Sivil, 2014). For example, increasingly stringent accountability measures are reflected where every aspect of academic life has to be formally reported through memorandums, more descriptive and inflexible performance contracts, higher targets, harsh penalties such as the loss of an annual bonus and promotion, threats of job loss, etc. (Claire & Sivil, 2014). Metz (2011) reasons that the more education institutions demand quantitative data for outputs in relation to students’, teachers’ and researchers’ performance, the more blinded they are to quality attainment and education’s basic aims.

PM is perceived to be diverging from its intended purpose of enhancing academic performance to a power tool that cuts at the heart of academic autonomy (Claire & Sivil, 2014). The numbers’ game seemingly is accorded higher priority than quality. The culture of accountability that is so narrowly defined to privilege an economic agenda at the expense of the public good unrelentingly encroaches on academics’ identity, freedom, daily roles and purpose (Lorenz, 2012). Accountability measures as reflected in PM systems imply a view of the “academic-as-problem” (Thomson & Cook, 2014, p.701). Trow (cited in Amaral, 2009) points out that the NPM critique of the competence of public institutions is indicative of a loss of trust in those institutions. To keep them on a tight leash in order to conform, accountability has become an alternative to trust.

This state of academics under scrutiny raises questions about their freedom to teach students to be critically conscious and to be prepared as empowered and active citizens. Academics’ freedom is curtailed when they cannot freely think for and express themselves. For this reason, it is necessary to examine the nature and impact of this surveillance culture on the lives of individual academics and how they respond to it.

4. Research Design

Since our research interest was to understand how an evolving PM system in a particular university, that we refer to as South University, impacts on academics, a qualitative case study method was deemed appropriate to capture the particular nature and complexity of this single case. A single case offers a deep account of the context for a particular case and interrogates participants’ experiences and perceptions “within that case to build a complex and holistic picture” (Creswell, 1998, p.15). Our aim was not to gain an insight into other cases, nor to identify typical findings or statistically generalize the results. Rather, our purpose was to maximize what could be learned about the specific case under investigation (Stake, 1995). Rather, our purpose was to maximize what could be learned about the specific case under investigation (Stake, 1995). A single case can provide in-depth learning
(Bryman, 2001, p.47). Nevertheless, Stake and Trumbull’s (1982) notion of ‘naturalistic generalization’ is a useful concept as it allows for the possibility, and in a relatively homogenous environment such as in South African HEIs, the probability that readers in other HEIs will vicariously recognize their own experience here.

Our case is a South African HEI. We chose this particular university as it exemplifies a formal PM system that has been implemented over a number of years and that cascades through the university hierarchy from the vice chancellor to junior lecturers. To protect the identity of the university we do not provide any further details about it.

4.1 Data collection

We conducted face-to-face semi-structured interviews with 12 lecturers, senior lecturers and professors. Participants from the education, engineering, health sciences and science faculties were purposefully selected. Their experience in academia ranged from 5-25 years (age 30-60 years). This stratified selection provided a wide spectrum of disciplines giving a sense of how academics with diverging paradigms and identities across the institutions are experiencing PM and as such enhances the trustworthiness of the study. The interviews lasted from 45-80 minutes. The interviews took the form of what Kvale (1996, p.125) refers to as “an interpersonal situation, a conversation between two partners about a theme of mutual interest”. This was particularly important given our own membership with these academic communities, and because the candidness of revelations depend very much on the trust that is built up (Fineman, 2001) between the researcher and participant, and this helped in attaining rich and (often) emotional data set. A single broad question was asked: ‘How is your experience of South University’s PM system?’ The open-ended questions permitted us to engage participants to delve deeper into their experiences, thereby producing thick narrative descriptions for genuine analysis.

In responding to voluntarily participate, our sample was self-selective. All the interviews were audio-recorded, with the participants’ consent, using hand-held digital recorders, and the researchers transcribed all.

4.2 Data analysis

We read and re-read interview transcripts to fully familiarize ourselves with data and probed through participants’ accounts for themes. To make sense of data, we coded the raw data into first order categories associated with PM, such as performance contracts; review/feedback meetings; performance appraisals and ratings. We then analyzed how power dynamics underpinned experiences and meanings participants derived through engagement with the PM process. This exposed the ‘how’ and ‘why’ PM has taken the form it has. By employing the inductive process, we determined associations between the categories, thereby revealing the themes. The presentation of these themes, together with their interpretation within our panoptic analytical framework, is related as panoptic encounters.

4.3 Ethics

We followed South University’s Faculty of Education’s Research Ethics Committee’s (2014) research ethics guidelines. As guided by the minimum standards for ethical research, the study met the requirements for protecting participants’ confidentiality and anonymity; their right to freedom of participation and withdrawal; avoiding any potential risks; representing their voices in a fair and transparent manner and ensuring that their consent to participate is fully informed.
In conceptualizing the study, we considered various challenges of ‘insider research’. Mercer’s (2007, p.2) cautionary remarks were helpful:

Greater familiarity can make insiders more likely to take things for granted, develop myopia, and assume their own perspective is far more widespread than it actually is [...] the ‘obvious’ question might not be asked [...] the ‘sensitive’ topic might not be raised [...] assumptions might not be challenged [...] people may not share certain information with an insider for fear of being judged [and ultimately] the potential for [data] distortion is usually greater within the context of insider research.

In line with Mercer’s caution about insider researcher limitations or challenges we engaged in epoch to distance ourselves from the participants’ experiences. This enabled our unprejudiced probing. However, we were cognizant that in our privileged position we had inside information about performance management policies and processes. Clarke and Knight (2015, p.1870) agree “it is perhaps easier to conduct in-house research because of a familiarity with the culture that facilitates the construction of meaningful questions as well as the currency of detecting any dissembling on the part of respondents”. But there is always a risk that if we are too familiar we might neglect important aspects or be biased in our interpretation and analysis (Bonner & Tolhurst, 2002). Thus we were deliberate in continuously re-visiting and reflecting on our data and analysis thereof with the view to identifying our biased positions.

As insider researchers, it was easier to gain access to participants and as members of the academic community we were recognized as colleagues having shared experiences of the same phenomena being investigated. Therefore, a trust relationship was easily established with participants (Bonner & Tolhurst, 2002). They did not perceive us as having power over them with the potential to influence their careers, as we do not hold managerial positions. Consequently, there were no power plays between us (Mercer, 2007). Such rapport was fundamental to the ease of dialogue during interviews, which led to open and in-depth discussions that provided rich data for analysis. However, we were sensitive to and respectful of participants ‘taking us into their confidence’. For example, in our reporting we have kept faculties, departments and disciplines anonymous. We have also avoided recounting whole participants’ stories, which have the potential to identify those participants or their departments and faculties.

4.4 Limitations

The study could illuminate on how leadership has come to be perceived as repressive by interrogating the whole academic leadership, including deans, deputy vice chancellors and vice chancellor. The study could benefit in the future from a broader base by extending to other universities of varying composition.

5. Performance management practices as panoptic encounters

What we draw as findings from the interviews carried out for this research is how performance management practices are experienced as panoptic encounters that are repressive as they encroach the ‘how and what’ of their performance.

5.1 Accountability as a panopticon

In this section, we show how for the research participants PM as a so-called ‘legitimate’ accountability
tool is experienced as a surveillance mechanism that creates an oppressive work environment for academics. As Gordon remarked “…performance management from the best of my knowledge is a process and has sent a strong message…to academics that management is keenly watching them and securitizing their performance”. For Jeremy, “it [PM] is primarily reporting … for its own sake, not for the sake of something else. To start with the PM … you fill a form … which is more detailed about almost everything that you are doing, and it is more on numbers. Because I think the main purpose of it is to quantify”. Most participants’ lived-experiences reveal a system unrelenting in its intent to use accountability to surveil academics in order to gather evidence and knowledge about them so as to control them effectively. They agree on the character of the target setting performance contract, that it demands total explicitness of performance, including the ‘how much’ of performance. Dillon (2007, p.9) captures the situation well stating, “you cannot secure anything unless you know what is it… securitization demands that people … are transformed into epistemic objects”.

Zama reported on her experience of the performance contract process, “you set the targets…the HOD will ask you what you intend to do this year. You say … basically you are putting your neck out there … you say this, “I’m going to do this, I’m going to do one, two and three” … every year there’s an expectation to do more.” Simon refers to the contract process where HODs commit to targets, whilst the dean questions the extent to which the HOD is fully exploiting the department’s potential to further contribute to the faculty’s strategic goals:

> Remember he (the dean) also needs to check … which and how far can he push the department. So, if I seem to be very safe in what I’m choosing he can decide that, ‘but I do want you to go international as well to start having international partners’ . . . I think if there’s an HOD who will say they have not been pushed they’ll be lying, because that push is always there.

As experienced by Simon, if the intended performance gain is considered inadequate one is pushed to extend it and some are forced into risk-taking by having to commit to something that is above their capability. Added to that, Simon concedes that performance contract discussions with some staff who are opposed to PM are very aggressive, “making or requesting that they agree with something that they don’t really want to get into”. According to Besley and Peters (2006, p.818) “the essence of contractual models involves a specification, which is fundamentally at odds with the notion of professionalism”. Thus the PM distorts the idea conveyed by professionalism of individuals in work environments deriving their intellectual and positional authority from the liberal conception of rights, freedom and autonomy (Besley & Peters, 2006).

### 5.2 Colonization of academic performance

> I think … it [PM] is fulfilling the mandate that it has. Especially when you consider the approaches that they [management] are using now … It’s all about getting research done, which in some cases ends up frustrating people who might not really be interested that much in research, but are pure teachers (Siya).

This quotation is reflective of participants’ perception that the setting of targets frames or narrows down performance to specific activities, which could have the unintentional effect of narrowly prescribing and colonizing the how and what of performance. Morrissey (2013, p.18) concurs to the evident “colonization of higher education with governmentalized practices of subject formation in everyday university life”. In a colonized performance, we observe a system that is taking possession of academics’ intellect and practices. In this case it is patent that prioritized and excellent performance is predicated on research activities and outputs. Nathan alludes to its restraining impact:
It’s [target setting performance] stifling … I think it’s more to do with the expectations of the management. Look I can understand why they also have targets which they set and... Because the VC [vice chancellor] also has to put his goals and objectives ahead so that he can make headway. And I think it does stifle a lot of things that we want to do at departmental level.

Underlying participants’ concession to target driven performance is the seemingly unavoidable shift of what underpins academic identity and performance. These experiences reinforce our argument that PM is a subtle coercive power tactic and in agreement with Ball (2015, p.5) that with PM’s reliance on quantitative measurement, “we are reduced by it to a category or quotient – our worth, our humanity and our complexity are abridged”.

Jeremy was inclined to conclude that PM underpinned by targets and driven by quantitative measures is failing in its role, “it’s supposed to lead to better performance and it’s supposed to be more like an interactive thing where it is a dialogue between the manager and the people being managed. As it is, it’s not a dialogue, it is one way”. Nathan similarly decried PM’s instrumentality, describing the implications of the demand for targets, “I’ve…tried to go back with the concerns that have been raised with regards to PM, that it has been … autocratic … it’s limiting academic autonomy”. Saltmarsh et al. (2011, p.297) warn that, “the instrumentalist emphasis on quantity of research output and compliance with quality measures operated as a demoralizing disincentive that curtailed, rather than improved, productivity for many”. For Sharne:

> It creates a very unhealthy hierarchy...because at the moment you look ... at the hierarchy as it stands, you have HODs, you have deans, you have DVCs. The DVC is punching hard on the executive dean. The deans are punching on the HODs. And it actually creates a very suffocating environment. Because ... we had a session with our dean, she was telling us she was actually presenting a mid-year progress report for the faculty. She was told, ‘yes, your faculty is doing very well. In fact, it’s the highest producing faculty in the university but you haven’t met your targets’.

In Saltmarsh et al.’s (2011, p.302) study, “for staff … the sense of pressure and urgency is implicated in turning hierarchies based on research activity into abusive institutional cultures”. Consequently, for academics the only option to achieve excellent performance is to exceed the already high targets (Seyama, 2013). To compound the predicament, much discontent has been expressed about the absence of or nebulous criteria for excellent performance (Shore & Roberts, 1995; Seyama, 2013). Laura reflected on this dilemma:

> The rating to me is just a mystery. [Be]cause if you give yourself a four then you must motivate that, why you are giving yourself a four? Did you go over and above? How do you go over and above when you develop a learner guide? ... my understanding is this is the structure. This is what it should look like. So how do you go above and beyond that? I ask him what is over and above? I still didn’t get ... what more, what other things, other extra, what extra over and above. Working until eight at night? I don’t know.

Ball (2003) maintains that where there is no clarity pertaining to performance excellence academics are reduced to being apprehensive about their scholarly competence. They become uncertain of the extent to which they ought to perform, be it not achieving or achieving or exceeding performance targets. Shore and Roberts (1995, p.8) put it aptly that, “with no fixed, shared or officially defined standards for excellence, the lecturer is impelled toward an endless and relentless quest to improve his/her performance and to achieve what is in effect the unattainable goal of total quality in all of their duties”.
5.3 Blurred regulation boundaries: Institutional regulation vs academic self-regulation

Accountability schemes are designed to coerce teachers by inducing self-regulation through surveillance coupled with threat of punishing sanctions (Webb et al. 2009, p.6).

Data supported the notion that performance under the gaze promotes self-regulation through its threat of punishment, thereby inducing individuals to abide by an institution’s normalizing regulations. Hence, there is a progressive process from surveillance (panopticism) to governmentality, leading to loss of freedom, and eventually to academic subjection. From the perspective of governmentality, “government refers to a continuum, which extends from political government right through to forms of self-regulation, namely technologies of the self”, as Foucault calls them (Foucault in Lemke, 2001, p.201). Aaron reflected on his experiences and observations, which are indicative of what Foucault considers the blurring of boundaries between institutional and self-regulation that ultimately control the academic:

There are incentives that are put in place for researchers that reach their targets. So, now the (research) units drive us. We are chasing the units at all costs. We do what we have to do to get the units in and the competition is very high. So by that I mean now we have to account for the research that we do regardless of the work we do as lecturers and administrators wrapped in one. We have to publish in reputable journals and we have to attend conferences that have ISBN numbers and so on and so on. So now that’s the cost I was talking about. So now for you to have a voice within the academic space you need to have papers.

Saltmarsh et al. (2011, p.299) quote Phil, the research director in a business/management department, “we’ve got carrots and we’ve also got a whip, and the whip can be quite substantial when it comes to the back pocket. And so, if you don’t produce work of value to the university, well in particular to the faculty, the faculty requires for it to meet its own key performance indicators ... then there is a monetary penalty involved”. Consequently, academics’ self-regulation is facilitated by anxiety induced by threats of punishment for ‘deviant’ behavior, for instance loss of rewards, promotion and research funding opportunities. As Shore and Roberts (1995) maintain, one of the most debilitating impacts of this system is the enduring anxiety that academics have to live with.

Participants’ response to performativity is also reflective of Foucault’s view that individuals continually reconstitute themselves as directed by their conditions. Laura described the process:

You choose what you want to do, what congresses to attend, what workshops you want to attend and all the other things in your portfolios you are given. Okay, this is what I want to do... “Did you do this? Did you write this? Did you submit your proposal?” I was still busy with the proposal then. “Did you do whatever? Did you do your data collection?” Because that was also part of that.

From this perspective, performance contracts translate to legitimized surveillance at two levels, i.e. institutional regulation and self-regulation. Ironically, academics develop their performance contracts numbed into the belief that they are ‘free’ to determine their own performance objectives and targets. As can be seen from the quote above, such ‘freedom’ is deceptive. Academics have to align their performance to institutional strategic goals and thrusts and, most importantly, work to attain the set targets. The key performance areas are set together with the performance indicators. The performance framework is already established in the hierarchy. Seemingly, the institution does not coerce academics as, “ultimately it is the individual lecturer who is expected to discipline
himself/herself” (Shore & Roberts, 1995, p.7). This is the self-regulation that Foucault conceives as governmentality, i.e. the governing of mentalities, that is so well characterized by Thornborrow and Brown (2009, p.370):

Participants made conscious decisions about where to channel their time and energies, and most often with individual promotions and strategies in mind. In this way, academics transform themselves into perfect neoliberal subjects, for techniques of control work best when they make individuals ‘want’ what the system needs in order to perform.

5.4 Divide and rule: Everyone for himself/herself

We identified a ‘divide and rule’ tactic as one of the distinctive means of neoliberal governance of organizations, i.e. shaping responsible persons who understand that they are responsible for themselves to the exclusion of others. Davies’s (2006) notion of ‘responsibleization’ calls on individuals to agree to take responsibility for themselves while discarding responsibility for others in order to attain the requisite performance targets. In view of that, ‘responsibleization’ reflects what promotes individualism, competition and isolation in work environments.

For Patrick, “the structure I think identifies things people should be doing on an individual basis very much rather than on a group basis”. Jeremy concurs, “it is individualistic. It does not look at the community of practice”. Simon notes that, “staff is looking after its own interests”. Aaron agrees that:

The information sharing, that is, collegiality falls off, isn’t it? Because now people are trying to push…their research agenda and there’s nothing wrong with that. I mean as human beings we try to survive in the environments we find ourselves in...

Participants’ views reflect the dark side of individualism, that is, its divisive character even when it was not the intended outcome. The focus on meeting or exceeding performance expectations could detract from academics perceiving their performance as being for the benefit of their departments. Participants’ experiences also confirm that when confronted by the panopticon, academics are prone to securing the self by appealing to instrumental performativity (Clarke & Knights, 2015). They, at times unknowingly, exploit PM’s promotion of individualism thereby undermining any semblance of collegiality, collaboration and solidarity (Metz, 2011). In this respect, PM practices in HEIs promote capitalistic academics that focus on individual performance and the related success and promised rewards (Clarke & Knights, 2015). Here again we see an example of Foucault’s concept of governmentality, “as the choice of options for action is, or so the neo-liberal notion of rationality would have it, the expression of free will on the basis of a self-determined decision, the consequences of the action are borne by the subject alone, who is also solely responsible for them” (Lemke, 2001, p.201). This is where we see subjectification of an academic as an economically rational individual, which from a neoliberal perspective is quite acceptable. As Costea, Amiridis and Crump (in Clarke & Knights, 2015, p.1868) put it, “the ethos of modern culture means that everyone has total personal responsibility to realize their own human potential and is obliged to strive unendingly and without limits to extend themselves in pursuit of the unattainable ideal”.

In the presence of individualism, competition is bound to rear its head. Nathan reflected, “I think people have their own agendas. Some people promote research…they want to hold [onto] research for themselves and not share with the colleagues”. This gives them leverage to use students’ research for co-authorship. In the same
vein, Aaron observes that academics strengthen their competitive edge by:

...coming up with mechanisms of getting the units...they organize their own conferences. So now there’s nothing wrong with this. To me it is symptomatic of something else...of a competitive environment that is encouraged by the executive and every time we talk to the executive they tell us about money [and] how important it is for the department to be financially viable.

In the midst of the competitive atmosphere academics become distrusting of each other and they tend to be evasive and conceal their scholarly activities. For some academics these conditions portend isolation, apprehension, “destructive internal rivalries and the fragmentation of solidarity” (Shore & Roberts, 1995, p.8) as seen in Nathan’s department “…[it] is causing personality clashes, causing people to feel undermined…And no doubt…staff would feel marginalized and say look why would someone get all the opportunities and others not?” Such a PM system practices a ‘divide and rule’ strategy that conveniently keeps academics in their silos thereby reducing their potential for collective mobilization and rendering resistance innocuous (Shore & Roberts, 1995).

Furthermore, some participants allude to surveillance strategies to be alienating those who deviate from the requisite behavior. For fear of being labeled a non-conformist, academics silence their voices. Sharne notes:

...and they [academics] feel that...even in certain cases it is used to settle scores. So that if you are Joe Black and you are my colleague and we are not in good terms I will use the performance management to make sure that the difference that we have are resolved.

Jeremy points out that in such conditions, “you shouldn’t be critical because if you are critical, you are going to disturb the system. You disturb this vehicle that’s moving properly and you come to ask too many questions”. In view of that, insinuations of discontent with the system could render academics non-conformists resulting in them being treated with suspicion and perceived as truant non-performers, which could lead to punitive outcomes. Moreover, Harrison and Brodeth (1999, p.206) contend that “staff alienation has the potential to develop into a more serious problem and can involve reduced quantity and quality of work, absenteeism, stress-related illness such as alcoholism, and even sabotage”.

6. Conclusion

We set out to explore how PM in HEIs has steadily become an oppressive panoptic tower in its pursuit of institutional accountability, efficiency and rankings. Panoptic practices in PM, as reflected in this paper, exemplify how universities are shifting from being beacons of democracy and spaces for critical intellectual engagement to becoming regulatory and disciplinary institutions. This emerging panoptic conundrum has the tendency to invade academics’ intellectual and emotional spaces where notions of enlightened open-mindedness are discarded and where the quality of teaching and research is at risk of being compromised. With target-setting performance contracts we found evidence of a colonized performance that promotes narrowly defined academic activities directed at economic outcomes and career enhancement with little regard for the primary role of education. As academics are pitted against each through divisive practices, authentic collegiality and collaboration cultures are diluted, if not lost. Participants expressed their displeasure at the misuse and abuse of accountability as a surveillance mechanism to enforce compliance and, all the more so, that it is done so under the threat of penalty.

With all this, how do academics respond when their livelihood is dependent on towing the line? In as
much as they are cognizant of the governmentality of institutional truth forms, they are willingly engaging in the
demanded performance activities because these are critical to their career survival. This is deemed to be the
surrendering or abandoning of their autonomy (Alvesson & Spicer, 2016), social values and ethical selves.

Observing this academics’ careerism as a response to the accountability and performativity culture,
Jeremy is troubled by PM’s impact on academics’ agency that “chances are that we are going to fail to be
critical, even in our own work…As a result it will manifest itself in terms of the student who is coming out”.
This is the risk that should persuade the scholarly community to work together to alter the current performative
trajectory and meaningfully engage in a more critical performativity, which appreciates that HEIs ought to be
functional and sustainable. Spicer, Alvesson and Kärreman (2009, p.545) offer:

*Five elements of a performative approach to critical performativity: an affirmative stance (getting close to the object
of critique to reveal points of revision), an ethic of care (providing space for management’s viewpoint and
collaboration with them to achieve emancipatory ends), a pragmatic orientation (being realistic about what can be
achieved given structural constraints), attending to potentialities (leveraging points of possibility for changing
managerial practices in an incremental rather than radical revolutionary manner), and a normative orientation
(ideals for good organizational practice).*

Given that with this paper, we seek to contribute to the deliberations on what is taking place within the
shadowy corners of PM as a coercive and calculating mechanism, its constraining nature and subjectification of
academics, maybe academics ought to consider one of Morrisey’s (2013) suggestions of resisting the system. Such
resistance it is hoped could delimit the oppressive and colonization impact of panopticism. As observed in this
study, participants are caught up in a conundrum of complying with the system they are critical of. Some perceive
themselves to be working towards the practices of freedom by publishing to gain the related scholarly ‘power’.

Such compliance, however, to Foucault’s disappointment, this approach is a veiled form of resistance
since academics are in any case complying, which “serves to reinforce rather than challenge the dividing practices
of managerialism” (Clark & Knights, 2015, p.1875). A number of authors have alluded to some academics’
‘compliant resistance’, which to a large extent is implicit (not surprising due to risk to their careers), for instance,
cynicism (Flemming & Spicer, 2008), re-focusing on students as the primary goal as in Clarke and Knights’ (2015,
p.1877) study where “some respondents reflected on a more ethical sense of subjectivity where the commitments
to publishing did not displace their ‘open’ and embodied engagement with students and a concern to facilitate their
emotional, moral and intellectual development”; Playing the game (one is conscious of the controlling power, but
functions at a distance thereof (Clarke & Knights, 2015) and “creating a space, and thus a confrontation with
power, within which it is possible to make oneself thinkable in a different way” (Ball, 2015, p.13) This “indicates
a pragmatic response, not any deep compliance to any particular script” (Alvesson & Spicer, 2016, p.41). The
mentioned modes of resistance are not pragmatic at the level of changing the system. As Alvesson and Spicer
(2016) point out that such approaches are regarded as ineffective resistance. But, it is more conscious in refusing
its subjectivity or it represents Foucault’s (1997) notion of the ethic of the care of the self that Postma aptly
explicates:

*It is a realization of who one is not, a de-identification from what one is expected to be or coerced into being. It is
at the root of the self’s resistance to forms of subjugation. This self is different from the entrepreneurial self-enforced
by the neoliberal order. Positively, truth about the self is approached through a reflection on the self in the light of
ethical norms. It is the truth about the own intentions, motivations, satisfactions and desires (Postma, 2015, p.39).*

Bearing in mind the ‘esteemed’ critical role of academics in their communities, such responses could
corrode academics’ public intellectual credibility. Considering that some academics are playing the game’ and giving the system what it wants, Alvesson and Spicer (2016, p.31) suggest that “what is needed is a de-gaming of academics”. It appears that the ways of changing the system need a much broader value-shifting agenda as creating non-oppressive working conditions must be understood as the role of academics together with HEIs’ leadership. Maybe with more courageous, open and frank discussions beyond performance review meetings with line managers we can acknowledge this reality. We need a far more fundamental re-think, a reflective and progressive and open-minded dialogue to debunk some of the noted managerialist thinking and practices. In so doing, perhaps we can begin to answer Morrisey’s (2013) question, “in the world of education, does one have to be in a benchmarked competitive environment in order to be productive and accountable? Can we reason and insist upon other ways of being accountable and productive?”

References


A DISCUSSION OF JURISDICTION OF TRIBUNALS IN SOUTH AFRICA

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Abstract

In South Africa the jurisdiction of tribunals is dictated by statute and the rules of the tribunals. These rules are easily available on the tribunals’ website, which is easily accessible for lay people. However, if you do not have access to the internet then a person is able to attend their offices and lodge their queries/complaints. Tribunals are established for easy accessibility to people, to ensure that access to justice is established as a reality. The usual practice of approaching a tribunal is for a violation in terms of statute and accordingly to lodge a complaint of the violation that is committed in relation to the statute that governs that tribunals. Jurisdiction is of quintessential importance as it empowers a person/people or juristic entity to ensure that their dispute may be heard at the tribunal and that it will not be dismissed on a technicality. Jurisdiction is a Trojan horse in relation to civil proceedings as one cannot assume jurisdiction, jurisdiction must be proved in relation to statute for tribunals so that unnecessary costs are not incurred. This paper will fully discuss jurisdiction and the importance in relation to tribunals.

Keywords: Jurisdiction, Tribunals, Statute, Prohibited, Practice.

Tribunal Jurisdiction

“The beginning is the most important part of the work”-Plato

1. Introduction

In South Africa, the tribunal system must be dissected from the onset to reveal its true potential and worth to a South African context. It is necessary to begin at the inception of tribunals, not just in the Constitution, but how tribunals found their way into the Constitution and the manner in which a tribunal system was established to illustrate the reasons behind the creation of tribunals.

2. History of tribunals

South Africa was colonised by amongst other countries such as the British. The history of South African law reflects English influence.1 The necessary glance to the tribunal system in Britain reveals

that specific legislation governed the Tribunals, which illustrates the established connection between these countries in relation to the tribunal system history for South Africa. In the United Kingdom, the Council on Tribunals was formed in 1958, which council was created because of the 1957 Report by the Committee on Administrative Tribunals and Inquiries (also known as the Franks Committee). The functions of the Council on Tribunals had amended to allow for an ombudsman in an oversight capacity over specific matters.

When digging deeper, it is apparent that the South African Law Reform Commission proposed a tribunal and in particular an administrative tribunal similar to the British system that would oversee the administrative arm of the decisions made by the State. Thereafter the Constitution contained section 34 that allowed for the birth of tribunals in South Africa.

3. Defining a Tribunal System

3.1 What is a tribunal

“Word Origin and History for tribunal (noun.) mid-15c., from Old French tribunal (13c.), from Latin tribunal "platform for the seat of magistrates, elevation, embankment," from tribunus "official in ancient Rome, magistrate," literally "head of a tribe," from tribus (see tribe). Hence, a court of justice or judicial assembly (1580s).”

The origin of the word is from the old French tribunals that were created with the language source from Latin, the direct translation is a platform for the magistrates to preside to hear disputes. In Rome the tribunal is derived from the word tribunus in ancient Rome an official or magistrate.

Administrative or adjudication

In the United Kingdom (known as Great Britain) the Franks Committee has recommended that tribunals should be ‘regarded as machinery for adjudication rather than a part of the machinery of administration’

The purpose of the Council on Tribunals as set out by the Tribunals and Inquiries Act was:

- Review the constitution and operation of tribunals, and feedback to the Lord Chancellor

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2 Tribunals and Inquiries Act of 1958.
3 C.D Alblard “Some Comparisons Between the Council on Tribunals and the Administrative Conference of the United States” 24 American Journal of Comparative Law 73 1936 at 73.
4 C.D Alblard “Some Comparisons Between the Council on Tribunals and the Administrative Conference of the United States” 24 American Journal of Comparative Law 73 1936 at 75.
6 Ibid.
7 Report of the Committee on Tribunals and Inquiries, CMD. 218 July 1957.
8 1971, s.1.
9 C.D Alblard “Some Comparisons Between the Council on Tribunals and the Administrative Conference of the United States” 24 American Journal of Comparative Law 73 1936 at 75.
• To deliberate and report cases as are referred to the Council\textsuperscript{10}
• To reflect and report special cases that are distinguished in terms of procedures and legislation.\textsuperscript{11}

Peter Cane sums up the difficulties in categorising administrative tribunals into one of the tiers of the tripartite system of separation of powers, as the tribunals perform multi task that cross different tiers of the separation of powers, although it is an Australian context.

“The distinction between implementation and adjudication should not be understood in terms of accounts of separation of powers that divide the institutions of government into three ‘branches’-the legislature, the executive, and the judiciary-and allocate respectively to each branch as it characteristic task one of three types of functions-legislative, executive and judicial. In particular, implementation should not be thought of as an administrative function of the executive, and adjudication should not be thought of as a judicial function of the judiciary. There are several reasons to resist this way of thinking about administrative tribunals. First, although we recognise sets of governmental institutions called respectively the legislature, the executive and the judiciary, it is widely accepted that not every governmental agency can be fitted neatly into one or other of these three branches. Thus, we might want to resist the straightforward allocation of administrative tribunals to either the executive or the judicial branch of government as traditionally conceived. Secondly, it is now recognised that all agencies thought of as belonging to one or other of the three ‘core’ branches of government perform a complex mix of functions that may defy easy classification in terms of the traditional tripartite division. Perhaps most importantly of all, it is now widely agreed that the terms ‘legislative,’ ‘administrative,’ and ‘judicial,’ when used to describe and differentiate governmental functions, are vague and imprecise. The problem is sometimes signalled by the use of the prefix ‘quasi’ to describe a function, performed by an agency allocated by separation theory to one of the core branches of government, which is essentially similar to a function attributed by separation theory to one of the other branches: ‘quasi-legislative,’ ‘quasi-judicial’.\textsuperscript{12}

\textit{Civil tribunals}

Civil matters deal with an action/application before a tribunal such as a rental dispute pertaining to the lease agreement. The cause of action is based on contract and in particular clarification of the terms of the agreement.

\textsuperscript{10}C.D Alblard “Some Comparisons Between the Council on Tribunals and the Administrative Conference of the United States” 24 American Journal of Comparative Law 73 1936 at 75.
\textsuperscript{11}C.D Alblard “Some Comparisons Between the Council on Tribunals and the Administrative Conference of the United States” 24 American Journal of Comparative Law 73 1936 at 75-76.
Five models of tribunals

‘Three phases, four variables and five models’ of tribunals are described by Asimow as:

Model 1-Adversarial hearing/combined function/limited judicial review

- The initial decision is made by a combined function agency in an adversarial hearing, this model is used in the United States.

Model 2-Inquisitorial hearing/combined function/limited judicial review

- Similar to model one except the hearing is inquisitorial, the European Union adopts this model.

Model 3-Tribunal system

- The tribunal as an independent body adopts an adversarial approach when deliberating upon matters. This model is used in the United Kingdom and in Australia.

Model 4-Open judicial review

- Similar to model 2 except new evidence can be submitted for consideration. This model is adopted in China, Argentina and Japan.

Model 5-Specialised court

- Similar to model 2, however the courts hear judicial review separately to the general court system and the specialised court only makes decisions on administrative law cases only. This model is adopted in France, Germany and countries in Europe, Asia and Latin America.

Adversarial vs inquisitorial

The adversarial approach is adopted by courts as judges/magistrates’ allow the parties to be heard (Audi al partem) and makes a decision on the evidence that is presented. However, the inquisitorial approach is when the commissioner/chairperson of a tribunal conducts the investigation and questions

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13M Asimow ‘Five Models of Administrative Adjudication’ Available at http://ssrn.com/abstract=2502210 at 5-6, the initial decision, which is made by the agency staff and is binding. The second phase is administrative reconsideration as the initial decision can be considered administratively. The third phase is judicial review the private party is entitled to seek review to the court.

14M Asimow ‘Five Models of Administrative Adjudication’ Available at http://ssrn.com/abstract=2502210 6-7 The four key variable relate to “Is the adjudicating body a combined function agency or a separate tribunal? Is the proceeding adversarial or inquisitorial? Is judicial review open or closed? Does a reviewing court have generalized jurisdiction or is it a specialized administrative court?”

15M Asimow ‘Five Models of Administrative Adjudication’ Available at http://ssrn.com/abstract=2502210


17Ibid.

18Ibid.

19Ibid at 10.

20Ibid.
the parties and is actively involved in reaching a decision and does not oversee the proceedings but is involved and may require more evidence if the evidence presented is insufficient to make a decision.

3.2 A tribunal system

A tribunal system is the modus operandi of tribunals. Each tribunal has its own system that it operates in adherence. However, in certain jurisdictions there is a symphony and in the manner that the tribunal is orchestrated. In the South African context, the tribunal system, is that each tribunal has its own rules that governs the procedures of the tribunal without harmonisation.

3.3 Specialized courts vs specialised tribunals

Specialised courts and specialised tribunals both have specific tribunals and courts with a particular nature, that presiding officers only hear matters of the specialist nature and there are a few such as children’s court, competition appeal court, labour court, labour appeal court, equality court, tax court, admiralty court to mention a few. The specialised tribunals are national consumer tribunal, rental housing tribunal, company’s tribunal and water tribunal.

Tribunal system a concept with a difference

Conceptually tribunals are different to courts in that the approach used by the chairperson and deputy chairperson is the inquisitorial approach. The dispute is usually a complaint that is lodged that the chairperson and deputy chairperson and its members consider. The decisions are taken and delivered robustly to the complainant. The procedure is not complicated so that the tribunals are easily accessible to the public.

3.4 Function of a tribunal system

The tribunals in South Africa have various functions and it seems that the functions are not just singular but multi-faceted. It may be argued that tribunals can consist of the following functions simultaneously:

3.4.1 administrative in nature because tribunals are governed by subsidiary legislature in relation to carrying out the protection of public and private bodies, and the tribunal is the forum to ventilated the complaints in relation to legislation such as the rental housing tribunal is governed by the rental housing act to balance the rights and the landlord and tenant and to ensure that there are no unfair practices in relation to tenancy.

3.4.2 judicial is if the powers have the same powers as a court in relation to orders made that are binding so the tribunal is judicial in nature.

3.4.3 hybrid is when the tribunal can be described to have both administrative and judicial function in that it is described as hybrid in nature.
3.4.4 quasi-judicial is when the tribunal does not fit into the paradigm of only being judicial in nature in that the decisions are binding but the effect of the decision may not be of the same status as a court, and the process of the tribunal may be a paper process, which eventually turns into an oral hearing and the presiding officer becomes the investigator in the manner that the hearing is carried out.

3.4.5 sui generis a tribunal can be described to be of its own kind and that no particular function can explain the nature of the tribunal as the complexities of functions is multi-faceted.

3.5 Role of a tribunal system

Role of the tribunals is governed by the legislation that created the tribunal.

3.5.1 nature of matters - The nature of matters is diverse and range from company matters, competition matter to water disputes to consumer protection and consumer credit and rental housing disputes.

3.5.2 complexity - The complexity is that as a general matter are not complexed and are governed in terms of the act that governs the tribunal so that the matters may be dealt with expeditiously.

3.5.3 objectives of a tribunal system - The objectives of the tribunal are governed by legislation and the rules of the tribunal.

3.6 Powers of a tribunal system

3.6.1 Overview of jurisdiction - The tribunal system in South Africa, and the nature of matters are determined from the prohibited practices that are governed by legislation that are heard before the tribunal.

There five tribunals that will be discussed briefly are:

Rental Housing Tribunal

In terms of the Rental Housing Act\textsuperscript{21} the jurisdiction of the tribunal hears disputes that pertain to tenant and owner disputes relating to the lease agreement and unfair practices in relation to tenancy. The Rental Housing Tribunal functions on a dispute that is lodged by either the tenant or the landlord on the complaint form and the responding party is afforded an opportunity to respond. Thereafter the parties are called into the offices of the Tribunal to consult regarding the issues so that the matter can try to be settled using a mediator. Failure of the issues settled then the matter will be heard before a panel in the same likeness of a trial. Once a matter is before the rental housing tribunal then it must be finalised before one can approach the civil courts.\textsuperscript{22}

\textsuperscript{21} Act 50 of 1999.
\textsuperscript{22}Maphango and Others v Aengus Lifestyle Properties (Pty) Ltd (Inner City Resources Centre as Amicus Curia) 2012 (5) BCLR 449 (CC) at paragraph 63: 'The conclusion that the Tribunal had jurisdiction to determine the tenants’ grievance against the landlord, including its cancellation of their leases, brings the question of remedy to the fore. Once a tenant has
Companies Tribunal

The vision of the statement of the companies tribunal is “A world-class adjudication and dispute resolution body enhancing simple, efficient and fair company law practices.” It is required to exercise its functions in accordance with the Companies Act No 71 of 2008 in a transparent manner in conjunction with the principles of the Constitution.

The tribunals values are:
- Accountability
- Predictability
- Impartiality
- Transparency
- Equitability
- Efficiency
- Accessibility
- Ubuntu/respect

Strategic goals of the companies tribunal:
- Adjudicate and make order in relation to any application
- Resolution of disputes in terms of Alternative Dispute Resolution (ADR)
- Perform any function assigned to it in terms of the Companies Act No. 71 of 2008
- Ensure the operational effectiveness of the Tribunal
- Effective stakeholder engagement

The Tribunal’s functions are as follows:

lodged a complaint with the Tribunal, the Act imposes a three-month moratorium on evictions. In this case, the landlord waited out the three-month period before instituting eviction proceedings. That it was entitled to do so had no effect on the validity or otherwise of the tenants’ complaint that the termination of the leases constituted an unfair practice under the Act. Nor did it deprive the Tribunal of jurisdiction to rule that it was, and to grant the tenants appropriate relief. In other words, while the Act imposes only a limited moratorium on evictions, it does not follow that a court from which an eviction order is sought may not stay the proceedings before it in order to give the Tribunal a chance to make a ruling.”

23 Companies Tribunal Annual Report 2012/13 at 1.
24 Ibid at 4. The rights in the Constitution which are applicable: Section 9, equality clause “[t]hrough remaining accessible to diverse groupings of consumers and business, the Tribunal plays its role in ensuring that parties have the right to equal protection and benefit of the law.” Also section 10 in relation to human dignity “[t]hrough the adjudication process, the Tribunal ensures that prohibited conduct, as well as the relevant action thereto, does not impair human dignity.” and section 14 right to privacy “[w]hile adhering to its founding legislation, and as part of the adjudicative role, the Tribunal ensures that the privacy of persons is protected.” Section 33 just administrative action “[t]he Tribunal ensures it hears both sides to a dispute and that it issues reasons for its decisions.”
25 Ibid.
26 Ibid at 4.
27 Ibid at 4.
Adjudicate in relation to any application in terms of the Act and make an order in relation thereof

- Assist in resolution of disputes
- Perform any function in terms of the Act

**Competition Tribunal**

The Competition Tribunal jurisdiction relates to investigating complaints that are lodged in terms of the Competition Act. The Competition Tribunal employs and trains specialist Commissioners to preside over the matter that specialise in competition disputes and hence are one of the most efficient tribunals, in the management and finalisation of disputes. The Competition Tribunal Annual Report of 2012-2013 revealed that in 2010/2011 there were 55 large mergers, 1 intermediate mergers, 8 complaint referrals, 22.72 consent orders and 0 interim relief applications. In 2011/2012 there were 81 large mergers, 6 intermediate mergers, 5 complaint referrals, 27 consent orders and interim applications.

**National Consumer Tribunal**

The National Consumer Protection Tribunal jurisdiction hears matter that deal with the Consumer Protection Act that relate to unfair practices that relate to consumers. A consumer approaches the Tribunal by lodging a complaint and filling out the prescribed forms and thereafter the complaint is investigated by the Tribunal. The National Consumer Protection Tribunal fulfils an administrative function in order to satisfy the legal demands of the people, it was recommended that it plays a dual role adjudicative and administrative function. An issue with the Tribunal is that it does not enjoy the same status as a Court in terms of execution. The shortcoming that the Tribunal does not have an enforcement mechanism, takes away the grit of the tribunal, as it is still easier accessible to people.

**Water Tribunal**

In terms of the National Water Act the jurisdiction of the water tribunal’s disputes are heard regarding the access of water for irrigation, mining, farming and other services as specified in the Act.

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28 Competition Act 89 of 1998.
30 MA Du Plessis ‘Enforcement and execution shortcomings of consumer courts’ (2010) 22 South African Mercantile Law Journal 517 at 518. It is criticised that a consumer ‘court’ is not a court but a tribunal and no reference is made to it in the Act.
31 Act 68 of 2008.
The Water Tribunal has been disbanded, and is still disbanded to date, despite the Court directing the Minister to appoint a Commissioner and a Chairperson to deliberate over disputes dealing with the National Water Act, no one has been appointed. Hence the Water Tribunal can be considered to be dysfunctional in that it cannot operate due to the Minister failing to appoint a Commissioner. Unfortunately the history of the matter was because a matter was heard and interpreted incorrectly due to lack of training and incompetence by the Chairperson. The High Court when it overruled the decision by the Water Tribunal gave a personal costs order against the Chairperson that caused the Chairperson to resign, and after that costs order further no candidate as a Chairperson could be obtained.

4. Conclusion

In certain circumstances tribunals have illustrated the current need from the caseload on a theoretical plane, however in other instances the tribunals are not functioning properly and are further contributing to a frustrated legal system. In South Africa the jurisdiction of tribunals is dictated by statute and the rules of the tribunals. These rules are easily available on the tribunals’ website, which is easily accessible for lay people. However, if you do not have access to the internet then a person is able to attend their offices and lodge their queries/complaints. Tribunals are established for easy accessibility to people, to ensure that access to justice is established as a reality. The usual practice of approaching a tribunal is for a violation in terms of statute and accordingly to lodge a complaint of the violation that is committed in relation to the statute that governs that tribunals. Jurisdiction is of quintessential importance as it empowers a person/people or juristic entity to ensure that their dispute may be heard at the tribunal and that it will not be dismissed on a technicality. Jurisdiction is a Trojan horse in relation to civil proceedings as one cannot assume jurisdiction, jurisdiction must be proved in relation to statute for tribunals so that unnecessary costs are not incurred.

37 Goede Wellington Boerdery (Pty) Ltd v Makhanya NO & Another [2011] JOL 27640 (GNP) 49.
ANALYSIS OF THE SYSTEM OF ELECTRONIC EVIDENCE FOR BROADCASTED COPYRIGHTED WORKS AND OBJECTS OF RELATED RIGHTS IN MACEDONIA

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Abstract

The main aim of this article is to examine the legal framework of the model of the system for electronic evidence of copyrighted works in Macedonia, as well as technology it uses in practice, particularly within the scope of copyright and related rights management.

The paper also focuses on the legal concept of collective management organisations, their role and their relations with the copyright and related rights holders. Furthermore, the paper demonstrates the role of the elaborated system in the processes of convergence of digital society and collective management of copyright a related right. Several key findings are presented concerning the improvement of the system both in legal and technical sense.

Keywords: Copyright and Related Rights, Collective Management Organizations, Digital Society.

1. Introduction

In a contemporary society digital convergence contributes for interoperability among the media and greater interactivity between the users and the means of communication. Hence, it is essential to find and to formulate new basis for copyrights that will offer the necessary legal protection of authors, users, etc.
Collective management and copyrights and related rights collective management organisations in a digital environment are faced with some challenges. It seems that collective management and collective management organisations could be replaced in the digital environment. As a matter of fact, the collective management of rights could be replaced with digital management of rights. Digital management of the rights of right holders provides individual oversight, monitoring and measuring of the copyrighted works broadcasted by the media and thus the collective management of rights becomes redundant.

The collective management organisations that in the second half of the 19th century contributed enormously for the development of culture and for the progress of the media industry in our societies, which is still powerful to this very day, at the moment is faced with a powerful wave of changes.

The media are in the front lines of these changes caused by the influence of digital technology. The nature of digitalisation and its implications in broadcasting are more and more studied. In addition, the need to analyse the consequences from the changes caused under the influence of digital technology in broadcasting has increased as well as the need of adequate policy for change.

2. System for electronic evidence of broadcasted copyrighted works and objects of related rights

Pursuant to Article 135-a from the Law on Copyrights and Related Rights (“Official Gazette of the Republic of Macedonia” No. 15/10, 140/10, 51/11, 147/13, 154/15 and 27/16) (hereinafter: LCRR), for the purpose of the electronic evidence, data processing, monitoring and oversight of broadcasted copyrighted works and objects of related rights, the collective management organisations are obligated to provide and to install at the radio and TV stations systems for electronic evidence of the broadcasted copyrighted works and objects of related rights (hereinafter: systems for electronic evidence).

The system for electronic evidence is an integrated ICT solution with an adequate level of protection for electronic evidence, data processing, monitoring and oversight of the broadcasted copyrighted works and objects of related rights.

The radio and TV stations are obligated to provide their own compatible system that could be connected to the system for electronic evidence and to allow the collective management organisations to install a system for electronic evidence.

The system for electronic evidence (Figure 1) provides primarily:
- identification of the broadcasted copyrighted works and objects of related rights at the time when they are broadcasted by the given radio or TV station within the allowed time deviation in compliance with article 135-e paragraph 2 of this Law;
- evidence of the broadcasted copyrighted works and objects of related rights;
- daily, monthly and annual reports and other periodical reports on the broadcasted copyrighted works and objects of related rights following certain parameters (how many times the copyrighted works and objects of related rights were broadcasted; at what time; duration; identification of the radio and TV organisations that broadcasted the work, a daily report on the radio and TV stations that recorded data
about the broadcasted copyrighted works and objects of related rights in the system for electronic
evidence);
   - electronic notification of the contact point at the collective management organisation and of the
   contact point at the radio and TV station in case of failure of the system for electronic evidence; and
   - storing data from the system for electronic evidence for five years from the day of their evidence.
Vertex Media Logger is software developed by Vertex Broadcast Solutions Company. It consists
of 4 components: Vertex Media Audio Fingerprint Initial Database Creator, Vertex Media Logger Client,
Vertex WCF Service and Vertex Media Account.

**Vertex Media Audio Fingerprint Initial Database Creator**

This component helps create Audio Fingerprint Initial Database of the works that will be provided by
the collective management organisation. This component makes audio fingerprints of all the works that
will be submitted and which have ID3Tags. The software will memorise in the database also the
ID3Tag’s data as well as the names of the files and their paths and it will take a time segment from each
work with duration as configured by the user. Such a database will be used at the official start-up of the
system.

The entire system is created in a way that enables it to automatically update that database and to
"learn" in time.

**Vertex Media Logger Client**

This application collects information about broadcasted works and it does that in two ways, with
two different ways of collecting that information.

The first module operates with direct analysis of the audio files that are broadcasted and it is
installed directly on the radio stations’ PlayOUT.

The second module analyses the audio stream live, and the stream could be supplied as a physical
audio input, an internet stream, etc. It could be installed at TV stations

**Preparation for installing at radio stations**

This component is installed at radio stations. It is installed on the radio stations’ PlayOUT. This is a
Windows service with the following functions:

   - monitoring the programmes that are intended for "play out” of audio files: Winamp, Traktor,
     Dj-Pro lite, … - files that are followed by: mp3, wma, wav and ogg, etc.
   - it creates an audio fingerprint from each broadcasted work,
   - it reads data from the ID3Tag,
   - the name of the played out file on the programmes that the service monitors as well as the
     local path of the file,
it cuts off a section of the broadcasted work from a certain place of the work (that is configured by the user) and with a certain length (that is configured by the user),
- these data along with the ID of the radio station are sent to the Vertex WCF service, and
- upon a request by the Windows WCF this service sends the entire file to the Windows WCF service in order to create an audio fingerprint and to add it to the database.

**Minimum required hardware and pre-installed software:**
- P4 or a compute of a more recent date, min 512MB RAM,
- permanent Internet connection,
- no antivirus, for undisturbed functioning,
- Windows XP SP2, Windows Vista, Windows 7 or Windows 8 and
- pre-installed .NET Framework 4.0 – which is distributed for free.

**Preparation for installation at TV stations**

This component at the TV stations is installed on a computer which has this service installed, and which receives the signal that is broadcasted. This is a Windows service with the following functions:
- at given points of time (configured by the user) it samples a certain length of the signal (which is also configured),
- it uses this section of the signal to make an audio fingerprint and
- these data along with the TV station’s ID are sent to the WCF service.

**Minimum required hardware and pre-installed software:**
- P4 or a compute of a more recent date, min 512MB RAM,
- permanent Internet connection,
- no antivirus, for undisturbed functioning,
- Windows XP SP2, Windows Vista, Windows 7 or Windows 8 and
- Pre-installed .NET Framework 4.0 – which is distributed for free.

**Vertex WCF Service**

This WCF service covers all the data sent by the clients. Its functioning depends on the client’s performance from which it receives the data. Functions when it receives the data from a client installed at the radio stations:
- it receives data (the package) sent by the client,
- it records the data in the log file and
- based on the audio fingerprint it tries to find the work. If it finds it, the work provides its local ID allocated at the database. If it fails to find the work the client is requested to send the complete work for the purpose of updating the database. The work acquired in such a way makes a set of audio fingerprints and the database is updated. If there is an ID3Tag it is added
to the database along with the file name and the local path. These data enrich the entire system’s database. Every new work makes the system more capable for recognising.

Functions when it receives the data from a client installed at the TV stations:
- it receives data (the package) sent by the client,
- it records the data in the log file and
- according to the audio fingerprint it tries to find the work. If it finds it, the work provides its local ID allocated at the database. If it fails to find the work there is no allocated local ID in the logo and it does not treat it as a musical work but it is stored as historical data and could be played out when needed.

**Minimum required hardware and pre-installed software:**
- server PC, i7, or DualXeon, 16GB RAM,
- Windows Server 2008 or a Windows Server of a more recent date,
- Pre-installed .NET Framework 4.0 – which is distributed for free.
- Pre-installed IIS 7.0,
- no antivirus, for undisturbed functioning and
- permanent broadband Internet connection with unlimited flow.

**Vertex Media Account**

This software has the following functions:
- enables database management of works in the sense of verifying the validity of the data in the database,
- database clean-up,
- preparation of reports on the needs of the collective management organisation,
- providing access for the authors to data about the broadcasting of their works,
- helps the Ministry of Culture and the Ministry of Information Society and Administration supervise the operation of the system, and
- provides access to the system for the Ministry of Finance – Public Revenues Office.

**Minimum required hardware and pre-installed software:**
- P4 or a compute of a more recent date, min 512MB RAM,
- permanent Internet connection,
- no antivirus, for undisturbed functioning,
- Windows XP SP2, Windows Vista, Windows 7 or Windows 8 and
- Pre-installed .NET Framework 4.0 – which is distributed for free.
3. Permit to use the system for electronic evidence

Pursuant to Article 135-b from the LCRR a permit for using the system for electronic evidence upon a request by the collective management organisation is issued by the Ministry of Information Society and Administration based on an opinion provided by the Ministry of Culture.

If the Ministry of Culture issues permits for collective management to two or more collective management organisations with the same or different type of rights the organisations are obligated within 60 days from the day the last collective management permit is issued to sign a contract that regulates the manner of mutual provision and installing of a system for electronic evidence, and the Ministry of Information Society and Administration based on an opinion provided by the Ministry of Culture shall issue a permit for mutual use of the system for electronic evidence.

The Ministry of Culture issued to the Association for Music Copyrights “ZAMP” – Skopje a Decision, dated 2 January 2015 allowing the use of a system for electronic evidence of copyrighted works broadcasted by radio and TV stations - Verteks Media Logger produced by the Company Verteks Broadcast Solution from Prilep.

The Ministry of Culture issued the Organisation for Collective Management of the Rights of Producers of Phonograms and Music Art Performers “MMI” – Skopje a Decision, dated 24 February 2015, allowing the use of a system for electronic evidence of broadcasted phonograms and recorded music performances that are of broadcasting type as such – GRID CEE.
4. The rights and the obligations of the collective management organisation in regard to the maintenance of the system for electronic evidence

Pursuant to Article 135-c from the LCRR the collective management organisations are obligated to appoint a person to monitor the operation of the system for electronic evidence.

If the Ministry of Culture issues permits for collective management to two or more collective management organisations with the same or different types of rights the collective management organisations shall jointly appoint a person for monitoring the operation of the system for electronic evidence.

The individual is obligated to check the compatibility of the system of the radio or TV station for the purpose of installing a system for electronic evidence, to install the system for electronic evidence at the radio or TV stations, to maintain its operation and to monitor the work of the system for electronic evidence.

In case the system for electronic evidence stops operating this individual should undertake measures for dealing with the reasons that resulted in the system failure.

If the failure of the system for electronic evidence is caused by problems with the IT system at the radio or TV station, this individual is obligated within three hours after the failure of the system for electronic evidence to inform in writing, by e-mail or by phone the radio or TV station and to give directions on how to deal with the system’s problem and/or directly at the premises of the radio or TV station to deal with the problem in the IT system. S/he should submit a report regarding the activities s/he undertook when dealing with the failure of the system for electronic evidence.

The collective management organisations are obligated to provide the authors i.e. the holders of related rights insight in the data from the system for electronic evidence that concern their broadcasted copyrighted works and objects of related rights.

The collective management organisations are obligated to provide the radio and TV stations insight in the data from the system for electronic evidence that concern their broadcasted programme, which contains copyrighted works and objects of related rights.

For this purpose, they have their own account with a user name and a password that they use for this purpose.

5. The rights and the obligations of the Radio and TV stations for maintenance of the system for electronic evidence

Pursuant to Article 135-d from the LCRR the radio or TV station is obligated to appoint a person to monitor the operation of the system for electronic evidence at the radio or TV station.

This individual is obligated to monitor the operation of the system for electronic evidence and s/he is responsible for the maintenance of the installed system at the radio or TV station in communication with the system for electronic evidence at the collective management organisation.
If this person establishes that the system for electronic evidence at radio or TV station does not function, s/he is obligated to immediately undertake measures for dealing with the cause for the failure of the system and to inform the person appointed to monitor the operation of the system for electronic evidence at the collective management organisation.

This person is obligated to follow the directions for dealing with the problems in the functioning of the IT system at the radio or TV station provided by the person responsible for monitoring the operation of the system for electronic evidence at the collective management organisations and to provide him/her access to the IT system at the radio or TV station.

6. Supervision of the operation of the system for electronic evidence

Pursuant to Article 135-e from the LCRR, the Ministry of Information Society and Administration performs technical supervision over the operation of the system for electronic evidence.

The description and the technical features of the system for electronic evidence, the services it provides, the protection measures, the minimum technical conditions required from the radio and TV stations in order to ensure compatibility with the system for electronic evidence and other issues of importance for the operation of the system are regulated by the Minister of Culture in accordance with the Minister of Information Society and Administration.

7. Conclusion

Concerning the above mentioned aspects of the system, in the context the proposals for its improvement, prepared by the Ministry of Information Society and Administration within its competences, in the future following technical and other features of the system for electronic evidences should be taken into account:

- The software has to be acquainted with the broadcasted works in real time or with maximum of 30 seconds delay.
- Every broadcasting company should have its own user name and password for logging into the system where in real time it will be able to see which work is broadcasted at a certain moment in the programme or live. Such an insight will show the editors-in-chief at the broadcasting companies that the collective management organisation has software that provides real data and keeps proper records of the broadcasting of copyrighted works and objects of related rights.
- Each author should have his/her own user name and password for logging into the system where the media that at a certain moment broadcast a work linked to the user logged in the system will appear in real time.
- For any logged-in user (collective management organisation, broadcasting company or an author) the system should offer different reports about a given period in the past and about its
broadcasting (how many times it was broadcasted, when it was broadcasted, the duration of
the broadcasting, the broadcasting companies used for the broadcasting, the author, work’s
performers, title of the work).

The above points would also directly contribute towards enhanced enforcement of copyright
and related rights in Macedonia, particularly in terms of collective management in the framework
of the digital economy.

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INVESTIGATING CHALLENGES AND BARRIERS FACING CONSTRUCTION OF SMALL, MEDIUM-SIZED ENTERPRISES IN CREDIT ACCESSIBILITY IN THE SOUTH AFRICAN CONSTRUCTION INDUSTRY

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Abstract

This study sought to investigate the challenges and the barriers facing Small and Medium–Sized Enterprises in South Africa construction industry in their quest to access credit from financial institutions for their business purposes. This study utilizes a combination of primary data emanating from structure survey questionnaires supplemented by secondary source of data from an extensive literature review, in order to present insightful commentary about credit accessibility with Construction SMEs in South Africa. The study was a cross-sectional survey that used semi-structured questionnaire to collect data from the sample. 50 questionnaires were distributed to Construction Company in Gauteng Province in Johannesburg through a convenience sampling technique. The key barriers were identified include informational barriers, lack of managerial ability within construction SMEs. Limitation of the study have been note and recommendations for developing innovative approaches to making credit accessibility to construction SMEs in South African been discussed. The study contributes to the body of knowledge in the area of financing construction firm in developing countries in general, and in South Africa in particular.

Keywords: Credit Accessibility, Challenges, Construction SMEs, South Africa.
1. Introduction

This study reports on an in-depth study into demand and supply side issues relating to access to finance by construction firms in South Africa. There is evidence that some construction firms face difficulties in accessing bank finance from lenders National Strategy for Sustainable Development (NSSD, 2011). Finance is the set of activities dealing with the management of funds. More specifically, it involves the decision of collection and use of funds. Construction project finance is a unique funding and collections service that is specifically designed to support those in the construction industry offering informed funding and services specific to construction business needs. Access to finance includes issues such as the availability of financial services in the form of deposits, finance, payments, or insurance to individuals or firms. The availability of such services can be constrained for instance by physical access, affordability or eligibility.

Construction industry contributes significantly in terms of scale and share in the development process of South Africa. The construction industry provides the necessary public and private infrastructure for many industrious actions and services. The industry is not only important for its ended product, but it also employs a large number of groups (directly and indirectly) and therefore has an effect on the cost-cutting measure of a nation or state during the real construction process (ILO, 2001). It also contributes to the national socio-economic development by providing significant employment opportunities at non-skilled and skilled levels Beyond that, it provides the infrastructure and services that required for other sectors of the country to grow such as; schools for education and training, factories and shops for commercial etc. In a typical modern society, around half of all physical assets are created by the construction industry generating about 5-10% of national wealth. (Ahadzie, 2010).

Small and Medium Enterprise (SMEs) have been noted to be the engine through which the growth objectives of developing countries can be achieved and are potential sources of income in many developing countries (Kayanula and Quartey, 2000). Over the years, SMEs have been supported through a number of means, from government assistance, financial institutions assistance, donor agencies, plough back profits, to family support and franchising arrangement, among others (Abor and Biekpe, 2006). One of the major forms of finance for SMEs is through the financial assistance (FA) from banks in the form of loans, etc. However, access to financial assistance from financial institution (FI’s) has become a challenge to most SMEs in many developed and developing economies including South Africa. Most SMEs appear to be challenged in financing their business operations (Abor and Biekpe, 2006).

Though some studies have been conducted in the past in the area of financing SMEs in general (e.g. Abor and Biekpe, 2006; Biekpe, 2004; Kayanula and Quartey 2000), very little empirical evidence exists on the phenomenon in the developing countries in general and in the construction industry in particular. This study is an attempt to contribute to the literature on the critical challenges and barriers faced by SMEs in the construction industry in South Africa in accessing credit from financial institution’s. The study will contribute to the understanding of the unique factors that pose a challenge to construction SMEs in accessing financial facilities from financial institutions in South Africa. This could provide useful avenues to the SMEs to develop strategies to overcome such challenges. It could also help financial institutions to understand the challenges and potential barriers impeding access to
credit by SMEs and how new strategies could be developed to improve upon their financial assistance to construction SMEs.

1.2 Problem Statement

Despite the role of SMEs in the South Africa economy, the financial constraints they face in their operations are daunting and this has had a negative impact on their development and also limited their potential to drive the national economy as expected. This is worrying for a developing economy without the requisite infrastructure and technology to attract big businesses in large numbers. Most SMEs in the country lack the capacity in terms of qualified personnel to manage their activities. As a result, they are unable to publish the same quality of financial information as those big firms and as such are not able to provide audited financial statement, which is one of the essential requirements in accessing credit from the financial institution. This is buttressed by the statement that privately held firms do not publish the same quantity or quality of financial information that publicly held firms are required to produce. As a result, information on their financial condition, earnings, and earnings prospect may be incomplete or inaccurate. Faced with this type of uncertainty, a lender may deny credit, sometimes to the firms that are credit worthy but unable to report their results (Coleman, 2000).

Another issue has to do with the inadequate capital base of most SMEs in the country to meet the collateral requirement by the banks before credit is given out. In the situation where some SMEs are able to provide collateral, they often end up being inadequate for the amount they needed to embark on their projects as SMEs assets- backed collateral are usually rated at ‘carcass value’ to ensure that the loan is realistically covered in the case of default due to the uncertainty surrounding the survival and growth of SMEs (Binks et al., 1992). These are some of the factors already acknowledged by some researchers as blocking most SMEs in accessing credit from the financial institution in the country. But are these really the case in South Africa? SMEs in South Africa do not also have the luxury of picking a financing scheme that will be appropriate for their businesses. The major type of financing open to them is debt financing from the financial institutions, which most often comes with a long list of requirements that most SMEs find them difficult to meet. The other type that is Asset financing, aside the long list of criteria also requires operators of SMEs to provide 50% of the funds and the financing institution providing the other half to fund the purchases of the assets. This type of financing does not allow for growth of the SMEs sector since they are all short term in nature.

To highlight the specific challenges inhibiting SMEs in accessing credit in South Africa with a view to proposing some recommendation to help mitigate these challenges.

Research questions

- What are the sources of credit for the construction SMEs companies in South Africa?
- What are types of sources of credit available to construction SMEs from financial institution?
- What are the financial challenges of accessing credit facilities from the financial institution in South Africa?
Objectives of the study

The specific objectives of the study were;

• To identify the sources of funds/credit for the construction SMEs
• To identify the types of source of credit available to construction SMEs
• To identify the financial constraints faced by construction SMEs in accessing bank credit facilities.

1.4 Motivation of the study

Studying why construction SMEs in South Africa have difficulty in accessing credit or funding from financial institutions from the perspective of the operators of these SMEs is crucial since it would present the problem from the perspective of the SMEs thereby making it a baseline study for policy interventions by state agencies, development partners and non-governmental organisations with missions to develop the construction SME sector.

2. Literature Review

2.1 Introduction

This chapter on literature reviews discuss various theories that underpin source of credit and the challenges and barriers facing construction SMEs in accessing credit facilities. Specifically, sources of credit theory. This is followed by conceptual framework, empirical review of literature related to the topic under the study and critique of the literature.

2.2 Definition and Nature of Small and Medium-Sized Enterprises (SMEs)

The acronym SME stands for Small and Medium-Sized Enterprises. In most countries this has been extended to be SMME which stands for Small, Medium and Micro Enterprise. According to Berry et.al. (2002) when defining SMEs, it is important to differentiate it from small, micro and medium-sized enterprises (SMME’s). Although both terms are used to refer to small businesses, SMME’s comprises of a wider range of firms, from “established businesses employing over one hundred employees to self-employed owners of informal micro-enterprises”. SMEs form an upper end of the ranges contained by SMME’s; these are larger in size compared to the micro and very small medium sized enterprises.

The definition of small and medium sized enterprises can vary from one country to the other. However, the definition used for this paper will be largely based on turnover and the number of permanent employees. Dlungwana et.al. (2002) defines small construction companies in South Africa as those companies with an annual turnover of less than ten million rands (R10 million), while medium contractors have a turnover ranging between ten million rands (R10 million) up to fifty million rands (R50 million). The National Small Business Act No 102, 27 November 1996 (1996) defines small
contractors as firms that employ between five (5) and fifty (50) permanent employees, while medium contractors employ between fifty (50) and two hundred (200) permanent employees.

According to Megginson and Megginson (2006) explore the definition of SMEs and the distinction between small and medium enterprises further. They state that to meet the criteria of a small contractor the businesses usually have the manager as the owner of the business, the capital and ownership is usually held by an individual or a few individuals, the business mainly operates in its local area and the business is small in terms of number of employees as we all turnover as already discussed above. This definition is included in the National Small Business Act’s definition, which prescribes that the business should be managed by the owner or owners to be considered an SME.

2.2 Global Definition of SMEs

It is important to compare the definition of SMEs in South Africa to the SMEs in the rest of the world. This is to ensure that South African standards and definitions are at par with the first world nations. It is common practice to define small and medium sized enterprises in terms of the number of employees and their turnover. According to Constrinnonet (2004) European Union defined SMEs according to turnover, degree of independence and the number of employees. The turnover for SMEs is not exceeding one hundred Euros (€ 100 million). It defines SMEs as having between zero (0) and two hundred and fifty (250) permanent employees.

2.3 Small and Medium-Sized Enterprises in the Construction Industry

Construction business encompasses a number of small and medium sized contractors which form a major part of the industry (Benjaoran, 2009). The need to develop Small and Medium Construction Enterprises has to be related back to the South African government’s important policy of providing infrastructure in underdeveloped areas in order to improve the standard of living. According to the Department of Public Works (DPW, 1999) the development of SMEs is directly linked to the department’s policy on job creation, innovation and long-term growth. Miles (1997), Gounden (1997) as well as Van Wyk (2003) support this statement by adding on to express that small and medium sized construction enterprises are vital for the economic growth of South Africa. Governments and policy makers have become aware of the social and economic benefits of SMEs.

Although there was a boom experienced in the construction industry during the preparations for the World Cup 2010 as well as a result of government’s considerable infrastructural spending, unfortunately, the growth has not filtered down to the construction SMEs. This statement is supported by Venter et.al (2010) stating that a survey carried out in South Africa indicated that seventy to eighty percent (70 – 80%) of small and medium sized contractors fail within the first five years. The major reasons for SMEs failing is due to the lack of managerial development and more specifically, lack of long-term planning, strategic thinking and limited resources (Benjaoran, 2009).
Small and medium construction enterprises have unique characteristics that influence the manner in which they are structured and organised as well as the management of SMEs. This chapter explores the structure and operation of SMEs and highlights their importance both globally and locally. The chapter concludes by providing the importance of professional project management development and how this can be used and thus improve the development of SMEs. The SMEs improvement in infrastructure delivery is discussed in terms of managing time, cost and quality during the various phases of project management in the construction industry.

2.4 Global perspective on SMEs

It has been globally recognised that small and medium enterprises are important mechanisms for job creation, innovation and long-term growth and the development of economies as a whole (Storey, 2000). This statement is supported by Organization for Economic Co-operation and Development (OECD, 2000), which expresses that small and medium-sized enterprises play a major role in the economic growth of OECD member countries. This comprises of United States of America, France, United Kingdom, Australia, Canada, Turkey and Germany. OECD (2000) also states that ninety-five percent (95%) of overall businesses in these regions are classified under SMEs and they account for sixty percent (60%) to seventy percent (70%) of employment in most countries. The downsizing and outsourcing of larger enterprises gives rise to small and medium enterprises.

According to OECD (1996) the reasons for the significance of small and medium sized firms in any given country is that SME form a large portion of the businesses throughout and thus have a large impact on employment creation and creating work opportunities. They play an important socio-economic role in that they are the entry point into the business world and thus are more accessible to unskilled populations SMEs had a multiplying positive effect on the economy as a whole and as a result provide economic stability and improve the standard of living throughout the demographics of any country.

2.5 The role of SMEs in the South African construction industry

SME’s account for over ninety-five percent (95.3%) of all enterprises in South Africa, it is for this reason that the South African government has identified the importance of development of small and medium sized enterprises. The country’s White Paper on National Strategy for Development and Promotion of Small Businesses by the Department of Trade and Industry, has stated that SMEs are an important vehicle to address the challenges of job creation in the country (Department of Trade and Industry, 1995). This has led to the National Small Business Act of 1996 to address the challenges of unemployment and poverty in South Africa. The Small Enterprise Development Agency (SEDA) was set up from the National Small Business Act in December 2004 with the aim to promote small businesses within South Africa. In 2000 Ntsika and Statistics SA estimated that SMME’s accounted for about sixty-six percent (66%) of total employment in South Africa and those SMEs contributed over thirty-four percent (34%) to the South African total GDP (Berry et.al, 2002).
South Africa still faces a challenge of a large number of low-skilled workers and so identifying the development of SMEs as an opportunity for South Africa to emerge from poverty. Small, medium and micro enterprises (SMME’s) account for over 50% of employment and Gross Domestic Product (GDP) in South Africa (Van Wyk, 2003). In conclusion the small and medium enterprise sector has been identified and targeted as a means to stimulate economic growth.

2.6 Challenges and Barriers faced by Construction SMEs in Accessing Credit

The challenges that Small and Medium Construction Firms encounter when trying to access financing can be due to an incomplete range of financial products and services, regulatory rigidities or gaps in the legal framework, lack of information on both the banks and the SMEs side. Banks may avoid providing financing to certain types of SMEs, in particular, start-ups and very young firms that typically lack sufficient collateral, or firms whose activities offer the possibilities of high returns but at a substantial risk of loss. There are many challenges to construction development and growth. These include policies regulations, inadequate financial infrastructure, firm regulations, trade regulations, tax regulations, changing government policies, tax rates, corruption, labour regulations, cost of capital, and keen competition for limited opportunities (Uriyo 2004). Kayanula and Quartey (2000) argued that factor like availability and cost of finance are the most common constraints faced. Other are lack of collateral requirement, Informational barriers, Regulations and rules that impede construction firms access to finance, the legal framework and policies around investment and financial institutions lending are fundamental, Lack of access to appropriate technology, weak institutional capacity, Lack of management skills and training in the construction firms, Lack of proper book keeping etc. The legal and regulatory frameworks that exist in South Africa also fail to provide the right support infrastructure to facilitate SMEs lending by the financial institutions. The lack of collateral, lack of proper financial management, lack of financial institutions incentives for SMEs, strict prudential regulations which restrict flexibility of FI’s, unduly complex or onerous administrative procedures and even simply the lack of a consistent definition or enabling law for SMEs are some of the impediments to SMEs financing. A large majority of SMEs do not employ a qualified individual to manage their finances and that, compared to other aspects of running the firms, confidence in dealing with financial issues was not high. Lack of adequate management skills, strategic and operational factors further exacerbate the failure of SMEs in accessing finance. Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms.

2.7 Sources of credit for construction small and medium enterprises.

The sources of finance available to SMEs could be from a variety of sources. These sources can be classified based on a number of factors which includes internal and external, formal and informal. It is also crucial for construction firms to choose the most appropriate source of finance for their several needs as different sources have its own benefits and costs. There are many known method (forms) of
finance to finance a new venture include: Equity Financing method includes promoter’s funds, family and friends, business angels, venture capital, capital markets. This is the act of raising money for company activities by selling common or preferred stock to individual or institutional investors. In return for the money paid, shareholders receive ownership interests in the corporation. (Schmid, 2001). Equity finance can sometimes be more appropriate than other sources of finance, e.g. bank loans. In this type of finance there is less cost which means interest is not paid on it. Raising finance through equity require much harder effort as investors need to be convince of the market potential and of the business and good returns expectations. Equity financing can serve as a powerful tool for small-firm development when used for the true reasons. When a company does not hold a sufficient record of achievement or the collateral needed for a bank loan, and if the owners do not have adequate personal savings, equity financing may be the only option when cash is required though a percentage of the ownership and profits is given up. Equity financing is used not only to secure cash, but as well to make key persons committed to the company’s success.

2.8. Equity financing

Due to moral hazard and problems with information opacity typically being more severe during the initial stages of SME development, internal equity financing, as best represented by owner–manager personal savings, is a critical source of funding for SMEs in these early stages (seed financing and start up). Subsequently, in later stages, in order to develop and grow SMEs tend to reduce their dependence on these sources and start seeking alternative channels for raising capital. Internally generated profits and venture capital exemplify just two of the other equity options SMEs seek to expand as they grow.

In general, “…equity capital is that capital invested in the firm without a specific repayment date, where the supplier of the equity capital is effectively investing in the business” (Ou & Haynes, 2006, p. 156). Equity capital can be raised either internally or externally. Internal equity is funds obtained from the current owner–manager(s), family, and friends or from the retained earnings within the firm. External equity, however, is capital acquired from external channels other than the existing partners and their relatives. As mentioned above, equity financing is preferred over debt as a mode of financing for new and young SMEs as they undergo a typical cash shortage and are generally unable to secure loans with collateral during the founding phase. The advantages of equity financing in this regard are twofold (Ou & Haynes, 2006). First, unlike debt, equity offers long-term financing with minimum cash outflow in the form of interest. Second, equity capital helps enhance the new/young firm’s creditability by indicating that the firm has the approval of sophisticated financial professionals.

Ou and Haynes (2006) determined two situations when SMEs pursue financing from equity capital sources in order to meet expansion needs. The first case is when SMEs face financial distress coupled with a lack of alternative sources of finance. The second case is when cash outflows exceed the cash inflows generated from regular sources. Ou and Haynes (2006) attributed this attitude adapted by SMEs in these two particular cases to the reluctance of regular lenders to lend to the firm because of uncertainty about the firm’s future growth opportunities. As a result, these firms are usually classified as high risk. Inconsistent with this, in their investigation of the determinants of financing mode chosen by
young innovative SMEs in Germany, Schafer, Werwatz and Zimmermann (2004) found that risky SMEs are more likely to receive equity financing.

Other arguments suggest that some SMEs owner–managers may choose not to use equity as a source of financing in order to avoid any undesirable changes in the ownership of their firm (Reid, 1996). Other entrepreneurs, nevertheless, may choose to source funding from external equity in order to share the risk with less risk-averse investors. However, the valid judgement of the importance of the external equity for SMEs should be based on the eventual success of firms that receives it, not on the quantity that the firm utilises (Berger & Udell, 1998).

2.8.1 Venture capital

Venture capitalists are financial intermediaries. Venture capital is that form of financing in which funds are raised from investors and redeployed by investing in high-risk firms which for the most part are young or start-up firms (Potter & Porto, 2007). Further, venture capitalists decide the timing and type of investment in addition to their role in monitoring, screening and contracting (Gorman & Sahlman, 1989).

Moreover, by performing these functions, venture capitalists virtually participate in strategic planning and decision making in the firm. The venture capital market includes a variety of organisations, including public corporations, small business investment corporations and private limited partnerships.

Compared to other more conventional financing sources, venture capital displays some particular characteristics. To start with, investments employing venture capital often involve high levels of asymmetry information and uncertainty as well as higher intangible assets (Gompers, 1995). In addition, Hellmann (1998) explained that the situation in which a company has a sufficiently large incentive for active monitoring takes place only when the venture capitalist has a concentrated stake invested in that company. He added, monitoring in such cases may include spending more time in the company and regular meetings with the managers. Finally, venture capitalists can provide the firm with strategic access to new suppliers and clients as well as strategic partners (Bygrave & Timmons, 1992).

As discussed, venture capital investment is uniformly associated with high risk and uncertainty. For example, when providing external finance to firms, venture capitalists encounter a significant adverse selection problem and moral hazard (Smolarski & Kut, 2011). Another problem that may arise is the agency problem (Berger & Udell, 1998). This occurs in the relationship between the venture capitalist and the entrepreneur when the latter lacks sufficient information or skills to make optimal production decisions. This problem might also be combined as information about the project is imperfect and revealed over time (Bergemann & Hege, 1998). In order to alleviate these problems and reduce uncertainty, particular mechanisms can be implemented. In this context, Gompers (1995) emphasised three control strategies. These strategies are: (i) the use of convertible securities, (ii) the syndication of investment, and (iii) the staging of capital infusions. According to Cumming (2006), most venture capital transactions include convertible securities. Bascha and Walz (2001) asserted that unlike traditional debt and/or equity instruments, convertible securities have the ability to mitigate the agency problem effects by leaving the owner–manager with some control during the investment period. In addition, as the price
of conversion is a function of performance, the venture capitalist has a better chance to recover the investment if the venture is not successful. Other studies show other motivations for employing convertible debt, with examples including reducing the risk-shifting incentives of the entrepreneur (Green, 1984), resolving problems arising with debt financing and gaining indirect equity financing when issuing traditional equity is unattractive (Stien, 1992).

Syndication is a common form of venture capital risk alleviation and refers to two or more venture capitalists sharing in a single financing round. The syndication mechanism is used in order to decrease problems associated with adverse selection through the participation of a co-investor sharing the investment risk (Smolarski & Kut, 2011). A study by Cumming (2006) reached a broadly similar conclusion stating that venture capital syndication significantly mitigates adverse selection problems. Additionally, Lerner (1994) suggested that adverse selection problem can be efficiently mitigated in the presence of high information asymmetry in venture capital financing by implementing the syndication strategy. It was also found that syndication reduces the entrepreneur’s opportunistic behaviour (Wright & Lockett, 2003).

Another main characteristic of venture capital is staged financing. As the term suggests, venture capital staging refers to that mode of financing in which venture capitalists invest in stages in order to maintain the project under control (Organization for Economic Co-operation and Development (OECD), 2004). Gompers (1995) provided evidence indicating that staged investment enables venture capitalist to gather more information allowing him/her to monitor the firm prior to refinancing decisions to be made. As such, the venture capitalist has the option of abandoning the project if and when any unattractive information regarding the investment emerges. Wang and Zhou’s (2004) results showed that the staging financing plays a crucial role in controlling moral hazard. Therefore, it is an effective mechanism in controlling agency problems.

Not only do venture capitalists provide an alternative source of funding for SMEs, they also help resolving many informational problems plaguing SMEs. Hence, by helping increasing the financial flexibility of SMEs, they offer them the chance of sourcing finance from other financial channels, such as banks and insurance companies. However, the supply of venture capital appears to be relatively inflexible, at least in the short-term, as it requires years of experience to develop the necessary skills (Kortum & Lerner, 2000).

### 2.8.2 Business angels

Unlike other external sources of financing, business angel finance is not intermediated. It is instead an informal market for direct finance (Berger & Udell, 1998). Angels are highly-selective wealthy individuals with long business experience who invest directly in high growth SMEs with which they have had no previous relationship (Madill, Haines, & Riding, 2005). This form of investment is usually based on an equity contract, typically common stock. Though angels by definition are individuals, they sometimes coordinate their investment in small investment groups. According to Harrison and Mason (1992), there are three features that make angel financing an appropriate option for SMEs. First, angels are more active in the early stages of enterprises (seed and start-up) closing the so-called ‘equity gap’ by
forming a ‘bridge’ between internal financing sources and outside investors. Second, by having lower rates of rejection and being a more patient form of capital with longer exit horizons, angel financiers tend to be more obliging to the needs of SME owner–managers. For example, German entrepreneurs have ranked business angels as the most desirable funding providers (Brettel, 2003). Finally, unlike venture capitalists, angel investors prefer to invest in their local economies where the majority of SMEs operate. Angel investors are a crucial source of financing for many SMEs, especially start-ups. According to Morrissette (2007), the amount of capital that angels provide is estimated to be eleven times that provided by venture capitalists. Data collected by Shane (2012) from different surveys conducted between 2001 and 2003 showed that between 140 000 and more than 260 000 angels injected investments between $12.7 and $36 billion into between 50 000 to 57 000 ventures each year. In Germany, for example, a study by Stedler and Peters (2003) estimated the total capital assets for each business angel in the country at €2.5 million to €5 million distributed across a portfolio of between 1 and 5 firms, all start-ups. The extent to which angels are involved in the firms in which they invest is debatable. Barry (1994) claimed that angels are not active investors. Yet, other empirical research show opposing results (e.g. Harding & Cowling, 2006; Landström, 1993). In terms of benefits, Mason and Harrison (1996) questioned a sample of 20 dyads regarding the role played by business angels apart from their financial stake. The respondents reported that nonfinancial contributions made by angels included assistance with management functions, finance and accounting functions, strategic advice, financial advice, general administration, networking and marketing. Further, 50% of the entrepreneurs rated these angel contributions as either helpful or extremely helpful. Worldwide, and based on quantitative analysis, angel financing dominates venture capital financing in terms of both the number of firms utilizing it and the financial value of investment (Fairchild, 2011). However, as a source of financing, business angels have two main limitations (Wall, 2007). First, few angels are prepared to inject additional money into a firm to enable it to grow and be a real competitor in its market. Second, most angel investors do not have neither the skills nor the interest in investing in a firm after it has access to other external sources of finance, including public equity markets.

2.8.3 Debt financing

It is well known that capital structure decisions, in SMEs as in large firms, relate to the use of either equity or debt or both. However, Berger and Udell (1998) believe that in the case of SMEs, this is partly incorrect because information opacity is more severe in SMEs. Issuing additional equity to satisfy the firm’s financial needs would then lead to a dilution in ownership and control. Therefore, in order to keep full ownership and control of their businesses, SMEs owner–managers may prefer to seek debt financing rather than external equity. Three significant differences between debt financing for SMEs and that of large firms have been identified in the literature (Wu et al., 2008). First, unlike managers of large firms who usually have the choice of broader range of debt financing resources, SMEs tend to be more attached to commercial lenders, especially institutional lenders, as a source of short-term debt financing that can be renewed for long-term debt. Second, as information asymmetry problems are more acute in SMEs than in large firms, long-term lending relationships are important for SMEs in order to deal with
the resultant agency problems along with the other three conventional mechanisms; signalling, monitoring and bonding (the provision of guarantee or collateral). Third, in concentrated owner–managed SMEs, and contrary to what the agency theory suggests, it is not clear whether debt can lower the agency costs that result from information asymmetry arising due to different motives of owners and managers.

2.8.4 Trade credit

One of the most important sources of external financing for SMEs is trade credit. For instance, Berger and Udell (2006) estimated that one-third of the total debt of SMEs in the US in 1998 was represented by trade credit. According to García-Teruel & Martínez-Solano (2010), trade credit is a delay in the payment for goods or services after they have been delivered or provided as a result of an agreement between the supplier and the firm. Therefore, for the firm this is a source of financing appears in the balance sheet under current liabilities, whereas for the supplier it is an investment in accounts receivable. The rationale behind the widespread use of trade credit among SMEs has been argued in the literature. Ellihauen and Wolken (1993) attributed this attitude to both transaction motive and financing motive. The transaction motive suggests the better ability for both parties (the seller and the buyer) to predict their cash needs in the short-term. As such, cash management transaction costs can be economized. The financing motive is that SMEs resort to trade credit when alternative sources of finance are unavailable or more expensive. In addition, (Fatoki & Odeyemi, 2010) argued that trade credit financing is preferred by new and young SMEs when the risk of default is high during the early years of operations. Moreover, in relation to financial motives, firms with easier access to credit market can act as a financial intermediaries and offer funding for firms that face difficulties in accessing external financing (Demirgüç-Kunt & Maksimovic, 2001).

2.8.5 Non-bank financial institution debt

As finance institutions tend to differ from banks in their lending policies possibly in part because of regulatory differences (Berger & Udell, 1998) and following Ayyagari, Demirgüç-Kunt and Maksimovic (2010) who separate bank finance from other non-bank financial institutions funding, the focus in this section is on nonbank financial institutions as the role of banks will be discussed in the later section.

Non-bank debt offers a channel for SMEs to raise funding in both developing and developed nations. In Zimbabwe, for example, loans granted by non-bank financial institutions account for nearly 30% of total debt, and were ranked second in order of importance by domestic SMEs (Aryeetey, 1998). A more recent study conducted by the Federation of Small Businesses found that 15,000 financial institutions in the US competed to lend to SMEs, of which half were nonbank lenders in the form of credit unions (Goff & Nasiripour, 2012). Still in the US, an earlier study by Denis and Mihov (2003) using a sample of 1,560 new debt issuers firms during 1995–96 showed that of the total amount of debt of $350 billion raised by the firms in the sample, nonbank debt was responsible for almost $40 billion.
Johnson (1997) explained that while banks prefer short-term debt (as their liabilities are also short term), non-bank financial institutions such as insurance companies are generally in favour of long-term loans as they have long-term liabilities. However, Johnson (1997) believes that non-bank financial institutions can act as a financial intermediate between banks and public debt.

In general, the main advantage that encourages SMEs to use more debt than other external sources of finance in their capital structure is the tax shield benefit. In addition, when seeking external funding, SME owner–managers tend to limit the use of equity in order to meet control aversion and maintain control of their firms (Hutchinson, 1995). However, Abor (2008) found that SMEs with many shareholders (group-owned SMEs) may choose to utilize low debt levels to avoid bankruptcy and the agency costs accompanied with debt financing.

**2.8.6. Policy framework for Small and Medium Construction Firms financing in South Africa**

The regulatory and policy environment provided by the state and the range of financial support services provided by public agencies and private organizations, are just one set of factors that determine the competitiveness of construction firms. As far as institutional support is concerned, SMEs can benefit from two types of support. First, there is the government’s role in creating an enabling regulatory and policy environment for SMEs access to FA. On the other hand, there is direct support through private and public agencies that provide FA and technical services to SMEs. It is generally accepted that the government’s most important task is to provide an enabling regulatory and policy framework. Such a framework should contain stable financial institutional and monetary policy settings with reasonable interest rates, a system of financial markets that provides incentives to save, and mechanisms to channel savings into investments.

The problem does not appear to be a lack of funds but rather how to make them accessible to SMEs. Available funds are often diverted to the larger firms and only an insignificant number of SMEs seem able to attract bank financing.

**3. Research Methodology**

A cross-sectional survey was conducted to examine the challenges and barriers construction SMEs faced in accessing credit facilities in South Africa. The populations included some construction SMEs and financial institution in two major municipality Gauteng in South Africa, namely, City of Johannesburg Metropolitan Municipality and City of Tshwane Metropolitan Municipality. Construction SMEs are scattered across the length and breadth of the Province with most of them located in Tshwane and Greater Johannesburg area of the Province. These Province were identified to have high concentration of construction SMEs. Most of the SMEs are located in these areas, so are the financial institutions. Most of the financial institutions are located in the Greater Johannesburg areas of South Africa having branches across the various Provinces in South Africa. Due to the concentrated nature of SMEs in Johannesburg and Tshwane, coupled with the accessibility and available of information for the study, a convenience sample size of 179 SMEs firms in these Municipality were chosen for the survey.
3.1 Research Instrument

In order to achieve the aim and objectives of the study, a semi-structured questionnaire was designed to gather information from the 50 SMEs in South Africa. Since this study was one of the preliminary studies, the questionnaires was designed with question items requiring respondents to mention as many challenges as possible so it consisted of structured open ended questions to explore what challenges exist with accessing financial assistance from the respondents’ banks and other financial institution towards the operations of their business. Respondents’ consent was sought first using an informed consent cover letter and they were assured of anonymity and confidentiality of their responses. The survey generated a response of 32 out of 50 questionnaire sent constituting 62% response rate for analysis.

Table 1: Background data on construction SMEs

<table>
<thead>
<tr>
<th>Item</th>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business type</td>
<td>Limited liability company( LLC)</td>
<td>25</td>
<td>73.20</td>
</tr>
<tr>
<td></td>
<td>Partnership</td>
<td>9</td>
<td>20.01</td>
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<td></td>
<td>Sole partnership</td>
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<tr>
<td>Monthly Turnover</td>
<td>Less than R130,000</td>
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<td>26.01</td>
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<tr>
<td></td>
<td>R130,000-150,000</td>
<td>7</td>
<td>23.58</td>
</tr>
<tr>
<td></td>
<td>R150,000-250,000</td>
<td>9</td>
<td>22.03</td>
</tr>
<tr>
<td></td>
<td>R250,000-300,000</td>
<td>5</td>
<td>18.52</td>
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<tr>
<td></td>
<td>R300,000 above</td>
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<tr>
<td>Sources of credit</td>
<td>Bank loan</td>
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<tr>
<td></td>
<td>Business loan</td>
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<td></td>
<td>Personal saving</td>
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<td></td>
<td>Retained profit</td>
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<td>Friends and family/relative</td>
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<td>9.45</td>
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<td>Sources of credit for start-up</td>
<td>Personal savings</td>
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<td></td>
<td>Friends and family</td>
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<td>Bank credit</td>
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<td>Requirement for obtaining credit</td>
<td>Collateral</td>
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<td>Statement of assets liabilities</td>
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<td>Cash flow statement</td>
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<td></td>
<td>Binding building contract</td>
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<td>agreement</td>
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<td>Detailed business plan</td>
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<td>Interest on credit borrowed</td>
<td>Less than 20%</td>
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<td>21-30%</td>
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</tbody>
</table>
Business, about 41% of them used bank loans, 29.79% of them relied on personal savings, 19.15% used retained profit, and about 11% of them used funds obtained from family and friends. In terms of sources of finance for start-up of these construction firms, 45% of them relied on personal savings, 32% depended on funds from family and friends and 19% obtained funds from banks to start-up their business activities. In terms of the requirement for accessing loans from banks, about 26% of the SMEs indicated that the banks demanded some collateral security from them, 20% of them were required to provide a cash flow statement of their firms’ operations to the bank, 24% of them were required to provide some fixed asset for accessing the loan, 15% of them were required to submit an audited financial statement, about 13% had to produce a business plan of their present business for which they were going for the loans, and about 1.43% of them were to submit award letter from their business partners to access the loans. In terms of the interest paid by SMEs to the financial institutions, about 21% of the firms paid less than 20% interest rate on loans, 54.17% of them paid between 21% and 30% and 25% of them paid between 31% and 40% as interest rate on loans to the financial institutions. In terms of the availability of loans, 38.7% of them indicated that loans are available to them, while 61.3% indicated that loans were not readily available to them. Moreover, in terms of affordability of the loans, to 32.26% of the firms, the loans were affordable, while to 67.74% of the firms the loans were not affordable to them.

4. Challenges and Barriers faced by SMEs

The results of the survey for the challenges and barriers SMEs face in accessing finance in South Africa are presented in Table 2.

Table 2: Challenges and Barriers to Credit Accessibility for Construction SMEs in South-Africa

<table>
<thead>
<tr>
<th>Category</th>
<th>No</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Challenges in obtaining credit accessibility</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of collateral requirement</td>
<td>7</td>
<td>20.34</td>
</tr>
<tr>
<td>Poor Institutional capacity</td>
<td>11</td>
<td>31.05</td>
</tr>
<tr>
<td>Inadequate financial infrastructure</td>
<td>7</td>
<td>20.01</td>
</tr>
<tr>
<td>Barriers in obtaining credit accessibility</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lengthy and vigorous procedure for credit application</td>
<td>17</td>
<td>49.11</td>
</tr>
<tr>
<td>Lack of management ability</td>
<td>2</td>
<td>8.84</td>
</tr>
<tr>
<td>Weak institutional capacity</td>
<td>13</td>
<td>37.45</td>
</tr>
<tr>
<td>Lack of appropriate education and Training</td>
<td>3</td>
<td>7.01</td>
</tr>
<tr>
<td>Ranking of credit rates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extremely too high</td>
<td>7</td>
<td>20.02</td>
</tr>
</tbody>
</table>
According to the table 29% of the construction firms indicated that the policy regulation for the financing of firms by financial institutions, was not favourable to their business operations. 19.3% of SMEs mentioned that inadequate financial infrastructure is another challenge they face when it comes to accessing credit facilities from financial institutions, in South Africa. Moreover, according to 29% of the firms, they face the challenges of weak institutional capacity while 9.9% of them indicated that key challenge is that they lack the collateral requirements demanded by financial institution as a condition for accessing financial assistance.

On the barriers to accessing finance from financial institutions in South Africa, according to the data in Table 2, 48% of the SMEs indicated that there is information barrier which implies communication gap between SMEs and financial institutions, when it comes to managing the financial support to these firms. According to 9.09% of the firms, lack of managerial skills is a barrier to their access of credit facilities from financials. 36% indicated that lack of institutional capacity is a barrier. Regarding the perception of lending rate of financial institution, 19.35% of the firms perceived it to be extremely high, 74.19% perceived it to be high while 6.45% perceived it to be moderate. Thus a larger percentage perceived the lending rate to be high even though (Ayogyam, et al, 2012) indicated that interest rate in South Africa is generally low, this is not the case in the construction sector.

### 5. Summary of Findings and Discussion

The study has important theoretical and managerial implications. Theoretically, the study provides preliminary evidence on the challenges faced by construction SMEs in accessing credit facilities from financial institutions in developing country contexts. This has not been lacking in the construction management literature in South Africa. Since the study found that most construction SMEs are limited liability companies, and that this could be attributable to low trust and huge financial outlay needed to form public companies, it is fund that government should partner with some of the construction SMEs in forming companies. Government could also take over some of these companies and develop them into a full fledge construction firm to boost the construction based of the economy. Also, since the study found that most SMEs use their personal savings in establishing their construction firms, which in some cases are inadequate to finance the start-up of the firm, it is recommended that government and other stakeholders should keep developing innovative ways of meeting the problem of inadequate sources of funds for SMES start-ups.

### 6. Conclusion and Recommendations

The study sought to investigate the challenges and barriers in accessing Credit facilities by SMEs in South Africa. The challenges revealed by the study includes: Inability of construction SMEs to provide

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>High</td>
<td>25</td>
<td>76.01</td>
</tr>
<tr>
<td>Moderate</td>
<td>3</td>
<td>7.11</td>
</tr>
<tr>
<td>Low</td>
<td>1</td>
<td>0.99</td>
</tr>
</tbody>
</table>
collateral and other information needed by financial institutions such as audited financial statement couple with the high cost of Credit facilities in terms of high interest rates makes it extremely difficult to access finance. In the light of the key findings, policy actions should include better information provision regarding the various sources of finance. The results of this study revealed low awareness and usage levels of the various financing initiatives among SMEs. Most of the schemes are perceived as difficult to access. The difficulties construction SMEs often face in accessing these funds include: lack of securable assets, lack of knowledge by finance providers about the nature of respondent’s business, stringent eligibility criteria, lack of knowledge about lending criteria, difficulty in finding out about available finance, and bureaucracy. These really limit SMEs ability to access Credit facilities from these initiatives. Suggestions and recommendations for overcoming these challenges and barriers have been provided to management, government and other stakeholders in the built environment and financial sector.

References


AN ASSESSMENT OF ENTERPRISE RISK MANAGEMENT PROCESS IN CONSTRUCTION FIRMS

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Abstract

Though the construction industry is project-based, risk management should address risks at both projects, and enterprise levels as an overemphasis on project risk management would lead to some limitations. As a comprehensive and strategy-focused risk management discipline, enterprise risk management (ERM), which agrees with the modern portfolio theory, manages the whole risk portfolio of a firm and has been recommended in the construction industry. This study provides an understanding of ERM and investigates an ERM process for construction firms. The work methodology included a comprehensive literature search relating to ERM. The literature review was conducted through accredited academic and Professional journals, books, the internet, theses, and dissertations. Literature revealed environment and strategy, risk identification, risk assessment and prioritising, risk mitigation and control, information and communication and monitoring, reporting and continuous improvement as the essentials of ERM. The investigated process could be used as a guide for ERM process in construction firms. As few studies have attempted to investigate ERM in construction firms, it is believed that this study expands the existing literature relating to ERM.

Keywords: Construction Firms, Enterprise Risk Management (ERM), Enterprise Risk Management process (ERMP).

1. Introduction

Two decades ago risk management (RM) was not considered as a comprehensive and strategy-focused risk management discipline. It was essentially influenced by the managers’ insight of risk (Thompson, 2003). Nowadays, managing risk is becoming a major concern and the aptitude to identify risks and familiarize to the changing business environment among the critical success factors for enterprises (Arena et al., 2010). None of the approaches namely; insurance, political RM and managerial discretion in management were incorrect. However, their focuses were restricted and fragmented. Thus, the necessity to efficiently identify and respond to risks resulted in the adoption of inclusive RM programs by several firms (Woon et al., 2011).
Enterprise Risk Management (ERM) is one of the disciplines that go far beyond the silo-based view of risk (Gordon et al., 2009). It is a holistic discipline in identifying possible risks that a firm would face and choose correct measures that match enterprise’s risk appetite. Applying ERM may intensify risk consciousness in a firm and consequently improves decision-making aptitude leading to firm value maximisation (Razali et al., 2011). Regardless of the increasing number of studies on ERM, many organizations have yet to understand the concept of ERM and implement ERMP (Beasley et al., 2005). A survey conducted in 2011 in the US, established that of 1431 risk managers’ firms found, only 17 percent had a complete integrated ERM program, 37 percent had partially integrated ERM program, and 23 percent had just embarked on investing in ERM programs. Three (3) percent had no plan for the year to come whereas 20 percent had no plan to implement ERM any soon (Society, 2011). The literature relating to ERM, calls for more research on the level of ERM implementation among firms (Daud et al., 2010; Razali et al., 2011).

An increased number of studies have looked at ERM implementation among construction firms in general; however, a limited number of them have endeavored to investigate the ERMP in the construction industry. Therefore, this study aims to investigate a process for ERM in construction firms. The elements in this proposed process represent the essentials of ERM. The proposed process could be used as a guide for ERM process in construction firms. As few studies have concentrated on ERM process in construction firms, it is believed that the proposed process can contribute to the existing body of knowledge relating to ERM.

2. Literature Review

Dickinson (2001) defined ERM as: “… the extent to which the outcome from the corporate strategy of a company may differ from those specified in its corporate objectives or the extent to which they fail to meet these objectives”. The corporate strategy resulting from the corporate objectives is tied to a certain risk profile, which is expressed by considering some factors that might influence the organization’s activities and processes.

Valsamakis et al., (2000), embraced an RM definition that displays the managerial nature and integrated approach of RM. Implicit in the description, is management’s involvement in strategic decision-making: “RM is a managerial function intended to protecting the organization, its employees, assets, and profits, against the physical and financial consequences of event risk. It includes planning, coordinating and directing the risk control and the risk financing activities in the organization” (Valsamakis et al., 2000).

The Federation of European Risk Management Associations (FERMA, 2003), also mentions the strategic nature of risk management. According to FERMA (2003), RM is a systematic process of addressing risks that are attached to a company’s strategic objectives, by ensuring that sustained benefit is reached within all activities and processes.

According to Schröder (2006), ERM is: “a holistic systematic and integrated approach to the management of all key risks and opportunities with the intent of maximizing shareholder value for the enterprise as a whole”. Miccolis et al. (S.a.: xxii) attached a definition to ERM, as: “A rigorous and coordinated approach to assessing and responding to all risks that affect the achievement of an organization’s strategic and financial objectives. Briers (2000), formulated the following definition of RM: “RM is the process of intervention in economic and behavioral risk dynamics so that the value of the organization is improved”.

According to Abrams et al., (2007), an evaluation of the various ERM definitions indicates that they share three important characteristics, in that ERM should be:
• **Integrated:** ERM must span all the lines of business.
• **Comprehensive/inclusive:** ERM must comprise all types of risk.
• **Strategic:** ERM must Concorde with the overall business strategy and objectives of the organization.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2004) attached a definition to ERM as “a process, effectuated by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives”. The definition is adopted in this study as it applies to various industries, including the construction industry (CI). Moreover, it reflects that ERM should be implemented at all levels across an enterprise and applied in strategy setting to assure the achievement of corporate objectives.

As enterprises begin to manage risk, they become aware that they cannot manage it in a remote way by activity, process, but rather in a comprehensive, integrated manner all through the organization. Such an integrated RM practice requires defining risk, the establishment of risk tolerances, the formulation of policies and processes dealing with risk, the presence of risk in all decision-making processes, considering the interconnectedness of risks, and the reporting of risk in a consistent way, all within the borders of a single business strategy of the organization (Abrams et al., 2007).

### 2.1 ERM in Construction Firms

In construction firms, ERM and Project Risk Management (PRM) are disciplines to managing risks at a different level, with different goals (Liu et al., 2011). ERM manages risks at the firm level and focuses on the operations, strategic, reporting, and compliance objectives of a firm (COSO, 2004); whereas PRM manages risks at the project level and focus on project objectives (Liu et al., 2011). In fact, project objectives are within the corporate objectives, serving as the key components of operational objectives of a construction firm as the operation of a construction firm mostly depends on the construction projects that it is engaged in (Zhao et al., 2013a).

PRM is still indispensable and should not be regarded as a limitation to adopting ERM in a construction firm. PRM has been viewed as one of the nine areas of project management knowledge (PMI, 2008), and is crucial to the success of projects and the survival of construction firms. Therefore, ERM cannot substitute the role of PRM. In fact, PRM is an essential part of ERM since project risks are within the whole risk profile of a construction firm and ERM should be executed at all levels of a firm, counting the project level (Zhao et al., 2013a). Effective PRM practices, which properly handle project risks, can contribute to ERM efficiency throughout a firm. In turn, ERM implementation requires improved communication of project risk information, so it can assist the management in making better-informed decisions and handle project risks more efficiently (Liu et al., 2013), and increase the performance of construction firms (Low et al., 2013).

### 2.2 ERM Practices

Survey results from the 2007 Towers Perrin Risk/Opportunity Study (Towers Perrin, 2008), conducted on medium and large enterprises in Western European, Asian/Pacific, North American and other regions, indicated that executive management recognises the value-adding benefits of risk management, and does not perceive it merely as applying to threats to operations and assets. Although
top managements identify workforce skills and experience as the primary opportunity for their organizations, it is ranked with the lowest amount of management confidence in managements’ ability to effectively manage workforce risks and opportunities.

It is evident from this study that there is not only one best approach to risk management. Organizations’ perception of business risks and their risk management approach will vary amongst organizations and organizational management. Event management should be aligned to the organization’s business strategy and its risk tolerance. However, the primary differentiating factor in successful risk management is organizational culture. The risk management process is important, but a participative workforce and an organizational culture that embraces enterprise-wide integrated risk and opportunity management contribute toward organizational success (Towers Perrin, 2008).

Likewise, in a Survey conducted on more than 100 different enterprises in the United Arab Emirates, executive management identified numerous obstacles to ERM (Rao & Marie, 2007). Although executive managers of these organizations realize ERM’s value-adding capabilities, they encountered significant frustration and dissatisfaction with the current ERM practices in their organizations. The most important ERM obstacles encountered by executives in the construction sector were processes, tools, skills, organizational culture, ERM costs and organizational structure. This is followed by the secondary obstacles identified by construction enterprises as time availability, intellectual capital and technology. In other categories namely; Banks, oil and Non-banking finance companies (NBFC) identified culture, time availability, costs, processes, organizational structure and risk tools as the largest hurdle to ERM compared to skills, intellectual capital and technology as less important obstacles. Furthermore, manufacturing and trading companies identified culture, time, and costs as the major obstacles to ERM. From the survey results it is evident that businesses experience several obstacles to ERM implementation, with the type and degree of obstacles encountered varying according to the types of organization (Rao & Marie, 2007).

A United Kingdom study was conducted on over 100 companies in the oil, gas and construction industry regarding risk analysis methods used, the organization’s policy on responding to risk, and risks encountered during operations. The survey results showed that the majority of organizations are of the opinion that their organization uses a mixture of qualitative and quantitative risk analysis techniques, with personal and corporate experience, engineering judgement, and brainstorming the best qualitative techniques, while break-even analysis and decision trees are some of the techniques best suited for quantitative use. Organizations’ most frequent risk response was risk reduction by training and educating staff and improving their work conditions; then risk transfer followed by risk retention as the least used method. One of the main survey results is that current risk management practices should be further refined by allocating more resources and time to the risk management process (Baker et al., 1999).

2.3 Enterprise-Wide Risk Management Frameworks

Henriksen and Uhlenfedt (2006) summarized the enterprise risk frameworks proclaiming a link to strategy:

- DeLoach’s Enterprise-Wide Risk Management (EWRM)-Strategies for Linking Risk and Opportunity (DeLoach, 2000). The focus of this document is directed at definitions, specific guidelines on risk identification, risk assessment and various methods of risk control.
The Committee of Sponsoring Organizations of the Treadway Commission (COSO)- Enterprise Risk Management Integrated Framework (COSO, 2004). This document represents a framework structure, recommendations for key risk management activities and guidelines for internal support.

The Institute of Risk Management (IRM), the Association of Insurance and Risk Managers (AIRMIC) and the National Forum for Risk Management in the Public Sector (ALARM) combined efforts in the formulation of a risk document labelled FERMA (2003), which provides a framework as a generic guideline for ERM.

The Australian/New Zealand Risk Management Standard 4360 (AS/NZS 4360, 2004) comprise in-depth commentaries and various application techniques regarding ERM.

The four frameworks claim to address the tangent planes between risk management processes and organizational strategy. DeLoach’s EWRM framework (DeLoach, 2000), recognizes that risk management should be incorporated into strategic activities at an early stage and also link risks to strategy formation. Although the importance of the tangent planes between risk management and strategic management are recognized by the other three frameworks, these limit risk activities to risk identification, evaluation, and management of risks, that impact predetermined organizational objectives and strategies. As a result, the focus is limited to strategy execution.

In all four frameworks, the focus of risk management activities can be mapped to the accomplishment of predefined objectives and strategies within operational-tactical areas. Nonetheless, the frameworks make limited reference to the process of risk consolidation, which includes the identification, quantification, incorporation of risks in a risk framework, the risk prioritizing process and risk communication process to key decision-makers. An effective risk consolidation process forms the underpinning foundation in the formulation of good strategic decisions and guides the organization in efficient resource allocation (Smit, 2012).

2.4 The ERM Process

Every ERM activities start with the availability of an effective and efficient organization to support the process, followed by the risk analysis steps, which consist of risk identifying, sourcing and measurement. The process entails management devising an RM strategy as well as the implementation of the formulated strategy. To ensure the efficient and effective working of the processes, the risks, the risk strategies, and the implementation activities should be monitored on a continuous basis. All these steps should be performed keeping the key objectives of the ERM process in mind as graphically depicted in Figure 1 (Bowling et al., 2003).
Figure 1: Key objectives of the ERM process (Adapted from Bowling et al., 2003)

- **Infrastructure**: 1) Aligned risk policies, processes, charters; 2) Resources that support a value adding ERM process; 3) Ability to communicate across organization about risks.
- **Develop Strategy**: 1) Strategy is linked to risk management processes; 2) Roles and responsibilities of all employees are understood.
- **Implement**: 1) Risk management is understood in the organization; 2) Risks are managed across processes in an efficient and integrated fashion; 3) Monitoring activities are well respected.
- **Monitoring**: 1) Common ERM approach is used across all monitoring processes; 2) Activities add value through communication and follow-up on key issues.

According to COSO (2004), there are four groups within which an organization should achieve its objectives. These groups should be cascaded through the organization and aligned to the organization’s mission, strategic objectives, and strategy. These groups are expanded as follows (COSO, 2004):

- **Strategic**: High-level objectives, linked with and supporting the organization’s mission.
- **Operational**: Effective and efficient use of firm resources, addressing the firm’s objectives.
- **Reporting**: Reliability of reporting, i.e. accuracy, timeliness, appropriateness, etc.
- **Compliance**: Organizational compliance with applicable laws and regulations.

By categorizing the objectives, an organization’s focus is directed at the different ERM aspects. ERM will assist in the accomplishment of internal objectives within the organization’s control such as reliability of reporting, and compliance with laws and regulations. As far as external objectives such as operational and strategic activities are concerned (which are not always within the organization’s
control), ERM can provide sensible assurance that management is informed of the organization’s level of accomplishment of these goals (COSO, 2004).

Based on the above discussion and evidence of risk management in practice, an ERM process can be grouped into six main activities, which comprises of further sub-processes as depicted in Figure 2. ERM is not strictly a ‘serial process’; it is a ‘multidirectional process’, in which activities influence each other (COSO, 2004).

**Figure 2: The Enterprise Risk Management Process**

The six stages illustrative of the ERM process are expanded in detail below.
2.4.1 Environment and Strategy

Environment and strategy are the critical first stage in the ERM process. It consists of evaluating the external and internal environment within which the firm operates, with the internal environment comprising of the firm’s strategy for attaining its set objectives, the organizational culture comprising internal controls, and the risk appetite of the firm (Funston, 2003). An essential component of the ERM process is the internal control environment as insufficiencies in this environment are often the cause of risk and control breakdowns (Funston, 2003). The internal control environment involves an organization’s and the employees’ ethical values; management is operating style, and philosophy and the assignment of authority and responsibility (COSO, 2004).

2.4.2 Risk Identification

The following stage in the ERM process is the development of a risk identification framework (Funston, 2003), where the firm’s exposure to uncertainty is identified (FERMA, 2003). This stage necessitates a comprehensive knowledge of the firm, together with various factors such as the organization’s market, the environment (legal, social, political and cultural), an in-depth understanding of the firm’s strategic and operational objectives, the firm’s critical success factors and the threats and opportunities that may prevent the firm from achieving these objectives. An important tool in the identification process is a SWOT analysis, a matrix conducted by the firm by which Strengths, Weaknesses, Opportunities and Threats are identified. Risk identification is a meticulous process, and an organization should ensure that all significant organizational processes are identified and that all the risks emanating from these processes are well-defined. Additionally, any volatility linked to these processes should be identified and grouped (FERMA, 2003).

In the risk identification stage, both internal and external events that may impact an organization’s objectives should be identified, along with the risk or opportunity it represents. Value creating opportunities are channeled back to management’s strategy or objective-setting process (COSO, 2004). Top management’s attention should not be concentrated only on risks that result in organizational failure, but also at events that influence the effectiveness and efficiency of the organization’s activities, and have a significant impact on the organization’s performance or risk profile. Moreover, management should be aware of the nature of risk, i.e. its interconnectedness. Potentially all activities in a firm are exposed to risk, although the impact of the risk may be influenced by actions taken by other parties in the firm (Ritchie & Brindley, 2007).

The development of a risk framework and a generic risk language to foster better risk understanding is a main characteristic of the ERM approach (Selim & McNamee, 1999). In helping to identify key risks to the organization, workshops may be facilitated, where unrestricted information sharing and debate are encouraged. This can provide valuable information in the identification, assessment and management of risks (Hodge, 2002).
2.4.3 Risk Assessment and Prioritizing

The third stage, risk evaluation typically involves the determination of risk impact and the probability of risks occurring. A weighting should be allocated to risk impact and risk probability (Funston, 2003). Though risk probability and risk impact are two significant factors to take into consideration, it is usually not sufficient. It is argued that estimates of probability are only relevant for risks that have already occurred, in other words, risks which have a history. Basing reliance on such risk analysis may give a firm an incorrect sense of security as these firms rarely prepare themselves for relevant high impact, low likelihood risks which may have the most damaging consequences. For high impact, low probability risks, the firm’s state of risk preparedness are very important. The firm should allocate its resources based on the potential risk impact and its ability to manage such risks. The focus is thus not to address all possible sources of risk. For example, it is impossible to forestall all sources of risk to a firm’s computer network, but it is possible to address the degree of disruption caused by the risk of say a network failure and the firm’s preparedness to address it (Funston, 2003). The next step is risk prioritization, which implicates a risk matrix of risk probability and risk impact, with the results categorized as high, low or medium risks (Page & Spira, 2004).

During the risk description process, the identified risks should be depicted in a structured format such as a table. An adequately designed table can facilitate the description and evaluation of risks, and furthermore, help to ensure comprehensive risk identification, description and assessment process. By assessing each risk according to probability and impact, key risks can be prioritized for management action. Risk management should be incorporated in the initial start-up phases of projects, and continued throughout the project (FERMA, 2003). Most organizations recognize the importance of incorporating an ERM process in their organization, as it helps in the analysis of information, and translates the information into value-adding activities (Chapman, 2001). Quantitative, semi-quantitative or qualitative risk estimation methods may be used regarding risk likelihood and impact. After the completion of a risk analysis, the estimated risks should be compared against the organization’s risk criteria regarding socio-economic and environmental factors, stakeholders’ expectations, legal requirements, etc. Risk evaluation, therefore, considers the impact of risk on the organization, and the manner in which it should be treated (FERMA, 2003).

After the risk evaluation and prioritization process, an enterprise-wide risk register should be developed to ensure that ERM is applied consistently throughout the organization, and a uniform understanding is achieved by all (Fraser & Henry, 2007).

2.4.4 Risk Mitigation and Control

In ERM is risk mitigation and control stage, the firm should apply risk tolerances for each situation that affects the firm according to its ‘risk appetite’. Awareness should be taken off the interrelationships of risks when risk treatment situations are considered (Funston, 2003). Table 1 reflects the various definitions of risk control. Even though different terms are used, the meanings are the same.
### Table 1: Risk control terms used (DEAT, 2006)

<table>
<thead>
<tr>
<th>Terms used in Risk Control</th>
<th>Meaning</th>
</tr>
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<tbody>
<tr>
<td><strong>Finance</strong></td>
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</tr>
<tr>
<td>Decline</td>
<td>Elimination</td>
</tr>
<tr>
<td></td>
<td>Some risks can be avoided by not entering into or stopping the activity, or refraining from performing specific hazardous activities</td>
</tr>
<tr>
<td>Accept</td>
<td>Acceptance</td>
</tr>
<tr>
<td></td>
<td>Where the risk-return properties are acceptable or low-risk outcomes can be expected, the risk exposure is accepted</td>
</tr>
<tr>
<td>Mitigate</td>
<td>Reduction/Mitigation</td>
</tr>
<tr>
<td></td>
<td>Where action can be taken to reduce the impact of the risk(s) to an the acceptable exposure level</td>
</tr>
<tr>
<td>Manage</td>
<td>Transfer</td>
</tr>
<tr>
<td></td>
<td>Where specific control activities are applied to minimize risk exposure, through transferring or outsourcing, the risky activity to another party</td>
</tr>
</tbody>
</table>
2.4.5 Information and Communication

Firms have become aware of the importance of constantly gathering risk information within the organization as well as the significant amount of effort needed for the maintenance of a risk information system. ERM allows firms to use this risk information to identify possible risks resulting from an organization’s decisions, and to address proactively such risks. A risk information system involves effective processes, an appropriate infrastructure, accurate information, and timely reporting for management to make informed decisions (Funston, 2003).

2.4.6 Monitoring, Reporting and Continuous Improvement

In order to successfully manage risk, continuous risk tolerance and risk threshold monitoring are required. By continuously monitoring situations, problem areas can be identified timeously before they escalate into a crisis. ERM can facilitate improved governance through the use of key metrics and a reporting system to gauge the effectiveness of risk management processes (Funston, 2003; and DEAT, 2006). Executive and senior management should drive the ERM process.

They should ensure that an organization’s structure, along with ERM implementation policies, is in place to support the ERM process. A two-way risk information flow should be established between those closest to the risk and senior management. Risk information will assist senior managers in formulating the organization’s risk policy and those closest to the risks should be empowered to take action to prevent a small risk from increasing (Dickinson, 2001).

3. Research Methodology

The work methodology included a comprehensive literature search. Various sources were consulted including accredited academic and Professional journals, books, the internet, theses, and dissertations. This research is mainly a literature review and looks at the literature relating to enterprise risk management in the construction industry. This is because the concept of ERM appears to be receiving much attention over the recent years from various businesses and industries including the construction industry. The current methodology falls within the qualitative research methodology.

4. Lesson learnt from Literature Review

Based on the review of ERM literature, experience and evidence of risk management in practice, six activities were identified as the essentials of ERM process. It is believed that if the organizations follow these activities, and also senior management understand the importance of ERM and engage with the implementation, and utilize best practices and expertise within the system, they will make quick progress in the successful implementation of ERM.
The activities of the ERMP laid out in the report should be adopted and implemented as a package by each executive head to ensure successful ERM implementation in their respective organizations.

5. Conclusion

While most studies have focused on some aspects of enterprise risk management in other sectors, this paper has examined literature relating to enterprise risk management in construction firms. The main objective of the study was to provide an in-depth understanding of enterprise risk management and to investigate an enterprise risk management process for construction firms. To achieve the objective of this study, we started by discussing the definitions of ERM and the concept of ERM in the context of construction. Furthermore, the study investigated the ERM process which comprised of six (6) main stages namely: environment and strategy, risk identification, risk assessment and prioritisation, risk mitigation and control, information and communication, Monitoring, reporting and continuous improvement. The six activities identified in this report form a solid framework to be followed by the organizations. It is believed that if organizations were to follow the activities as best practices and tenets for the effective implementation of ERM, in addition to reflecting the best practices available, and sharing information, management could improve the quality of its strategic, tactical and operational decisions. Construction firms should adopt the activities set out in this report, with a view to ensuring that the ERM approach is accepted and implemented in line with best practices. Furthermore, governing bodies should exercise their oversight role regarding the adoption of ERM activities, the effectiveness of implementation and the management of critical risks in their respective organizations.

References


IMPOTANCE OF EFFECTIVE MENTORING OF CONSTRUCTION GRADUATES IN THE SOUTH AFRICAN CONSTRUCTION INDUSTRY

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Abstract

It is important to critically analyse the concept and to highlight the distinctive elements of effective mentoring of graduates or youth, in the construction industry. The aim of this paper is to look at the experiences and problems contributing to effective mentoring of young graduate’s construction employees within construction companies. This study will examine how construction graduates employees are mentored, who is supposed to mentor them and how effective and essential mentoring can be used to enhance performance in the construction industry which has become very competitive and complex. It will look at the important characteristics of mentors, potential negative outcomes or problems in mentoring of young graduates. The study is mainly a literature review with a special focus on the human resource management and leadership, the data used in the report is mainly qualitative, based on the content analysis, case studies and historical data. The study will indicate whether or not young graduates’ construction workers are they being mentored or not, are they involved in any form of mentoring, within their construction companies and that communication skills, knowledge sharing, and correcting mistakes or giving negative feedback are important for an effective mentor in the construction industry and also that mentoring is an important tool that can enhance career and personal growth when conducted effectively.

Keywords: Youth Mentoring, Graduates workers, Construction Industry.

1. Introduction

Mentoring nowadays is a key element within national and local strategies for working with graduates, especially those who are viewed as ‘socially excluded (Philip, 2000). As yet, few methodical evaluations of new entry employees have taken place in UK to enable contrasts to be made between projects and with other forms of graduate’s involvement, in this new entry construction employees. Regardless of one’s title/qualification, graduates take part in designing, creating, constructing and maintaining today’s modern technology and infrastructure. A Question remains, can a graduate employee
who hasn’t been mentored by an experienced engineer/technologist/technician be able to tackle the above mentioned tasks? Hence, some groups of young people are often constructed as a threat rather than as a resource for the future (Jeffs and Smith, 1999), meaning giving more information to the graduate, knowledge transfer, they will know further than their mentors. Simultaneously concern about the defenselessness of graduates has led to unprecedented levels of observation over some groups (Harden et al, 2000), this can be a black or white group. Though it is only recently that mentoring has become a feature of social policy, people were not aware of it; it is a notion that has been around for an extensive period of time. Most modern interest has derivative from the business world, where mentoring is used in the orientation of new entry employees into the culture of the organization, in educating communication between different levels of management, and in positive access for groups that are traditionally left out from senior management positions (Clutterbuck, 1985), mentoring can also be used as an instrument to communicate with those employees that are not open, in regard to their performance, to break down the ice in an employee.

Mentoring differs from industry to industry. The construction industry treats mentoring a bit differently, due to different or changing work environment and conditions, Construction jobs or projects can be extremely short or extremely long, that can put pressure on a mentor or mentee. Mentoring is a matter of concern, not having mentors and mentees serves as a hindrance to progress which is why mentoring is of vital importance. Being a mentor has benefits such as (Nkomo and Thwala 2014):

- Financial gain (salary increase)
- Promotions
- And self-respect

The above mentioned benefits (not limited to) of being a mentor bring rise to whether an individual should become a mentor with the aim of mentoring and grooming young junior employees or for personal gain.

Who exactly should be allowed to mentor young, less experienced employees? Nkomo and Thwala (2014) stated that the construction industry is highly competitive and it brings economic growth. Therefore, mentoring is important in order to groom potential construction leaders thus; mentors have to possess certain characteristics before they are certified as effective mentors. The above mentioned benefits (not limited to) of being a mentor bring rise to whether an individual should become a mentor with the aim of mentoring and grooming young junior graduate’s employees or for personal gain.

Who exactly should be allowed to mentor young new entry, less experienced graduate’s employees? Nkomo and Thwala (2014) indicated that the construction industry is highly competitive and it brings economic growth. Therefore, mentoring is important in order to groom potential construction leaders thus; mentors have to possess certain characteristics before they are certified as effective mentors. Although many studies (Scandura, Tejeda, Werther and Lankau, 1996; Miller 2015; Russell, 2006; Nkomo and Thwala, 2014) have been conducted on mentoring in engineering and the construction industry, the issue of mentoring of new entry engineering graduate’s employees has not yet received
sufficient attention. Furthermore, few studies have addressed or dealt with the effects of having an effective mentor. The Construction Industry has become overcrowded and competition is becoming increasingly tough. In order to be the best or compete with the best, graduates employees need to be mentored effectively in a way that will enhance their skills and knowledge. Mentoring is a tool that’s crucial in everyone’s career development. An effective mentor has to be in place in order for career growth/development to take place.

2. **Purpose of the study**

Mentoring, if done correctly and effectively has a potential to build up future young leaders of tomorrow in the construction industry. Mentoring is of vital importance and should be taken into consideration in order to ensure career development and growth of new entry graduates employees. This study may be useful to employees and employers in the construction industry as it provides information on how important mentoring is and methods that can be followed or adhered to in order to ensure effective mentoring. Furthermore, the will add value to the construction industry by educating employers and employees on how to use mentoring to groom potential construction leaders.

3. **Objectives of study**

- To investigate the mentoring of young graduates construction employees within organizations, whether they are being mentored or not.
- To determine the problems encountered while mentoring new entry graduates employees.
- To determine the important characteristics of effective mentor’s, potential negative outcomes.
- To examine the ways in which mentoring benefits contributes to producing motivated young construction workers within the industry.

4. **Literature Review Findings**

Over the past three decades, mentoring in the workplace has become the focus of much research and discussion (Ploeg et al., 2008). (Raabe and Beehr, 2003). Mentoring can be well-defined as a developmental and supportive relationship among a senior, more experienced employee and a junior, less experienced employee (Kram, 1985). Amelink (2010), mentoring as a relationship between an experiences person and an inexperienced person. The more experienced person is called a mentor and the less experienced person is a mentee. The relationship is meant to enhance both parties professional or career development, even though the mentee is perceived to gain more, the mentor gains as well.

Mentoring has been linked with salary increase and promotion (Chao et al., 1992), higher job satisfaction and self-respect (Allen et al., 2004; Underhill, 2006), and higher organizational commitment (Donaldson et al., 2000). Positive career developments have been associated with mentoring as people who were mentored effectively reported of how they received career guidance and support; increased salaries and job satisfaction (Nkomo and Thwala, 2014). The above mentioned reports might give an
impression that mentoring has a positive impact on an individual’s growth. However, Stead (1997), raised another question that cannot be ignored, “Does everyone need a mentor?” He further stated his case by discussing how students are able to form partnerships on their own as the union brings academic support and the union may be able to replace possible mentors.

The above findings have underlined the need to identify the characteristics that are necessary to be an effective mentor. Though, most studies on mentor characteristics to date have concentrated on white-collar workers in industries such as education, health care, technology, finance, and communications (Milner and Bossers, 2004; Smith et al., 2005).

Due to its vibrant nature and complex organization of work, the construction industry is different from other industries (Ringen et al., 1995a), particularly from typical white-collar jobs. Previous research has suggested mentoring as a key component of construction work and has recognized the necessity for mentoring programs to develop leaders in the construction industry (Rogers, 2007). Yet, no empirical research to date has thoroughly examined and identified the critical characteristics of mentors in the construction industry, which would offer ultimate information for the development of mentoring programs. Seeing that the construction industry plays a major role in national economies (Behm, 2008), and its trade training is primarily constructed upon a mentorship model for apprentices (Melia´ and Becerril, 2007; Sobeih et al., 2006), the present study tries to identify what constitutes an effective mentor from the perspective of construction professionals. Discovering the answer to the above question is critical to the success of any mentoring program, as it can escort program developers in their decisions about whom to target, what content to include, and the methods needed to develop capable and effective mentors in the construction industry. In this study, we methodically identified and examined a list of characteristics that distinguished, good from average and poor mentors in the construction industry, drawing on mentoring, coaching, and emotional intelligence writings.

One of the objectives of this study is to determine the important characteristics of mentors in the construction industry, to examine the ways in which mentoring benefits and contributes to producing young motivated employees. In the following section, we debate the definition and benefits of mentoring. Then, we review past research literature on mentoring characteristics and the starring role of mentoring in the construction industry.

5. Mentoring benefits and definition

The word “mentor” and the conception of mentoring date back to Greek mythology, when Odysseus assigned his son, Telemachus, to a close friend, who would watch over not only his professional development but also his personal and social growth (Hamilton, 1942). This friend named Mentor, has since become a symbol of physical, intellectual, social, and administrative development (Clawson, 1959). Mentoring, as defined by Amelink (2010) is viewed as a relationship between an experienced person and an inexperienced person. The more experienced person is trained as a mentor and the less experienced person is the mentee. The relationship is created with the main aim of enhancing the mentee’s personal development and growth, professionally and socially. (Miller, 2015) further defined mentoring as a mutually benefitting relationship between two people who are both interested in working together. He further stated how a relationship between a mentor and a mentee can never be
forced to take place. It is not up to senior management to create such unions, but it is up to the mentor and mentee to base their relationship on mutual respect, trust and a shared objective.

The present study used Kram’s (1985) new and adequately broad definition of a mentor as a senior more experienced employee, who serves as a role model and helps in the relationship, has been recognized as an alliance that increases the competency and performance of protégés through the spread of formal knowledge such as the organization’s politics. In most circumstances, the mentee may approach and initiate a relationship between oneself and the mentor. It takes admiration and respect to select a possible mentor, but it is still a mentor’s duty to find a mentee who will be willing to work with him/her. Mentoring is a matter of concern. Not having mentors and mentees serves as a hindrance to progress, which is why mentoring is of vital importance in the construction industry. In order to secure a healthy and productive mentoring relationship, it is very important for a mentee and mentor to share a common objective. Both parties should be eager and determined to share knowledge transfer and experience. The mentor must be more than willing to give knowledge and experience that they have acquired, at the same time, the mentee must also be willing to receive and use the shared knowledge and experience. The knowledge and experience being transferred is more than just mere information, it should be treasured by both parties. Mentoring is nothing new. According to Russel (2006), mentoring has been around for a long time. Most of us have gained knowledge from more experienced people, for example in a work place, academics etc., even though we might have just called them a friend or they might have been a family member.

Mentoring has been positively linked with many career and psychosocial outcomes (Allen et al., 2004; Chao et al., 1992; Underhill, 2006). For example, Chao et al. (1992) found that employees partaking in informal mentorships stated more career-related support, advanced salaries, and higher job satisfaction than those who had no mentoring relationships. In their meta-analysis, Allen et al. (2004) similarly found positive associations between mentorship and job and pay satisfaction. In another current meta-analysis, individuals who had been mentored felt more respect from their co-workers, had a further positive self-image, and felt less work stress and work-family scuffle (Underhill, 2006). In addition, mentored individuals incline to feel more job security and have more positive views of technical and distributive justice than non-mentored individuals (Scandura, 1997). Mentoring it is also been associated with a lot of positive career developments. People who were mentored and currently being mentored reported of how they received career guidance and support; increased salaries and job satisfaction. Research has similarly examined the benefits of having a mentoring program in an organization. The presence of a formal mentoring program is now being used as a criterion for determining the “Best Companies to Work for” (Branch, 1999). Constant with this, Allen and O’Brien (2006) found that job searchers are more fascinated to organizations that have formal mentoring programs compared to those that do not have them.

Mentoring is predominantly valuable within the context of the Employment Equity and Skills Development legislation. Due to the dissimilarity of the South African managerial profile, the reality is that the majority of managers are white and the majority of employees are black. In order to amend this profile, transferences of skills are critical and this is exactly where mentoring can play an imperative role. In fact, without effective mentoring most companies will brawl to achieve their employment fairness
targets. The worth of mentoring lies in the circumstance that mentoring is the quickest way to transfer skills and thus quickening empowerment in the workplace. No quantity of formal training and informal courses can accomplish what mentoring can do. Through mentoring a member of a labelled group targeted for a higher-level position can work with a mentor to attain the skills necessary to function at a more senior level. A mentor’s role is dual: firstly (1), to offer career development opportunities such as coaching, giving challenging assignments, sponsoring advancement, and nurturing the protégé’s prominence; secondly (2) they offer psychosocial support such as counselling, support and role modelling. Without a mentor, a new entry employee (graduate) will learn not as much of, more slowly or not at all.

According to the above stated reports, it might be safe to say that mentoring has a positive impact on an individual’s growth and development, be it the mentor’s growth or the mentee’s growth. However, Stead (1997), differed with the above mentioned statement by raising a question, “Does everyone need a mentor?” He further stated his case by mentioning how students are able to form partnerships together as students and the union brings about academic support and eliminates the possibility of mentoring relationships.

6. Mentoring of new entry graduate employees in the Construction Industry

Mentoring is a key component in construction work (Rogers, 2007). For example, it is very mutual on construction jobsites to have experienced workforces, who oversee and mentor less experienced employees. Though, the relationship between a mentor and his/her protégé in the construction industry may be dissimilar from the mentoring relationships typically observed in other industries, due to continually changing work environment and crews, dissimilar and rapid tasks, and the short-term relationships that protégé’s have with their mentors (Ringen et al., 1995b). Jobs in the construction industry can be from a few days to a few years, so the length of any mentor-protégé.

7. Effective Mentoring

The construction industry is extremely busy and its scope of work is usually complicated. This industry is very different to your typical everyday office jobs. Due to it being a complex and highly competitive industry, it is important for effective mentoring to take place in the construction industry in order to develop, train and groom future leaders that could run and lead the industry. Through the process of mentoring, mentors assist mentees or students into discovering where they really are and what they have to offer in the construction sector; mentees are also showed how to use the theoretical knowledge they acquired at tertiary level; mentees are also guided in defining and pursuing their career goals (Russel, 2006). As graduates employees are fully armed with theoretical knowledge from the University and lacks practical exposure.

(Hamlin and Sage 2011) recommended that the effectiveness of any mentoring relationship established depends highly on the characteristics possessed by parties involved for example (mentor and mentee) and also on whether both parties know how to take advantage of opportunities presented or opportunities brought forth by either party. The quality of the relationship between a mentor and a mentee
is a key factor to ensuring successful mentoring. In order for effective mentoring relationships to take place, mentors need to adopt a “carting” and “pushing” style. This can be described as offering a safe place where the mentee feels able to share and express their agendas, interests and goals; where support is offered by listening; asking the right relevant questions; stimulating the mentee’s thinking in such a way that they arrive at answers to their problems; offering ideas, challenges, knowledge, tools and techniques, productive thinking and wisdom. According to (Devojine and Harris , 2001, p35), mentors can help to develop effective mentoring relationships by; Creating a safe environment; listening attentively without passing judgement; agreeing on objectives rather than approaches; and accepting and appreciating differences.

The above mentioned reflect back on what Stone (2007) listed as the characteristics of an excellent mentor in order for a mentoring relationship to be effective, such as; Strong interpersonal skills; Recognizing others’ accomplishments; Being an excellent supervisor; Accepting risks that are associated with mentoring and willingness to be available to help another individual advance in an organization. (Hamlin and Sage, 2011) added the following characteristics to the list; Active listening and asking questions; Conceptual modelling; Setting clear goals; Being flexible; and Building and maintaining close and harmonious relationships with management through trust, focus, empowerment and understanding. The mentor can’t take all the responsibility in ensuring that a mentoring relationship is effective. The mentee also has to take charge of the relationship. (Stone, 2007) agreed with the statement above by listing the characteristics that an excellent mentee should possess in order to secure an effective mentoring relationship, such as; demonstrating intelligence; Showing initiative; and taking responsibility for own development. (Hamlin and Sage, 2011) added the following characteristics; Expressing needs clearly and helping to identify development goals; Seeking input from the mentor; demonstrating commitment by following up on points set in meetings; Making time to attend meetings; Maintaining confidentiality; and Seeking to understand roles, responsibilities and boundaries.

(Amelink, 2010) supported the above mentioned statement by further listing the benefits of effective mentoring. Effective mentoring assists in developing a mentee’s career as they get exposed to the practical aspect of their career by their mentor. While being close to a mentor, a mentee is able to mingle with organizations that could possibly assist in career growth and future employment. Further more mentoring has been known to assist in career development, but effective mentoring can also help in personal development as well. Having an effective mentor has been known to increase self-confidence, increase self-esteem and increased job satisfaction. (Amelink, 2010). It can be said that in order for effective mentoring to take place, healthy mentoring relationships need to be established.Listed below are positive characteristics associated with mentoring as given by Klasen and Clutterbuck (2002, p19).

- Mentoring relationships facilitate the application of contents of theoretical knowledge in real life practical contexts
- It brings about purposeful change and increases the return on the investment in learning. It emphasizes the statement, “Whoever learns together, grows together”.
8. Characteristics of mentors in the construction industry

Though the studies stated earlier generated lists of characteristics important for mentors in the construction industry, these lists were not the same, and it is therefore possible that these lists were not comprehensive. Thus, to create a complete list of characteristics for this study, additional literature linked to mentoring characteristics was accessed. Evidence from research on executive coaching suggests that the characteristics for both mentors and executive coaches are comparable; though, executive coaches also retain characteristics such as being interpersonally understanding, having a customer focus, and taking appropriate action during crisis (Brotman et al., 1998). Preceding, an examination of each of the lists of characteristics revealed that all of them affected on the idea of emotional intelligence as being essential, for example by affirming that characteristics such as “empathic,” “understands others,” “interpersonally understanding” and “articulates emotions naturally” were important. The concept of emotional intelligence states to the ability of a person to monitor one’s own and others’ feelings and emotions, to discriminate among them, and take appropriate actions based on these observations (Salovey and Mayer, 1990). Emotional intelligence was later well-defined as consisting of four separate parts: appraisal and expression of emotion in oneself, appraisal and recognition of emotion in others, regulation of emotion in oneself, and usage of emotion to facilitate performance (Mayer and Salovey, 1997).

In the construction industry, the constricted deadlines, working with and around other trades and the prospective dangers of the job can create an atmosphere of tension and apprehension. A mentor in construction with emotional intelligence could possibly control these emotions and balance them, while meeting deadlines and finalizing tasks safely. A study directed by Law et al. (2004) supports this impression, as peers’ rankings of emotional intelligence were analytical of supervisory ratings of in-role and extra-role enactment in an employee sample. Past research from these parts will assist in the development of a comprehensive list of possible characteristics for mentors in the construction industry. In addition to making a distinctive list that syndicates different literatures, the current study takes a marginally different method to detect the key mentor characteristics as perceived by construction professionals.

Although these limitations, the consequences from the current study indicate that communication skills, knowledge sharing, and correcting mistakes/giving negative feedback are significant for an effective mentor in the construction industry. The results from this study can be used to enhance current mentoring research and afford a starting point for mentor-assisted development in construction. The outcomes on new knowledge worker’s perspective towards their mentors’ characteristics is in in agreement with the studies of Gray and Smith (2000) and Elzubeir and Rizk (2001). The findings designated that mentors should be welcoming, self-confident, show desire to be a mentor, provide honest feedback, self-knowledgeable and being committed to mentoring, were viewed to be extremely significant characteristics. The other characteristics, that are, being a visionary, exposing the protégé to future prospects, understanding, respectable, patient, being a good role model, compassionate and showing reliability were seen as significant characteristics for the mentor to have.
9. Potential negative outcomes or problems in mentoring new entry employees

Mentoring relationships are not always easy; there are challenges to face as a mentor or mentee. There are different factors that influence the challenges experienced by parties involved in a mentoring relationship. Some factors are external to the mentoring association, such as the objectives of the formal mentoring relationship and time issues. For example, a mentoring relationship that is established in a company that is downsizing will be different to a mentoring relationship that is established in a company that is expanding. Time issues relate to certain limitations, such as; Work demands, personal demands, financial constraints, or scheduling problems.

Although the benefits of mentoring indicated in the literature, this does not prevent the possibility that mentoring relationships involve problems or negative outcomes (Eby et al., 2000). Early research on social-psychological and interpersonal relationships summaries that hostile incidents are common and often are neglected aspect of all relationships, these ranges from insignificant episodes, such as quarrelling, to serious incidents, such as physical or psychological abuse (Marshall, 1994). According to (Pinho, Coetzee and Scheuder, 2005), a mentee may develop negative attitude towards a mentor when a mentor overworks the mentee and takes credit for the accomplishments (Eby et al. 2000) in there study on negative mentoring capability revealed that protégés experience: Divergent personality and habits, mismatch within the dyad, self-absorption, work style, distancing behavior, manipulative behavior, unfortunate delegation of duty, intentional exclusion, credit taking, politicking, that is, self-promotion, technical incompetence, lack of mentor expertise, that is, interpersonal incompetency, sabotage of any efforts, general dys-functional, that is, bad attitude, personal problems and deception. (Pinho, Coetzee and Scheuder, 2005) further elaborated on the challenges faced in mentoring relationships. These relationships can become dysfunctional as they can bring rise to overdependence, resentment, deception or harassment. The mentoring relationship can also be regarded as negative in terms of fairness as challenged may see it as a strategy to get ahead. This deals head on with cross-gender and cross-race relationships.

The researchers supported the need for further research in the area of negative mentoring in individual disciplines which might be different from one industry to another. Problems or negative outcomes were uncommon between mentors and new entry or knowledge employees, apart from dissimilar personality and habits which was seen as a problem or negative outcome demonstrating that this problem happened fairly many times. General dysfunctional, that is, bad attitudes, personal problems for example, alcohol abuse, family problems etc. and deception, that is, not being truthful were never a problem to the new entry or knowledge workers as there predisposition was towards occasionally and never occurring. (Agumba and Fester, 2010). As per the finding it can be noted that if mentoring functions are sufficiently achieved then problems or negative outcomes are infrequently experienced. Studies conducted by Eby et al. (2000) and Ragins et al. (2000) on dysfunctional mentoring relationships are not fully sustained by this finding.

The problems or negative variables in a mentoring relationship were acquired from related literature review, directed by Nkado and Mbachu (2002), that new knowledge workers or new entry employees (graduates) seldom experienced problems during mentoring. Dissimilar behavior and habits,
was seen as the main problem as it fell in the mean band between 2.60 - 3.40 representing that it happens fairly many times. General dysfunctional, that is, bad attitudes, personal problems for example, alcohol abuse, family problems etc. and deception, that is, not being truthful were never a problem to the new knowledge workers as they clear-fell in the mean band between 1.00 - 1.80.

10. The reasons why mentoring relationships fail

Even though mentoring was described by Amelink (2010) as being known to assist in career development, mentoring relationships sometimes fail to produce the desired results. (Clutterbuck, 2011) categorized the main reasons why mentoring programs or relationships fail into the following: Contextual, Interpersonal and procedural. Contextual problems relate to issues where purpose or supportiveness of the organizational environment are not clearly defined for mentoring relationships. Mentoring relationships require support and backing from within the company. Some companies penalize mentors and mentees for taking time to have their meetings. When top management lacks expressed interest, mentoring relationships are more likely to fail. (Clutterbuck, 2011). Interpersonal problems occur/are caused by people who are not part of the mentoring relationship, such as; the mentee’s line manager and peers. It is important to include line managers and explain the benefits of the relationship to them. These problems can also cause resentment (Clutterbuck, 2011). Procedural problems are problems that occur from the way that the programme or relationship is managed. Relationships or programs that are heavily over-managed are often problematic. (Clutterbuck, 2011). A mentor should be communicative, which is why a mentoring relationship will fail if a mentor dictates and fails to communicate effectively with the mentee. Starr (2015) further elaborated on why and how certain mentoring relationships fail. Listed below are reasons why some mentoring relationships fail, as given by Starr (2015)

When senior employees/employers are used to engaging with junior less experienced individuals within a company and giving them direct orders. When they start talking to the mentee as if they work for them it becomes a problem and serves as a recipe for a failing mentoring relationship. A mentee may not fully understand the role of a mentor. As a mentee, it is possible to become used to deferring to managers more senior than themselves and adopt a subordinate posture while engaging in conversations. When this happens, mentees are less likely to request anything.

Changing the focus of the role causes both parties to move from the true original intention of mentoring. An effective mentoring relationship is dependent on both parties involved, willingness to assist from the mentor and respect from the mentee. When the mentor focuses more on what to offer the company, it becomes an issue as the mentee may become worried that the mentor may use his/her own opinions to try to influence their (mentee) choices. Failing to maintain engagement. In order for a mentoring relationship to thrive and remain aligned with the aims of the mentoring relationship, good levels of engagement are of vital importance. Like any other failure, the reasons listed above can be avoided. As given by (Clutterbuck, 2011), the following can be done to minimize the risk of possible mentoring relationship failures:
Preparation- It is essential to think through what the partnership is meant to achieve and how it is intended to be achieved.

Selection- Not everyone can become an effective mentor, potential mentors should possess certain qualities.

Training-Successful mentoring relationships often go through training or a briefing (face to face) as to what they can expect.

Measurement- It is important to review the relationship and analyze what each party is gaining from the union.

Starr (2015) listed what can be done to save a mentoring relationship that is on the verge of failing:

It is important to know when a mentoring relationship becomes a managing relationship where the mentor becomes a manager instead of a mentor. The following tends to happen:

- The mentor takes credit for results obtained by the mentee
- Every conversation between the mentor and the mentee begins with what the mentee has done for the mentor.
- The mentor feels the need to have a sense of personal growth
- Conversations focus on getting the job done with less discussion of personal beliefs; and principles and values

When the above mentioned happens, the mentee may be responsible for having a formal/informal discussion with their mentee in order to address their concerns.

11. Conclusion and Recommendations

Mentoring is usually undermined and often mistaken as managing and assigning work. Although these limitations, the results from the current study designate that communication skills, knowledge sharing, and correcting mistakes/giving negative feedback are important for an effective mentor in the construction industry. The results from this study can be used to enhance current mentoring research and offer a starting point for mentor-assisted development in construction. We are compatible in our understanding of the role that race and racism play in the construction industry and society. We recognize that although our racial differences are a necessary part of our daily interaction, we also can connect as people. We have learned that the first step in getting beyond the barriers and boundaries of race is not to pretend that they do not exist.

This study is predominantly the authors’ description of the extensive learning and development process for graduate engineers that has been advanced and embedded within Kentz Engineers and Constructors and other construction companies. Though, some evaluative conclusions can reasonably be drawn. These are:

- In global engineering and construction skills scarcities are real and the largest constriction on growth in the sector.
Companies are contending for skills and within this context those seeking to be “Favoured employers” are investing in learning and development and the infrastructure to upkeep career development. Engineering graduates are in a strong spot when choosing employers.

Mentoring, if done correctly can not only enhance an individual’s professional growth but also assists in personal growth.

- The effort necessary to sustain the process should not be undervalued – it is an exercise in organization, expectancy, and will, supported by systems and infrastructure. For example, a prudently planned experiential learning programme is vital, yet challenging to sustain without a combination of on the ground buy-in and support with reporting and observing. Some of the best business decisions are made in times of insufficiency when the value of resources becomes fully understood. Investment in the development of graduate engineers or new entry employees and indeed in all Kentz employees and other construction companies is a strategic importance, and the organization is the better for it. Kentz mentoring process is a work-in-progress – all mentoring processes will continue works-in-progress if they are to remain applicable to changing business needs. It is to be hoped that the experiences related will vibrate with others, and that lessons learned may have more general application, although every organization will have its own exceptional needs and circumstances. Among these lessons are that mentoring has permanent benefits, but that formal programmes can be unsuccessful to mirror this. An organization-wide mentoring process needs to balance the needs for consistency with elasticity, needs to foster responsibility, and needs to be refined in the light of practical actualities. Above all it needs people who are committed to stick with the process in order to guarantee its success. Study has proved that mentoring is important in new entry graduates and certain characteristics need to be in place in order for a mentoring relationship to be successful and effective. Further research should be conducted on the effect that construction job’s duration have on mentoring relationships.

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TAX ON ASSETS AS A FACTOR OF INCREASING ECONOMIC ACTIVITIES

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Abstract

In this paper authors are presenting idea of an Asset Tax as a new category of state fiscal income as well as instrument for better allocation of wealth and increase of economic activity. Authors explain concept of Asset tax from social, ethical and economic aspect. In current legislative there are Laws that treat taxation of property, profit and investments. In particular, in this paper the authors discuss the tax on fixed assets and its scope, and taxes on working capital and its scope and effect of the introduction of such a tax on the acceleration of economic activity and economic development. However, the authors argue that taxation of all the assets, especially those unused, should be considered with the aim of the reinforcement of economic activity.

Key words: Asset tax, taxation, economic activity, wealth distribution.

1. Introduction

In this paper authors discuss an uncommon tax in today’s tax systems for which might contribute to more balanced wealth distribution and state income. This tax authors name as Asset Tax. Asset tax is a percentage of total value of assets of a business from the balance sheet and it would be similar to the property tax, but it would cover not just a land and buildings but also equipment and other assets.

All taxes, except property tax, are calculated according to the income statements. The authors advocate for the tax that is calculated on the items from the balance sheet.
2. A Methodological Framework

The focus of this paper is taxation of property for businesses and entrepreneurs in a new way that would in addition to real-estate include equipment and capital as subjects to taxation.

Goal of this paper is to show justification of this tax and to explain this fiscal instrument from different aspects. To reach this goal, authors have taken the following tasks:

- Investigate social justification for the Asset tax
- Examine ethical grounds of the Asset tax
- Examine economic justification of the Asset tax
- Compare the current method of taxation with the proposed model.

The authors of the study started with the following basic hypothesis: Asset tax is the fiscal instrument that would improve the redistribution of resources in society and accelerate economic activities.

In addition to these basic hypotheses, the authors raise the following hypotheses:

- There is a sociological justification for the adoption of the Asset Tax
- There are sound ethical grounds for the Asset Tax
- There is economic justification for the Asset Tax

The verification of the initial hypothesis authors performed using scientific and research methods. They used the method of analysis of existing literature on the subject, then method of analogy and the method of synthesis in drawing conclusions.

They start the research by analysing current legislative that regulates the field of taxation as well as the comments of current tax laws and studies about their efficiency.

3. Current Regulations in Relation to The Proposed Model

The issue of taxation of property of individuals and businesses in Serbia is regulated by the Law on:

1. Property Tax (Zakon o porezu na imovinu ("Sl. glasnik RS", br. 26/01, "Sl. list SRJ", br. 42/02 - odluka SUS i "Sl. glasnik RS", br. 80/02, 80/02 - dr. zakon, 135/04, 61/07, 5/09, 101/10, 24/11, 78/11, 57/12 - odluka US i 47/13)
2. Law on Personal Income Tax (Zakon o porezu na dohodak građana ("Službeni glasnik RS" br. 24/01, 80/02 - dr. zakon, 80/02, 135/04, 62/06, 65/06 - ispravka, 31/09, 44/09, 18/10, 50/11, 91/11 - US, 93/12, 114/12 - US, 47/13, 48/13 - ispravka, 108/13, 57/14 ),

This Law treats buildings and land, or real estates as basis for taxation, but not the equipment or cash in the current accounts or provision.

The property tax rate for taxpayers who are keeping the financial books is 0.40%.

In particular, as written in the law: (Službeni glasnik RS», br. 26/01, 45/02, US, Sl. List SPJ Br 42/02 US, Sl. Glasnik br. 80/02, Dr. Zakon 80/02, 135/04, 61/07, 5/09, 101/10, 24/11, 78/11, 57/12 – odluka US, 47/13, 68/14 Dr. Zakon)

The basis of property tax on real property, except agricultural and forest land, the taxpayer does not keep books in accordance with the regulations of the Republic of Serbia, the value of real estate at 31 December of the year preceding the year for which it is determined and paid property taxes, if the law stipulates otherwise.

The amount of the value of the property shall be determined by the local authority responsible for the establishment, collection and control of revenues of the local government units (hereinafter referred to as the local authority), except that it is, except for land, at the end of each calendar compared with the year in which it carried out the construction, and the last reconstruction of the building, reduced by depreciation at the rate of 1% proportional method, a maximum of 40%.

For immovable property of the taxpayer built or acquired during the year, which is determined and paid property taxes, tax base is the value of the corresponding real estate at 15 December of the year preceding the year for which the tax is assessed on asset, determined in accordance with this law.

Property tax rate amounts:

1) the rights to immovable property of the taxpayer who keeps books - to 0.4%
2) the right to land in the taxpayer who does not keep books - to 0.30%
3) the rights to real estate of a taxpayer who does not keep books, except on the land:

<table>
<thead>
<tr>
<th>Tax Base</th>
<th>Payable taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) up to 10 million RSD</td>
<td>Up to 0.40%</td>
</tr>
<tr>
<td>(2) from 10 to 25 million RSD</td>
<td>income from sub-paragraph (1) to + 0.6% on the amount exceeding 10 million RSD</td>
</tr>
<tr>
<td>(3) 25 to 50 million RSD</td>
<td>income from sub-paragraph (2) + 1.0% on the amount exceeding 25 million RSD</td>
</tr>
<tr>
<td>(4) over 50,000,000 RSD</td>
<td>income from sub-paragraph (3) + 2.0% on the amount exceeding 50 million RSD</td>
</tr>
</tbody>
</table>
In taxation practice in Serbia, but also in the practice of developed economies the following applies:

"One of the basic postulates when designing a successful tax system is the principle that every penny should be taxed once and only once. Multiple taxation of the same money is an indication of inefficient system, while the possibility that the money is not taxed on any stage suggests a potentially poorly designed tax system“. (Altiparmakov, 2010)

Savings are also treated by the current Laws and are subject to taxation only in the part of receiving interests or capital gains. (Arsić, M. et al., 2012)

However, the authors of this paper suggest another principle by which tax laws should be developed: That every penny that is not in use should be taxed, every year.

4. Sociological Justification of the Asset Tax

Jean Jacques Rousseau in his work Social Contract says that as a rule, an individual should have only that amount of land which is able to process. This is not actually the property of the individual but it is given to him to use and he needs to pay to the community for use of the resources. On this basis, the items one earned are also not his/her property but are the property of the community to which he/she has come through his/her activities and claim the right to use them during his/her life in that community.

Based on the positive legislation an individual becomes independent from 18 to 21 years depending on the state and carries out its economic activity until the retirement which in most countries is after 60 to 65 years of age. This means that average working life is around 40 years. In that period individuals works and earns his wealth. If we look this from the aspect of the social contract the society provided environment and conditions for the individual to work and earn his/her living. He/she gained this opportunity according to the social contract which is based on reciprocity of giving and taking, so he/she should return the just amount the society of what he gained. If the society gives the individual to earn his wealth in 40 years, that wealth is part of the social contract were society guarantees an individual condition in which he can earn his wealth and the individual should in return give back to the society an adequate amount. (Becirovic et al. 2010)

As an individual is collecting wealth in the period of 40 years (on average) it would be appropriate to annually give back to the society 1/40 of what he/she currently possesses so that in an average work life an individual can fulfil his obligation to the society entirely. The society on the other hand would use these resources to compensate to those individuals to whom society failed to provide these conditions to work and earn.

This tax should not be confused with other types of taxes since it is essentially different from the taxes that are currently paid which are related to revenues or profits. None of these taxes do not cover the assets of the businesses. The Asset tax is not a substitute to the existing taxes but a new category of taxation and redistribution of social wealth that has not been taxed before. (Becirovic et al. 2012)
According to the above said we can conclude that in this way there is no double taxation which is socially and ethically unjustifiable.

5. Ethical Basis for the Asset Tax

There are many issues regarding taxation related to ethics. Here we will only focus on helping or giving support to those in need by those that have taken that obligation.

If we look the statement that Asset tax should be paid by the businesses that earn using the resources and conditions provided by the society than we also need to emphasize that they earn their wealth by collecting their revenue from other members of the society. The value in the accounts of the businesses or in their assets comes from other members of the society that the businesses have provided with products or services. However, according to the social contract each member of the society has its role in the society which he/she needs to fulfil in order for society to function. The key question is: if we, as members of the society, have our roles and functions that society has given us, on what basis we collect our wealth by fulfilling these roles. If the businesses are earning wealth by fulfilling some function for other members of the society, then it should pay “rent” to the society for using the business environment and conditions. (Plojovic et al. 2011)

The next question is how much that “rent” for the use of the resources, business environment and conditions should be? When we discussed the social justification of the Asset Tax we defined the rate according to the average duration of working life of an individual. The similar situation is with the businesses, but it demands explanation.

The businesses are organizations founded by individuals, or other companies which are in the end founded by individuals with the same average working life of 40 years. Although many companies work for several centuries this cannot be used as an argument since during this period structure of the ownership of the company changed over that period were each generation could use the resources and conditions provided by the society during their working life that is 40 years in average.

The public companies also should not be an exception since their “owner” is the society were again the average working life is 40 years, and for each year of work they should pay the “rent” for use of the wealth that society has enabled them to use.

Earning wealth on expense of other members of the society breaks the social contract on which society is constituted on and it represents unequal distribution of work, obligation and rewords which needs to be corrected with this solution.

6. Economic Justification of the Asset Tax

One of the basic indicators for quality of business is engagement of resources. If we manage to decrease the resources needed for successful completion of certain work than they increase the quality of business processes.
Profit should not be the only reason for existence of businesses, but rather doing certain functions in the society. (Plojovic et al 2011)

One of those functions is more efficient use of resources like Just-in-time production. The society needs to motivate businesses to do their work in line with this principle. This would in the end lead that businesses would try not to leave any of their resources unused. Capital that is in use trend to multiply and capital that is static trend to lose its value. The society must have an objective to motivate businesses to work with less resources for fulfilling their social function. As one of the best tools to achieve this objective is Asset tax.

If we look at the society as a system than we can say that in this way those parts of the society that unjustifiably stack and do not use social resources. Everyone that stores and do not use resources prevents making of new added value from the use of those resources that might be created if the society gave those resources to someone else to use in an efficient business activity.

7. Conclusion

Asset tax, as we have defined it, is a new category of taxation. This taxation the society ensures more just distribution of wealth, on one hand, and increases effectiveness of the economic system on the other.

Authors did not cover techniques and models for collection of this tax, but focused on presenting the concept that can contribute to increase in economic activity to wither scientific community.

Authors emphasize that there is justification for the Asset tax as a new fiscal instrument with the objective for more just wealth distribution and increased cash flow. The initial hypothesis has been verified to be true.

References


8. Zakon o porezu na dohodak grada na ("Службени гласник RS", br. 24/01, 80/02 - dr. закон, 80/02, 135/04, 62/06, 65/06 - ispravka, 31/09, 44/09, 18/10, 50/11, 91/11 - US, 93/12, 114/12 - US, 47/13, 48/13 - ispravka, 108/13, 57/14)

BUSINESS CLIMATE AND COMPETITIVENESS OF SERBIA AMONG WESTERN BALKAN COUNTRIES

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Abstract

The paper will analyze the business environment and conditions for doing business in Serbia and other Western Balkan economies. It will be done both through the analysis of macroeconomic milieu and also through the analysis of barriers and other indicators of business environment of these economies. It will be shown that there are similarities in a number of observed indicators, but also the differences in most of them. The environment varies among observed Western Balkan countries. There are similarities in macroeconomic variables as well as well-marked differences in the level of barriers for doing business and indicators of business climate.

Keywords: Business, Business environment, Competitiveness, Serbia, Western Balkans.

1. Introduction

The paper analyses business climate and competitiveness of Serbia and other Western Balkan countries: Albania, Bosnia and Herzegovina, Macedonia and Montenegro. This group of countries is featured by shift from socialist centrally-planed to market economy and transition process which started in the 1990s. Observed European economies have undergone or are still undergoing the transition process. They experienced a longer transition process, with much more social difficulties and interruptions, with slower development and slower progress in transition reforms unlike more advanced European transition economies (such as Czech Republic, Poland, Hungary, Slovenia). Also, the process of EU integration has been of different nature and speed. While advanced CEE countries became an EU member, the observed WB countries are still in the EU accession process.

The subject of the paper is to analyze the business environment and the conditions for doing business in Serbia and other Western Balkan economies. It will be done both through the analysis of macroeconomic milieu, in the first part of the paper, and also through the analysis of barriers and other indicators of business environment and competitiveness of these economies, in the second part of the paper. The aim of the paper is to explain and understand the milieu and climate in which doing business in Western Balkans performs finding the features - similarities as well as differences in observed indicators of business environment.
2. Macroeconomic milieu of Western Balkan Countries

The important aspect of business climate of the country is macroeconomic milieu in which the doing business is performed. Macroeconomic milieu of Western Balkan (WB) countries has similarities in a number of observed indicators, but also the differences (Table 1). The observed WB countries are similar in the level of GDP growth and GDP per capita growth and in the level of GDP per capita. Except Macedonia, all have annual GDP growth rates and annual GDP per capita growth of less than 2% with Serbia standing out with negative rates of both indicators.

Table 1: Macroeconomic indicators of WB countries, 2014

<table>
<thead>
<tr>
<th>Country</th>
<th>Population, total</th>
<th>Land area (sq. km)</th>
<th>GDP (current US$ millions)</th>
<th>GDP growth (annual %)</th>
<th>GDP per capita (current US$)</th>
<th>GDP per capita growth (annual %)</th>
<th>Inflation, consumer prices (annual %)</th>
<th>Unemployment, total (% of total labor force)</th>
<th>Exports of goods and services (% of GDP)</th>
<th>Trade (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>2894475</td>
<td>27400</td>
<td>13370</td>
<td>1.9</td>
<td>4619.2</td>
<td>2.00</td>
<td>1.62</td>
<td>13.4</td>
<td>36.36</td>
<td>92.51</td>
</tr>
<tr>
<td>B&amp;H</td>
<td>3824746</td>
<td>51000</td>
<td>18344</td>
<td>1.24</td>
<td>4796.2</td>
<td>1.36</td>
<td>-0.93</td>
<td>28.1</td>
<td>31.96^b</td>
<td>85.02^b</td>
</tr>
<tr>
<td>Macedonia</td>
<td>2108434</td>
<td>25220</td>
<td>11323</td>
<td>3.76</td>
<td>5370.7</td>
<td>3.70</td>
<td>-0.28</td>
<td>31.0</td>
<td>47.86</td>
<td>112.95</td>
</tr>
<tr>
<td>Montenegro</td>
<td>621800</td>
<td>13450</td>
<td>4583</td>
<td>1.52</td>
<td>7370.8</td>
<td>1.43</td>
<td>-0.71</td>
<td>19.6</td>
<td>39.64</td>
<td>99.52</td>
</tr>
<tr>
<td>Serbia</td>
<td>7129428</td>
<td>87460</td>
<td>43866</td>
<td>-1.81</td>
<td>6152.9</td>
<td>-1.33</td>
<td>2.08</td>
<td>23.9</td>
<td>44.33</td>
<td>98.60</td>
</tr>
</tbody>
</table>


The level of GDP per capita is greater than 4500 USD, about five thousand USD, with Serbia’s higher level (6152 USD) and Montenegro’s outstanding level (regarding the smallest population among WB countries) (Figure 1). Inflation generally is not a problem, but Serbia’s rate stands out. The foremost problem for all Western Balkans is unemployment, particularly in Macedonia reaching 31%, but also in Bosnia and Herzegovina (28.1%), Serbia (24%) and Montenegro (20%).
Trade openness of Western Balkan countries measured as total trade to GDP is at the level of about 100% in 2014 for all Western Balkans, with Macedonia outstanding with the highest level of trade openness among these five countries (113%) and Bosnia and Herzegovina with the lowest level of trade openness (85%) among Western Balkans (Figure 2).

Exports to GDP ratio exceeds one-third in case of all Western Balkans since 2011 onwards (Figure 3), with the highest rate in Macedonia (48%) and the lowest ratio in Bosnia and Herzegovina (32%), what reflects small openness of these economies. The common feature of all Western Balkan
countries is also continuously greater values of their imports than exports and high and increasing trade
deficits (Table 2), what is one more their similarity.

**Figure 3: Exports of goods and services (% of GDP)**


**Table 2: Exports and imports of goods and services**

(million USD)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Albania</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>2464</td>
<td>3278</td>
<td>3061</td>
<td>3324</td>
<td>3776</td>
<td>3557</td>
<td>3844</td>
</tr>
<tr>
<td>Imports</td>
<td>5344</td>
<td>6730</td>
<td>6028</td>
<td>5781</td>
<td>6709</td>
<td>5854</td>
<td>6155</td>
</tr>
<tr>
<td><strong>Bosnia and Herzegovina</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>4287</td>
<td>5168</td>
<td>4430</td>
<td>5094</td>
<td>5980</td>
<td>5534</td>
<td>6103</td>
</tr>
<tr>
<td>Imports</td>
<td>8949</td>
<td>11398</td>
<td>8624</td>
<td>8794</td>
<td>10415</td>
<td>9604</td>
<td>9851</td>
</tr>
<tr>
<td><strong>Macedonia, FYR</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>3611</td>
<td>4257</td>
<td>2995</td>
<td>3606</td>
<td>4794</td>
<td>4325</td>
<td>4682</td>
</tr>
<tr>
<td>Imports</td>
<td>5200</td>
<td>6819</td>
<td>5132</td>
<td>5463</td>
<td>6934</td>
<td>6517</td>
<td>6669</td>
</tr>
<tr>
<td><strong>Montenegro</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>1581</td>
<td>1815</td>
<td>1436</td>
<td>1502</td>
<td>1929</td>
<td>1709</td>
<td>1842</td>
</tr>
<tr>
<td>Imports</td>
<td>3170</td>
<td>4248</td>
<td>2713</td>
<td>2579</td>
<td>2919</td>
<td>2722</td>
<td>2742</td>
</tr>
<tr>
<td><strong>Serbia</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>11871</td>
<td>14965</td>
<td>11849</td>
<td>13334</td>
<td>15965</td>
<td>14779</td>
<td>18560</td>
</tr>
<tr>
<td>Imports</td>
<td>21874</td>
<td>27751</td>
<td>18946</td>
<td>19403</td>
<td>23118</td>
<td>21860</td>
<td>23652</td>
</tr>
</tbody>
</table>

The important feature of the observed five Western Balkan countries, their macroeconomic milieu and business environment, is their progress in completion of their transition process\(^1\). This progress varies among WB countries\(^2\). The highest progress these countries have in price liberalization and trade and foreign exchange system. Their largest drop back is with governance and enterprise restructuring and competition policy (except Macedonia). Among five Western Balkan countries, the highest progress in large scale privatization has Albania, and the least progress has Serbia. In small scale privatization, the highest progress has Albania and Macedonia, while the least has Bosnia and Herzegovina. In governance and enterprise restructuring, the smallest improvements has Bosnia and Herzegovina followed by Montenegro and Serbia, while the smallest improvements in competition policy has Montenegro followed also by Albania, Bosnia and Herzegovina and Serbia. In price liberalization WB countries have reached the standard of market economies, while in trade and foreign exchange system the three of them have achieved the standard of market economy (Albania, Macedonia, Montenegro) and the other two (Bosnia and Herzegovina and Serbia) are getting closer. In competition policy all WB countries are away from the market economy.

Important aspect of business climate is investment climate and the possibility of the country to attract additional investments from abroad. Transition process, including ownership transformation and restructuring as well as macroeconomic changes, also affected macroeconomic milieu and business environment of the observed countries and determined their attractiveness for foreign investors. These are economies in which transition process, through ownership transformation and privatization process, was the main channel of FDI inflows. In these countries, the FDI growth was mostly tied to the privatization programs. Gradually with the intensity decrease and bringing privatization process to an end, the FDI tied to the privatization was being reduced. Also the 2008 world economic and financial crisis influenced on dynamics of FDI flows. In such a way shifts and changes in investment climate determined inflow dynamics of FDI and business environment of these countries.

Regarding the volume of FDI inflows in Western Balkan countries, it can be observed that the highest FDI level has Serbia (Figure 4). Serbia also has the most volatile FDI flows with the sharpest rises and falls of FDI among Western Balkan economies. The highest FDI level is accompanied by the largest market of Serbia among Western Balkan countries (GDP, land area and population – Table 1).

\(^1\) The degree of completion of the transition process is shown through transition indicators of European Bank for Reconstruction and Development (EBRD), which assesses progress in transition through a set of six transition indicators: large scale privatisation, small scale privatisation, governance and enterprising restructuring, price liberalisation, trade and foreign exchange system and competition policy. EBRD assesses progress in transition through this set of indicators which are used to track reform developments in observed countries since 1989. Progress is measured against the standards of industrialised market economies. The indicator values can range from 1 to 4+, where 1 represents little or no change from a rigid centrally-planed economy and 4+ represents the standards of an industrialised market economy.

However, FDI as a percentage of GDP in Serbia is much smaller than in Montenegro (although it is accompanied by the smallest population among Western Balkans) and Albania. In recent period Serbia has one of the smallest shares of FDI in GDP among Western Balkans (Figure 5).

![Figure 4: Foreign direct investment, net inflows (USD)](image1)

Note: data for Montenegro for 2000-2006 are not available.


![Figure 5: Foreign direct investment, net inflows (% of GDP)](image2)

Note: data for Montenegro for 2000-2006 are not available.

The highest level of FDI inward stock among Western Balkan economies has also Serbia (Figure 4). Serbia’s FDI inward stock is the highest among WB – it is four to six times higher than in other Western Balkans. The FDI inward stock of Western Balkans in 2013 goes from 5 billion USD in Montenegro and Macedonia, 6 billion USD in Albania, 8 billion USD in Bosnia and Herzegovina to 33 billion USD in Serbia being the largest. The greatest increase of FDI stock since 2000, among the Western Balkans, has been in Serbia, 32 times. The next country is Albania with the FDI stock increase of almost 25 times. The FDI stock increase in Macedonia is 10 times and in B&H 7 times. However, it has to be taken into consideration that all of the countries had very low starting SDI stock base in 2000.

Table 3: FDI inward stock in Western Balkan countries (million USD)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serbia</td>
<td>1 017</td>
<td>25 451</td>
<td>33 095</td>
</tr>
<tr>
<td>Albania</td>
<td>247</td>
<td>4 885</td>
<td>6 104</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>1 083</td>
<td>7 771</td>
<td>8 070</td>
</tr>
<tr>
<td>Montenegro</td>
<td>-</td>
<td>4 882</td>
<td>5 384</td>
</tr>
<tr>
<td>Macedonia</td>
<td>540</td>
<td>4 959</td>
<td>5 534</td>
</tr>
</tbody>
</table>


Serbia’s FDI inward stock per capita is the second highest in the region (3480 USD in 2013). It is more than a double smaller than in Montenegro (8665 USD in 2013), and higher than in the rest of the West Balkans (Table 4). However, although with a very high values of FDI indicators among WB countries, Serbia had a large almost continuous drop of FDI inflows from 2006 showing dramatic fall of its investment attractiveness unlike other WB countries.
Table 4: FDI inward stock per capita (USD)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>75</td>
<td>909</td>
<td>1 034</td>
<td>1033</td>
<td>1 395</td>
<td>1 462</td>
<td>1 923</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>282</td>
<td>1581</td>
<td>1 800</td>
<td>1729</td>
<td>1 833</td>
<td>1 929</td>
<td>2 107</td>
</tr>
<tr>
<td>Montenegro</td>
<td>_</td>
<td>0</td>
<td>0</td>
<td>6824</td>
<td>6 782</td>
<td>7 578</td>
<td>8 665</td>
</tr>
<tr>
<td>Serbia</td>
<td>_</td>
<td>2165</td>
<td>2386</td>
<td>2583</td>
<td>2 885</td>
<td>3 072</td>
<td>3 480</td>
</tr>
<tr>
<td>TFYR of Macedonia</td>
<td>263</td>
<td>1969</td>
<td>2 154</td>
<td>2112</td>
<td>2 272</td>
<td>2 348</td>
<td>2 626</td>
</tr>
</tbody>
</table>


Previous analysis indicates us that macroeconomic milieu of WB countries is very similar regarding a number of indicators, such as small, declining or negative GDP indicators (the level of GDP growth, GDP per capita growth and GDP per capita), high unemployment, small trade openness and high and increasing trade deficit and some transition indicators. There are also differences in many other indicators, such as the other transition and FDI indicators.

3. Doing business conditions and competitiveness of Western Balkan countries

Doing business conditions and quality of business environment may be analyzed through World Bank’s ease of doing business indicator\(^3\) which comprises the quality of business environment through ten indicators (starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency). According to doing business conditions (Table 5), Macedonia is the best ranked country among Western Balkan countries (30\(^{th}\) in 2015), followed by Montenegro (36\(^{th}\)). Montenegro improved its ranking position in regard to 2014, from 44\(^{th}\) to 36\(^{th}\), while Macedonia dropped from 25\(^{th}\) to 30\(^{th}\). On the third position among the observed WB countries is Albania (68\(^{th}\) place in 2015), while the worst ranked among these countries is Bosnia and Herzegovina (107\(^{th}\) place). Serbia is the second worst ranked among WB (91\(^{st}\) on the list of 189 countries in 2015). Dropping four places since the 2011 ranking (from 89\(^{th}\) to 93\(^{rd}\)) when Serbia also dropped one place since the previous year, has reflected the worsening of doing business conditions in Serbia, mostly due to the lack of

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\(^3\) For this purpose it is used World Bank’s survey \textit{Doing Business} that analyses the ease of doing business in 189 countries around the world, focusing on the quality of business environment through ten indicators.
institutional reforms. However, in the 2015 Serbia has improved its ranking for two places, from 93rd to 91st, reflecting the improvement of business environment in this aspect.

Table 5: Doing Business Rank, 2014 and 2015

<table>
<thead>
<tr>
<th></th>
<th>ALBANIA</th>
<th>BOSNIA AND HERZEGOVINA</th>
<th>FYR MACEDONIA</th>
<th>MONTENEGRO</th>
<th>SERBIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ease of doing business (total rank)</td>
<td>90</td>
<td>68</td>
<td>131</td>
<td>107</td>
<td>25</td>
</tr>
<tr>
<td>Starting a business</td>
<td>76</td>
<td>41</td>
<td>174</td>
<td>147</td>
<td>7</td>
</tr>
<tr>
<td>Dealing with construction permits</td>
<td>189</td>
<td>157</td>
<td>175</td>
<td>182</td>
<td>63</td>
</tr>
<tr>
<td>Getting electricity</td>
<td>158</td>
<td>152</td>
<td>164</td>
<td>163</td>
<td>76</td>
</tr>
<tr>
<td>Registering property</td>
<td>119</td>
<td>118</td>
<td>96</td>
<td>88</td>
<td>84</td>
</tr>
<tr>
<td>Getting credit</td>
<td>13</td>
<td>36</td>
<td>73</td>
<td>36</td>
<td>3</td>
</tr>
<tr>
<td>Protecting minority investors</td>
<td>14</td>
<td>7</td>
<td>115</td>
<td>83</td>
<td>16</td>
</tr>
<tr>
<td>Paying taxes</td>
<td>146</td>
<td>131</td>
<td>135</td>
<td>151</td>
<td>26</td>
</tr>
<tr>
<td>Trading across borders</td>
<td>85</td>
<td>95</td>
<td>107</td>
<td>104</td>
<td>89</td>
</tr>
<tr>
<td>Enforcing contracts</td>
<td>124</td>
<td>102</td>
<td>115</td>
<td>95</td>
<td>95</td>
</tr>
<tr>
<td>Resolving insolvency</td>
<td>62</td>
<td>44</td>
<td>77</td>
<td>34</td>
<td>52</td>
</tr>
</tbody>
</table>


Regarding individual dimensions, dealing with construction permits appears as one of the most onerous items in the region as a whole. It is followed by the getting electricity, paying taxes and enforcing contracts as also one of the most severe obstacles to business operations in the region. In Serbia, as the most burdensome dimension, appears dealing with construction permits, paying taxes, trading across borders and enforcing contracts. Although among the most burdensome dimensions, the trading across borders and enforcing contracts have been improved from 2014 (from 98th to 96th and from 116th to 96th rank, respectively), while the dimensions of dealing with construction permits and paying taxes have been further deteriorated (from 182nd to 186th and from 161st to 165th rank, respectively). The highest improvements have been achieved in protecting minority investors (from 80th to 32nd rank) and resolving insolvency (from 103rd to 48th rank), while further significant deteriorations have happened in dimensions of starting a business, registering property and getting credit. Therefore, difficulties especially in dealing with construction permits and fiscal policy and tax administration and also further deteriorations in starting a business, registering property and getting
credit appear as the cause of preventing greater improvements of Serbia’s ranking position and doing business conditions.

Doing business conditions are also touched by a wide range of interactions between firms and the state. Business conditions regarding regulations and obstacles in business operations lights one aspect of business environment. For Western Balkan countries different interactions and barriers for doing business may be identified, especially from the point of view of the firm. In Albania, the biggest business environment obstacle perceived by firms is practices informal sector followed by electricity, access to finance and tax administration. In Bosnia and Herzegovina, the biggest obstacle perceived by firms is political instability followed by access to finance, tax rates and corruption. In Macedonia, it is practices informal sector followed by access to finance, political instability and tax rates. In Montenegro, it is tax rates followed by practices informal sector, access to finance and customs and trade regulations. While in Serbia, the biggest obstacle perceived by firms is political instability followed by tax rates, practices informal sector and customs and trade regulations.

Table 6: The most severe problems for doing business in WB

<table>
<thead>
<tr>
<th>Country</th>
<th>The most severe problems for doing business</th>
<th>Ranking of problems 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Albania</strong></td>
<td>practices informal sector</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>electricity</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>access to finance</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>tax administration</td>
<td>4</td>
</tr>
<tr>
<td><strong>Bosnia and Herzegovina</strong></td>
<td>political instability</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>access to finance</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>tax rates</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>corruption</td>
<td>4</td>
</tr>
<tr>
<td><strong>Macedonia, FYR</strong></td>
<td>practices informal sector</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>access to finance</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>political instability</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>tax rates</td>
<td>4</td>
</tr>
<tr>
<td><strong>Montenegro</strong></td>
<td>tax rates</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>practices informal sector</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>access to finance</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>customs and trade regulations</td>
<td>4</td>
</tr>
<tr>
<td><strong>Serbia</strong></td>
<td>political instability</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>tax rates</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>practices informal sector</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>customs and trade regulations</td>
<td>4</td>
</tr>
</tbody>
</table>
Another aspect is the consideration of barriers from the perspective of firms of different sizes (Table 7). In Albania, the top three constrains for large firms are electricity, tax rates and corruption; for medium firms that are practices informal sector, access to finance and corruption; and for small firms that are practices informal sector, tax administration and electricity. In Bosnia and Herzegovina, the top constrains for large firms are political instability, access to finance and electricity; for medium firms that are political instability, labor regulations and access to finance; and for small firms that are political instability, access to finance and tax rates. In Macedonia, the top constrains seen by large firms are practices informal sector, electricity and customs and trade regulations; for medium firms that are practices informal sector, inadequately educated workforce and political instability; and for small firms that are practices informal sector, access to finance and tax rates. In Montenegro, the top constrains seen by the large firms are: customs and trade regulations, tax rates and tax administration; for medium firms that are labor regulations, political instability and crime and theft disorder; and for small firms that are tax rates, practices informal sector and access to finance. In Serbia, the top constrains identified by the large firms are: customs and trade regulations, political instability and tax administration; and for medium as well as for small firms that are political instability, tax rates and practices informal sector (Table 7).

Table 7: The top constrains for doing business in WB broken down by the size of firms

<table>
<thead>
<tr>
<th>Country</th>
<th>Large firms</th>
<th>Medium firms</th>
<th>Small firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>electricity</td>
<td>practices informal sector</td>
<td>practices informal sector</td>
</tr>
<tr>
<td></td>
<td>tax rates</td>
<td>access to finance</td>
<td>tax administration</td>
</tr>
<tr>
<td></td>
<td>corruption</td>
<td>corruption</td>
<td>electricity</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>political instability</td>
<td>political instability</td>
<td>political instability</td>
</tr>
<tr>
<td></td>
<td>access to finance</td>
<td>labor regulations</td>
<td>access to finance</td>
</tr>
<tr>
<td></td>
<td>electricity</td>
<td>access to finance</td>
<td>tax rates</td>
</tr>
<tr>
<td>Macedonia, FYR</td>
<td>practices informal sector</td>
<td>practices informal sector</td>
<td>practices informal sector</td>
</tr>
<tr>
<td></td>
<td>electricity</td>
<td>inadequately educated workforce</td>
<td>access to finance</td>
</tr>
<tr>
<td></td>
<td>customs and trade regulations</td>
<td>political instability</td>
<td>tax rates</td>
</tr>
<tr>
<td>Montenegro</td>
<td>customs and trade regulations</td>
<td>labor regulations</td>
<td>tax rates</td>
</tr>
</tbody>
</table>
It can be observed that the most severe problems for doing business in the WB countries are political instability, practices informal sector and tax rates. Access to finance also rates very highly as a problem for doing business what is in line with the experiences of the 2008 world financial crisis. Political instability is rated as the top problem for doing business by firms in Bosnia and Herzegovina and Serbia, practices informal sector is rated as the top problem in Albania and Macedonia, and tax rates is rated as the top problem in Montenegro. Among other above-average problems for doing business in WB countries are recognized constraints in tax administration, customs and trade and labor regulations, inadequately educated workforce and corruption. Therefore, each country government should focus on it’s the most severe problems for doing business if it wants to improve the business environment.

As an important restrictive element of the country’s business environment and barrier for doing business in Western Balkans appears the level of corruption. The level of corruption varies among WB countries, showing, however, the high level of corruption in all of them. According to the Corruption Perceptions Index (CPI)\(^4\) in 2014 (Table 8), the index score varies from the lowest, 33 in Albania (meaning the highest level of corruption in the region), to the highest, 45 in Macedonia (meaning the lowest level of corruption in the region). In the middle are Montenegro, Serbia and Bosnia and Herzegovina, with the CPI score of 42, 41 and 39, respectively. There are only slight improvements in the reducing the level of corruption from the previous year in case of Macedonia and Albania, and the exacerbation of corruption level in case of other three WB countries: Bosnia and Herzegovina, Montenegro and Serbia. This has resulted in deterioration in rank of Bosnia and Herzegovina, Montenegro and Serbia, and in improving the rank of Macedonia (for three places ahead) and Albania (for six places ahead) from the previous year. The index score for Serbia of 41 in 2014 places it on 78\(^{th}\) place among 175 observed countries and shows corruption growth (index score was 42 in 2013) resulting in the rank deterioration (from 72\(^{nd}\) place in 2013 to 78\(^{th}\) place in 2014). Small improvements

\(^4\) The Transparency International’s Corruption Perceptions Index (CPI) measures the perceived levels of public sector corruption in countries worldwide. The CPI for 2014 covered 175 countries.
in reducing the corruption, in case of only two countries, suggests that corruption remains high in WB region and represents a big problem in these economies asking for to be urgently reduced.

### Table 8: Corruption Perceptions Index for WB countries, 2013 and 2014

<table>
<thead>
<tr>
<th>Country</th>
<th>CPI 2013</th>
<th>CPI 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rank</td>
<td>Score</td>
</tr>
<tr>
<td>Albania</td>
<td>116</td>
<td>31</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>72</td>
<td>42</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>67</td>
<td>44</td>
</tr>
<tr>
<td>Montenegro</td>
<td>67</td>
<td>44</td>
</tr>
<tr>
<td>Serbia</td>
<td>72</td>
<td>42</td>
</tr>
</tbody>
</table>

Note: the score goes from 0 (highly corrupt) to 100 (very clean).


All aforementioned and many other factors and indicators build the country’s competitiveness. Competitiveness of national economies can be defined as the set of institutions, policies and factors that determine the level of productivity of a country which, in turn, sets the level of prosperity that can be reached by an economy. Competitiveness defined in such a way has been measured by World Economic Forum (WEF) through *Global Competitiveness Index* and the results are published in its publication *Global Competitiveness Report*. According to the one of the most comprehensive measure of national competitiveness, World Economic Forum’s *Global Competitiveness Index*, all Western Balkan countries are placed mostly in the second half of the list of almost all countries in the world (144

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5 Global Competitiveness Index includes a weighted average of many different components, each measuring a different aspect of competitiveness. These components are grouped into 12 pillars of competitiveness and each is encompassed in one of the three sub-indexes. The Basic requirements sub-index includes four pillars: (1) institutions, (2) infrastructure, (3) macroeconomic environment and (4) health and primary education. The Efficiency enhancer sub-index includes six pillars: (5) higher education and training, (6) goods market efficiency, (7) labor market efficiency, (8) financial market development, (9) technological readiness and (10) market size. And the Innovation and Sophistication factors sub-index includes two pillars: (11) business sophistication and (12) innovation. The significance of individual pillars for country’s competitiveness depends on its stage of development.
countries in *Global Competitiveness Report 2014-2015*). The best ranked country among the WB countries is Macedonia (63rd), with the same rankings in 2013-2014 and 2014-2015. The same rankings and unchanged position has also Montenegro, which is the second ranked among the WB countries (67th). These two countries have thus maintained their overall competitiveness in relation to the other observed countries in the world. The other three WB countries (Bosnia and Herzegovina, Albania and Serbia) are all worsened their rankings in 2014-2015 in relation to 2013-2014 for two places (B&H) or one place (Albania and Serbia). The worst ranking among WB countries has Albania. Serbia has the second worst overall score and rank among WB countries (94th) dropping one place from 2013-2014 (93rd). This negative trend indicates Serbia’s deterioration of competitiveness which in particular lagging behind in innovation factors (score for sub-index Innovation factors decreased, while the rank increased – Table 9) in comparison to other WB countries. The absence of progress indicates the need for necessary actions. Also the rank and score of sub-indexes (Table 9) indicate the areas in which national government actions should be directed.

According to the WEF’s methodology, all Western Balkan countries belong to the second development stage, where are primarily efficiency-driven economies (World Economic Forum (2015) p. 11). In this stage, competitiveness is increasingly driven by higher education and training, efficient goods and labor markets, developed financial markets, the level of technological readiness and a large market. Therefore, these are the factors which have to be subject of national attention and improvements.

### Table 9: Global Competitiveness Index 2014-2015

<table>
<thead>
<tr>
<th></th>
<th>Overall Index</th>
<th>Sub-indexes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macedonia</td>
<td>63</td>
<td>63</td>
</tr>
<tr>
<td>Montenegro</td>
<td>67</td>
<td>67</td>
</tr>
<tr>
<td>B&amp;H</td>
<td>85a</td>
<td>87b</td>
</tr>
<tr>
<td>Albania</td>
<td>96</td>
<td>97</td>
</tr>
<tr>
<td>Serbia</td>
<td>93</td>
<td>94</td>
</tr>
</tbody>
</table>

6 World Economic Forum’s publication *Global Competitiveness Report* contains the results of annual survey conducted in more than 140 countries through *Global Competitiveness Index*.

7 according to the World Economic Forum’s methodology, three are three stages of development: factor-driven stage, efficiency-driven stage and innovation-driven stage. For countries in different stages of development the importance of individual pillars of competitiveness is different.
Note: the lower the rank numbers the better.

Note: a – data for Global Competitiveness Index 2012-2013; b – data for Global Competitiveness Index 2013-2014; c - Bosnia and Herzegovina is not included in the Global Competitiveness Index 2014-2015 because of data availability issues, and therefore the data for this country are given according to the Global Competitiveness Index 2013-2014.


4. Conclusion

The paper has shown that the business climate and competitiveness of the Serbia and other observed Western Balkan countries (Albania, Bosnia and Herzegovina, Macedonia and Montenegro) are unequal. There are similarities in a number of observed indicators, but also the differences in most of them. The environment varies among observed Western Balkan countries. There are similarities in macroeconomic variables as well as well-marked differences in the level of barriers for doing business and indicators of business climate.

Regarding macroeconomic indicators, it is observed similarities among these countries in GDP indicators. The foremost problem for all five Western Balkan countries is unemployment, while trade openness varies among them, but it is at a low level. According to the scores for progress in transition process, it is observed that these countries have achieved different levels of transition progress. The highest progress these countries have recorded in price liberalization and trade and foreign exchange system, while the largest drop back is with governance and enterprise restructuring and competition policy. As regards individual indicators of transition, there are significant differences among WB countries. Serbia has the least progress in large scale privatization, and it is among WB countries with the smallest improvements in governance and enterprise restructuring. Macroeconomic milieu of the Western Balkan transition countries determined their attractiveness to foreign investors. Among the WB countries, Serbia stands out in concern to the highest volume of FDI inflow, but also in concern to its changeability. Although with the highest FDI volume, Serbia’s share of FDI in GDP is one of the smallest among Western Balkan countries. Serbia has the highest level of FDI inward stock among Western Balkan economies and the second highest FDI inward stock per capita. However, although with a very high values of FDI indicators among WB countries, Serbia had a large almost continuous drop of FDI inflows from 2006 showing dramatic fall of its investment attractiveness unlike other WB countries.

Regarding indicators of doing business conditions and quality of business environment it is observed many differences among Western Balkan countries. According to ease of doing business, Macedonia is the best ranked country among Western Balkan countries, while the worst ranked is Bosnia and Herzegovina. Serbia is the second worst ranked among Western Balkans. As one of the most onerous items in the region as a whole appear dealing with construction permits. It is followed by the getting electricity, paying taxes and enforcing contracts as also one of the most severe obstacles to
business operations in the region. In Serbia, as the most burdensome dimension, appears dealing with construction permits, paying taxes, trading across borders and enforcing contracts, where the dimensions of dealing with construction permits and paying taxes have been further deteriorated. The highest improvements have been achieved in protecting minority investors and resolving insolvency, while further significant deteriorations have happened in dimensions of starting a business, registering property and getting credit. Therefore, difficulties especially in dealing with construction permits and fiscal policy and tax administration and also further deteriorations in starting a business, registering property and getting credit appear as the cause of preventing greater improvements of Serbia’s ranking position and doing business conditions.

Business environment is also touched by the regulations and obstacles in business operations and by interactions between firms and the state. For Western Balkan countries different interactions and barriers for doing business has been identified, especially from the point of view of the firm. It has been observed that the most severe problems for doing business in the WB countries are political instability, practices informal sector and tax rates. Access to finance has also been rated very highly as a problem for doing business. Political instability is rated as the top problem for doing business by firms in Bosnia and Herzegovina and Serbia, practices informal sector is rated as the top problem in Albania and Macedonia, and tax rates is rated as the top problem in Montenegro. Among other above-average problems for doing business in WB countries are recognized constraints in tax administration, customs and trade and labor regulations, inadequately educated workforce and corruption. The level of corruption varies among WB countries, showing, however, the high level of corruption in all of them. The highest level of corruption in the region has Albania, and the lowest level has Macedonia, while Montenegro, Serbia and Bosnia and Herzegovina are among. The slight improvements in the reducing the level of corruption have achieved Macedonia and Albania, while the exacerbation of corruption level have happened in Bosnia and Herzegovina, Montenegro and Serbia. Corruption remains high in WB region and represents a big problem in these economies asking for to be urgently reduced.

Regarding competitiveness, it could be noticed that all Western Balkan countries belong to less competitive countries. The most competitive country among Western Balkans is Macedonia followed by Montenegro. These two countries have also maintained their overall competitiveness in relation to the other observed countries in the world. The other three WB countries (Bosnia and Herzegovina, Albania and Serbia) are all worsened their competitiveness in 2014-2015 in relation to 2013-2014. Serbia has the second worst rank and competitiveness among WB countries dropping one place from previous period. This negative trend indicates Serbia’s deterioration of competitiveness which in particular lagging behind in innovation factors in comparison to other WB countries. It has also been noticed that all WB countries are in the efficiency-driven stage of development, where competitiveness is increasingly driven by higher education and training, efficient goods and labor markets, developed financial markets, the level of technological readiness and a large market.

Therefore, it can be generally concluded that there are improvements in business climate and competitiveness of Western Balkan countries, but also there are still impediments to business operations. Western Balkan countries have achieved different levels of business environment quality and competitiveness. Therefore, each country government should focus on it’s the most severe
problems for doing business if it wants to improve the business environment. Small progress regarding observed indicators or the absence of progress indicates the need for necessary actions. Also the observed indicators indicate the areas in which national government actions should be directed.

References

THE USE OF SUBLIMINAL MESSAGES IN MARKETING:
EXPERIMENTAL EXAMINATION

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Abstract
The experiment should answer the question of whether respondents are changing their preferences under the influence of subliminally exposed images and imperative messages. We also examined whether picture or imperative message has a stronger influence on the subject's decision. The experiment involved 210 females, who were divided into four experimental and two control groups. The film with subliminal images and messages that were contrary to what subjects preferred was presented to experimental groups, and control groups watched the same film without any messages. The results show that subliminal exposure of the material has impact on changing preferences and it turned out that the image has a stronger effect then the imperative message.

Key words: Marketing Message, Preferences, Decision Making, Subliminal Perception.

1. Introduction

Study of perception was at first a product of scientific curiosity in order to find out more about the man and reality. However, between the two world wars, questions were raised in regard to whether results of those studies could be practically applied and encased. Knowledge about perception began to be applicable in psychology, medicine, professional selection, military recruitment as well as in one field which has just started - marketing.

Concept of marketing most often involves communication and exchange between the one who sells and another one who buys. Within that communication process, there is need to attract customer’s attention, then inform him/her about a product and finally to persuade him/her to buy the product. In the beginning, marketers had modest media arsenal at their disposal, such as newspapers, leaflets and radio, but with emergence of film the situation changed drastically.

Marketers asked psychologists to determine what colors should be used in advertisements in order to attract attention of customer, how long advertisement time should last, what should be emphasized,
how often an advertisement should be broadcasted in order to be effective, which personality traits should be targeted, how to formulate a slogan that would be catchy and easy to remember, and so on.

During some thirty years’ period, a number of variants were tried, some of the most important principles were discovered, but the marketers were not satisfied since the best advertisements were not able to sell certain products in quantities that would satisfy the producers. Politicians and military strategists sought more reliable methods by which one could spread propaganda and undermine the enemy morale. There were various attempts, researchers varied the conditions, made adequate samples, used complicated appliances, huge funds were spent, but the progress was slow. Many renowned names could be found in the field of marketing, only to mention the name of founder of behaviorism John Watson, but the results were still not impressive enough for marketers (Watson, 1922; Buckley, 1982; Petty, Cacioppo, & Schumann, 1983).

With that objective, people started thinking about possibility of using subliminal stimuli for advertising purposes. Those proposals were at first pronounced in “half-voice”, but later they received support of certain scientists so that the first studies were initiated. Subliminal perception of stimulus is the subject matter of this paper, so that we will start from definition of the term.

The name subliminal perception contains in itself one contradiction. Namely, in Latin “subliminal” means below the threshold, and when it is below the threshold it means that it cannot be perceived, since simultaneous perception of something implies that the stimulus was intense enough, that is, above the threshold and that it lasted long enough, as well as that our attention was focused on it due to which it was perceived.

When the marketing researchers began to research subliminal perception, they continued previous researches that had been carried out in studying of perception, which results were already somewhat forgotten and pushed aside. However, an upswing in rehabilitation of those ideas was given by psychoanalysis which became stronger and famous worldwide between the two world wars. The authors argued that, if it was possible that larger part of man's psychic activity belonged to the unconscious and that one perceived, thought, decided and directed personal behavior unconsciously (Freud, 1913; Freud, 1915; Freud, 1923), why it would not be possible to affect man by stimuli that are below threshold of the man’s senses and consciousness. Researchers expected to find some sort of connection between psychoanalytic concept of the unconscious and subliminal stimuli.

Here we can refer to the idea of subjective and objective thresholds. Objective threshold is measured by using forced choice, where respondent has to choose from available alternatives; an images or a word (e.g. chair) is exposed to respondents after which they are given several alternative images or words including the one that had already been exposed and respondents have to state which one was exposed to them. The objective threshold occurs when respondents are able only on the basis of random guessing to say what they saw; stimulus exposure time needed for participants to recognize it at the level of random guessing using the forced choice method is used later so that the stimulus would be subliminally exposed (Cheesman & Merikle, 1984). Subjective threshold is determined by the time of exposure for which the respondent is unable to say that he/she consciously perceived the exposed stimulus, in doing so choice among alternatives is not imposed on him/her, and he/she should only state if he/she perceived anything or what it was. One should take into consideration that subjective threshold
is higher (i.e. slower) compared to the objective one for an average of 40 ms (Merikle, Smilek, & Eastwood, 2001, Cheesman & Merikle, 1984).

McConnell et al (1958) point out that with some certainty it can be stated that the closer the stimulus to threshold of consciousness, the stronger its effects will probably be; it seems, however, that the main difficulty is to determine the threshold, since it varies from subject to subject, and from day to day, what is below the threshold for one person does not have to be so for another.

The effect of subliminally exposed material could be accepted as real only under the following conditions: it is necessary to assume that one can provide presentation of stimulus below the threshold of subjective or objective, then, it is necessary that respondent behaves in accordance with subliminally exposed message, that is, that his/her behavior in the presence of subliminally exposed message differs from behavior in the absence of subliminally exposed message in otherwise same conditions, as well as that difference in behavior can be considered as consequence of the effect of subliminally exposed message that respondent is not aware of. Accordingly, one can expect discordance (dissociation) between the respondent’s awareness of the stimulus and his/her behavior under influence of the stimulus; in other words, the respondent is not aware of subliminal stimulus but the stimulus does have an impact on his/her behavior, which is why this paradigm is also called dissociation (Snodgrass, Bernat & Shevrin, 2004; Merikle, Smilek, & Eastwood, 2001).

The first studies of subliminal perception emerged in the beginning of the 20th century and they relied on statements that Scripture presented in his book “The New Psychology” which was published in 1897, where he described basic principles of the stimulus effects that the respondent was not aware of (Scripture, 1897).

Dunlap (Dunlap, 1900) carried out an experiment in which he threw an “invisible shadow” in the eyes of the viewers who were watching the Muller-Lyer illusion, which consists of two lines of the same length on which ends are oppositely directed arrows that create illusion of different lengths of the lines. Dunlap argued that throwing of the shadow influenced his respondents’ judgment regarding length of the lines. Although those results were not confirmed by other scientific studies, Hollingworth (Hollingworth, 1913) wrote in his handbook that such subliminal material could be used in advertising. Further research in that field was accelerated by emergence of tachistoscope during World War II, which made possible to expose pictures for very short time period.

Whoever has heard of subliminal advertising, also heard of the James Vicary experiment (Merikle, 2000), which could be considered the first checking of the effect of subliminally exposed material for advertising purposes. In 1957 he claimed that he designed a special machine which could present messages within very short time period while the audience, without knowing anything, was watching a film. The term subliminal advertising was coined by Vicary, who also founded the Subliminal Projection Company relying on results of his study that lasted six weeks.

In the study he used his machine during the film “Picnic” screening for presenting the audience messages “Drink Coca-Cola” and “Hungry? Eat popcorn”. Time of presenting the messages was extremely short, only 1/3000 of a second, while the messages were repeated every five seconds. After processing the results, Vicary noted that sales of Coca-Cola increased by 18.1% while sales of popcorn increased by 57.5% (Merikle, 2000; Karremans, Stroebe, & Claus, 2006).
Vicary presented the above results and they were promoted in Vance Packard’s book “The Hidden Persuaders” (1957), which had huge reverberation in public. The press devoted considerable attention to the Vicary’s discovery. Vicary became famous and rich. Corporations competed in order to obtain his services. Cinemas, television and radio broadcasters started using that technique. But while mass hysteria with his technique spread rapidly, it was found that the Vicary had faked the entire experiment and results in order to raise rating of his marketing company. Although Vicary himself admitted what he had done, even today there is a tendency to quote and publish his fraudulent results. Link performed the study based on the Vicary’s idea but he did not get any increase in sales of Coca-Cola (Eskenazi, Greenwald, Pratkanis, 1990).

Vicary inspired numerous studies which gave various results. Such studies led to use of subliminal messages in order to introduce potential buyers with new products so that the buyers would prefer them later.

Although according to the authors many things can be perceived within the subliminally exposed material, only few words or one frame may be unconsciously internalized with potential effect on behavior. Taking that into consideration, the message has to be simplified as much as possible in order to expect some change in behavior. This is illustrated by the following experiment which was conducted by Byrne (1959). In that experiment, the word “beef” was projected with 5 milliseconds exposure to respondents several times during the film which lasted sixteen minutes. The interesting thing is that it was one of rare experiments designed to study subliminal perceptions which had a control group, to which the same film was shown, of course without projecting the subliminal material. The results showed that respondents in the experimental group did not statistically significantly declare their preference for beef sandwiches that were offered to them from the list of five types of food in the final phase of experiment, compared to those in the control group. However, it turned out that respondents in the experimental group (according to questionnaire given to them in order to assess the level of degree of hunger they felt) were hungrier than respondents in the control group.

The study carried out by Karremans et al. (2006) is in fact Vicary’s study changed in some details. In that experiment, the respondent was subliminally exposed to the advertisement for branded beverage (Limpton ice) and then was measured the effect it had on choice of brand and feeling of thirst in the respondent. The authors concluded that subliminal advertising of some brand influenced choosing of the brand and intention to drink the brand, but only if the people to whom it was advertised were thirsty. Similar results, although in another context, were obtained by Strahan et al. (2002) and Bermeitinger et al. (2009). The latter concluded that respondents were influenced by subliminally exposed material only if it was related to currently existing need and if the respondents were in appropriate motivational state.

Cooper & Cooper (2002) presented the subliminal messages related to thirst in TV program. Their results show that respondents exposed to such program expressed bigger thirst after presentation, compared to assessments before presentation of subliminal messages and compared to the control group which watched the same TV program only without the subliminal messages.

Bermeitinger et al. (2009) repeated the above findings but in another domain, their study shows that it is possible by using subliminal messages to motivate people to choose the
particular brand of energetic pills, but only in case they need them, that is, if they are tired and motivated to concentrate.

Despite the studies we have presented, big number of papers shows that subliminal advertising is not so effective. Champion and Turner (1959) studied two groups of students who were watching film that lasted 30 minutes. During the film, every 10 seconds one group was projected a picture of bowl with rice, with inscription “Wander rice”, where the picture exposure was 1 millisecond. Another group was projected the text without any sense with the same exposure time. After the film screening, the respondents were shown picture from the experiment and they were asked whether they had seen it previously. In both groups there were respondents who said that the picture was familiar to them, but the difference was not statistically significant, and there were even more respondents in the control group who claimed that the picture was familiar to them, although the picture had not been projected to them. When the respondents were asked which, in their opinion, more appropriate title for the picture would be, the “Monarch rice” or the “Wander rice”, more respondents chose the first option, which had not been projected in the experiment.

Trappey (1996), after meta-analysis of 23 papers that examined efficiency of subliminal advertising, concluded that subliminal messages did not have stronger influence on behavior, while the same conclusion was also reached by Saegert (1987).

Moore (1988) considers that the biggest problem is that studies that examined effects of subliminal perception had not paid sufficient attention to the fact that stimuli should realistically be below the threshold, some stimuli were far below the objective threshold of consciousness so that they were essentially nonexistent for the respondent and without any influence on the behavior.

People’s consciousness about subliminal advertising was studied by Zanot et al. (1983) and they showed that 81% of respondents knew what subliminal advertising was, while in Rogers & Smith (1993) study on subliminal advertising 74% of respondents knew about subliminal advertising, and 61.5% of respondents believed that advertisers put subliminal messages in their advertising. People usually consider that kind of advertising to be manipulative and unacceptable, which led to legal prohibition of use of subliminal advertising in the USA, the United Kingdom and Australia (Karremans et al., 2006).

Finally, we could summarize the above data presented in the following way:

- Subliminal perception is an unclear phenomenon, both in the way it is interpreted and by its very nature.
- Due to various reasons, regardless the fact they are underlain by scientific curiosity or greed, that phenomenon has been subject of numerous studies.
- The quality of those studies may be questioned, primarily because many were derived ad hoc, that is, without a control group, while others were contaminated by biases of the researchers.
- There are no solid theoretical explanations either for or against existence of subliminal perception, which is caused by the fact that everyone in different ways defines this phenomenon.
- It is necessary to perform crucial studies of this phenomenon, with rigorous control and adequate methodology.

Some of the weaknesses of previous studies we tried to remove by the study that we have carried out and which is the subject matter of further presentation.
2. Methodological Framework

2.1. Study problems

In this study, we investigated connection between subliminal presentation of images and imperative messages, and respondents’ decision making in the experiment. The experiment was supposed to answer the question of whether presentation of images and imperative messages influence the respondents to decide in accordance with experimenter’s suggestions that were presented subliminally, or they decide according to their previous attitudes. Study was expected to provide insight into which material, image or imperative message, presented subliminally, is more powerful in its influence on the respondent and his/her decision.

2.2. Respondents

For the purpose of control, all respondents in the study were female, aged from 20 to 30 years, from the same department. Each experimental group consisted of 35 respondents. Accordingly, 210 respondents in total participated in the experiment. All the respondents had normal or corrected to normal vision.

2.3. Procedure and Instruments

The study that we carried out can be divided into three phases: pretest phase, experimental phase and postest phase.

Pretest in the experiment was carried out by professors and assistants in a way that one week prior to the experiment, during lecture and practice classes, they gave to female students questionarry and thus determined the female respondents’ preference for apple or banana, while instructions were written in the questionary. The questionary consisted of fifteen pairs of objects, food items, beverages, cars, etc. and the female respondent’s task was to chose within the offered pair one item which she preferred. One of the offered pairs was apple or banana. In that way we determined the kind of fruit which the female respondent preffered and then we placed her into appropriate group. The respondent wrote down her student’s record book number and thus was identified in further research.

Female respondents did not know real purpose of testing, that is, they were given false instruction that they participated in translating and adaptation of one foreign instrument. Also, pretest was carried out by professors and assistants who did not appear during the further course of testing and all the above was undertaken so that female respondents could not relate pretest with other stages of testing.

Based on the obtained information, the respondents were divided into groups as shown in Table 1.

In the second phase of the study, material was exposed to respondents per groups. The film was shown on television screen (size 68 cm, with cathode ray tube). The female respondents watched the film
directly in a way that two rows of five chairs in each, were placed in front of the TV set, so that none of the respondents could watch the film at an angle. The film exposure was done in laboratory conditions where lighting and noise were controlled. Schedule of exposed material per groups is shown in Table 1:

Table 1.- Experimental phases and the organization of groups and experimental factors that were applied

<table>
<thead>
<tr>
<th>Stage</th>
<th>Phase</th>
<th>Apple is preferred in pretest</th>
<th>Banana is preferred in pretest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Stage</td>
<td>Pretest: What fruit is preferred</td>
<td>Experimental g.1</td>
<td>Experimental g.2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Picture of the banana is exposed in the course of the film</td>
<td>Text: &quot;Take a banana&quot; exposed in the course of the film</td>
</tr>
<tr>
<td>2nd Stage</td>
<td>Experimental groups: Film with subliminal messages</td>
<td>Experimental g.3</td>
<td>Experimental g.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Picture of the apple is exposed in the course of the film</td>
<td>Text: &quot;Take an apple&quot; exposed in the course of the film</td>
</tr>
<tr>
<td></td>
<td>Control groups: Film without subliminal messages</td>
<td>Control group 1</td>
<td>Control group 2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A film without subliminal messages is shown</td>
<td>A film without subliminal messages is shown</td>
</tr>
<tr>
<td>3rd Stage</td>
<td>Posttest: What fruit they would take</td>
<td>What kind of fruit would they take if it was offered: an apple or a banana</td>
<td></td>
</tr>
</tbody>
</table>

Film with the same content which lasted six minutes was shown to all female respondents, the film was showing landscape filmed from a bus that was moving. We selected such content of the film because it was neutral and yet interesting for the respondents, so that they watch it till the end without feeling bored. In order to make the film more dynamic, the content is followed by the music. At the beginning of the film, there was instruction for respondents. The film was made by using the “Sony Vegas Movie Studio” program.

In time intervals that are successively repeated and amount 25s, 30s and 35s in the film, appropriate material was exposed to the experimental groups: small image of apple, small image of banana, message “have an apple” and message “have a banana”. The exact length of material exposure in experimental groups we cannot state because material was inserted into the film between frames, while exposure time was shortened by experimenter until reaching the exposure time at which stimulus ceased to be recognizable and from it remained barely noticeable interruption in the film. Also, real exposure time is influenced by delay of material due to delayed cable transmission, monitor refresh time, etc. Subliminally exposed stimulus appeared in the film 12 times in total.
We should also point out that we selected such kind of material, that is, those two kinds of fruit, due to the following reasons:

- All respondents had the opportunity to try both kinds of fruit; they were able to build preference for one of them since flavors of those fruits are completely different.
- Offer of both kinds of fruit throughout the year is stable, so that respondents can satisfy their desire for fruit that they prefer whenever they want, this is important because their decision making in pretest or posttest is not influenced by the fact that some fruit they had not eaten for long, but mainly by preference which they created.
- Shapes (and color: apple in the experiment was red) of fruit are completely different so that when images are exposed with very short exposure, they cannot be mixed up, here we are dealing with very simple and recognizable shapes.
- In previous studies, various products were used which the respondents had not seen before so that could influence results, we wanted to eliminate such effect.

In the third phase of experiment, the respondents stated in the appropriate questionnaire which kind of fruit they would have taken if it had been offered to them, apple or banana. Also, on the questionnaire the respondent writes down her student’s record book number and name, so that corresponding results of pretest and posttest could be compared. It should be noted that question regarding the apple and banana is third in a row, while the other two (related to music and film) are given as mask so that respondents could not guess the purpose of testing and thus spoil the results.

In the end, respondents to whom image was exposed in the experiment wrote down number of the image that they preferred, after they had made selection from five offered images of fruits from which one (second in a row) was exposed in the film that was shown to them.

### 3. Results and Discussion

The obtained data are shown in Table 2.

**Table 2.- The representation of results per groups**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Pretest: What fruit is preferred</th>
<th>Apple is preferred in pretest</th>
<th>Banana is preferred in pretest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st stage</td>
<td><strong>Experimental groups:</strong> Film with subliminal messages</td>
<td>Experimental g.1 choosing</td>
<td>Experimental g.2 choosing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Apple</td>
<td>Banana</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12</td>
<td>23</td>
</tr>
<tr>
<td>3rd stage</td>
<td><strong>Control groups:</strong> Film without subliminal messages</td>
<td>Control group 1 choosing</td>
<td>Control group 2 choosing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Apple</td>
<td>Banana</td>
</tr>
<tr>
<td></td>
<td></td>
<td>9</td>
<td>26</td>
</tr>
</tbody>
</table>
Diagram– 1. displays frequency of preference of one from five offered images of apple in posttest, from which one was exposed in the film which saw the first experimental group. Ordinal number of images is given on abscissa, image under number two was exposed in the film.

Diagram – 1. Frequency of preference of one from five offered images of apple in posttest

![](image)

Using Chi-square test we examined normality of distribution of choice of images which were given by respondents in the first experimental group in posttest, the results show that distribution statistically significantly varies from normal one (value = 16.286, df 4, p<.01).

Diagram– 2. displays frequency of preference of one from five offered images of banana in posttest, from which one was exposed in the film which saw the third experimental group. Ordinal number of images is given on abscissa, image under number two was exposed in the film.
Diagram – 2. Frequency of preference of one from five offered images of banana in posttest

Using Chi-square test we examined normality of distribution of choice of images which were given by respondents in the first experimental group in posttest, the results show that distribution statistically significantly differs from normal one (Chi-square= 10.00, df=4, p<.05).

According to results shown in Table 2 we can see that 12 female respondents in experimental group changed their preference in relation to pretest, so that in posttest they prefer apple, however it does not mean that it is confirmed expectation that under influence of subliminally exposed material preferences really change. On the contrary, we have checked the above hypothesis by comparing the first experimental and the first control group using the Chi-square test, the results show that there is no statistically significant difference in answers of the respondents in both experimental and control group. It seems that difference is result of natural variation more than of experimental factor.

Results shown in Table 2 show that 12 female respondents in the second experimental group changed their preference in relation to pretest, so that in posttest they prefer apple, however comparison of the second experimental and control group using the Chi-square test shows that there is no statistically significant difference in results between the compared groups.

From Table 2 we can see that 9 female respondents in the third experimental group changed their preference in relation to pretest, so that in posttest they prefer banana, comparison of the third experimental group and second control group using the Chi-square test shows that there is no statistically significant difference between those groups.

If we carefully compare results of the third experimental group and second control group, we can see that in control group 13 female respondents changed preference in relation to pretest, so that in posttest they prefer banana, which is 4 more compared to corresponding experimental group. This is an unexpected finding, due to the fact that no material was exposed to the control group during the film.
The question is: why was such result obtained? We think that answer can be found in Diagram–2, which shows that the respondents, among 5 offered images, in most cases preferred image number 2, which was exposed during the film. This leads us to assume that some respondents recognized material and that in the posttest preferred an alternative opposite from the one that was suggested to them by the exposed material, which brought to disturbance of logical distribution of responses. This is supported by the fact that respondents in the first experimental group more often preferred the image number 1, thus there was no recognition of stimulus among them, so that the results are also logically distributed.

Data show that 10 female respondents in the fourth experimental group, changed their preference in relation to pretest, so that in posttest they preferred banana. Comparison of those two groups using the Chi-square test shows that there is no statistically significant difference between those groups.

In order to examine differences in potential effects of subliminally exposed image and message, we compared results of the experimental groups. Results of the first and second experimental group were identical, comparison of results of the third and fourth experimental group using the Chi-square test shows that there is no statistically significant difference of results between the compared groups.

In order to further verify this finding, so that it would become more reliable, we decided to apply more molar analysis of results. Namely, our groups that we formed for the purpose of performing the experiment consisted of 35 members each; after analyzing the results of checking and verification of our expectations, we raised the question if maybe lack of statistically significant differences between the respective groups was due to the size of the groups.

Since we were unable to enlarge the groups, the only available way was to join together the relevant groups which in pretesting and exposure to presentation of experimental influences underwent substantially the same treatment. In particular, we formed three new variables in a way that we combined results of the first and third experimental group into a new variable, then we combined results of the second and fourth experimental group into another new variable, and finally, the third new variable was created by combining results of the first and second control group. The above process is legitimate due to the following reasons: the first and third experimental group, during the film, were exposed to image of apple or banana depending on preferences in the pretest; the second and fourth group were exposed to the relevant imperative message, so those pairs of the groups, whose answers we summarized, underwent through formally identical treatment in the experiment, so that their respective coded answers could be combined into one variable. Control groups also underwent through identical treatment so that their answers also can be combined without disturbing methodological validity of the experiment. The newly established variables were then compared using the Chi-square test in order to determine existence of any differences between them. The results show that distribution of responses after joining the first and third experimental group is statistically significantly different from combined responses of the control groups (Chi-square= 4.060, df=1, p<.05). After combining the second and fourth experimental group and comparison with the combined responses of the control groups it showed that there was no statistically significant difference.

The presented findings indicate that subliminal exposure of image is more effective compared to exposure of imperative message, which is logical, because cognitive processing and treatment of written
material are much more complex than those which deal with image. In addition, we should take into consideration all above stated limitations of results.

4. Conclusion

Our key conclusions made on the basis of the performed experiment are the following:

- General expectation that respondents’ decision will change under influence of subliminally exposed material has been confirmed using the molar analysis, and only for the groups to whom an image was exposed, while any statistically significant effect did not exist in groups to whom imperative message was exposed.
- According to results of checking general expectation, we may state that exposure of iconic material is more effective compared to exposure of imperative messages.
- In certain degree, there is memory and recognition of material that was subliminally exposed to respondents.

We can conclude that methodological procedures we applied in this study served their purpose, that is, they were appropriate for achieving objectives that we had set.

The control measures that we undertook and which were extensive make reliable the results we obtained. The study we have carried out is one of the few that were performed with use of control group and in laboratory conditions which maximize the level of control of confounding variables.

The results we obtained are in favor of those who claim that subliminal exposure of material is without significant effect on behavior of respondents, so that use of such material for marketing purposes is questionable and empirically insufficiently founded. However, there has been a certain effect, and it can be interpreted variously. In our opinion, we cannot rely on it because the Molecular analysis, which is more credible, has not shown it. Also, it is important to note that results that we presented and discussed do not oppose results of studies that were carried out so far, so that also on the basis of our study it can be concluded that image is more powerful means of persuasion compared to text. Furthermore, this is in compliance with concepts of theory of cognitive processing of information, so together with researches it is based on, the study shows that text processing is significantly more demanding than image processing (Potter et al. 2014; Wheat et al. 2010).

Contribution of this study could be increased by carrying out a new study where number of respondents would be bigger and male respondents would be also included, and with even higher level of control of external variables. Also, it could include some form of recording psycho physiological parameters (PGR, brain waves), if the study would be carried out individually rather than in groups. That kind of study could provide insight into emotional activities and changes of brain activity in case of appearance of subliminal messages.
References


TRANSFER PRICING IN THE REPUBLIC OF SERBIA

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Abstract

Transfer pricing is a phenomenon that has occurred as a result of globalization and development of multinational business. In addition, transfer pricing, means prices that arise in transactions between related parties, has become increasingly common within the borders of one country. Such is the case in the Republic of Serbia. The aim of this paper is to provide the authentic, research-based examples of transfer pricing and transactions between related parties, or between parent companies and subsidiaries in the Republic of Serbia.

Keywords: Transfer Pricing, Related Parties, Subsidiaries, Tax.

1. Introduction

The impact, as well as the importance of modern trends in the world economy cannot be ignored in today’s economic environment. The movement of investment, production, trade, financial integration of different parts of the world, international economic cooperation in the modern global economy, are just some of the elements of the process of globalization, which has been one of the most important trends in the development of the world economy in recent decades. Globalization is a process that has the most powerful influence on industrialization, the movement of labor, development of international trade, and international capital movements; it also contributes to the growth of multinational companies, foreign investments and more extensive financial transactions.

Transfer pricing, i.e. the price applied in transactions between related parties, as a phenomenon that occurs as a result of globalization and the development of multinational business, is very common within the borders of one country, as is the case of the Republic of Serbia. The topic of the paper is transfer pricing in the Republic of Serbia. The work consists of three parts. In the first part of this paper, the focus is on explaining the standard "arm’s length" as internationally recognized standard regarding transfer pricing. Also, in this part of the paper, the concept of transfer pricing is explained. The second part explains the methods used for checking transfer prices that are proposed in the OECD guidelines and applied in determining the prices of transactions between related parties (the comparable uncontrolled price method, the resale price method; the cost plus method, the profit split method and the transactional net margin method). In addition, this part includes the rules on transfer pricing in the Republic of Serbia. The third part presents the results obtained on the basis of the research.
2. The international standard for applying the rules on transfer pricing

The principle of "arm's length" is an international standard for the application of transfer pricing rules, for which the OECD member countries have agreed to be used for tax purposes by the group (multinational) companies and tax authorities. The report and the OECD guidelines on transfer pricing, have first been published in 1979 and revised and updated in 1995 and again in 2010. They are voluntary for member countries. The OECD Guidelines insist that the principle of "arm's length" is the most reliable basis for determining how profits will be taxed. Under the principle of "arm's length" price is considered to be appropriate if it is in the range of prices independent parties who do business "out of reach" (price on an "arm's length" requires that transactions between related parties contracts under competitive market conditions, or the terms under which that same transaction took place between unrelated parties under the same or similar conditions. The rules of the OECD generally do not allow tax authorities to make the settings if the prices are to be charged between related parties within the scope of "arm's length". Where prices are outside this range, they can be adapted to the most appropriate level.

The transfer price is considered to be the occurring price related to transactions of funds or creation of obligations between related parties, and this price is one of the most important phenomenon in international taxation. The person linked to the taxpayer is considered to be a natural person or legal entity in whose relations with the taxpayer there is a possibility of control or significant influence over business decisions. Thus, the transfer prices are used in the exchange of goods and services between the parent company and its subsidiaries, or between two branches of the same company. Global companies often manipulate the total realized profits using transfer pricing, transferring it to a country where they have a branch, in which the tax rate is lower than in the country where it was made.

When unrelated entities transact among themselves, the conditions of their commercial and financial relations is a result of operation of the market. When conditions are made or imposed between two associated enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would be achieved by one of the enterprises, but, because of those conditions, has not been achieved, will be included in the profits of that enterprise and taxed accordingly.

Member countries of the OECD have adopted the principle of arm's length for several reasons. The main reason is that the arm's length principle provides equal tax treatment of group members.
(multinational) companies and unrelated persons. As the principle of arm's length equates the status of related and unrelated entities for tax purposes, the creation of tax privileges or less favorable tax treatment that could disturb, in relative terms, the competitive position of any of these two types of entities, are avoided. By removing these tax reasons from economic decisions, the arm's length principle promotes the growth of international trade and investment.

In certain cases, the arm's length principle may lead to administrative burden for both the taxpayer and for the tax administration. Although related persons, as a rule, establish the conditions under which the transaction is in effect during the course of its conclusion, at some point the enterprise may be required to demonstrate that these requirements are in line with the principle of arm's length. The Tax Administration may also have to start the verification process a few years prior to when the transaction took place. Tax Administration would review all supporting documentation prepared by the taxpayer to prove the consistent application of the principle of arm's length to its transactions and may also have to collect information about comparable uncontrolled transactions, the market conditions at the time the transaction is carried out, etc., for numerous and varied transactions. Usually such achievements, as time passes, are more difficult to execute.

The tax administration and taxpayer often have difficulty collecting adequate information for the application of the principle of arm's length. The principle of arm's length usually requires an assessment of uncontrolled transactions and business activities between unrelated parties, the taxpayer and tax administration, and that they are compared with the transactions and activities of related parties, for which a large amount of data might be required. Available information may be incomplete and difficult to interpret; other information, if any, can be difficult to reach because of their geographic location or locations of subjects from which it is necessary to obtain the same. In addition, due to confidentiality, the information may not be obtained from unrelated parties. In other cases, information about an unrelated person, which may be of importance, simply cannot exist, or the comparable non-related parties may not even exist. In this regard, it is important not to lose sight of the objective to find a reasonable estimate of the outcome in accordance to the principle of arm's length based on reliable information. It should be noted that the problem of transfer pricing is not an exact science and that it requires the application of judgment by both the tax administration and the taxpayer.

3. Methods for testing of transfer pricing

For translation needs of transfer pricing at the market price (i.e. to determine whether the transactions between related parties is in accordance with the principle of arm's length) traditional transaction methods and transactional profit methods may be applied.

The traditional methods are:
1. method of comparable prices in the market,
2. the resale price method and
3. the cost plus method.
Transactional profit methods are:
1. the transactional net margin method and
2. the transactional profit split method.\(^7\)

The aim of the method selection for checking transfer prices is to select the appropriate method in accordance to the specific case. Not one method is completely reliable in every possible situation, nor is it necessary to prove that a particular method is appropriate in the given circumstances.

Traditional transaction methods are the most direct way of determining whether transactions between related parties are in accordance with the principle of arm's length. This is because any difference between the price in the controlled transaction and the price of a comparable uncontrolled transaction may point to the agreed or imposed business relationships between companies and the principle of arm’s length can be filled directly substituting the price in a comparable uncontrolled transaction for the price in the controlled transaction. As a result, when the traditional method and the transactional gain can be applied equally reliably, the traditional transactional application methods are more preferable. What's more, when the method of comparable prices in the market and other methods of correction of transfer prices are used under the same reliable conditions, method of comparable prices in the market is preferred.\(^8\)

**Comparable Uncontrolled Price Method (CUP)**\(^9\) – The CUP method compares the price charged for property or services transferred in a controlled transaction to the price charged for property or services transferred in a comparable uncontrolled transaction in comparable circumstances. If there is any difference between the two prices, this may indicate that the conditions of the commercial and financial relations of the associated enterprises are not arm’s length, and that the price in the uncontrolled transaction may need to be substituted for the price in the controlled transaction.

An uncontrolled transaction is comparable to a controlled transaction (i.e. it is a comparable uncontrolled transaction) for purposes of the CUP method if one of two conditions is met:
- None of the differences (if any) between the transactions being compared or between the enterprises undertaking those transactions could materially affect the price in the open market; or
- Reasonably accurate adjustments can be made to eliminate the material effects of such differences.

The comparable uncontrolled price method can be applied on the basis of the taxpayer’s transactions with independent enterprises (“internal comparables”), or on the basis of transactions between other independent enterprises (“external comparables”).

Although this method is potentially available for all types of transactions, the product comparability requirement to be able to apply it in a reasonably reliable manner is especially high,

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7 Organisation for economic co-operation and development, Transfer pricing methods, Centre for Tax Policy and Administration, July 2010, p. 1-16
9 Organisation for economic co-operation and development, Transfer pricing methods, Centre for Tax Policy and Administration, July 2010, pp. 2-3
because any product difference may materially affect the price of the transaction, while it is often not practicable to make reasonably accurate comparability adjustments for such differences. In the absence of internal comparables, the CUP method is therefore most helpful for establishing an arm’s length price for:

- sales of commodities traded on a market, subject to the controlled transaction and comparable uncontrolled transaction(s) taking place in comparable circumstances, including at the same level of the commercial chain (e.g. sale to a secondary manufacturer, to a distributor, to a retailer, etc.), and
- some common financial transactions, such as the lending of money.

**The Resale Price Method**\(^{10}\) - The resale price method is one of the traditional transaction methods that can be used to apply the arm’s length principle. The resale price method focuses on the related sales company which performs marketing and selling functions as the tested party in the transfer pricing analysis.

The mechanism of the resale price method reduces the price of a product that the related sales company charges to an unrelated customer (i.e. the resale price) by an arm’s length gross margin, which the sales company uses to cover its selling, general and administrative (SG&A) expenses, and still make an appropriate profit, taking into account its functions performed and risks incurred. The remainder is regarded as an arm’s length transfer price for the intercompany transactions between the sales company and a related company.

Under the resale price method, the starting point of the internal price setting procedure is the sales company.

The formula for the transfer price in intercompany transactions of products is as follows:

\[
TP = RSP \times (1-GPM),
\]

- \(TP\) = the Transfer Price of a product sold between a sales company and a related company;
- \(RSP\) = the Resale Price at which a product is sold by a sales company to unrelated customers; and
- \(GPM\) = the Gross Profit Margin that a specific sales company should earn, defined as the ratio of gross profit to net sales. Gross profit is defined as Net Sales Minus Cost of Goods Sold.

**The Cost Plus Method**\(^{11}\) - The cost plus method is one of the methods typically applied in analysing the activities of a contract manufacturer or when determining the arm’s-length charge for services. It can also be applied to fully-fledged manufacturers, although the mark-up, as well as the cost base, may be different from that utilised in the case of a contract manufacturer.

\(^{11}\) International Transfer Pricing 2013/14. [www.pwc.com/internationaltp](http://www.pwc.com/internationaltp), p. 39
The cost plus method determines the arm’s-length price by adding an appropriate mark-up to the cost of production. The appropriate mark-up is the percentage earned by the manufacturer on unrelated party sales that are the same or very similar to the inter-company transaction. The cost base for both the comparable company and the one under review must be carefully analyzed to ensure that the costs to be marked up are consistently defined. Thus, as with the resale price method which is also premised on using gross margins as the basis for comparison, a careful comparative review of the accounting policies is as important as the determination of the mark-up, particularly with a view to identifying any potential mismatches of expense categorization between cost of goods sold and administrative expenses when comparing the financial results of the taxpayer and the comparable.

When determining the mark-up to be applied in the contract manufacturing case, it is important to note that the goods transferred under the comparable transaction need not be physically similar to the goods transferred under the inter-company transaction. For example, a contract manufacturer should be compensated for the manufacturing service provided rather than for the particular product manufactured.

When determining arm’s-length mark-ups for fully-fledged manufacturers (i.e. manufacturers that operate with a greater degree of independence and which carry out more sophisticated activities) the nature of the product that is manufactured will probably be of much greater significance to the analysis. Mark-ups earned by manufacturers could vary considerably from one product to another because of manufacturing intangibles that may have been developed by the fully-fledged manufacturer. As a result, identifying a comparable for the fully-fledged manufacturer may be extremely difficult unless the company manufactures and sells the products in question to unrelated companies at the same level of the market as the affiliates to which the related party sales are made (i.e. an internal comparable exists).

**The Transactional Net Margin Method**

The transactional net margin method (TNMM) examines a net profit indicator, *i.e.* a ratio of net profit relative to an appropriate base (*e.g.* costs, sales, assets), that a taxpayer realizes from a controlled transaction (or from transactions that are appropriate to aggregate) with the net profit earned in comparable uncontrolled transactions. The arm’s length net profit indicator of the taxpayer from the controlled transaction(s) may be determined by reference to the net profit indicator that the same taxpayer earns in comparable uncontrolled transactions (internal comparable), or by reference to the net profit indicator earned in comparable transactions by an independent enterprise (external comparable).

In cases where the net profit is weighed to costs or sales, the TNMM operates in a manner similar to the cost plus and resale price methods respectively, except that it compares the net profit arising from controlled and uncontrolled transactions (after relevant operating expenses have been deducted) instead of comparing a gross profit on resale or gross mark up on costs.

Most often, the net profit indicator that is tested in a TNMM is the operating profit (before interest, extraordinary items and income taxes).

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12 Organisation for economic co-operation and development, Transfer pricing methods, Centre for Tax Policy and Administartion, July 2010, p. 6
In general, it is observed that in applying a TNMM, the net profit is weighted to costs for manufacturing and service activities; to sales for sales activities; and to assets for asset-intensive activities.

The selected financial indicator should be one that:

- Reflects the value of the functions performed by the tested party (i.e. the party to the controlled transaction for which a financial indicator is tested), taking account of its assets and risks;
- Is reasonably independent from transfer pricing formulation, i.e. it should be based on objective data (such as sales to unrelated parties), not on data relating to the remuneration of controlled transactions (such as sales to associated enterprises); and
- Is capable of being measured in a reasonably reliable and consistent manner at the level of the controlled transaction and of the comparable uncontrolled transaction(s).

The Transactional Profit Split Method - This method establishes transfer pricing by dividing the profits of a multinational enterprise in a way that would be expected of independent enterprises in a joint venture relationship. It might be appropriate to use this method for highly integrated operations for which a one-sided method would not be appropriate. The profit split method may also be the most appropriate method in cases where both parties to the transaction make unique and valuable contributions to the transaction. The OECD Guidelines state that expected profits should be used rather than actual profits, in order to avoid the use of hindsight. Many multinational enterprises (MNEs) have responded to this by including a year-end ‘true up’ calculation as part of their intercompany agreements.

To compute arm’s-length prices using the profit split method, it is necessary to know how profits would be split between unrelated parties based on the same facts and circumstances as in the related party situation. Because this information is almost never publicly available, a ‘comparable profit split’ derived from formulae used by third parties is rarely possible. More frequently this method relies on the judgment of the user to determine an appropriate profit split formula that reflects the relative contributions of tangible and intangible assets made by each of the parties to the transaction. For this method, it is necessary to compute the revenues and costs of each legal entity involved in the transaction. For example, if, for a given geographic market, an MNE conducts R&D and manufacturing in one legal entity and marketing and distribution is conducted in a second, the revenues and costs in each entity relevant to the specific geographic market must be computed. This can be extremely difficult, and may lead to extensive disclosure requirements in order to ensure that transfer pricing documentation standards are met.

Typically, the profit split analysis is conducted at the operating income level, although sometimes it is applied at the gross profit level. In each instance, the income in question must be solely the income attributable to operations (i.e. non-operating income should be excluded from the analysis). The extent to which a profit split method should be used to test a result achieved by the CUP method or a one-sided method has been subject to significant international debate. Some tax authorities have made attempts to perform a sanity check of a result achieved from a CUP method or a one-sided method using
a profit split method. However, the OECD Guidelines’ clear position is that secondary methods are not required, and the application of a profit split method requires both parties to make unique and valuable contributions to the transaction (which would not be present when applying a one-sided method).

The 2010 revised OECD Guidelines include a significant amount of new guidance on the practical application of the profit split method, which led to concerns that this reflected a greater endorsement of the profit split method. However, the OECD has indicated that the intention of the working party was that the (2010) revised OECD Guidelines did not represent a greater endorsement of the profit split method.

The choice of the appropriate method of transfer prices always aims to find the most appropriate method for each particular case, it is not required that all methods should be analyzed in detail for each individual case in order to arrive at the most appropriate method. As an example of good practice, the selection of the most appropriate methods and comparable data should substantiate relevant facts, which may be part of the normal search process.

Group (multinational) companies retain the freedom to implement another method for determining the price that is not described in the Guidelines provided that those prices satisfy the arm's length principle, in accordance with the Guidelines of the OECD. These other methods should not be used as a substitute for methods recognized by the OECD, when the OECD method is more suitable for use with regard to the facts and circumstances of the case.

Comparing countries in regard to the application of the rules on transfer pricing, it can be seen that only the US and the UK started with the implementation of the rules on transfer pricing in the first half of the 20th century. Other developed countries began with the application of the rules in the past 20 years. Developing countries are only now beginning with the introduction of rules on transfer pricing. In countries where they introduced rules on transfer pricing, related parties are mainly required to submit documentation to the Tax Administration regarding transfer prices from related legal entities and adjusted profit from transactions with them, usually in the direction of increasing profits. Thus, the application of the rules, mainly means higher tax liability of multinational companies, to the benefit of countries that have introduced strict rules and high fines for those companies that do not respect the rules. Serbia is still not acting adequately and does not pay sufficient attention to transactions between related parties and transfer pricing. Even though the rules on transfer pricing exist, they are still not implemented adequately. The main reason for this is the lack of skilled personnel, insufficient knowledge of the rules on transfer prices and their importance of public revenues within a country, but also the "soft" penalties for companies that do not comply with the prescribed rules on transfer pricing.

The rules on transfer pricing in the Republic of Serbia

The area of transfer pricing in the Republic of Serbia is regulated by a number of domestic laws and regulations, as well as international standards and guidelines. The regulatory framework includes:

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13 Global transfer pricing guide, Grant Thornton, 2013., pp 1-100
Corporate Profit Tax Law
Personal Income Tax Law
Companies Law
Accounting Law
Audit Law
Capital Market Law
Law of Succession
Law on Tax Procedure and Tax Administration
Criminal Code
Law on Foreign Exchange Transactions
Rulebook on Transfer Pricing and Methods Applying Out Of Reach Principle for Establishment of Transaction Prices Between Related Entities
Rulebook on the Content of Tax Balance and Other Issues of Importance for Establishment of Corporate Profit Tax
Rulebook on interest rates
Rulebook on the List of Jurisdictions with Preferential tax systems
Rulebook on the Content of Tax Return for Determination of Corporate Profit Tax
International Accounting Standards
International Standards on Auditing
The guidelines of the Organization for Economic Cooperation and Development (OECD Guidelines)
Opinions of the Ministry of Finance

Below is an explanation of the most important articles of the Corporate Profit Tax Law, which directly and indirectly influence on the transfer pricing report (report which are shown the value of such transactions at prices that would have been fetched on the market for such or similar transactions, had an associated person not been involved - the "arm's length" principle). According to the Corporate Profit Tax Law, a transfer price shall be understood to mean the price that comes into being in connection with transactions involving assets or making commitments among associated persons.

A person associated with a taxpayer shall be understood to mean an individual or legal entity in whose relations with the taxpayer, there is a possibility of exercising control over or exerting considerable influence on business decisions.

In the case of direct or indirect possession of 25% or more of shares or interests shall mean that control over the taxpayer is possible.

Influence on a taxpayer's business decisions also exists when a person associated with a taxpayer directly or indirectly has more than 25% or the largest number of votes individually in the taxpayer's controlling bodies.

A person associated with a taxpayer shall also be understood to mean a legal person in which, like in the taxpayer, the same legal entities participate in control, supervision or capital in the way determined in the two preceding paragraphs.
A person associated with a taxpayer shall also be legitimate or illegitimate spouse, descendants, adopted children and descendants of the adoptee, parents, adoptive parents, brothers and sisters and their descendants, grandparents and their descendants, as well as brothers and sisters and parents marital or extramarital partner, a person who is related to the taxpayer in the way as described above.

Exceptionally, a person associated with a taxpayer shall also be any non-resident legal entity from the jurisdictions with preferential tax systems.

According to the Corporate Profit Tax Law, any taxpayer shall declare in its tax statement the transactions with related parties separately.

Any taxpayer shall declare in its tax statement separately, the value of such transactions at prices that would have been fetched on the market for such or similar transactions, had an associated person not been involved (the “arm's length” principle).

In Serbia, transfer pricing report, can be compiled in fully or partially form. The legislator clearly states that a tax payer compiles a partial report, except for loans and credits in situations where one of the following conditions has been met:

- That a single transaction has been made with the related party in the tax balance year and that its value does not exceed the transaction value regulated by law to be eligible for Value Added Tax declaration (in Serbia, these are transactions exceeding 8,000,000 RSD)
- That the overall value of transactions made with a single related entity within a tax balance year does not exceed the transaction value regulated by law to be eligible for Value Added Tax declaration.

Full Transfer Pricing Reports in Serbia are submitted when there are loans and credits between related parties, as well as when a single transaction or multiple transactions within a business year exceed the value of 8,000,000 RSD.

Research results

The survey, based on the sample of 100 legal entities which are related parties obliged to compile the Report in full form, conducted for the purposes of this paper, showed the following:

Table 1 shows the structure of the interviewed companies by related parties, the value of transactions and authorized persons for compiling the Transfer Pricing Report.

<table>
<thead>
<tr>
<th>Structure</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of companies</td>
<td>100</td>
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<tr>
<td>Micro enterprises</td>
<td>30</td>
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<tr>
<td>Small enterprises</td>
<td>60</td>
</tr>
<tr>
<td>Medium-sized enterprises</td>
<td>10</td>
</tr>
</tbody>
</table>
Table 2 provides an overview of questions and answers.

### Table 2: Overview of questions and answers

<table>
<thead>
<tr>
<th>Number</th>
<th>Questions</th>
<th>Answers (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Number of parties related with the taxpayer</td>
<td>• 54% companies have two related parties</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 38% companies have 3-5 related parties</td>
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<tr>
<td></td>
<td></td>
<td>• 8% companies have more than 5 related entities</td>
</tr>
<tr>
<td>2.</td>
<td>Related parties in the country/abroad</td>
<td>• 82% companies have only related parties in the country</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 6% companies have only related parties abroad</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 12% companies have related parties in the country and abroad</td>
</tr>
<tr>
<td>3.</td>
<td>Is the parent company a resident of the Republic of Serbia?</td>
<td>• 88% parent company is resident of RS</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 12% parent company is not resident RS</td>
</tr>
<tr>
<td>4.</td>
<td>The total volume of transactions (value) with related parties without VAT</td>
<td>• 42% - transaction volume is in the range of 12-15 million RSD</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 27% - transaction volume is in the range of 15-20 million RSD</td>
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<tr>
<td></td>
<td></td>
<td>• 12% - transaction volume is in the range of 20-30 million RSD</td>
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<td></td>
<td></td>
<td>• 10% - transaction volume is in the range of 30-50 million RSD</td>
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<tr>
<td></td>
<td></td>
<td>• 9% - transaction volume over 50 million RSD</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Domestic or foreign ownership</th>
<th>Domestic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal form</td>
<td>Limited liability company</td>
</tr>
<tr>
<td>Types of transactions</td>
<td>Delivery of goods, services, loans and credits</td>
</tr>
<tr>
<td>The value of transactions with related parties</td>
<td>over 12,000,000 RSD</td>
</tr>
<tr>
<td>The number of related parties with the company</td>
<td>The related with at least 2 parties</td>
</tr>
<tr>
<td>The person responsible for compiling the Transfer Pricing Report</td>
<td>Consulting and audit firms</td>
</tr>
</tbody>
</table>
5. The total annual number of transactions with each of the related parties

- 84% - number of transactions 20-50 transactions
- 10% - number of transactions 50-100 transactions
- 6% - number of transactions over 100 transactions

6. Does the parent or subsidiary companies issue financial instruments on the stock exchange?

- Companies do not issue financial instruments (100%)

7. Define the type of transactions with related parties (supply of goods and services, sales of goods, production of goods, rental property, loans, sale or use of fixed assets, sale or use of licenses ...)

- 77% - transactions of supply of services
- 23% - transactions supply of goods
- 83% transaction giving or taking of loans or credits
- 17% do not have any loans and credits transactions

8. Does the same/similar transactions carried out with related and unrelated legal entities?

- 82% same transactions carried out with related and unrelated legal entities
- 18% transactions are carried out only with related parties

9. Does your company conclude agreements in writing with related parties?

- 28% - contracts were concluded
- 72% - contracts were not concluded

10. Are there any bilateral business transactions with related parties?

- 76% - one-sided transactions
- 24% - bilateral transactions

11. Are parent and related legal entities in the same industry/business?

- 81% - are not in the same branch/activities
- 19% - are in the same branch/activities

12. Specify the type of goods (services) that are usually trade with related parties

- Loans
- Consulting services
- Transportation
- Repair and maintenance of equipment
- Food products
- Drugs

13. Does the same accounting policies use in the parent company and subsidiaries?

- 92% - do not apply the same accounting policies
- 8% - apply the same accounting policies

14. If preparation notes to the financial statements, is your

- Transactions with related parties does not show in notes in accordance with IAS/IFRS (100%)
company, transactions with related parties shows in notes in accordance with IAS/IFRS

| 15. | How do you determine the price of goods/services in transactions with related parties? | • When it comes to credit or loans, interest free occupy a share of 76%, while in 24% interest rate that is below market  
• When it comes to services, parties are not comparing price with the market price, but from the documentation can be concluded that prices of goods/services or significantly below or significantly above the market price  
• When it comes to products, related party invoiced at market prices |

| 16. | Did you correct the profit based on the Transfer Pricing Report? | • Of the 32 companies that preparation the Transfer Pricing Report, 24 companies corrected the profit |

| 17. | Do you think that the Transfer Pricing Report useful? | • 100% of respondents said that the Transfer Pricing Report is not useful for company, because the greatest benefit from the Report, according to respondents' answers, have the state or Tax Administration. |

### Conclusion

Transfer pricing is a relatively new phenomenon, especially in developing countries. The development of transfer pricing tax system leads to establishing rigorous rules set by the government that have to be obeyed by any company that has transactions with related parties, thus enabling the government to gain higher tax revenues and prevent related parties to transfer profits from one company to another and avoid paying taxes.

Guidelines of the Organization for Economic Cooperation and Development have long existed, but represent only a recommendation to the Member Countries. According to the Guidelines, there are five methods that can be applied in the testing of transfer prices, while each company, depending on their circumstances, chooses one, the most appropriate method.

So far, the conducted research has shown that countries that consistently apply the rules on transfer pricing have exceptional benefits that are reflected on the increase of public revenues, as opposed to countries that have or do not have these rules, or they are inconsistently applied (implemented).

The conducted survey shows that all the legal entities that have transactions with related parties have been informed on the rules on transfer pricing. However, just a small number of legal entities is actually applying the rules, which can lead to a reduction in tax revenues for Tax Administration. In the
Republic of Serbia, the majority of the transactions are related to services or credits and are conducted with related parties that are mostly residents, while there are considerably fewer transactions in goods and products. When it comes to the prices of goods/services at which the transactions are conducted, they are either significantly below or significantly above compared to the market price, which is another proof that the transactions with related parties are mainly carried out for tax reasons. Also, it may be concluded that most of the companies, even though informed about the rules and penal provisions in case of incorrect expression taxes, still decide not to show the transactions with related parties. At the end we can see that all the respondents believe that the rules on transfer pricing are unnecessary, but it is also clear that the state or the Tax Administration should have the greatest benefit from this rule. It should be noted that the United Kingdom collected nearly two billion pounds more income tax in 2014 due to increased control in application of transfer pricing rules.

Reference

2. OECD guidelines, the Serbian fiscal Society, 2010.
5. Global transfer pricing guide, Grant Thornton, 2013.
6. Corporate Profit Tax Law ("RS Official Gazette" Nos. 25/01, 80/02, 43/03, 84/04, 18/10, 101/11, 119/12, 47/13, 108/13, 68/14, 142/14, 91/2015, 112/2015)
7. Organisation for economic co-operation and development, Transfer pricing methods, Centre for Tax Policy and Administration, july 2010
GINI COEFFICIENT – COMPARATIVE ANALYSIS

Dragovan Milicević
Valjevo Business School of Applied Studies

Abstract

Researching of economic inequity is very demanding and hard work. Economic inequity is inherent characteristic of neoliberal capitalism, namely, economic models and government reforms in countries that are in transition from socialism to the free market economies. Economic inequity is not the same as poverty. Poverty certainly implies the existence of economic inequity between those who are and those who are not poor, no matter how you define poverty. However, economic inequity imply inequity in income or other economic resources in the context of the entire population.

Keywords: GINI, Inequalities, Economics, Measuring.

1. Introductions

Researching of economic inequities is very demanding and hard work. Economic inequity is inherent characteristic of neoliberal capitalism, namely, economic models and government reforms in countries that are in transition from socialism to market economies. In an earlier text at website www.makroekonomija.org (see 'Globalization, the standard/non-standard view') I was made an attempt to analyze the distribution of social wealth and added value to the work and capital. The largest number of the analyzed countries had a stagnant movement of earnings in real terms while profits grew at an exponential line in a fifteen-year period. This paper represents a continuation of the analysis of income distribution and economic inequality.

2. Measuring of economic inequality

Economic inequity is not the same as poverty. Poverty certainly implies the existence of economic inequalities between those who are poor and those who are not, no matter how you define poverty (such as earnings below a certain line, the standard of living is below the minimum satisfactory, etc.). However, economic inequality imply inequality in income or other economic resources in the context of the entire population. Measuring inequity does not depend on where is the income limit set (median, average wages, consumer basket, the line of absolute poverty, etc.), neither of what are the percentage of poor. One country may have the same level of poverty and the different levels of inequity (for example, Slovenia has the same level of poverty as Austria, but less inequity). Similarly, the two countries can have the same level of inequity and different percentage of the poor (for example, Malta has the same level of inequity as Austria, but more poor).
3. Measuring inequality is a complex statistical procedure.

In public documents there are two most frequently mentioned rates – the ratio S80/S20 and the Gini coefficient. The ratio S80/S20 is equivalent to the ratio of total revenue of 20% of a country’s population with the highest income, equivalent to the total income of 20% of the population with the lowest income. The higher is this ratio – the greater is inequity. Gini coefficient is another measure to monitor inequity in income distribution, but in this case the entire population, not just the 20% of the highest or lowest income. The Gini coefficient is in the range from 0 to 1. If the value is 0, it would mean that the country achieved the ideal equal distribution of income and that all citizens have the same income. On the other hand, when the Gini coefficient is 1, it means that one person receives all the disposable income, or there is a state of perfect inequity.

4. GINI coefficients of a selected group of countries with the highest level of inequity

According to the World Bank and website of the Central Intelligence Agency, which has innovated information about the movement of GINI coefficient in the period between 2011-2014 year (Serbia and many countries in the analysis have pretty fresh information dated to the year 2014, which allows the adoption of relevant conclusions about crucial social problems whose starting point is not only in the distribution of income, but in other segments of economic life.

These countries are taken because they have relatively fresh data on the flow of economic inequity. As can be seen, at the bottom of the scale is Slovenia where the level of inequity, according to data from year 2012, was 23,7 or 0.237 if the ratio is observed in the range form 0 – 1. The position of Serbia draws attention. From a relatively low Gini coefficient by year 2010, Serbia came to 21th position on the list. Of all European countries, only Macedonia with a coefficient of 43,6 and Russia with coefficient of 42,0 are above Serbia after the latest data. To be able to make relevant conclusions, there is a comparative presentation of movements of this coefficient in the fifteen-year time...
period for 21 countries with Serbia. The aim is to determine whether we look at the period of growing, stagnant or declining inequity.

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<th>1999</th>
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<td>JUŽNA AFRIKA</td>
<td>56.0</td>
<td>64.9</td>
<td>67.4</td>
<td>63.3</td>
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<td>53.7</td>
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<td>3</td>
<td>KOLUMBIJA</td>
<td>58.7</td>
<td>56.1</td>
<td>58.9</td>
<td>55.5</td>
<td>53.5</td>
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<td>4</td>
<td>BRAZIL</td>
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<td>56.9</td>
<td>55.9</td>
<td>53.6</td>
<td>51.9</td>
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<tr>
<td>5</td>
<td>EKVADOR</td>
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<td>54.1</td>
<td>53.2</td>
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<td>48.5</td>
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<td>6</td>
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<td>42.1</td>
<td>42.4</td>
<td>39.4</td>
<td>40.4</td>
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<td>KINA</td>
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The highest growth of economic inequity in the period 1999-2014 year was in Macedonia and Serbia. Other countries in year 1999 was in zone of less or more inequity of income, but Serbia is again a specific example. In fact, from year 2004 – 2010, there has been a decline in economic inequity because the ratio was in the range of 30,0. The explosive growth of inequity in Serbia is recorded in the period between 2010 – 2014 (In Macedonia from 1999 – 2004). Some countries have reduced their inequity (Peru, Venezuela, Bolivia, Columbia, Brazil).
However, it should be emphasized that this analysis is not the same as poverty analysis. In these countries, due to the low level of GDP is identified the syndrome of poverty. However, in addition to this analysis, several important factors are needed to be analyzed in order to obtain the true image of society. First of all, the analysis of social exclusion, and the exclusion of certain social classes in our society.

**Forms of exclusion** point from which spheres are individual’s groups excluded. We can see economic, political, social and cultural exclusion, or some narrow form, such as exclusion from the labor market, financial market, etc. In case where individuals and groups are facing multiple forms of exclusion, we can talk about multidimensional exclusion.

**The level of exclusion** indicates in which level individuals are excluded from certain areas of society. The absolute exclusion is the total absence of opportunities to access certain resources, institutions, or to get involved in social processes. Relative exclusion is a reduced chance to engage in quality services, resources and in development processes (for example, to provide stable and profitable employment).

**The duration** is also an important feature of social exclusion. Sometimes people are being excluded from labor market in short term (due to bankruptcy of enterprises or unfavorable economic cycle), when it comes to short-term which does not have to make large impacts on the life chances of people or other aspects of their participation in society. However, the exclusion can be long term, for some individuals and groups even permanent state, from which the exit is not easy.
5. What characteristics of poverty should be followed?

As in the case of social exclusion, to be able to gain a picture of poverty in a community, it is necessary to know its features. This means that you need to look for answers of many questions: how many people are poor? who are poor? etc. But in order to be able to do that we must first clearly define what poverty is, or to determine definition of poverty.

Due to the different definition of poverty there are absolute and relative poverty. The first implies that poverty is a condition characterized by the inability to meet certain minimum necessities of life, while the second is poverty in relation to an average minimum acceptable standards in a given society. Furthermore, poverty can be defined as financial (in terms of insufficiency or revenues to meet specific needs) or as material deprivation (in terms of various unmet basic needs). It can be objective or subjective, whereby in the first case the researcher determines the criteria of poverty and in the second case the criteria is subjective sense of individual.

No matter how we define poverty, the most often characteristics are:

Distribution – the number of persons or households that can be considered as poor according to set of criteria, which is often defined as the poverty line. Distribution is usually expressed through poverty rates and participation of the poor in general population or within a group.

Level of poverty – when it comes to measuring quantitatively, it is usually monitored depth and severity of poverty that show how much poor people are away from the poverty line, or how much resources is necessary to climb above the poverty line or how poor people together are “unequal” in poverty. When poverty is measured qualitatively, more attention is paid to its ICIT dimensions in dissatisfaction of needs and difficulties of life.

Map of poverty – in fact an attempt to recognize the different social groups that are facing the problem of poverty, or to answer the question: who are poor?

Poverty and social exclusion are not synonyms.

Poverty and social exclusion are close terms, but there are differences between them. Now we are left to clarify the relationship between them. Exclusion is often understood as a process that prevents individuals to participate in all aspects of life of a society because they are poor, because they have no core competence or because they are discriminated. On the other hand, poverty is perceived as a state of insufficient funds, primarily income, to adequately participate on social life.
POLITICAL COMPLEXITY IN WESTERN BALKAN COUNTRIES

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Abstract

Transition and transformation of western Balkan countries constantly produce a large portion of western Balkan states. The wars in these areas start from 1990 up to 2001 and they have been fundamental for social and political transformation of these societies. This process of transition was very complex in organizing, structuring and designing them. Transformation transition has been violent destructive with genocide and severe violations of human rights and freedoms. This dynamic transformation was connected with democratization, state building and nations building of western Balkan countries and nations toward EU and NATO integrations. We will attempt to analyse numerous social and political problems that are provoking western Balkan Countries. Understanding and solving the complexity of the Western Balkan’s political situation is needed. The hard will of inner political strengths and contribution of external political forces in its relations. We always consider the US, NATO and EU impact with its socio-political affairs and reforms in the Balkan region.

**Keywords:** Politics, Western Balkans, Wars, Reforms, Transformation, Complexity, Migration, EU, Impact, Political Affairs.

1. Introduction

Western Balkan states have been undergoing fundamental multiple transformations that are complex in their nature and very heave to explain. The complex transformations of western Balkan Countries where the process of democratisation and transformations take place in combination, with nation and state building and EU NATO integrations as most important issues of region. State and nation building of the Western Balkan states occurred with the post-conflict transition as well as the transition from communism to democracy, which made the situation very difficult. The fundamentals of free market, rule of law, democracy political communication, human rights and freedoms are still being established in these countries. This period of transitions is overloaded with all criteria posed by the European Union, for countries ambitious to become members of EU.

The nationalism in Western Balkans had capacity for creation of political elites which produces nationalism in all newly independent states. After the independence the communist leaders as well as former democratic dissidents the used nationalism in order to stay in power. They also postponed the transformation and democratisation of the Western Balkan states.
Most of analyses and studies of the region are focused only in one selective segment of political situations as specific issues. As results of this reality, there is no complete picture of the region. Generally speaking, there in Western Balkan the focus of political discourse is on a nation and state building process, without concentration on real political issues as liberal democracy, market economy, institutional reforms and reforming policy (adapting EU).

Western Balkans politicians are giving less importance to democratic values and economic reforms, for them centre of attention of their politics is nationalism and patriotism. All Western Balkans states where separated from one larger political complex, Yugoslavian federation, as common state of all nations in western Balkan. Dissolution of Yugoslavian federation union into smallest pieces, the region was faced with tragedy as results of mutually antagonist community. After the conflicts an epoch of stabilizations comes, together with European integration as well as reconciliation projects.

Our goal in this paper is to explain the reasons that led to the complexity in Western Balkans, and the EU initiatives that were supposed to help in resolving these harmful questions and to encourage the support of the nations and states of the Western Balkan to the become full membership in European Union.

The Western Balkan states not only didn’t regulate these divergences, nationalism discriminations, hate among its citizens but in the contrary they take and support one part. This improper state policy brought about the questions of legitimacy in citizen’s valuations, creating a large distinction between state, political elites in one side and its own citizens in another side.

Western Balkans represents the very weak integrated and the most unstable region in Europe. Based in this connotation, the intention of the European Union is to integrate the region as soon as possible, and to make Balkan as a political priority for EU.

The leadership, political parties and political elites of Western Balkans have been unsuccessful, in their mission for improvement of political conditions, or they have been dishonest or illegitimate. Another problem is public administration, which still is very large and inefficient, and very expensive, according to this is clear why integration is needed.

This interventions or involvement of a European dimension represents the penetration of EU policy, into national arenas of policy constructions and political action in every country.

The process of integration and transformation is much broader in practice than in theory. This situation produces political complexity in the region, but there are more other factors that did impact on social conditions. As important factor for political complexity we will mention globalization, disintegration of Yugoslavia, organized crime, drugs trafficking and criminal-political ties, transnational crime, cultural globalization and Islam.
2. The Reasons of Socio-political complexity in Western Balkan Countries

2.1 Globalization

One of the most powerful dimensions of complexity is globalization. Thru globalization, as processes of integration of different nations, cultures and civilizations, it is generating a large human connectivity and exchange of stocks, ideas, and other aspects of human life. Globalization has opened limitless open doors for states to develop their lives of their citizens. Released borders, faster communication, civilization, cultural, job and working exchange, free market and others are some, of many, positive characteristics connected to the term “globalization.” But globalization has showed to have its negative side, including, large-scale difference, between reach and poor, social segregation and cultural divisions.

We will elaborate on the multiplication between globalization, wars, organized crime and terrorism. Globalization has brought numerous advantages to the world however has also encouraged certain level of “culture conflict”, social disorder and imbalances.

Such actions have produced to the escalations of wars and conflicts amongst states and different ethnicities. Underground groups and the spread of various interpretation of Islam have additionally been undesirable results of globalization.

This process of globalisation is not a new or simple phenomenon; there are a lot of advances in transportation and telecommunication, specially the rise of the Internet use as major driving tool in promoting interdependence of economic and cultural activities between nations, states and corporations around the world. The Globalization implies the fall and destruction of obstacles and limitations between national division lines or borders and it is making simple the flow of products, assets, thoughts, services, job activities employment etc.

Related with this explanation, in his book Malcolm Waters stressed the definition of Globalization, according to him “Globalization is a social process in which the constraints of geography on economic, political, social and cultural arrangements recede, in which people become increasingly aware that they are receding and in which people act accordingly”2.

Another very famous sociologist Anthony Giddens talking about Globalisation in his book The Consequences of Modernity, he is stressing that: “Globalization can thus be defined as the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa”. But Anthony Giddens also mention that modernity also has its dark side that has become very important in the present century, such as the frequently degrading nature of modern industrial work, the growth of totalitarianism, the threat of environmental destruction, and the alarming development of military power and weaponry.3 As we can see from the elaboration above globalisation in general around the world is producing a lot changes and impacts, normally these changes had a strong impact in particular aspects in

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western Balkan countries. One of the greatest impacts of globalisation in Balkan region is transition and transformation of political system from communism to democracy. Thru this transition, Western Balkan states were faced with conflicts and wars and finally the breakdown of Yugoslavia.

2.2 Disintegration of Yugoslavia

The breakdown of Yugoslavia and the process of dissolution of eastern socialist countries, as Soviet Union, the interest for economic, political, social and cultural dealings in one side of the world become very significant for people in other sides of the world. The attraction for profit and development rapidly motivated the flow of stocks and capital across borders. This has brought the ease ways of cross-border transportation and communication.

The dissolutions of The Socialist Federal Republic of Yugoslavia with highly destructive wars in 1991 culminated in the secession of Slovenia and Croatia and Bosnia-Herzegovina. In less than three years, around four million Bosnian citizens were displaced and around two hundred and fifty thousand were killed.

In another part of Yugoslavia during the early 1990s, the Albanians from Kosovo created parallel institutions, in different field of public services such as health care and schools and education. This complex and dynamic situations was very hard to be controlled and managed by central government in Belgrade. Albanians were under hard pressure of Slobodan Milosevic regime, they had no elementary human rights and freedoms in their own state. After 1995 Western Balkan was faced with extreme movement process between the Albanians in Kosovo followed the birth of an underground armed force known as the KLA. The newly born army KLA, started an armed uprising and conflicts against Serbian authorities in period of time from 1998 to 1999.

In one part of former state, the international community and world press, in this time characterized Republic of Macedonia, the Balkan “oasis of peace” because it wasn’t involved in the regional wars. But this peace was broken after the first actions by ethnic Albanians in Macedonia in 2000, mostly along Macedonia's border with Kosovo. In 2001 the ethnic conflict was intensified leading to Albanian Macedonian conflict in Macedonia. After the conflict in Ohrid, on 8 August 2001 the leadership of Macedonian government and main political parties in Macedonian parliament, signed agreement which aimed to finish the brutal conflict between Macedonian security forces and armed Albanian fighters in the state. The conflict in 2001 resulted in more than 200 victims, among them civilians in sides, Albanian solders and Macedonian defence forces and policemen. The Balkans wars that lasted about a decade (1991-2001) produced a lot of problems and many unwanted implications.

Post conflict environment of political unpredictability social confusion, and economic disorder created attractive situation for the development and stability of corrupt and criminal activities, regularly in the name of “nation building” and “ethnic issues.” Strong ties between political authorities and organized crime additional stimulate the expansion of non-transparent societies and criminalisation of states. The lack of political will to fight organized crime produced non-functional institutions for

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4 S Lenard J. Cohen, Jasna Dragović-Soso State Collapse in South-Eastern Europe: New Perspectives on Yugoslavia’s Disintegration, 2008 Purdue University Press
preventions from criminal activities. The region was faced with other negative factors, such as embargos, unclear immigration regulations, and struggle for better life conditions in the West also influenced to create conditions for criminalisation of Western Balkan societies.

### 2.3 Transition Organized Crime and Drug Trafficking in Western Balkan

Fall down of the communism in Eastern Europe brought several reforms to the Western Balkan States. The majority western Balkan states, motivated by the democratic European State, thanks to the rapid social transformations and by destructions of state authority and power of the state security apparatus, people get lost in different social system. The confusion was about what to accept as their value system, custom, belief, tradition, European law, and popular culture. As results of such situations many people move back to religion and customs to avoid anarchy.

The fast development of Western norms and values in the region caused “culture shock”. The disorganization of society is the essential reason of organized criminal activity. One cultural system is disordered in the sense that there are conflicts between values, norms and beliefs within a wide and dominant culture.

Thru process of westernizations Western societies, directly or indirectly, West impose their influence in Balkans, where is different cultural systems to their own.

Generally speaking, the majority of the countries in the region have no tradition of democratic norms and they have had difficulties in fast adaptations to the new situation. Such condition may have led to the lack of regulations and the enlargement of crime in the Western Balkan.

With phenomenon of globalization, the income from the global criminal economy: including drugs trafficking, and trafficked with human been is very high. As results of the impact from globalization and integration the notion “Western Balkans” became synonym for organized crime, corruption, mixture of state with leading political parties, miss use of state resources, electoral manipulations and other undemocratic behaviours.\(^6\)

In large number of Western Balkans Countries, there was a sentence, even from people with high position in state hierarchy or other officials, they said: “Every country has a mafia, but only in ours does the mafia have a country.” This negative statement is based on the fact that, organized crime in Western Balkans Countries developed through active cooperation with the state interior and legal affairs institutions. Or in different interpretations in most of Western Balkans Countries organised crime is operated and, more deeply, operates through and inside of official state institutions. The most spectacular example of this is in Serbia; where there was a debate about that the criminal organisations were an instrument of Milosevic’s regime, and that it served for his goals in politics, military issues. The tradition for unlawful support between the state security office and organized crime in the period of transition in Western Balkans Countries has his ties before 1989. The poor organisation of communist regime forced the majority of citizens to rely on illegal activities. In this social condition of chaos, the globalization as

\(^6\) Ognian Shentov Partners in Crime: The Risks of Symbiosis Between the Security Sector and organized crime southeast Europe Center for study and democracy Sofia 2004
processes create new forms of integration but they also lead to new forms of socio-political complexity, as a result of contact between norms drawn from different cultural systems.

We are explaining how this social complexity and why increased social mobility, growing inequality has contributed to the increasing number of conflicts, organized crime activities, corruptions etc. Our question isn’t the numerous benefits that globalization has brought to the world’s peoples. But negative aspects of globalization in Western Balkans Countries have led to the development of various deviations and movements for social, political and economic change, as transnational organized crime and terrorist groups should be calculated as a globalization results.

In beginning of nineteen in twenty centuries region was under strong influence of nationalism and conflicts between Balkan nations. The international community did nothing to solve the problem. The first step of international community to the Yugoslavian wars was the arms embargo imposed on all six Yugoslav states in 1992. All this social interaction together with process of globalization the wars and conflicts in the region had powerful influence on the drug trafficking in the Balkans. The road thru Balkan is well known for the trafficking of drugs, mostly after the 1990s. In this roads are involved different type of drugs especially from the eastern countries to European Union. The route is from the East to the West but before realization its final goals it is traveling thru Balkans.

2.4 Socio-political complexity and Islam

Another outcome of globalization and the Yugoslavian wars is the dissemination of different interpretations of Islam in the Balkan region. Western Balkan states were faced with another very important element of political complexity the interpretations of Islam. The Islamic religious groups in one side, with different interpretations of religion believed that Islamic law is a sacred law that should not be subject to interpretation. Strictly speaking, they accept an exact appliance of Sharia law that is mainly centered on Quran and Hadith (words and deeds of the messenger of Allah Muhammad) that left little or no space for reformations inside Islam. This type of commentary of religion was not unique, in other sides in Balkan region there were also present Islamic thoughts based on liberal interpretations of Islam or traditional exegesis. As results of this process and debates, they did instrumentalization of Islam, as a platform for political ideas and ideologies. Different interpretations often cause fractions between groups inside of the same community. However, for the first time the Islamic movement in the Balkans was associated with the Bosnian conflict (1992-1995).

The embargoes from UN enforce Bosnia and Herzegovina to do alliance with most fundamental states in the world, which supported Bosnia with human resources and money.\(^7\) The greater part of the organizations supplying arms to Bosniaks came from Islamic countries. This is one of the most controversial situations, which demonstrate how much the government of Bosnia and Herzegovina, depended on outside support for arms. This situation was consequence from arms embargo imposed to Bosnia by international community. Analyzing about fast growth of numerous criminal markets and extreme Islamic ideologies in the region, in process of transition when democracy came, must be

connected with sociological aspects and criminology to explain such actions. In sociology, crime and criminal activity are explained or described as an act or conduct that violates social rules, including a legal rules, laws or informal rules as violence of social norms.\(^8\) The answer of question why these rules are violated is on the study and analysing how these norms are formed, how they are modified over time, and how they became obligatory.

3. Conclusion

As conclusion and taking everything into account, we will say that the social complexity globalisations, social deviations, organised crime, economic stagnations and fail EU-NATO integrations, is real picture of Western Balkan states. The Balkan region is on the terrible situations if we compare with states of European Union. The region is faced with ambition of European Union to safe stability, to create successful and functional democratic societies on a solid road towards EU integration. But difficulties for successful integrations are obvious in all structure of social and political organisations. As we mention in Western Balkan countries the phenomenon of irresponsibility is result of social complexity, wars, transition division of population, wrong interpretation of religion, fake patriotism, incorrect state building etc. Our aim in this paper was to mention that the solution is not in one dimension but is multidimensional and complex.

The security and defence issues of Western Balkans countries must be integrated in international security system (NATO). The reformations of their security institutions and following in their footsteps will be final solutions for Western Balkan region. In other side for economic development and sustainable institutions is needed European Union membership. And finally with integration in EU and NATO maybe there will be bright future for us.

And finally the important key to understanding the relationship of different factors and actors such as globalisation, organised crime, drug trafficking and different interpretations of Islam in western Balkan context is fail to hold and understand, the more complex reality of Balkan politics.

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MEDIA CORPORATIONS AND EFFECT OF GLOBALIZATION

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Abstract

The main aim of our research is to examine the relationship between media and globalization processes. The focus will be on the impact of media corporations on globalizations, and on the role of Global News Agencies, and their wider influence on the society at large. During and after of Second World War the role of media Corporations has changed, and until today Multimedia Corporations had an important role in saving the most powerful stories of our century. Today, Multimedia Corporations are influential in so many different areas, like Economics, Politics and Culture. This impact is still examined by scholars.

Key words: Globalization, Multimedia Corporations, Cultural Change, Media Giants.

1. Introduction

Always I wanted to explore about Globalization and which is the main tool that helps globalization to grow with big dynamic in the world. Multimedia Corporations are very interesting for analyzing and search for their impact in changing the cultures. I would like to investigate how American Multimedia Giants work and are so powerful, how Global News Agencies influence the public opinion etc. Today, major global firms either own US production houses, or they produce elsewhere world-class competitive products for a global media market. Sony of Japan and Bertelsmann of Germany are good examples of foreign multimedia firms which compete daily with US media companies. Yet US firms still control a majority of foreign sales in the global communication market. They are also expanding through regional partnerships, international joint ventures, or outright takeovers. Time Warner, Disney, Viacom, News Corporation, and General Electric represent the major US media owners that dominate many global media and global media-related markets.

Time Warner controls CNN, HBO, Warner Brothers Record, AOL, and several other media properties. Disney controls ABC; Viacom owns MTV, CBS, BET, and Blockbuster. News Corp. owns the Fox properties, and General Electric owns NBC Universal. All are headquartered in the United States, the dominant core nation, with extensive semiperipheral and some peripheral market activities. (As shown in Figure 1)
Globalization in general describes the late twentieth-century condition of encounter and interdependence across cultures, societies, nations, and it is expansion of capitalism on a global scale. The globalization made changes in world political structure after World War II (post-1945) that included the rise of the United States and decolonization of the formerly colonized world, it is a shift from the concept of the nation-state as bounded and independent toward a range of economic, social and political connections across nations, and an acceleration in the scale, mode, and volume of exchange and relationship in nearly all spheres of human activity.

Globalization is surely one of the most commonly used and misused terms in the world today whenever people talk or write about politics, economics, the environment, music or just their day-to-day lives. For different groups the word has different resonance. For the international jet set, Globalization means that their business and leisure activities know no borders. For those who work in offices or factories around the world, Globalization might simply mean that they constantly exchange e-mails with colleagues located on different continents and that decisions taken in central headquarters, far away in kilometers but within immediate reach electronically, have a direct effect on their lives. For teenagers in the economically privileged parts of the world, it might be MTV, with its dominant discourse of consumerism, which is most representative of Globalization. However, for the majority of the planet’s inhabitants, particularly in sub Saharan Africa and some parts of South America and Asia, Globalization may mean economic conditions associated with worsening life circumstances rather than changes associated with having access to the kind of technologies that make possible instant communication and watching television. Within the research community, a wealth of literature has been produced on the topic of Globalization and with this literature has come a multitude of definitions, many related to...
economic relations. The definitions that are most revealing for the present research are those which refer to the spatial connections that Globalization encourages (Koenig, 2004, p. 23):

Globalization can be taken to refer to those spatio-temporal processes of change which underpin a transformation in the organization of human affairs by linking together and expanding human activity across regions and continents. Without reference to such expansive spatial connections, there can be no clear or coherent formulation of the term. (Held, McGrew, Goldblatt and Perraton, 1999: 15; Cited by Block, 2004, p. 24)

Globalization is the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa. (Giddens 1990: 64; Cited by Block, 2004, p.24)

With the flows and networks of closer social relations and connections, the fear of homogenization has surfaced. Scholars adopting the stance that Globalization will mean one world culture generally believe that homogenizing forces will eventually leave everyone in the world living, thinking and acting in very similar ways. For example, George Ritzer (1996, 1998; Cited by Block, 2004, p. 24) envisages the eventual homogenization of the means of consumption around the world, what he calls McDonaldization, that is ‘the principles of the fast-food restaurant [which] are coming to dominate more and more sectors of American society as well as the rest of the world’ (Ritzer, 1996: 1; Cited by Block, 2004, p.24). Ritzer’s work bridges economic Globalization to cultural Globalization as he effectively argues that consumption and consumerism are central tenets of late modern culture.

Along similar lines, Benjamin Barber argues that we are heading towards a single global culture, which he calls ‘McWorld’, defined as ‘an entertainment shopping experience that brings together malls, multiplex movie theatres, theme parks, spectator sports arenas, fast food chains (with their endless movie tieins) and television (with its burgeoning shopping networks) into a single vast enterprise …’ (Barber 1995: 97; Cited by Block, 2004, p. 24).

However, not all scholars would agree that Globalization leads necessarily to homogenization. As argued by Nederveen Pieterse (1995; in Block, 2004, p. 24) introduces into the discussion the concept of hybridization, understood as the natural mingling and mixing which goes on when the global meets the local. Elsewhere, Roland Robertson (1995; in Block, 2004, p. 24) translates the Japanese term globalization (Robertson, 1995; in Block, 2004, p.24), which he takes from the business context where it means marketing goods and services on global basis by catering to local particularities. Robertson re-invents the term for the context which interests him- cultures in contact- and uses it to signify what he calls the ‘interpenetrating’ of the ‘particular’ and the ‘universal’ (Robertson, 1995: 30; Block, 2004, p.24).

Both Pieterse and Robertson make the point that Globalization entails a synergetic relationship between the global and the local as opposed to the dominance of the former over the latter. It is evidence of this synergetic relationship with regard to language use that this present research is trying to track. Is there the equivalent linguistic globalization, with English and lesser used languages increasingly used as alternatives to national languages?

Where one locates the origin of globalizing forces influences one’s expectations about language practice. Some scholars (Schiller, 1985; Latouche, 1996; Ritzer, 1998; in Block, 2004, p.25) see
Globalization as hegemonic ally Western, and above all an extension of American imperialism (e.g. Schiller 1985, Ritzer 1998; in Block, 2004, p.25), Latouche (1996; in Block, 2004, p. 25) writes about the “Westernization of the world” and the progressive “worldwide standardization of lifestyles” (Latouche 1996: 3; in Block, 2004, p. 25). For Latouche, fundamental Western ideology and culture, best exemplified in the United States, are becoming the norm around the world as there is convergence in all aspects of people’s lives, from how they dress to how they eat, from their entertainment preferences to their work habits and from architecture to their attitudes towards personal freedom, gender, race, religion and science. Spread of English is an expected part of this creeping uniformity.

However, other scholars would disagree with the view that Globalization is merely US imperialism by other means. Writing in the early nineties, Giddens acknowledges that ‘[t]he first phase of Globalization was plainly governed, primarily, by the expansion of the West, and institutions which originated in the West’ (Giddens 1994: 96; in Block, 2004, p. 25); however, he goes on to state:

*Although still dominated by Western power, Globalization today can no longer be spoken of only as a matter of one-way imperialism … now, increasingly, … there is no obvious ‘direction’ to Globalization at all, as its ramifications are ever present….’* (Giddens, 1994: 96; in Block, 2004, p. 25).

Elsewhere, (Robertson, 1992 and Friedman, 1994; in Block, 2004, p. 25) express similar views, that effectively it is unhelpful to frame the discussion in terms of Western dominance over “the rest”.

The question then arises whether this multi polarity extends to language or whether even where Western power is diluted, the principal language of that power is still used as the lingua franca of globalizing groups.

Arising from such debates about Western hegemony and the relative strength of the local is the question of whether or not Globalization is seen as a generally positive or generally negative phenomenon. On the positive side, there are scholars, such as Kenichi Ohmae (1990, 1995; in Block, 2004, p. 25), who not only argue that global market forces and transactional corporations run the world today and that the nation state and labor unions have become obsolete as structures of social organization, but that these developments are a mark of progress. More typical of scholars, however, is a more skeptical and even negative stance.

Eric Hobsbawm (1994; in Block, 2004, p. 25) and Paul Smith (1997; in Block, 2004, p. 25) make the point that Globalization is really the traditional capitalism of economic imperialism and international hierarchies, which has been transformed by the use of new technologies and a clearer than ever distinction between industrially-based and service-based economies. Elsewhere, Gray (1998; in Block, 2004, p. 26) discusses the results of this combination of the old philosophy and new means.

He sees the new globalized economy in the form of the Washington Consensus2 as fundamentally destructive, leading above all to the dismantling of the welfare state, which so characterized the economically advanced countries in the world over the second half of the twentieth century. Meanwhile, Ritzer (1996, 1998; in Block, 2004, p. 26) is equally dystopic as he believes that the process of *McDonaldization* cited above will lead the citizens of the world to a soulless and “disenchanted”
existence where experiences which were previously authentic to individuals, have become commodified and over-rationalized.

Whether Globalization means homogenizations or not, or Americanization or not, or a dystopic future for the world or not, it remains the dominant framework for current discussions and analyses of social phenomena. And the two social phenomena that intersect and are the focus of this issue of the IJMS - language use and Internet use - cannot be discussed, researched or analyzed without taking into account the contrasting views on Globalization outlined above. Indeed, as I have started to indicate, there is an obvious parallel between global/local tension running cross the views summarized above and the competition between English and other languages as media for the Internet. I will have more to say about this below. First, however, I discuss the relationship between Globalization and the spread of English, the origins of the Internet and how English came to be considered ‘the language of the Internet’ during the mid-nineties. (Block, 2004, p. 26)

Globalization in future perspective made huge changes in political, economical and communications arenas. Nowadays we have historical and continuing role of communication in globalization, corporate control of global communication and transnational media conglomerates, international and national communication policies, defining the architecture of global communication, intellectual property and copyright, governance of cyberspace, futures of the mass media and journalism, growth of new media in non-democratic societies (such as China), Access to communication technology and the digital divide, international broadcasting rights, global advertising, marketing practices and national policies, information revolutions and challenges to state power.

Globalization is shaped by culture and influences different areas, such as:

- Influences of globalization on traditional languages and cultures
- Cultural imperialism,
- Resistance to globalization among cultures
- Migration and population movements
- Diasporic communities
- Global virtual communities
- Negotiation among cultures
- Globalization and religion
- Comparative religion study
- The growing role of Global Islam
- Transformation of the international workforce
- The local in a globalized world – “globalization”
- The globalization of sport
- The cultural implications of the Olympics, Super Bowl, and World Cup
- Transformation of the university and education. (Kolar Panov, 2015, IBU)

Whether Globalization means homogenizations or not, or Americanization or not, or a dystopic future for the world or not, it remains the dominant framework for current discussions and analyses of social phenomena. Depending on the circumstances, the driving forces behind global cultural
homogenization can be weak. In all cases, imported media is never a sufficient condition to dominate local cultures.

Other intervening factors must coincide, such as a weak national identity or the political and/or economic suppression of local media and local culture. In any case, local cultures are likely to redefine the semiotic and social meanings of imported content.

3. Globalization of Multimedia Corporations

Media within globalization has been understood in several ways:

-The cultural imperialism argument emphasizes the information technology divide within which dominant cultures impose information, products, and values on those of less dominant ones.

-The hybridization thesis stresses that globalization of economy, trade, and migration has created cultures that are hybridized, mixed, syncretic and composite. Globalization creates combinations of sameness and difference: center to periphery, periphery to center, creolization, and regional media productions.

-A new media order, beyond sameness and difference suggests that cultural exchanges are more complicated than similarity and difference: polycentrism, indigenization, overlapping ‘scapes’ – create alternative approaches to media and visual cultures.

“Internationalization” is a fashionable, mysterious, and magic word on everyone’s lips. For some people, it is what we must do if we wish to be happy; for others it is the cause of much angst. Most agree that the trend toward internationalization appears to be irreversible, and it is a process that is bound to affect all in one way or another. Although we accept the situation as significant, there are some problems with the term, itself. Does globalization turn our planet into a world society, a “global village”? Or, conversely, does it disintegrate the nation-state system, and dissolve stable national identities? Some theorists support the idea that a global village will encourage universal citizenship and allow national cultures to interact. Others argue that the flow of media from the rich states to the poorer countries may aggravate the already existing power gap between them, or that imported media cultures may threaten the native culture of the receiving country. The terms “internationalization” and “globalization” have somewhat different foci of meanings.

The former usually refers to standards and rules, while the latter often identifies social, migratory, linguistic, and economic practices of global integration. For simplification, the terms will be used interchangeably in this paper, which will use the experience of India’s media industry to analyze the influence of media internationalization on national cultures. (Wang, 2008, p. 203)

It has been argued that the globalization of media will result in the decentralization of power and permit more bottom-up control. Marshall McLuhan provides two important concepts: “the medium is the message” and “the global village” (Marchessault, 2005, p. 213; in Wang, 2008, p. 204). This insightful phrase “global village” was chosen by McLuhan to highlight his observation that an electronic
nervous system, the media, was rapidly integrating the globe - i.e. events in one part of the world could be experienced from other parts in real-time. What human experience was like when we lived in small villages?

Wheeler (1997; in Wang, 2004, p. 204) argues that the new media challenges the one-way flow of information by enhancing interactivity.

Thus, the production of knowledge is decentralized and democratized. Through such decentralization, technologies prevent dominant authorities from managing the flow of information. In turn, the new technologies allow for the globalization of the media economy, compress time, make spatial relations horizontal, relocate information and undermine the role of nation states... The globe’s citizens may engage in a shared culture, a global village, which undermines the previously hierarchical, uniform or individualizing methods of ideological control.

Because of the American monopoly in communication research since the Second World War, some people viewed mass media as a channel of Westernization. The flow of media from the West to less developed countries was regarded by the developed west as good not only for the recipients but also for the senders who saw it as an integral part of their fight against socialism and totalitarianism. But this ethnocentric view of global communications has drawn a critical response from international scholars and receiving countries. During the Cold War and the numerous resistance movements within many semi-colonial areas, the issue became an inevitable argument. New media imperialism seemed to succeed more easily than the previous international propaganda because of its form of ordinary entertainment and the willingness of mass audiences to enjoy popular culture. (Wang, 2004, p. 205)

Internationalization of media can influence national cultures in different ways. However, the cultural hegemony of media exporters is unlikely in and of itself to result in cultural domination. “Media may be a necessary, but are unlikely to be a sufficient, condition for cultural resistance or submission” (McQuail, 2000, p. 238; Wang, 2004, p.205). International media’s effect on local culture should always be examined within the context of different economic, technological and cultural situations. Economic and technological internationalization of media not only recharges the existing media strengths, but also allows new media outlets to emerge and grow. In the case of India, the national and local media players grow increasingly stronger; due to cultural factors, they have an edge over foreign competitors. (Wang, 2004, p. 210)

Globalization of media is not a term of global nature. As Sparks (2000; Wang, 2004, p. 205) has argued, no media is genuinely global in nature. In addition, the so-called global media’s audience is ‘too small, too rich and too English-speaking to be considered inclusive.’ There is little evidence that supports the existence of a global public sphere and the public sphere remains largely state-oriented. There is no question that all these globalizing trends are made possible with the help of mass media at both the domestic and international level.

This process of “globalization” is often portrayed as a positive force which is unifying widely different societies, integrating them into a “global village”, and enriching all in the process. It is variously described as an inevitable by-product of human evolution and progress, as if it were an organic process, governed by the laws of nature. However, globalization is not necessarily a natural progression emerging out of the ordinary communication and interaction of people and cultures around the world. Rather, it
results from elaborate human choice by a powerful group of nations, transnational corporations (TNCs) and international organizations which have stakes in the process.

Globalization" emerged as a buzzword in the 1990s, just as "interdependence" did in the 1970s, but the phenomena it refers to are not entirely new. Our characterization of interdependence more than 20 years ago now applies to globalization at the turn of the millennium: "This vague phrase expresses a poorly understood but widespread feeling that the very nature of world politics is changing. Like all popular concepts meant to cover a variety of phenomena, both "interdependence" and "globalization" have many meanings.

To understand what people are talking about when they use the terms and to make them useful for analysis, we must begin by asking whether interdependence and globalization are simply two words for the same thing, or whether there is something new going on.

Twenty years ago people talked about Americanization of media in the world. Today people talk more about globalization because it is apparent that although American media play a prominent role in the global scene, media industries from a number of other countries are also heavily across the world.

A handful of firms dominate the globalize part of the media system. The six largest are AOL, Time Warner (U.S.), Disney (U.S.), Vivendi-Universal (French), Bertelsmann (German), Viacom (U.S.), and Rupert Murdoch’s News Corporation (Australian). The other four main global firms are AT&T (U.S.), Microsoft (U.S.), and two media groups that are part of much large industrial corporations: General Electric/NBC (U.S.) and Sony/Columbia/TriStar (Japanese) (Variety, 2002).

Of the top 10 global media firms, then, six are American (counting News Corporations as Australian), mostly produce, distribute, and regulate almost all media outlets. These types of companies were growing and globalizing quickly. Time Warner and Disney generated around 15 percent of their income outside of the United States in 1900, a figure that rose to 30-35 percent by 2002.

Cable and satellite TV, which has been familiar to most Americans, Canadians, and some Europeans for years, is now expanding in most other countries of the world. Direct Broadcasting Satellite (DBS) or Direct-to-Home (DTH) started in Japan and Britain and has readily spread too many other countries, often spanning the borders of neighboring countries.

By the 1990s, cable systems and the private satellite TV channels to feed them were blossoming in Europe, Latin American, and Asia. These cable systems delivered what is for the most part a one-way expansion of new video channels, especially U.S. cable channels into these new markets.

A number of channels quickly became global in reach: CNN, MTV, HBO, ESPN, TNT, Nickelodeon, the Cartoon Network, Discovery, Disney, and others began to delli their existing channels in these countries or even to translate and adopt their U.S. channels to the languages and cultures of the new audiences (Straubhaar & LaRose, 2004; Wang, 2004, p. 20).
4. American Multimedia Corporations

No long ago, US productions particularly feature film and television shows, dominated theater screens and television sets around the globe. Foreign productions provided relatively little competition. Today, other major global firms either own US production houses, or they produce elsewhere world-class competitive products for a global media market. Sony of Japan and Bertelsmann of Germany are good examples of foreign multimedia firms which compete daily with US media companies. Yet US firms still control a majority of foreign sales in the global communication market. They are also expanding through regional partnerships, international joint ventures, or outright takeovers. Time Warner, Disney, Viacom, News Corporation, and General Electric represent the major US media owners that dominate many global media and global media related markets.

Time Warner controls CNN, HBO, Warner Brothers Records, AOL, and several other media properties. Disney controls ABC; Viacom owns MTV, CBS, BET, and Blockbuster. News Corp. owns the FOX properties, and General Electric owns NBC Universal. All are headquartered in the United States, the dominant core nation, with extensive semi peripheral and some peripheral market activities. This chapter details origins, assets, and global interests of major US multimedia firms.

It is important to note the profiles of such multimedia firms. First, in terms of revenue, the three largest global media empires are all American. Time Warner, which owns several major properties, is by far the largest, but it does not own a general-interest national television network such ABC, CBS, FOX, or NBC. Disney is second and owns ABC radio and television, as well as ESPN. Viacom is third and owns CBS radio and television, along with MTV and BET. The fourth largest global media empire is the News Corporation, which domestically controls the FOX television network, 20th Century Fox, and has many other global properties. NBC network is owned by General Electric and is detailed in this chapter. NBC also has global activities such as CNBC, MSNBC, which is a partnership with Microsoft, and cable TV channels in Europe and Asia.

Second, in terms of electronic colonialism theory, all of the US multimedia empires, along with their extensive advertising networks, project and encourage US tastes, values, mores, history, culture, and language around the world. To a considerable extent, it is this influence that concerns other core, semi peripheral, and peripheral countries because of the impact of US multimedia fare on those countries’ domestic media.

Their concern covers a vast range of cultural products such as music, movies, television series, magazines, books, and now the internet. In terms of world-system theory, the United States’ activities in semi peripheral nations, which have large, accessible markets with growing disposable incomes, as well its activities in some peripheral nations, illustrate well the model explaining the broad range of offshore economic activities undertaken by major US communication corporations.

Major US global multimedia empires define relations with other nations along several product lines, as well as advertising, on an expanding number of foreign commercial television, radio networks, and print publications.

Hollywood- and New York-based communications corporation do well on a global scale because they have four substantial advantages. First, they operate in English, the language of the largest global
segment of media outlets with purchasing power. Second, they have access to substantial fiscal resources and capital markets, allowing them to finance multimillion-dollar productions. A single Hollywood feature film cost more than most other nations spend annually on all their feature films. Third, US television networks overwhelmingly prefer US made primetime shows. ABC, CBS, FOX, and NBC seldom purchase foreign-made programs. Fourth, Hollywood and New York have access to the broadest range of acting talent, producers, writers, and directors. Some of the talent is from other core nations such as Australia, Canada, Britain, France, or Japan.

The best global actors and actresses work primarily or exclusively on US productions. The critics of US cultural imperialism are at a virtual loss about what to do. Some call for media protectionist policies, which emerge from time to time around the globe. Quotas limiting US media import are a good example.

Other simply laments the fact that the business is all about economics and job opportunities and that there are scant opportunities for actors, writers, or producers from semi peripheral and peripheral nations to obtain employment and needed exposure in core nations. Most foreign commercial market buys US television and movies for their television and theater outlets. For example, across Europe, 60 to 80 percent of their purchases of foreign television programming are native to the US. At least 50 percent of the movie screens in Europe show Hollywood productions as well.

Across Latino America 60 percent of the movie screens show Hollywood productions. In the future, as the number of channels increases in other core and semi peripheral nations thanks to cable, satellite, and digital technologies, the need for content will only increase the demand for American productions for all genres.

The three largest media conglomerates in the world are all US owned. They are Time Warner, Disney, and Viacom. (McPhail, 2007, pp.59-61)

5. Conclusions

Globally there is an expansion of movie theaters, cable systems, satellite distribution systems, personal computers, music, CD, and video outlets. In particular, US multinational communication corporations such as Disney, News Corp., GE, Time Warner, Dow Jones, Gannett, and Viacom are strategically repositioning themselves as global corporations rather than simply US communication firms.

The growth and impact of US multimedia firms changed considerably in 2004. The addition of News Corp. from Australia, and Universal properties to NBC from France’s Vivendi, represents an enormous net gain for the US media sector. At the same time, it represents a net loss to two other core nations, Australia and France.

Because the United States is the leading core nation, these corporations have become aggressive in other core nations in Europe and Asia. At the same time, they have expanded into the semi peripheral nations because these represent substantial new markets where there is strong demand for US products of all types, ranging from CDs and DVDs, to movies, to the internet. These semi peripheral nations also have the greatest number of potential new customers with discretionary disposable income. They represent a new customer base for all the major US communication empires.
US media giants, with their advertising, products, and services, have inundated only a few peripheral nations. Most peripheral nations lack the necessary technical infrastructure, ability to provide security or sufficient disposable income to make economically worthwhile to establish major activities in these regions.

At the same time, some of these peripheral nations are seeking to avoid contact with US popular and media culture as they attempt to protect and promote an indigenous culture, which is usually low technology, or because of religious beliefs, authoritarian governments, or antidemocratic leaders. Finally, these global media firms must continue to grow if they want to remain competitive.

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CONCEPTUALIZING GROWTH OF SMALL AND MEDIUM-SIZE CONSTRUCTION FIRMS IN GHANA

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Abstract

The growth of small and medium-sized construction firms (SMEs) undoubtedly remains an important consideration within socio-economic activities in the Ghanaian economy. Literature has established both tangible and intangible benefits that emanate from the activities of construction SMEs within the sector. Further, literature has also not reached consensus on a unified definition of what firm’s growth constitute. Firm’s growth is rather considered from the perspective of both internal and external determinants which makes comprehending growth vague. This study, however, conceptualized the growth of Construction SMEs with details of firm’s growth indicators. In order to establish the aim of the study, semi-structured interviews supplemented by a review of existing literature on firm’s growth was adopted to drive similar and new constructs that have informed this study. The study provides a significant conclusion to the study which includes the main determinates of firm’s growth such as the entrepreneurial feature of the firm characteristics and the business environment of the firm. Also captured in the conclusion are necessary growth barriers that must be controlled if growth within the construction SMEs in Ghana is to be achieved.

**Keywords:** Conceptualize, Construction, Firms, Growth, Small and Medium-Size.

1. Introduction

The construction industry plays a crucial role in the socio-economic development of a nation such as Ghana. The inherent programme and activities the construction sector, therefore, renders have vast benefits. As a result, the growth of small and medium size construction firms which operate within the sector undoubtedly remain an important consideration within the socio-economic activities in Ghanaian economy. The operations of small and medium size construction firms within the economy are widespread across infrastructure projects such as the building of houses hospital, roads water projects among others. The projects embarked by these SMEs, however, contribute immensely to the entire growth of the Ghanaian economy in terms of creation of employment and jobs reduction of poverty among the populace and in addressing the dearth social amenities of the nation. The growth
of among these SMEs is, therefore, essential. Literature has not reached any consensus on a unified definition of what firm growth constitutes. Further firm’s growth is rather considered from the perspective of both internal and external determinants which makes comprehending growth vague. This study seeks therefore to conceptualise growth of construction SMEs with details its underlying constructs and indicators.

2. Purpose of study

The purpose of the study is to conceptualise growth of small and medium size construction firms and explore the related factors that drive firm’s growth.

3. Methodology

To achieve the purpose of the study, the use of qualitative approached particularly with the use of semi-structured interviews was adopted and was supplemented by existing literature on SME growth. The method commenced with the design of a formal invitation letter to participants for the field survey. The targeted population consists of both owners of SMEs construction firms and the professionals employed by the SMEs. A total of ten (10) interviews were held among five firm owners and five construction professionals on a purposive sampling basis. The semi-structure interview questions considered for the process focused solely on firm’s growth and its related factors which influence growth. This was mainly guided by an interview schedule which recorded and was later transcribed. Each interviewee had approximately eight (8) minutes to response to interview questions. The second approached adopted the use of existing literature on firm’s growth. This technique made use of books, current journal and conference publications and the use of other e-resources which was a desk-top study.

4. Review of Literature

The word ‘growth’ used in the context of firms signifies an increase in sales, outputs, size, employment or improvement in quality as a result of the firm’s operation (Arthur-Adioo et al. 2015). Growth can also be measured in the form of qualitative features like market position, quality of the product and goodwill of the customers. In addition, Moreno and Casillas (2007) postulated that the growth of firms vary and may be measured by various levels of sales and employee’s growth over a particular period. Sales volumes of firms that are considered as the standard feature of growth measure also depend on the prevailing external environment factors to the firm such as inflation and exchange rates.

Similarly, Massey et al. (2006) discovered that firm’s growth is not homogenous amongst SME’s, therefore, the growth trend of these firms changes over time. Firm growth emerges in order for firms to achieve their strategic intent including increasing sales, maximizing profits or increasing market share. According to Barringer et al. (2005), despite firms setting measures in order to achieve their strategic goals, it is often realized that very few firms accomplished it. Further, Barringer et al., (2005) stressed that firm’s growth is not an automatic event to happen and as such managers and owners must endeavour to set up schemes and measures that will bring in growth. Literature has also emphasized that there is no acceptable definition of firm’s growth rather the definition depends on its classification determinants.
Classification of Growth

Miriam (2006) informs that firms grow in two ways that are via internal expansion (organically) and through integration (inorganic). Organic growth means a firm need to retain sufficient profits to enable it to purchase new assets, including new technology. Over time, the total value of a firm’s tangible assets will rise which provides collateral for the firm to borrow to fund further expansion. Mognetti (2002) cited in Miriam (2006) affirmed that organic growth is widely referred to as internal procedure where the firm relies primarily on intrinsic skills individuals and the firm itself to grow from within. This is accomplished by several techniques such as increasing customer relationships, delivering more value to the client, creating more demand in the markets among others thereby increasing returns of firms (Miriam, 2006). Whiles with inorganic growth, firms need to amalgamate with other firms. Firms combine via mergers where there is a mutual agreement, or through acquisitions. This, however, occurs where one firm acquires shares in another firm, with or without agreement. The types of integration include vertical and horizontal integration. Vertical integration transpires when firms merge at different stages of production. There are two further types of vertical integration namely backwards and forwards. Horizontal integration, on the other hand, occurs when firms merge at the same stage of production. Horizontal integration is also referred to as lateral integration. Inorganic growth is often seen as a faster way for firms to grow compared with organic growth. In as early as (1982), Nelson & Winter asserted that growth is an organizational outcome resulting from the combination of firm’s resources, capabilities and routines. A firm’s growth opportunities are highly related to its current organizational production activities (Coad, 2009). Firm’s growth is also uncertain: environmental conditions such as competition and market dynamics play their roles.

Determinants of firm’s growth among construction SMEs

The study of Gopinath (2012) emphasised that firm’s growth is the podium on prevailing macro and microeconomic issues such as its organizational outcomes resulting from the combinations of firm-specific resources and capabilities. Zhou and Wit (2009) on the other hand hypothesized that determinants of firm’s growth are classified into three integrated themes namely: organizational, environmental and individual determinants. According to Beck et al. (2006), one of the key drivers of sustainable growth in developing countries are firm growth and productivity. Therefore, policy makers and researchers have a keen interest in firm’s growth. As a result, recognizing the strait that promotes small and medium-sized firm’s growth will provide the basis to influence policy direction thereby creating a conducive business environment to help other informal sectors. Hashi and Kransnigi (2011), similarly established that the determinants of SME’s growth are grouped into three categories including those related to the entrepreneurial features of that firm, secondly, those linked to other characteristics of the firm and lastly those related to the business environment that the firm operates.

Entrepreneurial features of the firm

Kritikos (2014) emphasized that Entrepreneurial features do not only impact on the internal growth of business but the economic growth of a nation. This is because entrepreneurs often create new technologies, develop new products or process innovation, and open new markets that drive growth in their firms and the entire economy. Entrepreneurial features depend on the characteristics of the person or persons that provide the key resources used in establishing the business. They are typically identifiable prior to developing the business and include a range of
personal and behavioral characteristics. Growth and development of SME’s depend entirely on the motivation and ambition of the owner of the firm personality behavior. The personality trait of entrepreneurs is a key factor that affects motivation (Delmar, 1996). Zhou and Wit (2009) supported that willingness and ability of owner with the addition of growth motivation play a significant role in entrepreneurial ventures. Approaches to growth depend on the expected consequences of growth (Wiklund et al., 2003) and what the entrepreneur is comfortable managing (Cliff, 1998).

**Firm’s characteristics**

According to Kolvereid and Isaksen (2006) owners and entrepreneurs of SME’s desire growth within their firms, however, skills are required in order to accomplish it. Firm’s characteristics include the growth strategies for management personnel and the entire firm Hutchinson et al. (2006). Firm’s characteristics determinants are found to have the greatest influence on firm growth. These strategies regarding the features of the firm such as size, age, human capital and ownership amongst may also affect the growth pattern of the firm. Some firms grow and survive while others do not grow and end up leaving the market. Dobbs and Hamilton (2006) postulated that growth on SMEs could be better understood using stochastic models that emanate from the law of proportionate effect. Gibrat’s Law affirmed that there was no relationship between the size of a firm and its growth.

**Business environment of firm**

Gopinath (2012) however demonstrated that the environmental determinants namely dynamism, hostility and heterogeneity determine the growth potential of SME’s firms. To some extent, growth is externally determined by the environment in which the firm operates. The external environment of firms is considered as a crucial issue for its growth (Hashi and Kransniqi, 2011). This is because the business climate is, of course, a multi-dimensional environment with prevailing institutional and regulatory framework. According to Stiglitz and Weiss (1981) cited in Serrasqueiro (2010) pointed that if capital markets are perfect, then all firms would have access to alternative sources of finance (internal and external would be considered excellent substitute. Reijonen, et al. (2012) supported that market orientation gives small businesses a potential competitive advantage over their counterparts operating on a large scale. That is because the proximity of SME firms and their customers is usually closer, and this facilitates able quickly and flexibly respond to their needs, experience less organizational bureaucracy and thus can distribute customer information and implement marketing plans quickly. Studies by (Gronroos, 2006; Gudlaugsson and Schalk, 2009) have affirmed that market-oriented firms turn to perform better than firms that are less market-oriented as they focus on adapting their products and services based on the needs and expectations of their customers. Market orientation has been identified as the key to successful business performance and growth (Dauda and Akingbade, 2010; Grönroos, 2006). Similarly, other studies by Pulendran et al., (2003); Matsuno et al., (2002) established that market orientation enhances the market share, profitability, return on investment.

**Barriers hindering the growth of SMEs**

Louis and Macamo (2011) demonstrated that there are significant barriers to SME’s growth in most market economies except the most flexible and deregulated economies. Small and Medium-sized firms, as captured in literature, is the engine of growth of most economies and are expected to drive these savings to enhance growth
thereby minimizing significant barriers. As a result, there is the need to give attention to the set of the barriers which hinder the growth of potential fast growth firms that have the greatest capacity to provide employment and bring in novelty in technologies. Although, growth to a considerable extent is a matter of willingness and skill, the fundamental facilitators and barriers in the environment cannot be disregarded (Davidsson et al., 2005). Davidsson (1989) cited in Zhou and Wit (2009) affirmed that there are generally some determinates that facilitate firm’s growth as well as other factors too that hinder potential growth, such factors that retard is the growth barriers. These barriers may be classified as either internal or external. According to Amarijit and Nahum (2012), the literature on growth barriers to firm shown that there are different barriers to small business growth in various countries of the world. This may be because of the different economic situations, rules and regulations, political system, market competition, and legal system of different countries.

Financial Barriers

Zhou and Wit (2009) argued that common barriers encountered by SME’s include institutional barriers, barriers emanating firm’s internal operations and financial barriers. A study by (Becchetti and Trovato, 2010) established the main obstacle to the growth of SME’s as the financial barriers which include credit constraints, lack of external debt, and equity capital. Evidence shows that banks and other financial institutes are conservative to make loans and credit facility available to SME’s. This is because the majority of these SMEs do not have collateral, and also, they are new entrants in the business with limited capital. Bartlett and Bukvic (2001) stressed that the financial barriers to SME’s growth include high collateral, high bank charges and fees, lack of outside equity and venture capital and the high cost of credit. Levey et al. (1999) cited in Abor and Quartey (2010) supported that there is limited access to financial resources available to SME’s compared to large organization and consequences for their growth and development. Financial assistance is, therefore, paramount for the development of small and medium-size firms (Cook and Nixton 2000). Green et al. (2002), affirms that lack of funds is considered the fundamental reason for the business failing to start or to progress thus finance is a binder that holds together all various aspects involved in the small business start-up and development.

Institutional Barriers

This categorized barrier is what the construction SMEs, as well as their counterparts in other sectors, are often faced in terms of their growth is the institutional constraints. According to Bartlett and Bukvic (2001), the institutional framework within which SME’s operate and interact with customers and government can act as a barrier and influence the firm’s economic performance and growth. Complex regulation and laws pose as huge barriers to the growth of SME’s particularly to new entrant’s firms and expansion of existing SME’s. Bartlett and Bukvic (2001) further stressed that institutional constraints may be in terms of the unsuitable tax system, strenuous legal policies and other discriminate rules that grow towards SME’s tends to hinder their growth. Smorfitt (2008) cited in Louis and Macamo (2011) asserted that a weak legislation that does not support the growth and development of SME’s and it may also hinder their growth strategy. Further, the huge start-up cost for firms including licensing and registration requirements may also impose burdens on SME’s (Abor and Quartey 2010). Davidsson & Henreksson (2002) cited in Zhou and Wit (2009) established that consistent results from both empirical and theoretical data show that individual institution internationally discriminates against the growth of SME’s which in turn act as a barrier. Economies of nations where political activities have polarized, SME’s operations tend to affect the growth of its entire industries. For that reason, any political instability will cause
significant constraints having an adverse impact on the productivity of manufacturing sector featuring poor business environment. Gyimah-Brempong (2004), observed that high level of the risk factor is attached to the presence of weak institutions that leads to political instability with a considerable negative impact on overall economic growth thereby providing an additional stronger adverse effect on the performance of individual firms. Institutional barriers for SME firms may also be in the form of stringent procurement laws regarding the award of contracts, the supply of materials and payment issues on works done by firms’ issues.

Social Barriers

Although there is dearth of literature on this category of growth barrier within the firm, however, this social barrier may emanate when SME firms or any of its partners is engaged in social vices such as theft or pilfering of items, corruption drug trafficking will tend to reduce the prestige of the firm thereby affecting its entire growth in the long run. According to Bartlett and Bukvic (2010), economic sociology has stressed how vital the connection between entrepreneurs and social capital, trust and networking, is for facilitating the growth of SME’s sector. This is because without a certain level of trust between businesses partners; there will be the absence of reliance on individuals and at firm levels that may prevent the transaction being carried out. Bartlett and Buckvic (2010) further pointed that without trust among business partners, transaction cost will be exposed and with the possibility of the opportunistic, taking advantage. SME’s may overcome such barriers by having an institutional, regulatory support network service. The ideal services in the form of advice, provision of information and training may aid in controlling such barriers (Bartlett and Bukvic, 2010).

Barriers internal to the firm

Internal barriers that are classified as organizational barriers also hinder SME’s growth. These include lack of required skills and knowledge, managerial capacity, unclear mission statement and vision of firm among others. Further, SME’s owners need to be aware of the business lifecycle and be able to determine the stage their business has gotten to and the need to expand. However, if owners are unable to identify this stage, their business will stagnate without any growth or expansion. The internal barrier may also arise from the entrepreneur’s reluctance to let go of control to the professional manager; Storey (1994) cited in Louis and Macamo (2011). The lack of managerial know-how imposes significant constraints on SME’s development. Further, the dearth of management talent and skills prevalent in most countries has a magnified impact on SME’s (Abor and Quartey 2010). According to Kaynula and Quartey (2000), despite numerous institutions providing training and advisory services, there is still the skills gap in the SME sector as a whole. This is because of the associated massive charges that come with these training services and as such owners of these SME’s do not recognize the need to upgrade the skills of their employees (Abor and Quartey, 2000). Similarly, Aryeetey et al. (1994) emphasised that small and medium size firms challenge in terms of technology in gaining access to appropriate technologies. Capacity limitations of the firm, shortage in resources (human and capital) and its management may constitute barriers internal to the firm (Bartlett and Bukvic, 2001).
5. Findings and discussions

The semi-structured interviews supported by the review of existing literature revealed that firm’s growth is identified in various forms by the construction firms. Most owners interviewed remarked that firm growth is linked with the number of projects that a firm engages itself, the number of employees managed by the firm and the turnover of the firm. Further interviewees, also indicated that the difficulty and the non-universal definition of the term growth make it complex for firms to strategies and initiate that within the activities of a firm. Further, to the findings revealed from the semi-structured interviews include the determinants of firm’s growth and barriers hindering firm’s growth. Interviewees pointed out the core determinants of growth among construction SMEs are the strategy of the firm, the level of influence of firm’s policy and the level motivation of human capital within the firm. Interviewees further reiterated that human capital of a firm is the bedrock of the firm on which all activities revolve. This is because the successes and failure of the firm depend largely on the level of motivation (intrinsic or extrinsic) of human capital. Also, when the firm’s policy is so rigid without any flexibility to accommodate novelty, there will be dearth in growth. Respondents also stressed that firm’s growth is associated with lots of essential benefits to the entire nation, provision of employment and job security, poverty reduction among the populace amongst others. Nevertheless, the growth of firms also has constraints which hinder the growth process to ensue. These constraints are categorized as internal and external. According to the interviewees, growth constraints emanating from an external source includes economic pressures, rivalry completion among similar firms, regent industry policies preventing growth. Also revealed from the study are the internal organizational barriers which posed as a barrier to the growth of a firm. Relevant among them includes the poor managerial structures which constitute poor communication structure. Interviewees further emphasized that communication is the heart of very firm which drives all its operation as a result when the communication lines within a firm are broken down then the operations together with the goals of the firm will be affected. In addition, this will also affect the human relations that will stimulate growth within the firm.

6. Conclusions

In conclusion, this study has explored and conceptualised growth among SME construction firms in Ghana. The study concludes that growth among construction SMEs in Ghana are defined in various perspective including a number of projects s firm is engaged in, the number of employees and the turnover of the firm. Further, growth among these firms is essential due to the vast benefits that are obtained within the Ghanaian economy. Further conclusions from the study stressed that firms grow in two ways namely organic (internally) and by integration with other firms (inorganic). However, the growth within firms is largely determined by entrepreneurial features of the firm. Kritikos (2014) supported that entrepreneurial features do not only impact on the internal growth of a firm but the economic growth of a nation. A firm characteristic is another growth determinant of a firm. This variable highlights on factors such firm size, age, human capital available to the firm and the type of firm ownership. Further, the business environment that the firm operates also affect growth. A study by Gopinath (2012) however demonstrated the environment determinant namely dynamism, hostility and heterogeneity determine the growth potential of SME firms. In addition, the study concludes that the significant barriers that hinder firm growth are categorised into internal and external. The external barriers emanate from industry regulations, taxation, competition, financial accessibility to funds among others whiles the internal barriers to firm’s growth comes from some organizational barriers from the firm.
References


SUSTAINING SMALL AND MEDIUM-SIZE ENTERPRISES GROWTH THROUGH STAKEHOLDER ENGAGEMENT

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Abstract

Small and Medium–size Enterprises SMEs play significant roles in the construction sector supply chain procurement system, contributing to nation’s gross domestic product, employment and socio-economic development. Studies have identified SMEs growth in Ghana as non-sustained and attributed to stakeholder’s influence. This study identifies stakeholders’, influences and proposes a stakeholder engagement approach for sustained growth. A qualitative approach involving literature review was validated using questionnaire interview survey and descriptive analysis. A five- stage engagement process proposed: identify SMEs growth objectives and challenges; identify and analyze stakeholders; engage stakeholders; measure growth; monitor and support objectives using feedback for sustained SMEs growth.

Keywords: Construction Industry, Growth, Stakeholder, Stakeholder Engagement.

1. Introduction

The construction sector in many developing countries plays asignificant role in the socio-economic development of the nation. Studies have revealed that there are numerous small and medium sized enterprises SMEs involved in the construction industry as building or road design consultants, contractors, sub-contractors, specialist and material suppliers in the supply chain. Their activities and growth are affected by individuals and organization associated with as stakeholders in their business. Sustainability is an extremely complex concept, more complicated when its adoption is not related to a particular geographical region. However, and increasingly, stakeholder management SM has become a performance soft skill/tool for project success of any endeavor due to the social, cultural, environmental and economic impact of stakeholders on the outcome of an organizations goal. Equally engaging stakeholders have been identified by several scholars as having resulted in successful delivery of projects undertaken by individuals and firms. A Recent assessment of sustainability and the need to accomplish this among small and medium-size growth supported by the drive of stakeholders in order
to facilitate this growth has informed this study. This study, therefore, considers sustaining SMEs growth through the development of stakeholder engagement process.

Further, the need for SMEs sustainability through stakeholder engagement is so important since there are different cultural and social environments coupled with the different ways businesses are done in various African countries though there may be some similarities. This could be critical when considering SME’s in the construction industry where risk and uncertainties could be assigned to stakeholders’ role and unstable economy of many African countries. The need for formulation of proactive guidelines rather than reactive practices for enhanced SME growths in the construction sector cannot be overemphasized considering its role in employment generation and poverty reduction. The object of enhanced growth of SME’s is in line with the UN millennium declaration which seeks to free people from the abject and extreme poverty. The construction sector is noted to account for several jobs, employing many people in developing countries in the supply chain either providing service or goods can be worst hit when SMEs growth are not sustained. This situation is compounded by the several people with adverse interest or whose interests are affected by construction and its activities from the project planning to life cycle management normally referred as stakeholders and hence on SMEs sustainable growth. These stakeholders include consultants, contractors, sub-contractors, specialist suppliers’ or the labor force.

According to Chinyio and Olomolaiye (2010), construction stakeholders refer to individuals, firms and organizations that have a stake in any project or the outcome, in this case, construction related activities. Persons or groups without whose support the SME will cease to exist critical for consideration (SRI, 1963). These stakeholders either have an interest in the project, its outcome or are affected by the project and its outcome (Freeman, 1984). Some stakeholders may be considered as primary to the growth and activities of these SME’s while others are secondary to the activities of SMEs. The major questions that the sustainable engagement process seeks to answer among others are;

- Who and what are these stakeholder groups that literature has identified to be interested and influence SMEs in the Ghanaian construction industry’s growth?
- How do construction industry stakeholders affect SMEs growth sustainability and to what extent has stakeholder groups influence this growth?
- How should stakeholder groups be engaged and what engagement process will ensure that SMEs growth is enhanced and sustained?

Gibson (2000) quotes Carroll (1993) definition of stakeholders as groups or individuals with whom the organization interacts or has interdependencies”. Firstly, this paper will seek to identify SME stakeholders that their organizations interact with the construction industry. In so doing the project will identify those with interest, affected, demanding services, providing services, requiring goods, providing goods, primary to the growth and secondary to the growth. This is necessary because, some stakeholders by virtue of their interaction with an organization can initiate or trigger the growth if perceived to be beneficial or be antagonistic and disrupt if seen otherwise (Mintzberg et al., 1995; Newcombe, 2003). It is pertinent noting that SMEs must strategically manage such stakeholders (Savage et al. 1991). In addition, there will be a review of stakeholder theory for businesses and construction activities and identify common areas.

Secondly, this study will determine what constitute growth of SMEs and more, in particular, recognize the role of stakeholders in the sustainability of SMEs growth. The issue of growth
among small and medium-sized enterprise (SMEs) has become a global problem. This is because, small and medium firms are considered as the engine of growth among most economies, both developed and developing countries. SMEs impacts on the nation among others are GDP growth and creation of significant employment opportunities. Though there have been several studies on growth related to SME’s financing, government support and legislation there is a lack of research relating to using stakeholder engagement approach to sustain firm’s growth. Stakeholder theory in the area of SMEs growth will thus be explored.

Lastly, in order to propose an engagement approach, the study will seek to identify the critical challenges and success factors to SMEs growth sustainability but more importantly in relation to stakeholders’ role. It is worth noting that scholars have associated critical success factors and the necessary of success as being dependent on internal and internal stakeholders (Lester, 1998; Davis, 2014). Engaging stakeholders’ is an essential part of stakeholder management to ensure any project success. It is a two-way communication process involving stakeholders’ exchange of information and promoting interaction between decision makers and other stakeholders. Mot et al. (2015) suggest that delivering the correct message, using a suitable means, clarifying project values and benefits are essential for effective communication in stakeholder engagement. Bourne and Walker (2005), mention the need to identify, prioritize key project stakeholders and develop an engagement strategy for an active relationship. Jepsen and Eskerod (2014) suggests two approaches to proactive and reactive engagement and recommend the adoption of proactive engagement which calls for planned approach for engagement.

The study aims at identifying stakeholders in SMEs in the construction industry, their influences on growth and proposes a stakeholder engagement plan for sustained growth. In order to achieve this aim, a qualitative research approach involving literature review is conducted in stakeholder theory, influences and engagement. An engagement process is formulated, validated using questionnaire survey and analyzed using a descriptive method of analysis. The study contributes to the body of knowledge by considering two areas namely; stakeholder engagement and SMEs growth to enhance SMEs in the construction industry sustainability in a developing country where many SMEs in the industry are on the brink of collapse.

2. Literature review

2.1 Small and Medium-size Enterprises (SMEs)

Firstly, SMEs are generally significant contributors to national employment and secondly often the catalyst for innovation and economic growth considered by scholars as vibrant and growing factor in most economies around the world. Levy and Powell (2005) affirmed that global economic conditions have spurred the rise of SME’s over the decades. As a result, SME’s are often considered as a single group, but they are heterogeneous with diverse needs and objectives. Harvie and Lee (2008), stressed that relatively small size of SME’s often act as a significant disadvantage across key operational and strategic dimensions that inhabits the potential role that they play. In addition, impacting on project output requires reforms as advocated by Latham (1994) and Egan (1998) on the
need for construction excellence. This seems to agree with the “managerial” view “paradigm” of Freeman (1984).

According to Mwangi, (2003) there is two paradigms view of SMEs operation, and functioning have been acknowledged: a managerial view emphasizing the change from “production” view to “managing the multiple stakeholders” (Freeman: 1984) and from “profits” to “social responsibilities” (Halal, 2004). This study narrows on the view of Freeman (1984) that suggests that SMEs have grown from the usual owner managed to larger economic firms. As a result of the changing economies and demands, SMEs have developed from owner managed and as well as a worker stage where business involved owner buying raw materials from suppliers and processed into finished products for customers/consumers only. As a result of economic growth, new technology, products, new production lines, urbanization and increased income levels, there is the need for firms to grow and become economically viable. This has resulted in SMEs having to work closely with financial institutions, employ more specialist labor, increase customer base, appoint competent managers hence the need for the managerial view (Freeman:1984). Thus, SMEs have stakeholder groups of owners, employees, customers, suppliers, specialist staff and financiers (Mwangi, 2003). In addition, construction SMEs interact with construction stakeholders such as project client, end users, designers, contractors, subcontractors and other suppliers for their survival (Newcombe, 2003). SMEs in the construction industry and typically found in a building project includes specialist suppliers for doors, windows glazing, roofing, air-conditioning, walls, floors finishes, electrical, plumbing materials, sand and stone, built-in furniture and interior decors, usually appointed as domestic sub-contractors. These are different from the known traditional stakeholders of consultants, project managers, sponsors, and community and project owners.

2.2 Stakeholders

Organizations and firms interact with people and environment that are crucial to its survival. There are as a result several participants with an interest in an organisation's activities or outcome. Studies in stakeholder management have identified and classified these participants as stakeholders after the first introduction of stakeholder concept by the Stanford Research Institute in 1963 defining stakeholders as ‘groups or individuals who are crucial to organizations survival and can affect the achievement of its objectives’. Constructions projects have several SMEs involved in a project and its outcome. Freeman (1984) defined stakeholders as those that affect or can affect a project with which an organization interacts or has interdependencies. Weiss (2006) describes stake as a share or interest in an undertaking and stakeholders as individuals with a stake. According to Moloney (2006) mentioned in Chinyio and Olomolaiye (2010), stakeholders are therefore the individuals and groups that benefit from the activities of an organisation, in this case, SMEs. Chinyio and Olomolaiye (2010) suggest stakeholders do not only benefit but can affect and be affected by the structure or its functioning, goals and even survival.

Stakeholders of SMEs in the construction industry relate differently to the organization, interact or have interdependencies (Gibson, 2000) hence need to be classified severally depending on their relationship, role in the firm or in the project engaged. Some are closely related, have a contractual agreement and seen as primary, internal and inside stakeholder (Newcombe 2003; Sutterfield et al.
2006). These include project owner, sponsor, design and construction teams while secondary stakeholders with latent potentials include government establishment, planning authorities, community, pressure groups, media and trade unions whose activities affect SMEs survival. Stakeholders may possess the power to be a threat or opportunity (Gibson 2000). Newcombe (1996) refers to Mintzberg et al. (1995) that stakeholders by virtue of their interaction with an organization may initiate or trigger a project if perceived to be beneficial, antagonistic, disrupt, and stop an ongoing project if perceived not to be beneficial. SMEs can thus be affected positively or negatively by stakeholders.

2.3 Stakeholder engagement

Engaging with firms’ stakeholders is an essential part of stakeholder management in ensuring that the firms’ objectives and activities are achieved and successfully implemented. Engagement is a two-way communication process involving stakeholders’ exchange of information and promoting interaction between decision makers and other stakeholders. It is necessary that SMEs engages with its stakeholders during normal and challenging times including consultation, dialogue, partnership at meetings by providing regular information using any useful approach (Chinyio and Olomolaiye, 2010). Studies have investigated the impact of stakeholder engagement in achieving sustainability for developed countries suggesting a 6-step approach as follows; identify key stakeholders, relate to stakeholder with sustainability principles, prioritize stakeholder, manage stakeholder, measure stakeholder performance and put targets into action (Weaver, 2010).

It is pertinent noting that stakeholder issues are associated with the diverse stakeholders involved, their cultural background and the culture of the project location in context (Mok et al., 2015). Stakeholder engagement primarily is focused on getting to know and understanding each other at the management level. Engagement is the opportunity to discuss and agree on expectations of communication and fundamentally agreeing on a set of values and principles that all stakeholders will uphold. Mok et al. (2015) suggest that delivering the correct message, using a suitable means, clarifying project values and benefits are essential for effective communication in stakeholder engagement. Bourne and Walker (2005), mention stakeholder circle as a useful tool for project managers to understand the nature of SM impact as a result of power and influence for productive engagement. It identifies, prioritizes key project stakeholders for developing engagement strategy for an active relationship.

Harvie and Lee (2008), further added that SME’s also have restricted access to finance and narrow profit margins that impede their growth, product and process improvement as well as sustaining their growth. The high uncertainty of the market affects SMEs influence on the market paving the way for the large firms with high market share to determine rates. Therefore, understanding the market and the customer requirements is relevant to managing SME’s businesses (Levi and Powell, 2005). These together require a holistic and formal approach to stakeholders’ engagement. SMEs will have to deal further with stakeholders arising out of increased customer/investor demand for quality and transparency. As a result, SMEs now interdepends on government institutions like the Standard Boards, Trade Unions, Community and Environmental groups due to social concerns and the media. Managing all these stakeholders is essential for SMEs growth sustenance.
Bal et al. (2013) suggested a framework for stakeholder engagement in relation to environmental sustainability for construction projects. The engagement approach entailed: identify stakeholders; relate to stakeholders with sustainability principles; prioritize stakeholders; manage stakeholders; measure performance; put targets into action. The process is in a form of cycle indicating that one activity is dependent on another and that until the process is complete. It failed to state pre-conditions and also projects managers’ ability to implement the plan without prior education. The framework also commences without a previous decision on sustainability principles by project team rather be decided by entire stakeholders.

Diagram - 1. Theoretical framework for engaging stakeholder with sustainability principles

Source: Bal et al. (2013)

2.4 Stakeholder engagement and SMEs

Stakeholder engagement is about business and its stakeholders. The outcome of mismanaging stakeholders can be difficult to contain (Mwangi, 2003). As SMEs grow, more stakeholders are to be considered. This growth leads to internal changes which affect stakeholders as the firm is also affected by external changes. Yang, (2010) and Gudienė et al. (2013) has suggested the need to consider political, social, cultural, legal and economic issues as pre-condition for successful management stakeholders. In developing stakeholder engagement model for businesses in South Africa, Mwangi (2003) suggested a process of stakeholder identification; prioritization; strategy development; defining performance; monitoring and reporting. This, however, failed to consider the peculiar situation related to SMEs and the preconditions necessary for implementation except regarding the ethical issues. In addition, no mention was made on continuous support, education and training as suggested by other researchers for stakeholder management for construction projects. Bal et al. (2013) proposed an six-step approach to engaging stakeholders in relation to sustainability as follows: identify stakeholder; relate to
stakeholders on sustainability principles; prioritize stakeholders; manage stakeholders; measure performance; put targets into action. Again this approach does not suggest how stakeholders are to be identified, a concept embraced and the process implemented. The proposed stakeholder engagement process for SMEs in Ghana’s construction industry, therefore, considers pre-conditions, continuous support, and education, training and engaging stakeholders with SME sustainability principles.

3. Method

The primary approach to the study is a qualitative research design with an extensive literature review on SMEs and stakeholder engagement. The proposed stakeholder approach is validated using a survey technique that involved interviewing 10 key stakeholders using semi-structured questionnaire. This method has been used by Bal et al. (2013) and Yang (2010) for similar research. The objective was to develop an approach for stakeholder engagement that will ensure that SMEs growth is enhanced and sustained. Three research questions were formulated to address the research aim. Firstly, an extensive literature review using a filtering method to identify research related to stakeholder management and sustainability from Elsevier, Emerald, Science Direct and Sustainability (Open Access) journals from the institutional database and google scholar using combination of keywords such as ‘stakeholder’, ‘engagement’, ‘management’, ‘SMEs’ and ‘growth’. Publications retrieved were further filtered using keywords combination; ‘stakeholder and engagement’, ‘SMEs and growth’, ‘stakeholder engagement and SMEs’. The method of filtration has been used by Mok et al. (2015).

Three key stakeholder engagement framework and models were identified as relevant for the study namely; stakeholder engagement model for businesses in South Africa as a developing country, stakeholder engagement framework for sustainability in developed countries and stakeholder management framework for construction projects as the research considered SMEs in the construction industry. Secondly, there was the development of a conceptual model (working process) based on the types identified from the literature reviewed. A set of questionnaire was developed for the qualitative interview and e-mailed to the research participants. The five-stage conceptual model was validated using the response of the face-face meeting of 10 the key players involved. The face-face interviews lasted between 40 and 50 minutes (Table1). The interview was conducted by a research assistant and the recorded response compared. Findings were displayed and analyzed using descriptive survey technique. Keywords were coded, recorded as results, analysed and used to validate the model proposed which was maintained with little modification.
Diagram – 1. Conceptual stakeholder engagement process

Source: Author

Table -1. Interviewees’ information

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Organisation</th>
<th>Example of Projects /SMEs worked on</th>
<th>Experience Min. yrs</th>
<th>Duration/mins interviewed</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Architect</td>
<td>School</td>
<td>5</td>
<td>30</td>
<td>Excellent</td>
</tr>
<tr>
<td>2</td>
<td>Project manager 1</td>
<td>Consulting firm</td>
<td>5</td>
<td>30</td>
<td>Excellent</td>
</tr>
<tr>
<td>3</td>
<td>Managing Director</td>
<td>Roof Installer</td>
<td>10</td>
<td>35</td>
<td>Good</td>
</tr>
<tr>
<td>4</td>
<td>Managing Director</td>
<td>Electrical Contractor</td>
<td>15</td>
<td>30</td>
<td>Good</td>
</tr>
<tr>
<td>5</td>
<td>Owner/MD</td>
<td>Property Developer</td>
<td>5</td>
<td>40</td>
<td>Good</td>
</tr>
</tbody>
</table>
4. Findings and discussions

4.1 Prerequisite

Eight (8) interviewees agreed with the researcher on the need for any stakeholder engagement process to consider first the economic, social, legal, ethical, political and cultural environment. Interviewees were of the view that external factors influence their growth and sustainability hence any proposal to address growth should consider the factors. This seems to agree with the outcome of comprehensive studies on stakeholder management (Yang, 2010; Aapoa and Haapasalo, 2014). The remaining two interviewees who are managing directors of SMEs stressed on political, economic, social and cultural as the main external factors affecting their businesses. Interviewee (I3), retorted “how can growth be sustained when your contracts are terminated as a result of a change in government”? According to interviewee (I6), ‘How can you remain in business with all these taxes and currency depreciation’? Interviewees further mentioned the effect of non-ethical activities and lack of enforcement of legislation as affecting their businesses. Interviewees generally agreed that favorable economic and political environment is a catalyst for growth and SMEs sustainability (Levy and Powell 2005). The proposal, therefore, considers prerequisite stage as essential for the development of the stakeholder engagement approach.

4.2 Plan

The literature reviewed the need for effective planning to involve a clear statement of SMEs mission and vision to include growth sustainability, education and training for top management to embrace stakeholder engagement approach. All the ten (10) interviewees agreed on the need for SMEs to have a document business plan and to relate it to growth and sustainability. Interviewees also mentioned the fact that SMEs lack education and training on business management and good record keeping. An interviewee(I8) asked ‘how many of these SME scan readily provide you with records for their business transactions and plan for financial assistance ’?

On stakeholder identification interviewees (I2, I3, I4, I5, I6) admitted having stakeholders who have effect and influence the growth of their businesses and their very survival (Freeman 1984). However, they never kept stakeholder register for the purpose of effective engagement. This agrees with research finding that many stakeholders hold only mental record without documenting (Eyiah-Botwe, 2015). All interviewees agreed that they had key stakeholders who they needed to satisfy to
remains in business. An Interviewee (I4) retorted ‘I have even forgotten most of my customers and those that used to offer me job.’

In response to the need for stakeholder classification and prioritization, the research identified that SMEs do classify their stakeholders as they could mention their key clients and customers. They are however classified on the basis of businesses obtained or credit facilities granted them. Thus, stakeholder classification should consider more on business advantages rather than power, legitimacy and urgency (Mitchell et al., 1997). ‘Our key stakeholders are the consultants, contractors who give us a job and our bank that supports us financially’ according to an Interviewee (I3).

4.3 Engage

Interviewees agreed that proactive strategy was the best option. ‘SMEs businesses are collapsing because they are always reactive instead of being proactive’ stated the respondent from the financial institution. This agrees with a recommendation by Jepsen and Eskerod (2014). SMEs always complain about the lack of information and consultation according to the Government Official from the Standard Board interviewed. Mok et al. (2015) suggest the need to have an effective communication regarding what and when to communicate information to stakeholders. It was obvious that lack of engagement has affected SMEs growth and sustainability. ‘Can you count how many businesses are redeploying staff’? ‘Why will employers wait only to negotiate with staff embarks on strike action’? was asked by an interviewee. The need for education and training was mentioned when some respondents confessed an inability to prepare engagement plan.

Interviewees generally agreed on the need to hold regular, effective meetings with stakeholders as well as have different engagement approach with various stakeholders. Respondents agreed with the interviewer on the need to keep some stakeholders only informed while others will have to be satisfied which agrees with stakeholder engagement approach by Newcombe, (2003). In each instance, interviewees stressed the need that stakeholder engagement should consider growth and sustainability policies. Eyiah-Botwe et al. (2016) have suggested the need to engage well key stakeholders such as cost experts (Quantity Surveyors) in Ghana for successful construction projects delivery in just as SMEs growth sustainability challenges are also associated with finances. Four interviewees were of the view that stakeholders should be properly analyzed for effective engagement. Interviewees further recommended analyzing stakeholders as a significant aspect of the engagement that requires good records on stakeholders. This confirmed the finding that managers’ lack records on stakeholders on previous jobs undertaken (Eyiah-Botwe, 2015).

4.4 Implement, Monitor, Review

Interviewees I1, I7, I8, I9 and I10 were of the view that SMEs scarcely implement, monitor and review their stakeholder communication and business plans. All interviewees agreed again on the perception that stakeholder positions may change as a result of internal and external factors hence the need for monitoring and review. Interviewee I7 asked ‘Don’t you notice that the banks are reviewing their policy at short intervals’? According to Interviewees I3, I4 and I6, SMEs are losing customers and clients very fast hence the need to monitor stakeholder changes. This they attributed to growing SMEs,
competition, external changes related to the political, social and economic environment. Interviewees I8, I9 and I10 suggested that any engagement approach to sustaining SMEs growth must consider monitoring and use of feedbacks as essentials for key stakeholder’s engagement (Eyiah-Botwe et al., 2016).

On review, all interviewees agreed on the need for revision as stakeholder engagement is dynamic and response to both internal and external factors. Interviewee I7 suggested the need to consider what is ‘critical’ to success and what are the significant ‘challenges’ to growth. As follow up, interviewees agreed that early identification of stakeholders and their influence, good communication and formal documentation are critical success factors (Yang, 2010). ‘How do you implement an engagement plan, if you have not identified and documented your stakeholder’s information first’ was an interviewees question

4.5 Continuous support

The interview survey conducted validated continuous support considered for successful stakeholder engagement process. The main support required is from top management, government and other stakeholder groups. Eight interviewees suggested the need for top management to accept and be willing to incorporate reviews and monitoring reports in SMEs strategic plans. Interviewees I1, I3, I9 and I10, were of the view that effective implementation of stakeholder engagement plan requires funding and changes in managerial approach hence require top management support. Interviewees I3 asked ‘How can you successfully implement such a program without your Managing Director’ support of government support for SMEs’? Respondents further agreed sustained, and enhanced relationship with stakeholders and improved communication as lessons learnt from reviews are implemented.

5. Conclusion

This study set out to identify SMEs in Ghanaian construction industry, stakeholders, and influences and propose an engagement plan for sustainable growth. To achieve this objective three research questions were formulated as:

- Who and what are these stakeholder groups that literature has identified to be interested and influence SMEs in the Ghanaian construction industry’s growth?
- How do construction industry stakeholders affect SMEs growth sustainability and to what extent has stakeholder groups influence this growth?
- How should stakeholder groups be engaged and what engagement process will ensure that SMEs growth is enhanced and sustained?

Firstly, the study concludes that identifying SMEs in the Ghanaian construction industry and their stakeholders was necessary for any effective stakeholder engagement process to be developed. This research identified SMEs to include: specialist suppliers and installers of doors, windows glazing, roofing, air-conditioning units, walls material, floors and ceiling finishes, electrical, plumbing materials, sand and stone, air-conditioning, built-in furniture and interior decors, usually appointed as domestic sub-contractors. SMEs stakeholder list identified included: The Standard/ Regulatory Boards, Trade Unions, Community and
Environmental groups (external stakeholders) due to social concerns and the media, project client, end-users, designers, contractors, sub-contractors and the community, financial institutions, employees, management and suppliers as primary stakeholders.

Secondly, this study noted that construction industry stakeholders influence the growth of SMEs in several ways including internal and external changes. The external changes include changes in the economic, social, cultural environment, legislation, political governance and ethical issues. In addition, competition, new technology and products, demand for capital and improved products introduce new stakeholder groups that influence SMEs operations. As SMEs grow, employees increase, new structures are added, stakeholder groups increase introducing challenges in management and eventually growth. The absence of competent and effective stakeholder engagement plan affects SMEs growth negatively.

In response to “how stakeholders should be engaged” and “what stakeholder engagement process will sustain SMEs growth”, the study identified through literature the need for a formal process of engagement. This process was confirmed by interviewees but with a modification to the conceptual stakeholder engagement process developed. The 5-stage stakeholder engagement process aimed at sustaining the SMEs growth was validated as a (1) prerequisite; (2) plan; (3) engage; (4) implement, (5) monitor and review; (6) continuous support. Interviewees, however, suggested the need for stakeholder analysis to be carefully considered at the planning stage before engaging stakeholders.

This study contributes to the body of knowledge by providing a formal stakeholder engagement process for sustained growth of SMEs in the construction industry in Ghana. The study is however limited to Ghana, and a further study can be a comparative study in another developing country such that the reviewed stakeholder engagement process can become generic.

References


CONSTRUCTION STAKEHOLDERS’ PERCEPTION ON ALTERNATIVE DISPUTE RESOLUTION IN THE CONSTRUCTION INDUSTRY OF SWAZILAND

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Abstract

Disputes are common in construction projects because of the complexity of the construction process and the imperfect of the design and moreover, it takes so many individuals and companies to construct a project. Dispute also occur through accidents (Injury), mismanagement, human error, disagreement or lack of communication. Dispute affect the cash flows of the company and also affects relationships between parties. This paper investigated the construction stakeholder’s perception on alternative dispute resolution in the construction industry of Swaziland. The data used in this study were derived from both primary and secondary sources. The secondary data for the study were derived from the review of literature. The primary data were obtained through the use of a structured questionnaire which was distributed to client (government), contractor, subcontractor and consultant representatives (quantity surveyor, civil engineer, architects, project managers and mechanical and electrical engineers); only organizations registered with the ministry of public works and transport in Swaziland and other professional bodies were surveyed. A total of 90 questionnaires were distributed, while only 63 were received back which represent a response rate of 70%, these data formed the basis of this study. Frequency analyze and various statistics procedures were used to analyze the returned questionnaire data.

Findings enacting from the survey revealed that the best mechanism of alternative dispute resolution in the Swaziland construction industry were arbitration, negotiation, mediation and dispute resolution that can be used to resolve construction dispute promptly. Litigation, adjudication and conciliation were not the best mechanism as per the opinion from the respondent. In-terms of effective and efficient dispute mechanism used to resolve dispute in construction project in Swaziland it was arbitration, dispute resolution boards, litigation, mediation and adjudication. The results of this study contribute to the body of knowledge and provides valuable insight to the knowledge the respondent had about the alternative dispute resolution mechanism. The study recommends that every stakeholder in the Swaziland construction industry familiarize themselves with the alternative dispute resolution available to resolve construction dispute promptly and cost efficient
1. Introduction

The construction industry is one of the most diverse and unstable sector within the economy. It faces fluctuation demand cycles, project specific product demands, uncertain production conditions and it combines a diverse range of specialist skills (Maturana, 2004 & Cakmak & Cakmak, 2013). The construction industry is unique and complex to other industries as it involves many participants in all trends, due to this, conflict and disputes can easily occur for example; through changes in plans, quantities, or details of construction which are inherent in the nature of construction (United State Army Corps, 2004).

The construction industry works involves thing that are hidden beneath the ground and those hidden things may not actually be as had been anticipated. Furthermore, with the best of intention the plans may not work as expected when they are applied to the actual site. Disputes are common in construction projects because of the complexity of the construction process and the imperfect of the design and moreover, it takes so many individuals and companies to construct a project. Dispute also occur through accidents (Injury), mismanagement, human error, disagreement or lack of communication. Dispute affect the cash flows of the company and also affects relationships between parties (Fenn et al. 1997). The occurrence of construction disputes can lead to negative impact towards an organisation. The construction work progress will be slow due to disputes between the contractor and client. Subsequently, the cash flow (Love et al, 2007).

Construction disputes has an effect on all stakeholders which may lead to inequitable mode of project delivery such as reducing the profit margins, increased cost, reduced quality and level of service (Motsa, 2002). Most minor disputes are usually settled quickly, fairly and amicably by the building team through negotiations. However, serious issues that can’t be solved through negotiations then it can be solved through alternative dispute resolution mechanism which are mediation, arbitration and litigation (Hall, 2002). Moreover, consequences of construction disputes will definitely not benefit the stakeholder in the construction project of Swaziland.

There has been a considerable research done to determine Alternative dispute resolution used in the construction industry and consistently the same variables are identified and continue to manifest. However, the has been a gap in investigation of professional opinion within the construction industry of the most preferred ADR used to resolve construction dispute efficiently in Swaziland Construction industry. Disputes have become an endemic feature of the Swaziland construction industry. Hence, this paper aims to evaluate the use of ADR to resolve construction dispute in construction projects in Swaziland.

2. Swaziland construction industry

The construction companies operating in Swaziland range from small local contractors to major companies with the capability to carry out highly specialized projects. The large contractors employ about 20,000 people. The range of work undertaken in the construction industry covers small buildings,
multi-level projects, roads, dams and infrastructure. Therefore, the CI is a key source of work and income in the Kingdom. The overall contribution to the Gross Domestic Product (GDP) by the construction industry was 5.8% in 2002, but it has dropped down to 2.8% in 2013 (Swaziland Business year book 2002, Central bank of Swaziland).

Government is the major client in the construction industry of Swaziland. The ministry of Public Works and Transport is the Government’s implementing agency on behalf of all ministries with regard to all construction capital projects (Mvubu & Thwala, 2009). The Swaziland Government through the ministry of Public Works and Transport also has a responsibility to educate contractors and subcontractors about government’s expectations of the quality of work; the process of tendering and the information required (Mvubu & Thwala, 2009). The Government of the kingdom of Swaziland, through its 25- year National Development Strategy has identified the construction sector as a priority area to provide the impetus on improve the social and economic development of the country. However, the Agriculture industry is the one that leads by contributing more to the economy of the country.

3. Literature review

3.1 Dispute

Dispute is defined as an assertion of opposing views or claims or disagreement as to rights (Merriam- Webster’s Dictionary of law, 1996). Dispute can be caused by negligence in understanding the terms in the contract, for example disputes on misunderstanding and also payment (Thomas, 1992 & 1994). Reid and Ellis (2007), in a paper titled ‘Common sense applied to the definition of a dispute’ make the argument that there is no definitive meaning of dispute and a dispute according to Reid and Ellis doesn’t not exist until a claim has been submitted and rejected, a claim being a request for compensation for damages incurred by any party to the contract. The definition of Dispute is a problem or disagreement between the parties that cannot be resolved by on jobsite or on-site project managers. Moreover, the definition carries the emphasis on jobsite or on-site disputes are firstly seen as occurring on site then escalating upwards through the organizational hierarchy (Love, et al 2007).

3.2 Alternative Dispute Resolution (ADR)

There is an extensive range of dispute resolution techniques and processes available to a disputing party. Most of the time, parties will identify at the beginning of the contract the process of resolving the dispute if it occurs. There are different procedures which the parties are exposed and can choose from and range from traditional court processes to alternative dispute resolution (Fenn, et al, 1998). Dispute resolution process can fall into two main categories non-binding and binding and literature suggest that these types of process produce successful outcomes (Madden, 2001). Non-binding process are beneficially for the disputing participant and the industry because they produce acceptable result in a cost efficient and timely manner (Finlay, 1998). Disputes should be quickly addressed and resolved for the well-being of the project and to minimize disruption of the design and building process. If the dispute
cannot be resolved by the parties, various methods of resolution are offered that include settlement, mediation, arbitration, and litigation (Frederick et al., 2001). Following is a discussion of the different dispute resolution used in the construction industry to resolve dispute:

### 3.2.1 Settlement of disputes

Disputes between two parties should be addressed quickly and, if at all possible, a settlement should be rendered and recorded. Settlement can be in the form of monetary adjustment or payments, free services on behalf of the architect to remedy or correct an error or such other agreement between the two parties. It is recommended that this method of dispute resolution be used whenever possible to avoid time, cost and anguish, which can occur as a result of ADR (Frederick et al., 2001:17). An advantageous dispute resolution process will ideally seek to settle a dispute with an acceptable outcome within the least amount of time, as cost effective as possible, with the least amount of resources and hopefully the preservation of the working relationship between both parties (Maden 2001).

### 3.2.2 Negotiation

Negotiation is one of the most common form of alternative dispute resolution and most cost effective and most reliable form of dispute resolution. Many authors agree that it is the most preferred dispute resolution systems used in the construction industry. Negotiation can be defined as a basic means of getting what you want from others, or a consensual process requiring a willingness of both parties to understand the other standpoint (Love et al. 2007:30). Negotiation is defined as a private, voluntary and consensual process whereby parties attempt to resolve their differences personally by agreement (Havenga, 2010:286). One of the benefits of this process is that both the discussion and the outcome can remain confidential, unless negotiations are in the public interest (for example labour or trade negotiations). In negotiations, the parties attempt to reach an acceptable resolution of their dispute without outside intervention. This is a distinction between negotiation and mediation or arbitration, in both the latter instance, a third party is involved (Havenga, 2010:286).

### 3.2.3 Mediation

Mediation, conciliation are terms used to describe dispute resolution process, that involves assistant negotiation through the use of third party who is neutral (Love et al., 2007:32). However, these processes are usually employed once the dispute has passed through the administrative procedures and negotiations have proved unsuccessfully. Moreover, any unsettled dispute can be escalated to more formally binding process including litigation (Love et al., 2007:32).

Mediation is the process by which the participants, together with the assistance of a neutral person or persons, systematically isolate disputed issues in order to develop options, consider alternatives, and reach a consensual settlement that will accommodate their needs (Love et al, 2007, Holtham et al.,2009 & Havenga, 2010)). Mediator is a circuit breaker, because they intervene and suppress should the situation become aggressive and they are commonly trained in communications and negotiation skills,
can commonly come from law or social working industries. The resolution process is more to provide evidence in separate meeting with the mediator (Havenga, 2010).

Fig. 1: Model for Mediation Process (Source: Love et al, 2007:32)

The mediation process

3.2.4 Expert determination

Expert determination is a process in which the parties to dispute present arguments and evidence to neutral third party chosen on the basis of their specialist qualification or experience on the subject matter of the dispute (Love et al, 2007 & Fenn et al 1998). The task of the expert is to provide an objective independent and impartial assessment of the dispute through the investigation of facts or issues presented by the disputing parties. However, the judgement provided is a decision based on fact and not the personal opinion of the expert (Love et al, 2007:33). However, the process by which the expert structures the investigation is primarily governed by the expert and usually conditionally on the type of dispute in question (Jones, 1998). The expert may meet privately with each party, together with both parties or determine the merits of the dispute purely through assessment of facts and statements (Fenn, 1998). This process is advantageous where the dispute is technical in nature, contractual, valuation of the work or specialist area of work (Love, et al, 2007:34). The processes beneficial where the communication
between the disputing parties has determinate and direct negotiation impractical (Jones, 1998). Expect
determination has certain advantages over mediation in that it satisfies the participants needs for an
impartial assessment consequently giving the process a more equitable appeal (Love et al, 2007:34).

3.2.5 Dispute Resolution boards

Dispute resolution boards must be established at the project onset. Potential candidates for the
board must be identified and appointed. Client and contractors tend not to focus on disputes at start of
the project and when a dispute does arise they tend to take considerable time reaching agreement on the
members and establishment of the board (Gould, 2006). The Board members must be impartial and have
wide ranging expertise with excellent communication and management skills. It is also imperative that
board members are available for the duration of the project to deal with matters promptly (Jones, 1996)).
Dispute resolution board is a panel of three standing neutral advisors chosen by both the owner and the
contractor prior to initiation of construction (Peck and Dalland, 2007). Usually, the panel conducts
routine site visits to monitor construction progress, as well as assist the owner and the contractor to
resolve any outstanding issues and avoid their escalation to a disputes that might have adverse effects on
the project schedule budget and quality. However, the Board should meet at least 3 times a year, and the
function of the board should be to nip in the bud problems before they develop into disputes (Gaistskell,
2005).

3.2.6. Arbitration

Arbitration is the ADR technique most similar to litigation, however, instead of presenting the
case to a judge or Jury, summary presentations are made by both side to one or a panel of neutral
arbitrators (Havenga, 2010). Many of the same procedures used in litigation, such as discovery and
preliminary motions, are used in arbitration. However, arbitrators have the power to direct those
processes (Hinds,1998). Arbitration decisions are considering binding, unless previously agreed upon to
be non-binding (Eilenberg, 2003). However, the outcomes of arbitration provide a satisfactory outcome,
this is outweighed by the excessive cost, adversarial process and long waiting periods for hearings (Love
et al, 2007:37). There are defined advantageous of using arbitration such advantages over court action
such as confidentiality as the hearings are a private determinative process and the findings are not
published, flexibility and convenience. The process is also final and binding and is heard by single or
panel of expert in the relevant field (Havenga, 2010).

3.2.7 Mini Trials

Concept of the mini-trials is that by presenting the facts of both sides of the case to top executives
from both sides and educating them on the strength and weakness of the case, they will ultimately resolve
the matter. This method provides them, probable for the first time, with the necessary information to
make a complete assessment of the risks and cost of going to trial. In the Mini-Trial lawyers make the
abbreviated presentation which are usually also heard by neutral advisor, usually a retired judge or an
authority on the technical issues in the case (Havenga, 2010). However, a mini trial is not a trial at all but a structured nonbinding settlement procedure which effectively incorporates many of the adversarial aspects of arbitration and the negotiation aspect of mediation. The main difference, however, is that the mini-trial focuses on allowing executive level management to resolve the disputes. This concept strives to reduce the dispute to a business decision rather than a complex legal question (Havenga, 2010).

4. Research Methodology

The data used in this paper were derived from both primary and secondary sources. The primary data was obtained through the survey method, while the secondary data was derived from the review of literature and archival records. The primary data was obtained through the use of a structured questionnaire survey. This was distributed to a total of 90 construction professionals that included; client (government), contractors, consultants’ representative’s quantity surveyors, civil engineers, architect, etc who are currently involved in construction of public projects in Swaziland. Out of the 90 questionnaires sent out, 63 were received back representing 70% response rate. This was considered adequate for the analysis based on the affirmation of Mcneill & Chapman, (2005) since the result of a survey could be considered as biased and of little value if the return rate was lower than 30 to 40%. The data presentation and analysis made use of frequency distributions and percentages of all the respondents. The research was conducted between the months of June to August, 2014.

4.1 Analysis

In this study, The quantitative data collected was analysed with Statistical Package for the Social Science (SPSS) a computer programme which is used for analysing data concerned with social phenomena. The software was used to generate various statistical, including descriptive statistic, which provides a basic summary of all variables in the data (Henn et al., 2006). The benefits of using SPSS is that it allows for scoring and analysing quantitative data at speed and it can also be used to perform multivariate analysis. SPSS also helps to present the data in a logical format (Babbie, 2004:398) thereby reducing time spent on calculating scores. However, accuracy in results is highly dependent on inputs, hence the need to accurately capture data from the questionnaire.

Furthermore, a 5-point Likert type scale was also used to evaluate the effects of construction dispute and the use of ADR in the Swaziland construction industry with regard to the identified factors from the reviewed literature. The adopted scale read as follows, 1= Never, 2= rarely, 3= Sometimes, 4= Often and 5= Always. The five-point scale was transformed to mean item score (MIS) for each of the factors as assessed by the respondents. The indices were then used to determine the rank each item. Following the mathematical computations, the criteria are then ranked in descending order of their relative importance index (from the highest to the lowest). The Mean Item Score (MIS) was derived from the following formula (Lim and Alum, 1995).

\[
MIS = \frac{1n1 + 2n2 + 3n3 + 4n4 + 5n5}{\sum N}
\]

Where;

\(n_1\) = number of respondents for strongly disagree
5. Findings and Discussion

Findings from the 63 respondent revealed that 63% were males and 37% were female. Further findings revealed that 32% of the respondents were civil engineers, 28% of the responded were quantity surveyors, 25% were construction managers, and 12% were project manager and construction project manager, 3% were electrical engineers, site managers and health and safety. Most of the respondent had a working experience of more than 5 years, 60% of the respondent had 5 or more years, 32% had 4 years experience, 13% had 3 years’ experience, 3% had 2 years and lastly 2% had 1-year experience. Respondent who were involved in civil and building projects were 44.6%, 27.7% of the respondent were involved in buildings, 10.8% were involved in civil work only, 9.2% were involved in electrical work, 6.2% were in Mechanical work and lastly 1.5% were involved in other projects. Respondent on the value of work executed were 37% who had executed 100-200million, 200 million were 24%, 21% had executed 10-20million, 18% of the respondent had executed 20-100 million and 2% had executed 2-5million. 59% Respondent had 5 or more construction dispute, 19% had encounter 3 dispute, 10% had encountered 2 & 4 dispute, and 3% had encounter one dispute

5.1 Preferred ADR mechanism for resolving construction disputes

Respondent were asked based on their opinion which was the best mechanism that can be used to resolve construction dispute. Most respondent, about 58.7% believed that arbitration is the most preferred mechanism that can resolve construction dispute promptly in Swaziland construction industry; 14.3% of the respondent felt that negotiation can also be used; followed by mediation and dispute resolution at 12.7%. Lastly respondent felt that litigation at 7.9%; Adjudication at 6.3% and conciliation at 4.8% were not the best mechanism to resolve construction disputes in Swaziland construction projects (Figure 2)
Respondent were asked to rank the effective and efficient dispute mechanism used to resolve dispute in construction project in Swaziland. Most respondent, ranked Arbitration the highest with a mean of 3.29 and standard deviation (SD)= 0.982; dispute resolution boards ranked second with a mean score of 2.95 and SD= 0.931; Litigation was ranked third with a mean score of 2.61 and SD= 1.030; Mediation was ranked fourth with a mean score of 2.56 and SD= 0.969. However, Adjudication was ranked fifth with a mean score of 2.49 and SD= 0.887; dispute resolution was ranked sixth with a mean score of 2.48 and SD= 0.893 and Negotiation was ranked last with a mean score of 2.27 and SD= 1.162 (Table 1)

Table 1: Effective and efficient mechanism

<table>
<thead>
<tr>
<th>ITEM</th>
<th>( \bar{x} )</th>
<th>( \sigma X )</th>
<th>R</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arbitration</td>
<td>3.29</td>
<td>0.982</td>
<td>1</td>
</tr>
<tr>
<td>Dispute resolution boards</td>
<td>2.95</td>
<td>0.931</td>
<td>2</td>
</tr>
<tr>
<td>Litigation</td>
<td>2.61</td>
<td>1.030</td>
<td>3</td>
</tr>
<tr>
<td>Mediation</td>
<td>2.56</td>
<td>0.969</td>
<td>4</td>
</tr>
<tr>
<td>Adjudication</td>
<td>2.49</td>
<td>0.887</td>
<td>5</td>
</tr>
<tr>
<td>Dispute resolution</td>
<td>2.48</td>
<td>0.893</td>
<td>6</td>
</tr>
<tr>
<td>Negotiation</td>
<td>2.27</td>
<td>1.162</td>
<td>7</td>
</tr>
</tbody>
</table>

\( \sigma X \) = Standard deviation; \( \bar{x} \) = Mean item score; R = Rank
6. Conclusion and Recommendation

6.1 Conclusion

From the study we have seen that arbitration was the preferred mechanism that can solve construction dispute, followed by negotiation and mediation were the most preferred mechanism in Swaziland construction industry. The findings on the effective and efficient dispute resolution mechanism the respondent ranked arbitration, dispute resolution boards, followed by litigation. However, mediation, negotiation and adjudication were ranked the list, the respondent felt that it was not an efficient and effective method to resolve construction dispute.

6.2 Recommendation

The study has revealed research gap which might be fruitfully pursued, such as the use of ADR to resolve construction dispute. Most of the stake holders require to be taught about the benefit of ADR.

6.3 Strategies to avoid disputes

From the discussion above, it is recommended that the use of Alternative dispute resolution should be emphasis by the government as the major client for public project, by way of having workshops annually with an emphasis on to dispute avoidance and the mechanism to use for resolving construction dispute, especial negotiation and mediation since they are cost effective and fast if the parties involve can cooperate

References


CHALLENGES OF CONSTRUCTION PROCUREMENT: A DEVELOPING NATION’S PERSPECTIVE

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Abstract
Procurement has been identified as the link between a desire by the client for a construction project and the delivery of value products to agreed standards. Thus, it is an arrangement which define contractual processes, funding patterns, risk allocation, work structure and relationship amongst parties on a project. There is sufficient evidence in literature that procurement of public works in developing nations has failed to deliver necessary infrastructure required for economic development of these nations. Particularly in Nigeria, much resources have been committed to the delivery of infrastructure projects but limited benefits have been obtained. This research entails an exploratory qualitative study into the challenges of construction procurement in Nigeria. The study uses an interview of construction industry professionals who were purposively sampled to identify factors mitigating effective construction procurement. Findings from the study show that improper implementation of legislative framework, funding, corruption, hostile operating environment, inadequate knowledge of practitioners of procurement methods and unstable economic environment are factors affecting public procurement in Nigeria. The study concludes that for construction procurement to meet the need of delivering necessary infrastructure for economic development in a nation like Nigeria, intrinsic issues within the national environment have to be handled by relevant stakeholders.

Keywords: Construction, Procurement, Developing Nations, Infrastructure, Challenges.

Introduction
Procurement of infrastructure projects is facing a global challenge. However, the case of developing nations is of unique interest. Studies have confirmed a short fall in the global supply of good shelter, potable water, schools, hospitals, electricity, roads, and telecommunication (Oyeranti, Babatunde, and Ogunkola, 2011; Inderst and Stewart, 2014). The Sustainable Development Goals identified 17 critical areas of need that demands urgent attention if millions of people are to live above the poverty line and have enhanced quality of life (United Nations, 2015). Among the 17 areas identified 12 are directly related to infrastructure delivery. Also, studies have linked construction industry performance in delivering infrastructure projects to success of its procurement strategy (Love, Skidmore and Earl, 1998; Chartered Institute of Building, 2010). Unravelling such a topic as the challenges of construction procurement has become pertinent at time that the major source of revenue for Nigeria (one the largest producers of crude oil) have continued to dwindle and the resources for infrastructure...
development grossly limited. This study builds on the works of Ofori, (2011), Musazikwa (2013) and Ogunsanya (2016). The gap this research seeks to fill is in identifying procurement challenges peculiar to Nigeria as a developing nation. Though some of the identified challenges are shared by other developing nations.

2. Objective

The objective of this paper is to identify the factors affecting construction procurement in the developing nations through an exploratory study. Thus, providing useful inputs to policy makers.

3. Literature Review

3.1 The Construction Industry

According to Pantz, Watermeyer, and Jacquet (2003), the commitment of South Africa to economic and social development has caused a significant increase in the levels of investment in infrastructure. Thus, compelling all aspects of the government to increase efficiency of construction delivery. The approach of the country to procurement of infrastructure is not just the delivery of projects to required cost, quality and time but being a tool for social and economic engineering and development. The Preferential Procurement Policy Framework allows certain categories of people in the country who have been formerly disadvantaged to be accommodated in the procurement process.

Ofori (2001) acknowledges that efforts are being made by stakeholders to increase the performance of construction industry in many nations. The establishment of Construction Industry Board (CIB) in the United Kingdom, Construction Industry Development Board (CIDB) in South Africa, CIDB in Malaysia, Institute of Construction Training and Development in Sri Lanka to mention a few are steps towards achieving this objective. However, the industry continues to face the following problems:

a) Poor Cost, Time and Quality performance
b) Low level of professionalism
c) Poor implementation of existing statutes and codes
d) Obsolete governing legislations and codes of practice
e) Inadequate work opportunities
f) Administrative bottlenecks in planning approvals and administration

Ofori (2000) admits that even though the construction industry globally also faces some of the challenges above, developing nations have the additional load of economic stress, resource insufficiency and institutional weakness.

3.2 Construction Procurement

procurement as “an organisational system that assigns specific responsibilities and authorities to people and organisations, and specifies how different elements of a construction project would relate”. There are various construction procurement methods which hails from the need to develop strategies that will meet the clients need in different circumstances (Babatunde, Opawole, and Ujaddugbe, 2010). These requirement varies from the level of client’s involvement, management of risks, funding arrangements, payment regimes, type of contracts to be used, the contractor’s financial commitment and who are the Clients (Rwelamila, 2010).

The procurement methods according to literature are: Traditional, Design and Build, Build - Operate -Transfer, Management Contracting, Construction Management, Labor Only, Direct Labor, Partnering, Public Private Partnerships, Strategic Alliances, Private Finance Initiatives, Collaborative Agreements, Concessions etc. (Latham, 1994; Odusami and Bamisile, 1997; Turner, 2003; Mathonsi and Thwala 2012). Research have shown that Nigerian Construction Industry adopts all the various procurement methods in one form or another (Idoro, 2012; Ikediashi,Mendie, Achuenu and Oladokun, 2010; Ibrahim, 2008; Ojo, Adeyemi and Fagbenle, 2006). Even though the most prominent is the traditional method adopts separation of the design and construction functions in project procurement.

3.3 Theoretical Perspectives of the Challenge of Construction Procurement.

3.3.1 Economist view of the challenge of Procurement

Most economic analysis of procurement agree that the challenge of procurement is that of information asymmetry at the start of the transaction. This case presents information ex-ante to production cost. It is believed that one party to the transaction is at a position of advantage by holding some proprietary information about certain aspects of the production whether in terms of cost, material availability, government regulations or others (Bajaris and Tadelis, 2001). This position is buttressed by the application of transaction cost theory, game theory and principal agent theory to various aspects procurement. Decarolis (2014) agrees that this is the basis for competitive bidding and the reason for governments putting regulations that promote value for money, equity, transparency and competition. The nature of construction contracts is that they are one off products that are quite different and unique from any other construction. This makes price comparison to be difficult as each project is unique (PMI, 1996).

3.3.2 Traditional Engineering and Construction Managements view

Contrary to the argument above, Bajaris and Tadelis (2001) posit that there is limited evidence in literature to show that any of the parties to a construction project (the Client, consultants, the contractor and the suppliers) are in a position to have any unique information that is not readily available to all the parties in the construction procurement process. The authors argue however that the greater challenge is in terms of uncertainties associate with a construction project in terms of the design and construction process. Sometimes changes are effected by the Client due to inevitable circumstances, others due to natural disasters, changes in site condition and conflicts. These factors the authors called ex- post
adaptation factors are critical challenges of construction procurement. The position is supported by Chartered Institute of Building (2010) which claims the factor that distinguishes construction procurement from other industries as the complexity of projects. The study also posit such complexities are influenced by the following:

i) Ground conditions
ii) Topography
iii) Logistics
iv) Weather
v) Available technologies
vi) Availability of labor and services

Each of the factors above introduce uncertainties to the project and invariably to the procurement process.

3.3.3 The TFV perspective from Lean Production

Pekuri, Pekuri and Haaspasalo (2014) argued that the main role of procurement is not just solving the problems of the ex-ante information asymmetry nor the ex-post adaptation factors after contract signing but attending the matter of value loss. Thus getting a production system that makes procurement strategy fit for its intended purpose. The authors used transformation (T), Flow (F) and Value generation (V) theories from Lean Construction’s perspective of production to evaluate the initial postulates of the problems of construction procurement. Koskela (2000) describe value loss at the difference between the optimum value that could be realized from a construction project and the value delivered by the construction project. Others have argued that this concept is difficult to measure quantitatively as the phenomenon of value in the Construction Industry have usually been related to the functions of the features of a product and not really about the derivable benefits from the products from the users perspective. Construction projects usually are long term entities with use spanning decades, so the concept of whole life benefits to users make VALUE LOSS fuzzy and difficult to evaluate.

The lesson from the above postulates is that while it is good to concentrate on making the procurement process better the end game is that the product of the process must meet the needs of the intended stakeholders.

3.4 Factors Affecting Construction Procurement in a Developed Nation: Japan

Terakawa (2011) posits that the challenges facing procurement in Japan’s public sector as regards construction are:

a) **Improving and ensuring the quality of works:** Rather than having a procurement systems regulated by competition and cost regimes alone there is need to move to a procurement based on competition, cost and quality regimes. This new order makes evaluation of a bid to be done on a broad spectrum of requirements instead of cost alone (Koike, 2014).

b) **The role of construction industry exhibiting local leadership:** Construction industries should be structured and capacitated to respond to relief works during disaster times and managing repair
and maintenance works at local levels. Some repair works if appropriately done will prevent future spending on replacing infrastructure.

c) **Harmonizing with international public procurement processes:** For the nation to explore international markets in terms of offering construction services, there must be an alignment of current practices with international standards. The current effort to start the use of International Federation of Consulting Engineers (FIDIC) contract types is one of such steps (Terakawa, 2011).

d) **Ensuring the formation of a recycling culture:** It is not just enough to develop a culture of use and re-use within the construction industry which makes use of huge materials and generate lots of wastes, the industry must find use for waste from other segments of the society. The eco-friendly design and initiatives are steps in the right direction.

e) **Using Public Procurement as tool for social change:** After the Earthquakes of 2011, the procuring opportunities have seen the need to partner with local contractors and private entities in implementing the minimum wage structure. Thus, ensuring living standards of workers are improved through efficient procurement delivery by competent contractors (Koike, 2014)

### 3.5 Challenges of Construction Procurement in Developing Nations: Nigeria and Zimbabwe

Inuwa, Wanyona and Diang’a (2014) identified 22 factors plaguing the indigenous contractors in the Nigerian Construction Industry in their procurement efforts and ranked them. The categorization is after an intensive literature search, questionnaire administration and interview sessions in the northern states. The authors argue that these challenges emanates from the clients, consultants and contractors. Table 1 illustrates the factors.

<table>
<thead>
<tr>
<th>S/N</th>
<th>FACTORS</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Lateness in honoring payment certificates</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Too many variations</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Technical incompetence</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Design deficiencies</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Material shortage or late delivery</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>Delays</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>Increase in price of material</td>
<td>7</td>
</tr>
<tr>
<td>8</td>
<td>Inadequate project documentation</td>
<td>8</td>
</tr>
<tr>
<td>9</td>
<td>Project complexity</td>
<td>9</td>
</tr>
<tr>
<td>10</td>
<td>Disputes</td>
<td>10</td>
</tr>
<tr>
<td>11</td>
<td>Plants, equipment, and machines</td>
<td>11</td>
</tr>
<tr>
<td>12</td>
<td>Claims</td>
<td>12</td>
</tr>
<tr>
<td>13</td>
<td>Poor work definition</td>
<td>13</td>
</tr>
<tr>
<td>14</td>
<td>Organizational problems</td>
<td>14</td>
</tr>
<tr>
<td>15</td>
<td>Project risks and uncertainties</td>
<td>15</td>
</tr>
<tr>
<td>16</td>
<td>Clients dissatisfaction</td>
<td>16</td>
</tr>
</tbody>
</table>
The factors that ranked 1st to 5th are lateness in honoring payment certificates, variations, technical incompetence, design deficiencies and material shortage. The issue of funding and prompt payment has continually been a challenge in the procurement of infrastructure in developing nations as opposed to developed nations where funding for infrastructure is available before the procurement process is initiated. Variation and design deficiencies introduce changes to projects which sometimes cause delays and cost increment. The impact may be mitigated by the procurement method adopted and the payment regime.

Also, Mohammad, Adamu and Ladi (2015) acknowledge that the problems affecting construction procurement in Nigeria are kidnappings, vandalism, civil unrests, and other factors that have increased the risks associated with the construction process. The study further identified that lack of the knowledge and working processes of the Public Procurement Act, refusal to comply by some individuals, political influence, administrative bottlenecks, and knowledge gap in terms of the variety of procurement options available are common challenges.

Musanzikwa (2013) identified the following as the challenges of public procurement in Zimbabwe; Delays in project implementation, corruption, indigenization policy, incompetence, inadequate market enquiry and political influence and proposed that these challenges can be mitigated by adoption of professional procurement practice, training of procurement officers and staff, transparency and the decentralization of the process.

The paper progress to the discussion of the research methodology adopted for the research in the next section.

4. Methodology

This paper employs an exploratory qualitative approach. The choice of research methodology is based on the ontological and epistemological basis of the research and position of literature. Thus, it is important to discuss what constitutes a qualitative research. Mason (2002) succinctly describes qualitative research as that which uses the interpretivist philosophical approach. Its data generation processes are flexible and sensitive to social context in which the data is produced. Methods of data analysis involves case building which consist of understanding of complexities, details and context. This position is supported by Creswell (1994) and Saunders, Thornhill, and Lewis (2003). It suffices to say, that certain quantitative researchers view qualitative research as less systematic and anecdotal or at best illustrative. Sufficient proof exists in literature which shows that this position is far from the truth. The
strength of qualitative research is the strategic significance of context and in-depth understanding of the social world which it provides.

The study uses a purposive non probabilistic sampling to identify key stakeholders in the Nigerian Construction Industry based in Lagos and Abuja. The use of non-probabilistic sampling technique is encouraged when there is no reliable database of the survey population (Creswell, 1994). The Criteria for selecting the participants include a minimum education level of university bachelor’s degree in built environment/engineering discipline, minimum of 15years experience in the Nigerian Construction Industry, membership of professional body and evidence of knowledge in construction procurement. Ten (12) stakeholders were interviewed via the telephone. Ten (10) guide questions have been prepared before the interviews were scheduled. The participants were approached for their consent and willful involvement in the research process as being part of an ongoing doctoral research. All the sessions were recorded and transcribed for analysis. Color coding was used to match respondents’ answers to the key attributes identified in literature. The researcher ensures to seek the meaning and sense of the respondents’ answers. The categorization of respondents according to their industries in illustrated in Table 2.

<table>
<thead>
<tr>
<th>Type of stakeholder</th>
<th>No of interviewees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Agency/ Procuring Authority</td>
<td>2</td>
</tr>
<tr>
<td>Construction Consultants (Architect, Engineers, Builders, Quantity Surveyors)</td>
<td>7</td>
</tr>
<tr>
<td>Construction Companies</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>12</td>
</tr>
</tbody>
</table>

5. Findings and Discussion

Findings from the respondents to the interview question show that all the interviewees agree that infrastructure delivery is closely linked with efficient construction procurement. All the respondents have proven record of experience and contribution to the construction industry development in the country either as practitioners or policy makers. The factors identified has affecting construction procurement in Nigeria are discussed.

5.1 Improper Implementation of Legislative Framework

The passing of Public Procurement Act, 2007 into law was a development applauded by several people who have experience of the bureaucracy and the entrenched inefficiency of government procurement processes. Likewise, most of the stakeholders adjudge the document capable of bringing about the much needed change in the procurement of works and services in Nigeria. However, implementing the act has been bedeviled with problems. First, the National Council on Public
Procurement is supposed to regulate the Bureau of Public Procurement charged with midwifing government procurement. The Council derives its powers from the President. Almost 10 years after the passing of the law, Federal Government Procurements are still being administered by the Central Executive Council whose composition is 70 - 80% politicians. Second, some procurement officers in the government offices lack a broad knowledge and understanding of the procurement processes. Third, it is not uncommon to find certain highly placed government officials coerce the junior procurement officers into bending the rules because of their status. Likewise, Infrastructure Concession and Regulatory Act of 2005 has also not delivered crisis proof projects when one considers the case of Lagos- Ibadan Expressway which initially given in concession to a company. The contract was revoked and re-awarded to a multinational company on a traditional procurement basis. After some years, it is re-awarded as a concession to another company.

5.2 Cessation of Funding

Respondents identified that the foundation for the Public Procurement Act is that contracts for infrastructure projects should not be approved and commissioned if there are no sufficient budgetary allocations. Budget performance in Nigeria over the past five years has not exceeded 71% while the ratio of funding for capital expenditure to total expenditure has not exceeded 25%. This ratio dropped to 15% in 2015 due to dwindling oil revenue (Barungi, 2014 and Barungi et al., 2015). This makes funding of certain projects to slow down and some to cease. This situation is inevitable as falling oil prices have significantly affected government revenue and thus influence performance of the construction procurement.

5.3 Corruption

Respondents posit that recent developments in the country have shown that procurement of public works is not yet immune to contract inflation, outright change of contract content and failure to deliver projects for which allocations and payments have been made. Though the arms deal contract are classified under special clauses in the Public Procurement Act (PPA), 2007 there are rules that must be followed in the execution. It is common in the country for the anti-graft agencies (Economic and Financial Crimes Commission and Independent Corrupt Practices and Related Offences Commission) to initiate corruption charges on former political office holders and heads of government agencies regarding infrastructure procurement contracts. These has been a major set-back for construction procurements in Nigeria.

5.4 Hostile Operating Environment

In certain parts of the country due to security challenges, execution of infrastructure projects have come with kidnapping of staff, most especially expatriate staff. The menace of Boko Haram insurgency has led to the abandoning of certain projects due to security concerns. This challenge is not limited to the
North East Region of the country. The Niger-Delta area has remained volatile due to active militancy of the youths. Executing projects in these areas are accompanied with armed police or military personnel. This scenario inhibits creativity if you have to work in an atmosphere of fear. The respondents suggest a secure work environment is required for infrastructure delivery.

5.5 Inadequate Knowledge of Practitioners of Procurement Methods

The respondents have used the traditional, direct labor, labor only and design and build methods but with limited knowledge in the newer forms of procurement such as Public Private Partnership, Collaborative Frameworks, Strategic Alliances and Concessions. This is indicative of the knowledge level of professional who are in the position to influence the Clients in choosing the most appropriate procurement route for the unique circumstance of their project. This position is supported by Rwelamila (2012) that lack of knowledge by professionals in a broad sense of the available procurement options is one of the challenges of project success.

5.6 Unstable Economic Environment

In recent times, the economy of the nation has experienced a heavy knock from falling oil prices. This situation has had its toll on exchange rates and inflations rates. The cost of materials have doubled due to these events. This has impacted on the procurement deliveries as benchmarks used for determining prices are no longer realistic. The respondents complained about the ease of access to funds from financial institutions and the cost of such funds as exchange rate in the parallel market is $1 = ₦310 as opposed to $1 = ₦200 a year ago. Though the Central Bank has managed to keep official interest rate at 11% the lowest in the past 7 years, Loans from banks are only available at 17.9% at the minimum. All these have consequences for construction procurement in an import driven economy like Nigeria.

5.7 Political Influence

Award of infrastructure contracts according the PPA is to be given to most responsive bidder. This does not necessarily mean the lowest bidder in terms of cost but the bidder that will offer the best value for the funds expended on the project after going through a process of pre-qualification and tendering. Difficulties arise when these rules are blatantly disregarded because of political considerations or filial relationships. Respondents opined that politics influence who get what project in some instances.

a. Project Uncertainties

Even when all project management priorities have been put in place, there is still attendant risks of the project overrunning the target cost, delays due to unforeseen circumstances, parties breaching the contract and contractors compromising on quality. Projects have inherent challenge of risks due to their nature. They are temporary and unique endeavors to bring about change. No two projects are entirely the
same. Though identical structures are to be erected, the fact that they are placed on different geographical locations can introduce certain dynamics to the project that will affect the procurement process. Site conditions, topography, weather, sub-soil conditions and force majeure do have impact on procurement processes. For example, the Lagos Metro Rail Project was scheduled to deliver the first line in 2014 but due to delays arising from legal issues regarding right of way for the project. The new delivery date for the blue line arm of the project is now December, 2016.

5.9 Standardization of materials

Basic construction materials such as steel, cement, glass, tiles, aluminum sheets, light fittings, cables etc. are largely imported into the country. The materials must meet certain standards to fit the purpose of construction and engineering use. It is of concern to respondent that the weak institutions available are not able to ensure compliance of materials to quality and safety standards. There is a challenge of ensuring imported materials conform to standards and are appropriately used according to the design in the industry. Efforts need to be intensified to ensure compliance to design specifications.

5.10 Inadequate knowledge of clients of procurement methods

Clients are most of the time certain about what they want in terms of infrastructure delivery but oftentimes lack the knowledge of how best this can be delivered. It is not uncommon in private projects that the Client has started relating with potential contractors and sub-contractors before the project brief and initial designs are produced. This can be due to experience on previous projects and preferences. This idea is sometimes transmitted into public projects where a chief executive may want to specify the preferred contractor without any selection process. The feedback from the respondents suggest that the more informed the Clients/ Client Organizations are about various procurement options available, the better for the procurement process in general.

A careful analysis of the factors identified from interviews show that some the factors align with the information asymmetry view, others post adaptation factors and some the value for stakeholder’s emphasis. The theoretical perspectives provide lens through which the study was framed.

6. Conclusion

This research set out to identify the challenges of construction procurement in Nigerian Construction Industry as a developing nation. The study explores a few theoretical views that explains these challenges: The Economics, the Engineering and Construction Management and the TVF theory perspectives. These perspectives acknowledge the challenges as pre-construction information flow, post contract award uncertainties and the slippery scenario of value loss. The study explained the procurement methods in use and those adopted in many developing nations. The methodology adopts an exploratory qualitative research design which uses an in-depth interview of Twelve (12) construction industry professional purposively selected. The study reveals the factors affecting construction procurement in
Nigeria as Improper implementation of regulatory frameworks, lack of adequate knowledge of procurement methods by clients, corruption, political influence, lack of material standardization, unstable economic environment, hostile working environment, projects uncertainties and lack of broad knowledge of procurement options by professionals. These factors have limited the successes intended when investments are made into infrastructure delivery in the country. Hence, the findings are useful to policy makers and stakeholders in the construction industry. It provides contextual understanding of the impact of these factors. A limitation of the study is that it employs a qualitative research design which is inadequate in predicting characteristics in entire population and not sufficient in making generalization however the study has provided unique insight into the dynamics of the procurement environment in the Nigerian Construction industry as indicative of a number of developing nations. Further research can use the findings of this study to study larger population by using more samples in a quantitative research and proceeding to identify possible directions for mitigating these challenges. It suffices to say that the need to increase the provision of infrastructure in developing nations cannot be over emphasized, creating a conducive environment for sustainable construction procurement is a sure means of meeting this target.

References


SMALL AND MEDIUM-SIZED ENTERPRISES
CONTRACTORS’ HEALTH AND SAFETY PERFORMANCE

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Abstract

Small and Medium Sized-Enterprise (SMEs) contractors form the bulk, by number, of companies in each industry. SMEs differ significantly from large firms, and these factors affect their compliance level. The study aims to assess the SMEs contractors’ Health and Safety (H&S) performance in the construction industry. Delphi survey was used for the study. Experts were asked to rate the impact of other factors in predicting SMEs contractors compliance with H&S regulations in Ghana. The rating were based on either the impact was considered to be very high or high. Microsoft EXCEL to analyse the data collected. The output from the analysis was a set of descriptive statistics such as means, median, standard deviations and derivatives of these statistics. The findings from the study shows that changes in company structure, changes in ownership at various stages of growth, lack of H&S experts and short track records of H&S regulations were rated by the experts among the factors that affect the SMEs contractors H&S performance.

Keyword: Compliance, experts, health and safety, performance, SMEs contractors

1. Introduction

Small and Medium Sized-Enterprises (SMEs) are required to have the quality enhancement of the people in any country due the projects they undertake. SMEs play a role as sub-contractors for large firms and offer operational flexibility (Ofori & Toor (2012). Their performance in H&S should be enhanced to enable them to keep to a minimum the prevailing incidences in H&S. The compliance of
SMEs was found to have an effect on SMEs behavior and compliance levels within individual employees in the construction industry (Department of Occupational Safety and Health, DOSH Annual Report, 2008). The wellbeing of workers in the SMEs is affected by the high rate of accidents at the workplace (DOSH Annual Report, 2008). The performance of SMEs in terms of compliance with safety regulations is affected by their financial, expertise and staffing capabilities (DOSH Annual Report, 2008). These differences between SMEs and large multinational companies have a huge effect when it comes to the implementation of Occupational Health and Safety (OHS).

The development of construction SMEs in many countries depend on the supports received through financial assistance schemes, initiatives to support the acquisition of equipment and training (Ofori & Toor, 2012). Bad safety behavior is caused by ineffective implementation of Occupational Health and Safety (OHS). Since SMEs conceive compliance in a different way to the view of enforcers (HSE, 2005). The paper discussed management of Health and Safety at Work Regulations 1999 and the four Building Blocks of Successful Occupational Health and Safety.

2. Literature

The Confederation of British Industry (CBI) notes that SMEs have special needs of their own and are all faced with the challenge of one or more of a group of special characteristics. Their special characteristics are short track records, heavy reliance on niche markets, lack of specialist skills, low cash flow, small asset base and the need to make changes in structure and ownership at various stages of growth (HSE, 2005). SMEs are predominantly non-unionised a factor important about health and safety compliance. The input of safety representatives and union pressure for improvements in safety are not present in SMEs (Purcell & Gray; Lamm; Lamm in HSE, 2005). Regulation normally requires that SMEs contractors take some action likely to involve expertise, finance and management. Taking into account the characteristics of SMEs contractors’. They are likely to find regulations difficult to implement because they have limited resources that result in strict control of staffing. There is also limited personnel to monitor changing legal requirements, interpret and implement the necessary control measures (Hillary in HSE, 2005).

Small and Medium Sized-Enterprises (SMEs) have limited time in dealing with regulatory requirements. Workplace accidents have the potential to take 30% off company annual profits and failure to manage safety has a much larger social cost (Arewa & Farrell, 2012). Smallwood and Haupt (2008) argue that compliance with OSH regulations brings about benefits not limited to avoiding direct and indirect costs. Idubor and Osiamoje (2013) posits that adequate OSH training and education enhance the OSH performance e.g., compliance with OSH regulation. Within the SME, responsibility for dealing with regulations often falls to the proprietor who may not have any specialist skills. Unlike large firms that may employ an entire department of legal and technical specialists to deal with their H&S issues. SMEs contractors attitudes towards regulations and policy-making are different from large firms. They do not have representatives when it comes to policy review, this denies them the opportunity to implement and monitor legal requirements (Woolfson in HSE, 2005). Their view is not represented on policies because they do not belong to any trade body (HSE, 2005).
3. Management of Health and Safety (H&S) at Work Regulations 1999

Managing occupational health risks is placed on the employer under the management of Health and Safety (H&S) at Work Regulations 1999. To meet these legal requirements as well as improving the organization’s H&S performance and ultimately reduce risks and costs. The employers should have the following in place:

i. Health and Safety (H&S) policies and procedures with practical arrangements for managing occupational health risks

ii. Provision of employee awareness training on manual handling, control of substances hazardous to health, noise at work and hand-arm vibration

iii. Manual handling risk assessments and safe handling techniques for manual handling activities

iv. Health surveillance, sickness absence management, return to work policy and stress management strategy

v. Arrangements for managing subcontractors, including procedures for managing their occupational health risks

vi. Employers understanding their duties under the Construction (Design and Management) Regulations 2007 (CDM, 2007).

System concepts can help the employer to improve on his organization’s H&S planning, policies, and procedures and to minimize risks in the construction industry (CDM, 2007).

4. Four Building Blocks of Successful Occupational Health and Safety

Occupational Health and Safety (OHS) model is used to represent the key elements of the system and their inter-relationships. A model as defined by Adeogun and Okafor (2013) is a simplified representation of the key properties of an object, event or relationship and it can be verbal, physical or mathematical. The four building blocks of OHS are policy, organization, planning and implementation, and measuring performance.

The first-building block of the successful OHS model is policy. It is paramount that organizations should develop a formal occupational H&S policy. All those involved in the programme’s operation should participate actively in a policy. OHS policies set a clear direction for the organization to follow in terms of OHS. Therefore, the policy should be appropriate to the nature and scale of the organizations’ OHS risks. Mustapha, Aigbavbao and Thwala (2015) opined that unidentified hazards negate the risk assessment process; risks cannot be assessed and control measures developed and implemented if those involved are not aware of the hazard in the first place.

The second-building block of the successful OHS model is organization. It is the process of creating a structure for the organization that will enable its human resources to work together effectively towards its objectives or, in this case, OHS policy.

The third building block of the successful OHS model is planning and implementation. Planning is essential for the implementation of OHS policies. Planning consists of an overall strategy for achieving
organizational goals, and includes a comprehensive hierarchy of plans to integrate and coordinate activities.

The forth-building block of the successful OHS model is measuring performance. Organizations need to measure what they are doing to implement their H&S policy, to assess how effectively they are controlling risks, and how well they are developing a positive H&S culture. Measurement is essential to maintain and improve H&S performance (Adeogun & Okafor, 2013).

5. Design/Methodology

Experts are made of academics and construction professionals (quantity surveyors and building technologists). They were asked to rate the impact of other factors in predicting the actors that enable SMEs contractors to comply with H&S regulations (Figure 1). Data obtained from the survey was analysed with Microsoft EXCEL, spread-sheet software. The output from the analysis was a set of descriptive statistics such as means, median, standard deviations and derivatives of these statistics. The results are also presented in a chart.

6. Results and Discussions

Figure 1: Factors that enable SMEs contractors’ to comply with H&S Regulations
From the twelve (12) identified factors that were considered to enable SMEs contractors to comply with Health and Safety regulations, only three factors (changes in company structure, changes in ownership at various stages of growth and short track records of H&S regulations) were chosen by the experts to have reached consensus with IQD cut-off (IQD ≤ 1) score on the factors that enable SMEs to Comply with H&S Regulations (Figure 1). Using the median as a medium of reaching consensus, four (lack of enforcement from the legislative bodies overseeing the implementation of OSH Act, lack of knowledge to understand H&S regulations, lack of knowledge to interpret H&S rules and lack of knowledge to identify hazards or risks) of the factors or measurement variables had high impact (HI: 7-8.99), while the remaining eight (8) factors or measurement variables had medium impact (MI: 5-6.99) on the factors that enable SMEs contractors’ to comply with H&S regulations (Figure 1).

Results from the study revealed that the following twelve factors or measurement variables were considered by the experts to have varying impact on the SMEs contractors’ compliance with H&S regulations.

1. Changes in company structure (MI)
2. Changes in ownership at various stages of growth (MI)
3. Lack of H&S experts (MI)
4. Lack of finance in the management of H&S regulation (MI)
5. Lack of personnel to monitor changing legal requirements (MI)
6. Short track records of H&S regulations (MI)
7. Company limited cash flow (MI)
8. Lack of enforcement from the legislative bodies overseeing the implementation of OSH Act (HI)
9. Lack of knowledge to understand H&S regulations (HI)
10. Lack of knowledge to interpret H&S rules (HI)
11. Lack of knowledge to identify hazards or risks (HI)
12. Lack of interest in compliance with environmental health regulations (MI)

From the impact ratings of the factors, findings revealed that only four of the factors or measurement variables have a high impact (HI: 700-8.99), while the remaining eight factors or measurement variables have medium impact (MI: 5.00-6.99) on the factors that enable SMEs contractors to comply with H&S regulations.

7. Conclusion

The purpose of the study was to assess the factors that enable SMEs contractors to comply with Health and Safety regulations in the construction industry. It was concluded from the findings that most of the factors or measurement variables were considered by the experts to have influence on the SMEs contractors’ performance. In a nutshell, the factors or the measurement variables negate the health and safety compliance of SMEs contractors’ in the construction industry.
References


MARKET OF HALAL PRODUCTS: FROM NICHE TO GLOBAL MARKET

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Abstract
In the last two decades, Halal products, primarily Halal food, have outgrown from exclusivity solely for the Muslim population into a dynamic global market that will continue to play a crucial role in international trade in the upcoming years. According to a report written by Thompson Reuters and Dinar Standard, the value of the Halal food & beverage market in 2014 has been estimated to $1.37 trillion which is 18.2% of the global food & beverage market. Not wanting to miss the opportunities that the one of the fastest growing market offers, most of multinational companies such as Nestle, produce and offer Halal products. This paper presents the Halal market which in short time have transformed from niche to global market.

Key words: halal products, halal market, niche, globally

1. Introduction
Halal is an Arabic term meaning “lawful or permissible”. Opposite of Halal is Arabic Term Haram which means „unlawful or forbidden“.

Those two terms define the guidelines for the followers of Islam to distinguish right from wrong, allowed and prohibited. Islam, as one of the major monotheistic religions, includes the concept of food and nutrition to be followed by all believers of the Islamic faith. The word halal in Islam is the guiding and directional instruction and encompasses not only food and drink, but all matters of daily life which is clearly defined by Shari'ah rules.

Qur'an clearly defines all matters related to Halal and Haram, permissible and prohibited. Therefore, each member of the Islamic faith must take account of what he/she consumes and that food is not just a material good but that there is a spiritual meaning to it, that the food is considered as God's gift. Halal food is present for more than 1,400 years, but only in the last decades Halal products are gaining global importance.
As of today it is estimated that the global Muslim population exceeds 1.6 billion, and is growing at twice the rate of the non-Muslim world and is expected to reach 2.2 billion by 2030.

Thus, it is not surprising that the halal products market attracts more and more attention of the world industry, government and NGO sector as well as consumers [1, str.24,26].

2. Methodology

Data is collected by research at the table, investigative research of scientific and professional literature.

3. Debate and Discussion

Halal market makes the population of 1.6 billion Muslims, but also there is an increasing number of non-Muslims consumers who use halal products because they consider them healthy and safe.

The above fact is due to the characteristics of Halal products which are:

1. Halal products are present in all dietary habits and worldwide
2. Acceptable for all ages
3. Acceptable for the followers of other confessions
4. Healthful products with additional control

Despite the fact that Halal products have been used and traded for more than 1400 years, only in 2004 for the first time the term global halal market have been put in use, this is when Malaysia published the first official Halal Food Standard.

If we look separately to the trade of Halal Food & Beverage, which in 2014 have been estimated to $1.37 trillion than it exceeds trade of food & beverage in China ($857 trillion), USA ($768 trillion) or India ($434 trillion) which only confirms the fact of the growing importance of this market. Promising growth of this market in the next decade, without doubt, is the fact that 60% of the Muslim population is under 30 [1, str.24,26].

The largest share of trade of halal food and beverage goes to the following countries: Middle East and North Africa –MENA countries ($441 billions), South Asia ($238 billions) etc. One of the key Halal markets are Gulf countries (United Arab Emirates, Saudi Arabia, Oman, Qatar, Bahrain etc). However, it is interesting to point out that the biggest Halal producers are non-Muslim countries such as Brasil, Australia, New Zeland, and France etc. The increasing market attractiveness of Halal market has contributed to the fact that today the leading international companies are actively involved in the production of Halal food. Most of these international players are actually companies from Western markets such as Nestle. Among Nestles’ 468 factories, 159 exclusively produce halal products which are exported to 50 countries.

According to Croatian Chamber of Commerce Halal market is divided into following market segments:
**Arab - Islamic Market**

Comprising of 57 countries which are networked through the institution called the Organization of Islamic Cooperation (OIC) based in Jeddah, Saudi Arabia. The biggest importers of Halal food are Gulf Countries (United Arab Emirates, Saudi Arabia, Qatar, Oman, Bahrain etc.) which in 2010 imported halal food worth $25.8 billion and it is projected that up to 2020 their import of Halal food would be worth $53.1 billion. (Economist Intelligence Unit).

United Arab Emirates which are considered as Halal hub for the Gulf countries imports 90% of food, 80% of imported meat come from Australia and Brazil. 145 countries and 149 countries in 2009 and 2010 respectively have exported halal food in United Arab Emirates. Surely, the greatest potential for export of Halal foods provide the Gulf countries, in the first place because of their purchasing power, a large number of expatriates in these countries and because of the large number of tourists, for example in Dubai currently operate 700 hotels.[5].

**European Market**

The European market for Halal food is now estimated at $66 billion, with a population of 50 million Muslims. For a company in the region dealing with halal food, European Muslims are the most sought target consumers because of their sensibility and familiarity with halal products as well as their purchasing power which is in most cases higher than in many Islamic countries. That halal food is not “reserved” only for Muslims shows the fact that for the producers of halal meat the most lucrative markets are in all major European countries. The most glaring example of the attractiveness of halal meat market is the UK market: although the British Muslims account for only about 3% of consumers, the total share of consumers of halal meat is as high as 20% of the total number of consumers.

Among European countries the largest market of halal products and services is France (trade of Halal product in France estimates approximately to 3 billion euros per year) and the UK. Halal Coke - Mecca Coke in France has become one of the best-selling non-alcoholic drinks and Nestle are increasingly developing their French market of halal meat and frozen meat products. The most popular Halal products in Europe are milk powder, various flavorings, spices and sauces. In recent years we have witnessed that many European countries have implemented halal quality standards in segments of the production of medicines, cosmetics, items of personal use. Most retail chains on their shelves offers a wide range of halal products and services. The development and prospects of halal market by far is outlined in the example of Great Britain.

European hub for halal meat industry has been established in the province of West Midlands. European hub will provide billions of tons of halal meat from domestic production, which will than supply halal market in the UK and worldwide. Association of Farmers from West Midlands is carrying out a two-year project called West Midlands Project – Qurbans- the sacrifice of a livestock animal, which was initiated by a partnership of Advantage West Midlands and Business Forum of Ethnic Minorities from West Midlands. With the help of this two-year project Halal standard has been presented which also includes labeling and certification of farms according to Halal standard. By implementing the
requirements of Halal standards on the farms will enable the traceability of halal products by the system from farm to fork. The project Qurbans, which lasted for two years has opened great opportunities in the global halal market for many farmers. Halal market of Great Britain is estimated to 2.8 billion pounds. In the UK there are about two million Muslims, according to the British Food Safety Agency, halal food is consumed by 6 million end-users.

Western companies have recognized the potentials and importance of this market so they tend to seek halal certification in all countries where Muslims are in substantial numbers. Previously mentioned "Nestle", as one of the most important companies in the production of food products, has received Halal certification, so that their products are now available in both Western and Muslim countries (Nestle markets encompasses Malaysia, Indonesia, Turkey, Middle East countries and in Europe-France, Great Britain and Germany.

**Regional Halal Market**

With the establishment of Agency for Halal Quality Certification in 2006 and granting the first certificates of Halal quality regional Halal market started to develop. Up to today it has recorded a continuous growth in quantitative and qualitative terms. Among the regional countries noticeable are the development trends of halal markets in Croatia, Serbia and Bosnia and Herzegovina. Of all the countries in the region, Bosnia and Herzegovina is the largest and most important market in view of the number of Muslims who reside in it.

According to data collection of Agency for Halal Quality certification, in Bosnia and Herzegovina, in 2014, certified companies operating according to the halal standards realized annual profit of 1.5 billion marks with the total volume of food production of 633,000 tons per year[3].

**4. Conclusion**

If we look closer to the market researches, trade data analysis, as well as preferences and spending habits of 1.6 billion consumers, the halal market for years has been uncharted territory. In this regard, the halal market is still very young and constantly evolving, these are in fact new market paradigm that interwoven geographical, cultural and even religious boundaries.

Traditionally, Halal have been referred only to red meat and poultry, in particular with regard to the methods of slaughter. More recently, this has grown to include non-meat foods such as dairy, baked goods, snacks, confectionery and other processed food and beverage products.

Today's approach to halal is from farm to fork, which includes the compliance with halal of the whole process of production through the supply chain, such as warehousing, transportation and logistics, all these play a role in maintaining and demonstrating halal integrity.

During the last two decades, halal food has been transformed from an exclusive niche market solely for Muslim consumers into a dynamic global market phenomenon that shows every indication of playing a significant role in global trade in the coming years. Halal market is complex and fragmented jigsaw puzzle whose defining parameters are still seeking and expanding.
To understand the growth and development of the halal market it is useful to focus on the factors that apparently develop this market. From the consumer's awareness to technological innovation, the halal market is continuously growing and developing. Regulatory frameworks in the halal sector is not uniform, as they vary from one region to another and from one country to another. Countries with a Muslim majority have a different approach from countries where Muslims are minorities, such as the GCC countries (Gulf countries) are also in the process of development. Standards for the 57 OIC (Organization of Islamic Cooperation) is also being developed. Compliance of halal market on global level are still in a state of leavening and evolution. The main challenge in developing the regulatory framework for the halal market is to bring halal standards for food and beverage to the same level of compliance as existing standards for safety and quality in the food sector. Most of leading multinational food companies have adjusted their production according to Halal requirements not wanting to miss the opportunities that this highly lucrative market offers. Podravka, as one of the leading food producers in Republic of Croatia and region has adjusted to the requirements of Halal standards most of its product range.

Thus, I would like to conclude this paper with the citation of the President of Managing Board of Podravka d.d. Mr Zvonimir Mrsic:
„Last year (2014) we have increased exports by 6% and made strides in the market where certificate of Halal Quality is a prerequisite for our products to be sold. These are the markets that are growing, and the structure of the consumer is desirable for a company like Podravka. We want to become an important bidder in these markets, to improve the quality of life through diet and give some new flavors and methods of preparation, offer variety of brand name products and make Podravka as a whole recognizable in these markets.” [4].

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EXPLORING GROWTH GAPS AMONG SMALL AND MEDIUM-SIZE CONSTRUCTION FIRMS IN GHANA

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Abstract

The growth of small and medium-sized firms (SMEs) of most economies both developed and developing is not underestimated. This is because SMEs in particular, the construction SMEs are characterised as an engine of growth in facilitating employment, socio-economic and developmental needs of a nation. Ghana, in view of its status as a developing economy, is also driven by the impact and activities of the Construction SMEs. Therefore, the growth of construction SMEs is so pertinent to the Ghanaian economy due to enormous benefits that are achieved. As a result, it is significant for the study to explore into the gaps that will enhance the growth of these firms. The study adopted a mixed methodological approach including a review of literature supported by the use of electronic questionnaire survey in order to achieve this objective. The study established the paramount growth gaps among SME construction firms as the less attention on stakeholder’s involvement and educational training. Further findings from the study also revealed that growth of construction SME firms are influenced by three core determinants namely entrepreneurial features of firm owner, firm characteristics and the business environment that the firm operate. Conclusions from the study suggest that SMEs firms do not engage in educational training activities due to the perceived associated cost involved. Further conclusions also stressed that the construction activity is accompanied with vast stakeholders, and, therefore, there is always the challenge of selecting from the identifying stakeholders to contribute to the firm’s growth.

Keywords: Construction Exploring, Gaps, Small and Medium.

1. Introduction

The contribution of small and medium-size firms in nations are valued. This is because the growth of small and medium-sized firms (SMEs) of most economies both developed and developing is not underestimated. Also, SMEs in particular, the construction SMEs are characterised as an engine of growth in facilitating employment, socio-economic and developmental needs of a nation. Ghana, in view of its status as a developing economy, is also driven by the impact and activities of the Construction SMEs. Therefore, the growth of construction SMEs is so pertinent to the Ghanaian economy due to enormous benefits that are achieved. As a result, it is significant for the study to explore into the gaps
that will enhance the growth of these firms. While lots of literature exists on firm growth, it remains uncertain to conclude on a particular model to highlights adequately on firm’s growth. Some of the factors of the variables in these models relate whiles others varied making it rather fragmented difficult to establish a universal model. It is usually possible to draw the conclusion that explains certain aspects of SMEs firm growth, but in the final analysis, a comprehensive model of firm growth appears to be beyond the reach of SMEs firms to aid the implementation of growth activities. Existing models of firm’s growth by Gupta et al. 2013, Fadhunsi (2012) and Hashi and Kransnigi, (2011), stressed on numerous factors including external and internal factors but were notably silent on the involvement of stakeholders and educational training as factors that would bring about growth among construction SMEs. These identified gaps in the existing models constitute the gaps that must be established among the construction SMEs. Also, it is arguable that on one model or its factors could influence the measure of firm’s growth. Therefore, in order to underpin this study of gaps in firm’s growth, it was imperative to explore thoroughly factors captured in existing models of growth. This also enabled viable factors which had not been considered as a variable to firm’s growth to be established as a gap.

2. Purpose of the study

The study seeks to discover the growth gaps among small and medium-sized construction firms and some determinants which influence the growth of the firm.

3. Methodology

The study adopted a mixed methodological approach with the use of electronic questionnaire survey supported by a review of literature in order to achieve this objective. The electronic questionnaire was designed in a semi-structure format. Further, the question focused on the growth of small and medium-sized construction firms and its interrelated issues. The study also considered owners and senior managers of the SMEs as its population. This is because this classified group of the population were core and understands the operation of these firms better and may also know the reasons why the firm lacked growth. Prior email contacts and invitation of participation letters for the questionnaire survey were conveyed to the sampled population. This was then followed by the actual electronic questionnaire. The questionnaire was structured into two parts namely A and B. Part A, focused mainly on the determinants of firm’s growth whiles part B of the questionnaire highlights on gaps that needs to be accomplished in order to enhanced firm’s growth. In all, out of twenty-five (25), electronic questionnaires that were distributed and with the aid of purposive sampling, only twenty (20) was received to do the analyses. The analyses were done via simple descriptive statistics technique. Review of existing literature was also used as a strategy in order to address the purpose of the study. The literature process made use of current publications in journals, books, government white papers among others.
4. Review Literature

The small and medium-size construction (SMEs) in the Ghanaian construction sector are described as prolific job creators with the lack of growth traits. These SMEs are also believed to contribute to about 70 percent of GDP and account for 92 percent of businesses (Abor and Quartey 2010). In addition, most of this construction SMEs in Ghana are family-owned businesses and, therefore, adapt self-styled management for their operations which affect their survival in terms of growth.

The Ghanaian economy is however no different; literature has defined SMEs in that same context without any universal definition. The Ghana Statistical services (GSS) considers a firm with up to 9 employees as SMEs (Kayanula and Quartey, 2000). The Construction industry is directly linked to the Ghanaian economy as Government is the biggest client that has engaged most of the SMEs with projects (Yirenkyi-Fianko and Chileshe 2015).

Characteristics of small and medium-sized construction firms

Small and medium-sized firms are one for the most significant forces for economic development and growth. Around the world, SMEs are characterized as the vital factor to stimulate innovation, economic growth, job opportunities and poverty prevention as well as supporting their counterparts engaged in large-scale operations (Krasniqi 2007). The general characteristics of SME’s among nations are established through the source of their capital for their operations. The majority of small and medium-sized firms derived their capital either from a bank or other private sources (Nooteboom 1994). Further, SME’s are comfortable to obtain their start-up capital for their business from internal sources such as friends and families rather than the bank. This is as a result of huge interest that banks demand supported by strict repayment terms (Goeij et al. 2012). According to Lu et al. (2008), the majority of SME’s are primarily family-owned businesses with the characteristics of having unstructured procedures such as huge reliability of oral communication rather than written documentation. Sexton and Barrets (2003) argue that characteristics of SME’s in the construction industry are similar to their counterparts in other sectors. These same features include Lack of management expertise. (i) A limited financial presence that results in a small scope for investment in new technologies. (ii) Lack of resources for external dealings which results in limited information, awareness of new technical trends and opportunities. (iii) Lack of technical staff to undertake appropriate research and development (R&D). Small and medium-size firms, as recognized by these unique characteristics operate in a niche market. This features limits these SME’s only to focus on their project rather the growth of their business operations (Kamal and Flanagan 2014).

In Ghana, small and medium-size firms are classified into two namely urban and rural enterprises. The former can be subdivided into organized and unorganized enterprises. Similarly, small and medium-sized construction firms in Ghana are characterized with low levels of education and training of the self-employed. Ace et al. (1999) assert that although small and medium-size firms bring innovations to the marketplace, their contribution of changes in productivity takes time than larger firms with more resources who readily implement their innovations.
**Firm growth**

According to Arthur-Adioo et al. (2015), the word ‘growth’ used in the context of firms signifies an increase in sales, outputs, size, employment or improvement in quality as a result of the firm’s operation. With the growing importance of SMEs, the research on its growth and sustainability has become paramount. Lots of studies have attempted to explain the growth issues and processes of SMEs. Gibb and Davies (1990) however argued that there are four main types of approach to firm’s growth including: personality dominated approaches, which focus on the impact of the entrepreneur’s personal characteristics; business management approaches, which emphasize the factors affecting the firm’s performance in the marketplace, particularly its financial performance; industry and broader market-led approaches, which emphasize the influence of external factors rather than individual firm characteristics; organizational development methods, represented by stages of growth models (Churchill and Lewis, 1983).

**Growth gaps identified established among SME firms**

The gaps in the literature that are captured in this study on growth among construction SME firms have not been evaluated into details in previous studies but may have partially been mentioned. These identified gaps in the literature include stakeholder involvement and incorporation of educational and training for construction SMEs to stimulate growth.

**Stakeholder involvement gap in establishing firm’s growth**

Accordingly, Moloney (2006) mentioned in Chinyio and Olomolaiye (2010), stakeholders are referred to as individuals and organisations that benefit from the activities of an organisation. Chinyio and Olomolaiye (2010) further emphasized that stakeholders do not only benefit but can affect and be affected by the organisation or its functioning, goals and even survival. Stakeholders are however managed well when they are categorised. Generic stakeholders are classified into internal and external. Internal stakeholders include employees, managers and owners or sponsors whiles external stakeholders includes suppliers, society, government, creditors amongst others. It is, therefore, essential for a firm to identify all the stakeholders who may have an impact on the firm and project. Mainardes et al., (2012) maintains that as stakeholders are in ongoing relationships with the company, they are susceptible to generating contributions and valuable resources. To this end, analysing just who the stakeholders are, their relevant interests and how they act is fundamental to contemporary organisations. Therefore, attention must centre on identifying the most important stakeholders to firm’s survival, growth and meeting their needs and expectations (Baron, 2009). According to Bal et al., (2013) observed all stakeholders indeed are important, but they should be prioritized depending on the sustainability-related issues and their relevant characteristics, such as their ability to influence, impart knowledge, bring integrity and legitimacy.

According to Mitchell et al. (1997) cited in Mainardes et al., (2012) stakeholders have the following characteristics which are either Latent, Expectant or Definitive features.

Further, Latent characterized stakeholders are in possession of only one attribute, undoubtedly receiving little company attention. These types of stakeholders are subcategorized as Dormant,
Discretionary, and Demanding. Smith et al., (2011) demonstrated that that every firm communicates with its identified stakeholders in one way or another, directly or indirectly, be it through contractual relationships, marketing or numerous of channels. Smith et al., (2011) further asserted that stakeholder engagement and involvement refers to the new modes of communication in the corporate community emerging in the last decades (Freeman et al., 2007).

Benefits of Stakeholder’s involvement

Freeman et al., (2007) discovered that there are five main ways by which stakeholder engagement and involvement contributes to company’s economic performance and growth. These include the following:

(i) Stakeholder engagement and involvement solve problems: Addressing Company’s social or environmental impact effectively often cannot be achieved without the collaboration, knowledge and expertise of stakeholders. Also, this brings about a wider perspective on issues and solution that the firms might not have access on their own, including local context knowledge of the locality as well as a better understanding of the anger expression against the firm on regarding its environmental and social impacts.

(ii) Stakeholders engagement and involvement help firm’s management to project the future: Familiarity of stakeholder with its grass root operations might well highlight where supply chains or company action are not consistent with company policies. Further, this engagement gives early warning of evolving public expectation and regulatory and indicates where there are potential risk or opportunities yet to be explored.

(iii) Stakeholders are potential influential partners: Firms work with stakeholders to shape industry standards. Therefore, engagement and involvement of these stakeholders provide access for the view and concerns to be considered in the formulation of legislation.

(iv) Stakeholders engagement and involvement improve the firm’s public image: Vibrant and successful stakeholder engagement and involvement is probably to reduce public criticisms, hence contributing to a positive view of the firm from the perspective of its stakeholders. The good image will, therefore, tend to reduce time and resources to combat and to brand the image of a firm.

(v) Stakeholder engagement and involvement are a facilitation of trust. By providing stakeholders with the company’s perspective on issues and being responsive in addressing their concerns, stakeholders would have to be more likely to be corporative rather than confrontational. As a relationship is built, confrontation may be extent to trust cooperation on common issues of concern as well as enabling stakeholders in some cases to understand the limitations of corporation action. Galbraith (2002) acknowledged that firms must be designed in a manner to identify the practices that can best guide an organization toward success and address multiple stakeholder expectations over time. Raj (2008) postulated the following in enhancing stakeholder’s involvement within a firm in establishing growth. Engage with stakeholders early and often, ease of comprehending stakeholders, establish a long-term approach to engagement, tailor engagement to the firm’s needs, comprehending stakeholder dynamics.
Educational and training gap in establishing firm’s growth

There is enough evidence that suggests that educational training is as essential for every job, and SMEs utilise training to vary success Garavan (2007). Although there is this evidence that shows how vital educational training is to firms, most construction SMEs firms in Ghana do not engage in such training for it staff. Training is one of the most important and reliable human resource techniques to enhance organizationally and employee productivity (Bhatti and Kaur, 2009). Acton (2003) demonstrated that educational training and development is essential for organizational operation and advancement. Commencing from the employee’s perspective, these same factors are both crucial for skills development and for career advancement. Kauffeld and Lehmann-Wi llenbrock (2010) on the other hand argued that firms invest significant sums of money in human resource training and development, and it is imperative for such firms facing global competition continuously to improve employees’ knowledge, skills, abilities and attitudes. Therefore, it is relevant to focused on the factors affecting the intricacies of training as applied to a firm. According to Thassanabanjong et al., (2009), Training is defined as a learning experience creating a relatively permanent change in an individual that improves their ability to perform on the job. Similarly, Stone (2008) emphasised that traditionally, training focuses on technical knowledge, skills and abilities to complete current tasks. Better-trained members of the firm will perform more effectively and efficiently, be more motivated and valuable, take greater responsibility and make a more significant contribution to performance (Spitzer, 1999). Training is, therefore, a valuable management tool to develop the most important asset of an organisation. Training is, however, crucial in productivity as it influences the quality, depth and flexibility of members’ skills and generates positive attitudes such as job satisfaction (Tharenou, 2006). According to Healy et al., (2002), it is widely acknowledged within the construction industry that human resources within an organisation are an important source of competitive advantage. However, planning for training and development in firms is not always approached in a structured or strategic manner rather it is undertaken in response to specific problems. This can be particularly valid in SMEs where often the lack of a training function and the scarcity of resources results in the firm taking an ad-hoc approach to the provision of training (Healy et al., 2002). Musabayana (2012) however discovered that lack of adequate training and skills development as one of the key contributors to the lack of sufficient growth in the SMEs sector. Perks and Smith (2008) supported that majority of SMEs firms in South Africa lacked skills training. As a result, training is viewed as a crucial for SMEs growth. Rogerson (2008) observed that the most innovative and successful SMEs firms are those who have high levels of education, technical, managerial skills and training. Similarly, Orford et al., (2004) stressed that it is necessary to improve the quality and the appropriateness of entrepreneur education and training to assist SMEs both in terms of cost and administration. This implies that firms with untrained members are a cost in terms of operational capability. As construction firms and its operatives are always on the move, there is the need for them to be thoroughly trained. Educational training could either be received through a formal or informal pattern. Also, the needed training by the construction firms could be in any of the following forms on the job training, refresher training, skill upgrading, practical demonstration, and further education or in-service training.
5. Findings and Discussion

The study revealed from the electronic questionnaire survey that firm’s productivity and growth rely on the owner or entrepreneur’s behaviour as confirmed by Moreno and Coad (2015). Further, as depicted in figure (1), the entrepreneurial features tend to reflect on the firm’s features are determined by their knowledge, skills, and competencies amongst others. Personal traits of entrepreneurs (PTE) are mostly intrinsic in nature such as passion was driven, risk-taking ability to withstand the fear of uncertainty and potential failure amongst others this indicated 16 percent. Nevertheless, in spite of all these risks and the entrepreneur goes ahead to operate then the will be a possibility of growth in the firm. Firms are notable of operating in a competitive environment; this environment comprises of competitors. Therefore, a firm must be vigilant to desire for high standards in its delivery in terms of products or services the firm renders. More so, when a firm is branded by desiring to produce for high standards (DPS), this feature becomes an intangible asset for the firm among its competitors which could as well drive the firm to achieve its goals including growth. This was represented by 34 percent. In addition, 15 percent of the respondent stressed that the ambition of owner to innovate (AOI) as an entrepreneurial feature of a firm is crucial to the growth of the firm. For instance, Shane (2009) emphasised that firms that have no growth ambition to innovate, a large majority do not survive within the industry. Rich entrepreneurial idea (REI) development in the context of an organization is very significant. This is because when this idea development within the firm is utilized well, it becomes an important entrepreneurial feature of the firm which would result in huge innovation in terms of techniques, products amongst others. This would enable the firm to grow well in its business environment. 35 percent respondents indicated as the level of influence of rich entrepreneurial idea to firm’s growth.

PTE – Personal traits of entrepreneurial, DPS – Desire to produce high standards
AOI – Ambition of owner to innovate, REI – Rich entrepreneurial features
The growth of a business depends largely on the significant characteristics of the firm which to an extent may be classified as tangible or intangible. The studies of Gupta et al., (2013) have stressed on firm characteristics as the relevant constructs in firms growth. The study also revealed from the findings that growth of a firm is influenced by the firm’s characteristics. These characteristics are further driven by the desire to grow by the entrepreneur (DTG) which was represented by 7 percent shown in figure (2). Further revealed from the study was the level of human capital (LHC) which was represented by 28 percent. According to the resource-based view theory of a firm, resources are the primary source of firm’s performance and provide the direction for firm’s strategy as its characteristics. Also, the firm is characterised by its level of human capital. Wilson and Briscoe (2004) asserted that people are the key source of a firm’s competitive advantage. In addition, it is the quality of the human resource that determines organizational performance. More so a firm with a clear vision and mission (CVM) is likely to perform extensively. 25 percent of the respondent remarked that firms with clear vision and mission are able to growth. This was supported by the study of Grusenmeyer (2009) which stressed that a firm cannot have values beliefs and missions outside the people who make up that business. Therefore, it is important that the company establishes a clear mission and vision comprehensible to all employees in order to drive the firm towards its growth. Also establishing good management structure (GMS) ensures an organization’s continued growth, content employees and profitable returns for shareholders of the company (Bombaci 2010). 30 percent of the respondent indicated that good management structure ensures firm’s growth. Consequently, a bad management structure creates tension between workers and managers, allows inefficient work practices to flourish and reduces company’s profitability thereby affecting growth. Therefore, when a firm is characterised by a good human relationship, it enables goals and growth to be achieved. A good human relationship in a firm, however, includes a desire to understand others, their needs, weakness talents and abilities. Moreover, good human relationship within a firm foster conducive working atmosphere that further yields more productivity and bring about firm’s growth. 10 percent of the respondents remarked that good human relations result in firm’s growth.
The business environment is also referred to as the external influence on the firm (Humphrey 2003). This environment is affected by the government, competitors, institutional stakeholders and other sources external to the firm. Business environment impacts on a firm and brings about the associated yields of growth such as employment creation, facilitation of socio-economic developments and poverty reduction among others. The survey revealed that 9 percent of the respondents agreed that strategic competition at prevailing at the firm’s external influence its growth. Also captured as a characteristic of the business environment of a firm that brings about growth is the political stability (PS), this is regarded by economist as a determinant of good economic performance. Aisen and Veiga (2011) supported that political instability, however, is likely to hamper policies creating volatility and negativity affecting macro and micro economic activity. It is clear from that political environment influence the business environs of firms. 13 percent of the respondents indicated the political affects the growth of a firm. In addition to the external influence on a firm’s growth is a good customer feedback (GCF). This was represented by the 15 percent. Accordingly, to foster firm growth, it is now established that access to finance is an essential pre-requisite. Accessibility to financial assistance (AFA) of a firm is necessary to create an environment that will enable the firm to grow and prosper (Dalberg 2011). In addition, in a more rigorous business environment where firms are able to access finance with fewer constraints, growth, innovation and other related benefits will emanate from such firms. 55 percent respondent indicated that accessibility to financial assistance to SME firms, However if business environment is characterised by a lack of access to finance firms operating in such environ will be limited with growth and other attributes that come with access to finance. Availability of critical skills also affects the growth of a firm. This is because the successful performance and growth of very firm depend on its available skills. Therefore, when a firm lacks such critical skills, growth within the firm will not be established.

![Business environment that influence firm growth](image_url)

**Determinant of firm growth**

<table>
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<tr>
<th>Level of influence</th>
<th>Business environment that influence firm growth</th>
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<td>Strategic competition (SC)</td>
<td>Good customer feedback (GCF)</td>
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<td>Political stability (PC)</td>
<td>Accessibility of financial assistance (AFA)</td>
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<td>Availability of critical skills (ACS)</td>
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SC – Strategic competition, PC – Political stability, GCF – Good customer feedback,
AFA – Accessibility of financial assistance, ACS – Availability of critical skills
6. Conclusions

The purpose of the study is to discover the growth gaps among small and medium-sized construction firms in Ghana and also explore some determinants which influence the growth of the firm. The study identified some two vital growth gaps prevalent to SME construction firms in Ghana. These gaps may have been mentioned partially in the literature on firm’s growth. The study concludes that the stakeholder involvement and educational training are the major gaps amongst the SME construction firms in Ghana. The study further concludes that stakeholder involvement amongst construction SMEs would have benefits from collaboration with partners, transfer of knowledge, the expertise of stakeholders, addressing the needs of the community socially and environmentally through stakeholders amongst others. These would facilitate growth among the SMEs firms. Also concluded from the study is the educational and training as a firm growth gap among construction SMEs in Ghana. In addition, evidence shows how vital educational training is to firm. However, most construction SMEs firms in Ghana do not engage in such training for it staff. This is as a result of the associated huge sums involved in organizing such training. Similarly, training is one of the most important and reliable human resource techniques to enhance organizationally and employee productivity. The study, therefore, concludes that construction SMEs must endeavour to institute training that seeks to address the needs and goals of the firm thereby increasing productivity and quality within the firm. Also concluded from this study includes determinants of firm’s growth and their level of influence. The determinants are entrepreneurial features, firm characteristics and lastly the business environment that the firms operate. The study wrap up that, entrepreneurial features which drive the growth of a firm is further influenced by the personality trait of the entrepreneur, desire to produce high standard, the ambition of owner to innovate and the rich entrepreneurial idea. A similar conclusion on firm characteristics as another variable which drives firm growth indicates that the firm characteristics are further affected by the desire to grow, the level of human capital, clear vision/mission, good management structures and good human relations. An additional conclusion from the study suggests that the business environment where firms operate are influenced by the strategic competition, the prevailing political stability, good customer feedback, accessibility of financial assistance and availability of critical skills.

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OCCUPATIONAL HEALTH AND SAFETY IMPLEMENTATION BARRIERS IN GHANA

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Abstract
The negative impact on the Occupational Health and Safety (OHS) performance in Ghana has been attributed to Ghana’s inability to follow the laid down requirement of the International Labour Organisation (ILO) conventions. The purpose of the study is to examine the Occupational Health and Safety (OHS) implementation barriers in Ghana and look into the existing regulations and their contribution to other sectors. The study was conducted through the use of secondary data from journals, books and internet to achieve the objective of the study. The review looked into details of the different views from different scholars about occupational health and safety (OHS) implementation barriers in Ghana. Findings from the study has shown that inadequate legal mandate has contributed to the weakness in enforcing regulations and professional standards, missing framework for a comprehensive national OHS policy and inadequate resources to OSH researches. Others are lack of inspection, training and education, lack of OHS capacity building and monitoring, lack of financial, human resource and material constraints. The study explores occupational health and safety (OHS) implementation barriers in Ghana. The study presents a strong background on currents trends in OHS, regulatory bodies, OHS implementation barriers and its improvement.

Keywords: Barriers, OHS implementation, OHS improvement, regulatory bodies.
1. Introduction

The construction industry in Ghana as confirmed by Annan, Addai and Tulashie (2015) has been affected by different types of Occupational Health and Safety (OHS) issues. The OHS legislation in Ghana was inherited from a British legal and institutional framework at the time when Ghana was a British dependency. This has remained the main OHS legislation in force until its repeal by the Factories, Offices, and Shops Act 1970. However, the existing OHS legislation in Ghana is fragmented and limited in coverage. Some key economic sectors are not covered by the country’s OHS laws. Considering the high risk nature of the construction industry, it is surprising to note that Ghana has no Health and Safety (H&S) regulations developed specifically for the sector. This limitation prevents the implementation of H&S standards on construction sites. This development calls for a proactive measure at all levels of organisations in the country to deal with OHS issues. The achievement effective OHS management requires serious attention in order to eliminate accidents in the construction industries. The paper presents the current trends of OHS in Ghana, different regulatory bodies in Ghana and OHS implementation barriers in Ghana. This is followed with improvement of OHS in Ghana and planning, implementation and evaluation of OHS Policy.

2. Research Design/Methodology

The research method adopted is literature study from various studies on Occupational Health and Safety (OHS) in Ghana. Twenty studies were reviewed on Ghana, but nine studies were selected which are relevant to OHS. The review of literature looked into details on different views from different scholars about OHS practices and challenges in Ghana. The results from the literature study were analyzed to obtain specific issues that are relevant to the root causes of safety performance regulations. Based on the identified challenges of OHS, needs are clearly defined and strategies are proposed for their improvement in the construction industry in Ghana.


The Health and Safety (H&S) of workers in the mining and wood processing industries of Ghana prior to independence, was protected by the Factories Ordinance 1952 (Kheni & Braimah, 2014). A notable example is the agricultural sector which employs over 60 percent of the country’s workforce. Hence, there is no form of OHS laws regulating the activities of the sector. This regrettable situation can be traced back to colonial rule in Gold Coast (Ghana). The colonial government placed more emphasis on labour relations in sectors of economy (mining and manufacturing sectors) where formal employment relations existed.

Currently, there are two major edicts that have provided guidance in the provision of occupational or industrial safety and health services, practice and management in Ghana. These edicts include the Factories, Offices and Shops Act 1970, Act 328 and the Mining Regulations 1970 LI 665. These have driven the mining and the labour sectors and are therefore very limited in scope, by considering the
multifaceted distribution of industrial operations that we have in Ghana. There is the Workmen’s Compensation Law 1987(PNDC 187) which relates to compensation for personal injuries caused by accidents at work. Hence, this edict indirectly impacts on monitoring worker or workplace safety. As per the International Labor Organization (ILO) convention number 155 1981, member countries must formulate, implement and periodically review a coherent policy on OSH and work environment. It further pointed out that the Labor Act 2003, Act 651, Part XV, sections 118 to 120 apparently directs employers and employees in their roles and responsibilities in managing Occupational Health, Safety and Environment in the nation. It is not specified to whom accidents and occupational illnesses should be reported to. It is also not clear or does not specify what to consider as occupational illness and person responsible for the implementation of corrective actions as per recommendations (Annan et al., 2015).

However, accidents that occur in factories are expected to be reported to the Department of Factory Inspectorate (DFI), but companies hardly report such events to the inspectorate for investigation and correction. Little attention has been paid to or there is no positive effect of the action of the DFI on the factories. The positive signs seen on “Safety and Health practice infection” among some of the companies are due to the arrival of some multinational companies into the country. This implies the multinational companies have given their corporate expectations with specific requirements in the OHS practices. This stems from their requirements for the contractors and subcontractors to follow their H&S standards (Annan et al., 2015).

4. Different Regulatory Bodies in Ghana

The introduction of different regulatory bodies in Ghana as argues by Annan et al., (2015) have compounded the existing problems of OHS in Ghana.

i. Mining and Minerals Regulations 1970 LI 665,
ii. The Workman’s Compensation Law 1987,
iii. The Ghana Health Services and Teaching Hospital Act 526 (1999),
iv. The Ghana Labor Act 2003 (Act 651),
v. The Radiation Protection Instrument LI 1559 of 1993, which is an amendment of the Ghana Atomic Energy Act 204 of 1963,
vi. The Environmental Protection Agency Act 1994 (Act 490), which has components that include but not limited to the Pesticide Control and Management Act 1996 (Act 528), seeking to protect not only the environment but also persons,

The Factories, Offices, and Shops Act 1970” was introduced after the concept of OHS in industries in Ghana as indicated. Report from the Ghana Government (2010) and Annan et al., (2015) have both confirm the existence of the Factories, Offices, and Shops Act 1970 (Act 328) and the Mining Regulations 1970 LI 665 as the two major edicts that provided guidance for the provision of OHS services, practice, and management in Ghana.
5. Occupational Health and Safety Implementation Barriers in Ghana

The major barrier in the implementing OHS practice in Ghana is lack of comprehensive national OHS policy (Pupulampo and Quartey (2012); Ghana Health Service (GHS, 2007). Ineffective OHS inspection; training and education; limited funds for OSH research; OHS capacity building and monitoring, and limited level of ratifications of ILO conventions have been indicated by Pupulampo and Quartey (2012) as some of the major barriers in the implementing OHS practice in Ghana. Lack of comprehensive national OHS policy as pointed out by Pupulampo and Quartey (2012) and a report from the Ghana Health Service (GHS, 2007). Kheni, Dainty and Gibb, 2008) identified inefficient institutional frameworks responsible for health and safety standards, inadequate government support for regulatory institutions and lack of skilled human resources, limited financial resources and attention given to OHS as the major barriers to occupational safety implementation in Ghana. Studies conducted by Dadzie (2013) on perspectives of consultants on health and safety provisions in the labour Act: A Study into theory and practical has shown the following as factors affecting the adherence to the Health and safety (H&S) provisions in the labour Act of Ghana: lack of H&S training for workers, poor risk assessment, poor attitude of workers towards H&S, inadequate H&S professionals, H&S policies, inadequate data collection systems, lack of H&S education in various institutions, communication difficulties, cost of providing and maintaining H&S on sites and accident reporting shortfalls. Puplampu and Quartey (2012) posited that there was low level of ratifications of International Labour Organisations (ILO) Conventions that address Organizational Health and Safety in Ghana; lack of comprehensive international OHS policy framework; inadequate resources allocated to OHS researches; ineffective OH&S inspection; OH&S training and education; and OH&S capacity building and monitoring. Mustapha, Aigbavboa and Thwala (2015) opined that the low level of ratifications of ILO Conventions that address Organizational H&S in Ghana was due to the fact that the international OHS requirement is not applicable in Ghana.

Moreover, Laryea (2010) revealed that there was a serious lack of structures and procedures at all levels of the construction chain - lack of strong and appropriate H&S legislation for governing construction work and site operations in construction. Annan et al., (2015) argued that the Ghana government is not able to partner with organizations responsible for the implementing the OHS activities and reported on its outcomes. The country has not yet ratified the International Labour Organization (ILO) convention number 155, although this has been under consideration, and therefore, the international OHS requirement is not applicable in Ghana. Annan et al., (2015) in their study of a call for action to improve occupational health and safety in Ghana and a critical look at the existing legal requirement and legislation concluded in their study that the large number industries in Ghana have contributed to the high risk in workplace hazards. They further argued on lack of national policy and body responsible for monitoring and ensuring OHS requirements and guidelines. This development might be probably due to the existence of some fragments of OHS legal requirements under jurisdictions of different agencies as discussed earlier. The indicated barriers need urgent attention to ensure affective OH&S management in Ghana. World Health Organisation (WHO, 2004) has shown clearly that past limitations, difficulties and setbacks encountered with the OHS practices of any country do not mean that satisfactory measures should not be implemented. Ghana should not be left out in the search for the
requirements and committed agencies to take the mantle of affairs that will initiate the implementation of the national policy.

6. Improvement of Occupational Health and Safety in Ghana

Occupational Health and Safety (OHS) as opined by Pupulampo and Quartey (2012) should not be compromised based on the fact that there is slow development of OHS research in Ghana and should not be an excuse to deprive employees of their basic rights in relation to health and safety (H&S). Annan et al., (2015) further argued that the structuring of OHS policies in Ghana must begin with government's commitment and leadership. Emphases must be on the adoption or development of OHS policy and should follow the minimum requirement of the ILO convention. The National Policy are as follows:

i. The nation has to adopt or develop a broad base Occupational Safety and Health (OSH) policy that is in line with the International Labour Organization (ILO) convention 155 as a minimum. This must seek to address Safety and Health issues regarding all projects and operations from design stage, through procurement, construction, and operation and decommissioning.

ii. Achieving this means all the scattered generic OSH requirements under the different agencies of the Ghana Government such as the Environmental Protection Agency, Department of Factory Inspectorate, Inspectorate Division of the Ghana Minerals Commission and the Ghana Labor Commission with different responsibilities must be brought under a one body. Such a body must be empowered and resourced adequately to enable them organize how the policy would be implemented nationwide and under the responsibility of one body or ministry.

iii. This policy must be authenticated by the Ghana Government and form part of the nation’s legal document. Effective organization consultation with relevant organizations will positively impact the implementation of the “Expected Ghana National Occupational Safety and Health Policy”. The relevant organizations may include but not limited to the Ghana Minerals Commission, Ghana Chamber of Mines, Ghana National Petroleum Corporation, the Association of Ghana Industries, the Universities, the Department of Factory Inspectorate, the Ghana Institute of Engineers, The Ghana Medical Association, the Ghana Bar Association and Ghana Environmental Protection Agency.

iv. Of outcomes of consultations and requirements of the Occupational Safety and Health policy is salient in achieving a good control of the system. This can be done through the National Media Commission and the associated private and public media operatives.

v. Competency of the human resource who would be championing the implementation and monitoring of the Occupational Safety and Health policy must be built up. This may require introducing relevant courses like Safety Engineering in our Universities and Polytechnics as well as Occupational Health in our Medical Schools. This training institution would need to be adequately resourced and accredited to deliver quality education in Occupational Safety and Health for Ghanaians to be able to manage Occupational Safety and Health issues in the nation.

vi. Between the industry, the public and the established body responsible for the implementation, management and monitoring of the policy is paramount.
vii. Control of the practices with guidelines either adopted or developed by the nation’s Occupational Safety and Health body needs specific emphasis. Specific roles and accountabilities with timelines need to be developed for planning and implementation of the Occupational Safety and Health policy actions with clear reporting lines. This must not exclude penalties for intentional non-conformances and negligence.

7. Planning, Implementation and Evaluation of OHS Policy

There is the need for proper planning, implementation and evaluation of Occupational Health and Safety (OHS) policy improvements in the Ghanaian construction industry. Effectiveness is required in such areas of consideration to achieve the expected goals of the country in the minimizing or complete eliminating of any hazard in the construction industry in Ghana. Ghana need to be committed and show good leadership in its OHS policy structuring (Annan, 2010). The National Policy should be in line with the ILO convention 155 as a minimum (ILO/HO, 2005). Positive implementation of Ghana National OHS Policy will be achieved if effective consultation with various organizations is carried out through good communication. The need for training institutions to be well resourced and collaborate between the industry, the public, and the body responsible for the implementation, management, and monitoring of the policy.

Moreover, control of the OHS practices through planning and its implementation. Monitoring of the OHS policy should be effective after the implementation. Anann (2010) opines that there is the need to ensure the achievement of the Ghana national OSH Policy aim and objectives. Specific timelines, roles and responsibilities should be spelt out. Targets must be set by the nation, for the various industries to merit control measures instituted. Guidelines for the industries must be in emergency preparedness, hazardous material management, risk assessments, accident reporting and investigation, workplace inspections, workplace exposures monitoring, assessment and control, purchasing and supply chain policies, permit to work systems, etc. This will enable the industries to achieve their set targets. Government organization must also be empowered and resourced to proceed with continual research into workplace exposures and levels should not be exceeded, safe ways of completing the tasks, and improvement of controls when undesired events, conditions or systems are encountered.

8. Lessons learnt from Occupational Health and Safety Implementation Barriers in Ghana

Several types of OHS issues exist in Ghana that affect the construction industry. Implementation of OHS practice is seen as one of the major challenges in the establishment of comprehensive national OHS policy. However, the introduction of different regulatory bodies in Ghana have not solved the problems of OHS. The International Labor Organization (ILO) convention number 155 is under consideration is yet to be been rectified in Ghana. Government is required in the structuring of the OHS policies in Ghana. The adoption of ILO convention as a minimum requirement and its development may lessen the existing problem. The inherited OHS legislation in Ghana has its own challenges coupled with
the Factories, Offices, and Shops Act 1970 and Mining Regulations 1970 LI 665 with limited coverage. Ghana lacks OHS policy for the construction and points to its major challenging issue. There is need for the establishment of very strong OHS culture on OHS issues in Ghana at all sector levels throughout the nation in order to improve on OHS challenges.

9. Conclusion

The purpose of the study was to examine the Occupational Health and Safety (OHS) implementation barriers in Ghana and look into the existing regulations and their contribution to other sectors. Unavailability of OHS policy and the existing numerous regulatory bodies have immensely contributed to the existing OHS implementation barriers in Ghana. The International Labor Organization (ILO) convention number 155 should be considered and rectified.

References


ROUTE TOWARDS STRENGTHEN VALUES IN SOCIETY THROUGH TRAINED STUDENT

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Abstract

Today the labor market, where the growth of youth unemployment is getting worse in Macedonia is coming shortage of highly qualified personnel. Making this thesis is the work of scientific teaching i.e. university staff working in the vocational education system and that must fill a labor market with a suitably qualified educated and skilled professionals. It is also important that university staff must have adequate knowledge on the basis of the transfer of educational material via interactive guidance for young students, not that old, boring and monotonous lecture over monologue telling the professor. Students definitely have to chase his thesis only estimates and learn only what they control how the basic material in the curriculum and nothing more than that.

Keywords: Long life learning, Educational material, Professional’s knowledge.

1. Introduction

Modern progressive evolutionary development of the Macedonian state requires an education system that will prepare higher education, with trained and socially adjusted people - experts in their field of activity. Modern University for teaching - educational process has the duty to provide adequate conditions through which young students will become familiar with current and contemporary values in the world and national cultures, in order to facilitate and ensure the construction of their own skills for effective social interaction, personal development and self-improvement.

Young students, the basics and the most important component in every educational structure of each country / society, so that they can overall to develop and implement their knowledge, but certainly not the first to want it, and then you can determine your own future by comparison to acquired profession.

Improving the quality of education is certainly one of the biggest problems in the country. Only solution to this problem is very linked to contemporary modernization of curricula, methods and technology optimizing the organization of the educational process and, of course, the interpretation of the purpose and outcome of such advanced education.
The sole purpose of higher education in particular, is and must be a person / individual who will form a unique set of skills, knowledge and professional quality with ethical values and all this in line with the educational Program in the state itself.

This approach can and must preserve the historical and ethno-social values, if the basic competence is taken as a complex formation of the person, including the emotional, intellectual and moral components.

However, the relevant characteristics of higher education are "age" (Age) ie. 19-21 years and this is the focus of "free human development," the development of his creativity, autonomy of students, future professional’s mobility and competitiveness.

The problem is the quality of the education in Macedonia which has to come to improve and get a new perspective in the next few years. The concept for solving this problem in the modern educational process, which must relate to changes in the curricula of higher education (and therefore its results), at the same time acting as a "new system" universal knowledge, skills and experience through self-employment in the educational process to the personal responsibility of the students themselves. And finally, through the reinterpretation of these objectives in relation to the outcomes of education.

The act of Macedonia's accession to the Bologna process, higher education makes it necessary to match ie. To coincide with the unique national education system with international standards, reducing the effective recognition of the Macedonian diplomas, degrees and kvalifikacije in the international labor market and educational services. Quality training professionals Higher Education, only manifests itself in the economy and the economy, and it should be determined primarily by the user: individual, society (business community, professional associations, etc.), And therefore, the state itself. The basic and primary criterion for assessing the quality of training in higher education must be just market competition and competitiveness.

The scientific literature shows a tendency to turn to the issue of jurisdiction scientists in general and professional competence, in particular, to find content in the concept of student - oriented positions.

But it should not be and should not be forgotten and that "stronger" the structure of professional competence from the perspective of personal connections, social aspects of the activity itself and as a result, required the development of a general structure of professional experts.

Professional competence, it is certainly a collection of personal characteristics that are associated with social activities, with which ensures success in the development of personality in certain types of activities in the direction and with the aim of increasing the efficiency of the human impact on the natural and social environment. Professional competence is an important factor of the positive characteristics of the personality and society, enabling them to be properly integrated into the social space.

The main characteristic of professionalization in the specific assimilation of significant value (social and professional) expressed through the major components in the main stage, and this is vocational education and training in order to obtain certain specialties with high educational institutions. This level of professionalism of students should focus on the values of self-determination for the future specialization, with what personal self-determination is required because of the choice of profession, ie. interest, development of personal skills and desires with the needs of society in a wide range of professions / occupations.

Key elements of higher education are implemented through an average accumulation of professional experience, and it is a professional business persons to learn the rules of professional ethics allow, and there is a proper and appropriate education and training, but also, and to set the foundations for a humanistic perspective with the adoption and the adoption of a creative approach to solving and realization of basic professional tasks: on the one hand, the orientation of the individual to allow improvement of working performance, and on the other hand, it is the assimilation of a wide range of professional and general human values and orientation.
With all its multi-component, as well as more functional and multi-layer structure, the educational system works as a leader, as a result, which can provide a high level of professional competence, and in the end, increase the effectiveness and efficiency of professional activity.

In my opinion, one of the leading conditions for stronger education is to improve the professional competence of training and skills, and thus provide a system out hard and continuing education and training, and that, from elementary all the way to higher education. When we speak of a modern education system, it must first ensure adequate training of experts-specialists capable of professional development and mobility in a dynamic development of trade and economy, information society, as well as the development of new high-tech monitoring of the rapid change in the labor market demands and services.

The current situation on the labor market in Macedonia facing the increasing demand for highly skilled workers. Today higher education is a spectrum of diversity of educational services: created are private educational institutions, commercial components were developed in public schools / universities, and there is an urgent need for orienting the market. Currently Macedonian universities create and implement new training at various levels for professionals-specialists, which in turn allows us to create a more flexible education system, and with it, giving students the opportunity to choose their own by adapting its sole discretion. This trend indicates a gradual adjustment of the higher education system to the new economic conditions. However, traditional universities need at this time to adjust, or country, or the labor market. In relation to this urgent task, it is necessary to identify the potential for universities and fields of specialization who must be on the list of government support for its economic security through mutually beneficial interaction between businesses and universities, and will be designed to optimize both for quantitative and for qualitative graduate’s characteristics, as well as their level of training acquired.

The main problem affecting the quality of education is the entry of experts-specialists in the process of the profession. This is due to the fact that the practice is often done in laboratory with miserable and old equipment, just in the 21st century, and in the social sphere has only a poor and miserable practice where student accounts only for a theory, not a personal brain.

From all this it follows that the graduates inadequately prepared for contemporary working conditions in the workplace, so that, to improve the quality of training of the whole educational system must be in accordance with modern requirements of the labor market. In addition, it is necessary to develop new approaches and ways to improve the organizational and economic mechanism of functioning of two interconnected markets - labor and certainly educational services. Relevant tasks I study of the labor market, with identifying a need in the current environment the movement of labor, certainly the trend of supply and demand structures and training in institutions of higher professional training. The relevant directions of this goal are:

- regular and continuous monitoring of the labor market,
- joint study opportunities for business and economic growth and development of the region,
- to study and implement ways tried to provide the staff in particular and the exact number with the right structure and skills,
- career guidance of young people and acquisition of specialized contracts with employers, and
- Insurance as well as providing employment of graduates.

All this can be obtained in the institutions of vocational education in accordance with the needs of the economy and efficiency of labor market forecasts through of establishing equilibrium between supply and demand in the workforce, and improving the interaction of the labor market and education.

Another equally important task is to study the motivational needs and aspirations of young people in vocational training based on the analysis and synthesis of periodic tests of various youth groups. Special attention must be paid to the study of the structure of the educational needs of young people, their orientation to
the types of education (schools and universities), types and levels of professional training in the sphere of interest of future employment.

In these modern conditions of professional-professional and educational choices young students still determined false and unnatural notions of prestige and demand for certain professions and specialties in the labor market. Such quick and unrealistic choice is not always in the interests of both individuals and society, which essentially determines the structure of educational services, and then opens and creates serious problems for the effective and proper employment of young people. The existing imbalance between the structure of education and training and the demand for graduates is always accompanied by adequate changes in the labor market through a system of supply and demand, existing jobs, development and perspectives of work organizations and businesses.

All this is of relevant importance for the formation of system demand and requires experts taking into account the young profession of his imagination and the needs of the labor market, but also its own training in educational institutions necessary for economic development. At the same time, in the database system should be developed and implemented predicting future needs of the organization in the workforce and use the training plans of the reception facility and in-house training. Providing accurate information on labor demand and supply of labor markets, through specialized sites on the Internet, to the positive impact of the regulatory systems formed and educated professional needs of young graduates in relation to the labor market and educational services.

Next and finally the task of studying the problems faced by the graduates themselves in the sphere of employment in relation to educational institutions, employment services and statistical data. At this time about 35% of graduates cannot find work, while 32% are not employed in their specialty. The problem of employment is also complicated by the incompatibility profiles and needs of the economy, and especially the overpriced graduates legal and economic specialties etc. Experts at the expense of training revitalized industry, social sector and new market structures.

2. Conclusion

The development of the complex strategy of universities relevant to take into account the current and anticipate and match future level of demand for specific guidance and specialized training, as affect the level of competitiveness in a market education institution. Total demand for education must be in the system - student / graduate student, the employer and the state.

For effective and efficient higher education must be identified strategically important tasks, such as:
- Increase the role of education in science and culture, as well as the economy;
- Radical changes in the content of education based on the imperatives of XXI century;
- Integration of the main part of the intellectual potential of the country;
- Reducing the costs associated with reducing the level of education through a substantial increase in its diversity;
- Disclosure of unused capacity higher potential through the creation of smaller schools with much larger effective operational structures.
- Principles as part of the access sphere of activities, with the ultimate aim of "Points of growth":
  - The principle of subjectivity education;
  - The principle of increasing activity and changes in the law (no matter);
  - Principle age periods of development (regardless);
  - The principle of high motivation;
• The principle of moral enrichment to be used as a means of labor;
• The principle of cooperation in the organization.

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