

**Proceedings of the 3<sup>rd</sup> Annual South-  
East European Doctoral Student  
Conference**



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East European Doctoral Student  
Conference**

Edited by  
Iraklis Paraskakis  
Andrej Luneski

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17 Mitropoleos str. 54624 Thessaloniki, Greece  
Tel: +30 2310 253 477  
Fax: +30 2310 253 478 ext. 115  
<http://www.seerc.org>

## Preface

It is my pleasure to welcome you to the 3<sup>rd</sup> Annual South East European Doctoral Student Conference (DSC2008) taking place June 26<sup>th</sup> and 27<sup>th</sup> in Thessaloniki, Greece, and organised by the South East European Research Centre (SEERC).

This volume contains the papers from the programme of the 3<sup>rd</sup> Annual South East European conference. The aim of the conference is to initiate an exchange of knowledge between young researchers and to help establish a network of scholars currently undertaking research in South-East Europe. Having identified academic isolation as a problem that many doctoral students face today, SEERC aims to bring researchers together for establishing collaborative links between disciplines, for testing the ground for innovative ideas and for engaging the wider academic community.

Building on the success of the two previous conferences, this year's conference attracted a large number of submissions resulting in around 85 presentations of both papers and posters. The audience of the conference expanded beyond the boundaries of South East Europe and we had presentations from throughout Europe confirming the need for Doctoral Students to come together, discuss their experiences and gain external feedback to their work as well as listen to the progress and methodology of fellow PhD candidates.

Additionally, this year a workshop entitled: ***Building Research Skills*** was organised offering to delegates hands-on tips regarding how to write a research paper as well as how to present a paper in a conference. This workshop was organised in response to a recognised need for developing and mastering these research skills. It suffices to say that even some experienced researchers find still difficult to master such skills. The workshop was conducted by Dr. Petros Kefalas from CITY College.

Moreover, this year the Risk, Well Being and Cognition Track were joined by students from the European Society of Cognitive Psychology (ESCoP) Summer School on Neuroscience of Attention. Doctoral students from the Summer School joined the conference on its second day and presented part of their work from the Summer School to the delegates and received feedback.

The keynote speech this year was given by *Prof. Eleftherios Iakovou*, from the Aristotle University of Thessaloniki. The title of the keynote speech is "Global Trends and Challenges: Impact on Logistics and Supply Chain Management Research".

The scope of the conference was, again, multi-disciplinary spanning throughout the areas in which SEERC is doing active research and therefore it was divided into four parallel sessions:

- Enterprise and Regional Development
- Information and Communication Technologies
- Governance Politics and Society
- Risk Well Being and Cognition

There were 125 submissions and of these 62 were accepted as full papers and 18 for poster presentations. The full papers were divided as follows:

- 14 for the Enterprise and Regional Development Track
- 22 for the Information and Communication Technologies Track
- 17 for the Governance Politics and Society Track
- 9 for the Risk Well Being and Cognition Track

One of the main objectives of the conference has been to provide an opportunity for PhD students to receive advice from experts in their chosen field of research. This would not have been accomplished without the hard work of the members of the Programme Committee as well as that of the reviewers, who's reading and commenting of the submissions has been pivotal. Also the participation of the invited discussants and their feedback to the presentations made by the participants has been greatly appreciated. The list of the discussants according to the research track is as follows:

## **Enterprise, Innovation and Development**

- Prof. Siniša Zarić (Director, Centre of International Studies, Faculty of Economics, University of Belgrade, Republic of Serbia),
- Prof Elias Carayannis, (School of Business, The George Washington University, USA and CITY College, Greece)
- Dr. Konstantinos Priporas, (Department of Marketing & Operations Management, University of Macedonia, Greece)

## **Information and Communication Technologies**

- Dr Anca Vasilescu, (Dept of Informatics, University of Brasov, Romania),
- Dr. Petros Kefalas, (Dept of Computer Science, CITY College, Greece)
- Dr Anthony Simons, (Dept of Computer Science, University of Sheffield, UK)
- Dr. Panagiotis Bamidis, (Dept of Medical School, Aristotle University of Thessaloniki, Greece)
- Prof. Demos Stamatis, (Dept of Informatics, TEI of Thessaloniki, Greece)
- Dr Ilias Sakellariou, (Dept of Applied Informatics, University of Macedonia, Greece)

## **Governance Politics and Society**

- Dr Nikos Sifakis, (School of Humanities, Hellenic Open University, Greece)

- Dr Nicola Rehling (School of English, Aristotle University of Thessaloniki, Greece)
- Dr Alkmene Fotiadou, (Division of Humanities, CITY College, Greece)
- Ass. Prof Gregory Paschalidis, (Dept of Journalism and Mass Communication, Aristotle University of Thessaloniki, Greece)
- Dr Christos Frangonikopoulos, (Dept of Journalism and Mass Communication, Aristotle University of Thessaloniki, Greece)

## **Risk Well Being and Cognition**

- Dr Elvira Masoura (Department of Psychology Aristotle, University of Thessaloniki, Greece)
- Dr. Lambros Lazouras (Department of Psychology, CITY College, Greece)
- Dr. Susie Savvidou (Department of Psychology, CITY College, Greece)

SEERC would like to thank all the above named discussants for accepting our invitation and providing their valuable feedback to the PhD students that made their presentations.

Finally, we would like to also thank all the presenters and participants as well as our colleagues at SEERC and CITY that contributed in making DSC2008 a successful event. We are looking forward to the 4<sup>th</sup> conference in June 2009.

May 2008

Iraklis Paraskakis  
Andrej Luneski

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**ENTERPRISE, INNOVATION AND  
DEVELOPMENT**





# Decision Making in Supply Chains using Simulation: a Methodological Approach

*Papapanagiotou Konstantinos<sup>1</sup>, Vlachos Dimitrios<sup>2</sup>*

*Department of Mechanical Engineering, Aristotle University of Thessaloniki, 54124, Thessaloniki, {kpapap<sup>1</sup>,vlachos<sup>2</sup>}@auth.gr*

The integrated analysis and optimization of today's complex supply chains are highly challenging both for the academic/research and the business community. The traditional operational research models have been proven incapable to describe the complexity of global supply chains. The development and adoption of simulation based techniques seems to be the only reliable solution for modelling and testing the efficiency of a business system, as they support decision-making by studying simultaneously the effect of various critical factors. This paper aims to develop a methodological framework that analyses, models and studies the operations of a supply chain using simulation. The proposed framework is based on Petri Nets theory; Petri Nets has been used successfully applied in the literature for a valid mathematical representation of systems with discrete time transitions. Moreover, the combination of Petri Nets with the Activity Cycle Diagrams provides a valid and simple simulation program development. The framework is presented through its implementation on the supply chain of a Ready Mixed Concrete Unit, located in Northern Greece. Specifically, the probability distributions of the stochastic variables are estimated using historical production data and the simulation model is built using Petri Nets, Activity Cycle Diagrams, and the Simul8® software. Then, the validity and verification of the model is tested. Finally, statistical analysis of experiments ('what-if' scenarios) is conducted and optimal decisions are proposed accordingly, regarding technological and resource investment.

## **Keywords**

decision making, modelling, Petri nets, simulation.

## **1. Introduction**

The integrated analysis and optimization of today's supply chains are highly challenging both for the academic/research community and the supply chain partners. Contemporary strategy development techniques require taking under consideration various production and distribution factors. Along with the interaction of business relationships, rising transportation costs, the greening of the supply chain and risk management, the business environment becomes complex to deal with. The result is complex supply chains, where the impact of decisions is not clear without the

examination of several alternatives. The traditional analytical operational research models have been proven incapable to describe this complexity and the development and adoption of simulation based techniques seems to be the only reliable solution for modelling and testing the efficiency of a business system.

However, an effective supply chain simulation model should represent the business functions adequately, should determine and calculate critical performance factors and should lead decision-makers to obtain effective decisions that increase the profit of the supply chain [1]. The simulation software needs to be user-friendly and to represent the business model in an appropriate depth. All the above, in conjunction with the need for quick and accurate decisions, motivated the development of a methodology, which proposes a reliable supply chain simulation model.

Therefore, this paper analyzes the way that real business problems were faced and decision making processes were supported, with the aid of simulation methods. In particular, the next section presents a literature review in relative research work, while in section 3 we introduce the methodological framework. The proposed framework is based on Petri Nets theory. The combination of Petri Nets with the Activity Cycle Diagrams, a technique that is widely used for the graphical representation of entities in discrete event systems, provides both a valid simulation modelling and a quite simple simulation program development. The framework is presented through its implementation on the supply chain of a Ready Mixed Concrete Unit, located in Northern Greece in section 4, along with the main results of the simulation. The paper concludes with suggestions that arise from the results' analysis.

## **2. Literature Review**

The work of Calderon et al. [2] provides an extensive and general literature review on supply chain simulation, analyzing 70 relative papers for the period of 2000-2006, and presenting different simulation techniques that have been applied in various supply chains. A systematic methodological approach for supply chain simulation is described by van der Zee et al. [3]. They suggest among other that future studies should focus on a particular sectors or supply chain types to develop tailored simulation tools. To this end, the methodology proposed in this paper is implemented on a ready mixed concrete supply chain. A variety of simulation techniques have been applied for the improvement of coordination and operation of the production and distribution of ready mixed concrete. Micro CYCLONE was used in order to simulate production functions of Ready Mixed Concrete [4]. The objective was to improve productivity and optimize resource management, using sensitivity analysis. In 1998, the same research group studied thirteen Ready Mixed Concrete production models to find how resource allocation is affected in a cyclic procedure, again with the use of Micro CYCLONE [5]. Sawhney developed a Petri Net model, in order to simulate RMC production, targeting at the synchronization of daily production with daily delivery at construction sites [6]. Micro CYCLONE was also used to model and simulate a Ready Mixed Concrete industry by Halpin [7]. This study mainly analyzed alternatives for resource management. The delivery procedure of ready mixed concrete to sites and how it could be improved was studied with the aid of a simulation model based on @Risk software and historical enterprise data from a company in Singapore, by Wang et al. [8]. Their

results include the optimized time between truck arrivals, with optimization criteria the queue length and the productivity utilization factor. A concrete production simulation model which serves multiple destinations and uses multiple transport trucks was developed by Tang et al. [9], resulting to the development of simulation software called RMCSIM, in order to simulate one day of activities. A taxonomy of the reviewed bibliography is presented in table 1. The authors' studies are listed according to their main objectives, considering both factors and processes under study. Symbols "Y"/"N" show whether the study discusses the specific issue or not. For example, Sawhney et al. discuss all issues, but they do not examine the cost of the supply chain. Only Zayed confronts all basic aspects of the Ready Mixed Concrete supply chain together under one study, but the simulation results are complex tables, difficult for a decision maker without engineering background to understand and handle.

Authors	Year	Main Process Studied		Main Factors Studied		Alternative Scenarios Studied
		Production	Delivery	Cost	Resources	
Alkoc, Ediz; Erbatur, Fuat	1997	Y	N	Y	Y	N
Alkoc, Ediz; Erbatur, Fuat	1998	N	N	N	Y	Y
Sawhney, A.; Abudayyeh, O.; Chaitavatput tiporn, T.	1999	Y	Y	N	Y	Y
Zayed, T. M.	2000	Y	Y	Y	Y	Y
Wang, Sh. Q.; Teo, Ch. L.; Ofori, G.	2001	Y	Y	N	N	Y
Tang, S. L.; Ying, K. C.; Anson, M.; Lu, M.	2005	Y	N	N	Y	N

**Table 1 Taxonomy of Ready Mixed Concrete Simulation Studies**

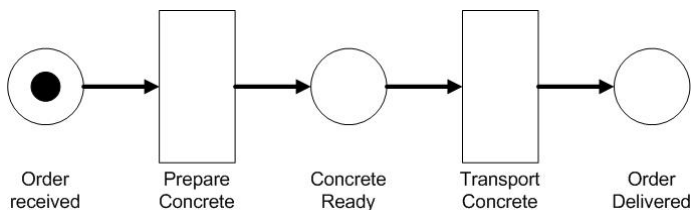
The contribution of this paper stems from its holistic study that takes into account all factors reported in the literature including production and delivery cost of ready mixed concrete as well as their interdependencies. This approach assures a comprehensive outlook of the supply chain, a direct confrontation of real problems and the substantial support of business decisions. It also describes the real problem in a graphical way, making it easy for any decision maker to understand the entire supply chain.

### 3. Methodological Framework

One of the basic prerequisites of a realistic simulation model is the identification of the state variables that fully describe its behaviour. In addition, the development of a valid simulation model is a difficult task due to the complexity of modern global supply chains. For this reason, the suggested framework first analyses the sub-models of the chain, and then combines them to build the global model. The scientific credibility of the modelling procedure was assured through the use of Petri Net theory.

Petri Nets is a fundamental procedures’ modelling technique [10]. Classic Petri Net was discovered by Petri [11]. Despite their simplicity, Petri Nets are not abstractive and they can describe complex business functions [12]. Petri Nets have been used in system control, in business process re-engineering and in the development of Workflow Management software [13]. Timed Petri Nets have been suggested as reference models into the design of simulation models [13].

The structure of a classic Petri network includes the main graphical elements of “Place”, “Transition”, “Arc” and “Token”. The transition of the token from one place to another always occurs through a transition and an arc. Thus, for example, the procedure of ready mixed concrete production and delivery could be visualized as in Figure 1. This figure illustrates that the workflow starts with a new order, i.e. the input of a token (solid black circle) into the place “Order received”. Afterwards, the token is transferred through the transition “Prepare Concrete” and through the route suggested by the arc (arrow), to the place called “Concrete ready”. All the sub-functions of product delivery process are included in the transitional element “Transport Concrete”. Once the token reaches the place “Order delivered”, the order is considered as complete.



**Figure 1 Petri Net representation of a simple procedure of production, transport and delivery of concrete**

Petri Nets are combined with Activity Cycle Diagrams for transferring the model into the simulation software. Activity Cycle Diagrams are graphs with two types of nodes (bipartite graphs), activities and wait states, where the arcs connect either activities to wait states or wait states to activities, and usually depict the life-cycles of interacting entities flowing through a system [14].

Tiwari et al. [15] have proved that the combination of Petri Net and Activity Cycle Diagram provides modelling flexibility. In their work, a timed Petri Net was used to model Automated Guided Vehicle systems, to fully represent the dynamic characteristics of a Flexible Manufacturing System and to ensure error-free operation of the simulation system. An Activity Cycle Diagram has been used to visualize the entities’ interactions of the physical system. As a result, the combination of the two

modelling techniques provides both mathematical and physical representation. Considering also that both Activity Cycle Diagrams and Petri Nets models may fit in either the activity-scanning or process-interaction world views (simulation modelling paradigms) of discrete-event simulation modelling [14], they provide an excellent way of modelling supply chain systems.

The probability distributions for the input variables are selected using chi-squared goodness of fit tests. The simulation model is programmed with suitable simulation software, e.g. Simul8.

Regarding the verification of the model, the standard technique of model testing with known historical data is applied to check the deviation of model results from known behaviour. As validation is concerned, there are two tests. First, the “natural” validity test to assure that the model represents conceptually the system. This test is usually completed with the aid of experts and observations. The second test is the statistical validity test, which includes quantitative comparison of the simulation model and the real system. A relative “guide” for model validation and verification can be found in the work of Law and McComas [16]. Finally, the factors that are considered to be important for the study are identified and the appropriate number of experiments and “what-if” scenarios is designed. Suggestions and factors’ correlation come out from these experiments. Statistical analysis methods could then model the impact of a factor on one or more outputs.

It is obvious that the analysis, modelling, simulation, and study of an industrial unit supply chain operation comprises of a series of discrete stages that compose the methodological framework. These stages/steps are:

- Real Problem Identification
- Data Analysis
- Model Development Using Petri Nets & Activity Cycle Diagrams
- Historical Data Statistical Analysis
- Simulation Model Programming
- Model Verification and Validation
- Model Simulation with Statistical Experiments
- Scenario Assessment/What-if Analysis
- Result Analysis/Suggestions

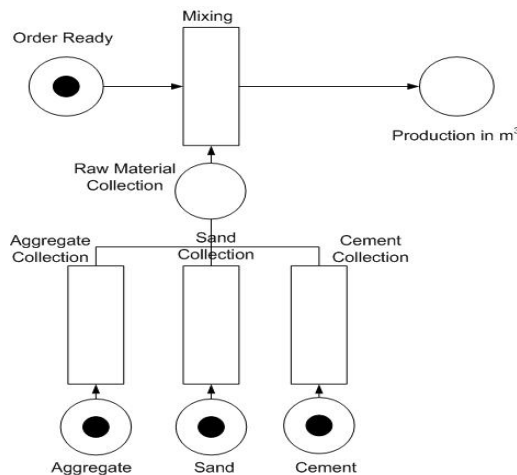
#### **4. Implementation of the Methodological Framework**

The proposed framework was implemented into a particular company located in North Greece. Following the steps of the methodology described before, the design of the simulation model begins from the real problem identification. The main objectives, as it was posed by the company’s management is the calculation of cost and volume of raw material needed per product type, the estimation of production and delivery cost and the

estimation of optimum number of vehicles used for transport and deposition of the final products.

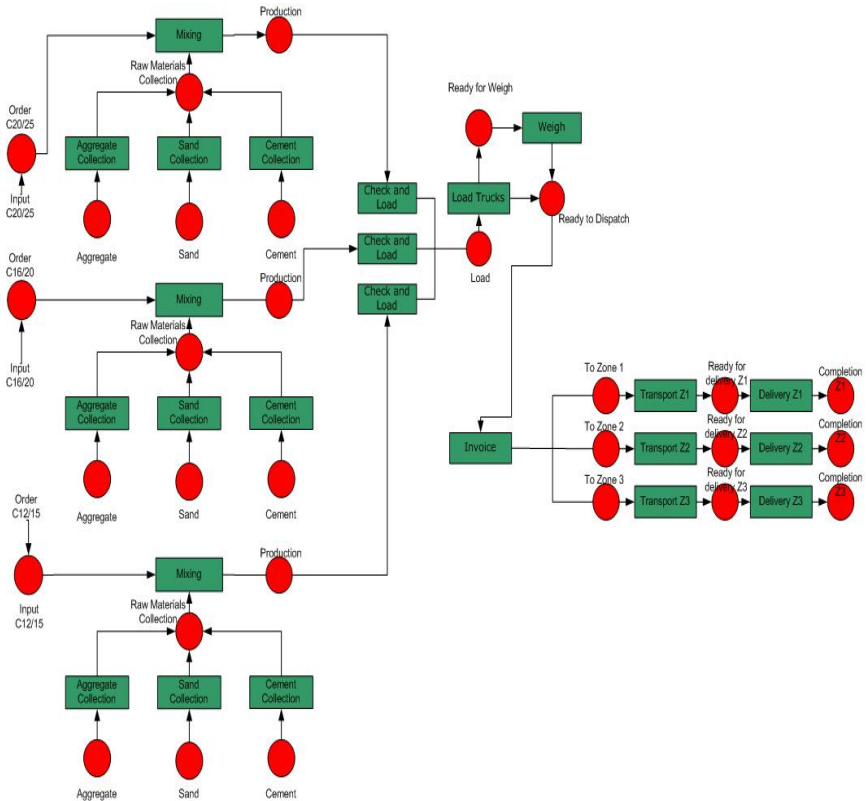
In order to confront the problem, a real data and process analysis was followed. The production initiates with an order for a quantity of a particular concrete type. The company uses only sand, water, and cement as raw materials, which are mixed in different proportions to produce the three different concrete types. The volume of raw materials is assumed to be infinite, since the company has never faced a supply shortage. Also, it is assumed that the orders are served within the day using a First-In-First-Out rule. Afterwards, the ready mixed concrete is loaded on trucks, which transfer the product to the quality control process (checkpoint). This process is standardized and the product's loss is not considered to have an effect on the supply chain. Also, the waiting time for a resource (truck) arrival to complete an operation is negligible. From the checkpoint, vehicles transfer the product to the delivery sites, which are divided into three distinct zones, according to the sites' distance from the industry. The delivery of the product occurs at the final destination sites, with the aid of special vehicles (pumps), and so the order is complete. The stochastic variables are the order quantity for each concrete type while the mixing time, the number of vehicles and the order arrival frequency are systems parameters.

The design of the supply chain model is based on Petri net theory. At first, sub-models are developed. Such a sub-model for the Mixing Process is depicted in figure 2. This figure particularly represents the token "Order" positioned in the place "Order Ready" and the tokens "Aggregate", "Sand" and "Cement" positioned in the respective places. These tokens are being transformed and transferred to the place "Raw Material Collection", where they are ready for mixing process. The transition "Mixing" collects raw materials required for order production, so as to produce the quantity needed. As a result, the order reaches "Production in m<sup>3</sup>" place in the form of order quantity token, ready to be loaded on suitable trucks.



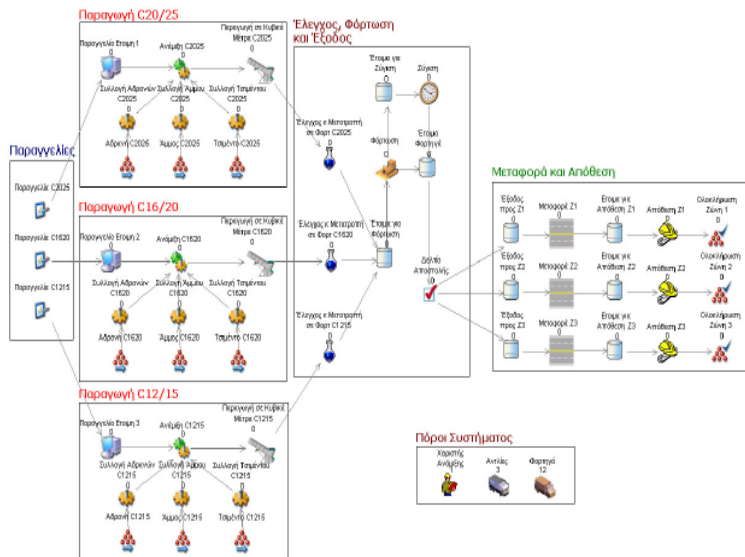
**Figure 2** Petri Net representation of the Mixing Process Sub-model

This figure represents the production process for any one of the three different concrete types that the company produces. The programming model for the entire supply chain was created through the synthesis of all the systems' sub-models using Activity Cycle Diagrams. The result, which is the supply chain's simulation model, is illustrated in figure 3.



**Figure 3 Supply Chain's Programming model, Activity Cycle Diagrams representation**

Starting from left to right, this figure depicts the production, quality control and customer delivering processes of ready mixed concrete. During the methodological step of historical data collection, orders for the year 2007 were collected. These data are analysed using statistical software (BestFit, ver. 4.5, Palisade) to select the best fitted input distributions for the stochastic variables. These distributions for concrete types C 20/25, C 16/20, C 12/15 are [Weibull(1,8535; 105,75) Shift=-9,1543], [Weibull(1,6512; 87,572) Shift=-3,7220], [Expon(23,863) Shift=-0,095837] respectively. Then, combining all the steps of the proposed methodology described above, the simulation model was programmed employing the Simul8<sup>®</sup> software (figure 4).



**Figure 4 Simulation Model, Simul8 representation**

The verification and validation of the model was mainly based on the economical and technical data of the year 2007 and on the experience of the company’s executives. As shown in table 2, the deviations of simulation results and real data are insignificant for all products.

A/A	Simulation results	Value (m <sup>3</sup> )	Historical data (m <sup>3</sup> )	Deflection
1	Annual C 20/25 Production	20977,83	21150,00	0,81%
2	Annual C 16/20 Production	18585,76	18608,50	0,12%
3	Annual C 12/15 Production	5926,65	5942,00	0,26%

**Table 2 Simulation results and Historical data Comparison**

The physical validation was based on observations made by the company that confirmed the correct response of the model. Statistical validation was checked and confirmed by executing goodness-of fit test of a hundred (100) random simulation runs in the normal distribution. Afterwards, the execution of “what-if” scenarios was made; the effect of several modifications on production, load, quality control and delivery time was examined.

Statistical experiments were then designed and executed, in order to check the effect of five different factors (order quantity, order arrival, mixing time, number of trucks and number of pumps) in three different levels. More particularly, the number of “Trucks” was examined on the values of 10, 12 & 14, the number of “Pumps” on 2, 3 and 4, “Mixing Time” on 0.00236, 0.00295 & 0.00354 days, “Order Arrival” on 0.8, 1 and 1.2 days and “Order quantity” on C, 1.2 x C and 1.3 x C, where C is the quantity values of historical data, 1.2 x C and 1.3 x C the latter quantity’s mean increased by 20% & 30%



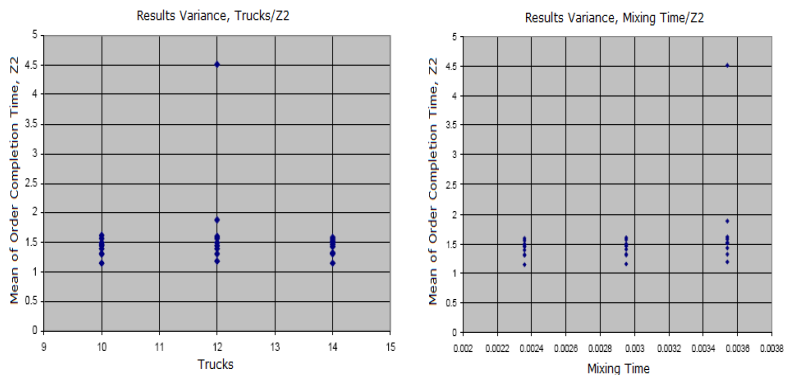
respectively. Since the number of executions for a full experiment was large and time consuming ( $3^5=243$  experiments), an orthogonal vector of 27 experiments was chosen, with the aid of MiniTab statistical software, shown in table 3.

Experiment	Trucks	Pumps	Mixing time (min)	Order arrival	Order quantity
1	10	2	0.00236	0.8	C
2	10	2	0.00236	0.8	1,2 x C
3	10	2	0.00236	0.8	1,3 x C
4	10	3	0.00295	1	C
5	10	3	0.00295	1	1,2 x C
6	10	3	0.00295	1	1,3 x C
7	10	4	0.00354	1.2	C
8	10	4	0.00354	1.2	1,2 x C
9	10	4	0.00354	1.2	1,3 x C
10	12	2	0.00295	1.2	C
11	12	2	0.00295	1.2	1,2 x C
12	12	2	0.00295	1.2	1,3 x C
13	12	3	0.00354	0.8	C
14	12	3	0.00354	0.8	1,2 x C
15	12	3	0.00354	0.8	1,3 x C
16	12	4	0.00236	1	C
17	12	4	0.00236	1	1,2 x C
18	12	4	0.00236	1	1,3 x C
19	14	2	0.00354	1	C
20	14	2	0.00354	1	1,2 x C
21	14	2	0.00354	1	1,3 x C
22	14	3	0.00236	1.2	C
23	14	3	0.00236	1.2	1,2 x C
24	14	3	0.00236	1.2	1,3 x C
25	14	4	0.00295	0.8	C
26	14	4	0.00295	0.8	1,2 x C
27	14	4	0.00295	0.8	1,3 x C

**Table 3 Experimental Orthogonal Vector design**

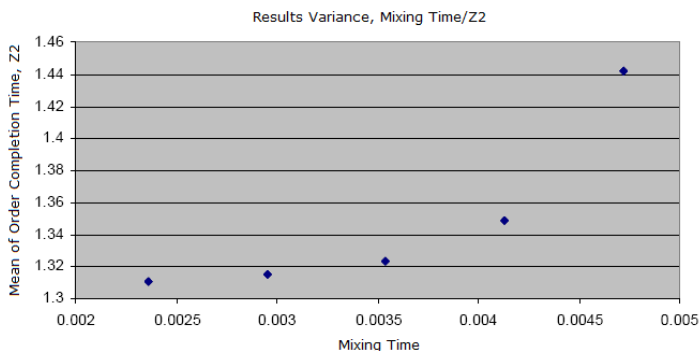
The variance diagrams (figure 5) illustrate that there is no strong correlation for the values that were tested. The increase of quantity and arrival of orders results to a small increase of the order completion time, while small changes of mixing time, number of trucks and number of pumps do not have a statistically significant impact. The fact that

in experiment No 15 there is a significant increase of order completion time (346% for delivery zone 2) was important, since this means that if the company retains truck and pump resources (12 trucks and 3 pumps) and at the same time an increase of order arrival (0.8 days), order quantity (+30%) and mixing time (+20%) occurs, then a significant customer service problem might emerge.



**Figure 5 Variance Diagrams of Mean Order Completion Time for various levels of number of Trucks and Mixing Time (Zone 2)**

Following this, it was decided that an additional experimental set of values should be examined. Changes that “Trucks”, “Pumps” and “Mixing time” would have on the order completion time in delivery Zone 2 were examined, since this zone includes the largest proportion of order delivery. From the new variance diagrams (figure 6), a strong correlation does not appear between vehicle number and order completion time, but between mixing time and the later. In particular, the order completion time increases exponentially with the mixing time.



**Figure 6 Variance Diagram of Mean Order Completion Time with Mixing Time (Zone 2)**

Regarding small values of mixing time, the new experiments agree with the results of the previous experiments, that there is not a significant increase in order completion time. This means that the company will not have obvious advantages by investing in technology that would decrease the mixing time by 20%. Nevertheless, if the mixing equipment fails and this result to a mixing time increase of over 50%, then the company faces considerable delays of product delivery.

By implementing the proposed methodological framework for the simulation modelling of the particular company, several conclusions emerged. These are described in the following section.

## 5. Conclusions

The proposed methodological framework forms a flexible tool for simulation model development, not only for a ready mixed concrete industry, but also for a production unit's supply chain. The discrete stages/steps framework approach confronts simulation modeling in a way that it can be implemented in supply chains with production, quality control and delivery operations no matter what the final product is. The use of Petri Net and Activity Cycle Diagram techniques are a significant contribution to this direction that facilitates the model design and assures its mathematical validity. Also, the framework is not restricted to be used with a single simulation program and provides the possibility the user to employ its own scientific methods for model verification and validation. The steps of statistical experiments and scenarios' assessment integrate the framework, providing significant support to the decision-making processes. The result is the design of an effective supply chain simulation model, which can be used to measure the efficiency of the network, illustrate the real-world process, and finally increase the chain's profit being a valuable strategic tool for decision-makers.

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# Six Sigma Influence on Service Improvement of Hotel Companies in Republic Croatia

*Ivana Zilic*

*Polytechnics of Sibenik, Trg Andrije Hebranga 11, 22 000 Sibenik, Croatia, [ivana082@yahoo.com](mailto:ivana082@yahoo.com)*

Research problematic refers to the modern management method inside hotel companies Republic of Croatia. Six Sigma possibilities are elaborated in order of entire quality system improvement, especially in the competition area on local and global markets. This research facility is Malcom Baldrige method; with the help of its criteria business quality was tested. Statistical data elaboration, analysis and conclusions will be extracted with the Six Sigma methodologies. This research is focused on the sample of two hundred and fifty five Croatian hotel companies. Paper presents the advantages of Six Sigma concepts, which put the consumer/buyer in front using the received data with the better results in goal achievement. This paper has three main characteristics: a problem to be solved, a process – in which the problem exists, and one or more measures that quantify the gap to be closed and can be used to monitor progress. The conducted research will enable concrete proposal for Croatian hotel business process advancement. In addition, this paper generates a base line for all future researches of different constructions and quality advancement of hotel services in Croatia.

## **Keywords**

baldrige criteria, hotel companies, service improvement, six sigma, six sigma tools.

## **1. Introduction**

In today's world the changes are swift. They put upon the best, leading organizations while the other has problems in catching up and adopting, according to Peter Drucker.

Croatian economy has a low growth rate for years. The conclusion is that the business quality problem is more complex. Modern business solutions are found inside new theoretical and practical achievements in the area of quality management and management quality. Essence of the problem is: How to make Croatian, and other companies:

- More operatively efficient,
- Economically sufficient,

- Market acceptable - by fulfilling and going beyond customer expectations; making a “stitch” customer [1].
- Sigma implementation should help the organization with:
  - Decrease of what are needles,
  - Harmful and inefficient,
  - New efficient and effective company creation,
  - Business processes optimization
- Product quality and service quality improvement, consumer expectation accordingly.

The basic goal of mentioned is to help economies in deliverance of everything negative that causes: consumer discontent, employee discontent, inefficiency, system flaws and business loss. It is necessary to develop criticism and discipline inside the organization.

Furthermore increased quality is demanded in internal processes with as low as possible deviation from the set up criteria - the principles of conducting a programme “variation is evil”[2].

Problems of Croatian economy – companies and other organizations are inside the transition stage. Transforming self conducted economy into modern management system. Sigma as a “smarter way of leadership” [3] of companies and other organizations are concentrated on the basic business areas:

- Customer satisfaction increase,
- Time cycle decrease – efficiency improvement,
- Errors cut back in services and production. [4]

In transition stage from old to new system, new management concepts are put upon in companies and their products/services.

In solving the stated problems, management of Croatian companies have a special helped with Six Sigma models – DMAIC and DMADV. Since DMAIC method is more in use than the DMADV it will be more described with more details. DMAIC methodology consists of five phases: definition, measurement, analysis, improvement and control of process and results. Basic activities of every phase in Six Sigma DMAIC methodology are:

- Define. Define the Customer, their Critical to Quality (CTQ) issues, and the Core Business Process involved.
  - Define who customers are, what their requirements are for products and services, and what their expectations are
  - Define project boundaries the stop and start of the process
  - Define the process to be improved by mapping the process flow
- Measure. Measure the performance of the Core Business Process involved.

- Develop a data collection plan for the process
- Collect data from many sources to determine types of defects and metrics
- Compare to customer survey results to determine shortfall
- Analyze the data collected and process map to determine root causes of defects and opportunities for improvement.
  - Identify gaps between current performance and goal performance
  - Prioritize opportunities to improve
  - Identify sources of variation
- Improve the target process by designing creative solutions to fix and prevent problems.
  - Create innovate solutions using technology and discipline
  - Develop and deploy implementation plan
- Control the improvements to keep the process on the new course
  - Prevent reverting back to the “old way”
  - Require the development, documentation and implementation of an ongoing monitoring plan
  - Institutionalize the improvements through the modification of systems and structures (staffing, training, incentives) [5]

Basic research sample of this research are the employees of operative levels in Croatian hotel management and their work – leadership, strategic planning, consumer and market orientation, result and process measurement. Process approach usage of Six Sigma model provides companies with strong influence on modern business improvement.

Questioned employees are of both sexes between 20 and 60. Research included business quality, according to Baldrige and considering: leadership, strategic planning, consumer and market orientation, measurement, analysis and knowledge management, human resources, process management and business results. In measurement of, Baldrige criteria a Likert type scale was used. Likert scale provided the opportunity to the questioned to determine its agreement rate with asked question or given answer. Agreement rates were set up from 1 to 5, considering that 5 are excellent and 1 is poor attitude on the subject.

Data was gathered by: phone, e-mail, personally, by faks and mail. Research is conducted on two hundred and fifty five hotel samples, representing a total 56.30% of Croatian hotel companies. Five hundred and sixteen employees were questioned by the conducted research. In every hotel company I've send five questionnaires. Some hotel companies filled out questionnaires and return them. Research goal was collect as many as possible filled questionnaire from various hotel categories.

Basic research goal was to determine and evaluate business quality of hotel companies in Croatia. This paper is based on empirical research, it demonstrates that implementation of Six Sigma approach would make great effort to Croatian hotel companies, customer satisfaction achievement, efficiency with business effectiveness

and product positioning. Six Sigma is calculated with the use of Microsoft Excel SigmaXL.

## **2. Concept of Improved Commercialism Application, Quality Management and Management Quality of Hotel Companies in Croatia**

Management system includes results responsibility and results control [6]. Management of Croatian hotel companies should monitor their results with programme implementation, in order of process control. A line of responsibilities is to be set for different categories: customer satisfaction, key process effects, company measurement, profits and losses, employee behaviour. [7]

Goals, ideas, solutions, implementation, changes and improvement represent the processes that are necessary to be: D – defined, M – measured, A – analyzed, I – improved, C - controlled. DMAIC process is presented with five parts with different possibilities:

- constant improvement,
- business efficiency and effectiveness insurance,
- increased profitability.

Process problem solving advantages of DMAIC model is in:

- measurement – problem must be measured,,
- consumer focus,
- representative sample choice,
- deliverance of old habits and new ideas implementation,
- improvement and probing of new ideas,
- result measurement – a confirmation of new processes implementation,
- constant change implementation and maintenance.

Basic question of Croatian hotel companies' organizations competence is how to measure and follow processes with goal achievement.

In the new hotel companies' process model, the processes should be managed by competent teams with concentration on customer satisfaction, employee content, business partners and owners' indulgence.

Process model puts upon a question: How do we improve business processes of hotel companies, through continuous shaping and managing? How to advance them, innovate and improve to achieve business efficiency and effectiveness through every basic companies' function?



Connection between (input) -  $x_i$ , process -  $y_j$ , (output) –  $z_k$  and result (customer, consumer, guest satisfaction) – R can be demonstrated with the next formulae:

$$R = f(x_i, y_j, z_k)$$

Measuring of investment, on input and output, was targeted to achieve data and potential samples from score results.

All processes demonstrate different variations, changes or differences and especially in output. Purpose of process management is in business improvement-business results, working ways, results and especially:

- decrease of differences, output variations- considering the existing, planned and expected,
- higher customer, guest and consumer satisfaction,
- better economy - E of business that defines from result relation – Q and investment – U, ( $E = Q : U$ ).

Successfulness assumption is research and definition of existing business process sample. Processes can be in state of: control- as an ideal and border state and out of control – between chaos threshold and chaos.

Question how to keep the processes „under control“, so that their behaviour can be anticipated in future? Most of sample variations can be kept under control by:

- variation analysis,
- source of variation research,
- corrective measures selection.

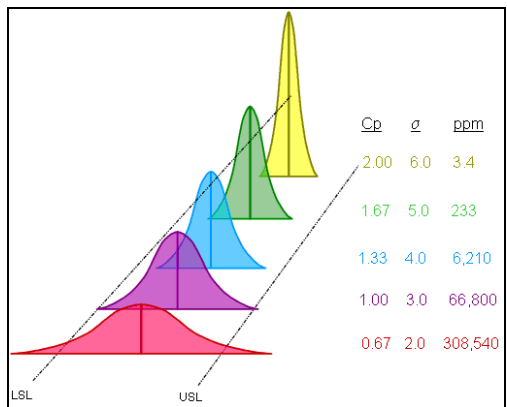
Processes can be more and less efficient. Efficiency of process can be represented as its capability of creating outputs that are adequate as the planned. Less efficient processes must be improved, but is it important must be answered with the next group of questions who, when, how, how much?

Process capability grade is calculated out of laws of natural distribution, when its outputs are inside the boundaries of natural tolerance. Two ways of process research are:

- process potential research – what can process do on short-term basis under certain conditions (**C<sub>p</sub>** capability index) and
- Research of process function capability – long term capability of process is questioned (**C<sub>pk</sub>** index of capability is used).

Capability indexes demonstrate if and for how long process is capable in creating programmed, earlier specified: **C<sub>p</sub>** – short term and **C<sub>pk</sub>** – long term results. Stable processes behaviour can be anticipated, within certain limits, with specific accuracy, - statistically controlled. It is possible to determine how a stable process can be statistically controlled and managed, in order to ensure a certain capability when its outputs are inside the borders of natural tolerance.

Natural tolerance limit (LSL – Lower Specification Limit and USL – Upper Specification Limit) are used for evaluation of real time process capability, and capability process ( $C_p$ ) is calculated out of general medium value and rang ( $\pm\sigma$ ). As the following picture demonstrates frequency is normal and centred inside the tolerance area – upper and lower specification limit (LSL and USL).



**Figure 1 Normal distribution process with process indicators [8]**

If the natural distribution and the average value and arithmetic mean are 0 (or any other value with the assumption it is a natural distribution of frequencies – natural distribution) and low upper limit  $\pm 3\sigma$  (LSL, USL =  $\pm 3\sigma$ ), then the probability is 93.32% that the frequencies distribution will be between upper and lower specification limit, in other words in this process out of million possibilities, 66.800 malfunctions, defects, errors, false actions, manufacturing flaws is possible, etc., 66.800 dpmo (dpmo; defects per million opportunities). Process capability index is then 1,  $C_p = 1$ .

Peak of business excellence is established at level of  $\pm 6\sigma$ , in „zero defect“ without defects, errors, false actions, manufacturing flaws, with the probability 99,99966% , in other words with only 3.4 errors in million possible, process capability index is 2,  $C_p = 2$ .

Basic Six Sigma and DAMAIC concept goal is raising the current business and business processes level, for example from  $3\sigma$  to  $4\sigma$ , from 66.800 errors, defects, false actions to 6.200, from capability index 1 ( $C_p = 1$ ), to capability index 1,33 ( $C_p = 1.33$ ), this level provides company with higher client satisfaction, better market position, better business economy and profitability.

From Six Sigma level even the cost of low quality can be obtained. When the department of quality management learns its quality expense goals for lowering that expense can be set. Ten percent a year is a solid, formable goal that people can accept. [9] Next table demonstrates improvement capabilities.

Yield	dpmo	Sigma( $\sigma$ )	Cp Equiv.	COPQ (Cost of Poor Quality)
.840	160,000	2.50	0.83	40%
.870	130,000	2.63	0.88	
.900	100,000	2.78	0.93	
.930	70,000	2.97	0.99	
.935	65,000	3.01	1.00	
.940	60,000	3.05	1.02	
.945	55,000	3.10	1.03	30%
.950	50,000	3.14	1.05	
.955	45,000	3.20	1.06	
.960	40,000	3.25	1.08	
.965	35,000	3.31	1.10	
.970	30,000	3.38	1.13	
.975	25,000	3.46	1.15	
.980	20,000	3.55	1.18	20%
.985	15,000	3.67	1.22	
.990	10,000	3.82	1.27	
.995	5,000	4.07	1.36	
.998	2,000	4.37	1.46	
.999	1,000	4.60	1.53	10%
.9995	500	4.79	1.60	
.99975	250	4.98	1.66	5%
.9999	100	5.22	1.74	
.99998	20	5.61	1.87	
.9999966	3.4	6.00	2.00	

**Table 1 Improvement capabilities display**

Within modern functional organizational structures of hotel companies conflicts and process collisions are regular in sections, departments and services. Consequences are reduced efficiency and effectiveness, product and service quality, customer satisfaction, etc.

Secret of success of fast growing countries and companies as “Asian tigers” are the new philosophies of business quality. Therefore business quality today represents a global trend and demand for all companies and countries.

Quality is highly complex category; many authors have expressed the essence of quality in different ways, so: Crosby defines it as adaptation, Juran as readiness on use, Fegenbaum as satisfaction of customers’ expectations, Deming as a reduction inside variation.

In order to stimulate development of economy, numerous countries across the world introduced a method of successfulness measurement – of business quality inside local companies. Between those models is also the American Malcolm Baldrige – MBNQA

method, possible application in Croatia is researched on the model of Croatian hotel companies. It is about seven criteria of business quality: (1) leadership, (2) strategic planning, (3) customer orientation, (4) knowledge management, (5) human resources orientation, (6) process management and (7) business results.

Concentration of Croatian hotel companies on excellence achievement, Six Sigma principle, in conducting of all seven quality criteria should without any doubt increase business capability for better goal achievement, a goal that every modern globally orientated company is thriving to.

### 2.1. Leadership Quality Focus of Croatian Hotel Companies

Six Sigma programme increases customer satisfaction, reduces costs and creates better leaders. [10] Leadership refers to definition of responsibilities of companies, sections, and departments managers, and how does the organization define its responsibilities. Attention is directed to: communication with employees, organizational performance, working environment modelling in order of achieving high efficiency.

Results of questioned attitude grading, on leadership, from the Croatian hotel companies sample at Likert scale 1 to 5, were arithmetic mean 3.22 and standard deviation 0.86.

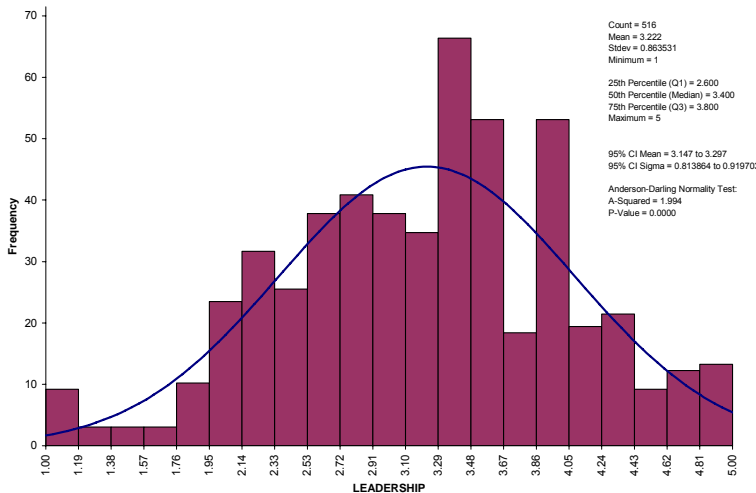


Figure 2 Leadership quality

Once we include grades: lower – 1 and upper – 5, between those limits a frequency distribution is set, then from the Process Sigma Calculator – Continuous Data, SigmaXL, Six Sigma 3.47 is given. If we include parameters: lower (LSL) and upper (USL) specification limit for  $\pm 3\sigma$ , then the probability is 97.58%. This means that the distribution frequency for leadership is inside upper ( $+3\sigma$ ) limit and lower ( $-3\sigma$ ) limit.

In other words with this leadership, inside million possibilities, there is 28623.07 of false actions, errors in leadership. Given number demonstrates the numerous defects in leadership system of the million possible (dpmo = 28623.07).

Hotel leadership capability index is then 1.15 ( $C_p = 1.15$ ), and increased costs by this calculation would be cca 20%.

Process Sigma Calculator - Continuous Data		
Enter Mean:	X-bar	3.22
Enter Standard Deviation:	S	0.86
Enter USL:		5
Enter LSL:		1
Expected ppm > US		19237.1
Expected % > USL		1.92%
Expected ppm < LSL		4920.1
Expected % < LSL		0.49%
Yield %		97.58%
Sigma Level		3.47

Figure 3 Six Sigma leadership calculation

Peak of business excellence of Croatian hotel companies on the leadership criteria would be at level of  $\pm 6\sigma$ . Leadership would successfully play its role without false actions, with probability of 99,99966% , a number of 3,4 mistakes on million possible. Capability index of leadership process would be 2,  $C_p = 2$ .

## 2.2 Strategic Planning Focus of Croatian Hotel Companies

Strategic planning refers to strategic instructions how to set the plan of actions. Key organizational strengths, weaknesses, possibilities and threats are questioned, together with the capability of achievement and execution of strategy.

By processing grades on strategic planning on Croatian hotel companies sample at Likert scale from 1-5, arithmetic mean is 2.71 and standard deviation 1.16.

Once we include grades: lower – 1 and upper – 5, between those limits a frequency distribution is set, then from the Process Sigma Calculator – Continuous Data, SigmaXL, Six Sigma 2.81 is given. If we include parameters: lower (LSL) and upper (USL) specification limit for  $\pm 3\sigma$ , then the probability is 90.56%. This means that the distribution frequency for leadership is inside upper ( $+3\sigma$ ) limit and lower ( $-3\sigma$ ).

In other words with this strategic planning, inside million possibilities, there is 94654 of false actions, errors in strategic planning. Given number demonstrates the numerous defects in strategic planning system of the million possible (dpmo = 94654).

Hotel strategic planning capability index is then 1 ( $C_p = 1$ ), and increased costs by this calculation would be cca 30%.

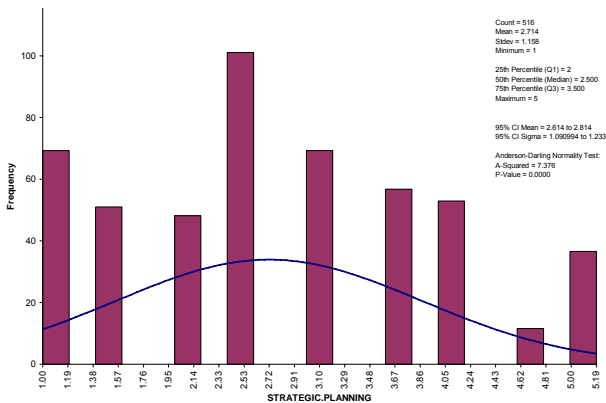


Figure 4 Strategic planning qualities

### 2.3 Customer and Market Concentration of Croatian Hotel Companies

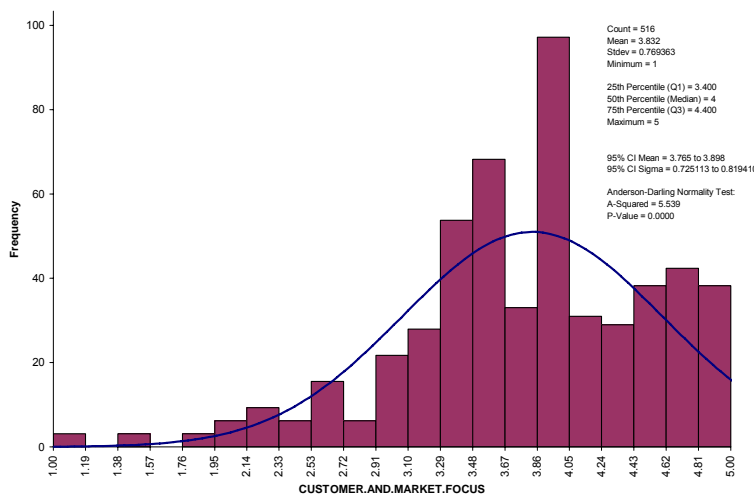
Customer and market concentration refers to customer and market understanding. These criteria point out the essence of connection between performance excellence strategy and learning process, “listening” to the customers. Customer satisfaction or discontent provides us with the significant information in order to understand the market and direct the supply to the specific market segment.

By processing grades on customer and market orientation of on Croatian hotel companies sample at Likert scale from 1-5, arithmetic mean is 3.83 and standard deviation 0.77.

Once we include grades: lower – 1 and upper – 5, between those limits a frequency distribution is set, then from the Process Sigma Calculator – Continuous Data, SigmaXL, Six Sigma 3.02 is given. If we include parameters: lower (LSL) and upper (USL) specification limit for  $\pm 3\sigma$ , then the probability is 93.56%. This means that the distribution frequency for customer and market orientation is inside upper ( $+3\sigma$ ) limit and lower ( $-3\sigma$ ).

In other words with this customer and market orientation, inside million possibilities, there is 54452 of false actions, errors in strategic planning. Given number demonstrates the numerous defects in customer and market orientation system of the million possible ( $dpmo = 94654$ ).

Hotel customer and market orientation capability index is then 1 ( $C_p = 1$ ), and increased costs by this calculation would be cca 30%.



**Figure 5 Customer and market concentration**

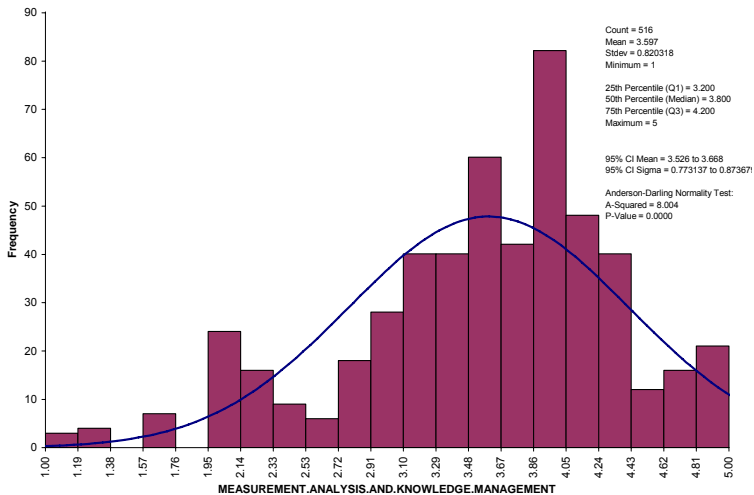
## ***2.4 Focus on Measurement, Analysis and Knowledge Management of Hotel Companies***

Central Baldrige criteria category is measurement, analysis and knowledge management. It is a combination of key information on efficiency measurement, analysis and knowledge organisation management. Intention is knowledge organisation improvement and organisational competitiveness achievement.

Processing grades of measurement, analysis and knowledge management from the Croatian hotel companies sample on the Likert scale from 1 to 5, arithmetic mean is 3.60 and standard deviation 0.82.

Once we include grades: lower – 1 and upper – 5, between those limits a frequency distribution is set, then from the Process Sigma Calculator – Continuous Data, SigmaXL, Six Sigma 3.20 is given. If we include the parameter: lower (LSL) and upper (USL) specification limit for the level  $\pm 3\sigma$ , then we get the probability from 95.54 %. This means that distributions of frequencies will find within upper ( $+3\sigma$ ) and lower ( $-3\sigma$ ) limit, i.e. that in such process on million possibility notifies 47300 defects, weakness, incorrect procedures or wrong actions. Relative found number of mistakes on million possible 47300 (dpmo = 47300 defects on million possible).

Hotel measurement, analysis and knowledge management focus capability index is then 1.06 ( $C_p = 1.06$ ), and increased costs by this calculation would be cca 20%.



**Figure 6 Measurement, analysis and knowledge management focus**

## ***2.5 Human Resource Concentration in Croatian Hotel Companies***

Human resources are intended for leading, execution and supervision of tasks on workplaces, employee development, in order to become trained, what would help to provide changes together with the organisation. This category has been divided into: human resources, development and the requirements for their integration, together with organizational strategic goals and action plans.

Processing of the obtained evaluation of human resources from the sample Croatian hotel companies, on the Likert scale from 1 to 5, obtained are the arithmetic mean 3.38 and the standard deviation 0.82.

When evaluations are include lower – 1 and upper – 5 evaluations inside whose borders has been arranged distributions of frequencies then from the Process Sigma Calculator – Continuous Data, SigmaXL gets levels of sigma from 3.44. If include the parameter: lower (LSL) and upper (USL) specification limit for the level  $\pm 3\sigma$ , then probability is 97.40 %. This means that distributions of frequencies will find within upper ( $+3\sigma$ ) and lower ( $-3\sigma$ ) limit, i.e. that with such direction on human resources on million possibility informs 27012 incorrect procedures, towards men. The number of wrong procedures on million possibilities is 27012, (dpmo = 27012 defects on million possible). Index of abilities of use of human resources then would take out 1.14, i.e. CP = 1.14, beside unnecessary, subjective cause of cost because of the insufficient interperance on these resources takes out more than 20 %.



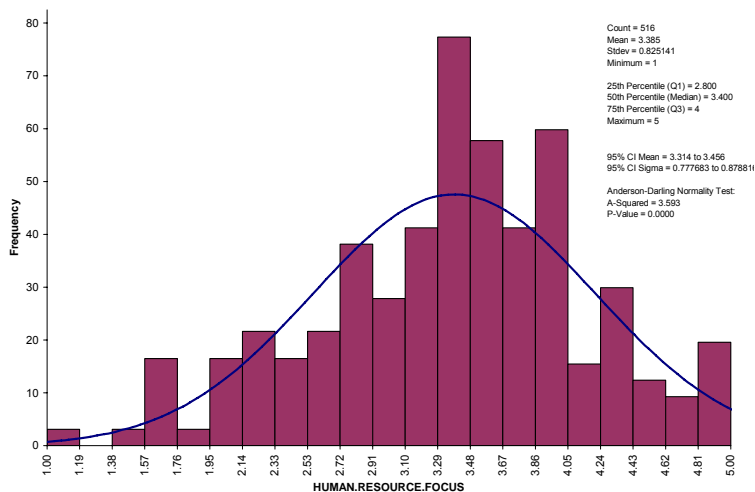


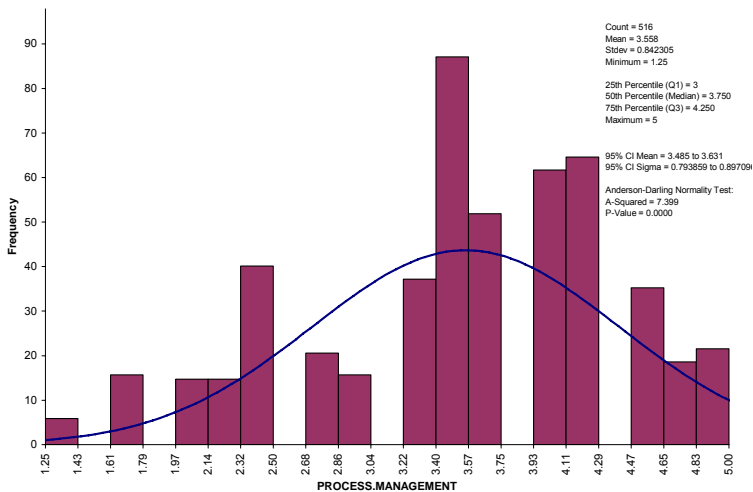
Figure 7 Human resources orientation

## 2.6 Process Management Orientation of Croatian Hotel Companies

Process management refers to the aspects of basic production realisation and supports to processes which continuously repeat, design and improve. This Baldrige Criteria consists of three central parts of connections: customers, suppliers and partners. On the other side, important values that need to be achieved are: stockholders, operational and the financial leading, beside the maintenance of quality circle, achievement evaluation, continuous improvement, personal and the organizational learning.

Processing of obtained evaluations of process management, from the sample of Croatian hotel companies, on the Likert scale from 1 to 5, is obtained the arithmetic mean 3.57 and the standard deviation 0.84.

When we include all evaluations from lower – 1 and upper – 5, inside whose borders has been arranged distributions of frequencies, then from the Process Sigma Calculator – Continuous Data, SigmaXL, gets levels of sigma from 3.19. When include the parameter: lower (LSL) and upper (USL) the limit for the level  $\pm 3\sigma$ , then probability is 95.45 %. This means that distributions of frequencies will find within upper ( $+3\sigma$ ) and lower ( $-3\sigma$ ) limit, i.e. that with such process management on million possibility notifies 29420 errors, incorrect procedures, wrong actions. The number of mistakes on million possible is 29420 (dpmo = 29420 defects on million possible). Index ability of process management then would take out 1.06, i.e. CP = 1.06, unnecessary cost after this basis is higher from 20 %.



**Figure 8 Process management orientations**

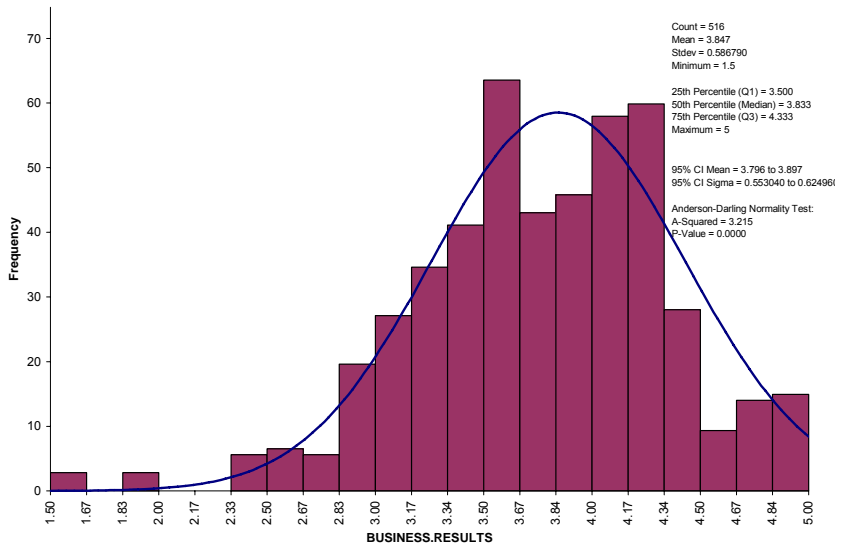
## 2.7 Result Orientation of Croatian Hotel Companies

Best way to make your customers “stitches” is to fulfil or exceed their expectations. Actions that most certainly “kill stitches” is lack of quality in your products or services. [11]

Result criteria ensures orientation on the quality result which appraises the accomplishment of goals of organisation and satisfactions of buyers, values of product and services, these complete financial and market activities, manners of leading of systems, social responsibilities for results, implementation of key processes and the improvement of activities.

Processing of the obtained for the concentration on results from the sample Croatian hotel companies, on the Likert scale from 1 to 5, obtained is the arithmetic mean 3.85 and the standard deviation 0.59.

When we include evaluations lower – 1 and upper – 5, inside whose borders has been arranged distributions of frequencies then from the Process Sigma Calculator – Continuous Data, SigmaXL, gets levels of sigma from 3.45. If include the parameter: lower (LSL) and upper (USL) the limit for the level  $\pm 3\sigma$ , then probability is 97.44 %. This means that distributions of frequencies will find within upper  $+3\sigma$  and lower  $-3\sigma$  limit, i.e. that with such direction on results on million possibilities informs 27628 incorrect procedures, wrong actions. The number of wrong procedures on million possible is 27628 (dpmo = 27628 defects on million possible). Index of abilities of directions on results then would take out 1.15, i.e. CP = 1.15, and subjectively is caused the cost because of such direction on results would take out 20 %.



**Figure 9 Result orientation**

Name of Criteria	Six Sigma level	Obtained parameters at the level $3\sigma$					Stand ardeviat ion
		Probability	Negative Procedur es on Million	Cp	Costs	Arithmet ic Mean	
1. Leadership	3.47	97.58%	28623	1.15	20%	3.22	0.86
2. Strategic planning	2.81	90.56%	94654	1	30%	2.71	1.16
3. Customer and market focus	3.02	93.56%	54452	1	30%	3.83	0.77
4. Measurement, analysis and knowledge management	3.20	95.54%	47300	1.06	20%	3.60	0.82
5. Human resource focus	3.44	97.40%	27012	1.14	20%	3.38	0.82
6. Proce management	3.19	95.45%	29420	1.06	20%	3.57	0.84
7. Results	3.45	97.44%	27628	1.15	20%	3.85	0.59
Average values	3.23	95.36%	44155	1.08	23%	3.45	0.84

**Table 2 Seven Baldrige criteria parameters**

## **2.8 Total Business Successfulness Orientation with all Seven Baldrige Criteria**

In previous seven chapters (from 2.1. up to 2.7.) single Baldrige criteria have been analyzed and the possibility of improvement in company operations. Question is how to obtain the integrated criterion, which will, in the limited amount, summarize all seven. Next table shows the examination of obtained parameters per seven Baldrige of criteria.

The survey of all seven Baldrige Criteria results with overall judgment that Croatian hotel companies operate at courant  $3\sigma$ , with the probability from 95.36 % distributions frequency does exist within  $\pm 3\sigma$ , i.e. that Croatian hotel companies average make 44155 incorrect procedures, operating faults. Factor of safety in process is 1.08 out of 2 possible. Arithmetic mean is 3.45 on the Likert scale evaluation from 1 to 5, with standard deviation 0.84. Such level of running business requires subjectively caused by costs which moves at the level from 23 % according to the category of costs.

The final conclusion is: Croatian hotel companies have waste space for progress on achieving excellence in quality management, also the management of quality and promotions in all working processes.

## **3. Conclusion**

Any technique that makes it possible for you to understand, lead and improve a company or a single process can be called a Six Sigme instrument. Baldrige criteria implementation really improves business process of hotel companies. It improves every single process and all processes combined inside hotel companies of Croatia. This conducted research demonstrated that by implementing process Six Sigma approach into Croatian hotel companies huge progress can be made in business excellence achievement.

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# A Cross-Cultural Comparison of Brand Personality

*Ilke Kardes*

*Marmara University, Faculty of Business Administration and Economic Science,  
Department of German Speaking Business Administration, ikardes@marmara.edu.tr*

**The aim of this study is to confirm the brand personality of Marlboro in cross cultural context, also to determine whether there are perception differences by brand personality of Marlboro between Turkish and German consumers. Within the framework of this pilot study, “The Brand Personality Scale” of Jeniffer L. Aaker is used to measure the brand personality. Questionnaires are performed via internet in Germany as well as in Turkey.**

## **Keywords**

brand personality, brand positioning, global brand strategy, cross-cultural consumer behavior, tobacco.

## **1. Introduction**

Improvements in technology cause functional similarity by brands in a product category, e.g. [1]. Now being a qualitative product is not enough to differentiate a brand in competition, because quality is a necessary part of a product, e.g. [2]. Because of technical similarity, the brands differentiate through emotional associations in consumer minds. In this context, brand positioning is an important theme for brand management.

Brand positioning is achieved by creating an identity for a brand. Brand identity refers to how the company persons view the brand. Brand history, owners’ competence, value, personality, vision, and emotional and functional properties are parts of brand identity, e.g. [3]. Furthermore, customer views generate brand image and brand personality is important to create a brand image.

Brand personality is the set of human characteristics associated with a brand, e.g. [4]. This means that through the use of a brand the consumer expresses his/her own actual or ideal self, e.g. [5]. This reality explains why a customer buys a product with a certain brand name although most products are technically more or less similar. Therefore, the brand personality has an effect on consumer preference, and is a way to differentiate a brand in competition, e.g. [6].

The definition of brand personality is based on the theory of animism, e. g. [7]. This theory implies that the human tends to animate the artifacts through bestowing human

personality traits. In this way, the interaction between human and object becomes easier. Beyond this perspective the personality traits of the people are transferred to the brand, e.g. [8]. For example, IBM tends to be older while Apple is considered young and energetic, e.g. [9].

In the age of globalization, for “burn global” or “going to global” brands is important to create a consistent brand personality not only in the brand’s own country but also across different countries. To achieve this aim visually brand dimensions, like brand logos, names, etc. are standardized. Additionally, the identical messages about brand are transferred to the customers through standardized or differentiated communication across countries. However, it is not always guaranteed that consumers in different countries hold similar personality of the brand, e.g. [10]. Different cultural characteristic can lead to various interpretations about brand personality.

Based on the theoretical background, in this study was researched whether a global brand, Marlboro, can achieve to have same brand personality in different countries.

## **2. Pilot Study**

As the research method online questionnaire was used because of its rapid response rate and low cost compared to other methods. Respondents were randomly selected. Questionnaires were performed via internet in Germany and in Turkey. In Germany 66 respondents filled the questionnaire whereas in Turkey 180 respondents were reached. The answers were edited and 47 questionnaires of Turkish respondents were eliminated.

To examine how the brand is perceived by consumers living in different countries, also in Turkey and Germany, “A Brand Personality Scale (BPS)” was used, e.g. [11]. This scale involves adjectives which qualify the personal characteristics. Within the framework of a focus group the adjectives were edited and some adjectives were not fully accepted as personality traits. Therefore, these adjectives were eliminated. Totally 62 adjectives were used to find the Marlboro’s brand personality. Respondents were asked to what extent the given adjectives describe their own personality, Marlboro’s personality, and personality of an idealized tobacco brand.

To illustrate brand personality, it will be investigated how customers in Turkey and Germany view the personality of Marlboro. The causes of choosing Marlboro are the following: The tobacco brand “Marlboro” stands by Interbrand-List “best global brands in 2007” on 14th rank with 21,283 million dollars brand value. Interbrand measures brand value by forecasting current and future revenue of brand, consumer behavior at the point of purchase and customer loyalty, repurchase and retention, e.g. [12]. Considering this measurement criteria and the rank of Marlboro in the “best global brands” list, it is understood that the consumption of a brand in the tobacco sector is still high despite preventions of state and health institutions (for example smoking ban in closed areas or advertising ban of cigarettes in most countries) and highlighting the negative impact of tobacco to reduce tobacco consumption. This situation makes Marlboro an interesting test item.

In the academic literature the brand personality of Marlboro is described as American, masculine, western, and adventurous, independent, e.g. [13] [14] [15] [16]. The purpose

of the research is to identify, first of all, which personality traits Marlboro has in Turkey although the Turkish people have not seen any advertisement about Marlboro since 1996, e.g. [17]. Second, it was intended to show whether there are the perceptual differences between people of the two countries in terms of brand personality. Third, as a secondary objective, is to show whether there is a difference between ideal brand personality and perceived brand personality of Marlboro, a difference between personality of respondents and perceived brand personality of Marlboro, a difference between tobacco non users' and tobacco users' perception.

## 2.1 Results of Pilot Study

Cronbach's alpha is ,97. This value means that the reliability of statements is high. Then, first five personality traits of 62 for each country were ascertained through descriptive statistics. Above-mentioned purposes were explained based on these five personality traits of each country.

Traits	Nationality	N	Mean	Std. Dev.	Std. Error Mean
American	Turkey	153	3,79	1,56	0,13
	Germany	66	4,32	1,47	0,18
pretentious	Turkey	153	3,60	1,43	0,12
	Germany	66	2,95	1,50	0,19
western	Turkey	153	3,52	1,50	0,12
	Germany	66	4,23	1,36	0,17
masculine	Turkey	153	3,32	1,44	0,12
	Germany	66	2,95	1,50	0,19
cool	Turkey	153	3,17	1,43	0,12
	Germany	66	3,50	1,74	0,21
fun	Turkey	153	2,57	1,46	0,12
	Germany	66	3,86	1,40	0,17
strong	Turkey	153	2,72	1,45	0,12
	Germany	66	3,64	1,38	0,17
independent	Turkey	153	2,95	1,49	0,12
	Germany	66	3,59	1,41	0,17

**Table 1 Means and standard deviations of personality traits for Marlboro**

Therefore, Marlboro stands for American, pretentious, western, masculine, and cool by Turkish consumer view while it has personalities such as American, western, fun, strong, and independent in Germany. These five personality traits of each nation were compared through Independent Samples T-Test. To perform an Independent Samples T-Test the parameters should distribute normal. Kolmogorov-Smirnov Test indicates that the parameters are normally distributed. The normal distribution of parameters allows the use of T-Test. The group statistics including the means and standard

deviations of Marlboro’s personality traits for each country are presented Table 1. Marlboro has the same personality in terms of “American” and “western” by the view of each country’s respondents. This result is partially in conformity with the related academic literature where Marlboro is described as American, masculine, western, independent, and adventurous.

Due to analyzed questionnaire results (see table 2), Marlboro carries personality traits like an idealized tobacco brand by the view of Turkish respondents, to a large extent. The only difference between Marlboro’s and an ideal tobacco brand’s personality is that an ideal tobacco brand should have a personality trait as “flashy” instead of “western” which is a personality trait of Marlboro.

Descriptive Statistics for Turkey- Marlboro						Descriptive Statistics for Turkey- ideal brand					
	N	Min.	Max.	Mean	Std. Dev.		N	Min.	Max.	Mean	Std. Dev.
American	153	1	5	3,79	1,56	pretentious	153	1	5	3,75	1,34
pretentious	153	1	5	3,60	1,43	flashy	153	1	5	3,73	1,33
western	153	1	5	3,52	1,50	American	153	1	5	3,46	1,49
masculine	153	1	5	3,32	1,44	cool	153	1	5	3,45	1,37
Cool	153	1	5	3,17	1,43	masculine	153	1	5	3,42	1,37

**Table 2 Marlboro vs. an ideal tobacco brand in terms of brand personality in Turkey**

The perceived brand personality of Marlboro fits to an ideal tobacco brand’s personality more in Turkey than in Germany. Table 3 shows that both dimensions share only one personality trait in Germany: independent. Therefore, it is understood that the gap between the ideal and actual brand positioning is more in Germany than in Turkey. The brand positioning for Marlboro is achieved in Turkey to a larger extent than in Germany.

Descriptive Statistics for Germany- Marlboro						Descriptive Statistics for Germany- ideal brand					
	N	Min.	Max.	Mean	Std. Dev.		N	Min.	Max.	Mean	Std. Dev.
American	66	1	5	4,32	1,47	independent	66	1	5	3,68	1,37
western	66	1	5	4,23	1,36	cool	66	1	5	3,59	1,63
fun	66	1	5	3,86	1,40	adventurous	66	1	5	3,59	1,38
strong	66	1	5	3,64	1,38	boss	66	1	5	3,5	1,45
independent	66	1	5	3,59	1,41	trendy	66	1	5	3,5	1,38

**Table 3 Marlboro vs. an ideal tobacco brand in terms of brand personality in Germany**

Neither the respondent’s personality totally nor the personality of Marlboro’s users’ fits to the perceived brand personality of Marlboro. In total, there are 218 respondents. 47 % of those respondents smoke, whereas 53 % consist of tobacco non-users. To compare



of the users' and nonusers' perceptions in terms of eight personality traits, an Independent Samples T- Test was performed again. The result of the test shows that there is a significant difference between the two groups as far as the trait "American" is concerned, only. The non-users perceive Marlboro more American than users.

### 3. Conclusion

This study tried to compare brand personality of Marlboro in Turkey and Germany. The important results are following:

- The brand identity of Marlboro in terms of adventurous and independent is not perceived in Turkey whereas the other identities, i.e. dimensions, American, masculine, and western, are perceived as the Marlboro's personality. On the other hand, Marlboro is not perceived as adventurous but as independent by the German respondents. Additionally, it is an American and a masculine person. Except the personality traits "American" and "masculine" there are perceptual differences between German and Turkish consumers'. Brand identity partially fits to the brand image in both countries.
- The gap between ideal and actual brand positioning is more in Germany than in Turkey. The brand positioning for Marlboro is achieved in Turkey to a larger extent than in Germany.
- Neither the respondent's personality totally nor the personality of Marlboro's users' fit to the perceived brand personality of Marlboro.
- The result of the test shows that there is a significant difference between the two groups as far as the trait "American" is concerned, only. The non-users perceive Marlboro more American than users.

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## Appendix

### List of Acronyms

Std. Dev.	Standard Deviation
Sig.	Significance
vs.	versus
ref.	reference
Vol.	Volume
Nr.	Number

# The Perceived and Effective Performance Evaluation of SMEs Development Projects in Transition Countries

*Laura Tampieri*

*University of Salerno, Economics and Management Dept., Italy,  
laura.tampieri@unibo.it*

This paper aims to describe and discuss the performance evaluation in local system development projects in Transition Countries, underlining the central role of networking approach as strategic base. On this purpose the paper will consider a synthesis of national and international Literature about the process and structure of performance evaluation system founded on a set of indexes as Efficacy, Efficiency and Adequacy. The research deals the problem related to these projects that often are considered inadequate to trig the local systems development. The hypotheses discussed in the paper take into consideration the different perception of project managers about the instruments used to control project results. Moreover Transition Countries are, in a general way, characterized by an higher potentiality of growth and a lower perception of results obtained by development projects. This concept is deepened considering projects dedicated to SMEs starting up in Transition Countries, managed or participated by University of Bologna – Chair of Business Management, in which emerges a positive Gap between perceived and performance derived from an objective elaboration. Another topic analyzed confirms the relevance of networking attitudes.

## **Keywords**

networking, perceived and effective performance, project management, SMEs development.

## **1. Introduction**

This paper wants to discuss the results of a research made by the Author on the performance evaluation of SMEs development projects in Transition Countries, managed or participated by University of Bologna – Chair of Business Management.

The objective was to measure and explain the differences between effective and perceived performance using a networking approach that sets against a resource based which traditionally characterized the monitoring and reporting of international projects.

We considered that the methodology of performance evaluation changed in recent years extending the appraisal of financial and tangible aspects to intangible assets linked, in an organizational perspective, to the quantity and quality of contacts among project partners in performing the scheduled activities.

The Literature [1], [2], [3], [4], [5], [6] contributed to underline the crisis of the Resource-Based View [7], [8] and the Competence-Based Theory [9], [10] recognizing the increasing role of intangible assets [11] together with the networking supremacy in the project management and consequently in connected performance evaluation.

The relevance of intangible asset role was confirmed by the wider diffusion of performance evaluation tools such as the Balanced Scorecard [12], the Skandia Value Scheme [13] and the Intangible Asset Monitoring [14], that focused on intellectual capital as an expression of growth and learning in which the human resources played a central role.

The new approaches in performance management and measurement overcame the limits and the problems connected to physical assets [15]. They will allow us to consider a multidimensional structure that is at the basis of the project management in which tangible and intangible assets interact towards the common objectives [16], [17].

In particular the multidimensional structure in the performance evaluation system refers from one side to the financial and strictly economic features whose role of guide for project managers has been in recent year strongly criticized. On the other side, we consider the emerging of new dimensions particularly linked to intangible assets to be produced by these projects as sources of competitiveness, growth and employment for transition economies [18],[19]. Essentially, the research distinguished the networking approach [20], based on relationships among the organizations, from the clustering, founded on resources.

In the first approach the net can be considered by project managers as an Objective, a Resource and a Result in the processing of the expected effects in terms of territorial growth and balanced development among many local entities as Universities, Research Centre, NGO, Local Governments, Enterprises and citizens. As Objective, the networking consists into the net building planned in all project phases; in term of Resource, the net is considered as an amount of intangible ones deriving from its activation and dissemination among the local communities. The network considered as Result, concerns the sustainability and quality of the initiative, providing a higher level of interconnections and synergies among the different organizations acting in the local system [21], [22].

Objectives, Resources and Results are the basic components used to describe the performance: through these parameters the research considers the indexes of Efficacy (Results/Objectives), Efficiency (Results/Resources) and Adequacy (Resources/Objectives) and their relationships.

Another issue considered in the paper and linked to the performance evaluation system is the conflict between the performance perception and its effective accomplishment, both to be evaluated by an equilibrate project manager who wants to play successfully his role. Moreover, the question is a strategic subject for policy makers in their process

of decision making and influencing strategic choices as it concerns the approach to the development and the managing of international resources.

This Gap is often linked to a territorial perspective in which the territory is considered, in Transition Countries, the platform of development. It means that these territories are often perceived as scarce in resources, while the facts show a richness of opportunities and potentialities. There is also the hypothesis that this pessimistic perception may be influenced by cultural frameworks.

The research carried out by the Author will present some partial results about the evaluation system of project performance. The relevance of this system influences the accountability and the project governance, particularly in strategic and operative choices. The results of the research allow us to make hypotheses, with an acceptable empiric grade, about the higher level of effective adequacy rather than the perceived one and the more relevance of networking level, to influence this Gap, if compared with cultural features.

The constancy of the Gap orientation, if strengthened in the future by wider researches, would explain the actual uncertainty between the criticism about the local system development projects and the accelerated growth of transition countries after a period in which these initiatives seem to have failed. The prevailing of networking on cultural devices in affecting evaluations would be the signal of the increasing difficulty in coordinating attitudes when project team size increases and the networking grows.

## **2. The State of Art**

Studies and researches in organization theory showed in recent years a shift from the paradigm-driven work to the problem-driven one [23]. As it regards the elaboration of paradigms in organization studies, such as Transaction-Cost Economics [24], Neo-Institutional Theory [25] and Resource Dependence Theory [26], they reflected the main changes of human activities concerning the increasing concentration, diversification and bureaucratization.

Nevertheless, the overcoming of traditional organizational boundaries, with the improving use of network structure and process, made these paradigms less fruitful. In this way the problem-driven work, in terms of obtaining results in project management, uses mechanism-based researches [27]. The latter consider the network as the unit of analysis rather than the single organizations or the undistinguished (as it concerns the organizational placement or assignment) amounts deriving from the economic categories of budgeting.

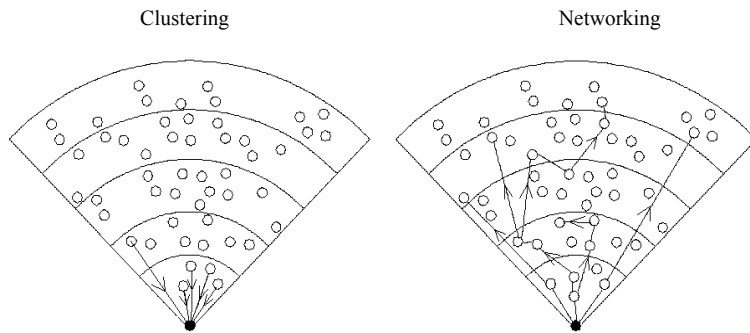
The network perspective represented by networking and the conflict between Resource Dependence approach and the Neo-Institutional Theory lead to consider the differences between the concepts of perceived and effective performance in project management. This Gap is linked to the different scenario of transition and non transition economies as regards the potentiality of development and the perception of growth opportunities.

Owing to this increasing critics, the control focus is moving from resources rising and management towards the relevance of innovative assets among project partners in order to enhance the network as a main tool of competitiveness and territorial

attractiveness [28] granting the sustainability and continuity of SMEs development [29].

Enforcing the Lisbon strategy in concrete interventions to boost growth, the projects can produce all the expected effects particularly supporting small enterprises in a dynamic and competitive knowledge-based economy. In this field the theory defined the networking as a project management methodology in which prevail the capabilities of the organizations to create stable links among all the stakeholders.

In the same logic also the SMEs starting up is considered strictly linked to the commitment that provides focused objectives and motivations to the originating entrepreneurship while their survival and growth derived from the creation and maintenance of a stable network with customers and suppliers [30]. This approach is opposite to the clustering in which the main objective for enterprises starting up is the rising and collection of resources to ensure the SMEs survival in the short period [31] (Figure 1).



**Figure 1 Clustering and networking**

Clustering approach is based on the tendency to search and use the maximum amount of resources, mainly financial, and information on the scenario in which the enterprises will establish their assets for the starting up.

Networking is linked to the enterprises' capacities in creating relationships among all organizations involved in the entrepreneurial projects, although far away each other in space and time. In this approach the main strategy is the exploring that is oriented to search, activate and manage new partnerships in organizations granting an higher quality in project management as stated by the Actor Network Theory [32].

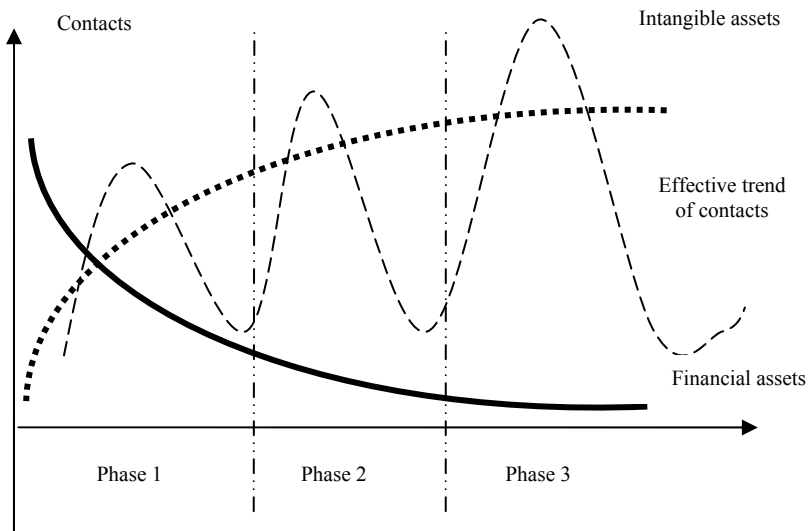
The Cluster analysis orients its main effort in the gathering of knowledge about territorial opportunities and in push facilities for the enterprise creation. This knowledge, owing to the extension and complexity of the matter, is not addressed to a particular activity, but to detect general conditions that the analysis indicates as profitable, in connection with similarity of threats and opportunities. Clustering points to agglomeration of efficiencies, labor pooling and technology spillovers [33].

In Networking the start up comes from an individual idea of enterprise on which actors and supporters have to focus their resources with the target of spread and stabilize a net

of links with customers and suppliers useful to the new business. In this way they concentrate resources and orient actions otherwise (with clustering) spread in the territory or in the wide field of potential links and clusters [34].

Moreover Clustering faces many times the demand of information coming from staffs engaged in development advising. Actually, the Clustering is considered an useful instrument to facilitate the delivery of information and services in Local Economic Agencies.

Networking comes from an external demand of support focused on a specific activity or idea and is related to the strong need of links expressed by people who ask an Agency counter a concrete help not only and not necessarily in financing but mainly in tutoring and mentoring.



**Figure 2 The trend of intangible and financial asset in the process of project**

One of the more impressive topics to describe the difference between Clustering and Networking is the different fashion in which the Net is considered. In the knowledge management, the purpose of Clustering approach is to gather information and to store it inside the organization as an indispensable know how for the development. In Networking the knowledge is in the Net and there it has to remain waiting only to be used for the enterprise development [35].

On the basis of these considerations the project is defined as a social network [36], that involves many organizations, as Universities, enterprises, individuals and governments with different interests and available resources to put together in order to reach the common project Objectives.

However a dynamic contraposition between objective data as economic-financial ones and the subjective linked to the perception of different project elements exists; in it emerges a different trend of financial resources and networking ones.

As showed in the graph (Figure 2)<sup>1</sup>, the intangible assets increase during the project phases, in consideration of the development capabilities of relationships among partners and that belong to local system to ensure quality, sustainability and visibility of the project.

The trend of intangible assets is linked to the creation of the operative and strategic conditions for the realization of initiatives during the project life underlining the increasing of project managers capacities in the reactivity to the environmental changes not always foreseen by project managers and that often happen in project.

### **3. The System of Indexes in Performance Evaluation**

The hypotheses on performance evaluation are framed in a set of indexes Efficacy (Ec), Efficiency (Ez) and Adequacy (Ad). The systemic relationship among these indexes derived from the consideration of three parameters: Objective, Resource and Result that represent the basic conditions of the performance [37].

The Efficacy can be defined as the capability of an individual, office, organization, project to realize the scheduled Objectives. It is indicated as the ratio between parameters measuring Results and Objectives. This typology can be concretized, in an applicative terms, as the Progress of work, the Fulfilment ( or accomplishment ) ratio and the Punctuality.

The Efficiency refers to the transformation process and is expressed by the ratio between Results and Resources. This index tries to answer to a relevant question in project management that is : how can we achieve the maximum of Results with a minimum of Resources ? In practical terms Efficiency is linked to concepts ( and to their applications ) such as: Productivity and Economy ratio.

Efficacy and Efficiency represent the operative elements of a control system in which Results appear in both indexes determining an ex-post evaluation of projects. In this field a question for project managers is: The activities are mainly to be evaluated on the basis of Efficacy and Efficiency. But what happen if the Objectives are overestimated or impossible to be fulfilled or resources to be used have been reduced ?

If we consider a relational approach among the main performance components we can state that isn't enough the evaluation system based only on Efficacy and Efficiency. We have to consider also pre-conditions and namely the Adequacy based on Resources and Objectives.

The Adequacy is connected, in an applicative sense, to concepts as Sustainability and Feasibility but can be also considered as an expression of Quality and Ethical

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<sup>1</sup>This partial results refer to SVILOPIM project on “Development and promotion of local systems for the support to SMEs in Albania, Bosnia and Serbia” (see Table 2).



approaches to managerial decisions. Quality reports the ratio among resources and expectations while ethics related the resources to the values to be accomplished.

As the networking is connected to the idea of partnership in its qualitative and quantitative assets, mainly expressed by the numbers of partners, the Efficacy is assumed as the percentage of effective partners on those planned. Accordingly the Efficiency is the ratio between the number of effective partners achieved with the employed staff, the Adequacy considers if the employed staff is adequate to the number of partners planned (Table 1).

Indexes	Parameters			Description	Sampled parameters
	Objective	Resource	Result		
Efficacy	X		X	Results / Objectives	N. partner planned / N. partner effective
Efficiency		X	X	Results / Resources	N. Partner effective / Staff
Adequacy	X	X		Resources / Objectives	Staff / N. partner planned

**Table 1 The indexes system**

Considering the networking perspective the Project Managers (but also the Evaluators) have to face another problem: the perceived performance can be quite different from the objective one. This difference can be attributed to the different role of people producing the evaluation like : donors, recipients, project managers, policy makers (in addition to be distinguished between governmental or oppositionist) but can also be assumed as derived from a combined effect of Efficacy and Efficiency.

The research hypotheses are based on the dynamics of these three performance indexes that can be formally quantified as [38] :

$$\text{Adequacy} = \frac{\text{Efficacy}}{\text{Efficiency}} = \frac{\frac{\text{Results}}{\text{Objectives}}}{\frac{\text{Results}}{\text{Resources}}}$$

This functional relationship, coherent with the index structure, can provide us a tool to measure in an objective way the Adequacy level and to compare it with the subjective one. This score can be directly detected by a questionnaire as we did with Efficacy and Efficiency.

From this framework it emerges the difference between derived and perceived Adequacy: the first comes from the above formulation and measures the quantitative relationship between Efficacy and Efficiency in project evaluation. The perceived

Adequacy is expressed directly by project managers, in an independent way from the single considerations of Efficacy and Efficiency.

#### 4. The Research

Once framed performance indexes, the research hypothesises to be tested were connected with the different level of perceived and effective Adequacy and to the correlation of the eventual Gap among the above mentioned variables with the project managers place of origin (distinguished in transition and non transition countries) and with the number of partners participating to each project.

Summarizing the hypothesises submitted to verification are:

- There is a Gap (after named Perceived Gap) between perceived and effective Adequacy.
- The Perceived Gap increases when the percentage of Non transition project partners, within each project, increases.
- The Perceived Gap increases when the number of partners (within each project) increases.

The choice of the Adequacy as a key variable in project performance evaluation is connected to its strategic relevance and detected in two different ways. The perceived Adequacy comes directly from project managers opinion and the derived one from the function ratio between Efficacy and Efficiency.

The evaluations of the Efficacy and the Efficiency were separately collected as the elements through which the effective Adequacy derive [39]. It means that the survey was focused to detect the opinions of project managers about the relevance of each index in evaluating the performance projects.

The research sample was composed by 51 project managers (PM). They were appointed by each partner to international projects (Seventh European Framework, Tempus and Interreg IIIa) allocated in Transition Countries of Balkans area or in Kazakhstan and Russia. The partners are represented by Universities (U), NGOs, Governments (G) and Research Centres (RS) (Table 2).

The questionnaire<sup>2</sup> distributed to project managers, accordingly to the above mentioned research framework on Efficacy, Efficiency and Adequacy, aimed to know the relevance assigned to each index typology in the project performance evaluation (score from 1 to 10). Each index was structured in several applicative features as described in Table 3.

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<sup>2</sup>The questionnaire was addressed in the period April 2007-August 2007 with a response rate of 75 % ( 38 / 51).

	Project title	Type	Project Partner Typology				Project Managers sampled	Place of PM origin	
			U	RC	NGO	G		Non Transition Countries	Transition Countries
1	European advanced simulation laboratory for research on micro-business in the world of virtual reality (MICROBUSINESSLAB).	Seventh European Framework	8	0	1	1	10	8	2
2	European Scientific and Entrepreneurial Park: models and actions of a global network (EUROSCIENTERPARK).	Seventh European Framework	6	0	2	0	8	5	3
3	Implementing of ECTS at Kazakhstan Universities (IMPECTSKZ).	Tempus - SCM	5	0	2	1	8	4	4
4	Ecological Engineering in Chemical and Biotechnologies (ECOTECH).	Tempus - JEP	10	0	0	0	10	4	6
5	Development and promotion of local systems for the support to SMEs in Albania, Bosnia and Serbia (SVILOPIM).	Interreg IIIa	10	1	1	3	15	10	5
Total			39	1	6	5	51	31	20

**Table 2 The research sample**

N.	Index Typology	Applicative index	Description
1	Efficacy	$N. \text{ partner planned} / N. \text{ partner effective}$	The percentage of partner effective on those planned
2		$\text{Budget} / \text{Expenditure}$	The percentage of used budget
3		$\text{Time resource planned} / \text{Time resource used}$	The percentage of time resources used on those planned
4		$\text{Activities phase planned} / \text{Activities phase realized}$	The activity phase realized on those planned
5		$\text{Phase objectives planned} / \text{Phase objectives fulfilled}$	The phase objectives fulfilled on those planned
6	Efficiency	$N. \text{ Partner effective} / \text{Staff}$	The ratio results/resources, in particular the number of effective partner achieved with the used staff
7		$\text{Expenditure} / \text{Staff}$	The ratio results/resources, in particular the expenditure achieved with the used staff
8		$\text{Time resource used} / \text{Staff}$	The ratio results/resources, in particular the time resources achieved with the used staff
9		$\text{Activities phase realized} / \text{Staff}$	The ratio results/resources, in particular the activities phase realized with the used staff
10		$\text{Phase objectives fulfilled} / \text{Staff}$	The ratio results/resources, in particular the phase objectives fulfilled with the used staff
11	Adequacy	$\text{Staff} / N. \text{ partner planned}$	The ratio resources / objectives, in particular if the used staff is adequate to the number of partner planned
12		$\text{Staff} / \text{Budget}$	The ratio resources / objectives, in particular if the used staff is adequate to the budget
13		$\text{Staff} / \text{Activities phase planned}$	The ratio resources / objectives, in particular if the used staff is adequate to activities phase planned
14		$\text{Staff} / \text{Time resources planned}$	The ratio resources / objectives, in particular if the used staff is adequate to time resources planned
15		$\text{Staff} / \text{Phase objectives planned}$	The ratio resources / objectives, in particular if the used staff is adequate to phase objectives planned

**Table 3 The scheme of analysis**

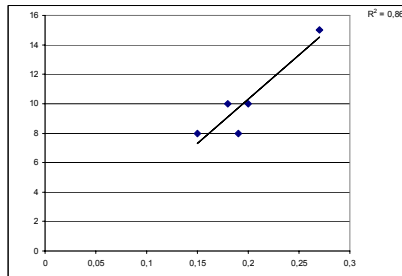
The results, classified by project, were the following ones (Table 4).

Project	Ad Perceived Ad P	Ad Derived Ad D	Perception Gap (Ad D - Ad P)	% of Non Transition Place of Project Managers origin	Networking Level (N. of Partners)
1	0,71	0,91	0,20	0,80	10
2	0,77	0,92	0,15	0,62	8
3	0,74	0,93	0,19	0,50	8
4	0,81	0,99	0,18	0,40	10
5	0,68	0,95	0,27	0,47	15

**Table 4 Perceived and derived data<sup>3</sup>**

In a more detailed way the Gap value is higher in the project n.5 (0,27), followed by n.1 (0,20), n.3 (0,19), n.4 (0,18) and n. 2 (0,15).

Crossing these data with the composition of Project Managers Team and the Partners number of each project (Figure 3.1; 3.2), it emerges the profiles of the correlation with the Perceived Gap.

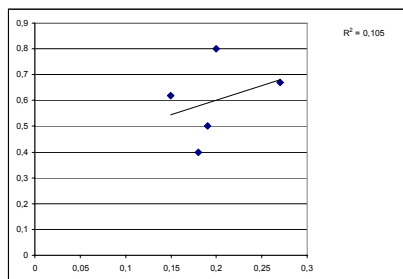


**Figure 3.1 The derived and perceived Adequacy Gap and the % of Non Transition Place of Project Managers origin.**

As it concerns the first hypothesis we obtained a diffused prevailing of the effective Adequacy on perceived one that constantly, also if in different projects, is evaluated in a significant lower level.

Considering the second hypothesis, there is not relevant evidence that the Perceived Gap increases when the percentage of Non transition Countries project partners within each project increases.

<sup>3</sup>The value of Derived Adequacy is calculated using the the formula  $Ad = Ec / Ez$ .



**Figure 3.2 The derived and perceived Adequacy Gap and Networking Level**

As it regards the number of partners (third hypothesis) the Perceived Gap shows a significant correlation.

## 5. Conclusions

The paper, on the basis of the theoretical background about the performance evaluation system and its orientation towards the results, and particularly the net, rather than the resources, considered the set of indexes Efficacy, Efficiency and Adequacy as the basic framework of project evaluation with their connections with parameters of Objective, Resource and Result.

In this field the analysis of effective and perceived performance is linked to Adequacy concept as a strategic factor to be considered for creating the operative conditions of successful project development.

Although the analysis of a reduced sample limits the possibility of generalizing the results, it represents the basis for further researches also in comparison with similar initiatives undertaken in transition countries. The positive Gap between derived and perceived Adequacy confirmed the results of previous researches carried out by the Author [40].

The lower level of the perceived Adequacy than of the derived one seems to enforce the pessimistic attitude not only of Project Managers about the effective appropriateness of their projects but it can be also extended to the general idea about transition economies. Despite to the criticism on the effective relevance of results in Entrepreneurial and Local Development in last years these countries started an accelerated growth with an increasing rate of entrepreneurship.

Another perspective to be deepened in future researches is the more relevant influence of team quantitative size, directly connected with networking, rather than cultural composition of project teams.

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# Can Income Inequalities be Equalized Without Government?

*Kalbarczyk Malgorzata<sup>1</sup>, Wisniewski Marian<sup>2</sup>*

*University of Warsaw, Faculty of Economic Sciences, 44/50 Długa Str, Warsaw, Poland, {mkalbarczyk<sup>1</sup>, wisniewski<sup>2</sup>}@wne.uw.edu.pl*

The increasing degree of income inequality in Poland rises a question whether these inequalities should be reduced and if so, how the income equalization should be done. In this work the role of private transfers in the household income is shown. It was studied what affects the probability of a private transfer and what are the factors which determine the transfer value. The obtained results suggest the motivation for private transfers and an effect of crowding out private transfers by public transfers. The results for Poland are compared with the results for England, Denmark and Germany. Negative relationship between income and the probability of receiving a transfer as well as the value of received transfer suggests that in Poland private transfers are altruistically motivated. The crowding out effect was observed - the analysis of the data for Denmark shows that in this country with high public transfers, the private transfers do not depend of the income and are rather just gifts.

## Keywords

altruism, crowding out, exchange, private transfers.

## 1. Introduction

The liberation of market in Poland after 1989 resulted in a considerable increase of economic investments and rapid economic development of the country. These changes together with the end of the former artificial policy of egalitarianism have, however, resulted also in large income inequalities - at present, the structure of income differentials in Poland is similar to the structure in Western Europe countries. Therefore, lot of questions appear, e.g., what is the appropriate extent of income inequalities in a society? Is the redistribution policy of the state indispensable or is it possible, that people can eliminate the income inequalities by themselves? If the state should interfere in the process of redistribution of income, how much the government should be involved and what are the best instruments, which should be used?

According to Cox, Eser and Jimenez [5], in many countries the private transfers are one of the most important factors in the redistribution of income. The role of private transfers in the redistribution depends, however, on many different features. First of all, the different customs and tradition in the society play an important role. On the other hand, the social policy of the state, i.e., the degree in which the government interferes in

eliminating the differences between incomes, has an impact on the probability and value of private transfers. It was suggested by Park [9] and Kuhn and Stilman [8] that private transfers play a huge role in income redistribution, especially in developing countries - what promotes private transfers in these countries is the imperfection of financial market. Thus, the developing countries, e.g., Poland, are best suited for the study of the role and power of the private transfers.

In this work the role of private transfers in Poland, in particular, how private transfers participate in the redistribution of income in our country, is studied. The other important questions are: who obtains transfers and which factors determine the probability of a private transfer? What determines the amount of transferred money? Is the Polish society altruistic and do public transfers crowd out private transfers? The role of private transfers in Poland is compared with the situation in other, much more developed European countries. These are: one very guardian country (Denmark), one liberal country (England) and finally a country in which a similar to the Polish transformation took place, i.e., Germany. This study can help to design new social policy for countries, like Poland, after the system transformation. It is well known that private transfers are usually more effective than the public ones. Moreover, in an altruistic society, the recipients of private transfers are those who really need help. Thus, we expect that the results of our study can be used to find appropriate solution, in which part of the income redistribution can be made by the society itself and public transfers will not limit private transfers within the family, between friends and via the nongovernmental organizations. Finally, transfers' derivatives matter not only for policy but also for better understanding human behaviour.

## 2. Model of Transfer Motives

To check the motives of private transfers, the model proposed by Cox and Rank [4] was used. Generally, there are two main motives for private transfers, i.e., altruism and exchange motive. The former is when one decides to give something just because a person needs help, whereas the latter when one decides to support somebody expecting some services in return, e.g. we help our children, but we expect them to take care of us, when we will be old.

Two parties participate in a transfer: the donor and the recipient of the transfer. In the Cox and Rank model, the objective function of the donor is:

$$U_d = U(C_d, s, V(C_r, s)),$$

where  $U$  is the utility of the donor,  $V$ - utility of the recipient,  $C$  is consumption and  $s$  are services the recipient provides to the donor. We assumed that donor well-being grows then recipients well-being raise. The authors focused their study on the question how the income of the recipient influences the probability and value of transfer. They showed that the probability of the transfer is positively related to the donor's income and inversely related to recipient's income. The relation between the recipient's income and the value of the transfer is more complicated and depends on the motives of the donor. When the transfer is motivated by altruism, the increase of the income of the recipient results in a decrease of the value of transfer, because the recipient can attain optimal consumption by himself and the aid is less needed. In the

other case, when private transfers are motivated by exchange, let us define the value of transfer as  $T = p \cdot s$ , where  $p$  denotes the price of service. When the income of the recipient increases, he can require higher “price” for his work and for given amount of services “ $s$ ” a transfer of bigger value will be expected. Therefore, an increase of the recipient’s income results in an increase of the value of transfer. Thus, we note that from the study of the dependence of value of private transfers on the recipients’ income an information about the degree of altruism in the society can be obtained.

In Ref. [5] it was shown that the role of private transfers in the income redistribution depends crucially on how altruistic is the society. The private transfers motivated by altruism get crowded out by the redistribution policy of the government and the growth of public transfer – what has been raised as a theoretical possibility by Barro [1] and Becker [2]. As the public transfers are always associated with big costs and usually result in a small change in the income of the beneficiaries, in the “altruistic” society the government can make probably better use of the available money by spending it on other purposes. The knowledge of the dependence of the probability and value of private transfers on the amount of different public transfers, and in general, the knowledge of the efficiency of the latter in changing the income of the society, can be crucial for the proper policy of reallocation stock in the state.

### 3. Empirical Work

The data used in this analysis come from CHER (Consortium for Household Economic Research). Data are available for Poland from year 1994 to 2000, for Denmark from 1994 to 1998, and for England and Germany from 1992 to 2000. Respondents were asked about incomes, their sources, including private transfers to the household. The study is limited by the available data. In the data only the information about the households, which are transfers’ recipients is available – there are no data about the donors, about their demographic characteristic and income. Thus, these effects could not be taken into account in the study. There is also no information about transfers within households, which can be very high. Moreover, for Poland the data contain financial transfers to which the value of transferred things is added. For other countries the data contain only financial transfers. Still, we believe that these data allow to analyse motives of private transfers and the crowding out effect.

In Poland in year 2000, 35% of households received inter-vivos private transfers. In England, a financial transfer was received only by about 5% of households, in Germany about 13% and in Denmark in year 1998 about 11% households received financial help from other people. In all studied countries the private transfers are targeted to groups such as young, female-headed households and the unemployed. In Poland, private transfers make 24% of the income in the poorest (first income decile), among households which receive transfers. For richer households (higher income deciles) this percentage is lower. In England and Denmark the private transfers make a higher percentage of income not only in the lowest (first) income decile but also in the highest (tenth) income decile. The latter can be interpreted as generous money gifts exchanged by the rich and their rich family or friends.

### 3.1 Specification and Variables

To distinguish between altruism and exchange motive two models were estimated. First, the probit model of the probability of transfer – in this model the dependent variable takes the value 1 if the household is a private transfer recipient and 0 if it is not.

$$P_i = \alpha_0 + \alpha_1(I_{ri}) + \alpha_2(\Delta I_{ri}) + \alpha_3(T_{fi}) + \alpha_4(T_{ui}) + \alpha_5(T_{di}) + \alpha_6(T_{oi}) + \alpha_7(T_{fi(t-1)}) + \alpha_8(T_{ui(t-1)}) + \alpha_9(T_{di(t-1)}) + \alpha_{10}(T_{oi(t-1)}) + \alpha_{11}X_i + \varepsilon_i$$

The second, tobit model was used to explain the value of the transfer.

$$TV_i = \beta_0 + \beta_1(I_{ri}) + \beta_2(\Delta I_{ri}) + \beta_3(T_{fi}) + \beta_4(T_{ui}) + \beta_5(T_{di}) + \beta_6(T_{oi}) + \beta_7(T_{fi(t-1)}) + \beta_8(T_{ui(t-1)}) + \beta_9(T_{di(t-1)}) + \beta_{10}(T_{oi(t-1)}) + \beta_{11}X_i + \eta_i$$

In these two models  $I_{ri}$  denotes the income per capita of the household being the recipient of the transfer, without private transfers (entered in logarithms),  $T$  are dummy variables if household receive family transfers ( $T_{fi}$ ), unemployment benefits ( $T_{ui}$ ), health and disability related transfers ( $T_{di}$ ) and other transfers from government ( $T_{oi}$ ).  $X_i$  are socio-demographic variables. The latter category includes:

- gender (1-male, 2-female)
- age and age<sup>2</sup>
- type of the household (family without children -1; singel parent with children – 2; household with children and 2 or more adults - 3)
- marital status (0-married, 1-widowed, divorced or single)
- region (1-rural, 2-urban)

Apart from estimating the influence of demographic variables on the probability and value of transfer, we have analysed the influence of the income of the recipient on transfers he obtains, to check more carefully what motivates the private transfers... Because this influence can be different for poor and reach households, non-linear relation between the income and the value of transfer has been also estimated [7], [3].

### 3.2 Results

Estimation were made for Poland, England and Germany for year 2000 and for Denmark for year 1998, due to the lack of data for Denmark in 2000. Since information about private transfers was collected on household unit basis, estimations were also made on household level. The results for probit regression for all countries are shown in Table 1 and results for tobit regression are shown in Table 2.

	Poland	England	Denmark	Germany
$I_r$	-0.26***(0.04)	-0.3***(0.06)		-0.28***(0.03)
Age	-0.01***(0.002)	-0.02***(0.003)	-0.02***(0.002)	0.02***(0.001)
Gender	0.11**(0.06)	0.42***(0.1)		-0.16***(0.04)
$T_f$	0.12*(0.06)			

$T_{d(t-1)}$	-0.26***(0.04)	-0.3***(0.06)		-0.28***(0.03)
$T_o$	0.23***(0.06)	0.42***(0.18)	0.5***(0.09)	
$T_u$	-0.21**(0.1)		0.25***(0.09)	-0.22***(0.08)
Family_2		0.98***(0.12)		0.58***(0.08)
Family_3		0.24**(0.13)		-0.36***(0.06)
Marital	0.16***(0.06)	0.33***(0.11)		
PseudoR2	4.3%	24.1%	7.8%	7.6%

\*\*\* means significant at 0.01 level, \*\* means significant at 0.05 level, \* means significant at 0.1 level

**Table 1 Probability of private transfer – probit model**

The probit estimates as well as results for the value of private transfers indicate that in all but Germany countries the private transfers are targeted to young and to female-headed households. In England and Germany also the type of the family is significant. In England families with children are more likely to receive a private transfer than families without children. In Germany the results, show high private transfers to elder people. These results are, however, equivocal, because in the German data, in contrast to other countries, the private retirement income was included in private transfers.

An obtainment of public transfers should be inversely related to the probability and value of private transfer, if crowding out effect exists. This is not always the case - the results are different for different kinds of public transfers. In Poland and England, the disability and health related transfers are negatively associated with both, the probability and value of private transfers.. Also unemployment benefits in Germany are inversely related to the transferred amounts of money, indicating that when a household receives unemployment benefits it obtains lower private transfer. On the other hand the obtained coefficient for family related public transfers in Poland and the coefficients for other public transfers (like education related transfers) in Poland, England and Denmark are positive and do not confirm the crowding out private transfers by public transfers effect. But this public transfers are probably not very high, so poor households, which receive these type of transfers, still need to be supported by private transfers .

The household per capita pre-transfer income is inversely related to the probability of private transfer in all countries except Denmark. The same results were obtained for the value of private transfers. In all but Denmark countries the household per capita pre-transfer income is significant and coefficient is negative. In Denmark the income was insignificant. Private transfers in Denmark do not depend on income and they could be just gifts. It means that they are not meant to satisfy basic needs. Altruism indicates the same, negative coefficients in both equation, in contrast the exchange predicts different signs for probit and tobit: negative for the probability of transfer and positive for the value of transfer. The obtained results signify that private transfers in the studied countries are altruistically motivated .

	Poland	England	Denmark	Germany
$I_r$	-1.67***(0.25)	-5.22***(0.99)		-6.59(0.72)
$\Delta I_r$				
Age	-0.8***(0.1)		-0.17***(0.04)	-1.01***(0.2)
Gender	1.79***(0.35)	3.47***(1.28)		6.11***(1.45)
$T_f$				8.64***(1.67)
$T_d$	-1.09***(0.39)	-7.87***(2.8)		-4.1***(2.33)
$T_o$	1.59***(0.39)		4.58***(1.63)	
$T_{o(t-1)}$		6.0***(2.1)	6.09***(1.57)	
$T_u$	-1.49***(0.72)		4.0***(1.25)	
Family_2		14.1***(1.78)		
Family_3		5.56***(1.49)		
Marital		4.66***(1.38)	-4.63***(1.09)	5.73***(1.55)

\*\*\* means significant at 0.01 level, \*\* means significant at 0.05 level, \* means significant at 0.1 level

**Table 2 Value of private transfer – tobit model**

According to [3], [6], [7] there could exist a non-linear relation between recipient's income and the value of private transfer. For lower-income households we can observe altruistic motive, i.e., negative relation between recipient income and value of transfer, because people feel they have to help other to satisfy his basic needs, when the income is below some level. If however the household income expands and reaches a certain level, the altruistic motive can evaporate and the exchange motive starts to dominate. Two methods were used to check the non-linearity in the model: first, we estimate the polynomial transfer function of the income and other we estimate the spline regression with single knot. As the threshold level, where motivation changes from altruistic to exchange, is not known, several models with different knots were estimated and their Akaike and Schwarz criteria were compared. Both methods show that there is no non-linearity relation between recipients' income and transfer in analysed countries.

## 4. Conclusions

This is the first study on data for 1994-2000 years, in which the private transfers in Poland were widely analysed and compared with the results for other countries in Europe. In particular, the crowding out effect in Poland was estimated for the first time.

The obtained results of the estimations show that in Poland the percentage of households involved in private transfers as recipients is the highest among all studied countries. It was also shown that private transfers are an important component of the household income and help equalize the distribution of income. Negative relationship between income and the probability as well as the value of received transfer suggests that in Poland private transfers are altruistically motivated. The crowding out effect was observed - the analysis of the data for Denmark shows that in this country, with high

public transfers, the private transfers do not depend of the income and are rather just gifts.

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# **Inflation Targeting in Central and Eastern European Countries: Implementation and Performance**

*Ancuta Popa<sup>1</sup>, Silviu Cerna<sup>2</sup>, Liliana Donath<sup>3</sup>*

*<sup>1</sup>West University of Timisoara, School of Economics, Dept. of Finances, 16 Pestalozzi Street, 300115, Timisoara, Romania, {ancutzapp<sup>1</sup>, silviucerna<sup>2</sup>, lilionath<sup>3</sup>}@yahoo.com*

**Beginning with the 90's a larger number of countries have been adopting the direct strategy of inflation targeting as strategy of monetary policy. This strategy was also adopted by four economies from Central and Eastern Europe: Czech Republic, Poland, Hungary and Romania. The purpose of this paper is to analyze the degree of fulfillment of the main preconditions, which is considered by the specialty literature of certain importance for successfully implementing such a regime. The data to be analyzed are collected from the moment in which these strategies were adopted by the respective countries, thus from 1998 for Czech Republic, 1999 for Poland, 2001 for Hungary and 2005 for Romania. The fulfillment of institutional and technical requirements is briefly presented. The experiences of these countries show that the success of this strategy largely depends on the fulfillment of these preconditions.**

## **Keywords**

central and eastern European countries, monetary policy regime, inflation targeting strategy.

## **1. Inflation Targeting – Monetary Policy Strategy**

Over the last decades there were three standard strategies of monetary policy which were successful in what concerns providing an efficient nominal anchor respective targeting the monetary aggregates, the exchange rate and the inflation.

The first country to implement the inflation targeting regime was New Zealand in 1989. In the last years the adoption of an official regime of direct inflation targeting extended to industrialized countries with emerging economies such as Brazil, Chile, Columbia, Czech Republic, Hungary, Israel, Mexico, Philippines, Poland, South Africa, Romania and Turkey. Many other countries with emerging economies such as Albania, Macedonia and Serbia are in a transition period to meeting this strategy. At the moment 25 countries have adopted this regime (8 industrialized countries and 17 emerging countries).

Cerna [1] defines inflation targeting as the monetary policy strategy characterized by publicly announcing a quantitative objective regarding the inflation rate, valid for one or more periods of time, as well as stating the inflation decrease as main objective on long term of the monetary policy.

The central banks which have inflation targeting regimes use actively the available instruments of monetary policy and have to adopt regularly complex decisions in order to minimize their loss functions.

$$L = \alpha(\pi - \pi^*)^2 + \beta(y - y^*)^2 + \gamma(r - r^*)^2 + \delta(er - er^*)^2; \alpha, \beta, \gamma, \delta > 0$$

Where:

- $\pi$  = inflation rate
- $\pi^*$  = inflation target compatible with price stability
- $y$  = the degree of increase in GDP
- $y^*$  = the potential degree of increase in GDP
- $r$  = the real interest rate
- $r^*$  = the balanced real interest rate
- $er$  = the real exchange rate
- $er^*$  = the balanced real exchange rate
- $\alpha, \beta, \gamma, \delta$  – indexes which show the relative importance of the objectives envisaged by the loss function.

Thus, the central bank needs to adjust the instrument of monetary policy in order to maintain the inflation level round the central target, without generating excessive fluctuations at the level of economic activities.

Rose [2] states that inflation targeting proved to be a durable monetary regime compared to fixed exchange regimes or those which envisage monetary increase targeting. It is surprising that no country has been forced to abandon an inflation targeting regime, which determines many developing countries to adopt this regime. From his empirical model, that considered 21 countries which targeted inflation at the end of 2004 and 40 non-targeting countries, resulted that countries which target inflation experiment a less volatile exchange rate and an increase in frequency of “sudden stops” of capital inflows, and the reserves and current account imbalances seem similar to those of non-targeting countries. The author also describes the inflation targeting regime as being totally opposed to Bretton Woods system. The present regime is domestically-oriented with floating exchange rates and free capital mobility, with independent, accountable and transparent central banks. There is no special role for center or anchor country like the United States, gold or International Monetary Fund.

Lin and Ye [3] evaluate the effects of inflation targeting on a sample of 22 countries of which 7 are industrialized countries which target inflation. The authors reach the conclusion that in industrialized countries which target inflation, the inflation targeting regime has no benefic effects on inflation or its variability. Evidence from long-term

nominal interest rate and income velocity of money also support the window-dressing of inflation targeting.

Cerna [4] shows the advantages and disadvantages of this strategy, especially those noticed in Central and Eastern European countries. The main advantage is that this regime allows keeping a certain monetary policy flexibility which can be used not only for fighting inflation but also to facilitating the process of transition and European integration of Central and Eastern European countries. The above mentioned strategy is also meant to inhibit speculations which become less profitable when the central bank really interferes on the forex market. A remarkable disadvantage is the fact that this strategy induces relative high volatility of exchange rate which discourages exports and direct foreign investments.

## **2. The Experiences of Countries which Adopted the Inflation Targeting Regime**

Specialty literature divides the necessary preconditions to adopt an inflation targeting regime into institutional requirements and technical ones. The institutional requirements analyzed are:

### ***2.1 Absolute Priority of Inflation Objective***

In the statutes of central banks of the four analyzed countries is written that the primary objective of monetary policy shall be to maintain the price stability; central banks are allowed to support other objectives of economic policy without prejudice their primary objective. Other objectives, excepting price stability, are subsequently subordinate and conditional.

Concerning Poland and Hungary, this precondition wasn't fulfilled and the moment of adopting inflation targeting, the crawling band regime (in Poland) and crawling peg regime (in Hungary) imposing practically a second objective concerning the exchange rate.

### ***2.2 The Independence of Central Banks in Using Instruments***

This condition involves personal, institutional, operational and financial independence and that of monetary policy instruments.

Regarding the personal independence in Czech Republic, this is ensured by naming the 7 members of Administrative Board by the President without governmental assistance and stating clearly the motives for their revocation. In Poland, the Monetary Policy Board includes the President and other 9 members, appointed equally by the President, Seim and Senate, on a period of 6 years. In what concerns Hungary, the Prime Minister needs to approve the appointment of vice-presidents and other members, and the President of central bank is appointed by the president based on a recommendation from the Prime Minister. The Administrative Board of National Bank of Romania

comprises 9 members appointed by the Parliament, on a period of 5 years, with the possibility of reappointment.

Institutional independence is relatively high; the monetary authority can't give or get instructions from other public authorities. A limitation of institutional independence appears in the decisional process of exchange rate regime. The National Banks of Czech Republic and Hungary set it after consulting the Government, and in Poland these decisions belong to the Ministers' Board.

In the cases of Czech Republic and Romania, operational independence consists in the autonomy of national banks in establishing the inflation target and instruments used for its fulfillment. The National Bank of Hungary has independence in using instruments of monetary policy without seeking or taking instructions from the Government, but its prerogatives on setting the inflation target are limited to Government approval.

The National Bank of Czech Republic ensures the financial independence by having approved its budget by the Administrative Board, the independence of external auditor and prohibiting any direct financing form of public sector, with a certain limitation due to the involvement of the Ministry of Finance in the selection process of the external auditor. The National Bank of Poland approves the annual revenue and expenditure budget and is not allowed to finance the budget deficit. Another limitation of financial independence is represented by the involvement of the Ministries' Board in the audit, evaluation and approval of financial statements of the Bank. The National Bank of Hungary can't finance the Government directly through purchasing its liabilities issued on primary market and can't be forced to buy instruments of public debt on secondary market. The operational and development budgets are approved by Administrative Board and the financial independence is limited to the competences of the Court of Accounts in what regards setting the external auditor. The financial independence of the National Bank of Romania is ensured by having approved its budget by the Administrative Board, the independence of external auditor and prohibiting any purchase of liabilities and debts of the public sector.

Once implementing inflation targeting, the parameters and structure of the instruments of monetary policy (Table 1) used by the four central banks lined up with the standards of European Central Bank.

	Czech Republic	Poland	Hungary	Romania
The main instrument of monetary policy	repo	NBP bill	MNB bill	repo
Interest rate of monetary policy	3.75%	5.75%	8.00%	9.50%
Interest rate of deposit facility	2.75%	4.25%	7.00%	2.0%
Interest rate of loan facility	2.75%	7.25%	9.00%	6.0%
Minimum reserve requirements	2.00%	6.00%	5.00%	20%

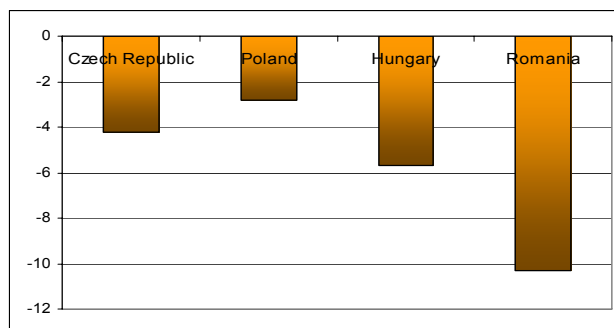
**Table 1 Instruments of monetary policy**

### ***2.3 The Harmonization of Monetary Policy with Governmental Policies***

Including the inflation target in the forecasted band can be realized only by increasing the coherence of the whole set of economic policies, that besides underlining the restrictive character of monetary policy, needs to consolidate all the components of the economic policy mix, as well as to accelerate the structural reforms.

Fiscal relaxation was a common coordinate of the economic policy mix from the four countries. The extent in which it affected the efficiency of monetary policy in achieving the inflation objectives was different. In Czech Republic the non-monetary nature of the financing sources of the budget deficit and low costs limited the impact of fiscal relaxation on the monetary policy, with no significant inflationary pressures recorded. In Poland, Hungary and Romania, fiscal slips considerably complicated the task of central bank, and the fulfillment of inflation target imposed an extremely restrictive behavior of interest rate policy.

The current account deficit is at a sustainable level in Czech Republic, Poland and Hungary, but in Romania the insufficient strength of fiscal and revenue policies led to an unsustainable and continuously growing current account deficit.



**Figure 1 Current Account Deficit**

Another problem to deal with in Romania is the trend of increasing in wages level over the growth level of labor productivity.

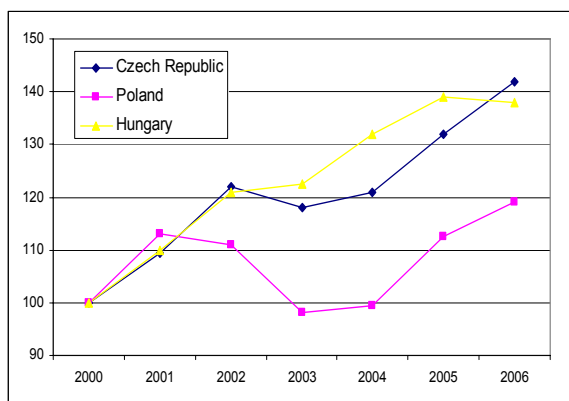
### ***2.4 Flexible Exchange Rate***

In 1997, the National Bank of Czech Republic was forced to give the crawling peg regime up as a result of the pressures caused by the national currency depreciation. After consulting the Government, the National Bank of Czech Republic opted for a managed floating regime of the exchange rate. Between 1998 and 2006, central bank interfered periodically on forex market in order to avoid an excessive appreciation of the exchange rate.

After adopting the inflation targeting regime, Poland got to the independent floating of the exchange rate in April 2000.

Although when the inflation targeting strategy was adopted the fluctuation band of exchange rate had been increased to  $\pm 15\%$ , the crawling peg/band regime didn't offer the necessary flexibility requested by the new conditions, becoming an obstacle for disinflation. The main causes of capital inflows were the liberalization of current account and high interest rates, as well as the certain perspectives of a fast joining process to the European Union, which led to a strong appreciation of the national currency. At the beginning of 2003, the Hungarian currency suffered a strong speculative attack; the National Bank had to interfere on the forex market and the Government started to have concerns regarding export competitiveness in opposition to a nominal appreciation. The National Bank of Hungary had to defend the fluctuation band of exchange rate which meant sacrificing the inflation objective.

In Romania, the present exchange rate regime is that of managed floating and the direct interference of the national bank are rare.



**Figure 2 Real exchange rate against euro**

The Hungarian experience shows that for joining the ERM II the inflation targeting strategy doesn't get along well with a clear objective of the exchange rate. Thus, this strategy will be followed at least until joining the ERM II. Concerning exchange rate evolution until 2006 it can be noticed a trend of a real appreciation with a discouraging effect on speculative capital inflows. At the present moment, the international evolutions determined a depreciation of the national currencies of countries under analysis.

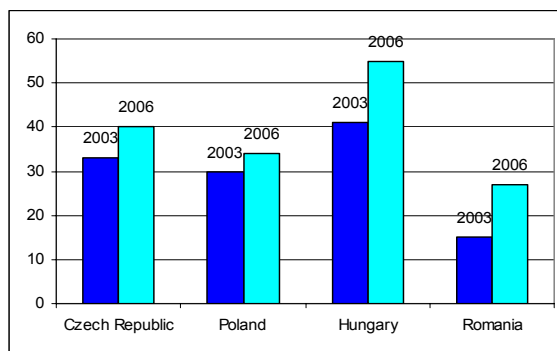
## ***2.5 A Well Developed Financial System***

Financial stability allows monetary policy to track the inflation target without concerns about the health of financial system.

The most important component of the financial market in the four Central and Eastern European countries is the banking sector. The capital market plays a relatively insignificant role in financing companies. The banking sector suffered a comprehensive

transformation both through modernizing surveillance and prudential regulations and privatization and bank consolidation. The dominant share of foreign capital, especially from the European Union was an important support to improve the banking system.

The degree of financial intermediation increased although it had a low level compared to that of euro area. The share of non-performing loans in total loans decreased in all four countries, although in Poland it still has a high level. The adequacy rate of capital and bank prudence indicators maintained themselves at comfortable levels and in 2006 met an improvement.



**Figure 3 Financial intermediation (non-government credit/GDP)**

	Non-performing loans/total loans		Adequacy rate of capital		ROE		ROA	
	2002	2006	2002	2006	2002	2006	2002	2006
Czech Rep.	8.1	4.1	14.2	11.4	27.4	19.4	1.2	1.2
Hungary	2.9	2.5	13.0	11.3	19.8	29.0	1.4	1.9
Poland	21.1	9.4	13.8	14.0	5.5	22.2	0.5	2.1
Romania	1.1	2.8	25.0	18.1	18.3	10.2	2.6	1.3

**Table 2 Prudential indicators %**

In the four countries there is a trend of increasing loans. Fast expansion of loans has been financed by capital inflows, by the appreciation of currencies on long-term, the existence of interest rate differential, the successful implementation of macroeconomic policies, the increase in wages level and narrowing spread between active and passive interest rates.

## **2.6 Transparency and Accountability**

The transparency of monetary policy is very important for a central bank with a clear anti-inflationary orientation.

All of the four central banks publish Reports on Inflation every trimester as the main instrument of communication of central banks with the public. Other elements of communication strategy are annual reports concerning monetary policy and press releases. In the case of National Bank of Poland, an important deficiency of public information policy is the fact that the report on inflation doesn't include a quantitative inflation forecast, but only appreciations concerning the probability of meeting the target.

Another insufficiency of all banks is the absence of provisions concerning the sanctions which must be applied in the case of missing the target.

Besides the institutional requirements, adopting an inflation targeting regime means solving some technical issues.

## ***2.7 Choosing an Adequate Price Index***

The four central banks establish the inflation objective according to consumer price index (December/December). In analytic purpose, the banks also calculate core inflation by different procedures (trimmed mean, Edgeworth index, exclusion method).

## ***2.8 Fluctuation Band and Target Horizon***

Czech Republic began in 1998 with a band width of 0.5% towards a target of 6%, and in 2000 the fluctuation band was increased to  $\pm 1\%$  towards a target of 4.5% for medium term.

National Bank of Poland defined its target inflation objectives as a band; at the beginning it was 0.5% width and at the present moment it is 1%. The inflation target is fixed for medium term.

National Bank of Hungary presents its inflation objective as certain number with a fluctuation band for the next two years.

Concerning Romania, inflation target is fixed as a number inside a fluctuation band ( $\pm 1\%$ ) for the next two years.

Country	Inflation Target	Inflation Rate	Deviation from the target
Czech Republic	3.0 ( $\pm 1\%$ )	5.4	+1.4
Poland	2.5 ( $\pm 1\%$ )	4.0	+0.5
Hungary	3.0	7.4	+1.6
Romania	4.0 ( $\pm 1\%$ )	6.6	+1.6

**Table 4 Inflation Rate (December 2007) %**



## ***2.9 Defining Exception***

Only National Banks of Czech Republic and Romania define exceptions, and in case they happen, central banks are authorized not to react immediately due to economic and social costs.

National Banks of Poland and Hungary include in the Reports on inflation detailed analyses concerning inflationary process and separate the influence on long-term of monetary from non-monetary factors.

## ***2.10 The Capacity of Forecasting Inflation***

The capacity of central banks to forecast inflation in the four analyzed countries improved qualitatively, but there are some inconsistencies. Over the following period of time in all four countries it is forecasted a deviation of inflation rate from the target.

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## **Appendix**

### **List of Acronyms**

ERM II	Exchange Rate Mechanism II
GDP	Gross Domestic Product

# Design of Waste Biomass Supply Chains for Energy Production

*Agorasti Toka<sup>1</sup>, Eleftherios Iakovou<sup>2</sup>, Dimitrios Vlachos<sup>3</sup>*

*Aristotle University of Thessaloniki, Dept. of Mechanical Engineering, Industrial Management Division, Laboratory of Quantitative Analysis, Logistics and Supply Chain Management, University Campus, 54124 Thessaloniki, P.O. Box 461, Greece, {atoka<sup>1</sup>, eiakovou<sup>2</sup>, vlachos<sup>3</sup>}@auth.gr*

**The use of renewable energy sources for replacing fossil fuels emerges as a major intervention in addressing climate change, and thus biomass utilization appears as a viable alternative for energy production. With the rising demand for biomass, the complexity of the involved supply systems is growing, with logistics having arised as a critical system parameter. This research aims in its initial stage to provide a decision-making framework that could be used as a tool for the design of sustainable waste biomass supply chain networks. To achieve the above purpose, at first, we start with a brief presentation of waste biomass supply chains. Following that, we discuss the natural hierarchy of the decision-making process for the sustainable management of such supply networks, along with the relevant literature review. A generalized biomass supply chain optimization model is also presented for the strategic allocation of its nodes and the related flows. Finally, conclusions are provided and some areas for future research are suggested.**

## **Keywords**

biomass logistics, biomass supply chain management, energy production, optimization model, waste.

## **1. Introduction**

The continuous growth of global energy consumption raises an important problem as the larger portion of mineral oil reserves resides within a small number of countries, thus forming a fragile energy supply that is expected to reach its limit within the foreseeable future. Additionally, the usage of fossil fuels causes numerous environmental problems, such as atmospheric pollution, acidification and the emission of greenhouse gases [1, 2]. The development of cleaner and renewable energy sources appears as a meaningful intervention for addressing these problems. More specifically, biomass (including vegetation and trees, energy crops, as well as biosolids, animal, forestry and agricultural residues, the organic fraction of municipal wastes and certain types of industrial wastes) emerges as an interesting option, mainly due to its potential worldwide availability, its conversion efficiency and its ability to be produced and

consumed on a CO<sub>2</sub>-neutral basis. Biomass is a versatile energy source, generating not only electricity but also heat, while it can be further used to produce biofuels.

The requirements with respect to biomass supply in terms of quality and quantity can differ considerably, depending on the energy production technology, the size of the conversion plant, the end use of the power generated and, at the same time, on the cost-efficiency and feasibility of the logistics operations. Biomass supply chain management bears the challenge to develop solutions adapted to local and inter-regional conditions and constraints, such as the existing infrastructure, geographical allocation of collection areas or competition among several consumers for the available biomass.

In this paper, we propose a new methodological framework that could be used for the design and evaluation of sustainable waste biomass supply chains, taking into account the collection, storage, and transport operations for supplying energy production units. Specifically, in Section 2, the potential contribution of biomass in the future global energy supply is discussed, as well as generic system components are presented. The natural hierarchy of the decision-making process for the design and operation of sustainable, competitive and reliable biomass supply networks is analyzed in Section 3, and a taxonomy of the relevant literature review is provided. In the following Section 4, we present a generalized biomass supply chain optimization model for the strategic allocation of its nodes and the related flows. Finally, we sum up with conclusions and suggest some areas for future research.

## **2. Waste Biomass Supply Chains**

### ***2.1 Potential of Waste Biomass for Energy Production***

In order to understand the future role of energy from waste biomass on a global level, it is important to investigate the drivers for its utilization against competitive options for substrate resources, such as energy crops for energy production.

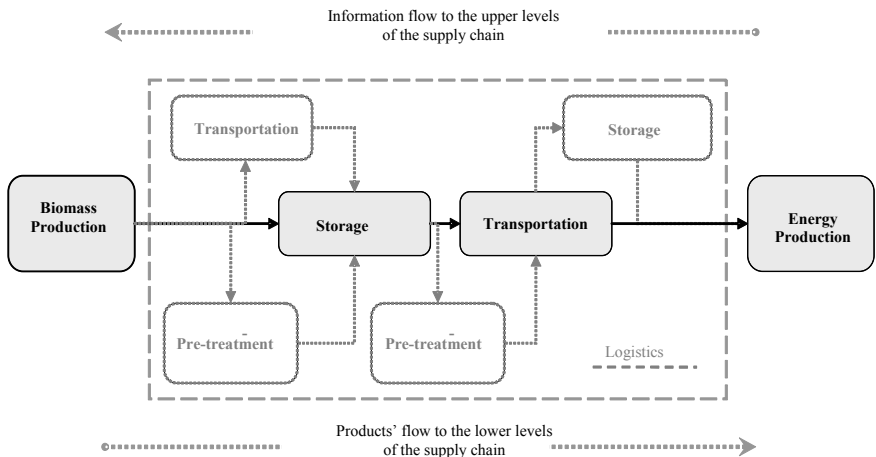
Despite the attention that production of biofuels from energy crops has attracted, a number of issues have emerged recently that question the feasibility of this practice. According to a report published by OECD and the United Nations' Food and Agriculture Organization, increasing demand for biofuels is causing fundamental changes to agricultural markets that drive up world prices for many farm products [3]. On the other side, second-generation biofuels obtained by waste biomass are not plagued by the same negative attributes, while at the same time they could support effectively waste management policies.

Taking all the above into consideration, maximizing value of waste biomass and organic substrates for energy production emerges as an ever increasing priority. Many past and recent research efforts document the (both existing and potential) contribution of biomass in the future global energy supply. Theoretically, the total bio-energy contribution (combined in descending order of theoretical potential by agricultural, forest, animal residues and organic wastes) could be as high as 1100 EJ, exceeding the current global energy use of 410 EJ [4]. Berndes et al. [5] discuss the contribution of biomass in the future global energy supply based on a review of 17 earlier studies on

the subject, including residue generation and recoverability. Finally, addressing the issue at a European level, only a handful of papers focus on biomass availability [6, 7, 8].

## 2.2 Generic System Description

For structuring biomass supply chain networks for energy production four general system components (basic operations) are identified: biomass collection (from single or several locations), pre-treatment (in one or more stages), storage (in one or more intermediate locations), transport (using a single or multiple echelons) and energy conversion (Figure 1). For each operation there are various parameters that influence its performance; moreover, an individual cost and energy analysis can be conducted for every single operation [9].



**Figure 1 Graphical Representation of a Biomass Supply Chain.**

However, due to interdependencies between supply chain levels, there is a limited degree of freedom in choosing feasible alternatives as certain combinations of technologies and means are unrealistic because of obvious disadvantages (e.g. pelletizing of already transported biofuels is not advisable as the advantages of a higher energy density are only to be gained during transport). Thus, it is important to obtain insights about the effects of all these variables on total cost and energy consumption of logistic chains; this would allow the identification of “optimal” configurations for bio-energy supply systems, as well as the identification of improvement options (“what-if” analysis).

### **3. Hierarchy of the Decision – Making Process**

Biomass usage for bio-energy production is a rapidly evolving research field as indicated by the plethora of scientific journal and conference proceedings papers. The vast majority of the relevant studies examine the system from a purely technological (pre-treatment and conversion technologies') or ecological (CO<sub>2</sub> emissions') point of view, whereas only a part of the reviewed literature body was found to address the relevant and highly critical supply chain management issues.

Assessing waste biomass supply chains for bio-energy production involves a complex hierarchy of decision-making processes under uncertainty. For the optimal design, planning and coordination of these supply chain networks, decisions have to be made according to the natural hierarchy of the decision-making process, namely: strategic, tactical and operational. A major percentage of cost in biomass energy generation originates from the logistics operations. It is therefore natural that many attempts have been made to date to simulate and optimize a specific biomass supply chain on the understanding that significant cost reductions could originate from more efficient logistics operations.

#### ***3.1 Strategic Decision-Making***

Decisions at the strategic level include indicatively: Biomass supply and demand management, selection of collection sites and conversion facilities, choice of suitable energy conversion processes, design of the supply chain network, selection of collection, pretreatment and storage equipment, conversion facilities' equipment, as well as sustainability of biomass supply networks. At this level, most decisions affect operations and impose a set of constraints to the lower decision-making levels.

An essential step in proceeding with the often large investment necessary for developing biomass conversion facilities is ensuring the uninterrupted supply of adequate biomass, as well as the critical mass of demand over the strategic horizon. To that end, contractual agreements that will guarantee long-term supply and demand, while spreading "equitably" total profit among the supply chain partners from agriculture and forestry to energy consumers can be of great value. Van Dam et al. [10] discuss policies for securing renewable resource supplies for changing market demands in a bio-based economy. Jungiger et. al. [11] examine the opportunities and barriers in the context of securing sustainable bio-energy trade, while a resource based analysis is carried out by Koopmans [12] to determine the sustainability of biomass energy demand and supply in 16 Asian countries.

The rather dispersed geographical distribution of significant biomass potential has raised the interest of researchers in also using Geographical Information Systems (GIS) for the evaluation of the biomass supply and characteristics, the estimation of the transportation cost to existing power plants, as well as the selection of collection sites. For example, Voivontas et al. [13] propose a GIS-based decision support tool to identify the geographic distribution of the economically exploited waste biomass potential, Noon et al. [14] estimate the costs for supplying wood fuel to any one of its 12 coal-fired power plants, and Singh et al. [15] make an attempt to evaluate the spatial

potential of biomass and a mathematical model for collection of biomass in an Indian state. Certain studies assess the manure potential for energy production [16, 17, 18].

Regarding specifically siting of cogeneration plants, researchers also tend to use a GIS-based decision support system. Panichelli and Gnansounou [19] present a methodology that tackles the resources competition of various energy facilities through a location-allocation model based on least-cost biomass quantities. Graham et al. [20] examine the effect of location and facility demand on the marginal cost of delivered wood chips from energy crops. Shi et al. [21] evaluate the feasibility of setting up new biomass power plants and optimizing the locations of plants in Guangdong (China) and Zhan et al. [22] investigates the economic feasibility of locating a switchgrass-to-ethanol conversion facility in Alabama. Another tool is developed by Papadopoulos and Katsigiannis [23], by considering economic criteria for assessing the sustainability of the installation. Tembo et al. [24] use an integrated mixed integer-programming model to determine amongst other variables the most economical source of biomass and the optimal biorefinery location that maximizes net present profit of a biomass-to-ethanol system. Finally, a methodology for the optimization of the installation of new biomass energy systems on a regional level is presented by Dornburg and Faaji [25], determining kind, scale and location of installations dependent on site specific conditions.

The design of biomass supply networks is comprised of critical decisions that affect the biomass flow and the associated costs, such as: the determination of supply chain echelons, the location of supply-chain nodes and the potential outsourcing to third party logistics companies, while taking into account key parameters such as the capacity limit of nodes or the optimal capacity of the conversion plant. Few of these decisions have been tackled by few researchers. Specifically, McCormick and Kåberger [26] propose strategies including policy measures to alter the economics of bio-energy, pilot projects to stimulate the learning processes and guidance for network building and supply-chain coordination. An analytical framework for deriving the supply of biomass feedstock that involves the determination of the optimal power plant size and the derivation of supply curves, is also presented by Gan [27]. Gronalt and Rauch [28] describe a novel approach to configure a wood biomass supply network for a certain region, providing their evaluation method for designing regional forest fuel supply networks. Tatsiopoulou and Tolis [29] present a comparison for cotton-stacks supply chain methods and report certain approaches on definition of the optimum electricity production and of the optimum number and capacities of installed combined heat and power (CHP) units. Jenkins [30] discusses the optimal sizing of a biomass utilization facility, as also do Nguyen and Prince [31]. The power cost and optimum plant size for power plants using three biomass fuels in western Canada are determined by Kumar et al. [32], including agricultural residues and taking into consideration costs of loading and unloading. Bakos et al. [33] develop an 'energy-planning' model that determines the number of biomass-fuelled power installed in a given area based on available biomass from agricultural residues in the island of Crete. Celma et al. [34] study the waste-to-energy possibilities of the industrial olive and wine-grape by-products in Extremadura, whereby specific costs are analyzed assuming the products' use in a centralized power plant, while taking into account logistics components.

Selection, procurement or design of collection, storage, pre-treatment or transportation methods, also constitute long-term decisions that the research community has studied

for specific biomass raw materials, such as switchgrass [35], forest fuel [36], cotton plant residues [37], herbaceous biomass in general [38], logging residue [39] and corn stover [40]. Moreover, Huisman et al. [41] provide a generalized comparison of bale storage systems for biomass, whereas Rentizelas et al. [42] review research relevant to biomass storage and analyze the three most frequently used biomass storage methods, while applying the latter to a case study and presenting tangible comparative results.

Another critical decision that has not been studied this far is the most effective timing of the material's pre-treatment, namely whether it will take place before or after its transportation (e.g. production of wood chips, pellets and other compressed forms to facilitate the transportation and storage of biomass).

A number of researchers attempt to tackle the biomass supply systems' configuration employing interactive computerized systems, aimed as decision support systems (DSS). Ramachandra et al. [43] propose a DSS for regional biomass assessment considering the resources available and deterministic demand. A DSS for optimizing forest biomass exploitation for energy production is developed by Freppaz et al. [44]. Ayoub et al. [45] also study a system that handles all bioenergy production stakeholders' objectives at both national and regional decision levels and involves different possible types of biomass with effective potential for energy production, and Mitchell [46] reviews a large number of decision support models and systems.

Finally, sustainability of logistics operations is a critical issue that has to be taken into account when designing and executing biomass supply chain networks for energy production. Thus, a comprehensive cost-benefit analysis that includes the environmental impact of the adopted technologies and transportation means is necessary. To that end, Forsberg [47] presents a biomass distribution system investigating the resulting environmental load profiles of several bioenergy chains. Eghali et al. [48] develop a sustainability framework for the assessment of bioenergy systems. Several other studies address the critical issue of designing and evaluating sustainable supply chains, in which profitability and environmental impacts are balanced, such as [49].

### ***3.2 Tactical and Operational Decision-Making***

Decision-making on the tactical and operational level is similar to that of traditional supply chain management. This is the reason why the associated decisions are presented in a relative brief manner. The tactical level includes medium-term decisions such as aggregate planning, supply chain coordination, inventory management or fleet management. The operational level includes day-to-day decisions, such as inventory control, or second-stage pre-treatment operations into the facility. It is worthwhile pointing out that for few decisions the classification can become fuzzy, as these could be classified either as tactical or as operational.

Computational stochastic simulation models are presented for exploiting forest-biomass [50], cotton residue [51] and herbal biomass [52]. De Mol et al. [53] develop a simulation - optimization model to calculate energy consumption and cost to transport biomass from its source to its conversion plant. Cundiff et al. [54] design a biomass delivery system that considers systems-related issues associated with the harvest,

storage, and transport of herbaceous biomass from on-farm storage locations to a centrally located plant. A dynamic simulation model for baling and transporting wheat straw by Nilsson analyses a hypothetical straw-to-energy system for district heating plants in Sweden [55, 56]. Dornburg and Faaij [25] study a mathematical model which analyses and processes past data of biomass distribution cases using linear or exponential regression models in order to solve a similar biomass distribution problem. Hansen et al. [57] develop a simulation model of sugar cane harvest and mill delivery in South Africa, whereas Tatsiopoulos and Tolis [29] simulate a cotton biomass supply chain to find biomass delivery schedule. Moreover, Sokhansanj et al. [58] develop a framework of a dynamic integrated biomass supply analysis and logistics model to simulate the collection, storage, and transport operations for supplying agricultural biomass to a biorefinery, and Kumar et al. [59] use this model to evaluate switchgrass delivery system. Ravula et al. [60] simulate the transportation system of a cotton gin, using a discrete event simulation model, while they provide a comparison between two policy strategies for scheduling trucks in a biomass logistics system [61].

Regarding inventory management and control, only a few research papers attempt to tackle this field [24, 50], whereas the supply-chain coordination issue has also been scarcely addressed, as e.g. by McCormick and Kåberger [26]. The key variables of biomass logistics systems are also addressed in literature, investigating strategically the interdependencies between them and their effect on supply chain efficiency and cost [9, 62]. Furthermore, Allen et al. [63] address the supply-chain considerations and costs of using biomass fuel on a large scale for electricity generation at power stations, recognizing the importance of logistics planning and management facets.

### 3. A Strategic Supply Chain Optimization Problem

The strategic nature of the problem should be the first research priority for the design of biomass supply chains since our knowledge on this field is weak; to that end, in this section we present a framework for the development of a generic strategic mixed integer linear programming model, so as to support the decision-making regarding the optimal location of the chain's nodes and the related flows.

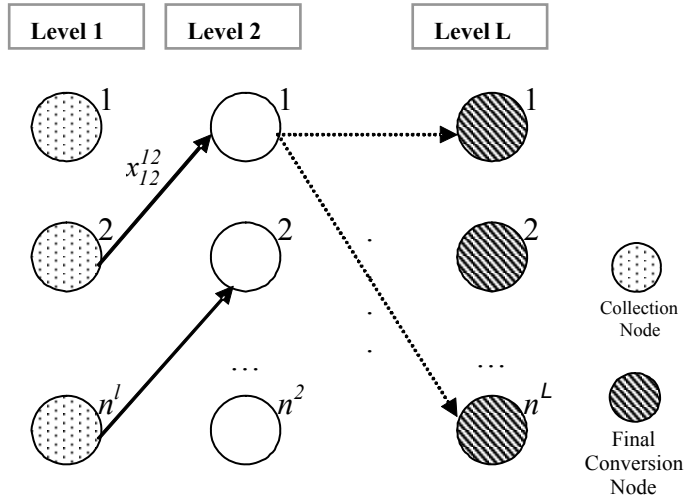
Suppose that a supply chain comprises of  $k$  levels, with  $k=1, \dots, L$ , and  $L$  being the chain's last level and that each level  $k$  comprises of  $i$  nodes, where  $i=1, \dots, n_k$  for each level  $k$  (Figure 2).

It is underlined, that the supply chain refers to a specific biomass type and that the product can be transported from each level's node to any other level's node, with the following restrictions: (a) Transportation is not allowed among nodes at the same level, and (b) the product can be transported from a level's node to any following – and not precedent – level's node.

Initially, we provide the cost minimization objective function of the problem:

$$\sum_{k=1}^L \sum_{i=1}^{n^k} C_i^k y_i^k + \sum_{m=1}^{L-1} \sum_{k=m+1}^L \sum_{j=1}^{n^m} \sum_{i=1}^{n^k} C_{ij}^{mk} x_{ij}^{mk} + \sum_{k=2}^L \sum_{i=1}^{n^1} \sum_{j=1}^{n^k} C_{ij}^{1k} x_{ij}^{1k} \tag{1}$$





**Figure 2 Biomass Supply Chain of the Generalized Model**

The decision variables of the problem are defined as follows:

$y_i^k$  : dual variable that takes value 1 when node  $i$  is created in level  $k$  and value 0 when node  $i$  is not created in level  $k$

$x_{ij}^{mk}$  : biomass product units that are transferred from node  $i$  of level  $m$  to node  $j$  of level  $k$

The problem's parameters are defined as follows:

$C_i^k$  : fixed cost of creating node  $i$  at level  $k$  (€)

$C_{ij}^{mk}$  : transportation cost from node  $i$  of level  $m$  to node  $j$  of level  $k$  per biomass unit (€/biomass unit)

$C_i$  : supply cost from node  $i$  of the 1<sup>st</sup> level per biomass unit (€/biomass unit)

$Z_j$  : demand of node  $j$  of the last ( $L$ ) level (units of biomass)

$K_j^k$ : capacity of node  $j$  of level  $k$  (units of biomass)

The constraints of the mathematical model are:

Constraint of Demand

$$\sum_{m=1}^{L-1} \sum_{j=1}^{n^L} \sum_{i=1}^{n^m} x_{ij}^{mL} = \sum_{j=1}^{n^L} Z_j, \quad "j=1, \dots, n^L \quad (2)$$

Capacity Constraints

$$\sum_{m=1}^{k-1} \sum_{i=1}^{n^m} x_{ij}^{mk} \leq K_j^k y_j^k, \quad "j=1, \dots, n^k, "k=1, \dots, L \quad (3)$$

Flow Constraints

$$\sum_{m=1}^{k-1} \sum_{i=1}^{n^m} x_{ij}^{mk} = \sum_{n=k+1}^L \sum_{i=1}^{n^m} x_{ji}^{km}, \quad "j=1, \dots, n^k, "k=2, \dots, L-1 \quad (4)$$

Logical Constraints

$$x_{ij}^{mk} \geq 0 \text{ και } y_i^k \in \{0, 1\} \quad (5, 6)$$

The above mathematical model consists of

$$\sum_{k=1}^{L-1} \sum_{m=k+1}^L n^k n^m \text{ primal variables and}$$

$$\sum_{k=1}^L n^k \text{ dual variables.}$$

Respectively, the number of the constraints is

$$\sum_{k=1}^L n^k + \sum_{k=2}^{L-1} n^k + \sum_{k=1}^{L-1} \sum_{m=k+1}^L n^k n^m + 1$$

For example, the mathematical model of a supply chain's optimization problem for a particular problem realization that is comprised of: 30 collection points, 4 pre-treatment stations, 2 storage nodes και 1 final destination point, the LP has 224 primal variables, 37 dual variables and 268 constraints and can be solved easily using any available optimization software package.

## 4. Conclusions

Our analysis has demonstrated that current research focuses on specific, case-dependent biomass supply chain systems without providing more generalized methodological approaches. More specifically, most research papers focus on the technological aspects of biomass utilization and the problems of the selection of collection sites and conversion facilities, while the existing efforts related to the design of supply-chain networks are few and focused mostly on optimal plant capacity, employing small-scale simulation models.

Decisions at one level of the hierarchical decision-making process are clearly myopic if are made without taking into account their impact on the other levels of the hierarchy. Thus, there is clearly value in evaluating different scenarios that could strive for system optimization rather than seeking myopically the optimality at each level of the hierarchy. Logistics and supply chain management have emerged as disciplines of critical importance for the energetic utilization of waste biomass and organic substrates.

It is envisioned that the provided decision-making modeling framework, along with the generic strategic mixed integer linear programming model that we presented, will offer in their initial stage new directions for the design and execution of efficient biomass supply chain networks for energy production. Our future steps include extension of the provided model, as long as investigation of relevant tactical and operational issues.

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# Design of Reverse Flows for Construction and Demolition Waste

*Dimitrios Aidonis, Eleftherios Iakovou, Dimitrios Vlachos*

*Aristotle University of Thessaloniki, Dept. of Mechanical Engineering, Industrial Management Division, Laboratory of Quantitative Analysis, Logistics and Supply Chain Management, University Campus, 54124 Thessaloniki, P.O. Box 461, Greece.*

The construction industry is probably one of most significant economic sectors on a global scale, taking into account its economic, technological, and environmental impact. The rapid growth of the construction industry worldwide has resulted to an enormous increase of the produced construction and demolition (C&D) waste. C&D waste often contains bulky, heavy materials such as concrete, bricks, gypsum, metals, glass, plastics, etc. The main objective of this study is to provide a decision support system for the design of reverse logistics networks for C&D waste, taking into account both economical and environmental criteria. Specifically, we first analyze the current situation in the field of construction and demolition waste management. Then, we present an analytical linear programming model for the design of reverse logistics networks of C&D waste. Finally, conclusions and future research plans are provided.

## **Keywords**

construction and demolition waste management, reverse logistics.

## **1. Introduction**

In the European Union (EU-25), there are about 2.3 million construction companies, contributing 9.8% to the overall EU's GDP and employing around 12 million people, which account for 7.1% of the total European workforce [1]. The rapid growth of the construction industry worldwide has resulted to an enormous increase of the produced construction and demolition (C&D) waste. C&D waste often contains bulky, heavy materials such as concrete, bricks, gypsum, metals, glass, plastics, etc. C&D waste constitutes a significant portion of all wastes within the EU-25, since its total amount generated is estimated to be roughly 180 million tones per year (excluding earth and excavated road material) [1]. Despite its evident significance, in many countries there is a clear lack of accurate information regarding C&D waste as it is not studied separately from the rest of the municipal solid waste streams.

Up to recently, the most common practice in the field of construction and demolition waste management was to discard all waste materials and debris to sanitary landfills, or

even worse to uncontrolled open dumps. Such practices cannot be considered in any case as proper practices for end-of-life building materials. According to the European Commission, within the EU-25, roughly 75% of the C&D waste is land-filled, while only 25% is recycled [1]. However, the technical and economic feasibility of recycling C&D waste has been proven viable, thus enabling certain Member States to achieve impressive recycling rates of more than 80%. Taking into consideration the fact that C&D waste is mainly comprised of materials which could be reused or recycled, it is obvious that this land-filling practice has caused severe environmental burden. Moreover, the lack of a proper C&D waste management policy, in many cases has resulted to the contamination of landfills. Hazardous waste, such as asbestos and heavy metals, are not always separated from the rest of C&D waste. On the other side, reducing and recycling C&D debris conserves landfill space, reduces the environmental impact of producing new materials, creates jobs, as well as reduces the overall building project's expenses by reducing procurement and disposal costs.

In this context, it is evident that modern trends and techniques in C&D waste management have to be developed and adopted focusing on the optimization of the management of end-of-life building materials and on the simultaneous promotion of materials' reuse and recycling.

Attempting to address that gap in the field of C&D waste management, a research team has been formed in the framework of the research project titled "Information System for Demolition Waste Management" (DEWAM), which is funded by the General Secretariat for Research and Technology of the Hellenic Ministry of Development. The Laboratory of Heat Transfer and Environmental Engineering and the Laboratory of Quantitative Analysis, Logistics and Supply Chain Management, from Mechanical Engineering Department of Aristotle University of Thessaloniki, are participating in the development of this information system, in partnership with companies involved in this field. The project aims to investigate the need for rational changes in the field of C&D waste management in Greece through the development of an information system. The ultimate objective of the DEWAM project is to minimize C&D waste that is discarded to landfills without any prior processing, as well as to increase their recycling and reuse rates. One of the basic goals of DEWAM is the optimization of reverse logistics networks for end-of-life building materials.

In the framework of this project, an information web portal will be created, allowing access to all interested users, which will provide information on recyclable and reusable building materials. In addition, the portal will provide guidelines for the optimization of the process of demolition and separation of materials through the application of selective deconstruction.

Finally, a pilot C&D waste management project will be applied to the Region of Central Macedonia (DeconRCM). The objective of this application is to provide advice to users with respect to appropriate techniques regarding construction and demolition waste management. In essence, the application consists of a GIS map of the Region of Central Macedonia, where all possible C&D waste destinations (certified recipients) will be depicted, according to their waste category.

Users will also be able to submit data regarding a building where renovation or demolition work is scheduled to take place (i.e. building type and location, construction year and type, surface area, number of floors, etc.) and the application will provide



guidelines regarding the most appropriate and cost-effective way to manage C&D waste.

The objective of this research work is to present a quantitative decision-making methodological framework (employing an analytical linear programming model), which will optimize reverse flows for construction and demolition waste by taking into consideration economic and environmental factors. Section 2 & 3, in particular, provide an illustration of the current situation in the field of C&D waste management, while they also provide a preliminary investigation of the reverse flows of building materials at the end of their useful lifetime and an examination of the supply chain's main components. This is followed (in Section 4) by the development of a mathematical model aimed at the design and development of a reverse supply chain for building materials at the end of their useful lifetime. Finally, the paper's most fundamental and useful conclusions are derived and research directions for the future are provided (Section 5).

## **2. Current Situation in the Field of C&D Waste Management**

Due to the environmental problem raised by the current management of C&D waste stream, EU has adopted a number of Directives aimed at harmonising waste disposal policies while guaranteeing environmental protection. The EU regulation of C&D waste falls under the broader category of waste and is integrated into the broader targets set by legislation in this area of concern. EU Member States were obligated to adopt the original waste Directive 75/442/EEC and all further amendments to this law. In September 2005, the European Commission proposed an overhaul of the 1975 Directive, mostly in order to lay down rules on recycling and to require Member States to draw up binding national Programmes for cutting waste production. Lately, Directive 2006/12/EC consolidated and replaced Directive 75/442/EEC on waste. In 2000, EU with Commission Decision 2000/532/EC introduced the European Waste Catalogue, which came into force on 1 January 2002. Until now, the Catalogue has been amended with Commission Decision 2001/118/EC, Commission Decision 2001/119/EC and Council Decision 2001/573/EC.

In Greece, very recently (7.5.2007), a draft version of the Presidential Decree for the alternative management of C&D waste has been signed and published [2]. In short, the Decree sets the approval criteria for C&D waste management plans, organises the collection, transportation, re-use and recycling of C&D waste and defines the obligations and responsibilities of C&D waste management companies. In addition, the Decree fulfils the quantitative targets for the recovery and recycle of C&D waste in Greece, as follows:

- Until 1.1.2010, at least 30% per weight of the C&D waste generated is re-used, from which at least 50% is recycled.
- Until 1.1.2015, at least 60% per weight of the C&D waste generated is re-used, from which at least 50% is recycled.

Although in many countries all over the world C&D waste has been identified as a "priority waste stream" which resulted to a number of regulations that have been

adopted relating to the management, transport, treatment and disposal of this particular type of waste, there are still many countries that have fell behind in the field and C&D waste management has unfortunately not been covered by certain regulations.

### 3. C&D Waste Management

The primary goal of the proper C&D waste management is to divert the maximum amount of building materials from the waste stream. High priority is placed on the direct reuse of materials, either in new or existing structures. Immediate reuse allows the materials to retain their current economic value. Materials that are suitable for immediate reuse can be recycled, downcycled (reuse at a lower level) or upcycled (creation of value added products and provision of quality materials to new businesses and manufacturers) [3].

The waste management hierarchy, suggests that the most effective environmental solution is the reduction of the waste generation. This is the most effective solution, in economic and environmental terms, as it leads to a reduction in the overall cost of managing building materials, reducing pollution, saving energy and water and, at the same time, reducing the waste that is discarded to landfill sites or illegal waste dumps.

For the cases that additional reduction is not feasible, then it is recommended that recovered materials should be re-introduced into the market through their reuse or recycling processes. Efforts should be focused on the immediate reuse of materials, which can be achieved through the method of deconstruction.

Demolition and renovation projects present numerous opportunities for recycling. The most sustainable form of recycling converts waste into new products, such as scrap to new steel or asphalt into new paving. Finding alternative uses for waste is another form of recycling. Only in the few cases that none of the aforementioned solutions are appropriate should waste be disposed of in sanitary landfills [4]

The current practices for the C&D waste management are described below.

*Deconstruction:* In brief, deconstruction is the disassembly and recovery of a building in the reverse order of its construction. By using this method, specific materials and components are removed prior to commencement of the demolition of the building's main shell. The removal of such materials is recommended if they are economically valuable or historically significant, if they may be reused immediately without additional processing or if their presence pollutes or decreases the quality of the waste flow (i.e. the presence of hazardous or inorganic components in a flow of inert waste). The method of deconstruction attempts to maximise the recovery of materials that can be retrieved within a specific and rational timeframe at the lowest possible cost. It should be noted that the produced waste may be processed on-site or off-site, at fixed processing plants far from the worksite. The application of this specific method leads to an extension of the materials' life cycle and consequently to a decrease in the need for new resources [5]. It has also been established that in a number of occasions, the environmentally friendly method of selective deconstruction may, under certain circumstances, entail lower costs in comparison to other demolition methods [6], [7].

*Demolition:* The demolition industry has undergone a major transformation within the last 20 years. Traditionally, it has been a low-skill, low-technology, and poorly regulated industry, dealing mainly with the disassembly of simply constructed buildings. During the last few years, following the trend of all major industry sectors, it has been automated, replacing workers with machines. Recently, the demolition industry employs fewer but more highly skilled operators, as well as very expensive highly dedicated equipment. In brief, there is a wide variety of demolition techniques, both regarding their practices, as well as their technology, application, cost and speed. Traditional methods, such as the steel ball, are being rapidly replaced by more modern methods, as the emphasis migrates from masonry and brickwork to concrete and steel structures. During demolition the building facilities are demolished and the produced C&D waste is collected together in containers, without prior on-site selection of the materials. Then, the waste is transported to recycling plants for selection and special processing. More rarely, a preliminary manual selection of waste is carried out on-site, following demolition of the building [8].

*Landfilling:* The current practice of C&D waste management is the disposal of materials to landfills or in uncontrolled dumps. Landfill sites should not be confused with sites of uncontrolled waste disposal, which are sources of environmental pollution. In many EU member countries, illegal waste dumps are widespread and difficult to control, in spite of the measures that are being implemented in order to decrease their numbers [9]. This is due to the fact that this practice is the most cost-effective related to the other C&D waste management policies.

The appropriate utilization of building materials at the end of their useful lifetime through recycling or their reuse represents a rapidly developing research field, as proven by the large number of publications in recent years. However, only a small section of this literature underlines and analyses the importance of the reverse flows for construction and demolition waste. On the contrary, the majority examines the reuse capabilities of these materials by focusing on the environmental benefits.

Due to the large flow of building debris, it is especially crucial that reverse supply chains for these specific materials are designed and operated by focusing on both economic and environmental factors. It is a fact that the development of reverse supply chains for building materials can result in environmentally friendly results, while also providing solutions that are economically feasible [8], [10].

A fundamental component of the specific supply chain is the production, selection and separation of deconstruction materials, which may be implemented through the method of deconstruction or demolition. The method of deconstruction involves particularly high labour costs, since building waste is selected at source, while this method also entails economic benefits arising from the direct reuse and recycling of the materials [11]. The reverse supply chain for building waste consists of other important components, such as the temporary storage of these materials in containers situated at the selection source, their transportation and disposal at appropriate certified recipients for the reuse, recycling or final disposal of these materials.

## 4. An Analytical Model for the Reverse Flows Optimization for C&D Waste Management

In this section we present an analytical model for the reverse flows optimization for C&D waste taking into account both economical and environmental criteria. The problem examines the cost minimization of all the fundamental components of the supply chain of C&D materials, including the production, selection, separation, transportation and disposal to certified recipients costs.

The decision variables of the problem are defined as follows:

- $x_{ij}$  : C&D waste material  $i \in \{1, \dots, n\}$  that is stored in container type  $j \in \{1, \dots, l\}$ .
- $z_{ijk}$  : C&D waste material  $i \in \{1, \dots, n\}$  that is stored in container type  $j \in \{1, \dots, l\}$  and ends up to certified recipient  $k \in \{1, \dots, m\}$ .
- $y_{jk}$  : Sum of C&D waste materials in container type  $j \in \{1, \dots, l\}$  that ends up to certified recipient  $k \in \{1, \dots, m\}$ .

The problem's parameters are defined as follows:

- $q_i$  : C&D waste material  $i$
- $c_{ij}$  : Overall deconstruction and selection costs for C&D waste material  $i$  that is stored in container type  $j$
- $C_{jk}$  : Overall transportation and disposal costs for C&D waste materials that are stored in container type  $j$  and end up to certified recipient  $k$ .

Thus, the optimization problem is defined as:

$$\min \sum_{i=1}^n \sum_{j=1}^l c_{ij} x_{ij} + \sum_{j=1}^l \sum_{k=1}^m C_{jk} y_{jk} \quad (1)$$

The constraints of the mathematical model are the following:

Flow Constraints:

$$\sum_{j=1}^l x_{ij} = q_i, \quad \forall i \quad (2)$$

$$\sum_{i=1}^n x_{ij} = \sum_{i=1}^n \sum_{k=1}^m z_{ijk}, \forall j \quad (3)$$

$$\sum_{i=1}^n z_{ijk} = y_{jk}, \forall j, k \quad (4)$$

«Environmental Friendly» Constraints:

$$\sum_{k=2}^m \sum_{j=1}^l z_{ijk} \geq t_i q_i, \forall i \quad (5)$$

And finally, Trivial Nonnegativity Constraints:

$$x_{ij} \geq 0 \quad (6)$$

$$z_{ijk} \geq 0 \quad (7)$$

$$y_{jk} \geq 0 \quad (8)$$

For example, the mathematical model of a supply chain's optimization problem that involves 20 construction and demolition materials, 5 different containers and 30 certified recipients of these materials, has 3250 decision variables and 9100 constraints and can be solved quite easily using any readily available LP commercial package.

## 5. Conclusions

C&D waste management policies in most developed countries, including European Union countries and the US, have been developed according to specific strategic objectives. The high recycling and reuse levels of these materials are of significant importance in the development of these policies. Thus, it is obvious that in other countries, legislation regarding C&D waste needs to move ahead aggressively and the responsible parties should be decisive by implementing specific policies and measures requiring the reuse of recycled C&D waste.

However, the development and efficient implementation of these policies require the effective design and management of supply chains for building materials at the end of their useful lifetime. A critical part of the supply chain management is the correct choice of method for the deconstruction of buildings. Deconstruction is a new term used to describe an old process. As its primary purpose, it encompasses a thorough and comprehensive methodology to whole building disassembly and seeks to maintain the highest possible value for materials in existing buildings by dismantling them in a manner that will allow the reuse or efficient recycling of the materials that comprise the structure. Salvaging the materials from structures reduces waste, preserves the energy

originally used to create the materials and therefore lessens the need for new materials. Deconstruction is widely considered as a significant step toward sustainability. Finally, future research focused on the development of suitable models for the economic and environmental evaluation of demolition and deconstruction methods appears quite necessary and meaningful.

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# Isomorphic Pressures in Management Education: Greece as an Exemplifier of Mediterranean Capitalism

*Dialehti, Fotopoulou<sup>1</sup>, G.T Wood<sup>3</sup>, Alexandros Psychogios<sup>2</sup>*

<sup>1</sup>*SEERC, 17 Mitropoleos Str, Thessaloniki, 54624, Greece, difotopoulou@seerc.org*

<sup>2</sup>*City College, Business Administration and Economics Department, 17 Mitropoleos Str, Thessaloniki, 54624, Greece, a.psychogios@city.academic.gr*

<sup>3</sup>*The University of Sheffield, Management School, 9 Mappin Street, Sheffield, S1 4DT, UK, g.t.wood@sheffield.ac.uk*

Management studies in Europe and their convergence or divergence with the Anglo-Saxon model is a matter of continuous debate. Some researchers suggest that business schools in Europe are becoming similar and close to the Anglo-Saxon type of education. Since there is a scarce of management education models, the tendency to imitate is becoming more intense. Business schools in Europe develop management education programmes by borrowing elements from the most influencing model of business education: the US type MBA degree. Considerations have been raised on whether these homogenization pressures in management education will alter the distinct identity and image of various educational institutions located in different societies. It is argued that differentiation rather than isomorphism in business school curricula can prove to be more beneficial and provide knowledge more relevant to management practice in different national contexts. Nevertheless, there is a significant part of the literature that suggests that business schools in Europe do differ. They imply that, the way that European Universities influenced by the US model understand and implement ideas, differs considerably. The purpose of this paper is to present the isomorphic drivers and question the possibility of a convergence or divergence in the Greek higher management education.

## **Keywords**

Anglo-Saxon, business schools, Greece, isomorphism, management education, MBAs.

## **1. Introduction**

Management Education and its convergence or divergence with the Anglo-Saxon model is an issue that has raised several discussions. Through a brief literature review, this

paper aims at examining the various homogenizing forces that have been identified in the literature and discuss about the effectiveness of management education in developing management skills in an international setting.

The Anglo-Saxon convergence in management education will be approached by critically examining how business schools in Europe operate. The literature tends to suggest that the process of Anglo-Saxon imitation seems to be intense in European business schools. In this respect, the origins of the Anglo-Saxon influence will be examined through a brief history of management schools in Europe.

The main focus of the paper is to analyze the main homogenizing forces that are linked with business education. For that reason, research findings that reveal similarities in business schools will be analyzed and commented.

What the paper is pointing out is that despite the convergence/divergence debate, it is a fact that US type educational programmes such as the MBA are very popular globally and Greece is not an exception to that trend. However, because of the general nature of such programmes, the relativity of such programmes in the Greek business environment is an issue for further research.

## **2. Anglo-Saxon Convergence**

### ***2.1 Business Schools in Europe and the Process of Imitation***

Despite the existence of heterogeneities and the fact that the interdependence of cultures, structures and practices hinder the comparison between distinct national models of management education, there exists a point of convergence. As Ramirez [1] concludes in his study on European Management Education, Training and Development, all countries examined have a common feature: that formal management education has become “institutionalized” and that its content has some bearing on the content of firm-specific training. A further important conclusion of his study refers to the process of Anglo-Saxonization; it is indicated that despite the absence of a uniform set of practices among countries on management education, training and development, there seems to be a convergence toward Anglo-Saxon ones resulting from the pressures of international competition.

For instance, Kipping *et al* [2] have identified multiple “Americanizations of Management Education” in Mediterranean countries. They examined the interaction of American models of management education with France, Italy, Spain, and Turkey and found that -at least in terms of the content- American models influenced the educational systems of all four countries. Usdiken and Yildirim [3] point out that during the last two decades in Turkey, some “Classical Universities” have moved towards changing their curricula close to the American model of education, and that private Universities promoting the MBA have started to develop. Similar conclusions were made by Gemelli [4] who suggested that business schools in Italy imitate the US educational approaches, and that MBA degrees have gained increasing popularity since the 1980’s.



In general, foreign expertise in education systems is “highly valued” in the Euro-Mediterranean area [5]. Universities in that region aim at establishing worldwide networks in various ways. For instance they promote publications and attendance at conferences in order to strengthen the relationships with similar institutions worldwide. Although Mediterranean countries are not identical regarding the structure and content of university higher education, they all seem to follow the Western-style models [5][6]. More analytically, Mediterranean universities’ trends towards privatization, entrepreneurship and massification reflect the situation in the northern and more economically developed economies [6].

Imitation seems to be stronger in countries that are not highly developed economically. In Kipping *et al*’s [2] study, the American influence seemed to be greater in countries like Spain and Turkey. The main rationale of this is that Spain and Turkey were not so economically developed compared to France and Italy before the Second World War. As a result management ideas were poorly cultivated, and that facilitated the import of American models in management education. Moreover in the Mediterranean region, UK Universities offer degrees by establishing “outpost campuses” or “foreign university extensions” [6].

Similar conclusions are made for countries in transition. Those countries tend to replicate the practices of advanced countries and the US plays the most predominant role [7]. More specifically in Central and Eastern Europe imitation of Anglo-Saxon education models is even more obvious. In Hull’s [8] study regarding the impact of US MBA and Management Training Programs in nine Central and Eastern European countries, US-type MBA programmes and training systems have been found to be “significant agents” in the changing effort of the educational institutions in those countries.

Moreover, students’ perceptions regarding their education show a preference towards the Anglo-Saxon model. In Slovenia for instance, MBA graduates suggested that they would benefit more if their local lecturers had experience from abroad, including countries such as the US and the UK [7].

Finally, another issue which can be viewed as an essential parameter in the Anglo-Saxonization of business education in these countries, is the emergence of private educational institutions that operate under franchise agreements with UK and US Universities. These institutions follow identical or similar Anglo-Saxon based curricula. They are usually managed locally but supervised and accredited by their UK/US counterpart [9]. Despite the efforts of state institutions in Eastern Europe to discourage private study, there is a growth of private Universities. Discouragement is evidenced by the state’s refusal to recognize the degrees of these private institutions, the restriction of graduates’ access to state jobs and the denial of certain benefits, such as discounts in public transportation [10]. Nevertheless, there have been an increasing number of private higher education institutions since the 1990’s, especially in the countries of Central and Eastern Europe [11].

To conclude, there seems to be an Anglo-Saxon influence in the European management education systems, especially in South and Eastern European countries. The question is why European management education follows the Anglo-Saxon model that contradicts the traditional European norm of the engineering or economics educational background of managers.

## ***2.2 The Origins of Anglo-Saxon Influence***

Although Management Education always enjoyed a high prestige in the US, its popularity in Europe is a phenomenon of the last decades [12]. Historically, Management Education at the higher educational level started to develop in the mid-19th century, almost simultaneously in both Europe and the US. The first schools of commerce were the University of Louisiana in the US (founded in 1851) and the Institut Supérieur de Commerce de l'Etat in Belgium (founded in 1852). All the European institutions at that time were of a Latin origin, as most schools were established in France, Belgium, and Italy. Institutions in other European countries such as Britain, Germany, Austria, Hungary, The Netherlands and Switzerland were established later at the end of the 19th century [13].

Compared to Europe, management education in the US developed at a lower pace at least until the beginning of the 20th century. Namely, only six Schools of Commerce were established in the US until 1900 in contrast with Europe where the number of schools at the same period was seventeen. This is of course quite distant from the realities of the 20th century and especially after the Second World War where the expansion of business education in the US was rapid and its influence globally was significant [13].

In general, before the Second World War, management education in Europe was not very much influenced by the US. The only exception was the UK where American influence was quite strong from the early years of the London School of Economics (1895) and Manchester University (1904). In contrast with the UK, European systems such as the French and the German served as models for other European countries [14]. The German model with its distinct teaching methods, for example, was a major influence in the Nordic countries [13].

The increased interest of European Universities in developing management courses similar with the US models started after the Second World War. Business Administration was separated from Law and Economics and it was established as a different Academic principle and MBA degrees started to gain popularity [15].

The Anglo-Saxon influence on management education started at that point. There was a shift of emphasis of business administration knowledge from engineering towards the embracing of US management methods [15]. Americans offered their technical assistance and managerial know-how to Europe [14]. The US management ideas were promoted through various programmes and institutions that aimed at the increase of the competitiveness of businesses in Europe.

Initiated by the European Recovery Plan (ERP) otherwise called The Marshal Plan in 1947, U.S. management ideas and techniques started to travel to Europe as benefactors in improving regional industrial productivity [16]. Management Education's involvement in such efforts was inextricable.

In that way, the diffusion of US models of management education started to develop in the post World-War II era [3]. What is of interest to point out is that the transfer of Anglo-Saxon management ideas through such initiatives is not only a phenomenon of the past, but also a current issue. It has been observed, that there is a growing interest of western- both US and European- agencies in improving the managerial competencies of

the developing countries through education and training [17]. Apart from those programmes that act as channels through which management knowledge is transferred, the current literature suggests various homogenization forces with the Anglo-Saxon model of business education. The following section discusses the main forces as identified in the literature.

## ***2.3 Homogenizing Forces***

### **2.3.1 Internationalization and Imitation**

Homogenizing forces are closely linked with the challenges of internationalization in business education. Amable [18] has suggested that education systems tend to be rather country specific due to the absence of competitive pressures. The question is, is that the case nowadays in the field of management education? In other words, does management education face competitive pressures, and if yes, do these affect the distinctiveness of national specificities?

Traditionally, universities have not been considered competitive [19]. Nevertheless, recent changes in the ways of learning and research initiated by the emergence of new technologies, [20] as well as the challenges of internationalization, have increased the rivalry among higher educational institutions [19]. Internationalization trends in Universities can be identified in two respects. The first one involves convergence tendencies in institutional patterns and curricula. The second concerns several border-crossing activities initiated by institutions [19].

Referring to the former, it is a fact that Universities are accepting international students in an incremental manner [21], and in order for them to continue attracting foreign students, they try to incorporate an international dimension in their educational programmes. The international dimension is usually expressed through changes in the content of the curricula and the modes of delivery. Changes in the curricula usually involve the establishment of courses that incorporate international aspects such as International Business. Referring to the mode of delivery, changes are linked with the introduction of international cases and simulation exercises [22]

Referring to border -crossing activities, these involve the general organization of the business school programmes that involves international cooperation [19]. Characteristic examples are the study-abroad programmes, joint ventures between business schools in different countries, as well as globalized multidisciplinary action projects and international faculty exchanges [22]

All the above suggest that there exists some level of competition in the business education field. Maybe not as clear and provoking as in other fields, but it does exist. And as in all markets, there is a market leader. In this case, the market leader seems to be the Anglo-Saxon type of business education.

### **2.3.2 Research and Academia**

One characteristic example of the leading role of the Anglo-Saxon model is the dominance of US academia in research results and publications, as well as the supremacy of the English language. The infrastructure advantage of US Universities is

considered important for their success and further influence. Universities in the US occupy highly qualified academic staff, they have decent library and laboratory facilities, and last but not least they gain governmental support. They are considered “academic centers” and act as global leaders on how research and teaching are delivered, as well as on how Universities are organized. These “academic centers” affect various disciplines differently, but their dominance in the field of business studies is strong [9].

The Anglo-Saxonization of management education can be also understood in terms of research results. English speaking authors have a competitive advantage compared to other scholars. The peer review system consists of people familiar both with the language and the methodology of US researchers [9]. Most UK higher education research results become internationally known, in contrast with research from countries such as France, Spain, Italy, Germany as well as the Central and Eastern European countries, where research findings are not widely acknowledged [23]. Moreover, as Teichler [23] argues: “The spread of English as an increasingly important medium of communication in Europe has led to an extremely unbalanced information situation” (p.464). English is the instruction language in the leading academic institutions that teach to a large number of foreign students. Moreover, english has been used as the main instruction language in institutions of many non-English speaking countries that aim at attracting non domestic students [9].

Management textbooks as well as publications in prestigious management journals are mainly published from North American researchers [12][13] and databases using English as the main language are broadly used by Universities around the globe [9]. US Journals such as the Harvard Business Review and the Sloan Management Review are the most influential in the field of management [24].

The recruitment of academics with a US background in Universities globally is another example of the Anglo-Saxonization of management education. As the development of European management education was late compared to the US, there had been an initial shortage of academics. For that reason, European Academic Institutions, particularly in the UK and France, gave initiatives to young scholars to be further educated in the US and then return as faculty members in their home countries. Such initiatives involved scholarships for PhD studies and they were mostly publicly funded [24].

There are many examples of European educational institutions such as INSAED in France and London Business School in the UK that tend to recruit academics that have been trained in the US [25]. Also, Norwegian Business schools have been keen in hiring academics with post graduate studies from American Universities. In addition, many Norwegian scholars interested in American productivity visited the US after the Second World War and imported managerial knowledge [26]. Moreover, evidence from Mediterranean countries suggests that several scholars have gained their degrees from foreign universities with particular emphasis from US and UK institutions [6].

In general, there has been a shift of emphasis in the academic community from engineers to scholars with an American educational background [26]. Similarly, evidence from business schools in Eastern Europe [10] suggests that the academics that had a substantial career progress were the ones that had the strongest relationships with Western Universities.

### 2.3.3 Student Mobility

The increasing number of overseas students in Anglo-Saxon Universities is also an indication of the Anglo-Saxonization in business education. Statistics show the tendency of students to prefer US or UK Universities for their education (Fig 1). United States is the country with the largest number of international students since the 1940's. Over half a million overseas students study in US colleges and universities, amounting to 22% of international students studying abroad (2006 data) [27].

A similar trend exists in the UK which is the second most popular destination country for international students, with a 14% of the world's share. For instance, the international student enrolment in the 2004/2005 academic year was over 340,000 students (Institute of International Education, 2007). The top field of study of international students in both countries is Business and Management. Specifically, in the US, 17.8% of students in the academic year 2006/2007 studied Management related subjects [27]).

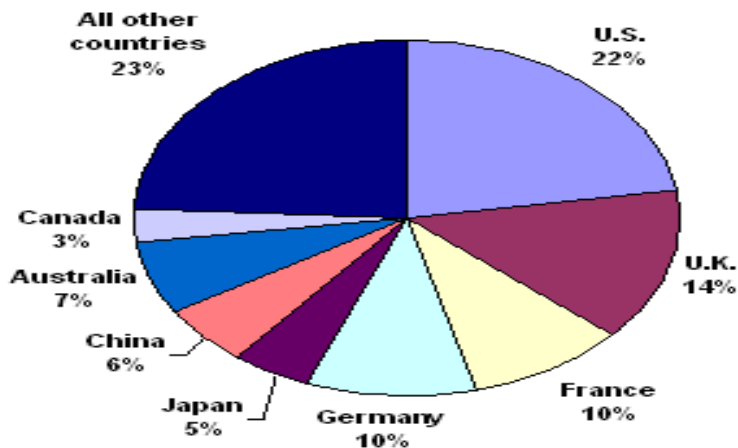


Figure 1 Global Destinations for International Students at the (Tertiary) Level, 2006.  
Source: Institute of International Education Website (<http://www.atlas.iienetwork.org>)

### 2.3.4 Ranking and accreditation procedures

The most well known rankings of MBAs internationally are published in "Financial Times" in the US and "The Economist" in the UK. These rankings include Universities from around the world but the majority of them are American and British [27]. Since rankings play a very important role in the choice of Universities by potential students, the existence of US or UK Universities in the top of the league tables, explains why the rules of global competition in the academic institutions are set by US business schools [25]. In other words Universities that want to achieve high rankings will probably follow the norms of the institutions that already enjoy high rankings, and these are undoubtedly Anglo-Saxon.

Referring to accreditation bodies, the most recognized ones with an international standing are The American Assembly of Collegiate Schools of Business (AACSB), the European Foundation of Management Development (EFMD), and the Association of MBAs (AMBA) [29]. Although AACSB and EFMD structure their framework differently, they both operate under similar principles and develop analogous accreditation criteria. Their main difference is that the EQUIS accreditation process is less sophisticated and shorter than the one in AACSB [27]. Other than that, they both have a great impact on the management education field, which is evidenced by the large and continuously increased number of institutions accredited by both bodies: by December 2007, AACSB and EQUIS have accredited 554 and 109 institutions respectively [30][31].

To conclude, although there is the view that accreditation processes do not necessarily lead to the standardization of educational programmes but rather leave room for local change [27] one cannot ignore the effect that accreditation bodies have in the structure of business schools and their use as a marketing tool. Especially for the countries of South East Europe, accreditation is very important for the recognition of University diplomas [32]. Overall, the fact that accreditations have moved from a national to an international level, the heavy influence of American and UK accreditation bodies internationally, and the similarities between US and European accreditation principles, indicate a homogenization tendency.

### **2.3.5 The Bologna Process**

The implementation of the Bologna objectives, part of which is to increase transparency and comparability of higher education programmes, adds an additional parameter in the Anglo-Saxonization of management education. Initiated by the success of student mobility programmes such as Erasmus, European members started to view the idea of convergence in higher education systems in a positive way [33]. The Bologna Accord aims at increasing European economic development. It is expected that student mobility and employability will increase if educational systems in Europe become more comparable and transparent [34]. It is also expected to add a more “international outlook” among European Universities, which are not considered very open to international influence [35]. Business and management education is believed to be heavily influenced by the Bologna Accord compared to other disciplines. Actually, the Bologna Accord is recognized as one of the main drivers of change in management education [36]. So far, the impact of the Lisbon directions regarding education and training in EU members is relatively low. EU guidelines on national policies in the field of education seem to have a rather limited effect in European countries, with the exception of states of central and Eastern countries [37]. Nevertheless, the systems level reforms resulting from the Bologna process, present a converging trend at least in terms of degree structures [19].

More specifically, Bologna goals of comparability among University degrees and the promotion of the “European Dimension” in higher education [11], have initiated a move towards Anglo-Saxon type of educational programmes in all European continents. The main aspect of the Bologna Declaration is the introduction of the Bachelor-Master progression, which is a characteristic Anglo-Saxon element. The Graduate Management Admission Council’s (GMAC) recommendations regarding the successful achievement of the Bologna goals include among others, the establishment

of guidelines for the organization of all management related degrees (Bachelor, Master and the MBA) and the operation of a common framework to provide information on individual programmes [36]. Sapir [35] in his “Agenda for a Growing Europe” insists on the equivalence of degrees and curricula among European educational institutions and stresses the “superiority” of the US educational system: “...special attention should now be given to promoting excellence at the postgraduate level as well as to favoring the emergence in Europe of top graduate schools or departments that would match the quality of the best US departments” (p. 133).

In general, the European Union emphasizes the economic benefits that can be gained through the internationalization of higher education. Although national divergences in higher education are recognized, certain European policies promote convergence in Universities. According to Enders [19] these policies take several forms such as “mutual adjustment”, “intergovernmental negotiations” and “joint decisions”. More analytically, “mutual adjustment” refers to a country’s tendency to follow national policies that are in response with other countries’ policies. “Intergovernmental negotiations” refer to policies such as the Bologna process, which are agreed at the European level but are controlled and implemented at the national level. Finally, “joint decisions” refer to actions such as the Framework Programmes of the European Commission (FP6, FP7), where European legislation depends both on the actions taken by the European Commission, as well as on intergovernmental negotiations.

### **2.3.6 Other Homogenizing Drivers**

Furthermore, the involvement of supranational organizations such as the European Universities Association (EUA) and the European Consortium of Innovative Universities on the formation of national policies has played a similar role. Namely, these institutions have contributed in the shift of national policies from domestic problem-solving towards a more international orientation. In some instances they have promoted policy borrowing and imitation since they have suggested “foreign” solutions to specific domestic problems [33].

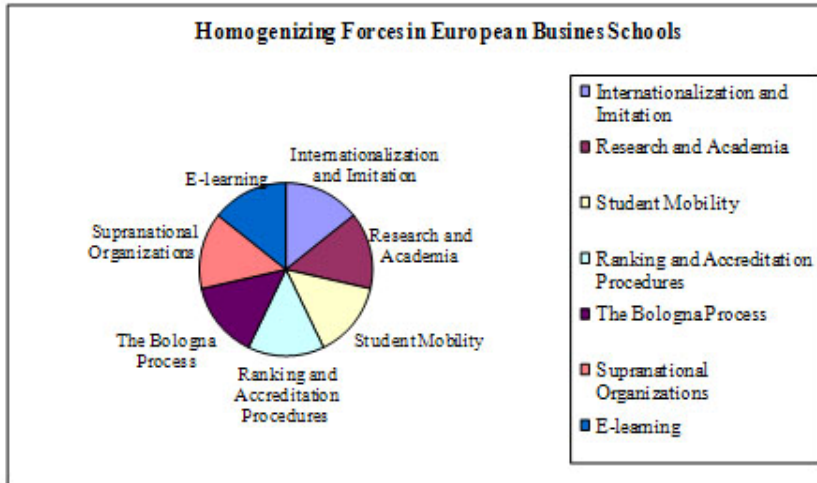
Finally, the development of distance education with the aid of the Internet is an additional parameter in the Anglo-Saxonization of management education. Business Administration degree programmes are of the most popular distance learning programmes. If one considers that the main language used in these programmes is English and that some of the largest distance education institutions are Anglo-Saxon-such as the Open University in the UK- it is clear that graduates of such programmes are heavily influenced by the Anglo-Saxon type of education [9].

## **3. Conclusions and Further Research**

Some researchers suggest that business schools in Europe are becoming similar and close to the Anglo-Saxon type of education. As Engwall [38] has noted, academic business studies seem to be a field where isomorphism through imitation takes place. Globalization seems to affect universities more than any other social institution due to the existence of universities’ international networking [6]. Moreover, since the tendency to imitate is becoming more intense when few models are available, it is logical to assume that similarity in business schools is attributed to the fact that they

develop management education programmes by borrowing elements from the most influencing model of business education: the US type MBA degree [15].

Homogenizing pressures with the Anglo-Saxon model involve various forces that are illustrated in the following figure (2):



**Figure 2 Homogenizing Forces in European Business Schools**

Regardless of the convergence/divergence debate, what is certainly common in business schools internationally is that most of them offer MBA degrees whose curricula mainly consist of general managerial courses. Nevertheless, the general nature of management education raises questions on how relevant this can prove to be in another non-Anglo-Saxon national business system like the Greek one, as generality in business education is an Anglo-Saxon characteristic.

The Greek business environment is dominated by Small and Medium sized enterprises (SMEs) that are usually family owned [39][40][41]. The education and training systems in Greece has all the characteristics of a “slow-move” educational system, where technical industry requirements are relatively low [39]. Namely, although the greek educational system is characterized by a relatively small but growing population of graduates there is a high unemployment rate for the university-level-educated workforce. Nevertheless, tertiary education is highly important in terms of employability. In addition, public expenditure in education is considered low and there is an emphasis on general rather than specific skills [18].

Management Education is also following a more general rather than specific orientation, at least in Public Universities in Greece. Referring to the educational level of personnel managers in Greece, most managers’ educational background is on general sciences rather than on specific management practices such as HRM [42]. The inadequacy of specialized management education is also apparent by the fact that the first Master courses in the area of HRM by a Greek university were launched in 2002 [39]. The lack of specialized education is also recognized by Psychogios and Szamoz



[41]. They identify the existence of an educational gap and limited training on HR issues as the main reason for the lack of sophistication of HRM in Greece.

Referring to vocational training, Greece is one of the few countries where specific structures have been established providing assistance to the firm for their training needs [18] The Hellenic Manpower Employment Organization (OAED) is responsible for Vocational Training where counseling, selection of candidates for training or reorientation and information about occupations is offered. Also OAED is offering a variety of special programmes for technical education and vocational training sponsored by the Greek state and the EU [43].

Nevertheless, both employers' and employees' role in continuing training as well as in moderating vocational training, is considered inadequate in Greece as in other Mediterranean countries. More specifically, it is argued that vocational training in Greece fails to respond to changes in technologies and market demand [44]. This unresponsiveness results mainly from the high levels of state intervention, as well as the domination of SMEs in the country. The latter is of high significance since the level of training in firms is closely dependent on the financial limitations of firms' size [18].

Further research is necessary to examine whether an Anglo-Saxon type degree will be relevant to the Greek reality. To approach this issue an initial documentary analysis of MBA curricula in Greek higher educational institutions will provide evidence on whether Greece, as an exemplar of Mediterranean Capitalism, promotes a management education system that converges towards an Anglo-Saxon type. Secondly, in-depth semi-structured interviews with MBA graduates located in Greece will take place to further explore the applicability of Anglo-Saxon human resource practices in Greek businesses.

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# The Transmission Mechanism of Monetary Policy in Romania

*Andries Alin Marius<sup>1</sup>, Cocris Vasile<sup>2</sup>*

*The Alexandru Ioan Cuza University of Iași, Faculty of Economics and Business Administration, 22 Carol I Boulevard, Iași Romania, {andries.marius<sup>1</sup>, vcocris<sup>2</sup>}@feaa.uaic.ro*

**Monetary policy represents one of the most powerful instruments of economic policy, via which economy is acted upon. The transmission mechanism is precisely the process via which monetary policy decisions move economy as a whole. From the central bank's point of view, the transmission of monetary policy to the economy is of distinguished interest among various topics of macroeconomics. Without being aware of the monetary transmission mechanism it is not possible to conduct good policy. This paper applies the identified VAR methodology to synthetic national data from 2000 till Q2 2007 to study the macro-economic effects of an unexpected change in monetary policy in Romania.**

## **Keywords**

monetary transmission mechanism, monetary policy, VAR.

## **1. Introduction**

Monetary policy represents one of the most powerful instruments of economic policy, via which economy is acted upon. The transmission mechanism is precisely the process via which monetary policy decisions move economy as a whole. In a simplistic approach, we could say that an increase in the currency offer ultimately determines an increase in the aggregated demand and thus, via various channels, an increase in GDP. One aspect on which most economists agree is the fact that movement is produced at certain time lags that are, regularly, long and variable. In order to fulfil monetary policy objectives, it is very important to know well the monetary policy transmission channels and mechanisms, so that the monetary authority could make the best decisions.

Starting from these premises, the current article tries to analyse the monetary policy transmission mechanism in the Romanian economy by using the VAR model (Vector Autoregressions). The VAR methodology is very often used in estimating the effects of the monetary policy on production and prices, and of the monetary policy transmission mechanisms, in the '90s. The use of VAR models started with [1] work. Recently, [2] and [3] created a synthesis of the numerous reference works on monetary policy transmission mechanisms in the United States of America. In Europe, the VAR methodology was frequently used to analyse the differences at the level of the Euro

zone member states regarding monetary policy transmission mechanisms. The results of these analyses are summarised in [4].

The analysis and understanding of the monetary transmission mechanism becomes more important in the context of Romania's integration in the European Union and its future adhesion to Euro zone. Romania is an atypical example since the National Bank is more a "borrower of last resort" than a "lender", situation caused by the excessive liquidity existing in Romanian banking system; a system characterized by high levels of interest rates compared to the other countries in the European Union to which we can add the evolution of national currency - RON- which has appreciated in the last years with respect to EUR or USD, leading to and increase in capital flows from abroad towards the Romanian financial system. Another important reason which justifies the necessity of such analysis is the fact that in August 2005, the National Bank of Romania shifted from a monetary and exchange rate target regime to direct inflation targeting.

At the level of the Romanian economy, the problematic of the monetary policy transmission mechanisms was approached by [5] who attempted to identify the main characteristics of the monetary policy transmission mechanisms in Romania. The analysis of the two segments of the monetary transmission mechanism, namely the transmission of monetary policy impulses on financial variables and, respectively, the connexion between the financial sector and the real economy, is done by distinct methods. For the first segment of the monetary transmission mechanism, they resorted to an empirical evaluation based on the use of a Vector Error Correction methodology. Its results, however, were not very relevant due to a short series of available data. The results of the empirical analysis show that the National Bank of Romania (NBR) directly influences interest rates practiced by banks for term deposits, via the interest rate of the sterilisation operations. Instead, the interest rate of bank credits does not seem to be directly sensitive to the NBR interest rate but to the interest rate of bank deposits.

In the case of the second major connexion, due to the incipient stage in the formation of NBR's monetary transmission mechanism, the authors designed a theoretical and intuitive approach that highlights the fact that the formation of traditional monetary impulses transmission channels is at an incipient stage due to the long process of eliminating financial intermediaries that the Romanian economy has been familiar with. Under these circumstances, the exchange rate channel, together with the NBR foreign currency purchase channel, continue to represent significant ways via which the operations of the monetary authority impact macroeconomic behaviours. Beginning with the year 2000, the authors noticed the reactivation of the credit channel and especially of the interest rate channel. However, the good operation of the credit channel continues to be undermined by the existence of liquidity excess in the system, by the phenomenon of national currency credit substitution with foreign currency credits, as well as by manifestations of moral hazard.

Although the VAR methodology is very often used in empirical analyses, its results are not generally accepted. This is so because the evolution of prices has featured the highest volatility among model variables while, as [3] argue, the answer function to shock monetary policy whose variables, such as total production, was insignificant. In addition, it is useful to mention here that all VAR analyses contribute to the

identification of monetary policy shocks (shocks regarded as unexpected deviations from the natural flow of the monetary policy, innovations) and to the quantification of their consequences; yet, they do not refer to the impact of the systematic component of the monetary policy on production or price level.

On the other hand, the effort to identify monetary policy shocks and the quantification of the effects of these shocks via the VAR analysis represents one of the few methods to understand the dynamics of the economy.

## **2. Monetary Policy Transmission Channels**

Over the last years most central banks in the emergent countries or countries in transition have developed or are developing structural models of the monetary policy transmission mechanism. An important element that must be considered in the case of these countries is the modification, sometimes even radical, of the monetary policy transmission channels as a result of the quick evolution of financial markets and of their integration in international markets. The construction of models can prove hard to achieve and even inefficient if there are no studies that have researched in advance the various monetary transmission channels, not only from a theoretical point of view, but also empirically.

Any decision at the level of monetary policy is transmitted in economy via several transmission channels, but their relative importance, as well as the system's general behaviour, depend very much on the specific features of the respective national economy, as well as on the structure of the financial system (market-based or bank-based) and the existing legal framework.

The importance of the financial structure is supported by an ample series of studies (for instance [6]). Variations in the structure of the financial system lead to different responses to decisions and monetary policy modifications, both from the point of view of how ample the response is, as well as from the point of view of the time interval needed for the emergence of this response. It is obvious that not all companies feature the same sensitivity to interest rate changes, and there are differences both in the same industrial sector and from one sector to another. Also, not all companies depend, to the same extent, on bank credit. A proof of these differences is the Euro zone. Numberless researchers ([6], [4]) show that there are differences in monetary policy transmission channels from one country to another, although significant steps have been made in order to integrate the goods and services market, to apply levelled financial and monetary policies, and to synchronise economic cycles. These asymmetries among member countries of the monetary union makes the task of the European Central Bank much more difficult. The source of asymmetries that are characteristic to the financial structure is mainly the difference in the legislative framework ([6]). But this is not all: a significant role is played by the different character of financial markets.

## **3. VAR Analysis of the Monetary Policy Transmission Mechanism**

There is a large number of studies that use the Autoregressive Vector method in the analysis of macroeconomic effects of unexpected exchanges in the monetary policy

interest, by the monetary authority, in the European Union countries. The use of VAR models started with [1] works. Recently, [2] and [3] summarised numerous significant works concerning monetary policy transmission mechanisms in the United States of America. In Europe, the VAR methodology was frequently used for the analysis of differences, at the level of the Euro zone member states, regarding the monetary policy transmission mechanisms. The results of these analyses are presented in [7] and [8].

Over the last years several materials on monetary transmission mechanisms in the Central and Eastern European countries, have been written, see [9], [10] and [11]. At the level of Romania's economy, the problematics of the monetary policy transmission mechanisms was approached by [5] who attempt to identify the main characteristics of the monetary transmission mechanisms in Romania.

### ***3.1 Methodology Used***

The models used in the VAR analysis of the effects of monetary policy shocks, using Romania as a case study, are based on the model developed by [7] and [8]. Considering the position of the Romanian economy among the other European economies, namely that of an open economy, of a relatively independent monetary policy, we have estimated two VAR models described as follows:

$$(1) Y_t = A(L)Y_{t-1} + B(L)X_t + \mu_t,$$

where  $Y_t$  – the endogenous variables vector,  $X_t$  – exogenous variables vector.

The exogenous variables vector contains the world commodities index (wpi), the real GDP for the Euro zone ( $y_{eu12}$ ), the consumer price index in the Euro zone ( $cpi_{eu12}$ ) and the domestic nominal short-term interest rate in the Euro zone ( $i_{eu12}$ )

$$(2) X_t' = [wpi \ y_{eu12} \ cpi_{eu12} \ i_{eu12}]$$

These variables were included so as to control changes in total demand and inflation at European level. The inclusion of these variables helps us solve the so called “price puzzle”. By treating these variables as exogenous, we implicitly consider that national variables do not influence variables at European level and we consider the current impact of exogenous variables on endogenous variables.

In the first model, the national endogenous variables vector ( $Y_t$ ) includes the real gross domestic product (GDP) ( $y$ ), the consumer price index (cpi) at the level of the Romanian economy, the effective short-term interest rate ( $i_{ef}$ ) and the effective exchange rate ( $s$ ) of the RON versus EUR and USD, calculated as a weighted average of the USD/RON(30%) and EUR/RON (70%) exchange rates.

$$(3) Y_t' = [y \ cpi \ i_{ef} \ s]$$

In the second model we also include the M2 monetary aggregate in the endogenous variables vector. The inclusion of the M2 monetary aggregate, can help us identify monetary policy shocks. In this case the endogenous variables vector is:

$$(3') Y_t' = [y \ cpi \ i_{ef} \ s \ m2]$$



In both cases the monetary policy shocks are identified by a standard Choleski decomposition with variables ordered as in (3) and (3').

The VAR model described by the equation (1) represents the reduced form of the system, a form that is derived from the VAR model that allows simultaneous influences among variables. The initial model can be represented as follows:

$$(4) KY_t = AY_{t-1} + BX_t + \varepsilon_t, \text{ where:}$$

the K matrix comprises all coefficients that describe simultaneous relations among variables; the A matrix comprises all coefficients that describe relations of certain lags among variables; matrix B comprises all coefficients that describe relations among endogenous and exogenous variables;  $\varepsilon$  comprises errors.

By multiplying the ARV system with the inverse of the matrix  $K^{(-1)}$  we obtain:

$$(5) Y_t = K^{(-1)}AY_{t-1} + K^{(-1)}BX_t + K^{(-1)}\varepsilon_t$$

which can be rewritten under the simplified form in the equation (1).

$$(1) Y_t = A(L)Y_{t-1} + B(L)X_t + \mu_t,$$

where :  $a = K^{(-1)}A$ ;  $b = K^{(-1)}B$ ;  $\mu = K^{(-1)}\varepsilon$ .

The recursive Choleski type method is an identification of  $\varepsilon_t$  initial shocks by using the  $\mu_t$  error vector. We can identify  $\varepsilon_t$  the initial shocks, via the recursive method only if we suppose that there are precisely  $n^2 - [(n^2 - n)/2]$  simultaneous relations among variables, where n represent the number of endogenous variables. This supposes that the recursive method requires  $(n^2 - n)/2$  supplementary restrictions in our model. This aspect can be solved by imposing a triangular structure to the K matrix with all elements above the main diagonal vector equal to zero. Thus we can choose an order of the endogenous variables that should reflect the situation in the economy.

The basic hypothesis in these models is constituted by the fact that, in a short term perspective, interest, exchange rate and monetary aggregate shocks do not have a contemporary impact on the consumer price index and on total production because of the weak reaction of the real sector to shocks in the monetary and financial sector. The interest rate reacts simultaneously to a total production and prices shock, which can be interpreted as a reaction function of the monetary authorities to shocks that affect the real sector. The exchange rate is immediately influenced by all types of shocks, except for a shock of M2, the monetary aggregate, in the case of the second model.

### 3.2 Used Data

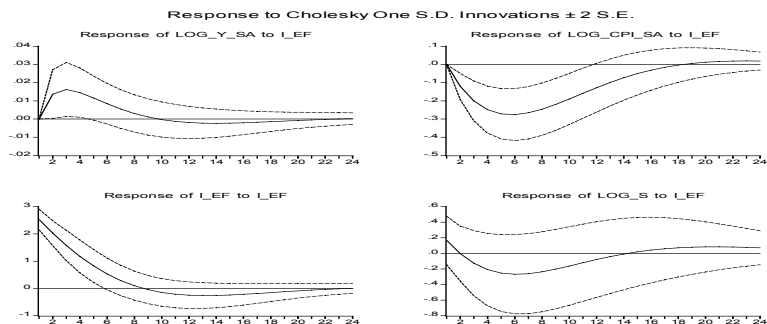
In the analysis of monetary policies transmission mechanisms in Romania we have used monthly data gathered between January 2000 and June 2007. The data were seasonally adjusted, except for the exchange rate and interest rate, logarithmated and multiplied by 100, except for the effective interest rate variable provided by the following sources: a) cpi - NIS bulletin of prices; b) i - NBR Market Operations Department; c) s\_eur and s\_usd - NBR Market Operations Department; d) y - NIS monthly bulletin; e) M2 - NBR Statistics Department; g) wpi - IFS; h) y\_eu12 - EUROSTAT; i) cpi\_eu12 - ECB; j) i\_eu12 - euribor.com.

The augmented Dickey-Fuller tests have proved that endogenous variables used in the model are non-stationary. We have chosen the use of the VAR model with variables expressed in levels (of initial specification), and not in differences, because some variables tend to be integrated of order 2 - I(2) - and there is co-integration among variables expressed in levels. The same methodology was used by [7], [11], [12] and [13].

The choice of the number of VAR lags was grounded on the results of the error minimisation criterion given by Schwartz. According to this criterion, the chosen number of lags is 1.

### 3.3 Results of the Estimation

Figure 1 shows the effects of a monetary policy shock, of standard deviation, on the real GDP, prices and the exchange rate, with a degree of trust of 95,44%, in the case of the first ARV model used.

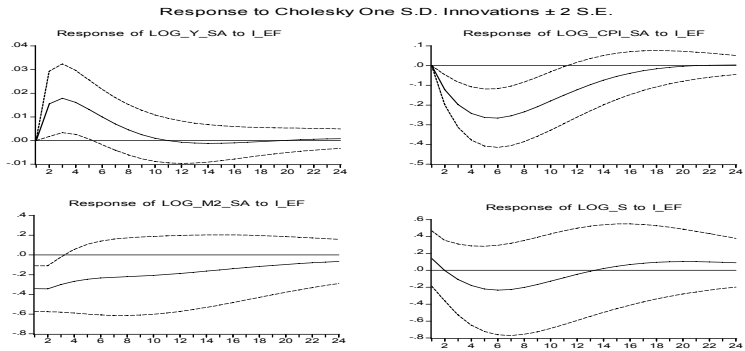


**Figure 1** The response of Y, CPI, I\_EF and S variables to a monetary policy shock

The main effects of a monetary policy shock are:

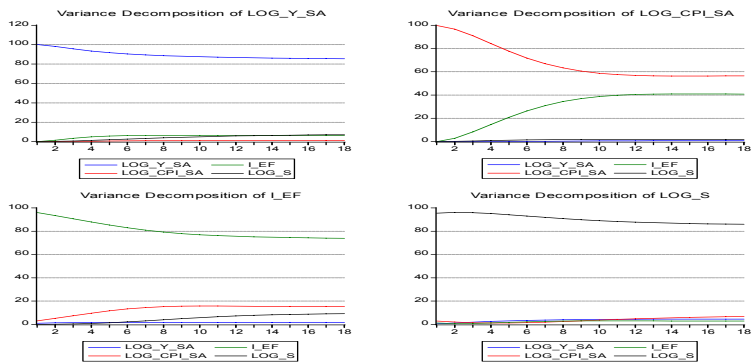
- An unexpected increase of the effective short term interest rate is accompanied by a decrease of the consumption prices index. This decrease reaches the highest amplitude after 6 months;
- Also, the exchange rate registers a decrease, that is equivalent to the appreciation of the national currency, that reaches the maximum level after 6 months;
- GDP's response is not significant from a statistical point of view (the trust level includes level 0) and is contrary to intuitive analysis

In the case of the second VAR model (which differs from model 1 by introducing the M2 variable in the endogenous variables vector), we can notice that the results are similarly to those in the first model. An unexpected increase of the effective short term interest rate is accompanied by a simultaneous decrease of the monetary aggregate M2.



**Figure 2** The response of the Y, CPI, M2 and S variables to a monetary policy shock

In figure 3 we can notice that only a small proportion of the GDP variation is determined by an interest rate shock, irrespective of the time frame considered. The largest proportion of the GDP variation is determined by innovation (over 85%, irrespective of the time frame considered). A percentage of 40,48% from the CPI variation, over a 12 months, is explained by monetary policy shocks.



**Figure 3** (Variance) dispersion decomposition in model 1

Figure 4 shows the results of the decomposition of the dispersion of the five endogenous variables. One can notice that in this case, just in the previous model, a very large proportion from the CPI variation is determined by monetary policy shocks. The variation of the monetary aggregate is determined to significant proportions by exchange rate shocks. The GDP variation is determined, in this case as well, to very large proportions, irrespective of the time frame considered, by own innovations.

By applying the Granger causality tests it is confirmed that *i\_ef* does Granger causes *CPI*, but the hypothesis that *i\_ef* does not causes in the sense of Granger *Y* is not refuted. On the contrary, the hypothesis that *Y* does not Granger causes *i\_ef* is refuted. According to tests, *CPI* and *M2* does Granger causes *Y*, whereas the effective interest causes in the sense of Granger only *CPI* and the exchange rate.

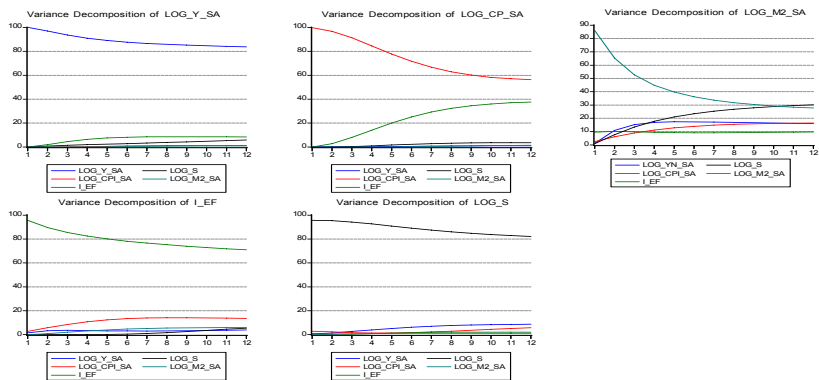


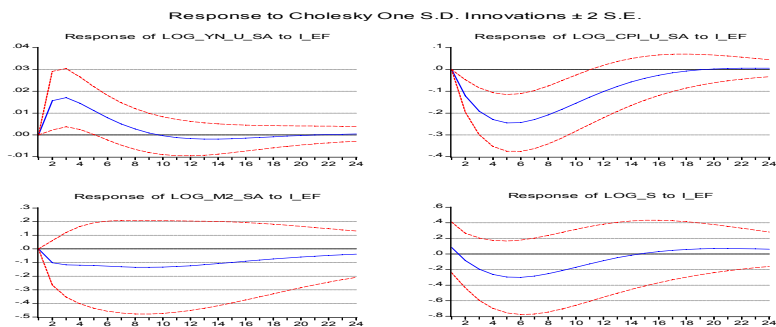
Figure 4 Dispersion (variance) decomposition in model 2

### 3.4 Robustness Checks

#### 3.4.1 Response Function Stability

In order to establish if the response function to a monetary policy shock is time stable we applied the Chow test and we tested the models on several samples. Based on the obtained results we cannot reject the hypothesis according to which VAR model is time stable. The following charts present the response function to a monetary policy shock for several samples, based on Model 1. These charts prove that the response function is stable, the effects of a monetary shock being similar for all three samples. There are some qualitative differences among the results but they are not significant. Only in the case of exchange rate the response function changes its sign in the last sample (2004m01-2007m06) as compared to the other two. As for the consumer price index reaction, there can be noticed that the function becomes flat for smaller samples.

Sample: 2000m01-2007m06



Sample: 2002m01-2007m06

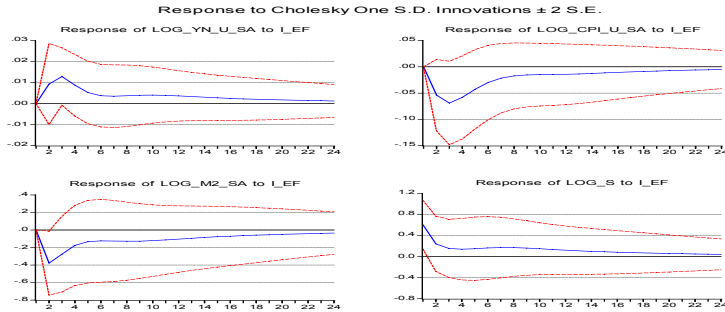
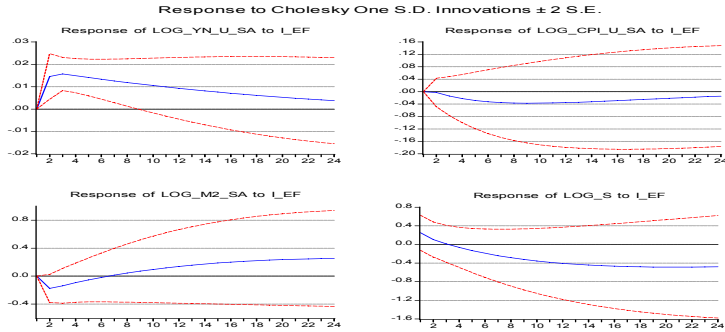


Figure 5 Response functions to monetary policy shocks

### 3.4.2 Alternative Models of Identifying the Response Function

In order to verify if the results from the previous section stand up, we will test them by applying another system for identifying the response function to a monetary policy shock. An alternative way of identification consist in taking into consideration the simultaneous influences of real short-term interest rate, exchange rate and monetary aggregate, method used by [14].

If  $\mu_t$  is an error vector in the simplified system and  $\varepsilon_t$  the structural shocks from the structural model, then:

- $A\mu_t = B\varepsilon_t$

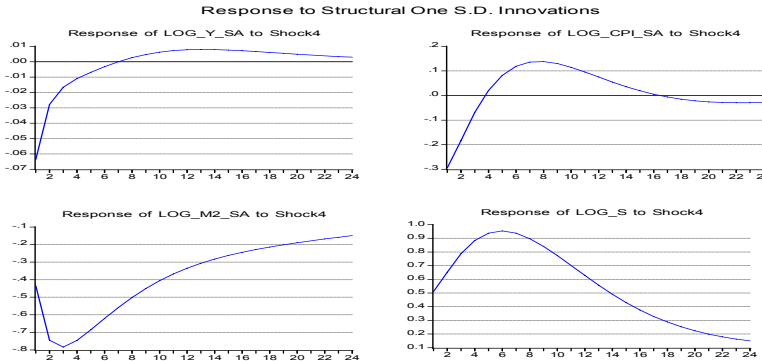
If in the identification recursive strategy, matrix A is presumed to be an identity (a unit) matrix and matrix B is imposed to have a triangular structure, when developing their model, the two authors establish the following restrictions for matrices A and B:

$$\begin{bmatrix} 1 & 0 & 0 & 0 & 0 \\ a_{21} & 1 & 0 & 0 & 0 \\ a_{31} & a_{32} & 1 & a_{34} & 0 \\ 0 & 0 & a_{43} & 1 & a_{45} \\ a_{51} & a_{52} & a_{53} & a_{54} & 1 \end{bmatrix} \begin{bmatrix} \mu_t^y \\ \mu_t^p \\ \mu_t^m \\ \mu_t^i \\ \mu_t^s \\ \mu_t^i \end{bmatrix} = \begin{bmatrix} \mathcal{E}_t^y \\ \mathcal{E}_t^p \\ \mathcal{E}_t^m \\ \mathcal{E}_t^i \\ \mathcal{E}_t^s \\ \mathcal{E}_t^i \end{bmatrix}$$

These restrictions for matrices A and B correspond to the following hypotheses:

- There are no simultaneous effects on Y and CPI as response to I\_ef, M2 or S innovations;
- The monetary aggregate, M2, simultaneously reacts to Y, CPI and I\_EF innovations;
- I\_EF simultaneously reacts to shocks in S and M2, but not to the ones in Y and CPU;
- S simultaneously reacts to any shock.

When applying these restrictions we obtain the following response functions to a monetary policy shock:



**\*Shock 4 = monetary policy shock**

**Figure 6** The response functions to a monetary policy shock according to the new restrictions

There can be noticed major differences between the response functions to a monetary policy shock when using the two identification methods. These differences are not only quantitative but also qualitative. When using the second methodology, we observe that the response function of Y to a monetary shock changes its sign, decreasing in the first phase. The same phenomenon happens with S whose RF (identified through the methodology based on restrictions) increases in the first stage while in the methodology without restrictions we obtained the opposite.

### 3.5 The Effects of a Monetary Policy Shock on other Macroeconomic Variables

In this section we will analyse the effects of a monetary policy shock on several macroeconomic variables, which are not included in the basic models. This effect is quantified by extending the basic VAR model 2, so that  $Y_t$ , the endogenous variables vector, should include the new macroeconomic variables. The method is adapted after [7].

We have checked the impact of a monetary policy shock on the following macroeconomic variables: FGCF = gross fixed capital formation; CHN = private consumption; IMP = import value at the level of the Romanian economy; EXP = export value at the level of the Romanian economy; M1 = monetary aggregate, m1, or the monetary amount in a limited sense; PRIV\_LOANS = non-governmental credit.

These variables are introduced in the basic VAR model and we suppose that the new variables do not influence the variables in the basic model, but are influenced by them. The data are for the period 2000m1- 2007m06 and they were adjusted every season, logarithmated and multiplied by 100.

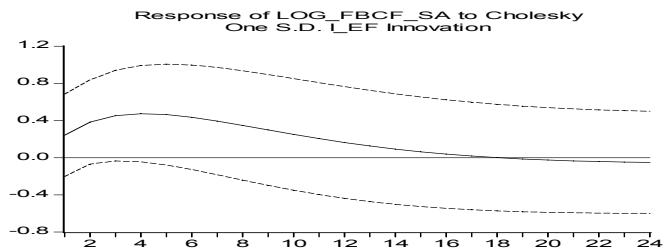


Figure 7 The impact of a monetary policy shock on fix gross fixed capital formation variable (FGCF)

One can notice that the unexpected increase of the effective short term interest rate is accompanied, contrary to an inductive analysis, by the increase of the FGCF level. This increase features reduced amplitude and reaches the maximum level in the fourth month.

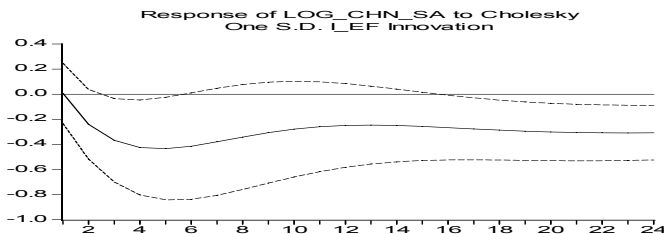
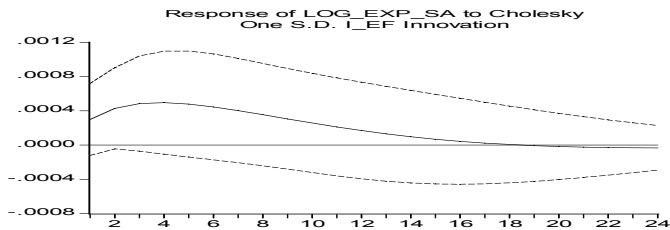


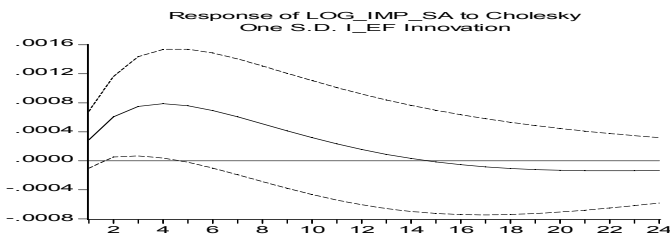
Figure 8 The impact of a monetary policy shock on the private consumption (CHN) variable

A monetary policy shock is accompanied by the decrease of private consumption, which is in agreement with the theoretical and intuitive analysis. This decrease is due to the increase of real interests; thus, the cost of a loan increases for consumers and the population's tendency to save decreases, which leads to the decrease of the sums available for consumption.



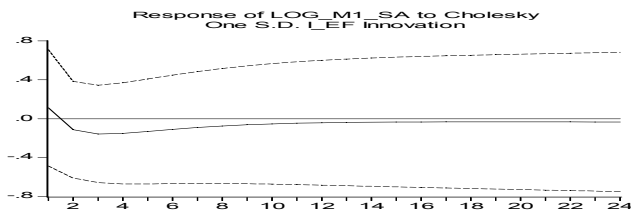
**Figure 9** The impact of a monetary policy shock on the exports (EXP) variable

In the case of a monetary policy shock the export levels slightly increase, which is contrary to the theoretical and intuitive analysis. This increase is of a narrow range and it can be due to the fact that the exchange rate reacts after a 1-2 months lag to a monetary policy shock .



**Figure 10** The impact of a monetary policy shock on the imports (IMP) variable

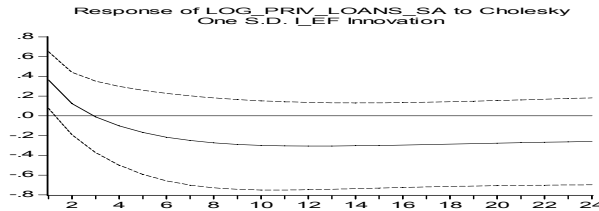
From the chart above, which represents the imports response function to a monetary policy shock, one can notice that in the case of a monetary policy shock imports at the level of the Romanian economy register simultaneous increase. This increase reaches the maximum level during the fourth month after the shock. This import increase can be due to the fact that imported products become cheaper by comparison with local products, due to the strengthening of the national currency.



**Figure 11** The impact of a monetary policy shock on the M1 Variable



From the chart of M1's response function chart to a monetary policy shock we can notice the negative effect of an unexpected increase of the interest rate caused by the monetary policy on the monetary amount in a limited sense. This negative effect is not very significant and it is similar to the one on M2.



**Figure 12 The impact of a monetary policy shock on the non-governmental credit (PRIV\_LOANS) Variable**

One can notice that the unexpected increase of the effective short term interest rate is accompanied initially by the increase of non-governmental credit, followed by decrease after 3 months. This phenomenon can be due to the lag between the monetary policy interest increase and the decrease of interest for credits.

## 4. Conclusion

In this study we have aimed to analyse the monetary policy transmission mechanisms as a whole. The role and analysis of each transmission channel can constitute the topic of further research.

In the analysis of monetary policy transmission mechanisms we used the ARV methodology on the basis of two models that were identified. By using the Cholesky type recursive method to identify the response functions to a monetary policy shock, on the basis of data on the Romanian economy between January 2000 and June 2007, we have quantified the effects of an unexpected harshness of the monetary policy on the main macroeconomic variables.

On the basis of the analysis done we can conclude that the main effects of a monetary policy shock are:

- An unexpected increase of the effective short term interest rate is accompanied by a decrease of the consumption prices index. This decrease reaches the highest level after 6 months;
- Also, the exchange rate registers a decrease, that is equivalent with an appreciation of the national currency, that reaches the minimum level after 6 months;
- GDP's response is not significant from a statistical point of view and contrary to the intuitive analysis, it registers a slight increase after a monetary policy shock;

- An unexpected increase of the effective short term interest rate is accompanied, contrary to the inductive analysis, by an increase of the FBCF level.
- A monetary policy shock is accompanied by the decrease of private consumption;
- In the case of a monetary policy shock, imports at the level of the Romanian economy register simultaneous growth;
- An unexpected increase of the effective short term interest rate is accompanied by an initial increase of the non-governmental credit, followed by decrease after 3 months.

The results obtained for Romanian economy are comparable to the ones obtained for other countries in CEE according to several studies: [11], [12], [10], [15] and [13].

The results of the VAR analysis show, to a large extent, how monetary policies affect economy in general and how they must be interpreted in the context in which the Romanian economy was in the period analysed, namely an economy in transition, with a high inflation at the beginning of the period analysed and with major changes in the monetary policy. We referred to the passage to the direct targeting of inflation.

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# Economic and Institutional Aspects of the Transition to the Knowledge-based economy in Serbia

*Djordje Mitrovic<sup>1</sup>, Sinisa Zaric<sup>2</sup>*

*<sup>1</sup>Faculty of Economics, 6 Kamenicka Str, Belgrade, Serbia, djordjem@one.ekof.bg.ac.yu*

*<sup>2</sup>Faculty of Economics, 6 Kamenicka Str, Belgrade, Serbia, sinisa@one.ekof.bg.ac.yu*

The aim of this paper is to present selected aspects of the knowledge-based economy in Serbia and to provide an overview of Serbia's readiness for the knowledge economy using the benchmarking methodology of the World Bank Institute. The paper attempts to analyze Serbian development opportunities and difficulties from the perspective of transition to knowledge-based economy and society. In the paper, we introduce different concepts of the knowledge-based economy and provide brief survey of literature in this area. The paper presents a review of the knowledge-based economy experience in Europe (in old and new EU member countries). In paper we summarize the relative position of Serbia and other countries in the region in terms of those indicators that are most relevant for the development of the knowledge-based economy. We should determine the present stage of development of the knowledge-based economy in Serbia, as well in others former Yugoslav countries using comparative analysis of KBE indicators provided by World Bank (KAM methodology). Finally, the paper aims to provide a theoretical and empirical approach to future challenges and possible actions on country (Serbia) and regional levels (former Yugoslav countries) and identifies sectors or specific areas where policymakers may need to focus more attention or future investments - especially including research and development and national innovation system which need to become a central element of development policy.

## **Keywords**

economic development, economic growth, economic policy, institutions, knowledge-based economy.

## **1. Introduction**

At the beginning of the XXI century, Serbia still struggles with the shift from inefficient economy to the more effective one. The main objective of transition to a market economy for Serbia is catching up to developed countries and bridging the gap to advanced economies, especially members of the European Union. In order to achieve

this aim, economic policy of the Serbian government is based on macroeconomic measures which would open and liberalize the economy, eliminate the barriers to competition and set up rules and practices commonly for the advanced market economies. While the market transition process in Serbia is still in progress, developed economies make transition toward an economic system based on knowledge and information as the key factors of accelerated economic growth and development. Because of that, many years are required for Serbian's economy in order to catch up with the lagging members of the EU. Therefore, Serbian government has to be aware of the increased importance of the concept of knowledge-based economy and society for improvement of the countries' social and economic welfare.

The aim of this paper is to present selected aspects of the knowledge-based economy in Serbia and to provide an overview of Serbia's readiness for the knowledge economy using the benchmarking methodology of the World Bank Institute. The paper attempts to analyze Serbian development opportunities and difficulties from the perspective of transition to knowledge-based economy and society. In the paper, we introduce different concepts of the knowledge-based economy and provide brief survey of literature in this area. The development of knowledge-based economy is the most important strategic element of the future competitive position of Serbia on the global market and the main driver of economic growth. The government needs to develop explicit strategies to make effective use of knowledge for sustainable economic development in Serbia. According to World Bank concepts, the framework for the knowledge-based economy consists of four key functional areas: (1) economic incentive and institutional regime, (2) educated, creative and skilled population, (3) effective national innovation system and (4) dynamic information infrastructure.

The main goal of the paper is to stress (1) the importance of investments in education, innovation, information and communication technologies, (2) the significance of development of appropriate economic and institutional environment in Serbia and (3) very important role of coordination across these four functional areas as framework for efficient creation, adoption, adaptation and use knowledge in economic production. The paper presents a review of the knowledge-based economy experience in Europe (in old and new EU member countries). In paper we summarize the relative position of Serbia and other countries in the region in terms of those indicators that are most relevant for the development of the knowledge-based economy. We should determine the present stage of development of the knowledge-based economy in Serbia, as well in others former Yugoslav countries using comparative analysis of KBE indicators provided by World Bank (KAM methodology). Finally, the paper aims to provide a theoretical and empirical approach to future challenges and possible actions on country (Serbia) and regional levels (former Yugoslav countries) and identifies sectors or specific areas where policymakers may need to focus more attention or future investments - especially including research and development and national innovation system which need to become a central element of development policy.

## **2. The Concepts of Knowledge-based Economy and Society**

The knowledge-based economy is a much complex and broader phenomenon than digital, new or networked economy which incorporates the production and use of

information and communications technology and its impact on human well-being. There are different dimensions and aspects of the knowledge-based economy, but before describing this concept we must explain what knowledge is. In most part of economic literature it is one of the most crucial factors for the economic growth. The possession of the knowledge increases availability of other traditional factors (capital, labor and land). The relation between data, information and knowledge is very clearly defined in the literature. The data represents the basic piece of information. The moment when information is structuralized and interpreted is the creation of the knowledge.[1] The key factors for each countries (and not only countries, but individuals and enterprises) for future improvement of their competitive position is abilities to use, modify and create new knowledge.

Knowledge may be divided into two broad categories: codified knowledge and tacit knowledge.[2] Codified knowledge is organized, systematized, written knowledge, which may be stored and transformed in different ways (books, patents, reports...). Tacit knowledge is inherently intangible and results from talents, experience and abilities. Such kind of knowledge, which is stored only in the “minds of individuals”, is very difficult to measure and quantify. Another classification of knowledge divides it into four categories. Know-what is type of knowledge relates to facts and data and is identified with information. Know-why relates to the knowledge on rules functioning in the nature, society, economy etc. Know-how is knowledge related to abilities of doing something. Know-who relates to combination of information and social relations, identifies those who posses knowledge and describes it. “Know-what” and “know-why” are knowledge which are codified, while “know-how” and “know-who” are more tacit knowledge.[3]

One of definitions of the knowledge-based economy says that it is economy which is “directly based on the production, distribution and use of knowledge and information”. [4] In the similar way, the knowledge-based economy is seen “as production and services based on knowledge-intensive activities that contribute to an accelerated pace of technological and scientific advance as well as equally rapid obsolescence. The key components of a knowledge economy include a greater reliance on intellectual capabilities than on physical inputs or natural resources, combined with efforts to integrate improvements in every stage of the production process, from the R&D lab to the factory floor to the interface with customers.”[5]

The definition of the UK Department of Trade and Industry says that the knowledge driven economy is one “in which the generation and exploitation of knowledge has come to play the predominant part in the creation of wealth”. [6] In that way, the knowledge-based economy is “one that encourages its organizations and people to acquire, create, disseminate and use (codified and tacit) knowledge more effectively for greater economic and social development”. [7]

For purpose of this paper, we will use the definition of the knowledge-based economy (according to the World Bank KAM project) as consisting of four essential, and interrelated, elements:

1. Creating an appropriate economic incentive and institutional regime that encourages the widespread and efficient use of local and global knowledge in all sectors of the economy, that fosters entrepreneurship, and that permits and

supports the economic and social transformations engendered by the knowledge revolution;

2. Creating a society of skilled, flexible and creative people, with opportunities for quality education and life-long learning available to all, and a flexible and appropriate mix of public and private funding;

3. Building a dynamic information infrastructure, and a competitive and innovative information sector of the economy, that fosters a variety of efficient and competitive information and communications services and tools available to all sectors of society. This includes not only "high-end" information and communications technologies (ICTs) such as the Internet and mobile telephony but also other elements of an information-rich society such as radio, television and other media, computers and other devices for storing, processing and using information, and a range of communication services.

4. Creating an efficient innovation system comprising firms, science and research centers, universities, think tanks and other organizations that can tap into and contribute to the growing stock of global knowledge, adapt it to local needs, and use it to create new products, services, and ways of doing business. (p. 4, [8])

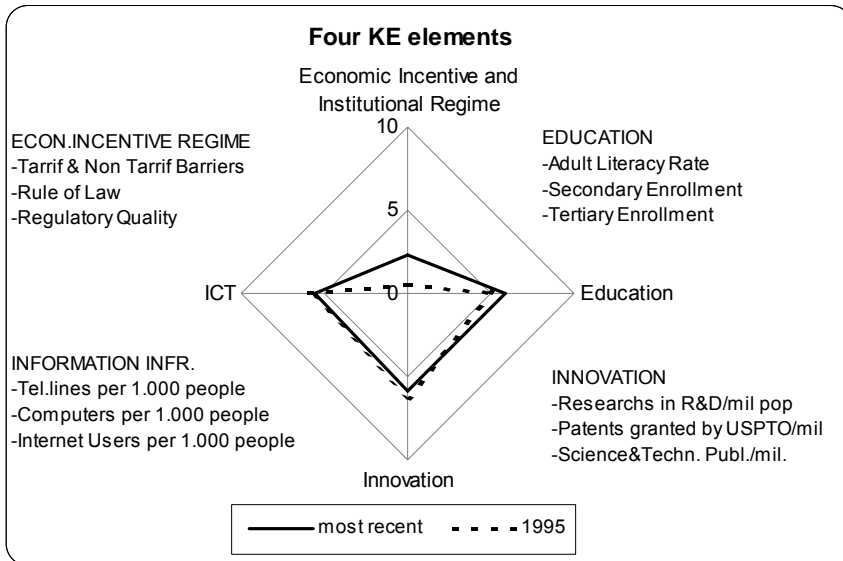
The development of knowledge-based economy is the most important strategic element of the future competitive position of Serbia on the global market and the main driver of economic growth. The government needs to develop explicit strategies to make effective use of knowledge for sustainable economic development in Serbia. This means that Serbian government needs to understand countries' strengths and weaknesses and to identify problems and opportunities that a country may face.

### **3. Serbia Readiness for the Knowledge-based Economy**

We will analyze aspects of the knowledge-based economy in Serbia and provide an overview of Serbia's readiness for the knowledge economy using the benchmarking methodology of the World Bank Institute. To facilitate the transition process toward knowledge-based economy, the World Bank Institute's Knowledge for Development Program has developed the Knowledge Assessment Methodology (KAM). There are many others individual and composite indicators for measuring the development of knowledge-based economy: European Innovation Scoreboard, EU Global Innovation Scoreboard, WEF Global Competitiveness Index, WEF Business Competitiveness Index, IMD World Competitiveness Index, Information Society Index, Technology Achievement Index, Network Readiness Index, ITU Digital Opportunities Index, UNIDO World Industrial Development Index... Comparisons in KAM are made on the basis of 81 structural and qualitative variables for 132 countries that serve as proxies for the four knowledge economy dimensions: economic incentive and institutional regime, education and human resources, the innovation system, information and communications technologies. Variables are normalized on a scale of zero to ten relative to other countries in the comparison group ( $\text{Normalized}(u) = 10 * (\text{Nw} / \text{Nc})$ , Nw – the number of countries with worse rank, Nc – the total number of countries in the sample with available data).

The mode of the KAM which will help us to understand Serbian global position concerning development of knowledge-based economy is the basic scorecard. The

KAM basic scorecard provides an overview of the performance of a Serbia in terms of all 4 dimensions of knowledge economy, for the period from 1955 to most recent years (2004, 2005 or 2006 – the last year for which we have available and appropriate data). Each dimension is represented by three key variables (Figure 1). Examining performance in the four KE dimensions, Serbia regressed in Innovation – its weakest area, while demonstrated positive developments in Education, a traditionally strong element for transition countries. Serbia notes very important improvement in Economic Incentive Regime (the country’s strongest dimension), while stagnated in access and penetration rates of Information and Communications Technologies.



**Figure 1 – Serbia: Basic Snapshot of the Knowledge Economy Readiness**

The overall level of development of the knowledge economy in Serbia we will analyze using the KAM Knowledge Economy Index (KEI). It summarizes performance over four KE elements and is constructed as the simple average of the normalized values of 12 knowledge indicators of the basic scorecard. If the value of KEI is greater, the environment is more favorable for knowledge to be used effectively for economic development. Data in the table 1 are sorted by the value of the KEI (and its components) for Serbia and other countries for the last year for which exists available and appropriate data (2004, 2005 or 2006).

Figure 2 shows the relative performance in the KEI for two points in time – 1995 and most recent. The countries or regions that are plotted below the 45 degree line indicate a regression in their performance throughout time. The countries or regions that are marked above the line signify improvement. The regression may be due to two reasons: the country either actually has lost ground in absolute terms over time, or improved slower then the comparative group.



Rank	Country	KEI	Economic Incentive Regime	Innovation	Education	ICT
21	Estonia	8,13	7,86	7,58	8,32	8,76
23	Slovenia	8,04	7,33	8,04	8,56	8,23
29	Czech Republic	7,57	7,35	7,34	7,55	8,04
30	Lithuania	7,39	7,23	6,88	8,3	7,17
32	Hungary	7,28	7,4	7,1	7,6	7,04
33	Latvia	7,18	7,02	6,2	8,33	7,15
35	Slovak Republic	7,1	7,15	6,84	6,85	7,56
38	Poland	7,04	6,82	6,44	8,08	6,8
40	Croatia	6,43	5,72	6,75	6,14	7,13
41	Bulgaria	6,13	4,79	6,12	7,41	6,21
43	Russian Federation	5,98	2,7	7,52	7,71	5,98
49	Ukraine	5,55	4,33	5,86	7,66	4,34
54	Romania	5,37	4,31	5,17	5,94	6,05
64	Serbia and Montenegro	4,89	2,31	5,83	5,85	5,57
66	Macedonia	4,61	3,83	4,39	5,17	5,05
76	Bosnia and Herzegovina	4,16	3,52	2,96	5,98	4,17
98	Albania	2,7	2,46	1,56	4,71	2,07

Source: Knowledge Assessment Methodology (KAM), Knowledge for Development Program, World Bank

**Table 1 - Knowledge Economy Index and its components**

Serbia, despite its transition and recovery period, managed to improve its overall performance in the aggregate KEI between 1995 and 2005. But, this improvement has a relative importance and remains very modest in relation with absolute values of KEI. Serbia performs better only than Bosnia and Herzegovina (which had the biggest improvement in relative terms of all countries in transition), Albania and Macedonia. The country still lagging behind Romania and Bulgaria, which stagnated or regressed in relative terms, but are better in absolute terms, and Croatia which also demonstrated better rates of improvement. Serbia is standing roughly in the middle in the global KE map, but lagging significantly behind new EU members and EU core members. Such position presents a significant challenge for Serbian government and need for urgent development of appropriate KBE strategy, because Serbia is already competing with economies which have highly developed and permanently advancing knowledge foundation.

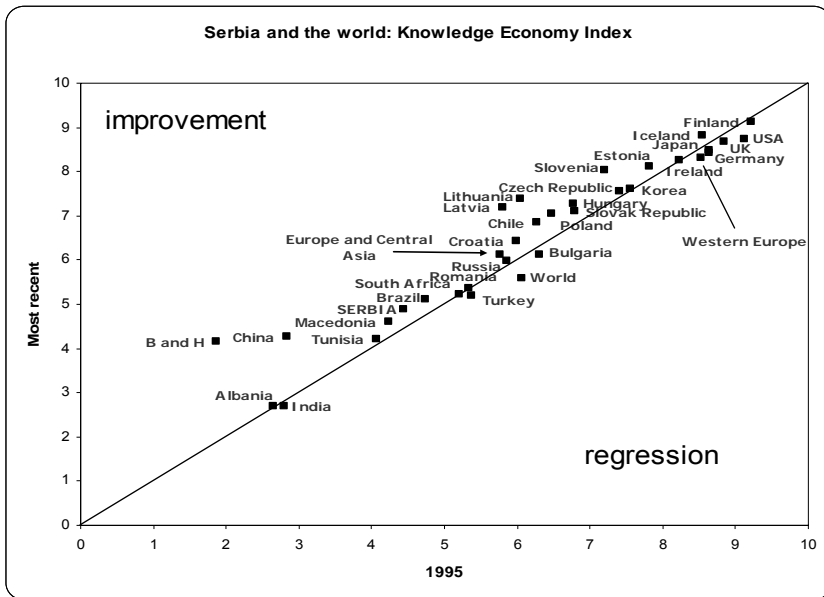


Figure 2 – Serbia and the World: Knowledge Economy Index

Although Serbia’s performance may be overall positive, it isn’t as competitive as that of other countries of the region (except Bosnia, Macedonia and Albania) which are also seeking EU membership (like Croatia) or are already new EU members (like Slovenia). In Figure 3 we compare Serbia with Croatia and Slovenia – the two leading knowledge performers in the region – on their 2004/2005 performance in the four KE dimensions. The gaps Serbia needs to cover are obvious in all four dimensions and particularly in Economic Incentive and Institutional Regime.

In Figure 4 we show how Serbia performed, throughout time, in each of the 11 variables that describe the four KE dimensions and aggregate KEI (data for Tariff & Non-tariff Barriers are not available), plus one performance variable - GDP growth. For second performance variable, Human Development Index – HDI, data are not available. In the dimension of Economic Incentive Regime (Figure 5), Serbia significantly improved its performances and in its field country is better than some new EU members, like Czech Republic, Bulgaria and Romania which regressed in the period 1995-2005. Serbia demonstrated improvements in the Rule of Law and Regulatory Quality Indicators.

In Education (Figure 6), Serbia carries a strong tradition, especially in science and math. Education is the one of the main dimensions which is instrumental for the country’s transition to a knowledge based economy. During the past ten years, Serbia improved marginally its overall performance in this dimension. Serbia is better in the field of improvement in education from Croatia and the world average, but is lagged behind new EU member countries. In 2004, Serbia has 96,40 % adult literacy rate.

Enrollment rates in secondary rise between 1995 and 2004 from 63,50% to 88,70%, while tertiary enrollment rates improved over the same period from 20,48% to 36,30%. Although Serbia notes improving in both indicators, the country is not performing as competitively as other economies of the region (except Albania and Macedonia).

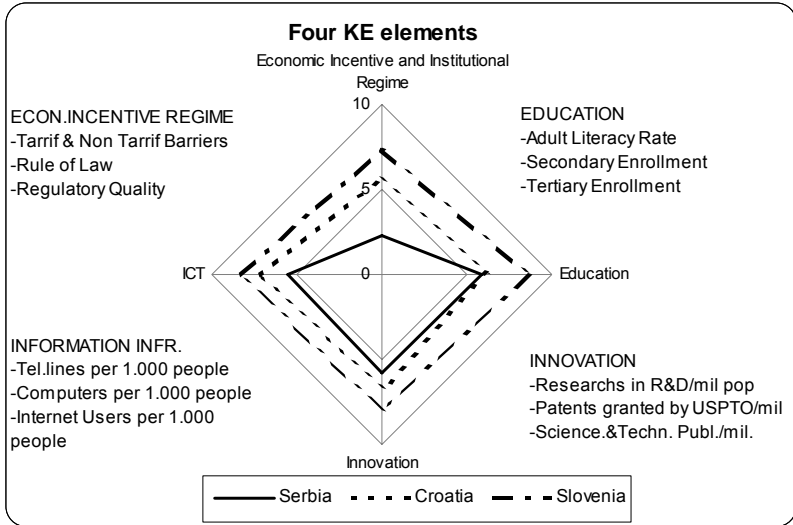


Figure 3 – Serbia, Slovenia, Croatia

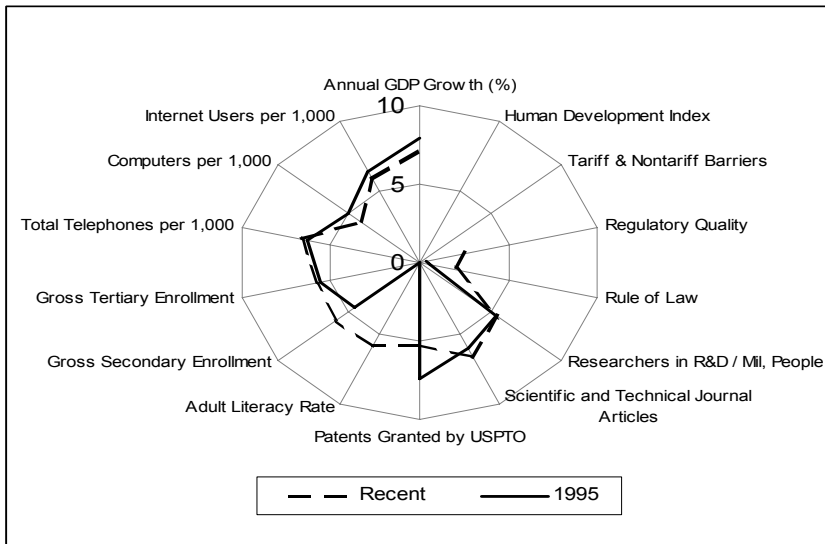
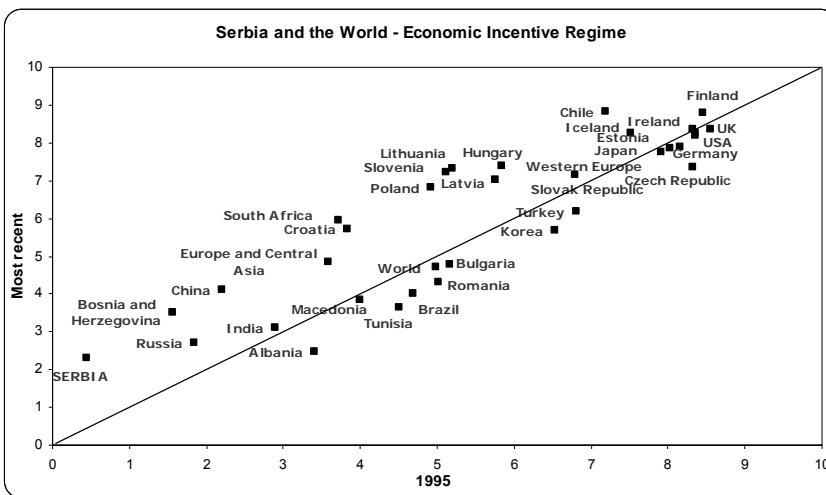


Figure 4 – Serbia: Serbia through time in KEI defining variables



**Figure 5 – Serbia and the World: Economic Incentive Regime**

In the dimension of Information Communication and Technology (ICT) Serbia demonstrated a significant regression during the last ten years, as shown in Figure 7. Serbia notes in absolute terms very big improvement in main indicators measuring usage of ICT. In the period 1995-2005, the number of Total telephones per 1.000 people raised from 191,20 to 910,20, the number of Computers per 1.000 people raised from 14,20 to 47,70 and the number of Internet users per 1.000 people raised from 1,90 to 147,30. But, despite the impressive progress it is evident that the existing gap in the availability and penetration of information and communication technologies is still significantly large, especially when Serbia is compared with EU and OECD averages and other countries from the region (except Macedonia, Albania and Romania which are worse than Serbia in this field of knowledge based economy).

One of the best measures of the degree in which the country benefit from ICT usage is Networked Readiness Index (NRI). The Networked Readiness Index (NRI) is defined as “the degree of preparation of a nation or community to participate in and benefit from ICT developments.” The Index is a composite of three components: (1) Environment for ICT – measured by three subindexes (market, political/regulatory situation, and infrastructure); (2) Readiness – measured by threesub indexes (individual readiness, business readiness, government readiness); and (3) Usage – measured by three subindexes (individual usage, business usage and government usage).

In the Networked Readiness Index Serbia (and Montenegro), amongst 124 countries, is ranked 74th. This score is very poor when compared to regional EU members (Romania and Bulgaria), candidates (Croatia) and other countries in region. Serbia is better only from Macedonia, Bosnia and Herzegovina and Albania (Table 2). The rankings in the table indicate that the environment for ICT development is not as favorable as it should be for rapid development of the knowledge-based economy. Serbia still has weak overall capability and the low readiness of the government, business and people to

employ and leverage the potential of information and communications technologies in all areas of the social and economic life. This is very obvious when we compared Serbia with advanced economies in the region and EU members.

Rank 2006- 2007	Countries Economy	Overall Score 2006	Rank 2005- 2006	Environment Component		Readiness		Usage	
				Score	Rank	Score	Rank	Score	Rank
1	Denmark	5,71	3	5,54	4	5,84	3	5,76	2
2	Sweden	5,66	8	5,52	5	5,59	11	5,87	1
3	Singapore	5,60	2	5,19	13	6,09	1	5,53	5
4	Finland	5,59	5	5,63	3	5,86	2	5,27	10
5	Switzerland	5,58	9	5,50	6	5,74	5	5,50	6
6	Netherlands	5,54	12	5,29	11	5,57	12	5,75	3
7	United States	5,54	1	5,71	2	5,77	4	5,13	16
8	Iceland	5,50	4	5,75	1	5,16	25	5,60	4
9	United Kingdom	5,45	10	5,32	11	5,69	6	5,34	9
10	Norway	5,42	13	5,45	7	5,37	11	5,45	7
20	Estonia	5,02	23	4,48	25	5,35	23	5,24	12
30	Slovenia	4,41	35	3,78	42	4,90	31	4,55	26
33	Hungary	4,33	38	4,13	28	4,82	34	4,05	40
34	Czech Republic	4,28	32	3,86	36	4,90	32	4,09	37
39	Lithuania	4,18	44	3,82	41	4,55	43	4,18	34
41	Slovak Republic	4,15	41	3,73	43	4,63	40	4,09	38
42	Latvia	4,13	51	3,83	39	4,57	42	3,98	43
46	Croatia	4,00	57	3,57	49	4,65	39	3,79	47
48	Greece	3,98	43	3,90	33	4,48	51	3,56	55
55	Romania	3,8	58	3,31	62	4,54	44	3,53	57
58	Poland	3,69	53	3,30	64	4,34	56	3,43	63
70	Russian Federation	3,54	72	3,35	57	3,98	75	3,29	73
72	Bulgaria	3,53	64	3,20	69	4,12	68	3,27	76
74	Serbia and Montenegro	3,48	80	3,09	84	4,11	69	3,25	77
75	Ukraine	3,46	76	3,29	66	4,16	65	2,94	95
81	Macedonia	3,41	82	3,13	78	4,05	71	3,03	89
89	Bosnia and Herzegovina	3,20	97	2,80	102	3,77	84	3,04	88
107	Albania	2,87	106	2,69	107	3,34	97	2,58	112

Table 2 - Networked Readiness Index Variation 2006-2007

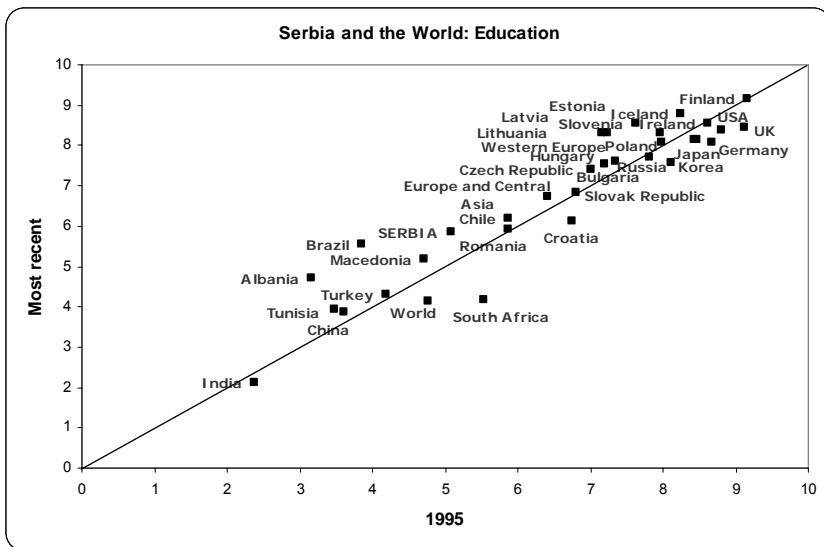


Figure 6 – Serbia and the World: Education

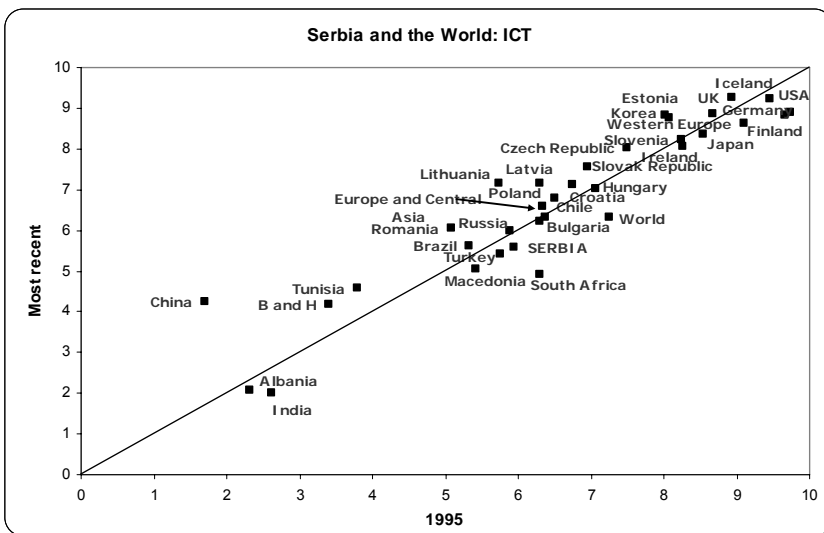


Figure 7 – Serbia and the World: ICT

In Innovation, Serbia worsened its overall performance during the last ten years, and in that way remains significantly weak when compared to regional and EU economies (except Albania, Bosnia and Herzegovina and Macedonia). Looking at three major Innovation variables which defined Serbia's position in the figure 8, data indicates that Serbia raised the number of its research personnel from 1.200 to 1.330,27 per million

people during the last ten years and the number of Scientific and Technical Journal Articles per million people from 47,83 to 73,17. But, patent activity still remains very low and decreased and it is the main reason for Serbia's bad position among European countries. The main problem of Serbia and other countries in region is poor financial situation of R&D. There are limited possibilities to modernize scientific infrastructure, to purchase new equipment, scientific and technical books, journals and others, to provide Internet access, data bases, modern scientific laboratories etc. There is massive and continued "brain drain", because R&D professions are unattractive, low pay and without social status.

#### **4. Challenges for the Development of the Knowledge-based Economy in Serbia**

The creating and development of knowledge-based economy in Serbia is important for further socio-economic development of country. In order to achieve this, Serbian government has to create and apply proper economic policies. Three main challenges for Serbia during a building of knowledge-based economy are competitive pressure emerging from globalization, growing „digital divide“ emerging from (un)usage of information and communication technologies and transition in education. Since globalization puts big competitive pressure on all national economies, including in Serbia, it is necessary a technological, managerial and organizational answer, aimed at improving productivity. At the first place, it is necessary technological modernization of the economic production in industry. This can be done by using information and communications technologies in all domains of economic activities, which is observable trend in most advanced new EU member and candidate countries. The main sources of new technologies are foreign direct investments which played a crucial role in restructuring of the transitional economies of new EU member and candidate countries. Serbia has today a comparative advantage expressing in cost differentials emerging from low wages and well educated workforce. This is one of the most important factors for attracting investments from abroad. Other factors such as the process of the privatization, liberal taxation schemes, proximity to markets, etc. have of course an important role in attracting of FDI. These foreign investments will bring with them a series of benefits in terms of knowledge and technology transfer, improved management and production process. The most important for development of the knowledge-based economy in Serbia is the fact that the foreign direct investments contribute to the higher productivity by higher quality of management and overall uman capital.

The process of globalization radically transforming the global division of labor reallocating in countries with low wages many manufacturing industries. Because of that, European countries meet the challenge of specializing on knowledge and technology-intensive economic activities, on services, niche markets, on quality and tailoring, outsourcing, etc. In order to catch up with modern European economies, Serbia has to focus their human and financial resources, the political goals of the state and in number of cases the companies' business plans on those elements that are relevant for development of modern knowledge-based economy. Competitiveness today is based on another type of criteria – criteria of the knowledge-based competition, of

innovation, of product and service development, of quality, of niche markets, etc. This assumes the adaptation of innovation systems by boosting R&D, putting FDI flows in longer term socio-economic development framework, concentrating on high-end production, etc. This gives a very important and crucial role to the information and communications technologies.

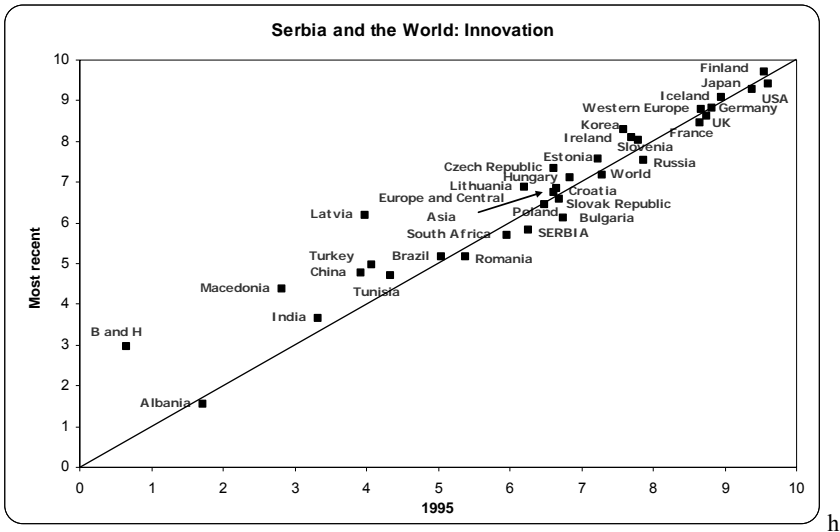


Figure 8 – Serbia and the World: Innovation

To successfully meet the challenge of globalization, development of ICT sector needs to be a priority for Serbian government. To change the overall picture and to boost the growth in the sector of telecommunications, Serbia has to attract more foreign investments combined with the full real liberalization of all telecom services (like voice over internet protocol, etc.). Liberalization, introducing competition into the sector and raising the quality of the network will affect considerably the number of internet usage and penetration which will have consequences in further increasing e-commerce, internet banking and e-government initiatives. In order to become member of EU, Serbia has not only to open a market to investment and competition, but also to raise public awareness of the benefits of modern technologies and to strengthen and enforce laws related ICT. The improving of efficiency and competencies in the ICT sector (with education) is the most dynamic dimension of the knowledge-based economy.

The most significant social disparity, from the point of view of knowledge-based economy, is the digital divide, which represents unequal access to information and communications technologies and its benefits. There is a risk of developing a growing digital divide between Serbia and other countries, divide within country, across different industries, generations, cultures, gender groups and social classes. The Serbian government has to pay more attention to the role of information and communications technologies in such context, because access to information is a main determinant of economic and social well-being. There are four kinds of barriers to access and the type



of access they restrict. First is a lack of elementary digital experience caused by lack of interest, computer anxiety, and unattractiveness of the new technology (“mental access”). Second is no possession of computers and network connections (“material access”). Third is a lack of digital skills caused by insufficient user friendliness and inadequate education or social support (“skills access”), and fourth is a lack of significant usage opportunities (“usage access”).[9] The policies of development of knowledge-based economy in Serbia need to ensure that people have greater access to information and communications technologies and that government can improve the efficiency of public services, like health and education, through these technologies.

The third challenge for Serbia during the building of the knowledge-based economy is transition in education. The available workforce and its level of education are main drivers of the economic growth in knowledge-based economy. Since the knowledge-based economy has a growing services sector, it is necessary to increase share of tertiary educated workforce. Investments in education in Serbia need to adjust to the expected structural shifts in the economy after its restructuring. The most important emphasis need to be on primary and secondary education. The reform need to bring more educational options at tertiary levels in the national education system. The main challenge will be, not only for Serbia, transition to secondary and to tertiary educated populations, balancing between traditional education and lifelong training.

In accordance with these challenges, economic policies of the Serbian government need to enhance knowledge-based growth through correct macroeconomic and structural policies, creation of competitive R&D market and increasing the efficiency of use of the research funds and education policy and a reform of the education system.[10] The experience of Estonia and Slovenia shows that the appropriate economic policy need to pay more attention to education and more effective use of financial resources in this area, to harmonization of cooperation of foreign companies with national systems and to finding a balance between financing stimulation of domestic activities and stimulation of the absorption of technologies and knowledge abroad.[11]

## **5. Conclusion**

In this paper it presented selected aspects of the knowledge-based economy in Serbia and provided an overview of Serbia’s readiness for the knowledge economy using the benchmarking methodology of the World Bank Institute. We analyzed Serbian development opportunities and difficulties from the perspective of transition to knowledge-based economy and society. We concluded that the development of knowledge-based economy is the most important strategic element of the future competitive position of Serbia on the global market and the main driver of its economic growth. The government needs to develop explicit strategies to make effective use of knowledge for sustainable economic development in Serbia. In comparative analysis with other countries in region and EU we concluded that investments in education, innovation, information and communication technologies and development of appropriate economic and institutional environment in Serbia are framework for efficient creation, adoption, adaptation and use knowledge in economic production. In the paper, we also provided a theoretical and empirical approach to future challenges and possible actions and identified sectors or specific areas where Serbian government

may need to focus more attention or future investments - especially including research and development and national innovation system which need to become a central element of development policy.

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## Appendix

### List of Acronyms

KBE	Knowledge-based Economy
KAM	Knowledge Assessment Methodology
KEI	Knowledge Economy Index
ICT	Information and Communication Technology
R&D	Research and Development
FDI	Foreign Direct Investments
NRI	Networked Readiness Index

HDI	Human Development Index
EU	European Union
GDP	Gross Domestic Product

# Is the International Financial Integration Growth-Conducive? Evidence from Europe

*Aleksandar Stojkov<sup>1</sup>, Geoffrey Pugh<sup>2</sup>, Jean Mangan<sup>3</sup>*

<sup>1</sup> *Ss. Cyril and Methodius University, Faculty of Law, Krste Misirkov, b.b., 1000 Skopje, Macedonia, astojkov@pf.ukim.edu.mk*

<sup>2,3</sup> *Staffordshire University, Brindley Building, Leek Road, Stoke-on-Trent, Staffordshire ST4 2DF, United Kingdom, {g.t.pugh<sup>2</sup>, j.t.mangan<sup>3</sup>}@staffs.ac.uk.*

The dramatic increase of the intertemporal trade of the transition economies during the late 1990s and early 2000s, as seen by the widening current account deficits and deteriorating net foreign asset positions, has ignited considerable interest for sustainability analysis. In order to explore the potentially detrimental effects of current account adjustment episodes (also known as the fragility perspective), the study develops a Barro-type growth model. It also investigates whether the sizeable and persistent current account deficits of the European transition economies have been fuelling higher rates of economic growth during the last 15 years. The empirical strategy is based on unbalanced fixed-effects static panel data estimation using data for 27 advanced economies and 13 European transition economies at five-, four- and three-year frequencies over the 1975-2005 period. The estimation results reveal that the observed swings in the current account balance (current account reversals) and sudden stops of net capital inflows have not been systematically associated with growth slowdown in the analysed sample of countries. Additionally, the increasing financial integration has indeed facilitated the downhill flow of foreign capital, and as the empirical results demonstrate, has produced moderate growth-conducive effects.

## Keywords

current account deficits, current account reversals, international financial integration, long-term economic growth, sudden stops.

## 1. Introduction

Although second-generation (structural and institutional) reforms are underway in the South East European transition economies, the unprecedented levels and large variations (swings) of their current account deficits still occupy relatively high positions on the policymaking and research agenda. Even if the growth potential of these economies justifies the sizeable and persistent deficits, in case of a sudden shift in the

market sentiment, the inevitable adjustment can trigger devastating macroeconomic implications. The world financial turmoil during the 1990s, in particular, has provided considerable support to the prudential doctrine that favours a certain degree of government involvement, such as cautious monitoring or intervention to correct external accounts [1]. Researchers have therefore developed early warning systems and conducted event study analyses of the external adjustment episodes, which have brought to the fore the notion of current account sustainability. For instance, the influential studies by [2-7] do find that current accounts obey certain country-specific thresholds, beyond which large and persistent corrections take place. These current account adjustments are associated with the intertemporal national long-run budget constraint and may involve substantial costs in terms of growth slowdown.

In order to explore the potentially detrimental effects of current account adjustment episodes (also known as the fragility perspective on the current account adjustment), the study develops a Barro-type growth model. It also incorporates insights from the New open-economy macroeconomics, which associates the current account deficits and surpluses with substantial gains from the intertemporal trade. In particular, it investigates whether the large and persistent current account deficits of the European transition economies have been fuelling higher rates of economic growth during the last 15 years (the growth perspective). Unlike the prior research, the empirical model incorporates a core set of explanatory variables and a number of potentially relevant growth determinants that, simultaneously, are conditioning factors of the current account behaviour. Additionally, it provides a survey of the frequencies at which data is considered in recent cross-country empirical investigations of determinants of medium- and long-term economic growth. The empirical strategy rests on unbalanced fixed-effects static panel data estimation using data for 27 advanced economies and 13 European transition economies at five-, four- and three-year frequency over the 1975-2005 period.

The main empirical findings are that the European transition economies have reaped moderate benefits from the intertemporal trade. Additionally, the episodes of current account reversals and sudden stops in net international capital inflows have not been systematically associated with growth slowdown in the analysed sample. Yet, given the unprecedented deterioration of the current account balances and net foreign asset positions in many transition countries, it may not be unreasonable to continuously revisit [8] point that the risks of global financial integration may outweigh the benefits. The next section develops an analytical framework of empirical growth model and explores the hypothesised impact of the selected macroeconomic determinants. The empirical strategy, along with the diagnostic tests and the estimation results is discussed in the third section, whereas the last section provides concluding remarks and policy recommendations.

## **2. Specification of a growth model**

### ***2.1. Designing the Core Set of Explanatory Variables***

In order to examine the growth effects of current account adjustment and foreign savings, a Barro-type growth model is developed. The analytical framework follows the investigation by [9] of the statistical significance of growth determinants. Their

methodology is based on a Bayesian averaging of classical estimates and, in particular, aims at narrowing the gap between the growth theories and the empirical work. The noted study examines the relationship between economic growth and a list of 67 explanatory variables (identified in the cross-country growth regressions from articles in peer-reviewed or refereed journals) using data for 88 countries during the period 1960-1996. From the narrow list of variables that is found to be significantly and robustly partially correlated with economic growth (18, in particular) in the study by [9], five are selected as core explanatory variables in the adopted empirical model. As examined below, the inclusion of the selected determinants (initial GDP per capita, average years of schooling, population growth, trade openness and relative price of investment goods) has been strongly advocated by the growth theories. Additionally, three out of these variables (initial GDP per capita, trade openness and relative price of investment goods) have also been suggested in an extreme bounds analysis conducted by [10].

An important caveat with regard to the empirical growth model is that it does not take full account of the propositions of the influential neo-institutionalist theories. The lack of sufficient time depth of published series of computed variables that capture the role of institutions (e.g. the indices of institutional quality) precludes such an investigation. Even so, the assumption that their effect is partly felt through the GDP per capita may not be implausible. More precisely, if the improved institutional quality is growth conducive, then its effect will be partly reflected in rising private sector productivity and higher GDP per capita. The significance-based empirical strategy in designing this particular growth model is not restrictive, though, as it also includes other potentially relevant determinants.

The inclusion of the initial level of GDP per capita tests the propositions of the beta-convergence hypothesis, implying that low income countries tend to display higher rates of growth. Hence, the expected sign of the coefficient on this variable is negative. Average years of schooling are a far-from-perfect proxy for the country's human capital, but given the lack of alternative education indicators, this measure plays a satisfactory role in many growth regressions. The comparable estimates are pulled from the [11] educational attainment international dataset and refer to the population above 25. An important limitation of the adopted measure is that it "assumes unrealistically that a year of education adds a constant quantity of human capital, whether undertaken by a primary pupil or a college student" (pp: 16, [11]). Nevertheless, the expected sign is positive, since human capital formation is expected to be associated with growth-conducive effects, *ceteris paribus*.

The relationship between population size and economic growth continues to raise controversies in modern development economics. 'Population pessimists' argue that population growth inhibits economic development, since greater population involves public costs for raising children, requires additional production capital per worker, etc. (see [12]). The mainstream neoclassical growth models predict that population growth has the same effect as depreciation: the increased supply of labour reduces the capital stock per unit of labour. On the other hand, the population optimists' camp conjectures that population growth in the long run brings "improvement of productivity through both the contribution of new ideas and also the learning-by-doing consequent upon increased production volume" (pp: 168, [13]). In contrast with the neoclassical growth models, the theories of endogenous growth (e.g. [14-18]) accentuate that the nonrivalry

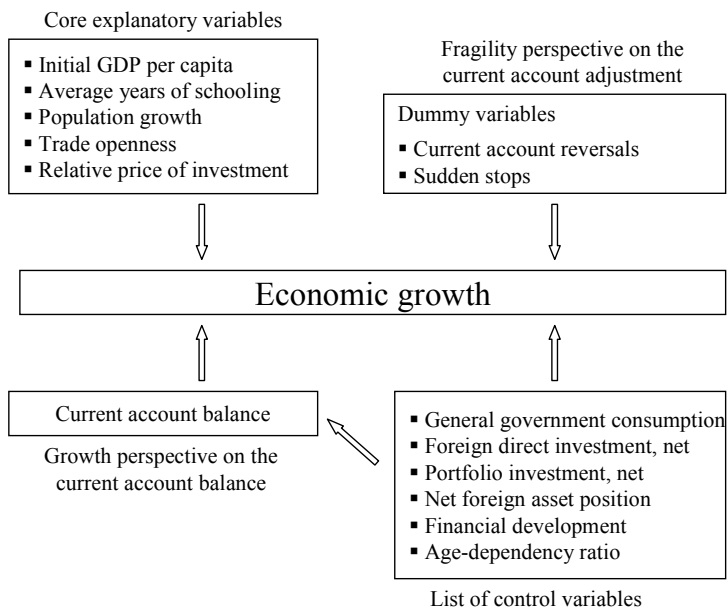
of new ideas accompanied by population growth are strong engines of economic growth. Since the literature is inconclusive with respect to the expected sign of this variable, it would be premature to specify *a priori* expectations.

Greater exposure to globalization, *inter alia*, as seen by the degree of trade openness, is an important indicator of a country's ability to achieve greater specialization and to cope with external competitive pressures. Additionally, trade openness is associated with benefits from technology spillovers, particularly from the knowledge embedded in the imported capital goods. Although trade theories and endogenous growth models suggest a positive association between trade openness and economic growth, the empirical literature does not speak with one voice. For instance, the studies by [19] that is based on a sample of 117 countries and [20] using data for 73 developing countries find a robust and positive influence of openness on growth. On the other hand, [21] finds no systematic evidence in favour of causality running from trade liberalisation to economic growth. Moreover, [22] reports that a growth-conducive effect of trade liberalization in transition economies was experienced only in the early stages of transition and particularly in the countries neighbouring the European Union. Despite the limited empirical evidence of no systematic relationship between trade openness and growth, the expected sign on the coefficient of the trade openness (measured by the sum of the country's exports and imports) is positive and in line with the theoretical guidance. Lastly, the relative price of capital goods serves as a proxy for the costs of investment. This measure is constructed as a ratio between the price level of investment and the GDP deflator. The empirical studies seem to offer compelling evidence in favour of a strong negative relationship between the relative price of capital goods and investment [23-25]. As the accumulation of physical capital is growth conducive, the expected sign on the relative price of investment goods is also negative.

In the next step, the importance of international asset trade and current account adjustment episodes is examined conditional on the inclusion of a core set of explanatory variables accentuated by the prior empirical research and a number of control variables.

## ***2.2. Investigating the "True" Influence of the Current Account Balances***

Given the particular interest in the external imbalances and current account adjustment in the transition economies, the current account balance and the episodes of current account reversals and sudden stops in net international capital inflows are added to the core empirical specification. Such an empirical strategy might be at risk of distorting the "true" influence of the current account balance, because there are other growth determinants that, simultaneously, are conditioning factors of the current account behaviour. In that case, the underspecified model would produce an estimated impact of the current account that is subject to omitted variable bias, given the correlation between the variable of interest and the error term. Therefore, the list of potentially relevant variables is extended further by inclusion of additional determinants of growth that may be correlated with the current account balance. As presented in Figure 1 that outlines the analytical framework, these variables are general government consumption, net international capital flows (foreign direct and portfolio investment inflows), net foreign asset position, financial development and age-dependency ratio.



**Figure 1** The analytical framework of the augmented growth model.

General government consumption expenditure is used in the growth literature as a measure of the size of the government. The theory suggests that there is a certain threshold of government expenditure associated with the provision of core government functions beyond which further increases in government consumption spending are not expected to enhance the productivity of the private sector. In an endogenous growth model (in particular, the public-goods model of productive government services) developed by [26] and extended by [27], the effect of government on growth involves two conflicting channels: the negative effect of taxation on the after-tax marginal product of capital and the beneficial effect of provision of public services. For example, when the positive effect is prevailing, the increases of general government consumption are expected to be growth-conducive. Despite the theoretical inconclusiveness, the overwhelming empirical evidence suggests a negative association between government size and economic growth in the long run (e.g. [28] and [29]).

In order to explore the potential supply-side effects of the intertemporal trade, two different sources of financing of the current account balance (net inflows of foreign direct and portfolio investment) enter as explanatory variables into the growth equation. The transition-related empirical literature on the impact of foreign capital inflows is inconclusive, though. For instance, [30] support the beneficial impact of FDI inflows on economic growth in 25 Central and Eastern European and former Soviet Union transition economies. A broader panel data analysis of the impact of FDI in the eight EU candidate countries, conducted by [31], reveals no statistically significant relationship with the domestic capital formation, but highly significant and consistently negative effect on economic growth for the period 1994-2001. The counter-intuitive



findings are attributed to the prevalence of mergers and acquisitions within the foreign investment inflows, whereas the use of the foreign exchange proceeds has been hypothesized to be allocated to consumption and imports. There is rather scarce empirical evidence with respect to the effects of foreign portfolio investment, as the literature has been mainly FDI-centred. Even so, studies report either no statistically significant effect on economic growth (e.g. [32]), or a negative effect (e.g. [33]). The beneficial impact of foreign portfolio investment is often associated with the increased depth of the financial market of the host country, improved allocation of capital, transparency and corporate governance and higher rate of economic growth [34]. On the other hand, the negative impact of net portfolio investment inflows is frequently associated with excessive volatility and uncertainty on the financial markets [35]. Hence, *a priori* expectations favour no systematic relationship between the net foreign direct and portfolio investment, on one side, and economic growth, on the other side.

Additionally, the validity of the stock adjustment approach to external disequilibrium analysis is tested in the context of the growth model. It presumes that it is not the current account, but the net foreign asset position *per se* that matters. Net foreign assets are defined as the difference between the stock of foreign assets held by domestic residents and the stock of domestic liabilities held by foreign residents. The changes in net foreign asset positions reflect not only the current account balance, but also the changes in valuation. Valuation gains and losses on foreign currency-denominated assets and liabilities are not measured in the current account, and therefore provide additional information on the changes in 'the external wealth of nations'. The use of net foreign assets as explanatory variable in the growth model is motivated by the argument of [36] that the benefits of international financial integration are tied with the gross holdings of foreign assets and liabilities, rather than to capital flows. Furthermore, the initial net foreign asset position is found to be statistically significant determinant of the current account balance (e.g. [37]).

Country's financial development is another important variable that displays consistent influence not only on short-term output fluctuations, but also on longer term growth prospects. Although better functioning financial markets and institutions exhibit independent positive influence on economic growth (e.g. [38]), many empirical studies support the reversal causality between the two variables ([39] and [40]). This problem is partly addressed by treating the financial development as explanatory variable that enters the growth equation with values for the year preceding each five-year non-overlapping interval. The study uses the private sector credit by the deposit money banks and other monetary institutions (expressed as a fraction of GDP) as an indicator of financial development. In line with the theoretical guidance, the expected sign on the coefficient for each financial development proxy is positive.

Lastly, as life-cycle and overlapping-generations theories underscore, the country's demographic profile may have profound effects on economic growth. The standard empirical strategy has been to incorporate age composition through age-dependency ratios, which measure the demographic burden for the society. The age dependency is defined as a sum of young dependency (defined as a share of the population between 0 and 14 in the total population) and old-age dependency ratio (defined as a share of the population above 60 in the total population). The expected sign is negative, because the larger share of non-working population imposes a demographic burden on the rate of economic growth.

### ***2.3. The Incidence of Current Account Reversals and Sudden Stops among the European Economies***

In order to investigate the economic costs (in terms of output performance) of current account reversals and sudden stops, the model includes a dummy variable taking the values of 1, if a current account reversal has occurred in the multi-year non-overlapping period, and zero otherwise. Given the relatively small sample of countries (see Appendix 2 for the full list), the preferred definition of a current account reversal episode rests on two arbitrarily determined criteria: (1) the current account deficit prior to the external adjustment to be at least 3% of GDP, and (2) the magnitude of the reduction of the current account deficit to be at least 3% of GDP in the subsequent year. An important caveat of the adopted empirical strategy is that some periods contain two current account reversals and this distinction is not taken into account. Yet, because the procedure is primarily concerned with the longer term growth of per capita income, such a distinction between one and two current account reversals in the observed multi-year periods may not be critical. Although the conventional wisdom associates current account reversals with growth-depressing effects, the study takes a neutral position. More precisely, current account reversals are not always growth-disruptive, because the current account adjustment may reflect a large set of factors stemming from internal, external or mixed adjustment in the economy.

Since the implications of current account reversals can be rather sensitive to the definition employed, in addition to the preferred one, two alternative descriptions are used. The more restrictive definitions of current account reversal episodes involve: (i) an initial current account deficit of at least 4% of GDP and reduction of this ratio of at least 4% in one year (reversal type B), and (ii) an initial current account deficit of at least 5% of GDP and reduction of this ratio of at least 5% in one year (reversal type C). Additionally, the impact of sudden stops in net capital inflows on the rates of economic growth is analysed. Net international capital inflows are defined as a sum of net inflows of foreign direct investment, portfolio investment, and loans and trade-related lending (all expressed as a fraction of GDP). The data is pulled from the IMF's Balance of Payments Statistics database for each country. In empirical terms, the sudden stop is defined as a reduction of net international capital inflows of at least 3% of GDP in one year. This is a frequently employed and preferred single-criterion definition of the episodes that involve abrupt reduction of net capital inflows in a particular year. Given the wide range of definitions used in the empirical literature, two additional descriptions of sudden stops are explored: a reduction of net capital inflows of at least 5% of GDP (sudden stop - type B) and of at least 7% of GDP (sudden stop - type C) in a year.

## **3. Data Issues, Empirical Specification and Estimation Results**

Given the prior analytical framework, the final empirical specification takes the following form:

$$\begin{aligned}
gr_{i,t} = & \alpha_i + \underbrace{\beta_1 GDPpc_{i,t} + \beta_2 ays_{i,t} + \beta_3 popgr_{i,t} + \beta_4 open_{i,t} + \beta_5 relpinv_{i,t}}_{\text{CORE EXPLANATORY VARIABLES}} \\
& + \underbrace{\beta_6 careversals_{i,t} + \beta_7 sudstops_{i,t}}_{\text{FRAGILITY PERSPECTIVE ON THE CURRENT ACCOUNT ADJUSTMENT}} + \underbrace{\beta_8 cab_{i,t}}_{\text{GROWTH PERSPECTIVE ON THE CURRENT ACCOUNT BALANCE}} \\
& + \underbrace{govcons_{i,t} + fdi_{i,t} + pi_{i,t} + nfa_{i,t} + findev_{i,t} + agedep_{i,t}}_{\text{CONTROL VARIABLES}} + u_{i,t}
\end{aligned}$$

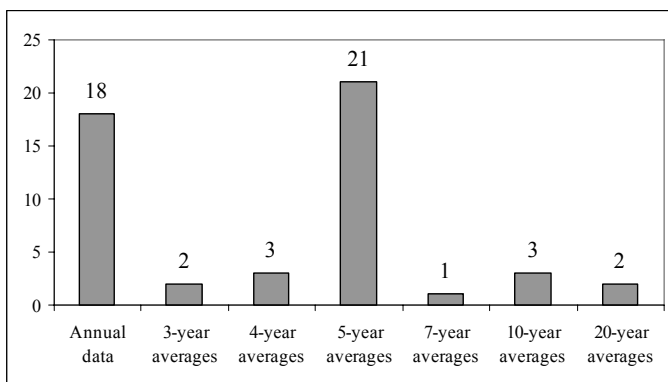
in which,  $gr_{i,t}$  represents the growth of GDP per capita (in purchasing power parity terms) in multi-year non-overlapping intervals,  $\alpha_i$  are the country-specific unobservable effects, and  $u_{i,t}$  is the disturbance term, independently and identically distributed (with mean 0 and variance  $\sigma^2$ ). The description of the symbols for the explanatory variables and their expected sign is presented in Table 1.

Symbol	Description of the explanatory variable	Expected sign
GDPpc	Initial GDP <i>per capita</i> (in purchasing power parity terms)	–
ays	Average years of schooling	+
popgr	Annual growth rate of total population	+ / –
open	Initial trade openness (sum of exports and imports, in percent of GDP)	+
relpinv	Relative price of investment	–
careversals	Current account reversal episodes (dummy variables)	– / 0
sudstops	Episodes of sudden stops in net international capital inflows	– / 0
cab	Average contemporaneous current account balance (in percent of GDP)	–
govcons	General government consumption (in percent of GDP)	– / 0
fdi	Net inflows of foreign direct investment (in percent of GDP)	+
pi	Net inflows of portfolio investment (in percent of GDP)	+ / 0
nfa	Initial net foreign asset position	+ / –
findev	Initial financial development (private sector credit)	+
agedep	Age dependency ratio	–

**Table 1 Symbols, description and expected sign of the explanatory variables.**

Earlier empirical work on economic growth has underscored that yearly time spans are too short to be appropriate to study growth convergence (e.g. [41] and [42]). The main reason is that yearly observations are subject to short-term disturbances, but there is little (if any) guidance in the literature on the "appropriate" time span that smoothes the business cycle fluctuations. For instance, [43] provides pooled regressions with data spanning over ten years. For comparison purposes, a survey of the studies published in

the last three years (between January 2005 and April 2008) and listed on the comprehensive EconLit index of journal articles has been conducted. As presented in Figure 2, among the cross-country investigations of determinants of growth, the most widely used frequency at which data are considered is the five-year time span. The selection of the appropriate technique is not only conditional on the time horizon under investigation, but also on the data availability. The preference for five-year span is partly driven by the availability of comparable estimates for the educational attainment dataset, which are published by [11] in five-year intervals.



**Figure 2 Distribution of cross-country empirical growth specifications according to the frequency at which data are considered. Note: Only studies available through the EconLit database and published between January 2005 and April 2008 are considered.**

The dataset for the presented empirical specification is organized at five-, four- and three-year frequencies in order to check the consistency of the results. For instance, in the first case, the dependent variable is defined as a five-year average growth rate of the GDP per capita (in PPP terms) in non-overlapping intervals (1975-1980, 1981-1985, 1986-1990, 1991-1995, 1996-2000, and 2001-2005). In order to address the problem of potential endogeneity, data for the core explanatory variables enter the regression in the year preceding the non-overlapping interval. However, the balance-of-payments data enter as contemporaneous five-year averages, because there is no particular reason why the current account balance or net international capital flows in the year preceding the interval would influence the average GDP growth rate in the forthcoming five years. The data sources and construction of particular variables employed in the model are presented in Appendix 3. Due to the particular interest in the external accounts of the European economies, interactive terms are introduced for thirteen advanced EU economies and thirteen transition economies (see Appendix 2).

The main estimation technique is a static fixed-effects panel data model, which is considered as an appropriate specification when focusing on a specific set of countries and when the inference is restricted solely to their behaviour [44]. Also, the formal Hausmann specification test which checks a more efficient (random-effects) model against a less efficient but consistent (fixed-effects) model favours the latter type of model. Due to a number of missing observations, particularly for the socialist past of the transition economies, an unbalanced panel data is used. The lack of observations for

the transition economies precludes the use of a dynamic panel data model, which could test for possible growth persistence effects and potential endogeneity between current account reversals and contemporaneous five-year average GDP growth. However, the survey of recent empirical investigations of growth determinants reveals that the fixed-effects estimator is a frequently adopted estimation technique (e.g. [45-47]).

Before analysing the results, diagnostic tests and few important caveats are reported. A modified Wald test for groupwise heteroskedasticity in the residuals under the null hypothesis of homoscedasticity across groups has been conducted. Since the null hypothesis of homoscedastic residuals is decisively rejected, the least that can be done is to report the results with t-statistics based on robust standard errors. To circumvent heteroscedasticity problems, some studies use the feasible generalised least squares (FGLS) estimator, which allows estimation in the presence of AR(1) autocorrelation within and heteroskedasticity across panels [48]. Yet, the consistency of the empirical results based on this technique rests on the assumption of many periods and few panels. Since the asymptotic properties of this estimator are crucial to draw statistical inference, the FGLS estimator is inappropriate for the rather small sample of 24 countries and at most six five-year averages. Lastly, the empirical results from the panel data estimation are presented in Table 2.

The estimation results from the empirical specification using data at five-year frequency are interpreted first (columns 1 and 2). In line with the beta-convergence hypothesis, the initial per capita income is negatively correlated with economic growth, implying that an increase in the per capita income of 10 percent, on average, is associated with 0.93 percentage points lower rate of longer-term growth of GDP per capita of the countries included in the sample. The impact of human capital, captured by the average years of schooling variable, is also strong. An additional year of schooling (say from 8, which is the average for the sample during the observed period, to 9) would increase the average GDP growth rate by 0.77 percentage points, other things being equal. If the price level of investment increases by 0.1 percentage points more than the GDP deflator, then on the average, the longer-term economic growth would decelerate by 0.58 percentage points. Additionally, financial development has exhibited statistically significant, but moderate growth-conducive effects: an increase in the private sector credit (in percent of GDP) by 10 percentage point, on average, leads to higher economic growth rate by 0.11 percentage points. However, population growth and trade openness turned out to be insignificant, as is the case with most of the dummy variables for the episodes of current account reversals and sudden stops of net international capital inflows. Unlike population growth, the age dependency has played an important role: an increase of the age dependency ratio by 1 percentage point, on average, is estimated to lead to a deceleration of the average growth rate by 0.13 percentage points, *ceteris paribus*. Lastly, the coefficients of interest are statistically significant and reveal strong impact of current account deficits and current account reversals (of at least 3% of GDP) on the economic growth in transition economies. For instance, a deterioration of the current-account-balance-to-GDP ratio by 1 percentage point is estimated to lead to 0.66 [-0.023+(-0.637)] percentage points higher rate of economic growth. The magnitude of the coefficient is rather high compared to a similar study by [49] that produces an estimate of 0.354. Yet, their OLS specification does not incorporate control variables. In the parsimonious version of this model (the one that omits the statistically insignificant control variables), presented in the second column,

the estimate is even higher. Additionally, only the current account reversals associated with initial current account deficit of at least 3% of GDP, and the magnitude of the reduction of at least 3% of GDP, exhibit growth-detrimental effects (a reduction of longer-term growth rate by 0.99 percentage

Due to the small number of observations, particularly for the transition economies, the estimates based on five-year non-overlapping intervals are likely to suffer from a small sample bias. Thus, in order to check their consistency, the same regression is run with data at four- and three-year frequencies (columns 3-6). The estimation results provide evidence of consistent influence of the initial income per capita, average years of schooling, relative price of capital goods and age dependency on longer-term economic growth. Yet, due to space limits, only the coefficients on the variables of interest are interpreted. Again, they provide evidence that none of the dummy variables for the different definitions of current account reversals and sudden stops in net international capital flows is statistically significant. Furthermore, whereas the general specifications (columns 3 and 5) produce estimates at the borderline of 10% significance, the parsimonious versions (columns 4 and 6) display statistically significant impact. For instance, a deterioration of the current-account-to-GDP ratio by 1 percentage point, on average, would result in 0.22 (+0.082-0.302) and 0.33 (0.008-0.308) percentage points higher rate of economic growth in the fixed-effects panel data regressions based on four-year and three-year data frequencies, respectively.

The substantial differences with regard to the magnitude of the estimated marginal effect of foreign saving (current account deficits) on growth, conditional on a wider set of control variables, highlight an important trade-off. The proposed longer-run growth model seems to be more compatible with data considered at the five-year frequency, but the estimates are likely to suffer from small sample bias. The estimations using data at the four- and three-year frequencies use imputed data for the educational attainment variable, but they do reveal much lower growth-conductive effects of foreign saving. For these reasons, the preferred specifications are the ones using data at the four- and three-year frequencies, because they exploit more information available in the given data set. Put differently, the overwhelming evidence seems to support the proposition that widening and persistent current account deficits in the transition economies, on average, have generated moderate growth-conductive effects.

#### **4. Concluding Remarks and Policy Recommendations**

The dramatic increase of the speed of the intertemporal trade of the transition economies during the late 1990s and early 2000s ("the age of equity finance"), as seen in the widening current account deficits and deteriorating net foreign asset positions, has ignited considerable interest for sustainability analysis. Despite the numerous empirical studies, the only definite policy-relevant proposals are those calling for cautious monitoring of the external imbalances. As the empirical results in this study demonstrate, the observed swings in the current account balance (current account reversals) and sudden stops of net capital inflows have not been systematically associated with growth slowdown of the analysed European economies. Given that the literature on external sustainability analysis is in its infancy, several operational definitions have been employed in order to test the sensitivity of the results. The results

are fairly consistent across different empirical specifications and a range of operational definitions. The findings are in line with part of the empirical literature, which paradoxically, tends to become more and more inconclusive. Much additional research is needed to reconsider the practice of arbitrarily determined thresholds for characterising the event as current account reversal, because certain operational definitions have different policy implications.

In the case of Europe, increasing financial integration has indeed facilitated the downhill flow of foreign capital, and as the empirical results demonstrate, it has produced moderate growth-conducive effects. The estimates reveal that the sizeable and persistent current account deficits in most European transition economies have been associated with gains from the intertemporal trade and higher rates of economic growth.

<i>Dependent variable</i>	Average 5-year growth of GDP per capita		Average 4-year growth of GDP per capita		Average 3-year growth of GDP per capita	
	1	2	3	4	5	6
<i>Explanatory variables</i>						
Logarithm of initial GDP per capita (PPP)	<b>-9.267 ***</b> (-6.43)	<b>-8.366 ***</b> (-7.14)	<b>-8.361 ***</b> (-5.60)	<b>-8.595 ***</b> (-7.22)	<b>-6.519 ***</b> (-4.62)	<b>-7.906 ***</b> (-6.87)
Initial average years of schooling	<b>0.769 ***</b> (2.91)	<b>1.002 ***</b> (4.32)	<b>1.236 ***</b> (4.50)	<b>1.341 ***</b> (5.45)	<b>1.202 ***</b> (4.21)	<b>1.074 ***</b> (4.58)
Initial population growth	-0.060 (-0.23)	-0.358 (-1.38)	<b>-0.476 *</b> (-1.70)	<b>-0.383 *</b> (-1.70)	-0.024 (-0.08)	-0.141 (-0.55)
Initial trade openness	0.877 (1.04)	0.637 (0.83)	0.892 (0.90)	<b>2.078 *</b> (1.97)	-1.876 (-1.22)	0.884 (0.53)
Initial relative price of investment	<b>-5.786 *</b> (-1.97)	-1.613 (-0.88)	<b>-3.060 ***</b> (-3.43)	<b>-3.203 ***</b> (-3.50)	-0.762 (-0.58)	<b>-1.372 *</b> (-1.58)
Average current-account-to-GDP ratio	-0.023 (-0.29)	-0.021 (-0.45)	0.034 (0.75)	<b>0.082 *</b> (1.92)	0.004 (0.06)	0.008 (0.21)
EU-15 country dummy x Average current -account-to-GDP ratio	0.165 (1.58)	0.069 (0.92)	0.051 (0.62)	0.055 (0.80)	0.087 (0.99)	0.093 (1.41)
Transition country dummy x Average current -account-to-GDP ratio	<b>-0.637 ***</b> (-4.74)	<b>-0.833 ***</b> (-7.94)	-0.266 (-1.40)	<b>-0.302 *</b> (-1.76)	-0.237 (-1.55)	<b>-0.308 *</b> (-1.93)
Initial net foreign asset position	-0.001 (-0.08)		<b>-0.012 *</b> (-1.66)	<b>-0.017 ***</b> (-3.02)	-0.002 (-1.37)	-0.007 (-0.94)
Initial government consumption	-0.011 (-0.23)		-0.051 (-0.78)		-0.064 (-1.05)	
Average foreign direct investment, net	0.117 (-0.83)		1.305 (1.40)		-0.002 (-0.01)	
Average portfolio investment, net	-0.033 (-0.98)		-0.014 (-0.67)		-0.032 (-1.09)	
Initial age dependency ratio	<b>-0.128 ***</b> (-3.06)	<b>-0.078 **</b> (-2.10)	<b>-0.128 ***</b> (-3.02)	<b>-0.101 ***</b> (-2.80)	<b>-0.104 **</b> (-2.37)	<b>-0.137 ***</b> (-3.59)
Initial financial development	<b>1.110 **</b> (2.16)	<b>1.275 ***</b> (2.75)	-0.219 (-0.42)		-0.577 (-0.98)	0.409 (0.78)
Current account reversals (dummy variables)						
Definition A (CAB = -3%; Improvement=3%)	<b>-0.985 *</b> (-1.92)	<b>-1.092 ***</b> (-2.82)	-0.705 (-1.09)		-0.965 (-1.18)	
Definition B (CAB = -4%; Improvement=4%)	-0.224 (-0.32)		0.507 (0.63)		-0.022 (-0.02)	
Definition C (CAB = -5%; Improvement=5%)	-0.373 (-0.34)		-0.738 (-1.00)		0.006 (0.01)	
Sudden stops (dummy variables)						
Definition A (Reduction of 3% of GDP)	0.075 (0.22)		0.235 (0.86)		-0.020 (-0.06)	
Definition B (Reduction of 5% of GDP)	-0.371 (-1.05)		-0.137 (-0.44)		0.173 (0.67)	
Definition C (Reduction of 7% of GDP)	-0.523 (-1.39)		0.048 (0.16)		0.068 (0.23)	
Intercept	<b>0.947 ***</b> (6.98)	<b>0.772 ***</b> (7.45)	<b>0.812 ***</b> (5.75)	<b>0.790 ***</b> (6.40)	<b>0.632 ***</b> (4.66)	<b>0.754 ***</b> (7.42)
Number of observations	153	167	213	249	287	329
Number of countries	38	38	40	40	40	40
R-squared	0.556	0.606	0.331	0.410	0.202	0.274

**Table 2 Estimation results from growth empirical specifications using data considered at five-, four- and three-year frequencies, 1970-2005.**

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## Appendix A

### List of Acronyms

AR	Autoregressive
CAB	Current Account Balance (In Percent of GDP)
EU	European Union
FDI	Foreign direct investment (net inflows)
FGLS	Feasible Generalized Least Squares
GDP	Gross Domestic Product
IMF	International Monetary Fund

## Appendix B

### Sample of Countries under Investigation

Groups of countries	List of countries
	15 countries not belonging to EU-15 Australia, Canada, Cyprus, Hong Kong SAR, Iceland, Israel, Japan, Malta, New Zealand, Norway, Republic of Korea, Singapore, Switzerland, Taiwan, and United States.
Advanced economies	Advanced EU-13 *** economies Austria, Belgium, Great Britain, Germany, Greece, Denmark, Italy, Portugal, France, Finland, The Netherlands, Sweden and Spain.
Transition economies	13 European transition countries Albania, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Poland, Romania, Slovakia, and Slovenia.

\*\*\* Due to the outlying observations for trade openness of Ireland and Luxembourg, these countries are excluded from the EU-15 group. The noted countries are major offshore centres for the global mutual fund industry in the region of Europe. This is not an isolated approach, as earlier empirical studies have also adopted the same empirical strategy. The inclusion of the trade openness variable for these countries invites severe heteroscedasticity problems and very high leverage.

## Appendix C

### List of Variables and Data Sources

List of Variables	Data Sources
Average real GDP per capita growth (purchasing power parity, in 1990 US \$) in multi-year non-overlapping intervals	Author's calculations based on data from Groningen Growth and Development Centre and the Conference Board, Total Economy Database, May 2006, <a href="http://www.ggdc.net">http://www.ggdc.net</a>
Natural logarithm of GDP per capita (purchasing power parity, in 1990 US \$)	Groningen Growth and Development Centre and the Conference Board, Total Economy Database, May 2006, <a href="http://www.ggdc.net">http://www.ggdc.net</a> .
Average years of schooling of the population above 25	Barro, Robert J. and Jong-Wha Lee, "International Data on Educational Attainment: Updates and Implications" (CID Working Paper No. 42, April 2000) - Human capital updated files.
Trade openness	Alan Heston, Robert Summers and Bettina Aten, Penn World Table Version 6.2, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania, September 2006.
Population growth	World Development Indicators (WDI) 2007, ESDS International, (MIMAS) University of Manchester.
Relative prices of investment goods	A. Heston, R. Summers and B. Aten, Penn World Table Version 6.2, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania, September 2006
General government consumption expenditure	UN common database, United Nations Statistics Division on-line database ST/ESA/STAT/UNCDB/WWW, 22 February 2008.
Foreign direct investment, net	IMF Balance of Payments Statistics, 2007. Accessed through: ESDS International, (MIMAS) University of Manchester. This series was divided by GDP in millions of US dollars (current prices).
Portfolio investment, net	IMF Balance of Payments Statistics, 2007. Accessed through: ESDS International, (MIMAS) University of Manchester. This series was divided by GDP in millions of US dollars (at current prices).
Net foreign asset position	Lane and Milesi-Ferretti's (2006) international dataset of external wealth of nations. Lane, P., Milesi-Ferretti, G., 2006. The External Wealth of Nations Mark II: Revised and Extended Estimates of Foreign Assets and Liabilities, 1970-2004, IMF Working Paper No. 06/69, The International Monetary Fund, Washington D.C.

	<a href="http://www.imf.org/external/pubs/ft/wp/2006/data/wp0669.zip">http://www.imf.org/external/pubs/ft/wp/2006/data/wp0669.zip</a> .
Private sector credit from deposit money banks and other monetary institutions	Financial Structure dataset of the World Bank ( <a href="http://siteresources.worldbank.org/INTRES/Resources/FinStructure_60_05_final.xls">http://siteresources.worldbank.org/INTRES/Resources/FinStructure_60_05_final.xls</a> )
Age dependency ratio	Age dependency ratio (dependents to working-age population) (SP.POP.DPND). Source: World Bank, World Development Indicators (WDI) November 2007, ESDS International, (Mimas) University of Manchester.

# Institutions and Transaction Costs in Romanian Transition

*Andreea-Oana Iacobuta<sup>1</sup>, Ion Pohoata<sup>2</sup>*

*Alexandru Ioan Cuza" University of Iasi, Faculty of Economics and Business Administration, 22nd Carol I Ave., 700505 Iasi, Romania, andreea\_iacobuta@yahoo.com<sup>1</sup>, pion@uaic.ro<sup>2</sup>*

In its essence, New Institutional Economics states that institutions enhance economic performance by reducing transaction costs. This issue applies directly to Romania's priorities. We have here in view the fact that Romania has not succeeded in entirely overcoming the stage of a complex and complicated transition towards market economy. The main characteristic of the process of institutional transformation in Romania is considered to be institutional fragility which leads to high transaction costs. Even if most of the market-based institutions have been established in Romania, statistics still show a very low institutional quality. We explain this by taking into consideration the impact informal institutions have on the enforcement of the formal ones. The slow progress in institutional reform is mostly due to the tension existing between formal and informal institutions, which results in high transaction costs, hampering economic growth and development. This paper aims at explaining what remaining behind means by exploring the relationship between institutions, transaction costs and economic performance in Romanian transition. In order to support our point of view, we analyse several governance indicators and indicators of economic performance in Romania, Bulgaria, Hungary and Poland.

## **Keywords**

economic performance, institutions, Romania, transaction costs, transition.

## **1. Introduction**

Within the literature concerning transition, most economists agree that efficient market-based institutions are fundamental to successful transformation. Much of the work uses New Institutional Economics core elements (such as transaction costs) to relate institutions to economic performance in order to point out the diversity of development patterns and the heterogeneity of economic results among transition economics.

The issue of the relationship between institutions and transaction costs in Romanian transition has not been given enough importance in studies and theoretical approaches which leaves a lot of space for open academic debate. Little, even insignificant analysis has been undertaken on transaction costs and institutions in Romanian transition. There

is no global and comprehensive study on this relationship and its role in economic stagnation or growth or even in the success of reforms.

This paper aims at explaining what remaining behind means by analyzing the relationship between institutions and transaction costs and their impact on economic performance in Romanian transition. Our belief is that in Romania informal institutions have a strong impact on the enforcement of formal ones, this tension leading to high transaction costs which, in turn, affect economic performance.

After this introduction, the second section of this paper briefly presents a literature review aiming at providing more insight into the relation between institutions, transaction costs and economic performance, focusing on several issues regarding the transition process. This prepares the background for analyzing the Romanian transition. We use longitudinal analysis in terms of following the economic performance (by way of macroeconomic indicators) and various indicators of institutional quality in Romania over time, after 1990 in order to show the differences in economic performance and the role of initial conditions. We also attempt to emphasize the weak and the strong points of Romania in comparison with other countries in transition (such as Bulgaria, Hungary, Poland) which started in the 1990s with a relatively similar institutional base but with some advantages in terms of economic development. The last section briefly outlines some conclusions and identifies several possible directions for future research.

## 2. Theoretical Aspects

Scholars have paid increasing attention to the complex relationship between institutions, transaction costs and economic performance.

Although definitions vary across literature, *institutions* are strongly correlated with economic growth and development. In Kasper and Streit's opinion,

“Institutions are rules of human interaction that constrain opportunistic and erratic individual behaviour more predictable and thus facilitating the division of labour and wealth creation” (p: 30, [1]).

Institutions comprise laws, regulations, property rights, in one word **formal** rules which are compulsory and punitive, as well as habits, traditions, behavioural norms which turn into unspoken and unwritten **informal** rules. The interaction between them may result in harmony or in conflict. This aspect, called “interaction thesis” is considered to be very important and can be summarized as follows: when the interaction between formal and informal rules results in harmony, transaction costs reduce and economic welfare increases. On the contrary, when they are not compatible, the incentives they create will raise transaction costs and decrease economic welfare [2].

As for institutions, there is also no standard definition for the concept of *transaction costs*. North describes them as “the costs of protecting rights and policing and enforcing agreements” (p: 27, [3]). However, it is easier to define these using examples. Thus, transaction costs arise from several situations such as, buying and selling goods and services, raising finance and capital, securing and enforcing property rights, obtaining information, entering into and enforcing contracts, complying with government regulations and so on [4]. Generally speaking, incomplete information and the

uncertainty resulting from it, as well as the opportunism of human nature are major sources of transaction costs.

Institutions emerge in order to structure economic behaviour thus, reduce uncertainty and transaction costs and increase economic welfare.

The process of institutional transformation in transition is associated in literature with a high level of transaction costs resulting from several situations which are specific to transition. We will subsequently focus on two such issues.

*Firstly*, transition is associated with a high level of uncertainty. In van de Mortel's opinion,

“this uncertainty follows from the main characteristics of those countries, *viz.* the collapse of the socialist economic and political institutions and the disappearance of the order preserved until then. In fact the uncertainty springs from two reasons. Firstly, there is uncertainty because the institutions of the past are not operational anymore. Secondly, there is uncertainty with respect to the formation of the new institutions” (p: 17, [5]).

Secondly, in transition, transaction costs arise because of the incompatibility between the new formal institutions which are to be adopted and the old informal rules which are still strong, at least at the beginning of transition. This, in turn, explains the different economic performance among transition countries.

“The interaction between the formal institutions of capitalism and the prevailing culture in former socialist states might be a major reason for uneven results of institutional restructuring in Central and Eastern Europe” (p: 10, [2]).

The legacies of the past encourage noncompliant behaviours and legitimate negative informal rules which often take the place of the incipient formal ones.

The next section is dedicated to Romania and it points out the differences in economic performance when compared to other transition economies, from an institutionalist point of view.

### **3. The Case of Romania**

Romania is a representative example of a complex, painful and costly transition which has resulted in high transaction costs with a negative impact on economic performance. The results of the reforms towards market economy have been influenced both by the communist inheritance and the options of the decision-makers after 1989.

With regard to initial conditions, countries in transition display some common structural features, but also major differences related mostly to some pre-transition patterns. If, for example, Poland and Hungary were somehow in advantage at the start (due to some partial reforms during socialism), Romania and Bulgaria were the inheritors of the most oppressive communism.

However, empirical studies show that the initial conditions have a strong impact on macroeconomic performance only at the beginning of transition; subsequently their role diminishes and performance is closely associated with the strength of the reform [6].

Table 1 presents different measures of initial conditions in selected transition economies.

	Years under central planning	Liberalization index 1989 <sup>1)</sup>	PPP per capita income (US dollars) 1989	Initial condition index <sup>2)</sup>
Bulgaria	43	0,13	5.000	2,1
Hungary	42	0,34	6.810	3,3
Poland	41	0,24	5.150	1,9
Romania	42	0,00	3.470	1,7

1) It ranges from 0 to 1, higher values corresponding to more liberal economies

2) A higher value indicates more favourable starting conditions.

**Table 1 Initial conditions in selected countries. Source: World Economic Outlook, October 2000: Focus on Transition Economies, IMF.**

At the start of transition the Romanian economy was centrally planned in the purest meaning of the world. The 0,00 score for the Liberalization Index points out no domestic market and foreign trade liberalization, no enterprise privatization and no banking reform. Per capita income level was also lower than those in the other selected countries. Overall, the aggregate index shows less favourable initial conditions for Romania.

On the other hand, these initial conditions cannot explain the poor results in Romanian transition; at least not by themselves.

To a degree, the explanation of Romania's poor institutional environment relates to its communist heritage. The informal institutions accumulated in 42 years of central planning cannot be changed over night. The major implication is that, in the early 1990s, Romanians, like the majority of East Europeans, were not ready to embrace the values of free market. Furthermore, this means that

“the acceptance, monitoring and enforcement of new formal rules in Central and East European countries had to have positive transaction costs. We can say that transaction costs specific to the process of transition arise from the conflict between the formal rules of capitalism and the prevailing culture of Central and East European countries” (pp: 15-16, [2]).

These inconsistencies weighted heavily in Romania. The degree of path dependence was higher than in other countries mostly due to the decision makers' failure to undertake some rapid and consistent structural changes. They implemented ambiguous and inconsistent reforms which did not help at completely dismantling the old system and perpetuated stagnation, confusion and chaos. This lack of state authority and vision also led to a lack of trust in institutions. All of these resulted in a sort of nostalgia for the past and the persistence of several negative informal institutions which had a strong impact on the already weak formal rules. As a consequence, transaction costs increased, institutional incentives encouraged not productive but rent-seeking, predatory behaviours which negatively affected economic outcomes.

As a result, after ten years of transition, economic performance and institutional quality were very low in Romania compared to other transition countries.



Table 2 presents progress in structural and institutional reform in selected countries in the late 1990s.

	EBRD Transition Indicator1)	Institutional quality2)
	1999	1997-1998
Bulgaria	2,9	+0,1
Hungary	3,7	+8,7
Poland	3,5	+7,0
Romania	2,8	-0,8

1) EBRD Transition Indicators range from 1 to 4+, with 1 representing conditions unchanged from those of a centrally planned economy and 4+ for conditions in an advanced market economy.

2) Institutional quality index ranges from -25 to +25 and its average value calculated for developed market economies is 12,6.

**Table 2 Progress in structural and institutional reform. Source: World Economic Outlook, October 2000: Focus on Transition Economies, IMF; EBRD Transition Report 1999.**

In 2000, Romania began EU accession discussion and in September 2006 the European Commission settled 1<sup>st</sup> of January 2007 as accession date for Romania (and Bulgaria). During this period, under the pressure of the so-much desired integration, the Romanian Government has implemented macroeconomic and structural policies which have supported growth and disinflation. As a consequence, starting with 2001, the GDP has registered an average growth rate (in real terms) of 5-6% for six consecutive years. In addition, inflation and unemployment rate have declined steadily. Progress in reforms has also translated into an increase in GDP per capita and FDI.

The evolution of the main macroeconomic indicators is as shown by the data in Table 3.

	2000	2001	2002	2003	2004	2005	2006	2007 <sup>2)</sup>
GDP per capita (EUR)	1.795	2.002	2.224	2.420	2.806	3.678	4.529 <sup>1)</sup>	na
Real GDP (annual percentage changes)	2,1	5,7	5,1	5,2	8,5	4,2	7,9	6,0
Inflation Rate (%) (Dec. on Dec.)	40,7	30,3	17,8	14,1	9,3	8,6	4,87	6,57
Registered Unemployment Rate (%)	10,5	8,8	8,4	7,4	6,3	5,9	5,2	4,1
FDI (EURO mn)	1.147	1.294	1.212	1.946	5.183	5.213	9.082	na

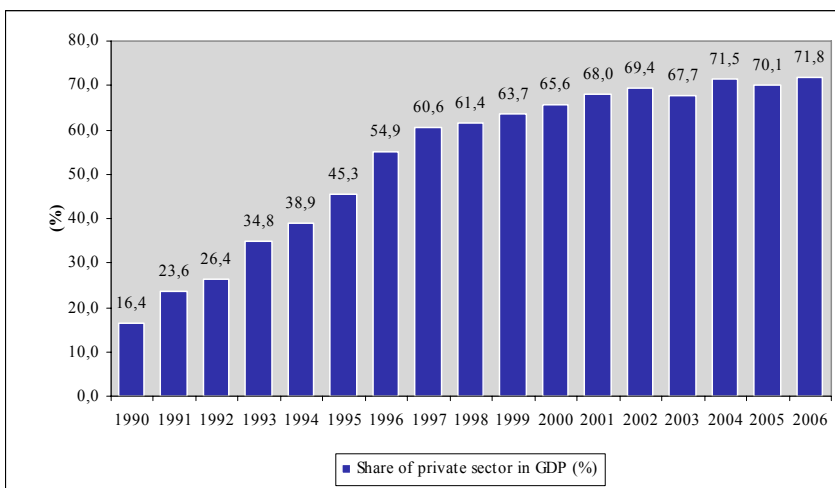
1) The data are semi-final

2) Provisional data

**Table 3 Romania – macroeconomic data 2000-2007. Sources: National Bank of Romania, National Institute of Statistics, The Romanian Agency for Foreign Investment**

Progress is also indicated by the growth of the private sector share in GDP. This is one major indicator for the reforms which must be implemented in the transition from a centrally planned to a market economy.

The share of the private sector in the Romanian economy has increased gradually from 16,4% in 1990 to 71,8% in 2006.



**Figure 10 Private sector share in GDP in Romania 1990-2006.** Source: National Institute of Statistics, National Commission of Prognosis, 2007.

All the above economic results prove that Romanian economy is on a development path. Still, the quality of institutional environment is very poor. Table 4 presents the evolution of several governance indicators in Romania. The data displayed show some improvements in Romanian institutional environment over the last years.

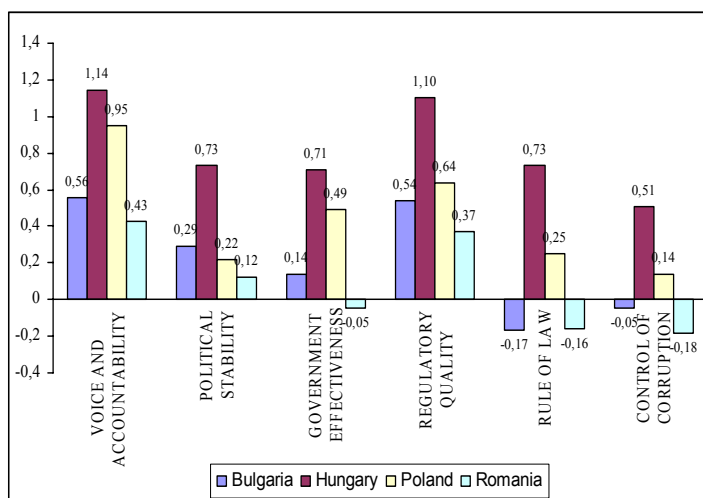
Year	Voice and accountability	Political stability	Government effectiveness	Regulatory quality	Rule of law	Control of corruption
2000	0,40	0,02	-0,38	-0,18	-0,20	-0,34
2002	0,49	0,32	-0,22	0,03	-0,25	-0,35
2003	0,38	0,25	-0,20	-0,10	-0,23	-0,30
2004	0,39	0,07	-0,15	0,13	-0,19	-0,26
2005	0,38	0,10	-0,08	0,17	-0,22	-0,24
2006	0,43	0,12	-0,05	0,37	-0,16	-0,18

Note: Governance Score is an estimate of governance measured on a scale from -2,5 to 2,5. Higher values correspond to better governance.

**Table 4 Governance indicators for Romania, 2000-2006.** Source: D. Kaufman, A. Kraay, M. Mastruzzi, *Governance Matters VI: Governance Indicators for 1996-2006*, World Bank, 2007, <http://info.worldbank.org/governance/wgi2007>

If compare the results with the ones in selected countries, we realize that Romania is still behind.

Figure 2 compares the six governance indicators in 2006 for Romania, Bulgaria, Hungary and Poland.



**Figure 2 Governance Indicators for the selected countries in 2006. Source: D. Kaufman, A. Kraay, M. Mastruzzi, Governance Matters VI: Governance Indicators for 1996-2006, World Bank, 2007, <http://info.worldbank.org/governance/wgi2007>**

The data from both Table 4 and Figure 2 demonstrate that most of the market based institutions have been established in Romania (positive scores for voice and Accountability, Political Stability, Regulatory Quality).

However, the scores for Government Effectiveness, Rule of Law and Control of Corruption display ascending but still negative values. This means that the political pressures are still high, the credibility of the government’s commitment is low, the extent to which economic agents have confidence and respect the formal rules (such as contract enforcement, for example) is also low. At the same time, the level of corruption is very high mostly due to the weakness of the state which is often “captured” by private interests with rent-seeking behaviour. Corruption continues to be an impediment for private sector proper development in Romania.

As shown in Table 5, Romania ranks worst among the analyzed countries in the Corruption Perception Index prepared by Transparency International.

Country	2007 CPI Score	Country Rank (out of 180)
Hungary	5,3	39
Poland	4,2	61
Bulgaria	4,1	64
Romania	3,7	69

Note: The score ranges from 10 (highly clean) to 0 (highly corrupt). A score of 5,0 distinguishes between countries that do and countries that do not have a serious corruption problem.

**Table 5 Corruption Perception Index 2007. Source: Transparency International 2007, [www.transparency.org](http://www.transparency.org)**

Based on the above-mentioned aspects, we can state that transaction costs are still a problem for economic development in Romania resulting from several weak points which we consider to be strongly related.

*Firstly*, these costs are high because of the loss of trust by Romanians towards the state and its institutions, often perceived as inefficient and corrupt. This general distrust makes Romanians to be sceptical about the impartiality of the newly established rules thus, proliferating non-compliance behaviours.

*Secondly*, weak formal institutions provide a fertile ground for the persistence of strong negative informal rules, through their incapacity to meet people's expectations. These make formal institutions to be less internalized and the fight against corruption more difficult.

In short, in Romania, the incentive structure provided by both formal and informal institutions is such that the productive behaviours are often dominated by the predatory ones. This situation has strong repercussions on the level of transaction costs which remain high and hinder socio-economic development.

## 4. Conclusions

Even if in theory institutional reform has been acknowledged as extremely important for the success of transition, in practice building an efficient institutional infrastructure to support an emerging market economy has proven to be a great challenge for Romania.

Gradually, market-based institutions have been established. However, the institutional framework is not complete yet. Formal institutions remain fragile as long as they are not supported by the informal ones. At the same time, transaction costs, even if they diminish over time, remain high due to the incompatibility between the two types of rules.

Although contributing to the existing literature on institutions, transaction costs and transition, this research is a starting point for future developments. One of its limitations consists in the fact that we have not quantified the transaction costs in Romania. Instead, we use an alternative, respectively, some variables which allow the achievement of sound data for a realistic assessment of the Romanian economic environment. We are convinced that an empirical study is necessary for measuring these costs and correlate their level with some indicators of economic and institutional performance in Romania.

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# The Necessity of Sustainable Tourism Planning in Romanian National Parks

*Adina Nicoleta Candrea*

*University of Transylvania, Brasov, Romania, Str. Zizinului nr.81, Bl.48, Sc. B, ap 13,  
drd.adinacandrea@yahoo.com*

**Sustainable tourism and protected areas management share a common objective: provide the public access to outstanding natural and cultural heritage. The sustainability of this partnership however can not be achieved if tourism is neither environmentally friendly nor providing sufficient financial return to local communities and park managers. The purpose of the study is to identify the main challenges and problems faced by the tourism planners from Romanian National Parks in their attempt to develop sustainable tourism in these protected areas and benefit both nature conservation and the local communities. The results reveal useful issues like the problem of waste disposal in these protected areas, negative tourist behavior, little support from the local authorities, little understanding of the sustainable tourism concept by the local community members, little funding for conservation purposes, few development projects started by the NGOs. All these issues prove the necessity of a sustainable tourism planning in Romanian national parks and also the need for a practical guide for tourism planners.**

## **Keywords**

biodiversity, national parks, nature conservation, partnership, sustainable tourism.

## **1. Introduction**

Tourism and biodiversity have a strong relationship that can be both positive and negative. Tourism can degrade natural areas, but can also be a reason to protect nature and culture. It can fund nature management and give nature a direct economic value, providing an incentive for local inhabitants and governments to protect nature. The importance of tourism is increasing, as tourism is now the largest economic sector in the world, and it is still growing [1].

Tourism is also in a special position in the contribution it can make to sustainable development and the challenges it presents. This leads to three important and unique aspects of the relationship between tourism and sustainable development:

- **Interaction:** The nature of tourism, as a service industry that is based on delivering an experience of new places, means that it involves a considerable amount of interaction, both direct and indirect, between visitors, host communities and their local environments.

- Awareness: Tourism makes people (visitors and hosts) become far more conscious of environmental issues and differences between nations and cultures. This can affect attitudes and concerns for sustainability issues not only while travelling but throughout people lives.
- Dependency: Much of tourism is based on visitors seeking to experience intact and clean environments, attractive natural areas, authentic historic and cultural traditions, and welcoming hosts with whom they have a good relationship. The industry depends on these attributes being in place.
- This close and direct relationship creates a sensitive situation, whereby tourism can be both very damaging but also very positive for sustainable development.

On the positive side, tourism can:

- Provide a growing source of opportunities for enterprise development and employment creation as well as stimulating investment and support for local services, even in quite remote communities.
- Bring tangible economic value to natural and cultural resources. This can result in direct income from visitor spending for their conservation, and an increase in support for conservation from local communities.
- Be a force for inter-cultural understanding and peace.

Conversely, tourism can:

- Place direct pressure on fragile ecosystems causing degradation of the physical environment and disruption to wildlife.
- Exert considerable pressure on host communities and lead to dislocation of traditional societies.
- Compete for the use of scarce resources, notably land and water.
- Be a significant contributor to local and global pollution.
- Be a vulnerable and unstable source of income, as it is often very sensitive to actual or perceived changes to the environmental and social conditions of destinations.

Travel to protected areas is increasing, both because of the overall expansion of tourism and development of international transport networks, and because of the growing interest amongst tourists in learning more about the natural and cultural heritage of the destinations they visit. Protected areas can benefit from tourism in several ways [2]:

- Additional funds for conservation can be generated from tourism; this is important, as many protected areas face serious financial constraints.
- By raising awareness amongst visitors<sup>2</sup> and raising the profile of the protected area at the local and national level, tourism can help promote conservation of the site.

- By providing alternative income opportunities for people living in and around the protected area, tourism may help to reduce unsustainable exploitation of natural resources and promote conservation awareness within local communities.
- By establishing closer links with the tourism sector, protected areas staff can learn the realities of tourist demands and more effectively meet the requirements of tourism companies; these relationships can also encourage a greater understanding of conservation priorities amongst tourism companies.

In 1995 EUROPARC took the initiative to set up the European Charter for Sustainable Tourism in Protected Areas, with a project funded by the EU's LIFE program and led by the Fédération des Parcs naturels régionaux de France on behalf of EUROPARC. Ten European pilot parks together with representatives of the tourism industry and NGOs active in the tourism and environment fields contributed their combined experience and wisdom and outlined their needs. A final version of the Charter was published in 2000, with 21 parks from Austria, France, Germany, Italy, Portugal, Spain and the UK signing a letter of intent. The Charter commits signatories to implementing a local strategy for 'sustainable tourism' defined as: 'any form of development, management or tourist activity which ensures the long-term protection and preservation of natural, cultural and social resources and contributes in a positive and equitable manner to the economic development and well-being of individuals living, working or staying in protected areas.'

## **2. Sustainable Tourism Development in Romanian National Parks**

Romanian national parks should try to use the principles of the European Charter for Sustainable Tourism in Protected Areas to improve tourism planning and also affiliate to European or other international protected areas networks as this is the best way to speed their development and conservation efforts. A good example of such an initiative is Retezat National Park which is part of the European Network Pan Parks and due to this affiliation it has its own strategy for sustainable tourism development. PAN Parks aims to create economic incentives for conservation of nature by changing tourism from a threat into an opportunity by building partnerships with nature conservation organizations, national parks, tourism businesses, local communities, and other interest groups on a local, national and international level. PAN Parks are certified after passing an evaluation which is carried out by independent experts, in accord with PAN Parks Principles, Criteria & Indicators (P&C). The P&C form the core of the PAN Parks project. There are five PAN Parks principles; covering relevant environmental, social, economic and cultural aspects.

The purpose of the study is to identify the main challenges and problems faced by the tourism planners from Romanian National Parks in their attempt to develop sustainable tourism in these protected areas and benefit both nature conservation and the local communities. The research method is a survey conducted in Romanian National Parks concentrated on the identification of tourism planning methods, problems and challenges for the tourism planners and finding new ways of increasing the tourist arrivals in these destinations. Initially the sample should have consisted of 12 persons



responsible for tourism planning in Romanian National Parks but only 8 persons have responded to the survey sent via email to all the 12 protected areas. Due to this limitation the results of the study can't be applied to all Romanian national parks but they can be used to improve the sustainable tourism development in the 8 analyzed parks.

Biodiversity in Romania is under serious threat from unsustainable exploitation, pollution and land-use changes. Continued uncontrolled investments in the nature tourism sector will have serious negative impacts on biodiversity. However, sustainable tourism is one of the few potential sources of income that can be channelled towards conservation measures, benefit sharing and service-based industries. For many biodiversity hotspots in Romania, which do not have formal legal protection or are poorly enforced, accredited, well-managed sustainable tourism programs can help to convince communities to realize that tourism can also serve as a stop-gap measure for the local economy until legal protection is recognized and/or enforced.

Nature conservation efforts in Romania have been dated back to 1904 when the first nature reserve was created and continuing with the foundation of the first national park in Retezat mountains in 1935. Nowadays 8% of Romanian territory is included in protected areas: 560.000 hectares in the Danube Delta Biosphere Reserve, 315.000 hectares in the 12 national parks and 756.000 hectares in 13 natural parks.

According to the Romanian legislation based on the IUCN- The World Conservation Union, classification of protected areas a national park is a terrestrial or marine area aimed to protect the ecologic integrity of one or more ecosystems for both present and future generations, excluding exploitation or other activities contrary to this purpose, providing a base for spiritual, scientific, education, relaxation and visiting opportunities, if they are compatible from an ecologic and cultural point of view.

Tourism management in national parks is included in the management plan of each protected area but not all Romanian national parks have such a management plan or some of them have done it but it hasn't been approved by the governmental authority. From the 8 analysed national parks 63% have a management plan while 37% don't. From the 5 of national parks which have a management plan only two of them, Piatra Craiului National Park and Retezat National Park have an approved management plan by the governmental authority. From the 6 national parks that don't have a management plan 17% expect it to be finished in less than 5 months, 50% expect it to be finished in a future period between 6 months and a year and 33% expect the management plan to be finished in 1-2 years.

From the 8 analyzed national parks 63% have a tourism development strategy and only 37% don't while half of them have visitors or tourist information centre and the other have don't.

Concerning the number of local certified guides within these national parks Piatra Craiului National Park is on a leading position far from the others with a total number of 35 certified guides of which 20 are certified mountain guides. Retezat National Park is following with only 8 certified guides and the other 6 parks have knowledge of four to two local certified guides. Of course, in this matter there are other certified guides of different Romanian turoperators who are not necessarily registered in the national parks database as they don't contact the administrations of these protected areas before or

during the preparation of tours in the national parks areas. This could be a problem for the sustainable tourism development as these guides, travel agents and turoperators are not always aware of the side effects tourism can bring in these ecologically fragile areas so a communication between the administration of the national parks and the tourism sector is needed in view of a sustainable tourism partnership.

As most of the tourism planning responsible in the studied national parks have Forestry studies (88%) their marketing and management knowledge is quite low – an average of 2.63 on a scale from 1 to 5 where 1 means they have little knowledge in these fields and 5 means they have much knowledge in marketing and management fields. This can be a problem in the sustainable tourism development efforts as there can't be any sustainable tourism development without responsible planning which implies some fundamental notions of management and marketing notions. The administrations of these national parks should either train these employees so that they can have some tourism marketing and management skills or hire persons rather with tourism qualifications than forestry for these tourism planning jobs in national parks. A consequence of the lack of marketing knowledge is that only 3 of the 8 analyzed persons have done a segmentation of the target market and have identified different types of tourists visiting the 8 national parks. The segmentation of visitors of these 5 national parks has been done by the following criteria: age, visit purpose or tourists' interest or the duration of their visit. Only 2 of the 8 tourism responsible persons have done a SWOT analysis to identify the strengths and weaknesses of the national parks and the opportunities and threats of tourism development in these protected areas. However, they have identified the main tourist attraction or preferred tourism activities in these national parks: hiking, bird watching, wildlife photo hunting and weekend relaxation breaks. There are no scientific statistics on the tourism arrivals and revenues but the national parks have some statistics on the number and types of accommodation, guides, transportation in the analyzed national parks.

The main tourism promotion campaigns for the 8 studied national parks have been:

- 7 national parks have been promoted in tourism fairs
- 6 national parks have been promoted in national media
- Only Piatra Craiului National Park has been promoted to international tour operators
- 2 national parks have been promoted to Romanian tour operators

The analyzed tourism responsible persons in the 8 Romanian national parks have an average of 3.75 knowledge in the sustainable tourism field on a scale from 1 to 5 where 1 means they have little knowledge in this field and 5 means they have much knowledge.

However they have stated that the sustainable tourism practice in the 8 national parks is at a level of 2.25 on a scale from 1 to 5, where 1 means sustainable tourism development in the national parks is very low and 5 means the sustainable tourism development in the national park is very high.

The main problems and threats for sustainable tourism development in the 8 national parks are:

- Poor funding for nature conservation and improvement of tourism trails.
- Negative tourist behavior.
- The lack of ecologic awareness of local communities' members and little recycling initiatives.
- Little involvement of local authorities.

Ecotourism is considered a solution for a better promotion of Romania's natural heritage by all 8 persons responsible for tourism development in the national parks, as ecotourism is a sustainable tourism form recommended in protected areas. Most of the interviewed subjects (6 persons) believe that public-private partnerships are a good way of sustainable tourism development in protected areas. Each national park is seen by their tourism planning responsible as a potential ecotourism certified destination. This could be possible due to an eco-certification scheme developed by the Association of Ecotourism in Romania which certifies tour operators' tours, accommodation and ecotourism destinations.

Six of the eight interviewed subjects are young, with an age between 26 and 35 years and only two are older and most of them are men. The subjects' age can be considered as important issue in the view of future training opportunities in the tourism field.

### **3. Conclusions**

Considering the issues revealed in this study we may say that sustainable tourism development in these 8 national parks is still to be implemented. The main problems could be:

The lack of knowledge on this subject both by local communities and tourists.

- Insufficient tourism marketing planning due to little preparation of tourism responsible persons in the administrations of these national parks.
- Few funding for nature conservation and little knowledge on how to attract funds for conservation through tourism initiatives.
- Ecotourism could be the best opportunity to develop sustainable tourism in these national parks, which could be certified as ecotourism destinations.
- Little statistics on tourist arrivals and revenues generated through tourism development

Outlining these problems identified in the 8 Romanian national parks one of the solutions could be the creation of a guide containing best practices for tourism policy planners in these protected areas. Such a guide should include both the base tourism marketing and management information to complete the lack of tourism studies of these planners but also the main guidelines for a sustainable tourism development including examples of good practices in other national parks around the world.

The prime areas for nature-based tourism are obviously those that are legally protected, since they offer the best guarantee for maintaining their attractions in the long term.

Thus protected areas, being locally or internationally recognized, offer a tremendous potential for tourism and leisure activities [3]. Sustainable tourism and protected areas management share a common objective: provide the public access to outstanding natural and cultural heritage. The sustainability of this partnership however can not be achieved if tourism is neither environmentally friendly nor providing sufficient financial return to local communities and park managers.

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# **Sustainable Development Application for the Romanian Energy Sector**

*Bancescu Mioara<sup>1</sup>, Marin Dumitru*

*Academy of Economic Studies Bucharest, Dept. of Economic Cybernetics, Calea Dorobanți 15-17, Romania, mioarabancescu@yahoo.com<sup>1</sup>*

**The purpose of the paper is to present a general equilibrium model for the Romanian energy system, considered as a component of the national economy, to present and interpret the results of the basic model and under different scenarios. One scenario is considered for analyzing the impact of additional nuclear energy production in Romania, and another scenario is for analyzing the energy sector in connection with the environmental constraints, more specifically the usage of the green certificate mechanisms. The applicative part is designed using GAMS software (General Algebraic Modeling Systems), the findings being returned with the dedicated solver MPSGE (Mathematical Programming System for General Equilibrium).**

## **Keywords**

energy policy, environmental policy, general equilibrium models.

## **1. Introduction**

This paper is organised in several chapters, which are passing the readers through the relevant aspects and problems in the area the paper belongs, the sustainable development and the Romanian energy sector, then through the reasons for choosing general equilibrium as modelling techniques to be applied, then through the basic model presentation, then through the scenarios presentations that were derived from the basic models, and finally through application results and interpretations.

## **2. Key Facts from the Romanian Energy and Environmental Policies**

In Romania, the structural reform in the energy sector started relatively late compared to other sectors of activity: in 2000, after 10 years since the communism regime was abolished, and the pace of reforms has been slow. In the last 8 years, 2000 – 2008, many and significant changes occurred in the Romanian energy sector, some of them being driven by the transition period to a market driven economy, some others being driven by the international context and changes implemented in many other countries,

and some others being driven by Romania integration in the European Union, in January 2007.

In 1998 was setup the Romanian Energy Regulatory Authority – ANRE, in charge with ensuring the proper functioning of the electricity and heat sector in terms of efficiency, competition, transparency, and consumer protection.

In 2000, the energy reform was started by splitting the vertically integrated monopoly, into several companies, still state owned, following as split rule the main energy activities: energy production in thermo plants, energy production in hydro plants, energy production in the Cernavodă nuclear plant, energy transportation, and energy distribution.

In 2001, the single electricity distribution company, Electrica, was re-organised into 8 regional companies, with the target to be privatised. Between 2004 – 2007, 5 out of the 8 electricity companies were privatised with big European investors: ENEL (Italian company), E.ON (German company), and CEZ (Czech company). Same investors took over distribution electricity companies in other Central – East European countries, in the same period.

Along with the structural reform process, since 2001 was ongoing the liberalization process of the energy market in Romania. With every year, the degree of market openness increased gradually, and so did the competition in the energy sector. For the electricity market, the process was completed in 2007, when the smallest electricity consumers, the population, were granted with the right to choose the electricity provider (full market liberalization).

The electricity production sources in Romania did not register significant changes between 1996 and 2007: the contribution of the thermo plants in covering total consumption was always the most significant compared to the other sources: hydro big capacities, nuclear or renewable sources of energy: hydro small capacities, wind, photovoltaic, biomass, or geothermal. The electricity internal consumption in Romania increased slowly every year, and currently is in the range of 60 TWh. The electricity production in Romania was always above the level of internal consumption, and every year Romania managed to export some TWh of electricity.

But 1996, and 2007 are 2 years that made a difference in the shares of electricity production in Romania: in 1996 was launched into production the first nuclear unit, Cernavoda I, that constantly covered since then 9 – 10% of the total production, and last year, in 2007, the second nuclear unit, Cernavoda II went live, and so the nuclear contribution to total electricity production almost doubled. The Romanian nuclear program is based on a secure technology, with a good recognition at international level, and being well perceived by the public opinion.

The hydro plants are constantly contributing with approximately a quarter in total electricity production in Romania. Some of the hydro plants are of big capacities, with over 10 MW capacity (approx. 95% of hydro production), while the others, the micro-hydro plants, with less than 10 MW capacity (approx. 5% of hydro production), are counted as renewable energy production in Romania. The micro-hydro plants are currently in the privatization process, with government objective to sell the remaining approximately 80 of them by end of 2008.

The energy policies are often analyzed in connection with the environmental policies, given the increased importance of the environment protection and climate change occurrence, plus the fact that the energy sector is the main contributor to pollution levels, among other sector of activity. From this perspective, will be presented briefly in the following the key facts of the energy – environment policy in Romania.

In 2005, in Romania started to function a trade system with green certificates, between the electricity producers from renewable sources, and the electricity distributors, within a mandatory quota system. This was the chosen method by the authorities for encouraging the clean energy production in the detriment of the conventional energy production. Every year the authorities establish the mandatory quota of renewable energy (this year, in 2008, was setup at 5.26%). The price for a green certificate is varying between 24 and 42 EURO, the lower and upper limits being fixed by the authorities till 2012.

Alternatively, in 2005, the authorities could opt for a fixed price system for renewable electricity, which is widely spread in the EU countries, because it's better ensuring the security of recovering the investment done in renewable energy.

### **3. Choosing General Equilibrium Modelling Techniques**

The energy sector in Romania, briefly presented in the previous chapter, will be now modelled, under different scenarios, using applied general equilibrium techniques. The reason for choosing this technique and not other quantitative analysis techniques, is because it allows a global representation of producers technologies and consumers preferences.

The general equilibrium models are models with many equations and parameters, not easy to solve. Several software solutions exist on the market, they can be used for specifying the equations and entry data, and getting the results back. Out of them, GAMS software was chosen for this paper application (General Algebraic Modelling System).

GAMS is a mathematical programming language, in use starting with 1987 and continually improved since then, it can solve complex problems of optimization and modelling, including but not limited to general equilibrium: linear, linear mixed integer, non-linear, non-linear mixed integer, mixed complementary, stochastic optimization, etc.

In GAMS there are 2 possibilities to define a general equilibrium model. One is to declare all variables and parameters, and to write the equations in detail, with all functions explicitly defined, all related to producers' profits and possibilities of production, consumers' endowments and preferences of consumption, production factors and their usage within the different sectors of activity in the economy. Another possibility in GAMS is to use a dedicated solver for general equilibrium, MPSGE (Mathematical Programming System for General Equilibrium). With this solver the programming effort is smaller, as the general equilibrium functions and equations are embedded in the pre-defined words and syntax, and the user has only to specify the demand matrixes, the endowment with production factors matrixes, the usage of the

input factors matrixes, the production matrixes, and the elasticity of substitution parameters, but with respecting the standard conventions. The production functions are assumed to be of CES type (Constant Elasticity of Scale).

Another reason for which general equilibrium techniques were chosen to be applied, is the possibility to analyze a sector of activity under different scenarios, and with flexible levels of desegregation, but placed in a macroeconomic national framework. In this paper the goods and production factors in the Romanian energy sector are detailed, while all other goods and sectors are aggregated in single entities.

#### **4. Basis Model and Description of the Input Data**

The basis mathematical model is a representation of a closed static economy with 2 consumer types, 8 production factors, and 4 production sectors.

One consumer type (RAC) is representative for all Romanian companies, is endowed with 7 production factors: capital and 6 different energy resources, and is consuming part of the non-energetic aggregate good, and part of the electricity produced. The other consumer type (RAP) is representative for all Romanian persons, is endowed with only one production factor, the labour, and is utilising: part of the non-energetic aggregate good, part of the electricity produced, and part of the non-working time to get its satisfaction.

The production factors considered are: labour (L) and capital (K), which are both used in producing the non-energetic aggregate good, and the electricity; 6 types of energy resources: thermo coal type (COAL), thermo gas type (GAS), thermo oil type (OIL), hydro not renewable type (HYDRONR), hydro renewable type (HYDROR), and nuclear energy resource (NUCLEAR), which are used in producing the electricity good.

The 4 production sectors considered are for the electricity good (EL), for the aggregated output in the economy comprising everything else than electricity (Y), for producing companies' satisfaction, and for producing persons' satisfaction.

All input data, as showed in Table 1, is expressed in percentages, computed or estimated based on official statistics. The share of electricity production, 10%, (and electricity consumption share in total consumption at equilibrium) is based on Romanian National Institute of Statistics (INS) 2005 data. The 10% share is split into contributions of the different production factors, for the energy resources contributions were used governmental statistics from 2006 (statistics with the structure of electricity domestic production). The share of the aggregated output production (Y, 40%), and the split into contributions of different production factors are derived from INS 2005 data, starting from the published value of the production in the energetic sector in total value produced in all sectors of the economy. In terms of demand input data, the satisfaction sources for the consumers are considered so that to match the total shares from production (50%, 40% and 10%). Then the split between the 2 types of consumers are estimated giving more significant shares to the companies representative consumer, than to the persons representative consumer, for the 2 sources where applicable (Y and EL consumption). All elasticities of substitution for demand and production are considered unitary, except the elasticity of substitution between the different energy



resources, which is considered with a higher value of 1.6, because it's easier to substitute these factors between them.

Y Production	Elasticity of substitution between factors: 1
K contribution	18.65%
L contribution	18.65%
EL contribution	2.7%
Total	40%
EL Production	Elasticity of substitution between factors: 1.6
K contribution	2%
L contribution	2%
Y contribution	1%
COAL contribution	2.17%
GAS contribution	0.8%
OIL contribution	0.16%
HYDRONR contribution	1.35%
HYDROR contribution	0.07%
NUCLEAR contribution	0.45%
Total	10%
RAC satisfaction sources	Elasticity of substitution between factors: 1
Y consumption	30%
EL consumption	8%
Total	38%
RAP satisfaction sources	Elasticity of substitution between factors: 1
Leisure consumption	50%
Y consumption	10%
EL consumption	2%
Total	62%

**Table 1** Input data, the basic model

## 5. Secondary Models

### 5.1 Varying the Contribution of the Nuclear Energy

A first scenario designed starting from the basis model is covering a modified structure of the electricity domestic production. The nuclear energy resource is having in this secondary model an increased contribution, as motivated in the second chapter of the paper (launching into production, in 2007, an additional nuclear unit, Cernavodă II).

The other energy resources are having now their contributions changed according to the official governmental statistics estimated for 2010.

The changed input data are showed in Table 2 bellow.

EL Production	Elasticity of substitution between factors: 1.6
K contribution	2%
L contribution	2%
Y contribution	1%
COAL contribution	1..92%
GAS contribution	0.65%
OIL contribution	0.11%
HYDRONR contribution	1.46%
HYDROR contribution	0.08%
NUCLEAR contribution	0.77%
Total	10%

**Table 2 Input data, the secondary model scenario A**

### 5.2 Introducing Green Certificates Tools

A second scenario is designed by introducing in the basic model mechanisms for usage of the green certificates (GC). The green certificates are considered a good in the economy produced only using the renewable resources of energy, the Romanian micro-hydro plants with a capacity of less than 10 MW (HYDROR). So HYDROR is used now for producing electricity as in the basic model, and for producing green certificates in addition. The green certificates are consumed by both companies and persons, and contribute to their satisfaction. As a consequence, all the input data from the basic model is re-weighted. Table 3 shows bellow the changed input data used for this second scenario.

Y Production	Elasticity of substitution between factors: 1
K contribution	16.79%
L contribution	16.79%
EL contribution	2.4%
Total	36%
EL Production	Elasticity of substitution between factors: 1.6
K contribution	1.8%
L contribution	1.8%
Y contribution	0.9%
COAL contribution	1.95%
GAS contribution	0.72%
OIL contribution	0.14%

HYDRONR contribution	1.21%
HYDROR contribution	0.06%
NUCLEAR contribution	0.4%
Total	9%
RAC satisfaction sources	Elasticity of substitution between factors: 1
Y consumption	28%
EL consumption	7%
GC consumption	3%
Total	38%
RAP satisfaction sources	Elasticity of substitution between factors: 1
Leisure consumption	47%
Y consumption	8%
EL consumption	2%
GC consumption	5%
Total	62%
GC Production	
HYDROR contribution	8%

**Table 3 Input data, the secondary model scenario B**

## 6. Main Findings, Comparative Results Interpretation

All results returned by the software at equilibrium are relatively, and can be interpreted by comparison, and not as absolute values. Table 3 is summarizing all of them, from the basic models and from the 2 secondary models.

*Interpretations for the basic model.* The aggregate consumer representing the persons (RAP) is more satisfied than the aggregate consumer representing the companies (RAC), as can be noticed from 2 of the results produced: satisfaction level and income level ( $1.2 > 0.6$ ;  $70.6 > 16.8$ ). This can be explained by the fact that the persons are endowed with the entire labour production factor, and half of it is directly used to produced their satisfaction. The equilibrium price of the aggregate non-energy good is more than double than the price of the electricity good (0.773 compared to 0.304). Regarding the equilibrium prices of the production factors, having the labour price normalised, the other prices are in the range of [0.009, 0.683]. The cheapest resource is the renewable hydro (HYDROR), and the most expensive is the capital (K). The other energy resources have values within this price interval: nuclear, oil, gas, hydro not renewable, and coal. Other results returned at equilibrium are the usage levels of the energy resources, and it can be noticed they are consistent with the price levels, but also with their input contributions in total electricity production: the highest values are for thermo resource of coal type (COAL, 0.526), and the lowest values for hydro resource of renewable type (HYDROR, 0.081).

*Interpretations for the secondary model, scenario A.* The change in the electricity production structure, affected some of the results, but not all of them. The most visible effects are on the energy resources prices and usage levels: the nuclear resource, as expected, is more used (0.582 > 0.49), and more expensive (0.116 > 0.079). For the other energy resources, the values are either slightly increased or decreased, depending on how their contribution in the total structure has changed in the input data (see Table 2). The consumer representing the companies (RAC) is slightly more powerful, having now the nuclear endowments increased.

*Interpretations for the secondary model, scenario B.* Introducing the green certificates mechanisms, brought benefits for the companies type consumers. Their satisfaction level increased, as well as their income (one of the resources the companies already owned, the renewable hydro, is now used in an addition way, which is directly contributing to their satisfaction). Not the same effect had on the persons type consumer. Although the green certificates are contributing to these consumers satisfaction, the other sources of satisfaction have decreased as importance, and this is reflected in the results. The overall prices in the economy have increased: the aggregate good, the electricity good, and all energy resources prices. The most spectacular jump is registered for the renewable hydro resource, which is now becoming a very valuable resource in the economy, more used and much more expensive (1.425 > 0.081; 1.64 >> 0.009).

Results at equilibrium	Basic model results	Sec. model result, scenario A	Secondary model result, scenario B
RAC satisfaction level	0.699	0.702	0.895
RAC income level	16.873	16.933	26.463
RAP satisfaction level	1.234	1.234	1.069
RAP income level	70.65	70.65	65.59
Y price	0.773	0.772	0.872
EL price	0.304	0.304	0.359
K price	0.683	0.683	0.865
L price	1	1	1
CV price	n.a.	n.a.	1.64
COAL usage level	0.526	0.545	0.558
COAL usage price	0.169	0.165	0.206
GAS usage level	0.585	0.563	0.667
GAS usage price	0.119	0.105	0.153
OIL usage level	0.221	0.137	0.29
OIL usage price	0.027	0.015	0.037
HYDRONR usage level	0.584	0.578	0.665
HYDRONR usage price	0.151	0.154	0.169
HYDROR usage level	0.081	0.089	1.425
HYDROR usage price	0.009	0.01	1.64
NUCLEAR usage level	0.49	0.582	0.589
NUCLEAR usage price	0.079	0.116	0.104

**Table 4 Output data, all models**

## 7. Conclusions

The findings included in this paper support the idea of conducting research in the field of energy – environment policies, by applying general equilibrium models. The most interesting findings are referring to the different types of energy resources, their prices and usage levels at equilibrium, the correlation with the input data, the changes registered under different scenarios simulations. The findings obtained for the 2 consumer typologies, and for the other 2 production factors are not so relevant, and there is place for improving the model on this side. Also, the model can be more powerful if transformed into a model with 2 additional dimensions: countries and time dimension.

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# The Importance of Relationship Marketing for the Business Service Providers. Case of Romania

*Cristinel Constantin*

*Transilvania University of Romania, Dept. of Economic Studies, Colina Universitatii, corp A, Brasov, Romania, cristinel.constantin@unitbv.ro*

The purpose of this paper is to identify some marketing strategies that can be used by business service providers in order to improve their activity. We used two kinds of researches in order to find the need of improving the performance of service activities on business-to-business market. One of these researches has been related to the importance of the services at the macroeconomic level and another one has been based on a survey among different kind of companies which have the goal to identify the level of service outsourcing inside Romanian companies. From our researches we found that the weight of services in Gross Value Added is directly related with the national economy development. Also, the statistics show that the Romanian service sector is less developed than in the other EU countries. These figures are strengthened by the results of the survey, which revealed that Romanian companies are very low involved in service outsourcing.

## **Keywords**

business-to-business market, business service, competitiveness of services, customer satisfaction, marketing research, relationship marketing, service outsourcing.

## **1. Introduction**

Our research focused on the importance that service providers should pay to establishing strong relationships with customer in order to increase their business. The research is focused on the stage of service development at the level of year 2007 in Romania.

The issues regarding service sector represent an actual theme of debate and research taking into account the weight of services in the Gross Value Added at the level of developed countries.

Services have been considered for a long time as auxiliary activities that are unproductive and do not add value for the overall economy. Nevertheless, in the last time, new concepts have raised, like “the new economy” or “service economy” (Toffler 1983, Eiglier & Langeard 1987, Giarini & Stahel 1996, Ionci a 2002). These concepts stress the importance of services for the economic development and for the absorption

of the work force that became available because of the processes automation in industry and agriculture [1].

Services are different by goods mainly due to their intangibility, which leads to the impossibility to separate the act of service providing by the effective consuming of the named service (Grönroos 1990, Olteanu 2003). In this respect, services cannot be stored so that they cannot be tested as regards their quality. Taking into consideration all these characteristics, in service activity it is very important to establish a direct relationship between provider and consumer. [2] In addition, the recommendations received from other consumers are very valuable for both participants in the act of service transaction.

In the last years, business services have recorded significant developments as result of companies' orientation towards the efficiency of all business processes, irrespective of their field of activity (Fitzsimmons, Noh & Thies 1998). This process leads to a keen need of business services like marketing research, research & development, recruitment, promotion, quality management, maintenance, waste recycling, financing, insurance, transports, information services etc. The complexity of these activities forced the companies to outsource the majority of services provided before by their own departments. These outsourcing processes have led to a fierce development of service sector [3]

The importance of detailed researches on the business service topics is emphasized also by a high need of information for service providers due to a poor literature that has been focused on the business service issues. In this respect, various authors like Morris & Davis (1992), Moore & Schlegelmilch (1994) stressed the necessity that marketing and management researches to focus on the importance of business services [4].

## **2. Previous Researches**

Previous researches made by the author emphasized the importance given to service at the level of developed countries.

The free movement of services, one of the basic principle of European Union, states that a service provider from EU, which obtained the license in its origin country, can operate all around the European Union without any restriction.

This freedom is considered by the Commission of European Communities as one of the most important condition for the economical prosperity of the member states. Due to their economic potential in the general development of European Union, the services have been one of the European Commission priorities. In this respect, the Commission proposed in 2004 an EU Directive regarding some measures meant to create a genuine single market in services by 2010. By fostering cross-border economic activity and stimulating competition in this way, the aim of this proposal was to provide wider choice, improve quality and lower prices for consumers and for enterprises using services [5].

The European Union enlargement has had also a high contribution on service sector development. Due to the increase of foreign investment and commercial changes among member states, appeared a strong need of business services, such as: counselling in law, management, marketing research, accounting, translations etc.

Taking into account some statistical analyses, we have found that the share of services in Gross Value Added is higher in developed countries than in the rest of countries. As we can see in Table 1, there is a correlation between the share of services and GDP/capita at the level of analysed countries.

Country	USA	Japan	EU-27	Romania
GDP/capita (EURO thousands in PPP)	38.1	27.7	24.2	9.4
% of services in Gross Added Value	76%	69.5%	71.7%	55.4%

**Table 1 Comparisons between countries at the level of year 2006**

In order to assure real comparisons between different countries, the GDP was reported in standard units named “Purchasing Power Parity” (PPP). The Purchasing Power Parity represents the number of currency units required to purchase a volume of goods and services equivalent to what can be bought with one currency unit of the base country of comparison. PPP is computed as a ratio between prices employed under the internal conditions of each country.

As we can see in table 1, the share of services in Romania was of 55.4% in 2006 lower than the average recorded in the EU-27 countries. In the same time, the GDP/capita (in PPP) represented only 38.8% of the average recorded in EU-27. The highest level of GDP/capita was recorded in USA, where the share of services was also the highest at the level of analysed countries.

Starting from the above considerations we made a survey among the Romanian service beneficiary from different economic sectors: industry, construction, commerce, agriculture, service. It was used a sample of 218 companies from the sectors mentioned above. The research started from a marketing problem discovered after the comparisons of various statistical indicators that show a gap between the Romanian and EU service sectors. The results of this research could serve in establishing the strategies to fill this gap in order to a better integration of Romanian economy in the internal market of EU. According to these results, training services recorded the highest percentage at the level of sample members (87.2% from respondents). Also other services like transport, distribution and promotion services are used by more than 60% of the respondents, but for the rest of services the percents of users are very small. Services such as research & development or market research are not so popular even if they are very important for the success of every business, the number of users being smaller than 20% of respondents. The smallest percent was registered by accounting services, which are used only by 12.4% of respondents.

### **3. Research Methodology**

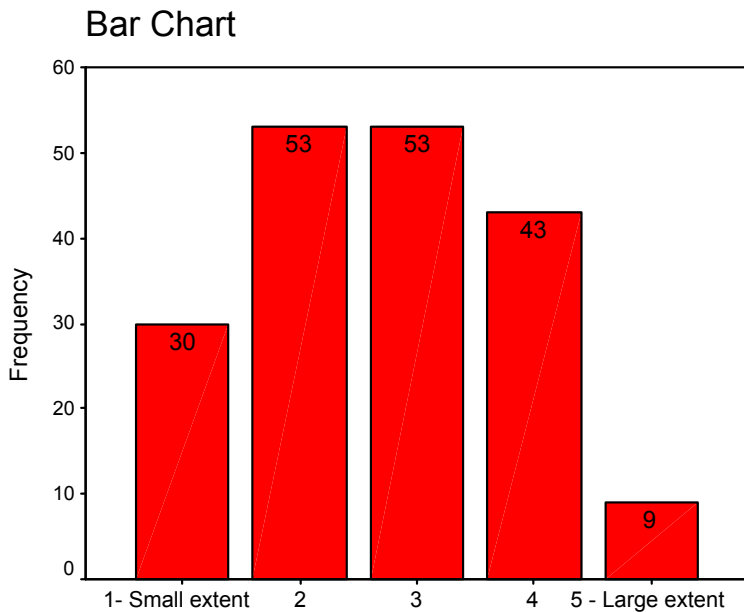
Starting from the outcomes of previous research we have tried to find some solutions meant to develop the activities at the level of service providers. In this respect, we have analysed first of all the attitudes of Romanian companies regarding service outsourcing. The data necessary for this analysis was gathered from the sample of 218 companies



used for the above research. In order to perform the research we used as analysis tools the descriptive statistics and the t-Student test for equality of means in the case of two independent samples.

#### 4. Outcomes

In order to measure the attitudes of companies regarding the service outsourcing we used a rating scale with equal distances between its levels, which allow us to calculate the mean and the variation indicators (variance, standard deviation, standard error of mean).



**Figure 1 The frequency distribution of the attitudes regarding the outsourcing contribution to company's efficiency**

As we can see in figure 1, the frequencies are quite balanced but the number of answers with a negative attitude regarding the efficiency of outsourcing is higher than the positive ones. This distribution leads to a mean value that is situated in the negative side of the scale (see table 2).

**Statistics**

	N		Mean		Std. Deviation	Variance
	Valid	Missing	Statistic	Std. Error	Statistic	Statistic
	Statistic	Statistic				
Attitudes regarding outsourcing contribution to company's efficiency	188	30	2,72	8,22E-02	1,13	1,27

**Table 2 Descriptive statistics**

The value of mean for the valid answers recorded 2.72 points on a rating scale with 5 levels (5=large extent). This means that Romanian companies are not very determined to cooperate with service providers in order to improve their activities. However there are a lot of companies that entrust in service outsourcing. These outcomes suggested us that could be a difference between the attitudes of two groups of companies made in accordance with their intention to outsource certain services in the next 12 months. In this respect, we applied the t-Student test for means equality taking into account these 2 variables: the attitudes regarding outsourcing's efficiency and the intention of service outsourcing in the next period (see tables 3 and 4).

**Group Statistics**

	Intention to outsource services in the next period	N	Mean	Std. Deviation	Std. Error Mean
		Attitudes regarding outsourcing contribution to company's efficiency	No	160	2,56
	Yes	28	3,64	,73	,14

**Table 3 Descriptive statistics**

As we can see the means of the two samples have different values, those companies that intend to outsource certain services in the next period having a more positive attitude regarding service outsourcing in comparison with the other companies. The mean recorded by this sample was of 3.64 points, compared with 2.56 points for the other sample. However, the number of such companies is much lower (28 firms) than the number of companies which do not intend to outsource services (160 firms).

**Independent Samples Test**

	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Mean	
								Lower	Upper
Attitudes regarding outsourcing contribution to company's efficiency	9,675	,002	-4,966	186	,000	-1,08	,22	-1,51	-,65
			-6,604	51,680	,000	-1,08	,16	-1,41	-,75

**Table 4 Test of mean difference**

From the information presented in table 4 we can conclude that the differences between the analysed means are significant from the statistical point of view, as the significance level is lower than 0.05 (Sig-2 tailed=0.000). Also the confidence interval of the mean difference does not contain zero value, so that the difference cannot be zero.

## 5. Conclusions

Starting from these results we concluded that service providers should to take some measures meant to improve their image and to create a positive attitude at the level of potential beneficiary. On of the way to attain such an objective is to put in practice a range of marketing techniques. One of the best technique is the establishing a relationship marketing at the level of their companies. A first step in this process is to evaluate and to improve customer satisfaction.

Another measure could take into account the development of some systems that could help the companies to manage better the relationships with their customers. Such systems are known as "Customer relationship management systems". CRM (Customer Relationship Management System) enables a company to identify, select, acquire, develop, and retain profitable customers, allowing it to build long lasting relationships with its customers.

CRM systems provide companies with better knowledge about its customers and enable individualized relations with every customer. A complete customer view reflecting every customer interaction with the company is the foundation of effective CRM, which could help tactical and strategic decision process. CRM system is in charge with every data change between a company and its customer.

Such marketing strategies should to be put in practice by Romanian service providers in order to reduce the difference existing in comparison with the developed EU countries and to attain the EU objectives regarding service sector development.

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# Social Capital and Clusters, a Look at Transition Countries-Literature Review

*Amira Vejzagic-Ramhorst<sup>1</sup>, Robert Huggins<sup>3</sup>, Panayiotis Ketikidis<sup>2</sup>*

<sup>1</sup>SEERC, 17 Mitropoleos Str, Thessaloniki, Greece, [aramhorst@seerc.org](mailto:aramhorst@seerc.org)

<sup>2</sup>City College, 13 Tsimiski Str, 54624 Thessaloniki, Greece, [ketikidis@city.academic.gr](mailto:ketikidis@city.academic.gr)

<sup>3</sup>Cardiff School of Management, University of Wales Institute, Colchester Avenue, Cardiff, CF23 9XR, UK, [rhuggins@uwic.ac.uk](mailto:rhuggins@uwic.ac.uk)

This paper aims to give an overview of the existing literature on the various aspects related to social capital (definition, conceptual framework(s), empirical research and other) and documents literature' standing on relationship of social capital to learning and geography. Finally, to understand the diffusion of knowledge based on social capital requires understanding the underlying mechanism at work, and these are also reviewed. The paper also extends the discussion on social capital to the South East Europe (SEE) region. A limitation of this paper is that it is only a literature review; the paper does not provide empirical evidence on the role of the social capital in learning or select cluster(s) nor does it analyze empirically the underlying mechanisms at work. As there is almost no published empirical research on the role of social capital in clusters, networks and for learning in SEE, an implication of this paper is the need for extensive field work to understand the underlying mechanisms related to social capital that foster firm learning in the SEE-specific environment. Literature stresses the importance of understanding the *local* variation of social capital and *local* impact of social capital. Summarizing relevant literature, this paper will provide a base for this future research in a SEE country (BiH) and serve as a discussion about the role of social capital policy "application" in transitions economies of the SEE region.

## Keywords

social capital, learning, networks, clusters, transition economies .

## 1. Introduction

The impact of social capital and social ties as "carriers" of economic knowledge is highlighted in number of studies of clusters ([1],[2],[3], [4],[5],[6],[7]). Social capital is highlighted as a critical distinguishing feature of clusters. For example, Gordon and McCann [8] stress that clusters differ from the agglomeration model in that "clusters

reflect not simply economic responses to the pattern of available opportunities and complementarities, but also exhibit an unusual level of embeddedness and social integration”. Similarly, Porter [1] stresses that the key aspect of cluster formation and success is the degree of social embeddedness, the existence of facilitative social networks, social capital and institutional structures. Steiner and Hartmann [9] have interpreted clusters as ‘social technologies’ that enable and support knowledge generation and diffusion between economic actors. Rocha and Sternberg [10] and Malmberg and Power [11] note that the success of a cluster and its ability to foster knowledge creation depends on various forms of local inter-organizational collaborative interaction.

This paper aims to give a detailed overview of the existing literature on the various aspects of social capital: definition, conceptual framework(s), relationship to firm learning and geography (two critical aspects of clusters), review of empirical research on social capital in relation to clusters and learning. Moreover, to understand the creation and diffusion of knowledge based on social capital requires understanding the underlying mechanism at work and these are also discussed. Finally, the paper will also review the literature on social capital in transition economies and highlight relevant issues and challenges for policy makers.

### ***1.1 Social Capital, Definitions and Conceptual Framework***

Several authors ([12],[13],[6],[14]) highlight the “conceptual fuzziness” of social capital and its loose “umbrella use” [6] that threatens to diminish its importance in analyzing the value of networks. In one of the most extensive literature reviews of social capital, Woolcock [12] stresses that social capital now assumes a wide variety of meanings, and also provides a definition of social capital, summarizing positions of the major contributors to social capital theory (Coleman, Bourdieu, Burt, Loury, Putnam, Portes, all cited in Woolcock [12]), as: “the information, trust and norms of reciprocity inherent in one’s social networks” (ibid pg.153)

For Putnam (cited in [14] and [15]): “social capital in short refers to social connections and the attendant norms and trust”. Using this definition, PIU [15] and Iyer et al [14] highlight three aspects of social capital: social networks, social norms and sanctions (sanctions ensure that deviation from norms do not occur.)

Woolcock [12] distinguishes four theoretical and empirical weaknesses associated with the “social capital” concept, reviewed below. First, contrasting different sociological traditions, Woolcock [12] posits that “if social capital can be rational, pre-rational, or even non-rational, what is it not?” He further notes that at very least these different conceptualizations suggest that there may be various dimensions of social capital. Secondly, Woolcock [12] highlights the unresolved question whether social capital is an infrastructure for or the content of social relations, the “medium” or the “message”, as well as the problematic task of distinguishing between the sources of social capital and benefits derived from them (trust for example). A third concern is that social capital is used to justify contradictory public-policy measures. Fourth, Woolcock [12], as well as others ([13], [14], [15],[16]) cautions that social capital is not a universally beneficial resource. He highlights that social capital has both benefits as costs, also that a given form of social capital that is useful for facilitating certain actions may be

useless or harmful for others. Similarly Raiser [17] distinguish between ‘formal’ and ‘informal’ social capital, noting that while ‘formal’ social capital is accessible to all, ‘informal’ social capital may facilitate economic exchanges between individuals, but it may be at the expense of excluding others. However, despite criticism, Woolcock [12] does not argue for dismissing the social capital concept, but for recognizing different types, levels, or dimensions of social capital, different outcomes and different sets of conditions that support or weaken favourable conditions.

A frequently cited distinction between forms of social capital in the literature ([13],[14],[15]) is the one introduced by Putnam between “bonding” and “bridging” social capital. Bonding social capital represents an “exclusive” set of relationships, characterized by for example special interest groups, families or based along the ethnic lines, while bridging social capital is more “inclusive” and could exist within cross-cultural organizations. Even though bonding capital power grows related to size of the group, it is not always the case that the bonding social capital is good for the economy, and in contrast bridging social capital may be needed to improve economic and performance (ibid). Iyer et al [14], using as an example the growth of high-technology industry in the Cambridge, UK area, highlight the importance of bonding capital in the early stage of industry development compared to later stages when insufficient bridging capital is a constraint for growth, and conclude that the impact of binding and bridging social capital varies across both space and time.

Tura and Harmaakorpi [13] make a distinction between two groups of definitions of social capital on the basis whether social capital is a property or as a resource of individuals or communities. Similarly, Huggins [6] distinguishes between two schools of social capital, the first one, based on the public good constitution, results in benefits and negativities beyond direct participation. The second school views the social capital investment as a private asset held by a group primarily to advance its economic returns. Huggins [6] also argues for distinguishing between “social capital” and “network capital”, where the latter one captures the resources contained within inter-firm networks that do not result in or build the type of trust and obligations associated with the social capital. Huggins [6] defines the network capital as the “perceived value inherent in networks and relationships generated through interactions motivated by business or professional related expectations”.

Cappelo and Faggian [18] introduce the concept of “relational” capital and argue that even though it closely resembles the concept of “social capital” a distinction between the two concepts exists. They highlight that social capital exists where a local society exists, while relational capital refers to the capability of exchanging different skills and cooperating with other complementary organizations.

For Lorenzen [2], “social capital consists of social *relations* and among agents combined with social *institutions* that allow for cooperation and communication”. In this definition, social relations are connections among two or more agents in both business and civic sphere, while institutions are not used in a “contractual arrangement” sense, but as a broader societal environment (social conventions, languages, points of reference).

## ***1.2 Social Capital and Geography***

In addressing the question of why and how geography influences social capital, Lorenzen [2] introduces a typology of social relations around two dimensions: the realm of relations (business vs. civic) and nature of relations (tightly coupled vs. loosely coupled). Tightly coupled relations are direct and encompass frequent interactions and are interdependent, while loosely ones are fluctuating or short lasting, with little or temporary interdependence. Lorenzen [2] admits that these four types of social relations are not equally sensitive to distance and therefore some can have global span, however interdependencies of the four different types makes (dense) combinations of them dependent upon proximity. A further reason why social capital is space bound, is that often social institutions are space bound. Social institutions, in addition to reasons that involve regulative or associational aspects, are space bound since they not only serve to facilitate social relations, but they themselves are created in social relations (ibid).

Similarly, Cappelo and Faggian [18] note that, though rare, interaction and cooperation can occur at a distance also. In terms of spatial proximity, Huggins [6] argues that social capital is often built when actors are in relative proximity, while this is not necessarily the case with network capital.

## ***1.3 Social Capital in Networks and its Impact on Learning***

It is beyond the scope of this section to analyze the impact of social capital on economic growth in general; rather the focus is on networks and innovation, two salient features of clusters. [[14] and [15] provide a comprehensive review of different mechanisms through which social capital affects economic growth. At the macroeconomic level, in growth models, social capital may affect output through changing the way technologies used, social capital may influence other forms of capital, for example on human capital by increasing education, also it may affect physical capital through effective allocation of public goods and other. At the micro-economic, there are implications of social capital for group formation and behaviour; also social capital effects individual welfare through externalities].

Four main economic impacts of social capital in networks are highlighted in the literature: first, social capital affects the productivity of the network by reducing general uncertainty in the specialization and division of labour. Second, it reduces the transaction costs in the network. Third, it affects the coordination costs of the network. Fourth, it affects the innovation process by shaping the amount and diversity of knowledge achievable by the actor. The fourth impact is particularly highlighted in cluster studies ([1], [3], [4], [5], [9],[13], [16]). However, distinguishing between these different functions of social capital does not in itself explain how is social capital used in innovations creating activities and Nahapiet and Ghosal [16] work is important in understanding the underlying mechanism at work. Nahapiet and Ghosal [16] introduce three dimensions of social capital: structural social capital, relational social capital and cognitive social capital. Structural dimension of social capital refers to the overall pattern of connections between actors; key facet of this dimension are presence or absence of network ties between actors. The relational dimension of social capital

refers to assets created and leveraged through relationships; key facet of this dimension is trust and trustworthiness. Cognitive dimensions of social capital refers to those resources providing shared representation, interpretations and systems of meaning among parties; key facet of this dimension is shared language and codes.

Nahapiet and Ghosal [16] refer to the “intellectual capital” as knowledge and knowing capability of a social collectivity, for example an organization.

In answering the key question “how is new knowledge created?”, Nahapiet and Ghosal [16] highlight two key processes: *combination* and *exchange* of existing intellectual resources. Specifically, the knowledge creation involves making new combinations – incrementally or radically – either by combining elements previously unconnected or developing new ways of combining elements previously associated. When the process of combining involves different parties, exchange is a prerequisite for this process. Nahapiet and Ghosal [16] further argue that there are four conditions that affect the engagement in combination and exchange of knowing activity. These four conditions are: access to parties for combining/ exchanging intellectual capital; anticipation of value through combining/exchanging intellectual capital; motivation to combine/exchange intellectual capital; and combination capability. Nahapiet and Ghosal [16] main thesis is that social capital facilitates the development of intellectual capital by affecting the four conditions necessary for the exchange and combination to occur. Specifically, Nahapiet and Ghosal [16] argue that the structural dimension of social capital has its primary impact on the condition of accessibility, while the relational dimension primarily affects the following three conditions: access to parties, anticipation of value and motivation of parties. Finally, the cognitive dimension of social capital primarily influences two conditions: access and the combination capability. Limitation of Nahapiet and Ghosal’s framework is that the three dimensions of social capital (structural, relational, and cognitive) are considered separately, without focus on interrelationships among these three. Also, Nahapiet and Ghosal [16] focus on creation of intellectual capital only, rather than its diffusion and exploitation.

Similarly, Lorenzen [2] argues that social capital facilitates learning among firms because it lowers their incentive-related costs and cognitive coordination costs. Lorenzen [2] explains that differences between firms in terms of interests, cultures’, organizational design, technologies give raise to coordination problems, and traditional coordination mechanisms (such as long-term contracts) are not particularly efficient in learning, since they are structured to govern long-term relationships, rather than more flexible relations for learning. In many contexts, informal social contracts serve to coordinate social interaction, including business interaction.

Tura and Harmaakorpi [13] argue that “when the innovative capability of the network can be viewed as the capability to organize and use resources of the network to enable innovation creating activities, social capital can be seen as a “license” to use and develop this capability”. Tura and Harmaakorpi [13] point that while very member may have a high innovative capability individually, without anyone “licensed” to combine and use the individual resources of the other members, one cannot speak of the innovative capability of the network. Tura and Harmaakorpi [13] also highlight the different effects of bonding and bridging social capital specifically on innovation, noting that although bonding social capital can have a positive effect on one innovation network, when regional innovations systems are formed of innovation networks high



bonding capital individually, this may lead to sub-optimal outcomes. The closeness of the one innovation network harms both the network itself and the regional system. In contrast, positive effects of bridging social capital are in bringing the individual innovation networks into interaction with its environment.

Although according to Huggins [6], networks built on either network or social capital may facilitate firms in processes of knowledge acquisition or knowledge creation, he argues the “nature of social capital means that the value of knowledge to network actors may diminish”(ibid).

#### ***1.4 Empirical Evidence of Effects of Social Capital on Innovation***

Cooke et al [7] examine empirically the effects of social capital on the performance of SME in 12 UK regions, with the key question whether firms that make greater use of social capital display differences in business performance compared to other firms. Operationalizing social capital, Cooke et al [7] use a Likert scale and other quantitative indicators concerning formal and informal, associational, club or network membership; indicators were constructed for business social capital, social contact, and trust and autonomy. Cooke et al [7] report that the strongest results were obtained with the respect to innovation, specifically, innovative firms tend to make greater use of collaboration and information exchange, be involved in higher trust relationships and make greater use of non-local networks (positive associations were obtained for other measures of firm success, but less extensively so). Cooke et al [7] report (original research of Greene and Brown (1997) cited in [7]) that firms with low rates of growth and innovation tend to use family-based social capital rather than an individually developed networks of contacts. Huggins [6] also argues a similar point in that new and small firms are more likely to be dependent on social capital, with inter-firm networks consisting of the social networks of the entrepreneurs or owners of the firm. He argues that as firms grow, their dependency shifts towards network capital, and is less reliant on social networks of owners.

Similarly, Molina-Morales [5] applying the social capital perspective to the Spanish tile industry to understand the mechanisms through which local institutions provide knowledge resources relevant for innovation of firms, points out that it is the small size of firms is as one of the key reasons accounting for the barriers that prevent firms from gaining direct access to external networks.

Boari and Presutti [19] in their empirical study of start-ups in an industrial Italian cluster in Italy, Rome examine the influence of social on transaction relationships. Their research model is based on the Nahapiet and Ghoshal [16] framework. Operationalizing social capital, they introduce different dimensions of analysis: network ties between start-ups and customers, concerning the structural dimension of social capital; and relationship quality, concerning both cognitive and relational dimension. Their results show that a strong incidence of the local factor can only *partially* help start-ups as it has a positive influence on the relational and cognitive dimension of social capital. However, they point out that it has a negative impact on the structural dimension of the social capital, hindering knowledge transfer, value information and new ideas.

Steiner and Hartmann [9] investigate learning and its particular forms at the cluster level for five clusters in an Austrian province, Styria. Steiner and Hartmann [9] differentiate between informal and participative learning. Informal learning may be present at a cluster level in the form of informal meetings at conferences, communities of practise, networks of fellow graduates or social networks. Examples of participative learning are in the form of formal R&D teams at interfirm level, interfirm teams working on joint project. The empirical results based on interviews with 149 firms in five clusters suggest that participative learning is more common than informal learning and that social networks seem to be rather unimportant for firms learning.

Westlund and Nillsson [20] in a pilot study with a small sample of firms in Sweden develop a method for empirically measuring investments of enterprises in social capital. Similar to Huggins' [6] distinction of social vs. network capital, Westlund and Nillsson [20] also distinguish between two sources of social networks: deliberate formal investment decision ones and spontaneous, informal ones, and measure and analyse three types of links: direct investment in social links, investment in economic links forming the basis of social links and investment in social links originating from economic links.

Hauser et al. [21] also empirically examine the relation between innovation and social capital, but at a regional level, focusing on a sample of European regions. They model the knowledge production function for selected regions and introduce a new variable to explain the innovative output of a certain region -the factorial value of social capital in the region. Using factorial analysis, they identify the factors of social capital as different dimensions of social capital from the European Value Study. Their empirical results suggest that social capital does have considerable impact on production of knowledge. Hauser et al [21] also highlight that different dimensions of social capital have different effects on innovations rate noting the significant role of "weak ties" in social interaction and innovation.

Finally, even though Cappelo and Faggian [18] do not equate "relational" capital with "social capital", their empirical study on a sample of 217 firms located in the Veneto region, Italy can broadly fall under this section. Their study provides empirical support of the importance of relational capital on innovation activity. Recognizing that relational capital is an "intangible and complex asset that can not be measured directly" Capello and Faggian ([18] measure relational capital indirectly via the collective learning channels proxied by local labour market (proportion of new employees for firms belonging to the local area) and cooperation with local supplier and customers.

### ***1.5 Social Capital-Methodological Issues***

Literature review highlights that operationalization of social capital is complex and that it appears to be a gulf between theoretical understandings of social capital and the ways in which social capital is measured empirically ([6], [13],[14]).

Specifically, three methodological issues in operationalizing social capital are highlighted ([12],[13]). First social capital is multidimensional, recognizing that in an individual empirical study, it is reasonable to limit the scope of the concept. Second, distinction between behaviour outcomes of social capital and social capital itself is

important, and behaviour outcomes (for example membership in formal associations) may or may not be valid indicators of social capital, but they cannot be used of measures of social capital itself. Third, social capital needs to be analyzed in its institutional concept, specifically, the indicator used has to be based on an understanding the “underlying” mechanisms between the selected indicator and the capabilities it gives rise (for example an empirical observation of high levels of trust between firms in a network states only this, to understand its relevance, one has to understand for example how does the measured indicator – trust affect the firm’s ability to mobilize resources needed).

Iyer et al [14] note that at the microeconomic level, direct valuation of social capital is not possible, not the least because it is not transacted in a market. They further distinguish between three types of ‘revealed’ social capital used: population data (such as membership numbers), attitudinal data (for example, trust) and participation data (for example extent of civic participation, group involvement organized interactions). According to Iyer et al [14] empirically one of the most common measures of social capital has been reported levels of trust in other.

Finally, literature ([12],[13], [14]) stresses that in empirical studies of social capital it is important to understand local variation of social capital and local impact of social capital

## **2. Social Capital and Clusters in Transition Economies**

Literature suggests that a key aspect for development of networks and clusters in transitional economies is the level of social capital, or more narrowly trust, highlighting that trust is in relatively short supply in transition countries, especially in the early stages of transition when institutions are weak and formal and informal bonds holding the economy are ruptured ([17], [22] [23] [24], [25], [26][27]) Specifically, Raiser et al [17], using the data from the World Values Survey, in one of the first studies of the degree of trust and civic participation in 21 transition countries find that that these indicators of social capital are significantly lower in transition countries than in OECD countries. Similarly, Mungiu-Pippidi [27] using direct surveys of citizens from Romania, Bulgaria, FYR Macedonia, Serbia and Montenegro points to “an everyday world of widespread deception and mistrust”.

Exploring the reasons for low levels of trust in transition economies several authors ([25],[26], [27] [28]) point to their history arguing that one of the legacies of communist system and its command economy was “civilisational incompetence” ([26]), where ‘to beat the system’, to outwit authorities, to evade public regulations and rules was one of the widely recognized virtues. Similarly, Rasier et al [17] use the “hour glass society” metaphor for communism, noting that under communism individuals forged strong mutual ties at the level of family and close friends, but rarely ventured out of this well defined circle, forming the bottom of the hourglass. At the top of the hourglass were similarly closed circles composed of few members of powerful ‘nomenklatura’, with little interaction between the two circles.

Moreover, the process of transition, described as massive transactional upheaval, the tearing down of old and building up new linkages ([25], [29] [30]) has also effects on social capital and trust. In relations among businesses the wide-spread re-matching creates significant social costs, until new relationships have been formed and some degree of durability and predictability has returned. Economic volatility, a feature of transition, also undermines the use of reputation as a sanction of or as a basis for trust. Given the degree of uncertainty in the economy, it is rational for entrepreneurs to focus on quick profits and not on long-term reputation, while social sanctions are unlikely to play a major role because formal social networks are destroyed (ibid). Moreover, given that transition to a new economic order is a unique occurrence, where many transactions are one-off, it “pays-off” to disregard norms, as huge one-off gains can be realized. This draws from the game theory, where cooperation is more likely when a game is repeated and final round is not predetermined ([26]). Therefore, post-communist societies are seen as a facing a “dual social challenge” ([14], [28],[31]), on one hand lack of generalized trust and very low collaboration in formal settings, and on the other high importance of family and informal personal ties or connections in terms of “getting things done”, as Ionescu [28] suggests linked to corruption and opportunistic behaviour. Iyer et al [14] cite a Russian proverb cited frequently at the time “A hundred friends are worth more than a hundred roubles”, that epitomises the importance of local networks. However, Raiser et al [17] caution on the prevalence of such informal networks, where ‘entry’ is discouraged, since this can imply high overall costs to the society, noting that the state may be ‘captured’ and subverted to serve for private gain. They point to instances where relationships between enterprise directors and bureaucrats have been adapted to take advantage of new economic opportunities. In an empirical research by Raiser et al [25] who examine the level of trust in business relations and find that that networks based around family, friends and business associations help build trust, while the opposite holds for networks based on enterprise insiders and government agencies. Rasier et al [25] use data from a survey of nearly 6,000 firms across 26 transition countries and as a measure of trust use the level of prepayment demanded by suppliers across very different contracting environments.

Focusing specifically to subset of transition economies, the Balkan countries, Bozovic [23] stresses are faced with “low levels of institutional trust necessary for the opening up of pervasive and impenetrable social networks”. Even in Slovenia, highlighted as “the prime candidate from which to learn about the success drivers of clusters in transitional economies” ([32]), both policy makers and researchers caution that many challenges still remain to be addressed ([33]). Specifically, a recent analysis of three clusters in Slovenia has shown that companies lack the most important element for successful cooperation-mutual trust ([22],[33]).

Governments of (former) transition countries, the EU, OECD, bilateral organizations have promoted a wide range of policy instruments to support cooperative networking between SMEs and also between other local institutions as an essential component of the process of transition and EU accession. For example, while cautioning that “designing policies targeting social capital in clusters seems a risky process because social capital building is a self-reinforcing, culturally defined long-term process”, OECD [22] provides a comprehensive list of different policy measures. The importance of inter-firm linkages and trust in (former) transition economies has been recognized by academics also ([34], [35],[36]). Specifically, van Ees and Bachmann [35] stress that

“the economic success of the enlargement will depend crucially upon the extent to which firms in the new EU countries will be able to establish entrepreneurial business networks”. They stress the importance of exchange of tacit knowledge from the old EU member states to the new ones, highlighting that trust building can be considered one of the central ingredients in the development of business networks.

However, as Humphrey and Schmitz [26] point out “constructing trust is a process”. Moreover, it is still an open question to what degree can institutional support *produce* trust ([31], [37]). Franicevic and Bartlett [38] also argue that policies should be informed by realities of post-socialist managerial and entrepreneurial strategies and not based on pure imitation of the supposedly best-Western practises, and that Eastern Europe, and still less South Eastern Europe, should not be treated as a consistent regional block. A notion of “one size fits all” ([31]) will need to be replaced with more flexible policies that take into local variation of social capital and local impact of social capital.

### 3. Conclusion

This paper gave an overview of the existing literature on the various aspects related to social capital (definition, conceptual framework(s), empirical research and other) and documents literature’ standing on relationship of social capital to learning and geography. Finally, underlying mechanism for knowledge diffusion based on social capital were also reviewed.

The paper extended the discussion on social capital to the transition economies of the South East Europe (SEE) region. Low level of social capital, or more narrowly trust is highlighted as a key aspect for development of networks and clusters in transitional economies. Trust is in relatively short supply in transition countries, especially in the early stages of transition when institutions are weak and formal and informal bonds holding the economy are ruptured. On the other hand, the importance of exchange of tacit knowledge from the EU member states to the SEE countries is highlighted and the role that trust plays in the development of business and knowledge networks. However, “constructing trust” is a process and the “one size fits all” policy approach to social capital building will need to be replaced with more flexible policies that take into *local* variation of social capital and *local* impact of social capital.

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# Trends in Electric and Electronic Waste Recycling in Slovakia

*Lucia Sotakova<sup>1</sup>, Miroslav Badida<sup>2</sup>*

*Technical University, Dept. of Environmental Studies and Information Engineering,  
Park Komenskeho 5, 04187 Kosice, Slovakia,  
{lucia.sotakova<sup>1</sup>, miroslav.badida<sup>2</sup>}@tuke.sk*

Waste from electric and electronic equipment (WEEE) is a category, which is special from construction and material heterogeneousness point of view. Additionally, many parts of these equipments or products requires special handling in treatment, in the range from collection, through the manipulation and transport till final pretreatment. Specialty of WEEE category is also in a dangerous character of many components originating at the processing, e.g. batteries, light sources containing mercury, etc.

The goal of this paper is to evaluate current way of collection and recycling of WEEE in Slovakia, refer to an existing limitations not only for collection and recycling, but also for administration of an arose and collected WEEE for the valuation needs of limits fulfillment specified by European Union.

## **Keywords**

collective system, recycling, WEEE.

## **1. Introduction**

Solving problems related to the end of electric and electronic devices life is an up-to-date topic in Slovakia as well as worldwide. Technical innovation in the field of these devices has been growing exponentially. Industry produces an enormous amount of new equipment with the use of ever newer technology, which has resulted in the fact that electric and electronic waste is one of the most serious problems in relation to quantity as well as ecological and health danger. Thus, there is important to assure development and manufacture of the products in the way of their modernization, reparation, reuse and recycling. It is also important to restrict the use of some hazardous substances in electric and electronic equipment.

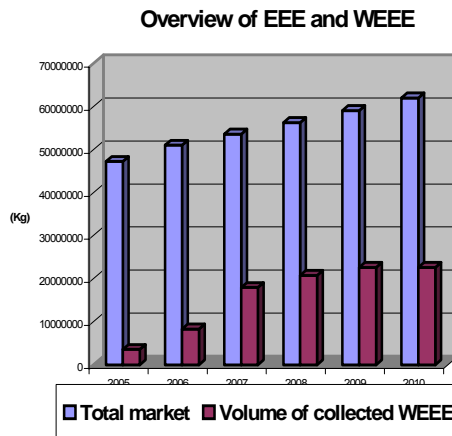
## **2. Present Situation in EU and Slovakia**

Collection and recycling of electric and electronic waste is provided by collective systems established by producers in almost all European countries. These systems are



legitimate associations of people who have taken over their members' responsibilities resulting from the European waste legislation. More than 820 000 tons of waste was collected in Europe in 2006 through the collective systems associated in the WEEE Forum. In some of these countries a developed system of collection has existed for 10 to 15 years. These countries (Belgium, Denmark, Sweden, Switzerland and Norway) form a significant part of the overall volume of the collected electric and electronic waste.

Slovak collective systems are also the members of the WEEE organization. In Slovakia the electric and electronic waste collection system was introduced in 2005. In 2006 more than 8583 tons of waste was collected. In 2007 around 18 000 tons of electric and electronic waste was collected and processed, which represents more than a double increase and it is about 3kg per one resident compared to 1,7kg per one resident in 2006. Figure 1 shows the amount of the collected and processed electric and electronic waste in the Slovak Republic and the estimation for the following years.



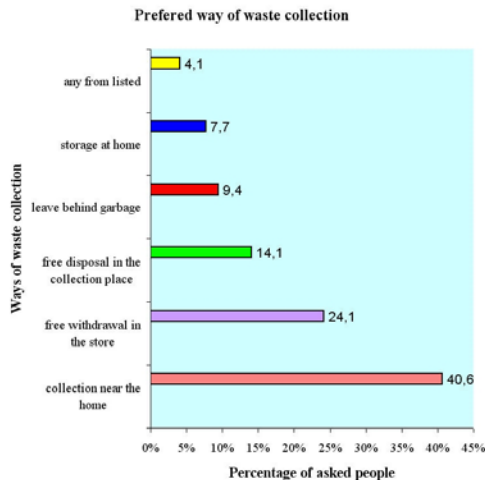
**Figure 1** The amount of the collected and processed WEEE in the Slovak Republic for individual years

### *2.1 Collective Systems in Slovakia*

In practice there exist two main ways of electric and electronic waste collection from households: by means of communal/municipal infrastructure and by means of take-back system in shops.

According to the survey (GfK, 2006) one of the most favorite ways of electrical and electronic waste disposal in households is the collection action, which is favored by 40% of the Slovak population, while one quarter of the Slovak people prefer the free take-back system by shops. On the other hand, the lowest number of people prefer to

store electric and electronic equipment at home, or to leave it by waste containers, as it is shown on the Figure 2.



**Figure 2 Preferred way of waste disposal of household electrical and electronic equipment**

According to available information in Slovakia there are currently 10 collective organizations of various legal nature and they are divided into two main groups:

- group – collective organization established by producers and importers,
- group – organization represented by collecting companies or companies processing the WEEE.

Experiences of the collective systems operating since 2003 have shown a continuous increase in the amount of the collected electrical and electronic waste.

In countries which have the collective systems already in operation the amount of collected and recycled electric and electronic waste has been significantly growing year by year, while simultaneously decreasing the costs. This proves the positive effect of collective systems on the whole WEEE market since the consequent decrease of recycling fees is of great benefit mainly to the consumers.

## 2.2 Legislation

According to the Act N. 773/2004 Coll. the producers and importers of electric and electronic equipment (EE) in the Slovak Republic are obliged to take care of separate collection and recycling of the WEEE. According to the valid legislation in Slovakia only producers and importers are responsible for the collection and recycling of electric and electronic waste. They are also obliged to pay penalty for the default of the set limits. Implementation of legislation in the field of ecological electric and electronic waste disposal is relatively good; however, there are some problems. With regard to a

low sale of new products which is represented by approximately 8,5– 9kg per one resident (in developed EU countries it represents around 25 – 30kg or more per one resident) and due to lack of waste sources, fulfilling of limits and goals regarding the collection for 2008 and the following years seems to be unrealistic. The limits and goals for Slovakia in 2008 and the following years represent 4kg per one resident.

### ***2.3 Financing Collection, Transport and Recycling***

Producers are financially responsible for the collection, transport and recycling. At present they pay fees to the collective systems which take over the responsibility. Authorized organizations pay to shops for every piece of electric and electronic equipment which is taken back. The recycling fee covers costs for the collection, sorting out, transport, recycling and appreciation of large and small household appliances. The amount of the recycling fee depends on amount of launched electric and electronic appliances in the market, amount of collected electric and electronic waste for a given period and amount of recycled electric and electronic waste.

The implemented system is beneficial since according to it individual producers are responsible for the collection. Disadvantageous is the fact that in the initial phase of the implementation it is quite complicated to determine the percentage of the collection since up to now we do not know the relation between the rate of the electric and electronic equipment and that of the electric and electronic waste in the market.

## **3. Treatment and Appreciation of Electric and Electronic Waste**

To handle the WEEE it is possible to use a wide range of procedures, processes and technologies. With regard to the specifics of this group of waste its processing also has its peculiarities. Obligations to the processors are also imposed by the directives of the European Community.

All facilities and organizations performing processing of the WEEE should fulfil certain minimum norms. At the same time, they should use the best available technologies for processing – recycling – appreciation, safeguarding the human health protection and high level of environment protection. Until 2004 activities in the given area were focusing on technologies of handling the hazardous waste from electric and electronic waste. Development of handling the electric and electronic equipment (EEE) and electric and electronic waste was fostered by passing the Act Nr. 733/2004 Coll. which modifies and amends the Act Nr. 223/2001 Coll. about the waste, thereby implementing the Directive 96/2002/ES (WEEE).

The most significant implemented project in the Slovak Republic is building of treatment capacity of complex system of electric and electronic waste recycling with the target annual capacity of 5050 tons, which enables to appreciate majority of electric and electronic waste within the specified 10 categories of this waste. As of June 2006 this company started to use also an operation for cooling and air-conditioning

appliances enabling consequent recycling of material components also from these products.

The company operates in the whole area of Slovakia and is a standard regional collecting company and at the same time also an authorized processor of WEEE in all categories. Apart from this company, there are several other processing companies with smaller processing capacities that operate in Slovakia and provide processing of particular types of waste from electric and electronic appliances.

## 4. Conclusion

Efficiency of electric and electronic equipment recycling in Europe keeps growing. The same is true also for Slovakia where the legislation in the area of the electric and electronic waste came into force in August 2005. Experience of the collective systems which have been in operation since 2003 documents a continuous growth of the collected amount of the electric and electronic waste. In countries which have the collective systems already in operation the amount of collected and recycled electric and electronic waste has been significantly growing year by year, while simultaneously decreasing the costs. This proves the positive effect of collective systems on the whole WEEE market since the consequent decrease of recycling fees is of great benefit mainly to the consumers.

For an efficient, sustainable and transparent system of collecting and consequent recycling of electric and electronic waste to work in Slovakia, it is necessary, according to the producers and importers, to amend the existing legislation. Such a change would help to solve a wide range of currently vaguely defined questions, e. g. responsibility of producers (collective systems) for the collection of all accumulated amount of waste from the predefined collection sites in the whole area of Slovakia, uniform collection performance in the whole area of Slovakia and rewarding of municipalities and collection companies based on the actually performed collection or cooperation of collective systems of producers in the development of the collection infrastructure.

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# Exploring The Textiles and Clothing Industry in Turkey and Working Towards a Theory of Family Businesses

*Alper Kayhan*

*South-East European Research Centre, Mitropoleos 17, Thessaloniki 54624 Greece,  
akayhan@seerc.org*

Despite their majority share in the number of enterprises all over the world, family businesses have increasingly started attracting scholarly interest only in the course of last two decades. Nevertheless, the growing literature on the former has been rather confined to their management practices, leaving many aspects of social and cultural factors that shape their decisions under-studied. In this paper it is aimed to offer an exploratory analysis of the antecedents and consequences of those factors on the entrepreneurial behaviour of textiles and clothing firms in Turkey, through perspectives from economic sociology and anthropology. With a special focus on the particularities of the Turkish family and kinship system, it will be argued that for an accurate analysis of family businesses one should take into account the family component of those establishments at least as much as the attention paid to the business dimension thereof. Moreover, it will be suggested that this necessity to attain a better grasp of the kinship system in Turkey becomes even more crucial, since it has created an economic rationality in its own image.

## **Keywords**

Entrepreneurship, family businesses, kinship systems and relations, textiles and clothing industry, Turkey

## **1. Introduction**

It has been argued that family businesses have not received their due share of scholarly attention [1] and that the scholarly literature on family businesses has only recently been growing [2, 3, 4], notwithstanding the upper-hand position that these firms hold vis-à-vis non-family businesses in terms of the number of enterprises, which is estimated by Dyer [5] to be at around 90 percent worldwide. However, in addition to that, the nascent community of academics of family business have very rarely, if not at all, taken into account and dealt with the kinship systems from within which family firms emerge and along the norms of which they operate [6]. The extant literature of family business has been disproportionately dominated by studies on family firms in the US [2, 7] and similar studies on non-US contexts have only recently been flourishing in the literature [4]. Furthermore, not only the management practices of family firms in

non-US and non-Western contexts are, more often than not, analysed with reference to practices that prevail in the US and the West, and are subjected to the testing of theories tailored for the US context, but also one very rarely comes across studies in the literature on non-US contexts that duly identifies the local social and cultural patterns as part and basis of their analyses [1].

This is a grave fallacy that endangers the accuracy of analyses made to the extent of leading to false judgements and conclusions, and it is this shortcoming in the field of family business research that this paper humbly attempts to address through an empirical and exploratory case study of textiles and apparel firms in Turkey. The research is conducted as part of an ongoing PhD project. The paper is organised as follows: the theoretical framework for the study will be outlined in Section 2, while the empirical findings from the pilot interviews will be presented in Section 3. Last but not least, a discussion of the empirical findings together with directions for further research will be offered in Section 4 as a concluding chapter.

## 2. Conceptualising the Family and Kinship System in Turkey

It has been argued that the most suited approach to understand the contemporary Turkish society is to resort to “[t]he study of specific ways of transformation by which the agriculturally based social structure of a society turns into a modern industrial structure” (p. 2, [8]). The recent and rapid urbanisation experience as a result of rural-to-urban migration, being such a major transformation that Turkey has been going through since late 1940s, has altered drastically not only the demographic landscape of that country but also led to far-reaching changes in the Turkish society and the kinship system thereof [9]. While according to the 1945 census only 24.9% of the country’s population lived in urban centres, this share had risen to 34.4% by 1965, became 53% in 1985 [10], and has still been pursuing a trend of increase.

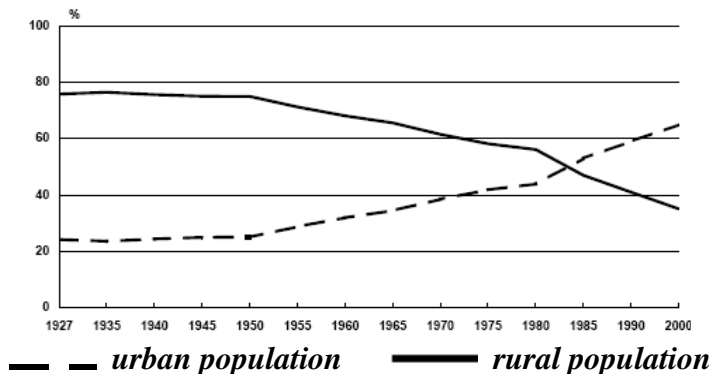


Figure 1 Rural and urban population in Turkey as % of total population (p. 3, [11])

Contrary to the earlier predictions, which were almost exclusively based on the modernisation theory/approach [12, 13], urbanisation did not bring about much change in the Turkish household structure, which had already been based largely on the nuclear type at least for the last one and a half century [14, 15, 16, 17]. However, it did bring dramatic changes in the kinship system, but still, not in the way that the modernisation theory had envisaged. That is to say, urbanisation has not led to the atomisation of the Turkish society or to a weakening of kinship ties, but on the contrary, it has paved the way to the strengthening of the latter through a reconstruction/extension of the kinship concept to include those that are not related to one by blood or marriage, but that somehow have become ‘relatives’ as part of a survival strategy in an unfriendly and hostile city setting, and has served so far as a means of social, cultural and economic integration for masses of rural migrants to the urban milieu [18].

For migrant families, migration not only meant a mere a physical move from villages to cities but also arrival at an unknown setting in which unknown people abound and where relations – which had hitherto been exclusively limited to value-laden, tradition-based, intimate, informal, emotional, face to face type of relations in closely-knit, remote and isolated village communities – thereafter had to be daily established and maintained inevitably with ‘strangers’ on impersonal, discreet, formal, situational, interest-driven, and official norms and bases [19, 20, 21, 22]. In order to avoid such undesired sort of contacts as much as possible, clustering in certain neighbourhoods together with other migrant families of a shared place/region of origin, ethnicity or religion was heavily utilised by the new urbanites [12, 13, 9], which has been labelled as a buffer mechanism by several scholars [20, 21, 23], and as a general strategy of cultural adaptation and integration to the city by others, that is argued to have been heavily resorted to in order to overcome feelings of despair and solitude by re-establishing the traditional trust-based relations in the heterogeneous urban setting where untrustworthy strangers exist and abound [24, 25, 26].

Rural-to-urban migration in Turkey meant for many migrant families also their first direct encounter and experience with cultures that are different than their own. This, in turn, has led them to become increasingly more aware of their cultural distinctions and to place more emphasis on the latter with deliberate efforts to further discover their unique particularities, and if necessary, to invent/construct new aspects of identity [18]. The so-called *hemşehri* ties are one of the most important examples of these recently invented/constructed identities in the urban milieu among migrant families that have been heavily used as a basis of informal and formal social networks, to mobilise social, economic and political solidarity among members [26].

The word *hemşehri* is a word from Persian and signifies the people living in the same city. In Turkish, however, it has a broader definition that interchangeably includes people from the same village, small town, city or region. Moreover, the word is more often used in Turkish for referring to a shared past of having origins from the same region, city/town or village rather than to a relation that emerges from currently cohabiting the same environment. Suzuki [27] and Baştuğ [19] were the first to conceptualise this new type of relations in the Turkish urban milieu among the *hemşehri* as an extension of the kinship system, which hitherto had been treated as being confined to kinsmen related to one another by blood and/or marriage ties. These ties and relations in the urban setting among the imagined distant kin, i.e. the *hemşehri*, have also been called “quasi- or pseudo-kinship relations” (p. 125 [18]), have been



interpreted to constitute “a parakinship system” (p. 66, [26]), and have been argued to be one of the manifestations of the widespread use in Turkey of what Duben calls the “kinship idiom” (p. 88-93, [15]).

Duben [15] likens the kinship system in Turkey to a set of concentric circles, where relations based on biogenetic ties with relatives occupy the core, while extended kinship ties constructed through the use of kinship idiom are located in the periphery and their distance to the core depends on their degree of significance for the individual. Despite admitting that “[t]he line between ‘true’ kinship and ‘artificial’ kinship is difficult to draw ... [and the] contrasts are by no means black and white” (p. 89, [15]), he sees the difference between the two in the extent to which the relations behold altruism. According to him, relations among kinsmen within the core are based on what Sahlins (p. 93-4, [28]) calls a code of “generalised reciprocity”, where obligations, how and when to expect the other to return a favour are not clearly defined since the motive behind is morality rather than reciprocity as an end in itself (see [29]), while relations with the extended and artificial kin at the periphery are based, not on morality, but on a balanced reciprocity since “[a]lthough the motives may still appear altruistic to the parties involved, the expectation of a counter-presentation is greater, the obligation to return less diffuse” (p. 90, [15]).

While endorsing in principle Duben’s core and peripheral notions of kinship, White [30] argues that kinship in Turkey is a mutually benevolent status that one can benefit from only through his/her demonstrated loyalty to long-term reciprocal relations of exchange and mutual obligations, and not necessarily by being simply born into or rendered automatically entitled to. Moreover, both White [31] and Duben [32] have observed that Turkish people prefer to have even their most basic economic relations with others on a long-term and open-ended basis rather than having them in an intermittent, spontaneous or distanced fashion. The title of her book, which is actually a quote by one of her interviewees, perhaps epitomises the reality on the ground better than anything else: “money makes us relatives”. Furthermore, White indicates that

both domains of kinship are rooted in labour, and ‘belonging-ness’ in either can be modified on the basis of the member’s contributions to the community. This means that such people as one’s neighbours with whom one has long-term reciprocal relations of exchange and mutual obligation become *akraba* [i.e. relatives], with rights to one’s labour and resources. In the same way, blood *akraba* who have not contributed their own time, labour and resources, while remaining kin, may be refused a share of kin-member’s resources’ (p. 126, [30]).

Therefore, the kinship system in Turkey challenges the celebrated Marxist political economist Polanyi, who stipulates that the introduction of capitalist market economy inevitably leads to the prevalence of a profit-maximisation logic in that society and disembeds all non-economic institutions from market relations since “[i]nstead of economy being embedded in social relations, social relations are embedded in the economic system” (p. 57, [33]). What has been observed and recorded in the extant scholarly literature for the Turkish case, however, refutes such a path dependency model. Obviously, at least for the Turkish case, it is not the social relations that are embedded in the economic system, but on the contrary, it is the economy that is deeply embedded in social relations in which the kinship system plays a major role. In other words, the Turkish case confirms the viewpoint of Godelier [34], which holds that

there is a social logic to economy, and that any evaluation of the rationality of actions within that economy must take into account the larger – often unconscious and non-deliberate – calculation of costs and benefits. The economic rationality of today is, as a result, a prisoner of a greater rationality that extends beyond the immediate transaction into other social fields, into the past and into the future (cited in p. 43, [32]).

As a result, while in the beginning of this section it was noted that the recent and rapid urbanisation experience in Turkey altered to a great extent not only the demographic landscape of that country but also the prevalent kinship system therein, the section will be concluded by underlining this additional and relatively under-studied dimension of socio-economic transformation that the Turkish urbanisation has brought about. This conclusion, derived from the preceding discussion throughout the current section and which constitutes the research hypothesis of this work, is as follows: the redefinition of kinship and reconstruction of the kinship system in Turkey as a consequence of and during the recent and rapid urbanisation experience in that country has, in turn, created its own economic rationality that is different from what rational choice theory suggests and that goes beyond momentary calculations of costs and benefits by prioritising and seeing the real benefit in the longevity of the relation based on a reciprocal exchange of debts and regulated by what White calls “the morality of debt” (p. 135-9, [30]).

### **3. The pilot fieldwork study**

#### ***3. 1. Purpose of the Pilot Study***

The pilot fieldwork study that will be introduced and discussed in this section has been conducted with a two-fold purpose. First, it aims to explore the emerging themes on the ground that will assist in having a more specified focus in the following stages of the research. And secondly, it has a reality check purpose to verify whether the major themes cited and emphasised in the literature on the kinship structure in Turkey have an empirical basis as far as the family businesses in the textile and clothing industry in that country are concerned. Therefore, the research methods that have been employed for the conduct of this pilot study should not be treated as indicative of or binding for the methods that will be used for the main research, since the former’s use at this stage is strictly limited to the aim of the pilot study to explore the major themes at stake. Also, the results of this rather small-scale study should be approached with caution because, like in the case of methods used in this pilot study, they reflect findings obtained only from the pilot study and as such they constitute only a fraction of the empirical data reservoir that the main study will draw from for its conceptualisations. Last but not least, the findings obtained in this pilot study are not prioritised in any way against the other sources of information, but they are treated on equal grounds with the latter as informant input and as a means of reality-check tool for thinking and deciding about the path that this research will follow in the future.

### **3. 2 Method**

The pilot fieldwork for this study was carried out during five days in mid-April 2007 in three different locations of Istanbul where the textile and clothing industry is relatively more concentrated in the urban area of that city. In total, eleven unstructured, face-to-face, in-depth interviews with durations varying between thirty minutes and one hour were conducted with the owners and employees of firms, the secretary-general of a local textile and clothing businessmen association and the local branch legal adviser of a national labour union of textile and clothing workers.

The participants for the pilot study were selected on the basis of a combination of purposeful sampling and maximum variation [35, 36]. This choice of sampling strategy had the deliberate purpose to restricting the researcher to getting information and insights from a rather homogeneous group of people regarding their job, position, locality and alike, but rather to incorporate into the pilot study as many stakeholders as possible whose relation to and involvement in the industry varies from one another. Sampling of participants for the pilot study from three different areas of Istanbul where the textile and clothing industry is relatively more concentrated should also be viewed as an effort towards having a variety among the interviewees. Such a sample then would be better posited to provide specific information about their immediate surroundings apart from the generalised accounts that they would give on the industry and their personal involvement therein. Therefore, the sampling for this pilot study the should be seen as one that strives towards an information-rich sample unit which, after all, does not make a claim of being a representative sample unit of any population.

The interviews were conducted at the subjects' workplaces,<sup>4</sup> and in a rather informal and casual fashion in order to establish rapport with the participants and to ensure the receipt of more sincere and honest answers to the questions. The interviews contained both open-ended and close-ended questions that differed from interview to interview only slightly, depending on the company's place in the supply chain, and the position or title of each interviewee. Utmost attention was shown for the phrasing of questions in a discrete manner to avoid influencing the responses of the interviewees [37]. Pseudonyms have been used throughout the pilot study to replace the actual names of both the real persons (i.e. interviewees) and the legal persons (i.e. companies) to preserve the anonymity of the participants and their companies. The only exceptions to this anonymity are the names of the businessmen association and of the trade union of workers mentioned here, which are not pseudonyms but their real names.

The interviews with the representatives of the local businessmen association and of the trade union, apart from providing valuable additional information and insight for the current study, were conducted in the last phase. This helped the pilot study to include voices and views of other stakeholders involved in the industry and facilitated the triangulation of the prior empirical findings obtained in the earlier phase of the pilot study by checking for the relevance and salience of themes and issues that had been

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<sup>4</sup> Except for the selected three suburbs of Istanbul, one interview was conducted with an executive employee of a company based in the suburb of Kurtköy. The interview took place at the workplace of another interviewee in the district of Merter, whose company produces fabrics on a sub-contracting basis for the former's ready-wear clothing manufacturing company in Kurtköy.

previously raised by, during the interviews with, the owners/managers and employees of the companies included in this pilot study. Since the study is of qualitative nature and an exploratory one, the findings were not tested for their internal validity or reliability. The study has been conducted using an interpretive paradigm [38], since the aim of the pilot study was to explore with as much accuracy as possible and to check for the consistence of previous studies with the current reality. This picture, then, is interpreted by the researcher to acquire insights [39], to identify the major themes of concern, and thus to inform the future direction that the research is to take.

### ***3. 3. Presentation and Discussion of Findings from the Pilot Study***

The interviewees' firms covered in this pilot study display a considerable variety as far as their business activities and positions within the production and supply chain are concerned. However, notwithstanding this divergence that differentiates the companies surveyed here, a very common trend that was observed during interviews is that the respondents referred to their relations with suppliers, customers, and fellow employees very frequently by employing kinship terms. Kin-like relations that have been formed in the course of business cooperation were expressed very often by the interviewees in terms of what Duben [15] has labelled 'kinship idiom', through the employment of kinship terms that are normally used among relatives within a family. This part is thus dedicated to the presentation and discussion of major empirical findings from the pilot study and to an enquiry of their relevance to the postulates and findings that have been put forth in previous studies in the literature.

The extension of kinship status through the incorporation of the non-genealogical kin appears to follow an ambivalent and highly selective pattern rather than a uniform one for all relations within and between firms across different businesses surveyed in this pilot study. For instance, an owner and manager of a firm insistently refused to refer to his company as a family business although his two sons are also employed in his firm. Necmi justified this stance of his on the grounds that he is the sole owner of the enterprise, and that a family business is one in which family members share the ownership. Moreover, Necmi stated that he abstained from employing his relatives and acquaintances in his firm because, based on his previous experiences, such employees then perceive themselves in a privileged position vis-à-vis other employees and do not work with high efficiency. On the other hand, however, during the interview Necmi showed no hesitation to introduce to the interviewer the master of his workshop, who has worked him for over a decade, as his third son although they are not even genealogically related, and said that his master is no different for him than his two real sons.

At another interview, Ahmet introduced their firm as a family business although the shareholding structure included members of a family and other individuals outside the family. Ahmet stated that the relations between his family and other shareholders date back to times prior to the company's founding. The ties among them were not created from anew with the establishment of the firm since they were already in place due to residing in the same neighbourhood following the shareholders' families' migration to Istanbul in 1970s from different parts of the country. Therefore, the history of the company is inseparable from the urbanisation experience of the families that founded it

over their newly founded kin-like ties as a result of being neighbours in the new urban environment. Ahmet regards the relationship between him and his senior colleague Murat as one that is no different than the one that would have been between two real brothers. This fictive kinship among the members of different families is also observed in their daily dialogues. While Ahmet was talking to and referring to Murat during the interview, he was calling him “big brother”. At another instance he said:

‘Our families see each other too. We have been seeing each other for many years now. We used to see each other before starting together this business as well. We can say that now we have entrenched this with [business] partnership. Just like that I mean, a relationship of big brother-small brother is continuing between us. And it has always been like that.’ (excerpt from the interview with Ahmet)

Moreover, apart from the frequent use of the kinship idiom among the shareholders and managers of the firm, unlike many other cases under survey here, the same trend is followed also in the executives’ dealings and relations with fellow employees. According to Ahmet, the company’s policy is to give preference to relatives and acquaintances in the recruitment process since it is preferable for them to work with people whom they can trust.

However, the use of kinship idiom and emphasis on fictive kinship are observed not only in intra-firm relationships but also in the context of inter firm affairs. At another instance, when asked about the nature of their relationship with Selim’s company, with which his firm has been working for five years on a sub contracting basis, Haluk stated that they have become like ‘more than simply relatives, but rather like a family’ in the literal sense. What is interesting to note here is that neither Haluk nor Selim are shareholders of companies that they work for, and neither of the two companies is family-owned. But in the course of their cooperation in business, they have “become a family”, a statement which Selim also agreed with. Similar ties seem to have been the basis of cooperation also with the other sub-contracting customers of Selim’s company, which have been more or less the same ones over the last decade, and Selim is happy to work with them on such a long-term basis. He stated that their clientele does not change and that they have never been in search for new customers. However, this preference is not because the company’s capacity is sufficient only to respond to the orders of the existent clientele, since its production is much less than its actual capacity. Although it has an excess capacity that is not in use most of the time, not only the company has not made attempts to expand its clientele, but it is also not open to sub-contract offers from potential customers. Nonetheless, Selim is content with this situation and prefers to have his machinery and workforce remain idle rather than switching to full capacity production by striking new deals with strangers that would walk in to his office and approach him with a lucrative sub-contract offer.

Such a reserved attitude in the openness to new business opportunities through deals with new customers and preference for sticking to an unchanging clientele that have become kin-like after a long history of cooperation, however, does not appear to be just the function of a company’s position in the supply chain. It may be argued that in a competitive environment like textiles, the survival of Selim’s company depends heavily

on the loyal behaviour of its business partners as providers of contracts and on paying back for this loyalty to them by not alienating the latter and abstaining from catering to their rivals at the expense of having a considerable portion of its capacity remain idle. However, in another case where the company surveyed is not a sub-contractor to other firms but purchases its raw material and markets its finished products directly, Tuncay said that their customers have changed little until a few years ago. As a shareholder and manager of Ipekteks, Tuncay recalls the two decades after the company's establishment as good old days. He and his colleagues used to allocate all their efforts and attention into production and not care about marketing since the customers, with whom they had become like relatives in the course of their long-term business relationships, themselves would come to his firm on a regular basis for purchases. However, with the fierce competition coming in from China in recent years, lower prices have prevailed as a more important priority over loyalty, and Ipekteks had to change its business habits and start 'going out and looking for customers'. The Ipekteks case is thus crucial also because it shows that fictive kinship ties established between firms are not unshakeable and the long-term reciprocity may cease to exist once the external factors render it too costly to insist on its sustenance.

Fictive kinship ties that have been formed in the urban setting among members of rural migrant families were frequently mentioned during the interviews. This includes evidence that attests to the importance of ties among the *hemşehri* that have also been extensively studied in the literature on Turkish society. For instance, Haluk, who has been working in the sector for twenty-two years, started his career as an unskilled worker in 1985 when a *hemşehri* of his, who migrated to Istanbul from a nearby village to Haluk's village of origin, offered Haluk a job at his workshop. Thus, fictive kinship has been a central part of Haluk's work life from the very beginning, and it is not a strategy that he has started resorting to or one that he has ceased to do so in the more recent stages of his career in the sector as an executive. Likewise, Necati, the owner and manager of Orgu-Kumas, has a similar personal history in the sector to that of Haluk. His involvement in the sector began as an apprentice twenty-two years ago, a job that his big brother had found for him in Istanbul. His big brother had migrated to Istanbul a few years earlier than he did and found a job at a manufacturer of fabrics owned and run by their *hemşehri* from the province of Sivas. When he secured a job at the same company for his little brother as well, Necati left Sivas and settled in Istanbul too. As such, his story is a clear evidence of the "chain migration" phenomenon that has acted as a catalyst for the rural masses' movement to cities upon securing employment through fellow kinsmen – actual or fictive – who had migrated to the city at an earlier stage in time.

On the other hand, Selim's involvement in the sector has a relatively shorter history of only five years. Although he is a graphic designer by formation, he could not turn his neighbour down, whom he refers to as "big brother Halil", when the latter offered Selim the current post he continues to hold at Komsuteks:

'I don't like this industry at all at the moment. It's not a nice industry at all I mean. Not because some other [reason] but why [did I start working in this industry]? Big brother Halil, I mean our boss, was our neighbour. He asked me [to work for him].' (excerpt from the interview with Selim)

When he is asked about why his boss made such a choice instead of recruiting a manager with experience in the industry, Selim responded that his “big brother Halil” wanted to have someone whom he could trust. His boss Halil was deceived by his former manager, who was not his kin and who secretly appropriated large sums of the company’s money, which ultimately led to the termination of his job contract. Therefore, once again it was witnessed that relations at the workplace among the non kin who are not genealogically related to one another, are constructed on the basis of a fictive kinship that mutually benefit the both parties involved, the employer and the employee alike. Selim gratefully pays back to his boss’s favour of such a good job by being a trustworthy manager for him although he, in his mid-20s, may lack many necessary competencies and sufficient work experience in the sector to hold such an executive position.

Although empirical evidence suggests that the establishment of fictive kinship ties and the use of kinship idiom in the businesses is a widespread practice, there seems to be an important distinction concerning the selection of contexts in which this strategy is so commonly followed and those in which it is almost not resorted to at all. This practice appears to prevail and to be in use more often among the owners and executives within and across the firms with a high frequency, whereas the same strategy is not so often observed in the case of intra-firm relations between the owners/managers and low-rank employees. It is possible to argue for the plausibility of such a distinction especially when one takes into account the extremely high employee turnover in the Turkish textile and clothing industry, which was mentioned in most of the interviews and was also highlighted as the biggest problem that the workers face according to the labour union representative. A majority of owners and managers interviewed in this pilot study have explicitly expressed their disfavoured attitude for the traditional, master-apprentice type relations where a long-term, symbiotic, morality-laden relation between the employer and the employee is held at esteem [40]. Therefore, this may signal a new trend of limiting the circle of fictive kinship to and the use of kinship idiom within a narrower circle of owners and managers and mark a departure from the more inclusive past practice.

In a recent study on the cloth dyeing industry in South India [41], empirical findings point to a similar pattern of workplace relations. Owners, managers and senior employees of the firms are found to be involved in closely-knit fictive kinship relations expressed through kinship idiom, and are built on a morally-laden, long-term, reciprocal system of favour exchange, as also suggested by the findings of the pilot study here. Although in the South Indian case workers too are found to be part of the kinship network at the workplace, unlike the findings of the present pilot study which indicate a confinement of such relations to executive ranks in the firm, the high turnover of workers inevitably leads to a hollowing out of the long-term and moral essence of such relations and renders it similar in practice to what has been found here for the Turkish case. Evidence for the construction and mobilisation of fictive kinship among the owners and executives of businesses surveyed here, has been found to be having its bases on other shared social and cultural aspects as well. One of those aspects is religion. Two interviewees in the present study can be classified as devout Sunni Muslims who, apart from their personal lives, strictly abide by the rules and principles of Islam in their business lives as well. Necmi and Baran avoid usury in their transactions since it is forbidden in Islam, and thus they have had to limit their business

relations to those in which they would not have to charge or receive any interest rate over the payments. In the case of Fason Mont, this has led Necmi to stick to production based on sub-contracts.

‘I’m doing sub-contract work. I’m only doing work through sub-contracts [given to me]. My capital is my machines, my labour. We’re using these. It has always been like that. We are not selling [our] products, we can’t sell. And there are reasons [for that]. There is usury and such. There is usury. I can’t charge interest rates, I can’t...’ (excerpt from the interview with Necmi)

Necmi’s and Baran’s devoutness to Islam may restrict their access to many opportunities in the market that are not in line with the rules and teachings of Islam, and that they might have otherwise been able to benefit from. However, at the same time, this very devoutness of theirs may open up new business opportunities and serve as a firm basis of long-term business cooperation for them as well, since their religious identity, worldview and conservative way of living may facilitate and ease making business with like-minded suppliers and customers. This possibility was confirmed by Mehmet, the secretary-general of the local association of textile and clothing businessmen in the district of Merter, to indeed exist in reality as a major factor in inter-firm relations. Mehmet informed during the interview that several informal networks of owners and managers in their area based on a brotherhood of Sufi interpretation of Islamic belief have become more prominent than even those that are based on hemşehri ties and solidarity.

On the other hand, increasing emphasis on Islam in business also has negative impacts for owners and managers that, personally or as a firm, do not subscribe to such an outlook. For instance, Duygu, who is a major shareholder and director of a company that sells fabrics for women-wear, has her produce finished by sub-contracting each phase of the manufacturing process to different firms in and outside Istanbul. Since each of these firms is specialized in a different phase of the production, she almost constantly has to be in touch with her sub-contractors to coordinate the whole process until the finishing of the product. The already hard work becomes even harder from time to time for her as a woman because, as she said, due to her liberal worldview and appearance, she is perceived as an undesirable business partner for many Islamist owners and managers of companies.

‘There are such people for sure but they are not the ones I deal with. And there are such people still ... I cannot go to each and every customer. He wants to see a man in front of him. He wants to see a proper man. Then I cannot go [to discuss business with him] ... Being a woman entrepreneur in this sector, this has disadvantages.’ (excerpt from the interview with Duygu)

Apart from this obstacles that she daily has to face due to her faith and worldview, Duygu has another complaint in that, as a latecomer in the sector, she is at a highly disadvantaged position vis-à-vis her established rivals. As a textiles engineer by formation, she said that her prospects for success at her work are being unjustly taken aback by people with little or none formal education and who are totally ignorant about textiles in terms of technical know-how. Of the interviewees surveyed in this pilot study, Murat, Necati and Baran fit into this latter category of businessmen that have started their career in textile and clothing industry at very early stages in their lives as



an apprentice. As they climbed the career ladder up to the positions that they now hold, they have learnt the job by practicing it and not through formal education. Since the textile and clothing industry in Turkey had not yet grown into economies of scale and there were much less firms operating in the sector as recently as three decades ago, owners and managers of businesses that have been involved in the industry since prior to 1980s accord to themselves a sense of superiority over the latecomers, no matter what the former have actually achieved in their own careers. This was observed in all of the three interviews with Murat, Necati and Baran. All three claimed that they are graduates of the so-called “Sultanhamam-Mercan University”, referring to the area in central Istanbul where most textile and clothing companies and workshops were once located. They all attach special importance to acquaintances they made at work in that area, and they express contempt for latecomers to the sector whose work mentality and business culture differ drastically from theirs because they did not learn the job in the Sultanhamam-Mercan way.

A major aspect that these former apprentices of Sultanhamam-Mercan argue to differ themselves from the latecomer business owners and managers in the sector has to do with business mentality and culture. Baran argued that the newcomers are more shortsighted in business, while they have been taught to give priority to strategies with a focus on the long-run; that the newcomers are more eager and impatient to have immediate returns on their investments, whereas they have made to believe that only through patience one can really achieve his/her targets; and that the newcomers prefer to channel their profits into luxurious consumption and investments in the financial markets, while from their masters they learned modesty as a virtue and to invest back to business any profit that one makes from that business to create more employment for the society that one earns his/her profits from. A similar remark was made by Murat:

‘From now on [the matter] is not just about for a family to earn its bread from here [i.e. from the business] I mean. If more people work here, it will be a source of bread for so much people. And because of this it’s important to expand. Instead of [sticking to] a logic of “this is enough for us” I mean...’  
(excerpt from the interview with Murat)

Such a shared past at work – actual or imagined – and common business culture from professional upbringing since their apprenticeship times, seems to constitute another social and cultural basis for fictive kinship construction among “the graduates of Sultanhamam-Mercan University”. Therefore, business culture and work mentality, which may show variation depending on differences in generation and the type of training/formation received for the job, emerge as another major factor and building block of fictive kinship ties in the context of intra-firm and inter-firm relations that should be taken into account for the main study.

#### **4. Conclusion and Suggestions for Future Research**

The recent surge in the scholarly interest in family businesses has been successful in putting these long-time actors in the realm of industry and commerce high on the agenda of salient areas of research and in garnering growing academic interest towards this important phenomenon that has gone almost unnoticed in the literature. However,

family business research is still too much pre-occupied with studying the management dimension of these businesses and has persistently ignored to address, to the extent of turning a blind eye to, their other very important constituent dimension, i.e. the family [5]. This research has the aim to draw attention to this long-standing shortcoming in the family business scholarship and to contribute to the latter by proposing a new way of studying family businesses that duly takes into consideration the diversity in family and kinship systems across different contexts over the globe.

It has been argued in this paper that family business research should become aware of, take into consideration, and benefit from the theories, perspectives, concepts and discussions regarding family and kinship within the anthropology and sociology literature in order to achieve more accurate and complete analyses of family businesses. It is highly doubtful that this can be ever achieved with an essentialist presumption of the family at the outset, such as that '[t]he family is an organization that has an identifiable structure [which] tend[s] to be considered homogeneous' [42]. In its stead, in this research, based on the review of the literature and preliminary empirical findings from the pilot fieldwork study, it is suggested that any conception of family and kinship should take into account the particularities of the social and cultural dynamics within the context that is under focus. Apart from and in addition to promising more robust analyses of family businesses, such a paradigm shift also offers the prospect of bringing an end to the long-standing debate and dispute in the family business scholarship on a yet-to-be achieved commonly-accepted definition of family businesses.

The present study has been developed with the aim to explore and conceptualise the convergences and divergences in the nature and behaviour of family businesses in Turkey that operate in the textile and clothing industry. The social upheaval that the country has undergone in the course of the last half century through urbanisation offers a rich repertoire of social and cultural dynamics for scholarly enquiry into the family businesses therein, since kinship ties and relations since the beginning of this recent and rapid rural exodus have been reconstructed and reinvented to meet the needs of the new circumstances that have prevailed in the urban milieu. The enquiry has been confined to firms operating in the textile and clothing industry of Turkey, whose recent history of rapid development into an economy of scale and of becoming one of the top players in the global market is perhaps an inseparable one from the experience of urbanisation in Turkey that created the material and social conditions for its growth to its current scale.

The research has been designed as an exploratory, analytically interpretive, empirically grounded study that can contribute to the family business literature by generating a theory of family businesses that, apart from being informed by both the existing theories in the literature and particularities of the context under focus, is however exclusively based on the interpretation of empirical data that are grounded in the very lived "kinship-at-work" experiences and views of a variety of stakeholders of the textile and clothing industry in Turkey. As a next step forward, prior to the entry into the field in the spring and summer months of 2008, contacts with the local and nationwide textile and clothing industry associations and the provincial chambers of trade and commerce will be established to inform the former about the study and to seek their written endorsement for the latter that will considerably ease access to their member companies. In the meantime, interview agendas that will guide the data collection from different stakeholder circles of the industry will be devised.

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# Marketing Research, Serving for a Growing Consumption of Organic Foods in Hungary

*Maria Hofer<sup>1</sup>, Judit Varsanyi<sup>2</sup>, Laszlo Jozsa<sup>3</sup>*

*<sup>1,2</sup>Hungary–Harsányi Janos College, 1135 Budapest, Szent László u. 59-61. Hungary  
hofer.maria@hjf.hu<sup>1</sup>, vjudit@agistra.hu<sup>2</sup>*

*<sup>3</sup>Széchenyi István University, Department of Marketing & Management, 9026 Győr,  
Egyetem ter 1., Hungary, jozsal@vnet.hu*

**The international statistics of health and mortality in Hungary call the attention to the importance of healthy nutrition. A growing rate of consumption of organic foods may help with reducing the various diseases. Furthermore, the change of structure of food products may lead to the growing competitiveness of Hungarian agriculture.**

**Based on the facts of the stage of Hungarian organic farming and, on our public health position, a broad PhD research started on the consumer behaviour in the area of organic foods. Among others, we searched for the Hungarian population's opinion about healthy nutrition, about impacts of chemicals on the human health and about the benefits of organic foods. By focused and detailed questionnaires, almost 900 persons have been inquired about their food buying and consuming habits and preferences. Retarding factors of extension of organic food production and commerce have been inquired as well.**

**We implemented our surveys by our original questionnaires, without precedents of similar focuses or contents before in market research in Hungary. Several partial research results have been published soon, as it is referred hereby. Other partial results will be presented in the recent paper, with conclusions about the chances and conditions of development of organic farming. The research is, however, in its intermediate phase now. The further elaboration of valuable answers to our survey questions expectably will help with the development of organic farming in Hungary, suggesting and implementing the premises and tasks of further growth.**

## **Keywords**

healthy feeding, organic farming, organic foods, consuming motivators, consumer behaviour, marketing strategy, product strategy, competitiveness.

## 1. Introduction – Purpose of Research

The purpose of our research work is to search for the motivating and obstructive factors of consumption of organic foods, in order to contribute to a more competitive product strategy of our agriculture. The steps of research work have been oriented to the following targets:

- improvement of competitiveness of our domestic food products,
- improvement of health condition of Hungarian population and,
- establishment of the sustainable life quality for the future generation.

These targets closely are related to the success factors of the involved organic farming, food processing and trading companies. We intend, therefore, to elaborate proposals for food producer, processing and commercial companies – especially for small and medium-sized enterprises (SMEs) dealing with organic farming. As we hope, these proposals will serve for the elaboration of their competitive product, marketing and commercial strategies.

## 2. Design/Methodology/Approach

Our research work started in 2005 within the frames of a PhD research programme of Multidisciplinary Doctoral School (MTDI) at Széchenyi István University, Department of Marketing & Management in Győr, Hungary. *The research has been focused to the motives of organic food consumption and, on the impacts of its extension.* We executed a broad survey among 275 students of university and college level during the Fall semester 2005.

By the help of an improved questionnaire, the first survey has been repeated in 2006 among further 146 students. Accordingly, the sample of students' target groups consisted 421 persons of university or college level. Our surveys have been completed among 425 adult residents from various Hungarian regions. Thus, the total sample concerned 846 persons.

The methodology of survey engineering process has been designed as follows:

- Formulation of questionnaires for consumers
- Pilot test among university and college students in Fall semester 2005
- Improvement of the first questionnaire
- An extended survey among students and adult inhabitants in 2006.

The improved questionnaire contained 18 questions. The key topics of our questionnaire concerned:

- the health damaging impacts of chemicals,
- the preferences and key-motivators of organic food consumption,

- the causes of non-consumption of organic foods,
- the frequency of consumption of various categories of organic foods,
- the importance of different purchasing places,
- the sources of informations about the organic foods and,
- the expected market changes, being necessary for the extension of Hungarian organic food production till 2010.

Under each of the questions, 5-10 further sub-questions have been to be answered, either by using a preference or agreement/disagreement scale or, by giving the data of buying frequency, respectively.

The elaboration of questionnaires resulted in a Microsoft Access data base. By exporting this data base into Microsoft Excel, we have got interesting results of primary elaboration. For further and more complex analyses, we intend to export our data set into SPSS software this year.

### 3. Theoretical Aspects of Research

#### 3.1 Competitive Strategic Considerations

In the European Union, especially since or assessment in 2004, the approach of economic performance and living standard of post-socialist countries to the developed ones is a very important purpose which may be based on *international comparisons of our product structure*, according to criteria of competitiveness. These comparisons are relevant steps toward the formulation of product strategies. Michael Porter, guru of competitive strategies at companies, suggests such specific product strategies which optimally fit to the activity sphere, industrial branch and image of company concerned. He suggests, furthermore, such strategies which generally are applicable – depending on the traits of competition. [1] This means, companies dealing with mass production should follow a product strategy which is different from those ones of producers of pretensive goods. The latter companies should follow a differentiating strategy, similarly to those ones who intend to exhaust a rare occurrence of a great market chance.

Of the Porter's categories of competitive strategy, *the cost-leading strategy is to be followed by mass producers*. This may, however, not be the way for Hungarian food producers against the multi-national companies. Both of the further kinds of competitive strategies – the *differentiating strategy* and the *focusing strategy* – may really be successful ways for our companies, involved in food industry, depending on the existing market conditions.

The long-lasting success, however, presumes not only the usual short-term market informations and forecasts but the acquaintance of tendencies for a long term as well.

Based on future-researches of Gerd Gerken Institute in Germany, occurrence and reinforcement of six different so-called *meta-trends* is to be expected, *resulting in*



*decisive changes in various areas of the consumer behaviour during the next decades.* [2]

“Most of these meta-trends will impact on companies against their former performance ... enforcing entrepreneurs and managers ... to learn to forget .... to say farewell to all of their former success factors.” [2]

Brand new product and marketing strategies and efforts are required in order to respond to these changes. [3]

The meta-trend of *eco-socialism* – that is the way of thinking of managers according to ecology-ethical principles, may improve both the population’s health stage and, the competitive force of the companies involved in the food industry. The long-term impact of this new concept will, furthermore, lead to better health and living conditions of future generations. [4]

### **3.2 Population’s Health Stage in Hungary**

According to the last years’ statistical data, the health stage among Hungarian people is crucial. One of the characteristic indicators, the life expectancy at birth is 72,4 years which is – after Turkey – the worst one within the OECD countries. The continuous growth of our mortality rate and, a decreasing number of population is a further threat for our country – as it is to be seen in the Table 1. [5]

Denomination	1960	1970	1980	1990	2001	2005
Mortality rate, capita/1000 inhabitants	10,2	11,6	13,6	14,0	13,0	13,5
Natural change of population, capita/1000 inhabitants	4,5	3,1	0,3	-1,9	-3,4	-3,8

**Table 1 Mortality rates and natural change of population. [5]**

These warning signs result in our society’s more and more growing needs of healthy way of life, engaging with increasing private expenses for health care. This trend may be emphasized by the following data: [5]

- Our private expenses for health care in 1990 duplicated till 2003, from 586 to 1 269 USD per capita.
- The per-capita rate of public expenses for health care, however, decreased from 60% of average of OECD countries in 1990 to 54% till 2003.

The most frequent mortality causes are presented in the Table 2. [6]

Mortality causes in 2005 in Hungary	Occurrence in %
Malignant tumours	23
Cardial muscle necrosis	8
Other ischemiatic heart diseases	20
Cerebral diseases	11
Bronchitis, asthma	4

Mortality causes in 2005 in Hungary	Occurrence in %
Liver diseases	4

**Table 2** Frequency of occurrence of key mortality causes in Hungary. [6]

The above data may be explained by one of authors of the health care literature [7], concluding that:

“The illness is an individual response to the environmental impacts... the structural change of illnesses is characteristic to the general environmental conditions. In the developed countries e.g. ... the vascular lesions, the heart and tumorous diseases play a key role, whereas in the developed ones the infectious diseases are predominant. [7]

One focus of our research has been, therefore, to explore how students and adult inhabitants mean about the impact of chemicals as ingredients of food products or environmental pollutions, on the human health. We intended to explore the spread of estimated damaging sources, based on a broad survey among university and college students. A secondary purpose of this survey has been to explore, how do the education impact on the way of thinking about the human health. [8]

The high total rate of 70% of above serious diseases, and their risk might be and should be mitigated, among others by the healthy nutrition via organic foods. This solution is, however, in close contact with the medical prevention, the desirable change of population’s nutrition habits, resulting in a better health stage and, decreasing health care expenses.

Further benefits of organic farming are to be found in the competitive sphere of food production, processing and commerce, improving the competitiveness and exportability of Hungarian organic foods.

### ***3.3 Stage of Organic Farming in EU and in Hungary***

In general, Hungary has beneficial agricultural conditions, having such exhaustible values which may reinforce its market and economic positions:

- We have extended lands of good agricultural advantages.
- We have beneficial natural and climatic parameters.
- In spite of use of pesticides and industrial farming technologies, the domestic landscapes are still in a relatively good ecological condition.
- The historical traditions of Hungarian farming, the high level of agricultural education, the role of knowledge centers and, the continuous vocational development delivers the necessary skills to this sector.
- Due to our advantageous geographical location and, to the strict Hungarian Food Qualification System, our farming products are of high and reliable quality.

Despite of these advantageous traits of our agriculture, however, there is a remarkable contradiction between the low rate of consumption of organic foods in Hungary and the

traditionally high preference of them among the EU-countries of high living standard. This fact it is a significant retarding effect of our development nowadays.

Figure 1 shows a comparison of organic farming areas of EU-member countries. As it is to be seen from it, the market position of Hungarian organic foods is very weak and, its growth rate is very slow as well, especially compared to neighbouring Austria. According to statistical data, Hungarian food producers use only 2,9% of our total agricultural area for organic farming, controlled by the attesting organisation Biokontroll Hungária. [9]

Consequently, we are ranked as 16<sup>th</sup> with this respect, among the 27 EU-member states. [10] – although this is in close contact not only with the human health but with the more and more urgent requirements of environmental protection as well.

So the extension of organic farming is an emphatic national and individual interest, because *the growing consumption of organic food is closely connected to the human health and, to the sustainable development.* This fact requires positive change in our feeding habits – regarding it as a public health premise, being able to prevent various diseases. A radical change of habits may result in a significant improvement of inhabitants' health condition and, the decrease of public health expenses.

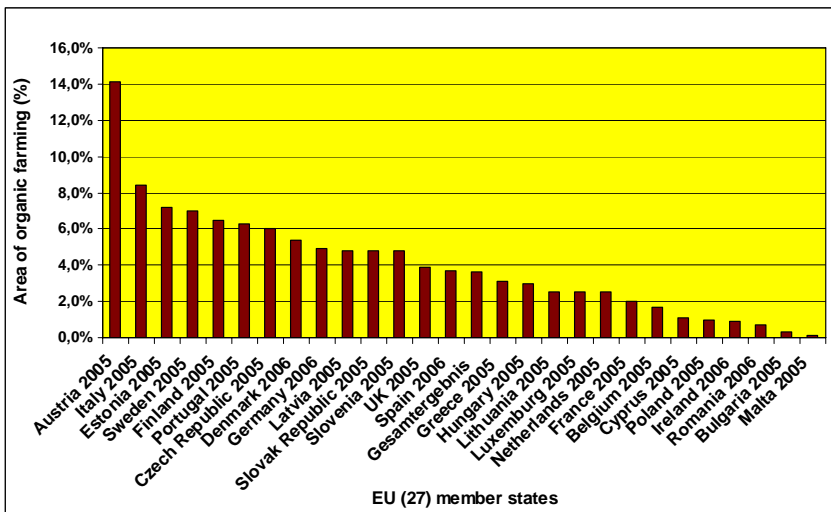


Figure 1 Comparison of organic farming areas of EU-countries in 2006. [10]

To increase the competitiveness of this area of Hungarian agriculture, this is an urgent task because – as mentioned above – by the ratio of organic farming area, our country is ranked to the lowest third of EU-27 member states. The necessary development does not depend simply on the quality, because the Hungarian organic food products are submitted to a rigorous EU-certification, enforced and attested by the institute Biokontroll Hungária. [11] This improvement of quality certainly is important as well, but the extension of organic farming is the core task for the further development. We

have to reach, namely, a quadruple growth of our organic farming area till 2010, in order to approach the 10% average growth of European Union. [12]

### ***3.4 Sustainable Life Chances for Future Generations***

The extension of organic farming may – beyond the benefits of healthy and marketable foods – help with preserve the values of region, landscape, flora and fauna and, it may result in the subsistence of a healthy human society. Researcher of this topics, Géza Márai, professor at Szent István University, Gödöllő, Hungary, emphasizes the ways to be implemented for the realisation of this positive vision. [13] The following principles and tasks are to be followed:

- The use of environment-friendly and re-cultivating technologies
- Absolute and total prohibition of mono-culture, of mass production and of use of industrial chemicals in farming industry
- General and multi-functional husbandry with the landscape, forests and regions, edifying to each other
- The food production of substantial value without toxical residua, connected to an overall territorial development
- Use of strict quality standards and attesting processes of EU and of Biokontroll Hungária and,
- Efforts to extend and active environmental and health care, connecting to the changes in life style of Hungarian population.

These proposals correspond with the meta-trends of Gerken Institute we referred to, namely that *the ecology-ethical way of thinking should be lead to a harmony of business world with the nature.* [14] In order to reach this harmony, several arrangements are indispensable soon in the near future:

- A significant part of Hungarian farming territory should be transformed for organic farming, ignoring the industrial farming materials and technologies.
- Ecological remodelling and reengineering of agricultural products and agromarketing will be necessary, prohibiting the use of harmful materials and disposable wrappings.
- The farming should be supplied by solar and other natural energy resources.

The extension of organic farming will help with the rehabilitation of agricultural lands in Hungary, enabling to eliminate the secondary harmful effects of pesticides, used in the agricultural mass production before. [15]

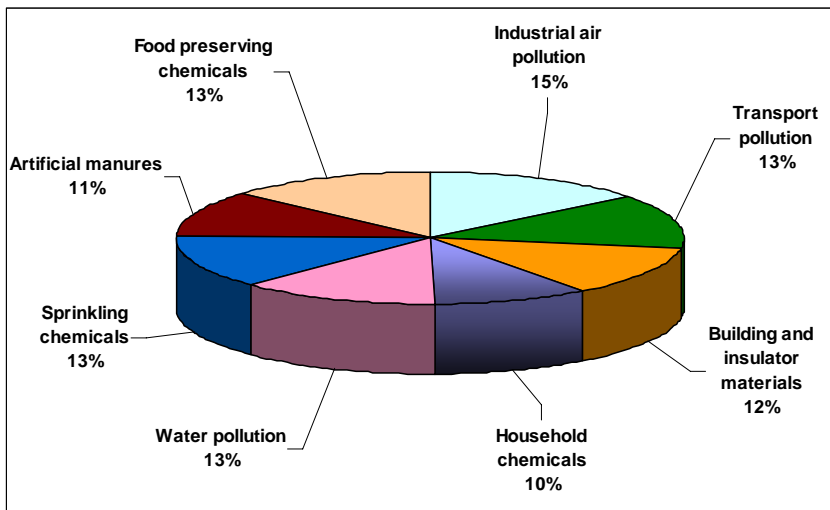
## **4. Findings**

The key results of our surveys present the preferences of organic consumption, the causes of non-consumption of organic foods, the role of health damaging effects of

chemicals, and the necessary changes for the extension of organic consumption. Based on the research results, we concluded such motivators which reflect to our historical traditions, cultural and regional differences. We got, furthermore, valuable informations about the consumer habits in this area, confirming more of relevant statements of the literature of marketing strategy [16] and knowledge management [17]. We expect further results at the end of research – with special respect to the consumers’ value systems, buying motivators and, to their responsibility for their own health.

#### 4.1 Estimations of Health Damaging Effects of Chemicals

As referred to it before, one focus of our research has been to explore how students and adult inhabitants mean about the impact of chemicals as ingredients of food products or environmental pollutions, on the human health. We intended to explore the spread of estimated damaging sources, based on a broad survey among university and college students, as it is to be seen in the Figure 2.



**Figure 2 Spread of estimated harmful effects of chemicals.**  
 Source: A survey of own PhD research in Budapest and Győr, in 2006.

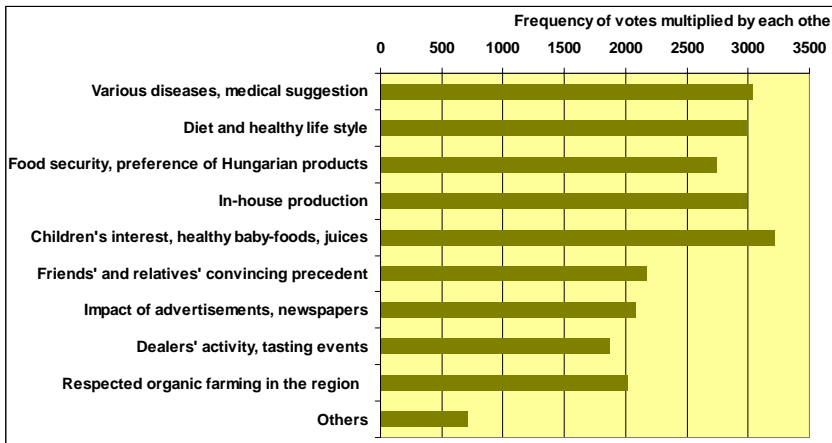
The result of this survey shows an interesting similarity of estimated damaging impacts of various chemicals on the human health. This means, people generally are afraid of diseases, deriving from any kind of chemical pollutions. Consequently, a high rate of population would prefer the non-polluted organic foods in the case of better conditions of their accessibility and consumption, we will refer to later.

#### 4.2 Consumers’ Buying Motivators

Several questions of our surveys have been targeted to inform ourselves about the consumer habits concerning the organic food consumption, with special respect to the

consumers' value systems, buying motivators and, responsibility for their health. We were interested, furthermore, in the motivators of consumption of organic foods, being based on a family-originated value system and, based on the level of educatedness, respectively.

Figure 3 shows our findings about the grounds of organic food consumption. We searched, furthermore, for such influencing or motivating factors which e.g. the health care, the healing, the food security or the self-actualisation – that is the fulfilment of human needs on each level of the well-known Maslow-pyramid. [18] Among the key motivators, the slimming diets, the consumption of own farming products, the preference of domestic production or – at last but not at least – the interest of children seemed to play a relevant role.



**Figure 3 Motivative factors of organic food consumption.**  
**Source: Survey and elaboration of own research in 2006.**

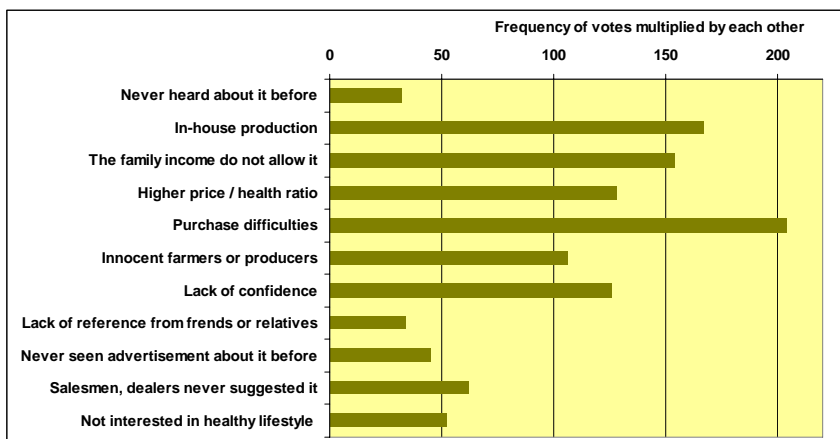
As it is to be seen in Figure 3, according to the frequency of votes, multiplied by each other (that is, according to the so-called *product of scores*) the interest in children's health plays the leading role among consumer premises. The afraid of diseases because of use of agricultural chemicals is the second factor of importance, closely followed by the diet-purposes. The in-house production shows a high importance as well, but not only because this may be a key aspect of family budget. As we stated, the value system of organic food producer families is more complex – the self-supply may be not only an economic premise, but a security and self-employment factor as well.

### 4.3 Cores of Non-Consumption of Organic Foods

The denominated reasons of non-consumption of organic foods have been especially interesting responses, being such retarding factors, without the prevention of which the development will be impossible in this area. Figure 4 represents the key factors of non-consumption of organic foods.

As it is to be seen in Figure 4, among the key causes of non-consumption, the purchase difficulties play a leading role. This is a consequence of lack of traditions of organic food production in our country, partly connected to the irrational incomes to prices relationship in Hungary. Among others, we stated the following facts with this respect:

- Despite of the very high prices related to the individual and family incomes, the too high prices are not as relevant factors of non-consumption as we presumed.
- Because of our non-extended sales network, the purchasing difficulties are predominant factors of ignoring the organic foods – the long distances of organic food stores and the high purchasing time need have been mentioned as primary barriers.
- Due to our specific domestic conditions, both in cities and villages, a high ratio of families deal with small-size organic farming but only for their own consumption.



**Figure 4 Retarding factors of consumption of organic foods.**  
**Source: Elaboration of own survey in 2006.**

It seems to be a contradiction between the in-house production of organic foods as both motivating and retarding factor of consumption. This factor has been mentioned as a significant one with both respects. As a motivating factor, it has mainly been evaluated because of its self-supplying and self-employing opportunities, beyond of its economic benefits. As a retarding factor, however, this resulted in from answers to a misunderstood question. A number of inquired persons might suppose the question is about the omittance of buying, and not about the omittance of consuming organic foods.

The role of prices is a further relevant cause of non-consumption, in the light of low income levels of more of Hungarian families.

#### ***4.4 The Role of Symbolic Consumption***

The primary purpose of organic food consumption is the basic benefit, that is the *functional consumption*. Despite this fact, however, among the answers to our

questionnaires *we did not find any answers about satisfaction of basic or physiological needs*. Consequently, in the case of organic food consumption, other than basic factors play more predominant role. These factors are generated by *emotional needs* and experiences, leading to the observed *inexplicable or symbolic consumption*. [19]

The growth of organic food consumption should be based on a higher sensibility to environmental consciousness, on a growing interest in healthy way of life and, on the development of brand awareness toward the environment-friendly products, respectively. [20] Based on the research results we could conclude to such motivators which reflect to our historical traditions, cultural and regional differences and, to the role of family-originated values in the commitment of consumers toward their family members' healthy future. [21]

#### ***4.5 Opportunities of Consumption Growth***

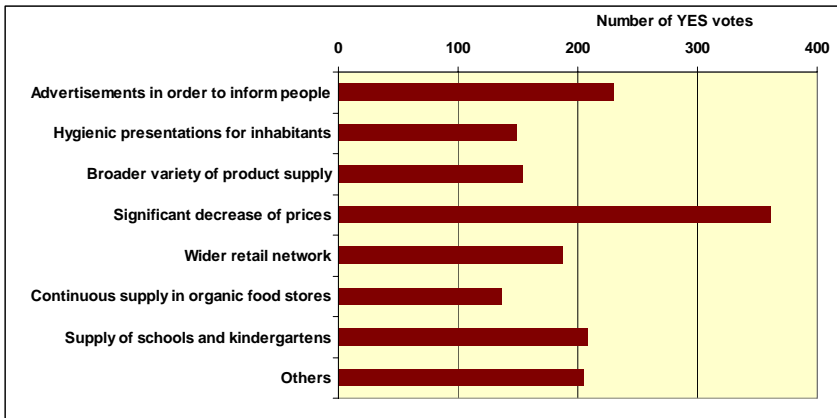
Figure 5 shows the results of individual opinions about the preconditions of extension of organic farming and of commerce of organic foods. Based on these research results, our key conclusions are as follows:

- The purchasing prices play predominant role in the realisation of the growth of consumption, expected till 2010. The growth of needs show a similar rate. [22]
- An intensive campaign is necessary for the inhabitants, disclosing the health damaging effects of chemicals.
- Presentations and tasting events of a broad variety of organic food products should be organised in order to reinforce the inhabitants' needs for healthy nutrition.
- The easier accessibility and a broader variety of organic foods should be implemented, partly by more extended commercial channels, especially by supplying kindergartens and schools.

The more extended offers could impact on people's way of thinking as well. The necessity of organic approach is underlined by the fact that 20% of individuals, taking part in the survey have not been informed about the benefits of organic foods before. The opportunities depend on the regional culture as well, but more up-to-date tools of marketing communication are also necessary in order to induce the development with this respect.

As practical results, we expect to find validated factors of common interests of organic food producers, sellers, processing forms and consumers. By this way, we intend to contribute to the more competitive level of Hungarian supply chain of organic foods. The research results will serve, furthermore, for a more healthy stage of Hungarian inhabitants, for the self-employment of farmer family members and, for a more environment-friendly village life in Hungary.





**Figure 5 Preconditions of reaching a 10% rate of organic farming area till 2010.**  
 Source: Elaboration of own survey in 2006.

## 5. Originality and Values of Research

Our research work has been built up on an original concept, based on marketing theories of consumer behaviour. The questionnaires suggest such values which have not been surveyed till now in the area of healthy nutrition. We made efforts to search for such new aspects of organic food consumption which are in close contact not only with the prices but with usual and specific motivations of nutrition and health care as well.

Emphasizing that the health is one of the most valuable treasure of human life, we search for this concept as people's general opinion, having got various positive answers. We found, however, a low level of persuasion about the real benefits of organic foods in the course of first surveys. As a next step, we elaborated a bulletin therefore, which delivered relevant informations about the key impacts of organic feeding on the human health. This action mediated extended informations to almost 900 persons countrywide.

We gained deeper insights into the nutrition habits by this large sample. The research results should deliver useful informations and concepts for the prevention and medication of diseases by an indirect way.

The elaboration of valuable answers to our survey questions expectably will help with the development of organic farming in Hungary, suggesting and implementing the premises and tasks of further growth. Based on the end results of research, we intend to elaborate a complex proposal which may establish a competitive marketing strategy of producers, processing and selling firms of organic foods – fitting to the consumers' changing values and behaviours.

## **6. Conclusions**

There is an intermediate stage of our researches. Continuing the elaboration of our research data, we expect to conclude more colourful statements about details of consumer values and behaviours. In the actual stage, several suggestions for the sales system and, for the development of people's way of thinking have been formulated.

### ***6.1 Suggested Changes in the Sales***

For the time being, the following sales channels offer organic food products in Hungary:

- Organic food market, exclusively in Budapest and in larger cities
- Commercial chains, supermarkets
- Retail shops, organic food stores
- Direct purchase from organic farmers
- Internet commerce with or without delivery.

In order to intensify the growth, the purchasing conditions should first of all be improved. Commercial channels are to be extended, the variety of organic food products should be broadened, the accessibility of purchasing sources should be facilitated, and the time need of purchase decreased. In the case if we will fulfil these requirements, positive changes in supply and prices are to be expected.

In the area of sales development, we found the absolute necessity of a direct and personal contact between producers and consumers.

- In the area of public budget institutions – for educational or health care institutions – the public procurement should prefer the organic food supply.
- In the tourism, beneficial supplier alliances and contracting conditions should be realised.
- Orders for mass consumption should be connected to delivery home or, to systematic filling up of self-feeding equipments.
- Systematic supply of more distant villages with organic meat, bakery and diary products by automobile organic food stores.

Further new ways of marketing and sales could be preferred as well. For instance, regular direct sales on traditional food markets are to be promoted. Sales at producers' plants could be attractive as well, at its regional attractive section or as in-house sales.

### ***6.3 Impacts on the People's Way of Thinking***

Hungarian people are aware of the importance of healthy way of life, including the nutrition. The awareness level, however, is fluctuating and, lack of information about the harmful impacts of agricultural chemicals has been observed. The domestic market of organic food products, partly therefore, does not develop by a necessary rate.

Hungarian organic farmers might develop and extend their business only if people's need for organic foods would increase, positively impacting on the too high prices as well. Consequently, as a key result of our research, we will more deeply investigate such motivative factors which may impact on extension of needs and, on the organic farmers' business strategy concepts. As we hope, our efforts will lead to useful proposals of a competitive marketing strategy of producer, processing and selling firms of organic foods – fitting to the consumers' changing values and behaviours.

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# “Individual Retirement Accounts in Europe: Who Is In?”

*Julia Le Blanc*

*Center for Financial Studies and Goethe University Frankfurt, Germany, leblanc@ifk-cfs.de*

Recent pension reforms in European countries shift responsibility from public to personal provision by putting individuals in charge of the adequacy of their retirement savings. Individuals need to plan ahead for retirement to bridge the resulting gap between public provision and their financial needs. Additionally, by saving privately, individuals assume responsibility for making the right choices regarding the composition of their pension portfolio. Thus, saving privately for retirement makes individuals vulnerable for investment mistakes, and those financially less sophisticated might end up lacking sufficient retirement income. To facilitate private retirement saving, many countries have introduced individual retirement accounts (IRAs). Using a recently available household survey, this paper presents evidence on participation in IRAs in nine European countries. As IRA ownership is no current decision, we find that IRA holdings are connected to variables that have been decided on earlier in life. Ownership of private pensions increases with education, accumulated wealth and holdings of other private savings vehicles. Participation is strongest in those countries that have a longer tradition of IRAs.

## **Keywords**

Individual retirement accounts, saving for retirement, pension reform, ageing.

## **1. Introduction**

Population ageing and exploding costs in public pension schemes have triggered pension reforms in virtually all European countries. These reforms have shifted responsibility from governments to individuals by limiting the extent of coverage through the public schemes while putting individuals increasingly in charge of their adequate retirement savings. Instead of relying exclusively on public and work-related pension benefits of the “First” and “Second Pillar”, individuals have been encouraged to save privately in order to collect additional benefits from the “Third Pillar”. To stimulate participation in voluntary retirement schemes in the third pillar, many countries

have introduced tax-incentivized, fully-funded individual retirement accounts (IRAs).<sup>5</sup>[1][2][3]

The shift in responsibility from government provision to private retirement saving affects individuals in various dimensions: they need to plan ahead for retirement to bridge the gap between public provision and their financial needs, and by doing so assume responsibility and risk for making the right investment choices in their pension portfolio. Thus, saving privately for retirement makes individuals vulnerable for investment mistakes, and those financially less sophisticated might end up lacking sufficient retirement income. Unlike other savings vehicles, individual retirement accounts are illiquid, locked until retirement, and they can hardly be used as collateral.

Standard life cycle models predict that consumers should be forward-looking and smooth consumption over their lifetimes by accumulating assets during their working years and spending them in retirement. Actual retirement savings decisions are complicated by behavioral and psychological factors that may interfere with the ability of persons to make and execute plans in accord with conventional theory: households may be not well-informed and may not be able to correctly process information. One explanation for the difficulty in the ownership decision of IRAs is the complexity of making retirement plan decisions. Surveys on household participation in IRAs in the US and Europe [4] report that many individuals lack basic financial knowledge about concepts like risk and compounding. Such financial illiteracy is widespread: Lusardi and Mitchell (2007) [5] find that young and older people in the United States appear woefully under-informed about basic financial concepts, with serious implications for saving, retirement planning, mortgages, and other decisions.

Other authors [6] suggest that the “cost of retirement planning” that arises from poor financial skills is the most important caveat against individual responsibility of saving for retirement. This cost can be understood as a fixed entry cost connected to participation in financial instruments, and different households' characteristics influence the individual costs of participation. [7] Finally, individuals tend to behave intertemporarily inconsistent and are likely to put off making decisions as the complexity of the decision increases: some individuals might not be able to make financial decisions at all, others tend to delay decisions and find it more difficult to stick to their decisions. [8][9][10]

In this paper, we follow the empirical research agenda of household finance [11][12][13] to study the link between a number of demographic characteristics and households' decision to own IRAs. To single out the determinants of IRA participation, we explore within and across country variability in socioeconomic variables using a comprehensive, recently available household survey data set.

We expect participation in private retirement saving schemes to differ substantially across countries, both as a result of their different institutional environments (e.g. pension systems, tax rates) and as a result of different demographic characteristics (e.g. education, income and wealth). Studying these differences and understanding their sources should be of great importance, both for policy makers and for financial

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<sup>5</sup>The spread of voluntary retirement savings in the US has been extensively documented. See [1][2][3].

practitioners. If certain characteristics are systematically connected to people's non-participation, these should be taken into account by policymakers for the design of individual retirement accounts and incentive schemes for participation. The way IRAs are integrated in households' portfolios depends crucially on the existing pension systems. Our findings are thus complemented by indicators derived from macro data to take account of the different institutional frameworks.

To our knowledge, this paper is the first to explore IRA ownership across a wide range of European countries whose pension systems have evolved along different paths. Such a comparison is highly desirable in order to draw conclusions on the current state and the possible future of private pension saving in Europe.

The paper is organized as follows: Section 2 gives an overview of the different countries' pension systems. Section 3 introduces the data and first summary statistics. Section 4 describes the empirical strategy. Section 5 discusses the results. Section 6 concludes.

## **2. Characterization of Pension Schemes across the Sample**

Pension systems are very diverse in Europe, and each country has pursued its own way of designing the interplay between public, (private) occupational and private voluntary pension schemes. [14] Although there are many different aspects, we restrict the description of pension schemes to three dimensions: participation (Is it mandatory or voluntary?), funding (To what extent do assets cover future liabilities?) and benefits (Are they defined or variable?).

In most countries, the core of the social security pension system is a statutory earnings-related old-age pension scheme, either a common scheme for all employees or several parallel schemes in different sectors or occupational groups. In addition, the social security pension system often provides a minimum guaranteed pension to those who have not qualified for the earnings-related scheme or have accrued only a small earnings-related pension. Contributions to the public pension schemes are usually mandatory for all employees.

In contrast to the common strong public sector involvement, the importance of occupational and voluntary pension provisions is heterogeneous across countries. Occupational pensions are only statutory in Switzerland, while in most countries "semi-mandatory" agreements exist between employers and employees into which employees are often enrolled by default (This is the case in Sweden, Denmark, France and Italy). The contributions to additional retirement savings schemes are completely voluntary.

Regarding their financing method, most public pension schemes are financed on a pay-as-you-go (PAYG) basis, indicating that the contribution revenues are used for the payments of current pensions. However, some predominantly PAYG pension schemes have statutory requirements for partial pre-funding. Notably, Sweden and Denmark have switched a part of their social security pension schemes into private funded schemes. Occupational pensions and voluntary individual retirement accounts are usually funded. The degree of funding relative to the pension promises varies widely

across our sample of countries and has been subject to discussions about the impact of stock market volatility on benefits. [15]

Finally, a further source of diversity relates to the question of how benefits are calculated. Pension benefits can be defined either on the basis of benefit rights linked to the salary and career length (defined-benefit principle) or on paid contributions (defined-contribution principle) or they can be independent of contributions (flat rate). In most countries of our sample, public pensions are defined-benefit while occupational and private pensions are defined-contribution. Two countries in our sample, Italy and Sweden, have introduced a blend between the two by introducing notional defined contribution plans (NDC) in which individuals' contributions are documented and benefits depend on the contributions paid into the virtual personal accounts. (These countries nevertheless finance the largest part of their pension through a PAYG system). In Denmark, the social security pension system provides in the first instance an independent, at-rate pension, which is supplemented by earnings-related private occupational pension schemes.

Combining the aspects of participation, funding and benefits, one can also think of pension systems as being organized along a multi-pillar structure<sup>6</sup> [16] where the different pillars are separated according to the redistribution and savings functions of pensions. According to this categorization, the first pillar is a mandatory public scheme financed on a pay-as you-go basis and intended to redistribute income to reduce poverty among the elderly. This is complemented by occupational schemes organized privately by employers in the second pillar (either on a defined-contribution or defined-benefit basis). Finally, the third pillar comprises IRAs as personal, voluntary pension plans that are fully funded and illiquid until retirement.

Table 1 gives an overview over the three pillars in each of the surveyed countries.

### **3. Ownership and Spread of IRAs in Europe**

#### ***3.1 The Data***

The dataset we employ is the first wave of the Survey of Health, Aging and Retirement in Europe (SHARE) which was conducted in 2004/05 and is modelled after the Health and Retirement Survey (HRS) in the US and the English Longitudinal Study (ELSA) in England. SHARE comprises rich information about the lifestyles and savings, including IRA holdings, for 23,645 individuals (14,537 households) aged 50 and older in nine

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<sup>6</sup>The framework of a multi-pillar pension system was shaped by the World Bank's report on pension reforms by Worldbank (1994)[16]. The World Bank has recently updated its three-pillar pension system and added two additional pillars: a noncontributory "zero pillar" that provides a minimum level of protection and an informal "support pillar", covering intra-family and intergenerational sources of both financial and nonfinancial support to the elderly, including access to health care and housing. See Holzmann & Hinz (2005) [17]. As the categorization into pension pillars might not always be straight-forward, some authors argue that it might be more appropriate to classify pension schemes by pension income components or funding methods rather than pension pillars. See Modigliani & Muralidhar (2004) [18].



European countries (Belgium, Denmark, France, Germany, Greece, Italy, Spain, Sweden, Switzerland). The dataset covers economic variables (wealth components, income), health variables (self-reported health, physical health, cognitive functioning), social indicators (volunteer work, sports, etc.) and other socio-demographic indicators. The common design of questions across all countries allows the international comparison of the data.

### 3.2 Summary Statistics

Our variable of interest is a binary choice variable for household ownership of IRAs resulting from a comprehensive question on asset holdings in SHARE. Figure 1 reports the heterogeneity of participation in IRAs in our sample of European countries of individuals aged 50 and older. We find the highest ownership rate of IRA holdings in the Scandinavian countries Sweden (43%) and Denmark (42%). A middle group includes France with 28% and Belgium with 22%, followed after a gap by the rest of the sample: Switzerland and Germany (ownership rate of 10%), Spain (7.4%), Greece (4%) and Italy which is the country with the lowest ownership rate (only 1.9%). This heterogeneity might reflect the different maturity levels of IRAs, i.e. the different years of introduction of IRAs. Supplementary, voluntary schemes in Sweden and Denmark were introduced in the 1980s, and also the radical pension reforms in Sweden in 1995 (and in Denmark in 1999) have contributed to an increased awareness of voluntary pension arrangements in the Scandinavian countries. In France, the majority of the population is covered by mandatory complementary schemes (ARRCO and AGIRC and additionally by voluntary private schemes (*régimes surcomplémentaires*). In Belgium, two different programmes for voluntary pension plans exist: Pension Savings Schemes were introduced in 1987, and Life Insurance Schemes have been in place even longer. Also in the mid-1980s, Switzerland introduced its new three-pillar pension system with tax-deferred voluntary private savings to cover additional costs during retirement. In contrast to this, in Germany the traditional Bismarckian system still prevails: pension accumulation and benefits are tightly connected through a “pension formula” that links pension income to job status and income during working life. While semi-voluntary occupational pensions have existed for several years, third pillar pension savings have been basically unknown until the pension reform of 2001 when the government launched a huge advertisement campaign to attract the wide public, especially low-and middle-income households into buying additional, voluntary second and third pillar accounts (“Riesterrenten”).<sup>7</sup> Although Spain passed a first legislation regarding pension funds in the 1980s, Individual pension plans (DC) and Associated pension plans (mixture of DC and DB plans) which are subject to favourable tax treatment are only used by 7.4 % of households in our sample. In Greece, although IRAs are offered by the insurance industry, there has not been legislation for tax incentives although this is currently discussed. Finally, in Italy, which also underwent a major pension reform starting in 1995, the resulting voluntary schemes have only attracted very few savers to use IRAs (1.9 % of households in SHARE).

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<sup>7</sup>Long-term savings vehicles such as life insurances have been in place in Germany prior to the introduction of the Riester pensions. These were tax-deferred and highly popular until tax-incentives were finally taken away in the late 1990s.

As a result of the different countries' legislation history, also IRA balances should vary substantially across countries. Figure 2 displays the highly skewed distribution of IRA balances. Across countries, the median value of IRAs among IRA-owning households varied from as little as 10,500 euros in Greece to as much as 60,700 euros in Switzerland. Households in all other countries have IRA assets totaling between 11,000 euros in Denmark and 26,281 euros in France. All values are purchasing power parity adjusted.

Going back to the three pillar setup of the different pension systems, figure 3 reports the components of pension benefits of current retirees in the sample according to the three pillar structure of pension systems. Here as in the rest of the paper, we do not consider other public or private transfers but only income from pensions. As expected, the mandatory first pillar provides the most important component of pension income across all countries, and accounts for roughly 90% of pension benefits in the overall sample.

The relative importance of the second and third pillar varies strongly across countries: in France, occupational plans are important components of pension income. In Switzerland, where the second pillar is mandatory, more than 20% of pension income is derived from funded occupational pensions, while Sweden and Denmark have an important second-pillar component in their funded semi-mandatory schemes. The smallest component of pension income in all countries derives from the third pillar – even in Sweden and Denmark, where it is most important, households invest only up to 5% of their income. In Southern Europe (Spain, Italy, Greece), but also in Germany and Belgium, retirees receive a small fraction of income from the individual arrangements for pension provision in the second and third pillars. These findings are complemented by figure 4 which displays the fraction of households that are entitled to pension income from the three pillars. Between 87 and 95 % of households in our sample receive pension benefits from a public system. Regarding the second pillar, more than 60% of households in France, about 50% in Switzerland and more than 20% of households in Sweden, Denmark and Germany receive benefits from occupational pensions. Additionally, more than 20 % of households in Sweden and 15 % in Denmark receive benefits from private pensions of the third pillar while this is only 8 % in Switzerland and around 5 % in Germany, Belgium and France. In Italy, Spain and Greece, less than 2 % of retirees receive pension benefits from the third pillar.

Looking at different income quartiles, figures 5 to 7 show that all income groups are equally covered by pension benefits from the first pillar. This picture is different for the second and especially the third pillar where the spread of pension provision increases with income. Higher income groups are better covered especially by voluntary retirement savings in the third pillar. Even in the Scandinavian countries where the spread of private retirement saving is historically large, a higher proportion of retirees in higher income quartiles are covered.

Figure 8 provides an outlook for the future coverage of today's employees through the 3<sup>rd</sup> pillar: compared to today's retirees, a higher fraction of tomorrow's retirees of all income quartiles owns IRAs and will be covered by pension benefits from the 3<sup>rd</sup> pillar. The heterogeneity across countries will be more pronounced, however, as more than 50% of the entire working population in Sweden and Denmark participate in IRAs while the fraction of those saving in IRAs is still below 10 % in all but the highest

income quartile in Italy, Spain and Greece and reaches only 15 % in Germany and Switzerland.

## 4 Empirical Strategy

### 4.1 The Probit Model

The ownership decision of holding individual retirement accounts is now estimated using a standard discrete dependent variable model. These models can be motivated by viewing the outcome of a discrete choice as a reflection of an underlying regression. We assume that a household chooses to hold individual retirement accounts if the value of its desired retirement savings exceeds a certain threshold. Ownership of individual retirement accounts on a household level is then modelled by the following index function model  $y_h^* = x_h' \beta + u_i$ . The unobserved continuous random variable  $y_h^*$  is explained by the observable independent variables  $x_h$  and unobservable variables  $u_i$ . We do not observe  $y_h^*$  fully, instead, all we observe is the binary variable  $y_h$  which takes a value of 1 if  $y_h^*$  crosses a certain threshold and 0 otherwise, i.e. household  $h$  owns individual retirement accounts if  $y_h^* > 0$  (in which case we observe  $y_h = 1$ ), and it chooses not to have IRAs if  $y_h^* < 0$  (which we perceive as  $y_h = 0$ ). The (conditional) probability of observing ownership of IRAs is derived as a monotonic transformation of a specified linear index function  $F(x_h' \beta)$ . Assuming that  $u_i$  is standard normally distributed,  $F(x_h' \beta)$  is the cumulative distribution function of the standard normal distribution which ensures that the probability of owning individual retirement accounts falls into the interval between 0 and 1. This is the specification of the probit model which can be estimated by maximum likelihood methods.<sup>8</sup>

### 4.2 Marginal effects

In practice one wants to make statements about the expected effect or the effect of a “typical” person or household. Hence, interest lies in determining the marginal effects of a change in a regressor variable on the conditional probability that  $y_h = 1$ . However, the coefficients of the probit model have no direct economic interpretation. In a linear model, marginal effects are simply the derivatives of the probability that the dependent variable equals 1 with respect to the  $k$ th element in  $x_i$ . In non-linear models, the marginal effect of a change in a regressor on the conditional probability that  $y_h = 1$ , assumed to be continuous, is

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<sup>8</sup>An alternative way to introduce latent variables in a binary outcome model is to model the difference in utility if the event of interest occurs. The discrete variable  $y$  then takes value 1 if alternative 1 has higher utility, and it takes value 0 if the other alternative has higher utility, thus presuming that the binary outcome is a result of individual choice.

$$\frac{\partial \Pr[y_i = 1|x_i]}{\partial x_{ij}} = F'(x_i'\beta)\beta_j.$$

The predicted probabilities

$$F'(x_i'\beta) = \hat{F}$$

and the estimated marginal effects

$$f(x_i' \hat{\beta}) \hat{\beta} = \hat{f} \hat{\beta}$$

are nonlinear functions of the parameter estimates, i.e. marginal effects are not constant over the observations, depend on all covariates, differ with the point of evaluation, and vary with different choices of the cumulative distribution function  $F(\cdot)$ . It is common practice to report marginal effects for each variable evaluated at the sample mean of the independent variables:

$$F'(\bar{x}_i' \hat{\beta}) \hat{\beta}_j.$$

This method might be misleading as no individual or household actually reflects exactly the mean of the regressors. A more appropriate way is to report the average marginal effects by calculating the marginal probability effect for each observation and then averaging over all households

$$N^{-1} \sum_i F'(x_i' \hat{\beta}) \hat{\beta}_j.$$

Because of the non-linearity of the derivative, the marginal effects at the mean and average marginal effects are not identical.

### 4.3 Specifications and Estimations

In our analysis we need to take account of the fact that the historical access to IRAs has not been uniform across countries and age groups. For many older households these plans were not available until close to retirement. We therefore exclude households in the data set that are older than 75. This takes account of the fact that we do not perceive any IRAs in Italy and Greece in older age groups. Additionally, IRA ownership is not a current decision for most of our households. As our data covers only households in their late earning years or already in retirement, it is reasonable to assume that their choices to purchase IRAs have ideally been made earlier in their lives. The specifications of the probit models therefore have to consider that explanatory factors for IRA holdings go back many years.

We assume that ownership of IRAs depends on various socio-demographic characteristics: we use as regressors age, age squared, gender, marital status (whether living in a couple or being a single), number of children, self-perceived bad health status, whether the household is socially active (in sports clubs or social clubs), whether the household provides help to neighbors and family, recall ability, education (high school certificate and post secondary degree), work status (working or retired), subjective probability to leave a bequest, income, financial and real wealth. We avoid endogeneity by excluding IRA wealth and IRA income from financial wealth and income. Finally, we include a dummy variable for having an own business, as this might be related to a higher level of income risk and uncertainty. Given that in many countries, life insurances are perceived as retirement savings (for oneself or the spouse), we also include a dummy for having a life insurance.<sup>9</sup>

Given the limited participation in IRAs in some countries, variables with missing values can be an issue for the estimations. We also have to deal with a sample selection problem that can lead to biased estimates and efficiency loss. Item non-response in household surveys is usually high in all financial questions and non-random across the observations, and missing values occur systematically for the very rich and the very poor. A multiple imputation procedure generating five imputates for each missing value was conducted for most financial variables and mimics the distribution of the missing values, given the non-missing ones. In our estimations, we make use of all of the 5 imputates of each variable.<sup>10</sup>

In our estimation procedure, we run country-by country probits for the ownership of IRAs.<sup>11</sup> We check for robustness of results by employing different specifications of wealth and income. Finally, we calculate and report average marginal effects of our regressor variables.

## 5. Results

In our first specification, we consider all households regardless of their job situation. Calculating average marginal effects from the probit model, we find a number of significant explanatory variables for the ownership of IRAs across countries. Across all countries, higher financial wealth increases the probability to hold IRAs significantly.

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<sup>9</sup>All questions related to asset holdings and financial transfers in SHARE are answered by the financial respondent of a household who is presumably more knowledgeable than other respondents in a household.<sup>9</sup> As the financial respondent is responsible for financial decision making (and hence retirement saving) in a couple or household, we define demographic characteristics over the financial respondent while all financial variables are defined over the entire household.

<sup>10</sup>In practice, this is done by running probits of each single imputation and then averaging over the coefficients. Standard errors are adjusted accordingly.

<sup>11</sup>This accounts for the fact that a single variable, despite the cross-country comparability of SHARE, cannot explain the variation across countries. An alternative way is to use pooled data and construct interaction terms of all variables with the country dummies. Thus, we could still allow for different intercept and slope parameters across countries.

In most countries, higher income also increases the probability to hold IRAs. This fact is noteworthy as IRAs are mostly targeted towards middle and low-income households who will be affected more severely by pension reforms than households in higher income and/or wealth quartiles. High educational attainment plays a major role for investing in IRAs in most countries, underlining the importance of formal education for financial literacy. This is crucial for policymakers as lower educational levels need to be supported for the take-up of IRAs. Having a high school or college degree in contrast to less than high school is significant for the holding of IRAs in all countries but Germany, Switzerland and Greece. In Sweden, a financial respondent with a post-secondary degree in contrast to less than a high school degree has a 10.7 % higher probability to hold an IRA (in Spain, 5.6 %, in France 9 %, in Denmark 13 % and in Belgium 7.8 %). In all of these countries, IRA holding depends on educational (financial) sophistication. The exceptions are Germany, Switzerland and Greece, countries in which IRAs have been promoted by the government (Germany and Switzerland) in such a way that they are held by households irrespective of their education.

Also, high sociability indicators or “helping others” increase the probability of holding individual retirement accounts significantly in Germany (by 2.5 %), Sweden (9 %), and Switzerland (2.5 %), Belgium (6.8 %), and Denmark (12.3 %). It has been argued that “social” investors differ from less social ones as their net cost of participating in the market is influenced by the presence of peers. Specifically, the cost for any social investor in a given peer group is reduced, relative to the value for an otherwise identical non-social, by an amount that is increasing in the number of others in the peer group that are participating. [19] These variables again, although taken from current behaviour, are connected to previous lifestyles and attitudes which in turn might have influenced their decision to have IRAs.

In some countries, prior to the introduction of IRAs, life insurances have been traditional additional savings for retirement. Thus, including a dummy for life insurance holding might capture the complementary characteristics of IRAs and insurance products for the household. Indeed, having a life insurance increases the probability to hold IRAs in Sweden (by 13 %), Italy, Denmark (25 %) and Belgium (17 %).

In our second specification, we divide the sample into working and retired population in order to explore differences between the holdings of IRAs of the “young” versus the “old” households in SHARE. For the sample of retired households, the dependent variable is now a dummy for pension income from personal pensions and other annuities from private retirement savings. The conclusions of the general specification are mostly confirmed by the analysis of the subsamples. In accordance to the previous model, belonging to one of the higher income or wealth quartiles is still important for both workers and retired. On the other hand, owning a house decreases the probability of reaping pension benefits out of IRA, suggesting that real estate may be considered as an alternative form of secure long-term investment.

Macro variables and institutional factors also appear to influence the probability of holding IRAs. Participation is strongest in those countries that display a longer tradition of saving in IRAs (Switzerland, Belgium and France) or have introduced mandatory funded accounts (Sweden, Denmark). Finally, the regressions highlight some differences between the two populations. Education is more important for those who

are still working and therefore can still decide to some extent their involvement in third-pillar financial instruments. The life insurance motive seems also to be more important for people still working.

## 6. Concluding Remarks

Using a recently available international dataset, in this paper we have documented and studied differences in IRA holdings across European countries.

Households with given characteristics have quite different probabilities of participating in IRAs across countries. This is important, given that pension reforms will decrease public pension provision in all countries. Our findings suggest that a number of household characteristics have a systematic effect on holding IRAs. In particular, high wealth and education are important determinants of IRA ownership. This implies that those who are very unlikely to save privately for retirement will be much more likely to end up without sufficient retirement income. This group needs to be targeted directly if participation in IRAs is further promoted by governments. One of the results of the paper is the need for formal education to increase IRA ownership, especially for low earners who will typically have a low tendency to save towards retirement.

Our results and implications are limited in scope by the cross-sectional nature of the data: using one cross-section of the surveys, we cannot control for cohort effects which should give important information on retirement saving over time. As SHARE becomes a panel data set, taking account of cohort effects should be an intuitive follow-up step of the work in this paper.

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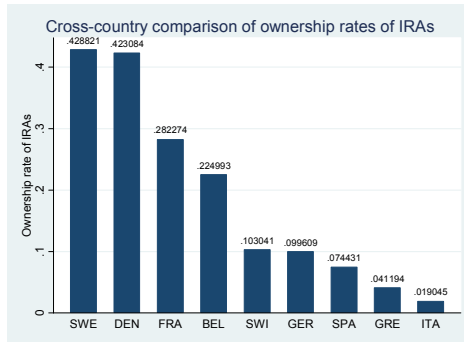
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## Appendix

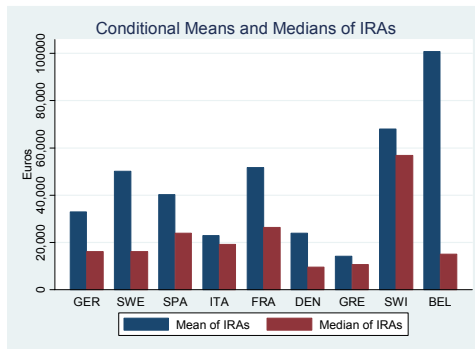
### List of Acronyms

IRA	Individual Retirement Account
PAYG	Pay-as-you go
NDC	Notional defined-contribution

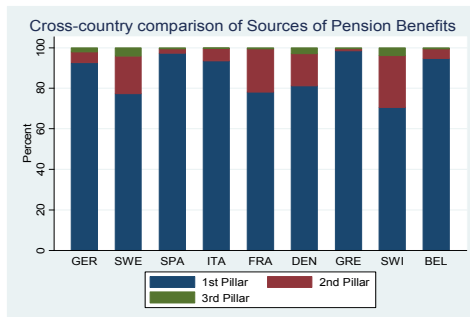




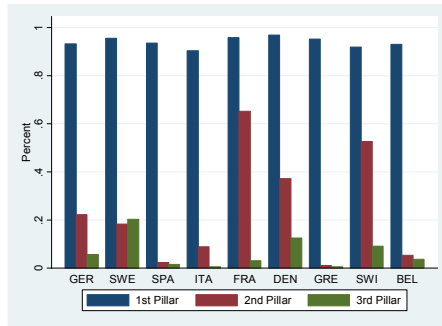
**Figure 1 Ownership rate of IRAs**



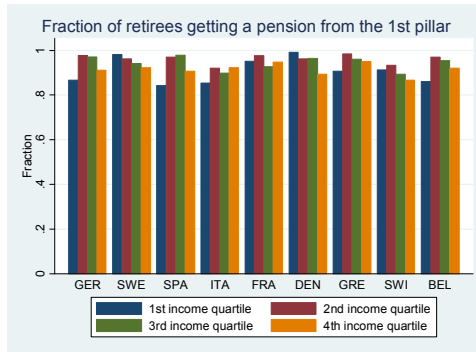
**Figure 2 Means and Medians of IRA balances**



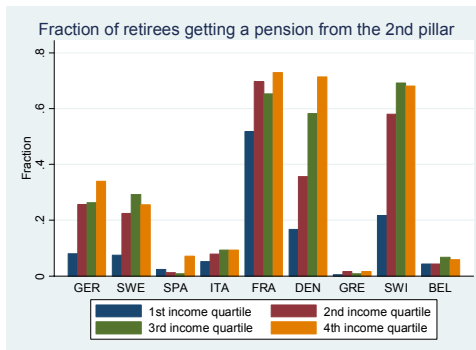
**Figure 3 Components of pension benefits**



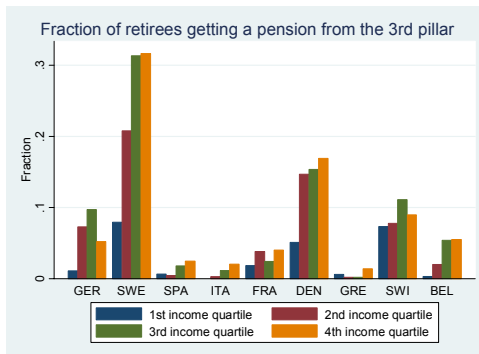
**Figure 4 Fraction of retirees who get a pension from the 1st, 2nd or 3rd Pillar**



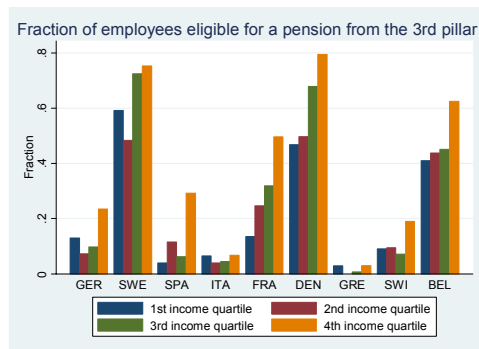
**Figure 5 Fraction of retirees in a given income quartile who get a pension from the 1st pillar**



**Figure 6 Fraction of retirees in a given income quartile who get a pension from the 2nd pillar**



**Figure 7 Fraction of retirees in a given income quartile who get a pension from the 3rd pillar**



**Figure 8 Fraction of current employees in a given income quartile eligible for a pension from the 3rd pillar**

Table 1: The three pillars of pension provision in SHARE countries

Country	First (Public) Pillar			Second (Occupational) Pillar			Third (Supplementary) Pillar		
	Contributions Mandatory vs. Voluntary	Benefits DB, DC, NDC	Accumulation Funded vs. PAYGO	Contributions Mandatory vs. Voluntary	Benefits DB, DC, NDC	Accumulation Funded vs. PAYGO	Benefits DB, DC, NDC	Accumulation Funded vs. PAYGO	Tax incentives
DE	Mandatory	DB	PAYGO	Semi-mandatory if they exist	DB, rarely DC	Fully funded and partially funded possible	DC	Fully funded	Yes
SW	Mandatory	NDC	PAYGO	Mandatory in public component, semi-mandatory for collective occupational schemes	DC in public scheme, most collective schemes work on a DC basis, although some are expected to change from DB soon	Fully funded in public scheme, Fully funded in occupational DC and DB schemes.	DC	Fully funded	Yes
DK	Mandatory	Flat rate	PAYGO	Mandatory in public component, semi-mandatory in collective schemes	Mixture of DC (SP and collective schemes) and DB (ATP)	Mixture of fully funded part and PAYGO accumulation.	DC	Fully funded	Yes
IT	Mandatory	NDC	PAYGO	Voluntary collective schemes	DC	Fully funded	DC	Fully funded	Yes
FR	Mandatory	DB	PAYGO	Mandatory occupational schemes are supplemented by voluntary additional schemes	DB, for voluntary schemes DC	Mixture of PAYGO and funded schemes	DC	Fully funded	Yes
BE	Mandatory	DB	PAYGO	Semi-mandatory where they exist	DC	Fully funded	DC	Fully funded	Yes
GR	Mandatory	DB	PAYGO	Funded schemes introduced in 2002, very small pillar	DC	Fully funded if they exist	DC	Fully funded	To be decided in next reform
CH	Mandatory	DB	PAYGO	Mandatory	DC	Fully funded	DC	Fully funded	Only for illiquid ("tied") third pillar savings.
ES	Mandatory	DB	PAYGO	Voluntary occupational schemes	DC or DB	Fully funded if they exist	DC	Fully funded	Yes

Table 2: Major Pension Reforms for households of the sample

Country	Major Pension Reforms	Early Retirement Age in 2004	Statutory Retirement Age in 2004
DE	1992-2001: Increase in statutory retirement age, decrease in replacement rate. 2001*: Rester Rente. 2002: Sustainability Act 2004: Early retirement discouraged	60	65
SW	1994-1998*: Replacement of PAYG DB system with PAYG NDC system, introduction of (small) fully funded pillar affects people born after 1958.	61	65 but flexible from 61 onwards.
DK	1999*: Introduction of mandatory individual accounts in second pillar. 2003: Disability pensions discouraged. 2004: Early retirement discouraged.	Does not exist.	65-67 (before July 2004)
IT	1995: Introduction of PAYG NDC system in first pillar. 2001*: PIPS 2004: Take-up of early pensions tightened, reforms of second pillar.	57	60 W 65 M
FR	Since 1970s some voluntary arrangements. 2003*: More durable second and third pillar 2004: Prolongation of contribution period for full pension.	Does not exist.	65
BE	1987*: Pension Savings Scheme. 2003: Increase in retirement age.	60	62 W 65 M
GR	Reform plans were taken back.	60	65
CH	1985*: Introduction of third pillar.	63	64 W 65 M
ES	1988: First legislation concerning pension funds. 1995*: Progressive increases in tax deductions for private retirement savings. 2002-2005: Early retirement discouraged.	60	65

Table 3: Average Marginal Effects from the pooled probit estimation, taking account of 5 implicites

	Germany		Sweden		Spain		Italy		France		Denmark		Greece		Switzerland		Belgium	
	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.
Male	0,11	0,0086	-0,01	0,0250	-0,16	0,0071	-0,39	0,0000	-0,07	0,0215	-0,06	0,0336	-0,10	0,0056	0,09	0,0110	0,02	0,0140
Living in a couple	0,03	0,0114	0,20	0,0333	0,01	0,0089	-0,19	0,0000	-0,04	0,0268	0,00	0,0438	-0,22	0,0065	-0,09	0,0122	0,15	0,0168
Number of children	-0,01	0,0036	-0,06	0,0094	-0,09	0,0023	-0,09	0,0000	-0,03	0,0068	0,04	0,0125	-0,03	0,0022	0,13	0,0035	0,04	0,0053
Bad health	-0,12	0,0096	-0,19	0,0391	0,12	0,0076	-0,17	0,0000	-0,09	0,0076	0,19	0,0422	0,05	0,0058	0,27	0,0219	-0,21	0,0154
Age	-0,17	0,0060	0,19	0,0235	-0,02	0,0040	0,24	0,0000	0,00	0,0011	0,17	0,0234	0,06	0,0027	0,18	0,0071	0,08	0,0142
Age Squared	0,00	0,0000	0,00	0,0002	0,00	0,0000	0,00	0,0000	0,00	0,0001	0,00	0,0002	0,00	0,0000	0,00	0,0001	0,00	0,0001
High School Degree	-0,03	0,0145	0,16	0,0300	0,14	0,0128	0,40	0,0000	0,17	0,0265	0,21	0,0451	0,16	0,0074	-0,24	0,0102	0,15	0,0180
Post-secondary Degree	0,07	0,0167	0,26	0,0329	0,49	0,0198	0,23	0,0000	0,33	0,0327	0,38	0,0510	0,12	0,0097	0,12	0,0129	0,24	0,0194
Engages in social activities	0,19	0,0103	0,18	0,0272	-0,07	0,0093	0,18	0,0000	0,07	0,0248	0,04	0,0329	-0,14	0,0064	0,35	0,0121	0,12	0,0158
Provides help to others	0,05	0,0094	0,07	0,0245	0,28	0,0150	0,23	0,0000	0,08	0,0225	0,31	0,0342	0,19	0,0070	0,07	0,0109	0,24	0,0154
Recall Score	-0,02	0,0026	0,00	0,0087	0,03	0,0021	0,01	0,0000	0,05	0,0063	0,04	0,0107	-0,01	0,0015	0,01	0,0030	-0,02	0,0046
Probability to leave a bequest	0,00	0,0002	0,01	0,0005	0,00	0,0001	0,00	0,0000	0,00	0,0004	0,00	0,0005	0,00	0,0001	0,00	0,0002	0,00	0,0003
Life Insurance Dummy	0,27	0,0114	0,33	0,0298	0,38	0,0201	0,52	0,0000	0,18	0,0305	0,66	0,0440	-0,33	0,0072	0,05	0,0116	0,58	0,0259
Own business Dummy	0,07	0,0148	0,26	0,0419	0,28	0,0158	0,05	0,0000	0,28	0,0475	-0,01	0,0555	0,29	0,0164	0,22	0,0191	-0,23	0,0211
Working	0,22	0,0124	0,36	0,0335	0,32	0,0121	0,62	0,0000	0,00	0,0300	0,47	0,0438	-0,67	0,0064	0,63	0,0220	0,32	0,0218
2nd Income Quartile	-0,04	0,0142	-0,05	0,0462	0,14	0,0151	-0,33	0,0000	0,32	0,0358	0,24	0,0559	0,23	0,0109	-0,77	0,0105	0,02	0,0220
3rd Income Quartile	-0,12	0,0127	0,20	0,0482	0,32	0,0159	-0,57	0,0000	0,43	0,0375	0,34	0,0595	0,51	0,0133	-0,29	0,0105	0,16	0,0225
4th Income Quartile	0,05	0,0138	0,25	0,0494	0,58	0,0159	-0,42	0,0000	0,42	0,0384	0,51	0,0641	0,53	0,0145	-0,20	0,0104	0,31	0,0248
2nd Fin. Wealth Quartile	0,00	0,0160	-0,06	0,0368	0,42	0,0201	5,20	15,039,00	0,18	0,0343	0,06	0,0483	1,13	0,0474	-0,17	0,0114	0,07	0,0242
3rd Fin. Wealth Quartile	0,32	0,0189	0,11	0,0357	0,50	0,0195	5,06	5,552	0,54	0,0356	0,32	0,0470	1,02	0,0212	-0,06	0,0144	0,58	0,0282
4th Fin. Wealth Quartile	0,49	0,0204	0,48	0,0371	0,99	0,0261	5,77	0,7568	0,91	0,0376	0,27	0,0490	1,15	0,0219	-0,16	0,0122	0,68	0,0291
2nd Real Wealth Quartile	0,02	0,0193	0,33	0,0446	-0,36	0,0091	0,02	0,0000	0,00	0,0345	-0,01	0,0505	0,25	0,0113	0,10	0,0192	0,12	0,0254
3rd Real Wealth Quartile	-0,03	0,0199	0,39	0,0455	-0,01	0,0101	0,06	0,0000	0,10	0,0369	0,23	0,0580	0,22	0,0105	0,08	0,0177	0,29	0,0279
4th Real Wealth Quartile	0,13	0,0221	0,48	0,0482	0,16	0,0114	0,21	0,0000	0,05	0,0383	0,09	0,0612	0,42	0,0127	0,30	0,0222	0,51	0,0326

Table 4: Average Marginal Effects from the probit estimation for working households, taking account of 5 implicates

	Germany		Sweden		Spain		Italy		France		Denmark		Greece		Switzerland		Belgium	
	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.
Male	0.01	0.0305	-0.03	0.0321	-0.10	0.0440	-0.01	0.0178	-0.04	0.0452	0.01	0.0464	-0.01	0.0108	0.02	0.0350	0.06	0.0467
Living in a couple	0.02	0.0389	0.08	0.0501	0.06	0.0497	0.02	0.0177	0.04	0.0584	0.03	0.0705	0.01	0.0113	-0.07	0.0613	0.10	0.0609
Number of children	0.00	0.0132	-0.01	0.0118	-0.01	0.0147	-0.02	0.0096	-0.02	0.0176	0.02	0.0177	-0.01	0.0057	0.03	0.0160	0.02	0.0191
Bad health	0.03	0.0442	0.02	0.0800	0.02	0.0554	0.02	0.0316	-0.01	0.0643	0.09	0.0602	0.03	0.0234	0.00	0.0862	-0.04	0.0721
Age	-0.06	0.0430	0.08	0.0508	0.07	0.0763	0.04	0.005	0.05	0.0769	0.07	0.0378	-0.11	0.008	-0.03	0.0277	-0.01	0.0400
Age Squared	0.00	0.0004	0.00	0.0004	0.00	0.0007	-0.00	0.0000	0.00	0.0007	0.00	0.0003	0.00	0.0000	0.00	0.0003	0.00	0.0004
High School Degree	0.09	0.0762	0.07	0.0366	0.01	0.0585	0.05	0.0250	0.18	0.0597	0.15	0.0698	0.02	0.0133	0.02	0.0449	0.05	0.0551
Post-secondary Degree	0.12	0.0910	0.09	0.0371	0.08	0.0597	0.06	0.0435	0.19	0.0647	0.15	0.0703	0.00	0.0121	0.00	0.0406	0.14	0.0544
Engages in social activities	-0.02	0.0290	0.08	0.0333	0.03	0.0676	0.01	0.0256	-0.05	0.0507	0.05	0.0467	0.00	0.0128	0.04	0.0346	0.01	0.0472
Provides help to others	0.05	0.0348	0.01	0.0322	0.06	0.0742	-0.01	0.0179	-0.05	0.0442	0.11	0.0441	0.00	0.0114	-0.02	0.0326	0.08	0.0443
Recall Score	0.01	0.0091	0.00	0.0113	0.01	0.0112	0.01	0.0055	0.00	0.0125	0.02	0.0163	-0.01	0.0028	0.00	0.0095	-0.03	0.0158
Probability to leave a bequest	0.00	0.0007	0.00	0.0007	0.00	0.0006	0.00	0.0002	0.00	0.0008	0.00	0.0011	0.00	0.0002	0.00	0.0007	0.00	0.0009
Own business Dummy	0.02	0.0393	0.04	0.0429	-0.04	0.0444	0.03	0.0287	0.03	0.0645	0.03	0.0577	0.03	0.0187	-0.01	0.0391	-0.11	0.0677
Life Insurance Dummy	0.10	0.0315	0.10	0.0325	0.18	0.0777	0.10	0.0428	0.13	0.0548	0.23	0.0419	0.00	0.111	-0.01	0.0362	0.28	0.0426
Expects reduced pensions	0.00	0.0004	0.00	0.0006	0.00	0.0006	-0.02	0.0205	0.00	0.0006	0.00	0.0007	0.00	0.111	0.00	0.0006	0.00	0.0007
Lives in own house	-0.11	0.0457	-0.06	0.0390	-0.16	0.0834	0.01	0.0204	-0.14	0.0793	-0.02	0.0672	0.01	0.0109	-0.04	0.0443	0.12	0.0817
2nd Income Quartile	-0.03	0.0636	-0.10	0.0801	0.11	0.1215	0.01	0.001*	0.12	0.0945	-0.07	0.1167	0.02	0.015*	-0.06	0.0435	0.05	0.0937
3rd Income Quartile	-0.02	0.0506	-0.01	0.0722	0.05	0.0874			0.18	0.0864	-0.01	0.0965			-0.05	0.0404	0.00	0.0681
4th Income Quartile	0.05	0.0469	0.02	0.0737	0.19	0.0745			0.15	0.0899	0.08	0.0988			0.01	0.0492	0.08	0.0674
2nd Wealth Quartile	0.05	0.0918	0.12	0.0434	0.02	0.0966	0.01	0.002*	0.31	0.1032	0.20	0.0681	0.04	0.016*	-0.01	0.0568	-0.01	0.0922
3rd Wealth Quartile	0.17	0.1140	0.18	0.0423	0.09	0.0784			0.42	0.0990	0.20	0.0828			0.00	0.0582	0.06	0.0906
4th Wealth Quartile	0.24	0.1111	0.22	0.0500	0.20	0.0778			0.51	0.0948	0.09	0.0994			0.04	0.0677	0.25	0.0884

\*Instead of using Income and Wealth quartiles, we used dummies for income and wealth above the median for Italy and Greece.

Table 5: Average Marginal Effects from the probit estimation for retired households, taking account of 5 implimates

	Germany		Sweden		Spain		Italy <sup>a</sup>		France		Denmark		Greece		Switzerland		Belgium	
	Coef.	S.E.	Coef.	S.E.	Coef.	S.E.	Coef.	S.E.	Coef.	S.E.	Coef.	S.E.	Coef.	S.E.	Coef.	S.E.	Coef.	S.E.
Male	0.05	0.0159	0.01	0.0505	0.01	0.0078	0.00	0.0012	0.02	0.0305	-0.04	0.0389	-0.01	0.0145	0.02	0.0293	-0.01	0.0155
Living in a couple	-0.10	0.0246	0.01	0.0424	-0.03	0.0164	0.00	0.0034	-0.02	0.0352	0.00	0.0475	-0.03	0.0157	0.08	0.0379	0.01	0.0171
Number of children	-0.01	0.0054	0.00	0.0108	0.00	0.0026	0.00	0.0004	-0.01	0.0088	0.00	0.0135	-0.01	0.0054	-0.01	0.0095	0.00	0.0047
Bad health	-0.04	0.0143	-0.14	0.0396	-0.01	0.0078	0.00	0.0021	-0.03	0.0300	0.08	0.0414	0.00	0.0137	0.05	0.0433	-0.02	0.0165
Age	0.03	0.0199	-0.02	0.0276	-0.01	0.0065	0.00	0.0010	-0.01	0.0212	-0.02	0.0256	-0.01	0.0075	-0.02	0.0231	-0.01	0.0196
Age Squared	0.00	0.0001	0.00	0.0002	0.00	0.0000	0.00	0.0000	0.00	0.0001	0.00	0.0002	0.00	0.0001	0.00	0.0002	0.00	0.0001
High School Degree	-0.02	0.0214	0.01	0.0372	0.02	0.0212	0.00	0.0021	0.01	0.0346	0.04	0.0442	0.00	0.0165	0.04	0.0407	0.03	0.0304
Post-secondary Degree	-0.03	0.0194	0.08	0.0460	0.02	0.0221			0.05	0.0444	0.13	0.0591	0.00	0.0202	0.04	0.0431	0.05	0.0222
Engages in social activities	0.01	0.0160	0.10	0.0340	-0.01	0.0063	0.00	0.0026	0.06	0.0343	0.00	0.0352	0.00	0.0166	-0.01	0.0279	0.02	0.0161
Provides help to others	-0.02	0.0141	0.02	0.0311	0.00	0.0139	0.02	0.0122	0.07	0.0321	0.06	0.0406	0.01	0.0164	0.13	0.0477	0.03	0.0160
Recall Score	0.00	0.0042	0.01	0.0102	0.00	0.0022	0.00	0.0005	0.02	0.0093	0.01	0.0112	0.00	0.0043	0.01	0.0080	0.00	0.0047
Probability to leave a bequest	0.00	0.0002	0.00	0.0006	0.00	0.0001			0.00	0.0005	0.00	0.0007	0.00	0.0003	0.00	0.0004	0.00	0.0003
Own business Dummy	0.04	0.0747	0.13	0.0726	0.10	0.0758	0.02	0.0234	0.21	0.1238	0.02	0.0936	0.09	0.0935	0.09	0.1564	-0.02	0.0420
Lives in own house	-0.04	0.0192	-0.08	0.0416	-0.08	0.0448			-0.12	0.0589	0.01	0.0388	-0.06	0.0453	-0.02	0.0354	-0.01	0.0302
2nd Income Quartile	0.07	0.0556	0.08	0.0524	-0.01	0.0151	0.00	0.0016	0.12	0.0477	0.15	0.0551	0.01	0.0223	-0.06	0.0311	-0.01	0.0217
3rd Income Quartile	0.13	0.0472	0.14	0.0589	0.02	0.0206			0.16	0.0524	0.18	0.0727	0.03	0.0246	-0.03	0.0383	0.05	0.0292
4th Income Quartile	0.12	0.0547	0.07	0.0574	0.02	0.0222			0.12	0.0544	0.14	0.0884	0.02	0.0242	-0.06	0.0274	0.06	0.0312
2nd Wealth Quartile	0.06	0.0282	0.19	0.0631	0.00	0.0144	0.00	0.0016	0.11	0.0690	0.10	0.0792	0.08	0.0537	0.03	0.0498	0.05	0.0424
3rd Wealth Quartile	0.08	0.0393	0.33	0.0644	0.03	0.0209			0.25	0.0783	0.15	0.0965	0.10	0.0601	-0.02	0.0434	0.10	0.0482
Wealth Quartile	0.13	0.0544	0.50	0.0629	0.08	0.0362			0.31	0.0812	0.23	0.1054	0.17	0.0733	0.03	0.0618	0.23	0.0613

<sup>a</sup> Due to missing values, the probit for Italy does not contain the variables "Post-secondary degree", "Probability to leave a bequest", "Lives in own house". Instead of using Income and Wealth quartiles, we used dummies for income and wealth above the median for Italy.

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# Local Companies and Technological Transfer: Results from Local Companies in Albania

*Mamica Skenderi<sup>1</sup>, Phil Wright<sup>3</sup>, Costas Alexiou<sup>2</sup>*

<sup>1</sup>*SEERC, 17 Mitropoleos Str, Thessaloniki, Greece, mskenderi@seerc.org*

<sup>2</sup>*City College, Dept. Business Administration, 13 Tsimiski Str, 54624 Thessaloniki, Greece, c.alexiou@city.academic.gr*

<sup>3</sup>*The University of Sheffield, Dept. of Management School, Western Bank, Sheffield, S10 2TN, UK, P.W.Wright@sheffield.ac.gr*

Technological transfer through FDI to domestic companies is at the center of current debates about industrial and economic development. The purpose of this paper is to investigate the indirect or spillover effects through FDI presence in the Albanian manufacturing sector. The paper also examines the mechanisms and conditions necessary for the occurrence of spillovers. In order to find out whether the presence of MNEs stimulate spillover occurrence, the study employed a unique framework covering two different literature areas such as spillover literature and technological innovations. Structured questionnaires were conducted with domestic suppliers, customers and competitors selected from case studies with foreign companies operating in the three industries selected in the Albanian manufacturing sector. Results obtained from surveys show that spillover effects remain limited due to little contact of FDI to the domestic companies, which is expected to increase in the future. However, in case that there is contact with domestic economy, FDI presence stimulates spillover occurrence and plays an important role in the technological transfer and thus in the upgrading of domestic companies. Domestic suppliers are the ones to benefit more than domestic customers and domestic competitors. More specifically, there are gains in terms of quality, price and time delivery. Main transmission mechanisms involve direct cooperation mainly through informal sharing of views, higher requirements put by foreign companies, as well as through demonstration/imitation effects and labour movement. Given the limited extensive research in South East European countries, and lack of studies on the subject on a transition country like Albania, this research provided important findings with important implications for government policy.

## **Keywords**

FDI, technological transfer, spillover effects

## **1. Introduction**

This paper sees multinational companies (MNEs) as means for direct and indirect technological transfer to host economies. On the basis of survey data with foreign companies in the first phase of the fieldwork conducted in Albania, six foreign companies were selected for a deeper analysis in the form of case studies. The data used comes from a research undertaken in the Albanian manufacturing industry and covering only three manufacturing sectors such as food and beverages, and wood and furniture, and production of construction materials industries. Case studies were selected according to the relative importance of the sectors and include detailed open-questioned interviews with foreign companies, complemented with structured questionnaires with their local competitors, suppliers and customers. At this point, the paper will just present some preliminary findings based on data collected from surveys with local suppliers, customers and competitors. Therefore, in this paper there is an attempt to examine spillover occurrence from the angle of local companies and how they perceive the impact that foreign companies' presence has at the stimulation of spillover manifestation.

The paper is organized in the following sections. Section 2 introduces the theoretical framework to explain the way FDI influences local subsidiaries and local enterprises through technological transfer, as well as the mechanisms through which technology diffuses and supports the upgrading of local enterprises (including competitors, suppliers and customers). Section 3 follows with a review of the existing empirical work and sheds light into the different methodologies used to approach the subject. Section 4 assesses the main developments of FDI in Albania, which the country of interest in this research. Section 5 sets out the research methodology and sample characteristics. Section 6 presents the preliminary results for spillover effects. Finally, Section 7 concludes the paper by providing some policy implications and future work.

## **2. Definitions and Modes of Direct and Indirect Technological Transfer through FDI**

Multinationals (MNEs) are responsible for much of the transfer of advanced technology. They are considered to be powerful and effective means in disseminating technology from developed to developing countries and they are often seen as the only source of new and innovative technologies that are usually not available in the underdeveloped markets [1]. Technological progress plays a crucial role in the economic growth and can also stimulate economic development and industrialization. Many countries lack the research and development resources and skills required to develop their own indigenous product and process technology, which is particularly true for the less developed economies. Therefore, FDI represents one important way to access advanced technology.

The concept of technology transfer has already a long and rich theoretical as well as empirical history. The technology that is transferred through FDI can take two forms: hard technology and soft technology [2]. Hard technology consists of physical investment: plants, equipments, and machineries. Hence, hard technology is supposed to include aspects of embodied knowledge in the machinery and equipment. On the

other hand, soft technology includes: knowledge, management/organization system, and production processes. Soft technology is supposed to include aspects of disembodied knowledge as a result of the transfer of operation skills. FDI can affect the companies of the host country, by transferring technology, in two ways: directly and indirectly. Foreign enterprises contribute in a direct injection of foreign capital, technology and foreign management skills to their affiliates, which in turn leads to higher productivity. This is referred to as the direct effect of FDI. The positive direct effect of FDI is examined and confirmed empirically in a vast number of studies.

However, foreign enterprises do not affect only their affiliates, but also other firms in the same sector or even in other sectors. The indirect effects are referred as spillovers or externalities. According to Blomstrom and Kokko (1998) [3], spillovers may take the form of positive and negative externalities arising from inward foreign investment. Spillovers can occur: internally between firms that may be in direct competition with the foreign firms (intra-industry spillovers); and externally (inter-industry spillovers) to other firms in the host economy, which are vertically integrated with the foreign enterprises, such as suppliers (backward spillovers) and customers (forward spillovers).

There have been identified at least four ways in which technology and know-how might be diffused from foreign enterprise to other firms in the economy: demonstration – imitation effect, competition effect, foreign linkage – cooperation effect, and training effect [4]. First, the proximity of local firms to foreign enterprises can sometimes lead to demonstration effect. When foreign firms introduce new products, processes, as well as organizational forms, they provide to other local enterprise a demonstration of increased efficiency and productivity. Second, the transfer of capital and technology stimulates competition in the local market. Domestic enterprises face a greater competitive pressure, which induces them to introduce new products in order to protect their market share and adopt new management methods so as to increase productivity. Third, cooperation between foreign enterprises and upstream suppliers and downstream customers increases spillovers. So as to improve the quality standards of their suppliers, backward linkage channel (vertical spillovers) operates through: direct knowledge transfer from foreign enterprises to their local suppliers, as well as higher requirements regarding product quality and on-time delivery, which in turn provide incentives to domestic suppliers to improve production and technology. Fourth, knowledge can be transferred indirectly through the movement of labor. When MNEs subsidiaries hire domestic workers, the human capital may be enhanced further through organization of training facilities and on-the-job learning. Consequently, indirect effects arise when local personnel trained in the foreign subsidiary decide to leave the firm and move to other domestic firms or help establish new business. Moreover, benefits may arise too if superior management skills of foreign MNEs stimulate local suppliers, distributors and competitors to improve their own management skills. Therefore, human capital can spillover from foreign enterprises to other enterprises as skilled labor moves to domestic firms or decide to open their own enterprises.

However, spillovers “depend crucially on the conditions for local firms” (p. 177) [5]. Positive spillovers are realized only if local firms have adequate social capabilities and absorptive capacities to absorb foreign technologies and skills [6]. Thus, for relatively backward countries, it is often difficult to build the necessary social capabilities and absorptive capacities that allow domestic firms to take advantage of the spillovers potentially available in the economy [2]. Literature has found mixed empirical evidence

on the existence of spillovers. Though, evidence is strongest in case of vertical linkage, particularly “backward” linkage with local suppliers (foreign firms provide them with technical and financial assistance, training and other support).

### **3. Empirical Evidence on FDI and Technology Transfer**

Despite the fact that theory FDI and technology transfer is settled, conclusions based on empirical evidence are still blurred. Empirical findings usually confirm that subsidiaries of MNEs in the host countries perform better than purely domestic firms, implying for direct effect of MNEs to their affiliates. However, when coming to spillovers, these effects are difficult to measure. So far, there are three methodological approaches used to measure spillovers such as, econometric approach, case studies, and surveys.

The majority of recent literature on FDI spillovers is based on econometric approach focused on developed, developing and more recently in transition countries. The approach concentrates only to the simple issue of whether or not the presence of foreign companies affects productivity in domestic companies, however it avoids the question of how productivity spillovers actually take place [7]. Judging from a number of studies, empirical evidence of productivity spillovers through FDI is mixed. Pioneer studies on productivity spillovers provided evidence of positive intra-spillovers effects, using cross-sectional industry level data (for instance, Caves [8] and Globerman [9]). However, recent empirical research on spillovers strongly suggest for mixed results, applying not only for developed countries, but also for developing and transition economies. Some of them revealed negative productivity spillovers (for instance, Aitken and Harrison [10], Haddad and Harrison [11], Djankov and Hoeckman [12], Konings [13], Damijan et al., [14] and Zukowska-Gagelmann [15]). While others showed that spillovers may exist but they are highly dependent on various conditions of domestic firms (for instance, Kokko [16], Kokko, Tansini and Zejan [17], Girma, Greenway and Wakelin [18], Haskel, Pereira and Slaughter [19], Yudaeva et al. [20] and Chudnovsky, López and Rossi [21]). On the other hand, empirical studies on inter-spillovers effects provide evidence for successful positive spillovers suggesting that this mechanism operates more efficiently than intra-industry spillovers (for instance, Kugler [22], Blalock [23], Chudnovsky, López, and Rossi [21], Schoor and Van der Tol [24], Smarzynska [25], Smarzynska Javorick et al. [26]. Scholars have offered various explanations on mixed results. Some of the most convincing ones are that different studies have applied different methodologies, have focused on different countries, and have studied effects of different MNEs. Spillovers are a difficult concept in itself and this has made the research even more complicated.

Surveys dealing with direct and indirect technological effects of FDI include case studies and sample surveys (questionnaires and interviews). Case study approach includes comprehensive and rich descriptions about particular FDI companies or projects in specific countries, providing firm specific information on the role of MNEs in changing the productivity of local firms. Case studies were particularly important during the seminal work on FDI spillovers, putting emphasis to linkages, labour turnover and demonstration effects [27]. On the other hand, sample surveys provide detailed information on FDI effects by reporting results from in-depth questionnaires and/or interviews with companies’ chief officers (CEO) or managers. Most importantly,

surveys provide information on the mechanisms through which FDI effects diffuse in the host country, which is a gap in the econometric studies. Many researchers favour this method also due to lack of comprehensive firm level data or even incomplete records of financial data, which is the case particularly for transition countries. However, in spite of detailed qualitative information provided by these approaches, they have a number of drawbacks. Generalizations with respect to the results of sample studies and particularly of case studies are not easy. On the other hand, surveys involve a degree of subjectivity; hence their results should be approached with caution.

A number of researches include case studies on single or a number of companies and/or sectors. Lall [28] was among the first who found case study evidence to support vertical linkages between local firms and MNEs. The effects were particularly strong towards upstream local suppliers, rather than downstream customers. Following Lall [28], a number of case studies emerged covering developed, developing and transition countries. Kugler [22], Rhee and Belot [29], Moran [30], UNCTAD [31] and Haskel, Pereira and Slaughter [19] have provided a summary of case studies on developed and developing countries concluding that case studies at firm and industry level suggest that spillover effects from MNCs vary according to technological and managerial capabilities of local firms relative to those of foreign firms, as well as to strategies followed by the latter. Most of the recent case studies combine detailed sample surveys with some case studies in order to provide more generalizable results (for instance, Altenburg [33], Pavlenik and Smith [34], Pavlenik [35]).

Finally, a bunch of studies have conducted in-depth surveys in order to examine the

direct and indirect effects of foreign companies. Regarding the direct effects, survey evidence has shown that most of the FDI projects result in technology, knowledge and skills transfer, as well as improvements in quality and productivity (for instance, Mirza, Giroud and Köster [36], Mirza and Giroud [37] Zemplerinova [38], Zemplerinová and Jarolim [49] and Rojec [40]). Concerning the indirect effects, there is no conclusive evidence on technology spillovers from foreign firms to the domestic firms, with some studies providing evidence on positive spillovers (particularly on backward linkages with suppliers) (for instance, Cambridge Economic Consultants [41], Potter et al., [42], Crone and Roper [43], Blalock and Gertler [44], FIAS [45] and Ferencikova [46] and some others providing mixed results (for instance, Mirza, Giroud and Köster [36] and Smarzynska Javorcik and Spatareanu [26]).

#### **4. FDI in Albania**

A transition country like Albania, with small size and strategic location, constitutes a very interesting case for investigating the direct and indirect impact of FDI. Anyone can imagine that Albania is too far away from being a technological advanced economy and needs technology to stimulate competitiveness, industrialization and development. Indeed, being one of the poorest countries of South-East Europe and struggling to improve its economic condition, FDI could bring technology and could play a critical role in the upgrading of local companies and in the development of the country. The availability of low cost and well-educated labor force (inherited from the communist regime) and the proximity of Albania with the developed European economies make it a place particularly likely for FDI effects to manifest themselves. Despite this, it is

interesting that in contrast to other CEE countries, the impact that FDI can have in Albania has not attracted attention of researchers and is a missing component in the voluminous FDI literature. Albania lacks evidence on direct and indirect technological transfer of FDI to host companies and little is known on the role that foreign companies can play on the country, which gives a strong incentive to examine the subject in this specific country.

Since the beginning of its restructuring, the FDI attracted by the Albanian economy has been increasing through the years, particularly after 1998. However, FDI in Albania stays far below the volume experienced by other countries of the region, in terms of FDI inflows as well as FDI per GDP. FDI in Albania remains limited mainly due to a relatively insecure investment environment, poor infrastructure, heavy administrative procedures, corruption in the public administration and the judiciary and relatively high taxes. Nevertheless, there are potentials for FDI growth in Albania due to countries main competitive advantages such as favorable natural conditions, proximity to key EU markets, relatively low cost but skilled labor force and progress in the privatization process. For the years to come, the FDI level will continue to depend on the privatization as it is considered as the major source of foreign investments in Albania. FDI already constitutes an important component of the private sector development, and consequently a critical component of the Albania's economic development. The Albanian government has created a legal framework with incentives for foreign investors, and has undertaken a number of measures to support foreign investors. A number of interesting questions arise: What is the impact of foreign companies in the Albanian companies? Does FDI serve as a channel of technology transfer to the local companies and how this technology is being transferred?

## **5. Methodology and Sample Characteristics**

On the basis of survey data with foreign companies in the first phase of the fieldwork conducted in Albania, six foreign companies were selected for a deeper analysis in the form of case studies. The data used comes from a research undertaken in the Albanian manufacturing industry and covering only three manufacturing sectors such as food and beverages, and wood and furniture, and production of construction materials industries. Case studies were selected according to the relative importance of the sectors. The three industries are the most dynamic in the manufacturing sector in terms of FDI presence, contact with local companies, growth rate levels and employment generation. Case studies include detailed open-questioned interviews with foreign companies, complemented with structured questionnaires with their local competitors, suppliers and customers. Structured questionnaires with local companies were completed out either though face-to-face interviews or interviews through the phone (in case that there was difficulty in getting an appointment or the company was operating in other city rather the ones where the field work was conducted). Case study approach is considered to be a very good method in identifying the upgrading of local companies through FDI technological transfer and particularly in answering the explanatory questions of how and why [49]. At this point the paper will just present some preliminary findings based on data collected from surveys with local suppliers, customers and competitors. Thus, in this work, there is an attempt to examine spillover occurrence from the angle of local

companies and how they perceive the impact that the presence of foreign companies have at the stimulation of spillover manifestation.

This research employs an explanatory study utilizing sample survey study and more specifically interviewer-administered questionnaires or structured interviews with local companies. As mentioned earlier, three manufacturing sectors were selected such as food and beverages, and wood and furniture, and production of construction materials industries. Furthermore, two foreign companies were selected from each sector making in total six foreign companies. Based on the information provided by these companies, their local suppliers, customers and competitors were contacted, comprising in total eight local suppliers, ten local customers and twelve local competitors. Thus, the overall number of local companies included in this survey is thirty local companies.

Table 1 shows the foreign companies selected with their corresponding local ones included in the sample survey. The six companies included in the case study included Wood and Furniture Foreign 1 (WFF1), Wood and Furniture Foreign 2 (WFF2), Drinks and Beverages Foreign 1 (DBF1), Drinks and Beverages Foreign 2 (DBF2), Construction Materials Foreign 1 (CMF1), Construction Materials Foreign 2 (CMF2).

Local Companies	Local Suppliers	Local Customers	Local Competitors
WFF1	1	4	3
WFF2	2	1	2
DBF1	1	2	4
DBF2	2	1	1
CMF1	1	1	1
CMF2	1	1	1
TOTAL	8	10	12

**Table 1 Characteristics of Local Companies Included in the Survey**

Source Tabulated from author's field survey (2006)

## **6. Preliminary Results for Spillover Effects from the Angle of Local Companies**

This section provides preliminary analysis from the local companies included in the survey, based on the theoretical framework presented in Section 2 where two types of indirect effects were identified. These included effects of foreign companies to domestic companies that are in direct competition with them and to domestic companies that are vertically integrated with them such as to domestic suppliers (backward linkages) and to domestic customers (forward linkages). Examining spillovers from the angle of local companies is important in the sense that some effects might appear less significant viewed in lenses of foreign companies but that it could be of crucial significance in the perspective of local companies. However, in general terms both foreign (included in the first survey) and local companies (included in the second survey) agreed on general terms on the role that FDI plays in terms of technology transfer.

### ***6.1 Indirect Effects to Domestic Suppliers***

Linkages of local suppliers with their foreign companies were investigated. All local suppliers maintain relationships with foreign companies. The majority of companies make contracts with local suppliers that range from 6 months to one year. Foreign companies were actively involved by putting specific requirements to suppliers in terms of quality control of raw materials, price, technical standards and speed of delivery. Regarding the impact of foreign investors on local suppliers, as perceived by local suppliers, there was identified impact on product development activities, production organization and technologies, quality assurance systems, cost control, and delivery and distribution methods. The majority of the local suppliers claimed to have identified impact in terms of a significant improvement in their product quality, price and delivery.

Regarding the key mechanisms for transmission of effects, foreign companies placed more emphasis on active mechanisms such as cooperation effect through site visits on quality issues and technical aspects of production, as well as sharing of views and ideas. The greatest impacts were on suppliers in food and beverages industry, and wood and furniture industry, where even the contact of foreign companies with local suppliers was higher.

### ***6.2 Indirect Effects to Domestic Customers***

Linkages of local customers with their foreign companies were investigated. In case that there was contact between the two parties, local customers later benefit from improved product inputs provided by foreign companies and reduced prices. All local customers maintained relationship with their foreign companies. Foreign companies were actively involved by putting specific requirements to customers particularly in terms of purchases and prices. Regarding the impact of foreign investors on local customers, as perceived by local customers, the main benefits were enhanced product quality, improved product design and lower purchase prices.

Similar to local suppliers, foreign companies placed more emphasis on active mechanisms such as cooperation effect through site visits on technical aspects of production and quality issues, as well as sharing of views and ideas. The greatest impacts were on customers in food and beverages industry, and wood and furniture industry (where the contact of foreign companies with local economy was higher).

### ***6.3 Indirect Effects to Domestic Competition***

Competition between case study companies and local companies included in the survey was examined. Such competition often arises when foreign companies are active in the same markets with domestic companies. There was an attempt to understand how technological changes took place in the local competitors due to the presence of foreign companies e.g. how they reacted to the competitive pressure, did they survive or cope up with the competitive pressure? Managers of the local companies interviewed claimed that they were facing stiff competition from foreign companies, in terms of



technology and capital. They also claimed that local companies on the other hand were competing foreign ones in terms of price. However, there were interesting cases where competition pressure from foreign firms had forced local companies in our survey to introduce technological changes, learn and build capability.

Local companies were asked to compare their position with that of foreign competitors, and most of the local companies had disadvantages in terms quality, design, technology, expertise reputation, export capabilities. However, as expected they were superior in prices by offering lower prices of their products. Moreover, a high proportion of local companies had a strategy of diversifying their products and processing technology due to competitive pressures. Again, this is was more evident in case of wood and furniture industry and food and beverages.

Only 30% of the local competitors collaborate with foreign companies, indicating for limited effects on local competition through cooperation. There were cases where foreign managers provided evidence of assistance given to local companies by selling them primary or secondary inputs. However, the impact on foreign companies on local competitors as perceived by the later, included also adverse effects due to increased competitive pressures caused by the presence of foreign companies. There were cases of local competitors that had to concentrate on advertising at the expense of innovation, just to survive the market due to increase of competitive pressure.

#### ***6.4 Demonstration Effects***

Demonstration effects were examined from the angle of local companies, which have enjoyed demonstration effects from FDI. This effect occurred directly or indirectly. Two of the local companies, had benefited tremendous demonstration effect from competing foreign companies. However, this depended on the kind of machinery to be used. These two companies contended that since foreign companies were the pioneers in the production of wood and furniture in the country and most things, such as processing techniques, product technology and marketing, were copied from them. The local companies were asked if they ever introduced or adopted new products and new techniques observed from them and the majority of them recognized that demonstration effects existed. Examining these effects from the angle of domestic companies appeared to be a more important impact than when examined from the perspective of foreign companies.

#### ***6.5 Labour Mobility***

Labour mobility is one of the channels through which spillovers can occur between foreign and local firms. The firms were asked whether they any of skilled workers such as professionals, scientists and engineers had previous experience acquired while working with foreign companies in the past. In such cases, we were interested in finding out whether such employees introduced new technological changes or new forms of learning which would lead to accumulation of technological capability and absorptive capacity. This would provide insight into whether foreign companies participated in the country's human capital development effort. Companies hardly

document information on labour mobility since it is difficult to trace employees background. On the side of employment, the local firms claimed that there was lack of skilled workers. It was interesting to note that they had a strong policy regarding its employment of fresh graduates especially from polytechnics/vocational institutions as opposed to universities. They were preferred because the former had more practical experience. As expected, the companies had lost some of their staff in the past and at the same time absorbed staff from foreign companies. In general, a high proportion of 80% of foreign firms had employed skilled and technically trained workers from foreign firms in the past. From the survey, it was confirmed that while some of the incoming employees assisted in development of new products or improvement of existing products, other assisted in the processing activities, quality control, upgrading machinery and equipment and also rise of productivity. All these represented various forms of spillovers. So, it was noted that mobility of skilled workers exists in Albania's manufacturing industry; therefore spillovers are likely to occur.

## **7. Conclusions, Policy Implications, Future Work**

Preliminary results from sample survey with local companies in the Albanian manufacturing industry indicate that there are important direct effects in terms of employment, human development (training, expertise and managers), technology and capital. However, indirect or spillover effects remain limited due to little contact of FDI to the host companies, which is expected to increase in the future. Sectors that benefit more are wood and furniture industry, and food and beverages industry.

In light of the preliminary results, the study generates some important policy implications, which can be summarized as follows:

- The need for the Albanian government to create a right mix of policy measures and incentives to attract as well as keep serious FDI in the country
- Improvement of infrastructure, investment climate, skilled labour (absorptive capacity), promotion of linkages, provision of efficient suppliers, encouragement of interactions with support institutions and business associations
- Improvement of competition regulation and openness of trade regime
- Reduction of administrative and bureaucratic barriers
- Development of institutions to encourage the promotion of linkages and the process of technology transfer

Last but not least, some recommendations for future research work are as follows:

- A larger sample of foreign companies would be illuminating
- Conduct similar studies in other South East European Countries so that comparison of findings can be made
- The analysis can be extended to the service sector

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# **GOVERNANCE POLITICS AND SOCIETY**





# War and Peace in the Byzantine World in the Late Middle Ages: Ideological and Social Implications of War in South-West Balkans

*Efstratia Synkellou*

*Institute for Byzantine Research / National Hellenic Research Foundation (Greece)  
Vas. Constantinou 48, Athens 11635, esynkellou@yahoo.gr*

**This paper focuses on the examination of war and aspires to describe the dynamics of war and peace in a region expanded in the south-west part of the Balkans during the Late Middle Ages. This region, which included a big part of the contemporary Albania and the west one of Greece, was an integral part of the Byzantine world in that specific era. The study of the ideological and social implications of war follows the examination of specific subjects such as war ideology, society at war, warriors' profile, war violence and people's attitudes towards war. In this way, we will be able to identify the realities of war and peace in a multiethnic society, as was the particular one, and find some historical patterns in order to consider the present political and social conditions in Balkan societies.**

## **Keywords**

medieval warfare, peace, war ethics, war ideology, Western Greek region.

It is a well known fact that the study of war, regardless of the historic era in which it takes place, is a means of re-evaluating peace. Thus, war and peace are the two sides of the same coin, a view which was best enunciated in the ancient Greek thought by Plato as "What people call peace, is a continuous undeclared war". By studying war and peace and their moral, ideological and cultural parameters in the Byzantine world, we are not only led into a profound understanding of that world, but we also contribute to the identification of historical patterns of the most diachronic phenomena in the History of mankind. Despite the fact that scientific research has designated many aspects of the Byzantine history and civilization, the field for the study of war and peace on ideological, religious, social and moral levels, remains open. This is where this paper as a sample of my postdoc research comes in, aiming at the examination of the ideological and social implications of war in the Late Middle Ages. In order to analyse thoroughly the wider ideological context of war and its social dimensions, we have to study the written sources and concentrate on issues such as war ideology, society at war, people's attitudes towards war, warriors' profile and war violence. Given the fact that the Byzantine world, which was spread mostly in south Balkans (Greece, a big part of Albania, Constantinople and Asia Minor) in the Late Middle Ages, splintered off into

Byzantine-Greek and Latin territories after the fall of Constantinople to the Crusaders (1204), it is necessary to examine all the previous issues in specific areas in an attempt to comprehend the multifaceted phenomenon of war.

So, this paper that focuses on the examination of war, aspires to describe the dynamics of war and peace in a region expanded in the south-west part of the Balkans in the Late Middle Ages. This region, which included a big part of the contemporary Albania and the west one of Greece, was an integral part of the Byzantine world in that specific era.<sup>1</sup> After the capture of Constantinople by the Latins (1204), the state of Epirus created in this particular area and functioned as the main seat of the Byzantine-Greek forces. However, since the end of the 13th century, the same region, which played an important geostrategic role because of its location on the border line between the Western and the Byzantine-Greek world, became the bone of contention for various forces (both eastern and western) and was broken down into smaller territories that happened to be self-contained and independent political and military centres.[1],[2]

Obviously, the political instability and the crumbling authority, which prevailed in the Byzantine world after 1204, were the main characteristics of the eastern part of the Mediterranean until the end of 15<sup>th</sup> century. Consequently, war which breaks out and occurs under such conditions, comes to appear as an “endemic” phenomenon.

According to the written sources, more than 110 war conflicts occurred in the Western Greek region from the 13<sup>th</sup> to the 15<sup>th</sup> century. These conflicts increased from the mid of the 14<sup>th</sup> century as the number of regional leaders and pretenders claiming authority also increased. Byzantines, Serbs, Angevins, Venetians, Turks and Albanians were engaged in war operations in order to gain more territories or to consolidate their power. Regional wars were the typical wars of the regional governors, while military operations within the framework of general wars were also conducted in specific periods: in the end of the 13<sup>th</sup> century (war between the Angevins and the Byzantines, 1280/1), in the mid of the 14<sup>th</sup> century (Serbian invasion) and the last half of the 15<sup>th</sup> century (war between the Venetians and the Turks). It is noteworthy that the “unofficial” war of piracy, as a supplementary part of war, never ceased to exist both on the sea and on the coastline. [3]

The territories which formed the Western Greek region during the most part of the Late Middle Ages had unstable and changeable borders. As a rule, they were evanescent and their presence was determined by the duration of the war operations. The number of conflicts and military interventions by various pretenders created a feeling of insecurity among the people, as well as among the sovereigns who considered war as a means of survival. Consequently, the regional leaders and the other opponents declared wars in an effort to consolidate their authority and keep their position intact.

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<sup>1</sup>This region included Medieval Epirus (from Dyrrachion (N) to Naupaktus (S) according to Soustal P.- Koder J., *Nikopolis und Kephallenia. Tabula Imperii Byzantini* 1986; 3: 37-40), Ionian islands and the northern part of Achaia in Peloponnese. We refer to this region by using the title “the Western Greek region”, as the written sources identify it with various names, such as “West parts”, “Despotate”, “Epiros”, etc. See Asonitis S.N., *The South Ionian Sea in the Late Middle Ages*, Athens 2005, pp: 43-47. (in Greek)

The political realignments resulting from “Partitio Romaniae” after the fall of Constantinople to the Crusaders (1204) made war as the principal means of consolidating authority.<sup>2</sup> Simultaneously, they influenced war “ideology” and conduct. Therefore, the avoidance of pitched battles and the engagement in incursions aiming at the pillaging and the ripping of possessions, the small number of casualties and the “unorthodox” tactics of war proved that war conflicts conducted in the Western Greek region were usually of a limited extent and duration and were mostly accompanied by the pretence of defense. For instance, Byzantines’ military interventions occurred with a view to re-integrating the region into the Byzantine empire. Angevins’ and Venetians’ interventions occurred in accordance with what the Partitio dictated, which also entrenched their rights in the area. The Albanian military operations were “legitimated” as a means of consolidating their power in specific parts of the region, which were granted to them by its Serbs conquerors. There was only one exception to this rule; the Ottomans conducted a sort of “total” war introducing a different conception of war in the Balkans during the 15th century.[3]

It has to be noticed that the defensive concept of war, prevailed in the Byzantine world, derived from the osmosis of the political and religious background of the Byzantines (“roman idea” – Christianity). The Byzantine idea of war was active and remained unchanged till the fall of Constantinople to the Ottomans (1453). As we can understand by war conflicts in the Western Greek region, the factor of religion affects the soldiers’ actions as well as the social attitudes on war. It also defines the wider context of war “ideology”. Religious ceremonies accompany military operations and state the official concepts of war. So, according to the Bishop J. Apocaukus, war is due to human passions such as “avarice and sin”.(p:156,[4]) Furthermore, he distinguishes the “holy” war from the “military” one. The former is conducted within the body of the Church whereas the latter is a real political war.(p:277,[5]) Although the reports of scholars, historians and chroniclers of that era mention notions such as those of the just or the holy war, there is no clear distinction between these two terms in Byzantine writers.<sup>3</sup> On the contrary, this distinction comprised the heart of the theoretical analysis that led the Italian Ioanni of Legnano to form a typology of wars (*bellum romanum*, *bellum iudiciale*, *bellum praesomtuosum*, *bellum necessarium*, etc.) in the 14th century. The Venetians, for instance, made only two kinds of war in the 15<sup>th</sup> cent.; “bellum iudiciale” and “bellum necessarium” (“noi non intramo in guerra se non necessitati o per propulsar la ingiuria”).(v.2,p:1004,[6]) Byzantine historians emphasize on the defensive perception of war by the Byzantines and attribute war to the aggressiveness, the arrogance and the greed of their enemies, such as the Serbs and the Angevins.(v.1,pp:520-521,[7]; v.1,p:146[8]) The same feeling is apparent in the narrations of the chroniclers who describe the war operations of some regional governors.[9],[10] As war ideology is a complex system of ideas, values and policies derived from the social, religious and political substratum of a particular era, we must be sceptical about the information of the narrative sources as their authors are the

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<sup>2</sup>For the Partitio Romaniae see Carile A., Partitio terrarum imperii Romaniae. Studi Veneziani 1965; 7: 125-305.

<sup>3</sup>On the notion of “holy” war in Byzantium, there have been many different suggestions. See Pitsakis C.G, Guerre et paix en droit byzantine. Mediterranees 2002; 30-31:210; Kolbaba T.M., Fighting for Christianity. Holy war in the Byzantine Empire. Byzantion 1998; 68: 194-221, etc.

“children” of specific cultural and political environments. However, it has to be mentioned that, above all, war is “the continuation of politics by other means”. (p:53,[11]) This view is confirmed by the intense military activity that characterizes the Late Middle Ages, not only in the Eastern but also in the Western world. Through this perspective, war expresses the political ideas and serves the political ideology of those involved. In this way, it is identified with propaganda, which supports its conduct and is dictated by political and military purposes as well.[12] This “propaganda” can be found in the war-cries, in the rise of the battle-flag, in the military commanders’ declamations, in the rewards for the feats of arms and in the requests for divine intervention.(p:87,[10]; pp:348,398,406,428,[9]; v.2,pp:511-512,[13]) Of course, all the above reveal the impact of the psychological factor in war and are closely related to the social beliefs and values.

The medieval warrior as a member of society is a clear evidence of war concepts. As the warriors of the Western Greek region derived from various tribes and nations, they entered the battle fields along with the war morals, values, virtues and attitudes of their societies. So, military qualities like courage, heroism and bravery were common values for all warriors. Moreover, the local (Epirotes) soldiers as well as the Byzantine ones shared bonds with religion, excelled in virtue and morality and possessed the military attributes (hardness, courage and obstinacy).(p:28,[14]) The Albanian warriors who were quite competent, due to their nomadic and depredatory way of life, usually assisted those of the same origins (kushtrim).(p:60,[9]) Soon, they realized their martial skills and offered their services as mercenaries to the local governors or to the great powers of that era. The western warriors were the “agents” of western war ideals and ethics in the area.(p:238,[9]) The army of the Italian sovereign Charles I Tocco, who ruled upon the south part of the area under examination at the beginning of the 15<sup>th</sup> century, is a typical example of the so-called multiethnic regional troops of that era. This multinational character of the army was indubitably reinforced by the mercenary service, which formed the basic element of the military organization both in Byzantium and the West (Venice) during the Late Middle Ages.(pp:139-156,[15]; pp: 219-220, 226-227, 259-260, [16])

By evaluating the impact of the multinational synthesis of troops on war and the society of the region, we notice, first, that the organization and function of the army was not negatively affected by the participation of warriors of different origins, since each of them had a separate and a distinct role to play during war. For example, the western warriors undertook the conduct of sieges and battles to open fields, while the Greeks and the Albanians were responsible for incursions, castles’ guarding and the defence of certain regions as “stradioti”. The Greeks also served as “ballisters”. The leadership of the military operations was assigned to generals of western origin as guarantors of a relation of trust to the western sovereigns, while there were also troops governed by commanders of the same origin.[3] Secondly, multiethnic troops indicate the existence of a multiethnic society. The society of the Western Greek region, which had experienced several foreign dominions (Italian, Albanian, Serbian) as well as demographic changes because of epidemics and military operations throughout the Late Middle Ages, was an open society, exhibiting tolerance towards any foreign element. Of course the Greek element remained dominant, since the foreign authorities were ephemeral and did not extend to the whole part of this region; in the meanwhile the

factors of the religion (Orthodoxy) and the Byzantine past contributed to the maintenance of its cohesion.(pp:1370-1371,[17])

Moreover, through the examination of the structure and the function of the Italian sovereign's troops, we are realizing that warriors had the prospect to upgrade their financial and social status, something that is also true for the Venetian army during the 15<sup>th</sup> century. Consequently, the regional martial forces were considerably reinforced, since they were provided with additional earnings, land and opportunities in order to ascend the social hierarchy.(pp:230,338,390[9]) In fact, the participation of the local warriors in the army contributed to the development of a professionalism, as far as military service is concerned, as well as the improvement of the soldier's social status; in addition it created the necessary conditions for the development of a "parochial" spirit, that was related to patriotism and was fully cultivated during the revolutionary movement against the Ottomans (16<sup>th</sup> century and on). The type of the mercenary-soldier of permanent residence, becomes the basic type of warrior, mostly since the end of the 14<sup>th</sup> century, when war is based on an economic view and becomes an integral part of the political and social life, due to its considerable frequency.(p:44,[18]) It seems that during this period of time the society of the area in question exhibits - more or less - the characteristics of a militarized society, which resembles the western medieval society.(pp:305-306,[19])

It is also worth mentioning that the influence coming from the western feudal system was quite strong in the western Greek region in the Late Middle Ages. By the 13<sup>th</sup> century, the feudal institution and its principles coexisted with the form of personal relations in the state of Epirus; the regional sovereignties of the western dominators, that had been created in the area since the end of the same century, became the main seats of the feudal political organization.(pp:261-308,[20]) The feudal patterns influenced the relation between the soldiers and the political governors and consequently the concept of war, which had been a means of rehabilitation and social distinction. So, western feudalism, Byzantine institutional tradition and personal relation patterns, all of which prevailed in the state of Epirus, were the basis for the organization of an army that was neither exclusively feudalistic, nor of a mercenary character or a regular one, but comprised the features of all of them and could perfectly adjust to the local political circumstances, the regular demands of the geophysical environment and the needs of that time.[3]

It is self-evident that in the particular area we notice a parallel transformation of both the society and army. The introduction of foreign elements and the osmosis of eastern and western influences happen to be their main characteristics. The western military model (servitium feudale), professionalism, the realization of the social role of the soldier and the virtue of militancy, comprise the framework of the warrior's behavior and function. Therefore the warrior becomes an active participant in social changes, at a time when war is of society's concern. We must, however, mention that the Turkish conquest of this region in the mid of 15<sup>th</sup> century, hindered the process of the development of a further special role of the soldier and the army, in general, in terms of political and social structures. Still, the multiethnic society of the western Greek region proves to be the melting pot of various influences and shows that it is sensitized in matters of defense or safety and is seriously considering the phenomena of threat, imposition and conquest.

We have reached this conclusion by regarding the contribution of non-combatant populations to various military sectors and their participation in the outcome of the war. In narrative sources there is often reference to the obligation of enlistment, castles' guarding and participation in sustaining the armed forces or constructing defensive works. These obligations as well as taxation functioned as a "declaration" of participation in the war on behalf of the non-combatant. (v.5, pp:81,260,[21]; pp:137-139,[22]; pp:251-258,[23]) Furthermore, the authorities and the most prominent residents of certain regions, participated in the military decisions and expressed their political thesis. The relevant evidence from the sources is abundant. For instance, the nobles of Ioannina decided upon the surrender of their town to the Turks (1430), according to the Specification of Sinan-basa.(pp:62-74,[24]) The bishop of Chimara, as the representative of all the residents, suggested that the Venetians conquer the region, otherwise they would surrender to the king of Aragona, as indicated at a Venetian document of 1454. (v. 22, pp:331-332, [25]) In fact, the interventions of the local authorities and the people to the political decisions increased after the mid of 14<sup>th</sup> century, as political disintegration had established the model of the town-castles and the peripheral castles that constituted defensive shields, or independent, self-contained units.(pp:350-351,[26]) However, both the political will of the people and the participation of the non-combatant in the war (direct or indirect) show the sensitization of the society towards war and the formation of a particular attitude as opposed to it. It seems that society accepts the reality of war as a political necessity, since in certain cases, it actively participates in war action and supports local rulers. The dynamic presence of the people of specific areas, such as the people of Ioannina and the people of Chimara, in the local troops, was the product of political will as well as a token of warfare alertness of the residents of-primarily-mountainous areas.(pp:97,100,[10]) But warfare promptness does not solely depend on the way of life - the people in question led a really hard life on the mountains - but also on the realization of a constant active danger, the danger of war. Consequently, the people of the western Greek region seem to be concerned about their safety and their position in the political environment. We have the typical example of the people of Chimara, who started off as an armed resistance force against the Turkish imposition in the 15<sup>th</sup> century and became a social group of military character that raised personal honor and freedom to an ultimate virtue.[3]

However, war never ceases to be an unpleasant experience for the population, that feels fear, insecurity, confusion, discontent and despair, as mentioned in the sources. The financial burden, the psychological and physical suffering of the people as well as the natural disasters are often described by the writers of that time, such as the Bishop J. Apokaukus, who points out: " all the people rush to the mountains, men loose their wives, women loose their children, barefoot, stepping upon rough and sharp stones".(pp:149-150,[4]) Also, seeing people resorting to God and their religious feeling being reinforced, is something common in a war. Prayers and appeals to God's protection and relieve are encountered throughout the war: 1. before military operations as a means of moral support for the soldiers and the people, as happened in Constantinople before the Byzantines' operation against the Angevines in Berat (1280/1). An Extreme Unction service was held and sacred amulets were given to the soldiers in order to be protected.(v.2,p:511,[13]) 2. at critical times during sieges, as we notice during the siege of the castle of Ioannina by the Albanian tribe of the Malakassaioi (1379) when the people of Ioannina prayed to their protector-saint,

taxiarch Michael.(p.88,[10]) Under such circumstances it is only natural for man's agony to interfere with the religious element. Consequently, by addressing God we are led to regard the outcome of war on a metaphysical level, where God's will is the ultimate judge of all, since the physical and moral resilience of warriors have been exhausted.

Despite the fact that the written sources imply the disaffection of the population because of all the plunder and the devastation of the military encounters, it is not clear whether the war's cost on the people resulted in the break up of the social relations and, consequently, in the collapse of social values. (pp:78-80,[27]) In the sources, violent incidents involving local soldiers against their non-combatant fellows, are too scarce. Only a single episode being described in the narration of Bishop J. Apokaukus, refers to the pillage caused by the soldiers of Naupaktos on the possessions of the town's population in the 13<sup>th</sup> century.(p:150,[4]) Such predation caused a serious problem in the area and probably feelings of animosity between the soldiers and the non-combatants. These few reports in the written sources, the inadequate description of the social implications of war by the chroniclers as well as the fact that the movements against political authority were scarce, illustrate that in the western Greek region the non-combatants' attitude towards those involved in the war, was determined by a combination of factors and not solely by the war itself. These factors happened to be the constant co-existence (symbiosis) of the local society with foreign leading groups, the political fluidity and instability which prevailed after the collapse of the state of Epirus and Charles I Tocco's positive attitude towards the multiethnic society of his time, which gave rise to the dynamics of the local element. All these factors along with war seem to have affected social structures, which did not actually change but were reformed according to the dictations of the political, economic and ideological changes of this era.[3]

Another important issue closely related to the society's attitude towards war, is the military violence. Violence is a product of specific war morals, religious beliefs and ideological models, financial and political objectives. It is also related to the social structure of the troops and war technology. Military violence applies to the temperamental and cultural milieu of a nation as well as to war tactics and strategy. It is noticed that, during the Late Middle Ages, the use of new military technology (cannon, artillery) changed the conduct of war, while the concept of war was transformed under its increasing "commercialization". These developments characterized mainly the war in the west, where there had been violence-control attempts with the codification of the rules of war.(pp:260-280,[19]),[28] In the western Greek region, where the western influences were quite strong and the use of modern warfare technology was too limited, it seems that military violence was under certain control and of limited extent. This happened - primarily - due to the type of war and the attitude towards war of those involved. Therefore, the type of war that was conducted there was mainly war of attrition, which in accordance with the spirit of the medieval strategy aimed at pillaging and devastation but not at taking away people's lives.(pp:150,[29]; pp:203-204,[30]) After all, the small number of casualties is due to the Byzantine, Serbian, Epirote, and Italian governors' attitude towards military violence, which was determined by the Christian ideas about charity at war.(pp:126-145,[31];pp:92-93,99,[32])

Of course, captivity has always been a common practice at war and entailed slavery, excruciation, mutilation, imprisonment, public disgrace or even death. The sources

often refer to the “fate” of prisoners of war, who are usually sold for a sizeable sum of money or used for political and military objectives.(pp:86,88,100,[10]; pp:288,394,400,[9]) According to the chronicle of Tocco, Charles I Tocco used imprisonment in a way that resulted in the prisoners’ settlement (mostly Albanians) on different spots of his territory and in the growth of the number of his liegemen.(pp:232,280,[9]),[3] The Chronicles of that time reflect the atrociousness of war when describing the imprisonment of hostages and their suffering during torture.(p:100,[10]; pp:292,352,[9]) Captivity, usually accompanied by abusive treatment, is really a “manifestation” of man’s aggressiveness at war.(pp:33-34,[11]) For instance, it is worth noticing the behavior of the Serbian sovereign of Ioannina, Thomas Preljubovits, towards his Albanian adversaries (1379). He would cut off parts of their bodies and send them as a gift back to their king or punish their Bulgarian allies by cutting off their noses, according to the chronicle of Ioannina.(pp:88-89,[10]) Scenes of public disgrace and humiliation of the prisoners add to this brutality; like, for instance, the prisoners’ circumambulation while being mocked by the people of Constantinople, during the imperial victory following the Angevines’ defeat at Berat (1280/1), according to the Byzantine historian G. Pachymeres.(v.2,pp:517-519,[13]) It is also worth mentioning the paradoxical Mohammeth’s act to use the prisoners of Cephalonia in an experiment (1479) in which he forced them to couple with African black people (Ethiopes) so as to create a new mixed tribe of slaves, as stated by the chronicler Theodorus Spandugnis.(v.9,p:167,[33]) The Byzantine historians point out the Ottomans’ tactic to detach a big number of prisoners from the conquered regions and transport them to slavery centers or use them in the body of their army.(pp:123-124,[34]) On the contrary, the Venetians, who had many slaves among their ships’ crew during the same period of time, were led for this reason to military decay, as several historians suggest.(pp:63-64,[35]) Through studying the military activities of Venetians and Turks in the area during the 15<sup>th</sup> century, the former - who applied a sort of political opportunism - invested in their army’s qualitative reinforcement and promoted a type of strict and methodical warfare, similar to that encountered in modern times. On the other hand, the latter (the Turks) were interested in reinforcing their army in number, by developing new military potentialities and conducted a sort of “total” war, in which the military ethics - that were related to their religious and ideological patterns (holy war) - served the conquest strategy.[3]

As a result:

- The attitude of people in western Greek region towards war and peace is influenced by factors, such as their social status and origin, the degree of religious faith, the level of social consistency, the social values and mores, as well as the frequency of war. Such factors define diachronically people’s attitudes towards war and peace.
- Regarding war as a tragic incident, people of this particular area as well as the Byzantines facing the misfortunes of war, seem to accept it as a choice made by their leaders or as a result of human sins. Therefore, they preferred to avoid war and supported peace, according to their religious and political beliefs. Life in a multiethnic region such as the Western Greek one – or the Byzantine empire tooled them to evaluate peace as a universal benefit. People acknowledged national particularities and lived in harmony with other nations. They had all the



characteristics of the contemporary citizens, raised and matured under the cultural impact of globalization and European community's political evolution.

- The Western Greek society, experiencing the circumstances of political instability and living at war, does not appear to remain static but instead, seems to evolve and develop according to the changes occurring at the same time. The Byzantine substratum remains powerful and is reflected upon the beliefs and ideas about war, which eventually seems to become acceptable as “necessary” evil. Strong proof for this realization is provided through the information given by J. Apokaukus, concerning the monks’ participation in the army during the 13<sup>th</sup> century<sup>4</sup>.(p:88,[4]) These monks, who had retired from monasticism, faced the anathema firmly dictated by the official stance of the church, which clearly separated the monk from the soldier - two distinct, idiomorphic figures of medieval society.[36] It is common knowledge that the orthodox church participated in war indirectly, through financial contributions and moral support; On the contrary, the Latin clergy had a more direct role to play, since they cared about the security of the regions under their authority or were directly involved in military operations, according to the information provided through Venetian documents. (v.1,pp:19,76,[33]) Therefore, the arrival of the monks in the ranks of soldiers as well as the acceptance of weapons by those who are supposed to be against the violence, is easy to explain if we take note of the political and social insecurity that prevailed at the time in the particular region and which happens to be the result of their adjustment to them.[3] Consequently, the society’s adaptability - as regards the western Greek region – according to the conditions and more specifically to the reality of war, does not imply the existence of a passive or warlike society, but of a civilized one that confronts a political phenomenon such as war.(pp:55-56,[11]; pp:39-62,[37]).

The case of the Western Greek region gives us clear evidence of the realities of war and peace in the Byzantine world during an era of great transformations: the Late Middle Ages. This evidence can be used as a model for further study on the Byzantine society. Furthermore, it is a historical pattern that presents the research of medieval warfare as a means of understanding society in the strategic area of South East Europe. So, we may penetrate to the cultural background of the European citizen - as that emerges through his attitude towards war and peace - and comprehend the conditions, which created the common contact points for the contemporary societies of this specific region.

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<sup>4</sup>This information is a unicum in the sources referring to the western Greek region and is currently being examined in sources that are concerned with the Byzantine state in the Late Middle Ages, so as to further study the issue in question.

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# The National Question and The Young Engaged Experts

*Gazela Pudar<sup>1</sup>, Vladimir Ilic<sup>3</sup>, Mladen Lazic<sup>2</sup>*

<sup>1</sup>*Institut for Sociological research, Cika Ljubina 18-20, Belgrade, Serbia, gpudar@f.bg.ac.yu*

<sup>2,3</sup>*Faculty of Philosophy, Dept. of Sociology, Cika Ljubina 18-20, 11000 Belgrade, Serbia, {vilic<sup>2</sup>, mlazic<sup>3</sup>}@f.bg.ac.yu*

**The study explores attitudes of young, not yet established experts and the manner they define and contextualize different aspects of national topics. It is based on semi-structured interviews and presents a deep division in regards of nationalism, national identity and consciousness. The study shows the existing confusion around value orientation of citizens of Serbia. It is an explanatory case study, with expected outcome of an overview of the variety of perception of national question, which can further be used to investigate nationalism in Serbia. The research was finished slightly before unambiguous announcement of Kosovo independence, and captures attitudes and meanings which are marked by unique situation in the recent past. I do not wish to intake any other hypothesis in my paper on the possible results of the research, but to observe attitudes in all shown differences.**

## **Keywords**

nations, nationalism, national identity, orientation, young experts.

## **1. Introduction**

Extreme attitudes regarding nation have often been the cause of conflicts in the relations of people in former Yugoslavia. This paper explores attitudes of young, not yet established experts on different aspects of national question. The basic goal of the paper is to analyze the manner they define and contextualize nation, nationalism, and other topics regarding the national question.

“National question” is the term used in some European discourse from the eighteenth century until today. It is aimed at the problem of non-existence of national states. I would prefer to use a less contextually defined term, but I still give an advantage to this one, because of its’ overall meaning. Hence, national question incorporates several different elements of a very wide area dealing with nation, national identity, nationalism and rights of minorities. The task of the study was to attempt to shed some light on the aspects of the mentioned question in the consciousness of young members of our society, more to the point, of the members of university community in Belgrade.

This study is an explanatory case study. Its' expected outcome would be an overview of the variety of perception of national question, which can further be used to investigate nationalism in Serbia.

Analysis of respondents' attitudes follows the contextual introduction and the short overview of the existing theoretical approaches. There has been made an effort not to apply any of the existing theories of nationalism. The aim is to analyze collected material in theoretically open manner, in order to gain theoretical assumptions, which are the goal itself of an exploratory study. I accent here that I do not start with specific theory of nationalism, with purpose of strengthening or denouncing it, but instead, I'll turn to theories after I introduce "content of the raw empirical consciousness" of the targeted population.

Real consequence of this paper would be modifying some of the existing middle range theories regarding the basic topic, as also pointing to the borders of their significance regarding the observed group.

The research itself, field part, was finished slightly before unambiguous announcement of Kosovo independence, and captures attitudes and meanings which are marked by unique situation in the recent past, namely seriousness of the separation of the one part of the state.

As a summary, I would repeat two assumptions prior mentioned. Beside assumption of existing attitudes on national question, there is other general assumption on future actions of young people in the sample as a potentially affecting social development on social and political life in Serbia. I do not wish to intake any other hypothesis in my paper on the possible results of the research. My goal is to observe attitudes in all shown differences.

## **2. Sample**

The notion of an expert can be defined in several manners. Here, I have to emphasize that the term expert used in Serbian language has much clearer meaning then in English. One, the most acceptable solution in my view, is that an expert is a social actor who owns a resource of knowledge which he uses in his actions.

The best solution seemed to be university students and graduates with clear generation borderlines. Those are students coming to an end of their studies, attending last year of study and graduates. Young experts who graduated in the last thee years, regardless the area of study were also appropriate choice. This choice is grounded in my interest in the people whose professional identity and intellectual self-consciousness are just forming. Relative homogeneity of the population allows the observation of the fine differences and the matters that can influence the mentioned attitudes.

High education as a criterion chosen for this research is accompanied by widely defined socio-political engagement. It incorporates active engagement in student, youth NGO-s and political parties. I, also, differentiate between organizations which in public have labels "anti-nationalist", "non-nationalist" and those with labels "pro-nationalist" and "nationalist". In between are moderately oriented organizations or parties. The exact meaning of moderate orientation could be discovered solely through research.

I believe that there is a large possibility that attitudes of these people have impact on creation of socio-political life in Serbia in recent future. The question is how they see the term nation, nationalism and which actions they would participate to address problems grounded in the national question.

Sample finally had 12 “non-nationally” oriented, 7 “nationally” oriented and 7 “moderately” oriented respondents. The reason for larger number of “non-nationally” oriented is that the research had shown that some of the expected moderately oriented respondents have shown attitudes close to non-nationally oriented; hence they were added to that group.

Semi-structured interview was a best form of interview for the goals and tasks of this paper. This form of interview allows me to gather the answers in the “how”, “why” and “in what manner” form, namely to deeply investigate the attitudes on the basic topic.

### 3. Theoretical Background

This overview has no desire to pose for the full picture of what nation and nationalism is. Such endeavor would be too much for a single author, regardless dedication, even in a study of greater volume. Hence, the named authors and theories are just the most commonly quoted in debates on nationalism in Serbia.

Several definitions of nation appear in the analysis of gathered data:

- Political definition of the term nation, the most common, is about people that managed to organize and form a state [1].
- Cultural definition defines nation as cultural group of people, which survives through language, customs, habits, values and norms, and independently from political power and territory.
- Naturalist definition sees nation as a natural community of common origin, not just those who believe they are a community. Common ancestors are the bondage of communities perceived in this way.
- Finally, there is a definition of nation as a community of all of its citizens, where the nation is equalized with the state.

Bell-Fialkoff and Markovits state the difference between two forms of nation, which in turn produce different types of nationalism. But, this difference does not take sufficiently in consideration political factors, and they further state that both forms of nationalism can be recognized in almost every state.

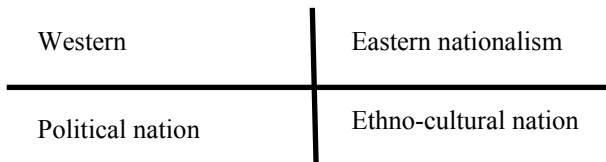


Figure 1

The difference between two types of nation is understanding of identity. While in USA nation is formed regardless of ethnic and cultural characteristics, in Europe nation was, and it seems it will be for a long time an ethno-cultural form. A parallel can be made with the view of Benedict Anderson who stated that all nations are imaginary communities [2] in such manner that every individual pictures him/herself as a member of a group he/she prescribes certain characteristics, that differ from group to group, nation to nation. Those imagined nations evoke national consciousness which asks for institutionalization and independence.

All forms of nationalism need to give a response to what does the belonging mean and who belongs to a nation. Nation as an idea underlines “being the same” in the sense that all of us are one. Nationalism can, and doesn’t have to signify that ones own nation is better than the others.

Nationalism is often matched with political movements, who ask or have administrative government and justify it by using nationalist arguments, in other words, acting for the good of the nation [3].

Nationalism is tightly connected to the appearance of the national state, in the modern period. According to Gellner, nationalism is a specific form of patriotism which becomes dominant under specific social conditions, which first occur in the modern world, and no where else [4]. Nationalism is dedication to the national state or the modern doctrine built around that dedication.

Maria Todorova defines nationalism as a merge of ethnicity and the state [5]. She points out communist nationalism as just camouflaged classic nationalism, which reemerged after 1989. She point out the significant fact that nationalism is relational ideology; it can be defined only in relation to someone, not on its own.

Anthony Smith describes nationalism as ideological movement directed towards achieving autonomy, unity and identity of human community [6]. Nation, on the other hand, is named human community which has common historic territory, myths and memories, mass culture, unique economy and common rights and obligations for all members.

Many authors do not speak of nationalism, but of nationalisms in plural, claiming the variations to be numerous and they are trying to put them in different categories. Rogers Brubaker speaks of three types of nationalism: nationalism of the majority nation [7], so called nationalizing nationalism identifiable with politics sending the message that state should be national, state of the nation; nationalism of the mother state or patriotic nationalism and nationalism of minorities which can but doesn’t have to be the same as nationalism of the mother state. Nationalizing nationalism can lead to increasing intensity of nationalism of mother state and nationalism of minorities, which leads to the magic circle.

Here, I finish with theory on nationalism, and in following passages I will describe political context that aided development of nationalism in former Yugoslavia, with giving more attention to situation in Serbia.

## 4. Historical Context of Nationalism in Serbia

Complexity in the area of social events in Serbia in the past period has made clear reasoning on any topic very difficult. Several years prior to the dissolution of Yugoslavia attacks at Serbia were more and more common in media, supporting Albanian movements in Kosovo. The root of these attitudes can be placed in pre WWII period, when Karadjordjevic royal family ruled the Kingdom of Yugoslavia. First Yugoslavia was put together rapidly, lacking thorough negotiations. Consequently, Serbs saw only enlarged Serbia [8], which liberated brother countries Croatia and Slovenia from Austro-Hungaria. This has always been a problem for Slovenians and Croatian

The second Yugoslavia was built upon ethno-federal principle. Real socialism in Yugoslavia was non-liberal ideology, collectivist and antagonist [9]. Communist regime, instead of working on national unity, just announced it, and qualified it as a result of the people's resistance in WWII. National identity was suppressed by ideology of brotherhood and unity. Division of government positions was according to the national key in order to dismiss possibility of complaining. Yet, Serbs were reproached as more in governing positions than others. Serbs were the majority in partisans, and therefore the majority in post war governing group, recruited according to war merits.

State regime was socialist, with command economy and dominant leader. Yugoslavia with Tito was developing its own direction of development balanced between East and West. Yugoslavia similarly to USSR had a difficulty to merge ethno-cultural and political model. Belgrade capital, number of Serbs, dominance among partisans where new government was recruited, were the torn in other nations eyes [10]. The conflict became more visible with decentralization of the state. Center, unfortunately for the Serbs, grew weaker and less able to hold members together.

When real-socialism started dissolving along with brotherhood and unity ideology, nationalism was abused as a shade to change legitimization of government. Wider masses had compensation in nationalism for the lack of modernizing towards modern civil state. Instead, authoritarian system caused lack of autonomy and submissive followers' mentality [11]. Domination of party state was exchanged for domination of nation state.

After the dissolution, Serbia faced with sanctions and was marked as aggressor. A short peace after Dayton Peace Conference finished with the Kosovo crisis and NATO bombing. Feeling of injustice and hostility dominated in the wider public opinion. Although October 2000<sup>th</sup> brought changes and hope for getting back in the European streams, recent aggravation of Kosovo crisis made very difficult attempts of breaking with nationalistic discourse and nationalism itself.

This is the situation which marked this study and all expressed attitudes.



## 5. The Young Experts and their Attitudes

One can see two dominant stands regarding nationalism among respondents. The “moderate” group is introduced as a result of incoherence inside their answers which made it impossible to mark them as “national” or “non-national”.

Respondents belonging to “non-national” orientation, see nationalism in negative terms. In their attitudes, nationalism is practically equivalent to chauvinism. They see nationalism as *“irrational and surreal conviction that my nation is special”*, and *“you love your country, but to the harm of other countries, we are the best, we are the strongest, and everybody else are nobodies and nothings”*.

Also, nationalism is equalized with ideology, and it represents *“imprisonment of peoples’ consciousness”*. Such definition implies existence of the group of people, usually political elite, which conducts such imprisonment to assure their goals. *“This region in general is nurturing such authoritarian climate, and it is easier not to coerce but to mobilize people for the goals of the elite”*.

Patriotism, on the other hand, is the agreeable way of expressing affection. But, this affection isn’t expressed towards nation, but towards country. This clearly separates state from the nation. The nation is perceived as the ethnic community, while the state is home to all nationalities that live on its territory and can not be linked just to the majority nation.



Figure 2

“Non-nationally” oriented respondents claim that relation towards nationalism should be shown through all available means. In order to eliminate the presence of nationalism as unwanted “enslaved consciousness”, there has to be political will. Besides efficient laws and public performances, it is necessary to develop tolerance through the uplifting of media culture. Respondents of this orientation feel that education *“in sense of promoting openness, development of tolerance of children and making them stronger and again, building their personal freedom and some other human relations”* is yet another one of the important paths of eliminating nationalism. Opening foreign spaces for young people, for travels, for facing the near past, because *“the worst criminals and assassins were hiding behind nationalism”* has been seen as a way of eliminating nationalism. But, there are attitudes that nationalism should not be repressed, because it causes counter effects. *“Nationalism should be lessened in strength, not repressed, because it, nationalism, is aggressive”*.

Respondents who belong to “national” and “moderate” orientation feel that nationalism is a positive form.

Only, these respondents point out that the phrase nationalism has been abused and contaminated in the ex-Yugoslavia, throughout the nineties. The authentic meaning of

nationalism is the love for one's nation, signifying *"expressing love towards ones own people, ones own state, ones own tradition, ones own history, customs, belonging to your own nation"* which is *"as natural as mother's love for her child"*. This positive concept used by "nationally" oriented respondents to describe the phrase, should be, according to them, slowly revived, and the wrong concepts, negative ones should be slowly eliminated. Nationalism *"should be strengthened, it can not hurt, because most of the people in the world are nationalists, and are not ashamed of it"*.

Nationalism, in "nationally" and "moderately" oriented respondents, is different than chauvinism, which is a negative form. "Illiterate people link it with national-socialism, fascism; a lot of them with militarism, and often with chauvinism, which really have no contact points with it". Chauvinism represents endangerment of other nations. Chauvinist is "the one who can't stand any other then his own nation".



**Figure 3**

Part of the respondents differentiates between nationalism and patriotism, in the same sense as "non-nationally" oriented respondents, meaning, as loyalty towards the state. Nationalism is mainly seen as the more natural and older form of attachment, because it is attached to own nation. *"Europeans who love their country and their people are more likely to say that they are patriots, not nationalists"*. For them nationalism is problematic, because, *"nationalism has very illusive meaning in our parts. You can be nationalist in positive sense in our political culture, and you can be a nationalist in negative sense. Depends on who is interpreting, who is deciding on that and who will call himself like that"*. The rest of the respondents of "national" and "moderate" orientation, mostly, equalize nationalism and patriotism on the level of one own personality. But, *"Croatian can love Serbia, if he is a loyal citizen of Serbia, so it means that he is a patriot"*.

Respondents of that orientation feel that nationalism should be strengthened and the basis of national identity should be taught through socialization and schooling from an early age. The majority of respondents clearly distance themselves from abuse of national symbols and nation that threatens other nations.

National orientation has quite various definitions, but it is always connected with parents' national group. Among strong "nationally" oriented respondents, the most common criteria of belonging is the origin, *"that is my blood, my DNA"* or *"I was born Serb"*. Feelings and consciousness of belonging to the mentioned nation accompany prior attitudes. Other respondents put more accents on the upbringing, socialization. *"I see myself as such because of the learning, surroundings, adopting some behavioral patterns, style, education, and lifestyle"*. "Non national" respondents often name, as the reason for their own national orientation, that *"that is what is written in the passport"* and they are, generally, closest to the model of citizens nation.

"Moderately" oriented put more accent on the significance of culture, religion, language and customs, as marks of belonging to a group, which are accompanied by

existing consciousness on belonging. They formulate it as: *"customs, culture I grew up in and in general consciousness on the fact that I belong to a group of people"*.

When asked directly "Why do you see yourself as a member of certain nation?" the majority responds "Because that's my parents' nationality", and quite a lot of respondents state "my ancestors said they were that nationality". This response speaks for the significance of cultural pattern transmission, values and beliefs through generations.

Personal experience of nationality is what clearly distinct "nationally" from "non-nationally" oriented respondents. "Non-nationally" and "moderately" oriented respondents experience nationality as an adopted characteristic. They state that nationality is *"as they taught me"* or *"environment conditioned it"*. Also, the part of "non-nationally" oriented respondents see national orientation as linked to dissolution of Yugoslavia, when this orientation became of vital significance in public speech. They say: *"I had to know what I was, we had to accept it, because ninety first and second came"*. "Nationally" oriented respondents feel that nationality is intrinsic and natural characteristic.

In terms of differentiating ethnic and national orientation there are no great differences among respondents. Ethnic belonging is equalized with belonging to national minority, meaning, national groups which do not live in the territory of their own national state, or they have no state. Ethnic groups are *"specific groups which have their cultural and ethnic characteristics, and which are incorporated in people who live in a territory that does not belong to their mother country"*, *"group of people of common origin who live on a territory, and who mostly have common ancestors and are blood related"*. Nation is always political creation which is organized in form of a state, has its culture which it develops and spreads further through institutions of the state. National state, as a state with one dominant nation, is present in all of the respondents' perceptions, except "non-nationally" oriented ones who define national belonging through citizenship.

Language, religion and customs are most commonly mentioned along with tradition, culture and common history and existence of the consciousness of common belonging. National identity consists of *"common history, religion, interests and goals"*, *"the existence of collective consciousness of common ancestors, heroes, destiny"*, *"something that sets you apart from other nations, common geographical origin, religion, customs, tradition, history"*.

National identity is, similarly to Durkheim's collective consciousness, perceived as social construct shared by all who belong to one nation, as a *"string of cultural patterns people grow up with"*. It is ancestral identity carried on which stipulate us to accept it and carry it on.

Most of the respondents of all orientations see national identity as highly developed, maybe even too developed for "non-nationally" oriented ones. It is manipulated, overpowers the personality and isn't corresponding to other identities in adequate, balanced manner. It isn't leaving space for identification on distinct levels, other than national. National identity has *"overpowered personality"*, instead of being the part of it.

Yet, national identity should develop in different direction, “It should develop in direction that allows people to stop feeling that they live on an island”; “education is necessary, through media, round tables”.

With extremely “national” respondents, national identity isn’t developed in the way they would want to be. Obstacles for development are “*various NGO-s, some political parties, and foreign services*” but also “*staying down-hearted*”. The rest of “nationally” and “moderately” oriented respondents have excessive feeling of guilt which is pushed upon Serbian nation; “*you are blamed for something all the time*”.

National consciousness is perceived as manifestation of the “nation” and “national” in everyday life and public arena. In that sense, “non-nationally” oriented respondents feel that changes in national consciousness are small, but also negative, in the past couple of years. After the changes in the year 2000, there were expectations of significant positive changes in national consciousness, and they were betrayed. “*Nation is still spoken of as a value per se, the highest value*” which is devastating for these respondents. They say “*I heard all that when I was a twelve year old kid, and I am hearing it again, same rhetoric*”, “*there are still those more conservative forces who put the nation on the throne of our interests*”.

Differently to the prior, “nationally” oriented respondents feel that national consciousness slowly disappears, after “*notable growth of national introspection after communism*”. Now we “*give up belonging*” for “*blasé internationalist road*”.

“Moderate” respondents feel that “we blame ourselves more than we should” but that nation today is seen “more down to earth than in the nineties, when it was abused” so that “we begin to realize some things”.

The significance of national belonging is the highest for respondents in “national” orientation group. They also feel that this position can not come to its full expression, because the environment they live in is dominantly Serbian, so that element of identity is being lost. “*Here Serbian people are safely tucked in, national consciousness has been more notable in SFRJ<sup>1</sup> in other areas, here, it is less noticeable*”. They see the significance of national belonging as expressed through consciousness and pride, shown patriotism, and readiness to engage for the good of the nation.

“Non-nationally” orientated respondents feel that national belonging isn’t significant for them or their friends, but they see that such belonging gets a lot of significance in the society. This prescribing of significance is manifested in the late eighties and it is the consequence of the feeling of threat and national mobilization. National mobilization is the consequence of suppressing the national identity in communist times and its efficient usage of the part of elite. Generally speaking, the idea of conflicts caused from the outside with nationally oriented or from “above” with non-nationally oriented respondents, is evident in responses.

The significance of national belonging is expressed today in communication as a matter of pride for nationally oriented respondents, and as identification marker for others. Moderately oriented respondents give certain significance to national belonging, but

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<sup>1</sup>Socialist Federative Republic of Yugoslavia

they feel that it isn't a primary element of personal identity, which is nothing to be ashamed of, as it is now.

Observing, through responses, the relation of respondents to other nations, Serbian nation has the worst relation towards Kosovo Albanians. For non-nationally oriented respondents, this is a consequence of deeply rooted prejudice that Albanians are extremist nation, but also large cultural differences between Serbian and Albanian nation. Also, governing structure has a share in creating described relations because such attitude *"is coming from above in order to mobilize the public and use it for political goals"*. Besides Albanians, Serbian nation does not nourish the best of relations with some of the *"nations with whom we share some parts of history"*. The most of non-nationally and moderately oriented respondents feel that it takes more efforts to close the circle *"bad relations due to the war, war due to the bad relations"*.

Nationally oriented respondents see the origin of bad relations with Albanians in their irredentism. Kosovo Albanians are trying to *"take part of the Serbian territory"* meaning *"most Serbs have negative relation towards Siptari<sup>2</sup>, because Siptari want to take part of Serbian territory"*. Also, *"one cannot submit one nation to such humiliation"* as it is done to Serbian nation. Among other nations, Croatian stand out because they *"have anti-Serbian relation as their backbone structure"*. These respondents feel that if relations are bad on the state level, meaning nation, and individuals should be loyal and not to have individual relations with *"enemy"* nations.

Good relations are traditionally nourished towards *"friendly"* Russian, Greek and Macedonian nation, which especially shows through *"talk with the people"*. Non-nationally oriented respondents feel that good relations exist with states with which Serbia has economic cooperation, like Norway or Slovenia. Nationally and moderately oriented respondents feel that Serbian nation has the best relations with nations of similar religion and temper, so they add Italians, Bulgarians and Slovaks as proven friends of Serbia. Slovaks are underlined because *"Slovakia said that they would not acknowledge the independence of Kosovo"*. Also, there are good relations with *"oppressed nations"* as Iraqis, some Arab countries etc. There are no expansionist pretensions towards neighboring countries, as BiH, Macedonia or Croatia.

Ideal international relations are, according to the non-nationally and moderately oriented respondents, those which are not based on nationality. What is needed is first *"to appreciate people, and then their nationality"*. Tolerance and cooperation are necessary based on mutual understanding of differences, solidarity and *"mutual respect based on positive values"*. Common interests are perceived as the best base for building such relations. The major obstacle for achieving such relations, according to the non-nationally and moderately oriented respondents, is *"the lack of sincere desire to start with improving relations"*. There are *"vast prejudice"* in the society and a fear of changes towards tolerance, because *"conservative stratum feel that would make them lose their identity"*. Apart from these obstacles, detest left over from the wars in Balkans is part of the reality.

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<sup>2</sup>Siptar – Kosovo Albanian, from Sipotar in Albanian, meaning *"inhabitant of land of eagles"*, become pejorative term.

Non-nationally and moderately oriented respondents feel that the improving of relations can be achieved through persistent efforts of government and non-government sector through media, promoting national rights, tolerance, and common living. Excessive influence of “NGO rhetoric” is present in promoting non-government sector as one of the key, if not the key actor of changes.

Nationally oriented respondents feel that reciprocity is the best basis of international relations. It is needed to “*sustain relations, respect others, and not sell yourself*”. It would be for the best that everybody has the same rights and obligations and that there is a consciousness of needs of others on both sides. Besides prior, it is important to “*hold on to the right to defend your own, but to hate no one*”. According to them, in Serbia, relations among different nations are on high level, and any obstacle to their further developing comes from outside intervening. Besides, consequences of events in these parts “*had to stay engraved somewhere*”.

## 6. Conclusions

Preceding text gives an overview of the complexity of the phenomena describing the last twenty years’ period. It can be concluded that image changes into two separate poles on the value scale.

One can, by observing young engaged experts in this research, see that there is a deep division in regards of nationalism, national identity and consciousness. Study has shown that non-nationally and nationally oriented respondents can be observed as two faces of the god Janus. One is turned towards the future, observing nationalism as a relic that should be eliminated by persistent work on changing social consciousness. Second face, turned towards the past, is accenting conservation of traditional values, a certain level of self-sufficiency, and independence in the globalised world.

Nationally oriented respondents ascribe to non-nationally oriented ones that their views are too progressive and damaging for the national identity and preservation of national consciousness. What one find very meaningful the other sees as insignificant or harmful.

Analysis of acquired data led to perception that the notion of nationalism, national identity and belonging is very diverse, even opposite. The question poses it self on how to proceed in defining basic directions of further research of these matters.

Searching for such common ground, I see the best way to define nationalism as *existing consciousness which, in any sense, gives advantage to members of their own nation over another*. This definition allows avoiding obstacles that can be presented as the origin of nationalism or understanding of nation as community of origin or citizens. Definition is wide enough to cower any expression of nationalism regardless the orientation.

National identity I observe as a construction of common subject matter, meaning beliefs and also attitude towards customs, expressed in the same language, perceived as ones own. National identity has different elements for differently oriented respondents. It is possible to single out several symbols (Kosovo Battle and October the Fifth) that aid us in interpretation of the cases. National identity incorporates national consciousness,

meaning the consciousness on belonging to a specific national group and manifested acceptance of the contents of the national identity. The significance of the national consciousness and identity is yet another differentiating point of the two opposing orientations.

In the end, I hope this study has provided more in detail view of the matters on national problematic. This paper gave a partial overview of the results considering a large quantity of material. But, a lot of questions remains unspoken of and unanswered. In that sense I see this study as just a step in the road of research of specific features of nationalism and national problem in Serbia. Forming a theory is a lasting process, and I see this part as a starting point.

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# The Attitude of Intellectuals, Officers and the People towards the Integration of the Goths into the Eastern Roman Empire (4th c. A. D.)

*Kardaras Georgios*

*National Hellenic Research Foundation, Vasileos Konstantinou 48, 11635 Athens, GREECE*

The article considers the attitude (acceptance or reactions) of the intellectuals, the officers and the people to the attempts of the emperors to integrate the Goths into the administrative and military system of the Eastern Roman Empire during the 4th century A. D. Main point of interest are the mentalities towards the “barbarians”, the real motivations of the reactions, the exponents of the two different political and ideological dispositions on the “Gothic issue”, the behaviour of the settled Goths and the military operations against them. Moreover, the ambitions of the Gothic leaders, the living conditions into the provinces, the cohabitation of the native population with “barbarians” in Constantinople and the “barbarization” of the roman army are parameters of the topic and points under consideration. The historical frame of the Gothic integration, namely an integration into a new political, ideological, cultural and economical environment, is used as a sample for issues concerning the nowadays reality of the balkan countries.

## **Keywords**

Balkans, barbaricum, Goths, integration.

The integration of the Goths, who were settled on the nowadays territory of northern Bulgaria, consisted part of the “crisis” administration” provoked by the so-called *Migration of Nations* into the Roman world. The emperors Constantine I (324-337), Valens (364-378) and especially Theodosius I (379-395) followed as policy in the Balkans the integration of the Goths into the political, military, economical and social structure of the Eastern Roman Empire. The purpose was the gradual assimilation of the Goths and the integration of their leaders into the Roman system of power. The policy for the integration of a new population brought to light the concepts and the contrasts among the intellectuals, the officers and the people, namely as a positive or negative criticism to the state policy.

The Gothic problem became very crucial for the Eastern Empire after the battle of Adrianople in 378, where the Roman army was destroyed and the emperor Valens, who permitted to the Goths the crossing of the Danube in 376, died among his soldiers. [1-3]



In 382, the emperor Theodosius signed a *foedus* (treaty) with the Visigoths and agreed to settle them in the diocese of Thrace, between Haemus and Danube, in the border areas and away from the cities. Conditions of the *foedus* were the offering of provincial land for settlement, subsidies to the barbarians on an annual basis and, on the other hand, the settlers were obligated to supply auxiliaries for the Roman army. The *foederati* served as distinctive auxiliary troops under Roman high command and later became an integral part of the regular corps of the army, which was made-up of non-Roman soldiers. Theodosius renewed the Constantinian *foedus* of 332 with the Goths north of the Lower Danube, the first treaty between Rome and a Gothic people which is clearly recorded by a contemporary source. [1,4-5] Theodosius gave them ready access both to military office and to himself personally and his court. Roman citizenship was granted, and to one Goth even a Roman wife was permitted. [5]

In the attitude of the intellectuals we could distinguish supporters and critics of the imperial policy. The rhetors Themistius and Synesius were the main exponents of two different political and ideological dispositions on the “Gothic problem” and influenced respectively the public opinion of the time. Orosius, Pacatus and later, in the sixth century, Cassiodorus, Jordanes and Isidorus of Sevilla maintained positive attitude towards the philogothic policy of Valens and, mainly, Theodosius I. These intellectuals, and Themistius, considered the Gothic integration as beneficial and rejoiced that the Goths would serve the empire as soldiers or as farmers. On the other hand, the Goths, as well as the philogothic policy are criticized (among others) by Libanius, Ammianus Marcellinus, Eunapius, and Zosimus. [3, 6-8] The ambiguous depiction of the Goths in the writings of the authors of that period seems to reflect the gap that appeared in the early Byzantine society between political and military power in the centre and in the country, to the ones who conveyed and expressed new ideologies, regarding the handling of the “barbarian” peoples. (p. 267, [7])

The rhetor Themistius, in his 16th Sermon, set out the “philanthropy” and the political realism of Theodosius I to the issue:

“But see how the most hated name of Scythia is now beloved, now pleasant, now agreeable. They join together with us in the festive celebration of the general, by whom they had the good fortune to be captured, and partake of the feasts that celebrate the triumph over themselves ... What is then better to fill Thrace with corpses or with farmers? To make it full of tombs or living men? To progress through a wilderness or a cultivated land? To count up the number of the slaughtered or those who till the soil? ... I hear from those who have returned from there that they are now turning the metal of their swords and breastplates into hoes and pruning hooks, and that while paying distant respect to Ares, they offer prayers to Demeter and Dionysus. So will we see the Scythians do likewise within a short time. For now their clashes with us are still recent, but in fact we shall soon receive them to share our offerings, our tables, our military ventures, and public duties”. [9, 2, 4, 7]

The attitude of Synesius concerned not only the *foedus* of 382 but also the activity of Alaric, some years later, who plundered the Balkan provinces and was involved into the rivalry between the two parts of the Roman Empire. In 397 Arcadius and Alaric entered into a new *foedus* which allowed the Goths to settle in central Macedonia, between Haliacmon and Axios. Alaric was appointed *magister militum per Illyricum*, an arrangement which probably intended to integrate him into the Roman hierarchy. [1, 10] Synesius criticized the treaty of 397 as favourable to the Goths and he pointed out the

danger for the Roman Empire because of the presence of “barbarians” into the Roman army, under their own leaders with high-ranking Roman titles. In the case of Alaric, Synesius proposed a “traditional” policy, namely the persecution of the Goths beyond the Roman frontiers. As a theoretic of the anti-Gothic side, he noted that the social and political evolution of the Goths was a threat for the citizens of the empire. Moreover, he expressed his fear for the barbarization of the provinces and the indigence of the local population. [7, 11]

During the reign of Theodosius, Fravitta and Eriulf were the leaders of two Visigothic groups whose hostility to each other provoked opposing attitudes towards the Roman Empire. Eriulf represented the “Gothic party”, hostile to assimilation, relied on a common oath never to seek reconciliation with the empire. In contrast, the pagan Fravitta, the leader of the pro-Roman party of the Visigoths, supported assimilation and worked for adherence to the *foedus* of 382. Fravitta gained the highest military offices, even the consulate, which made him a Roman citizen, and he granted the permission of emperor Theodosius to have a Roman wife of noble origin. [1, 4, 12]

As a result of Theodosius’ policy, a number of Visigothic leaders went over to the Romans and they received high-ranking positions in the army. [13] At the end of the 4th century, as Wolfram notes,

“some Gothic magnates, who seemed entirely integrated as Roman imperial officials, kept open the alternative of a barbarian career and they could improve their position in the Roman hierarchy by using the pressure of a position of tribal authority”. (p. 148, [1])

The successes of Alaric were a good sample for the Gothic population of the Eastern Empire, farmers and slaves, to fight for better living conditions and legal status. In 399 Tribigild, leader of the settled in Phrygia *Greutungi*, rebelled when his demand for an appropriate reward was rejected and began to lay waste the provinces of Asia Minor until his defeat in Pisidia. (p. 148, [1]) In other case, in the war between Theodosius and the usurpator Maximus, the federates Goths, as Zosimus (IV/45) informs, were involved in a movement against the emperor. [14]

The negative attitude of the Roman high-ranking military officers was accompanied by cruelty and unmoral actions towards the Goths, since the last crossed the Danube in 376. According to Zosimus (IV/20),

“The tribunes and other commanders therefore crossed over in order to escort the unarmed barbarians into Roman territory, but all they did was select good-looking women, pursue mature boys for disgraceful purposes, and seize slaves and farmers”. [14] Ammianus Marcellinus (XXXI/4) is referred to the activity of Lupicinus and Maximus: “Their treacherous greed was the source of all our evils. I say nothing of other crimes which these two men, or at least with their permission, with the worst of motives committed against the foreign newcomers, who were as yet blameless; ... When the barbarians after their crossing were harassed by lack of food, those most hateful generals devised a disgraceful traffic; they exchanged every dog that their insatiability could gather from far and wide for one slave each, and among these were carried off also sons of the chieftains”. [15, 2-4]

Under the pretence of the Gothic behaviour towards the population, some generals moved against the Goths and, further on, against the imperial policy for their

integration. Modaris, *magister militum* in Thrace, although of Gothic origin, inflicted a crushing defeat on the Goths, possibly in 379/80. [14, 1-2, 7] Julius, *magister equitum et peditum per Orientem*, having the consent of the Senate, massacred the young Goths hostages in Asia Minor, possibly in 378/79. [14, 1-3, 7, 16] The *magister peditum per Thracias* Promotus tried to prevent in 386 the crossing of the Danube and the settlement of Gothic population south of the river when the lasts, under the pressure of the Huns, came down to the bank of the Danube and asked to be allowed to cross. Promotus blocked their way and from some of his men, who understood their language, he learnt the Gothic plan to cross the river during the night. After the slaughter of the Goths, the emperor Theodosius, invited by Promotus, set the prisoners free and favoured them with gifts. [14, 1, 3, 7] The same year (386), the garrison commander of Tomis Gerontius attacked against the Goths in the vicinity of the city:

“When Gerontius understood their attitude and their intention to attack and disrupt the city, he wanted to punish the barbarians for their licentiousness and insolence ... After he attacked and killed the astonished barbarians, Gerontius asserted that they had revolted and detailed their plundering and destruction at Tomi. The emperor countered that he had acted not for the common good but to steal what the emperor had given them...” [14, 1, 7, 17]

The above mentioned cases show the different approach to the gothic question and the different points of view between political and military power. As a deeper reason for the attitude of the army officers, one has to consider on the one hand the barbarization of the roman army, which became more important in the 4th century, combined with the occupation of high positions in the military hierarchy by Goths, (p. 266, [7]) and on the other hand the personal ambitions of the generals even for the throne, having as opposed to Theodosius the politic of not integrating the Goths in the Empire.

The ambitions of the Gothic leaders, namely the occupation of crucial positions in the state administration, enforced the anti-Gothic attitude among the population of Constantinople. In the winter of 399/400 Gainas joined the rebellion of Tribigild and finally he occupied Constantinople. His behaviour, in combine with his support to arianism, aroused the displeasure of the populace. The fact, or the rumor, that Gainas was planning to confiscate the cash boxes, led to a rebellion against him in July of 400. The crowd attacked to his army and many Goths, who fled into a church, were surrounded and slaughtered or burned. [1, 18] According to Socrates Scholasticus,

“The city is therefore barbarized under the many thousands and its inhabitants have become like hostages”, [19, 7]

an information which shows how problematic the peaceful relations between the newcomers and the inhabitants of Constantinople were.

The situation in the provinces was not different. Testimonies, as derived f.e. from Zosimus (IV 20, 33), show that the agricultural population suffered from the plundering of *foederati*:

“These (the Goths), as soon as they set foot on Roman territory, remembered neither their petitions nor their oaths, and Thrace and Pannonia as far as Macedonia and Thessaly were filled with barbarians plundering everything in their path”, and further: “As soon as they approached Macedonia and Thessaly with their army, the Scythians plundering there, being conscious of their determination and purpose from the beginning, immediately abandoned their

provinces and hastened back to Thrace which they had previously pillaged”.  
[14]

The agricultural population of Thrace was living under hard conditions. During the 4th century, the rights of landlords over their *coloni* (tenants of farms) were progressively increased. In 332, Constantine allowed landowners to chain those who were suspected of planning to abscond; in 365 they were forbidden to alienate their own property without their lord's consent and some years later the landlords, and not the public collectors, should levy the taxes registered on the estates of *coloni*. Their status became worst during the reign of Theodosius:

“they shall nevertheless be considered as slaves of the land itself to which they are born and shall have no right of going off where they like or of changing their place, but that the landowner shall enjoy his right over them with the care of a patron and the power of a master”. [20]

The supplying of the armies was a very heavy duty for the rural populations, who often saw their crops be destroyed by the devastations of the Goths tolerated by the central power.

The diametrically opposed actions of the emperor and of the military dirigeants give the mark of an open opposition between the central power and the provincial military administration, which seems to have closed the dispositions of the local population. It seems clear that the cause in this opposition was the gradual exclusion of the interests of the centre from the ones of the provinces. Constantinople expresses by all means its intention for unlimited integration for foreigners in the Empire with, as natural consequence, the gradual abandonment of the provinces. According to Dagron,

“the point of view of Constantinople collides with the one of the provinces and for the first time this opposition is admitted”

and that Theodosius I completed the work of the previous emperors,

“confirming the capital, in its dignity and its role, and ignoring the municipal life of the provinces”. (pp. 94, 108, [6])

Patoura notes that in the conscience of the military officers, the federated Goths were so-called collaborators because their behaviour towards the local population and the military authorities. However, for the central power, the federated Goths were the protectors of the borders, the ones who worked the soil of the deserted Thracian land and the assistants of the emperor himself against inside and outside enemies. The exaggerated mercy that he showed towards their actions that often didn't fit in, provoked the common feeling and awakened the provincial nationalist conscience that rised in the person of the local military authorities. She also considers that the changes which the massive installation of the Goths has brought in the social and economic constitution of Thrace at the end of the 4th century have reinforced the social position of the military officers and accentuated their political role. The “neglected” inhabitants of the areas that have been devastated by the “barbarian” incursions, who first of all had to suffer the consequences of the installation of the Goths in their lands, had placed their hopes on their military leaders. (pp. 261-265, [7])

The attitude of the intellectuals, the officers and the people towards the Gothic integration consists in a combination of mentalities and behaviours, it hides however,

by the side of the reactions, opposition tendencies against the emperors. We could conclude that the supporters of the imperial policy are distinguished by political realism if not, in some cases, by a kind of “humanist” spirit towards the possibility and the need of coexistence between Romans and “barbarians”. On the side of reactions we should take into account an ideological background of Rome towards the “barbarians”. As Ladner points out,

“the Romans were willing to extend the benefits of Roman rule to subject peoples or allies, but not inclined on the whole to share Roman territory with unconquered and independent peoples from outside the empire. They construed an ethical contrast between an empire of peace and proud or rebellious people, unwilling to submit to it. This antithesis persisted all through imperial history and manifested itself with great clarity in numismatic propaganda and in panegyric literature. The non-Roman peoples, who dared to challenge the Roman world order valid, be it as outright aggressors, be it as more or less importunate petitioners for partnership in the empire, not on Roman, but on their own terms, were treated as enemies with remarkable consistency. In 4th century, the concessions through the foedera did not appreciably alter the fact that the anti-barbarian ethos continued to be the rule”. (pp. 6-12, [8])

Let alone the bad behaviour of the Goths in certain situations, this was a further pretext for the problematic cohabitation and the reactions of the rural population of the countries which suffered anyway from heavy taxes. Thus, the idea of the integration of the Goths although it was adapted to the current of the period, created many problems because the central power didn't show interest in the improvement of the living conditions in the countryside where the new immigrants got installed.

The conditions and the problems of the Gothic settlement in the Eastern Roman Empire in the 4th century present similarities in the situations that continue to be, in a smaller degree of course than during other periods, in great part of the Balkans. Phenomena of profit, poverty, illegal passing through the borders, xenophobia, problematic cohabitation of peoples, revival of nationalist movements, economic crisis particularly in the farming world, the lack of economic means and institutional background for the emigrants are issues that are actuality in the political scene and the daily life of the Balkan countries. However, the rise of the educational level should be considered today, but also in the future, as an important factor in the acceptance of the “foreigner”, or of the old “enemy neighbour” in a new environment, where the spirit of collaboration should be stronger than the national stereotypes. Furthermore, some other questions could be arisen. Are the “Goths” of our History the contemporary Balkan nations in the western point of view, since in the political, economical and military organisations of the West some have already integrated and others are knocking the door? Are their authorities willing to accept a different cultural and institutional system from the one where they were bread politically and ideologically? Most likely, the conditions have matured for the gradual change of the Balkan countries' image in the public opinion of the West and their equal route into the great family of the European Union.

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## Appendix

### List of Acronyms

LCL	The Loeb Classical Library
TM	Travaux et Memoirs

# Minority Language Education and Ethno-linguistic Identity: The Case of the Turkish Minority in the Post-Communist Bulgaria

*Cengiz Haksoz*

*Middle East Technical University, Department of Sociology, Ankara, Turkey,  
chaksoz@yahoo.com*

This paper analyses the reversal policies of different Bulgarian governments in different periods towards the Turkish minority in terms of their ‘ethno-linguistic’ and ‘religious’ identity formations. It is argued that while the state has suppressed one of these identifications, it has promoted or supported the other one. Monarchical and Communist periods were discussed in terms of the policies that were implemented by the Bulgarian governments, while the post-Communist period is analysed according to fieldwork study in order to evaluate experiences and perceptions of the minority members. ‘Ethno-linguistic’ identification of the Turks of Bulgaria is discussed mainly in language and particularly in minority education issues. As a theoretical base of evaluations of the post-Communist period, Bourdieu’s theory of ‘symbolic power of language’ is employed.

## **Keywords**

Bulgaria, ethno-linguistic identity, minority language, post-communism, Turks.

## **1. Introduction**

In pre-nation-state era, religion was the key element in the Balkans and in the Ottoman Empire. Thus, ‘religious’ identity was the main source of struggle among different denominations and as well as the main hauler of nationalism. Thus, religion has secured its position in nation-building process in the Balkans, where secularism is not well developed under the monarchical rules. Moreover, ethnicity and language were not out of the nation-building game.

The struggle between ‘ethno-linguistic’ and ‘religious’ identities mainly emerged by the formulations of policies of the nation-state in different times and within different ideologies, such as fascism and communism. One the one hand, nation-state, as a monopolising power, tries to assimilate identities that are different from the mainstream one. On the other hand, that is not to say that it attempts to assimilate all the different identities but rather those who are perceived as closer to the mainstream identity according to the priorities of its dominant ideology and its informal hierarchy of

identities that can or should be assimilated. Nevertheless, it can choose to assimilate different religious groups who have similar languages with the official one, such as Pomaks in Bulgarian case, or it can choose to assimilate ethno-linguistically and religiously completely different groups, such as Turks in the late communist period. When nation-state sees no or little interest or possibility to assimilate some groups, it can try to control their priorities in identity construction by suppressing or promoting one of these identity markers, such as 'religious' and 'ethno-linguistic' identity. By using the concept 'ethno-linguistic' identity, it is referred to the social identity which constructed according to the 'ethnic' and 'linguistic' lines. Hence, 'religious' identity is used in order to demonstrate the social identity that is constructed according to the religious attachments.

The main research question of this paper is how 'ethno-linguistic' and 'religious' identities were constructed and challenged each other among the Turkish minority in Bulgaria by a special focus on the post-communist experiences. In the first part of this paper, the competition among the 'ethno-linguistic' and 'religious' identities until the post-communist period is discussed based on the secondary readings. Second parts is devoted to discussion of the current experiences of the minority members in terms of 'ethno-linguistic' identification and its interconnection to the Turkish minority language education. In the conclusion part, struggle between those two identities will be discussed and evaluated.

## 2. Methodology

Analyses of the Monarchical and Communist periods were done in the light of the secondary readings. In the post-Communist period, it is focused on the current political developments and experiences of the minority members according to analyses of the fieldwork research.

The fieldwork part of this study was conducted between 15 September 2006 and 10 October 2006. Qualitative methodology and its in-depth interview technique is employed in order to understand more properly the perceptions and experiences of the Turkish minority. The sample was set up among Turks who have at least one child who studies in one of the primary or secondary educational institutions. Parents were chosen to be interviewed, because if a pupil wants to study Turkish, one of his/ her parents should sign a petition to declare his/ her willingness about it. 25 Turkish parents from 7 different villages, including the centre of the municipality, were interviewed. The male-female ratio among the sample of parents was 3:2.

The research area was *Işıklar* (Samuil) municipality, which is one of the six municipalities of the province of *Hezargrad* (Razgrad), which is located in the north-eastern Bulgaria. There were 13 villages with total 8604 population in 2006. The share of Turks in the whole province is about 47 percent and in the municipality of *Işıklar* (Samuil) circa 78 percent; additionally, 81 percent of the population in the municipality declared their mother tongue as Turkish.



### 3. Struggle between ‘Ethno-linguistic’ and ‘Religious’ Identifications until the End of the Communist Regime

In the first years of the modern Bulgarian state, the main identity marker of the Turkish minority was ‘religion’. It was inherited from the Ottoman ‘*millet* system’ in which communities were classified in terms of their religious affiliations. Treaties which were signed during the Ottoman Empire and concerned their minority rights treated them under the ‘Muslim minority’ category together with other Muslim minorities, such as Pomaks and Muslim Roma. Even though the language was also in the very agenda of the newly established Bulgarian state, language policies of the state was directed to the mainstream Bulgarian ethnicity, other non-Muslim minorities, such as Armenians, Macedonians, and Jews via mandatory Bulgarian language instruction and courses in educational institutions [1].

Foundation of the Turkish Republic in 1923 was the turning point in the history of the Turkish minority in Bulgaria. Along with Bulgarian and Turkish nation-building policies, their individual identification and their social categorisations began to change over time. This is because the driven ideology of the new Turkish Republic was nationalism which was secular and mainly focused on ‘ethno-linguistic’ identity rather than ‘religious’ one. The Turkish intelligentsia of Bulgaria also followed the reforms that took place in their ‘kin-state’. There were section in the Turkish newspapers which devoted to promulgate events and reforms in Turkey (pp: 309-12, [2]). The Turkish minority intelligentsia paid attention to follow ‘purification’ of the Turkish language policies in Turkey. They tried to use newly invented ‘pure’ Turkish words in their columns in newspapers and in their lesson in the minority classrooms. Those years another struggle was to prevent usage of Bulgarian words and championing their Turkish equivalents after introduction of Bulgarian language courses especially at secondary schools in urban centres.

In pre-World War I period, nationalism in Bulgaria gained momentum as it did in the entire Europe. It reached its peak in 1934 when Nazi supporter *Zveno* (Link) coalition began to govern the state. It is followed by closures of the Turkish minority schools and newspapers, as well as arrestment, imprisonment and exile of their proprietors and editors (pp: 152-63, [2]). Those years also witnessed dramatic decline in the numbers of Turkish pupils, schools and media as a result of the nationalistic policies of the Bulgarian governments (p: 127 [3]).

However, the turning point was the approval of the new Turkish alphabet in 1928 annual conference of the Association of Turkish Teachers (*Türk Muallimler Cemiyeti*) even before it was officially put into the force in Turkey. The new Turkish alphabet was not simply an educational or a curricular issue but rather a struggle between ‘ethno-linguistic’ and ‘religious’ sides to assert their authority on the identification of the minority. Therefore, religious side which was composed by the Grand Mufti, religious personnel and anti-Kemalists those who took refugee from Turkey, *150’likler* (150’ers), lobbied against the implementation of the new alphabet by favouring the previously used Arabic scripts. On the other side, the Association of Turkish Teachers, Turkish members of the Bulgarian Parliament (*Sabranie*), some journalists and the embassy of the Turkish Republic were the champions of the new alphabet (pp: 128-40, [2]). As a result, with a decree issued in 10 November 1928, using the new alphabet in Turkish

minority schools was postponed for four years. The official reason was that there were not enough educational materials printed in the new alphabet, and the Ministry of Education needed more time to check newly published books with Turkish-Latin scripts but it was the victory of the 'religious' side. After counter-lobbying of 'ethno-linguistic' side, the Bulgarian government re-allowed the usage of the new alphabet in January 1930. However, there was no restriction to use the Arabic scripts and it caused that in some schools the former alphabet was in use related to the ideological view of the personnel. 'Ethno-linguistic' side and especially the Turkish ambassador of Sofia re-lobbied to outlaw the usage of the Arabic scripts in minority schools. Finally, in October 1930 using the former alphabet in education was prohibited (pp: 128-40 [2], pp: 301-25, [7]).

Nonetheless, this was not the final round of the game between the alphabets. When *Zveno* coalition took the power, there was attempts to re-use the Arabic alphabet especially under the guidance of the Grand Mufti and his association 'Religion of Islam's Defenders Society' (*Dini İslâm Müdafileri Cemiyeti*). As a result, in 1935 there were instances of re-using of the Arabic scripts. Consequently, the 'ethno-linguistic' side restarted lobbying to prevent usage of the former alphabet and succeeded only after four-year-long attempts (pp: 152-63, [2]). However, the struggle between the two alphabets did not take place only in the educational arena but also in the Turkish print-media. The Turkish minority media was also divided between 'ethno-linguistic' and 'religious' sides. Not surprisingly, long-lived newspapers of this period were those who were published in Arabic scripts (pp: 309-12, [2]).

After 1920s Bulgarian governments began actively to involve into the issues of the Turkish minority which was neglected previously. Between 1923 and 1944, the governments supported the religious identification of the minority as a counter to 'ethno-linguistic' identification which was perceived as 'Kemalist' or nationalistic identity. Consequently, Bulgarian governments employed polices in order to weaken the 'ethno-linguistic' identification of Turks, which was treated as a minority nationalism, by empowering the 'religious' one. For example, Turkish Youth Sport Union, '*Turan*', which was composed by various local sport organisations was closed during *Zveno* governance due to accusation of being 'Kemalists'. Höpken [5] argues that *Turan* organisations seek to transform 'religious' identity into 'ethno-linguistic' one and it was against the state's policy to promote 'religious' identification of the minority. Another policy can be observed in the mass name changes of places with Turkish origins. Although renaming of toponyms was not a new phenomenon and has been implemented since the establishment of the autonomous Bulgarian Principality in 1878, during the *Zveno* power, this gained speed [6] (p: 150, [7]). Changing names of the toponyms symbolises the spatial construction of Bulgarian national 'identity' and hierarchy between two 'ethno-linguistic' identities.

During the *Zveno* power, there was not any direct action to hinder religious activities of the minority, in contrast the government tried to malfunction the educational institutions by controlling them. Educational and religious institutions of the minority were managed by its own semi-autonomous community councils. Hence, the government together with the Grand Mufti Office in Sofia dismissed councils' members those with 'ethno-linguistic' views and appointed new members who supported 'religious' identification of the minority (pp: 152-63, [2]).

In the early communist period, 'ethno-linguistic' identification was supported while 'religious' identification began to be suppressed according to the 'atheist' ideology of communist. Eventually, religious courses in the minority schools were removed from the curriculum in 1952 (pp: 129-30, [3]). 'Ethno-linguistic' identification had to go hand in hand with the state's new ideology and ought to have communist and Bulgarian sentiments instead of "bourgeois" and nationalistic ones of Turkey. One of the first implementations of the new regime was the nationalisation of the previously semi-autonomous and private Turkish minority schools (p: 139, [8]) in order to control this process in minority education. Additionally, Turkish minority media was reawakened by the hands of the state as a major propaganda apparatus to manipulate this identification. As a result, during state-sponsored Turkish 'ethno-linguistic revival', state-controlled Turkish education, media and literature considerably expanded (pp: 131-6, [3], pp: 312-4, [2]).

However, this state-promoted 'revival' lasted only until 1959 when Turkish minority schools were merged with Bulgarian schools, and Turkish language became an elective course instead of medium of instruction (p. 132, [3], pp: 251-7, [2], pp: 146-7, [8]). The number of the Turkish minority media and publications started to decrease (pp: 312-4, [2]). In this first two decades of the regime, the concept 'national minority' was widely used but after 1960s, new concepts were invented to identify the Turkish minority: 'Bulgarian Turks', 'Turkish population in Bulgaria' or 'Bulgarian citizens with Turkish origin' [9]. These new concepts have been used in order to soften the 'ethno-linguistic' reference of previously called 'Turkish national minority', and to specify their inter-connection to Bulgarian national identity.

There was an effort to replace Turkish words to Bulgarian counterparts, as well. The Turkish minority intelligentsia was exhorted to use some Bulgarian words in their publications (p: 133,134, [3]). In 1969, the Politburo criticised themes of the Turkish literature and animadverted Turkish writers and poems due to writing about past issues instead of the future of communism in Bulgaria, trying to keep Turkish 'ethno-linguistic' identity, not using enough Bulgarian words in their works and not being able to instil communist consciousness among Turks [10]. Furthermore, in 1971, it was stated by the Bulgarian Communist Party (BKP) that the goal was to "construct mature socialism in 'unified socialist society'", which, in the long-run, meant homogenisation of Bulgarian population (p: 198, [11]). Another initial change took place in 1975 when section in identity cards, which previously stated nationality or ethnic identity of the holder were abolished (previously Bulgaria followed the Soviet type nationality-citizenship model in which nationality or *natsionalnost* shows the ethnic identity that may be different from citizenship or *grazhdantsvo*) (p: 3, [12]). These policies were implemented to gradually demolish the 'ethno-linguistic' identity of Turks. It was not, of course, to increase their 'religious' identification but rather to assimilate them step by step.

The year of 1984 showed dramatic interplays between 'ethno-linguistic' and 'religious' identifications. Between 1984 and 1985, Bulgarian government put into practice the forced assimilation campaign (*vazroditelen protses*) in which Turkish-Muslim names were changed by force to Bulgarian-Christian names, which were previously implemented against Pomaks in 1912, 1942, 1970-1974 and Roma between 1953 and 1954 ([13-5], p: 75,92, [7], p: 27,28, [12]). This campaign was propagandised as 'voluntary' and 'awakening' process of the "Bulgarian Muslims" who forcefully

converted Islam and being Turkicised by the Ottoman authorities; hence, they decided and demanded to “re-change” their names in order to integrate into ‘Bulgarian communist society’ (pp: 9-14, 37, [12]). Even though the campaign included also restrictions and prohibitions on some religious rituals, such as circumcision and funeral ceremonies, it was mainly against ‘ethno-linguistic’ identification. For instance, speaking, writing and reading in Turkish was banned even in the private spheres. Bulgarian authorities either in internal or international arena claimed that “there are no Turks but Bulgarian Muslims in Bulgaria” (p: 135, [3], p: 151, [8], pp: 7,17 [12], [16,17]). Although the notion of “Bulgarian Muslim” sounds as a promotion of a ‘religious’ identification, actually it was used as a response to reactions of the international community. In this conceptualisation, primary focus was to not to being ‘Muslim’ but to being ‘Bulgarian’. Therefore, it can be argued that this action was essentially against the ‘ethno-linguistic’ identification. This campaign resulted with *en masse* migration of 350.000 Turks to Turkey in the Summer of 1989.

#### 4. Ethno-linguistic Identity in the Post-Communist Period

After resignation of president Todor Zhivkov, in November 1989 and dissolution of the communism, the new game between ‘ethno-linguistic’ and religious’ identifications has started. In the post-Communist period, the victory of ‘ethno-linguistic’ identification over ‘religious’ identification relatively achieved. While ‘religious’ rights of the Turkish and other Muslim minorities has developed, the struggle for ‘ethno-linguistic’ rights has still continued. During the communist regime and its wide range of atheist propaganda, most of the Turkish minority members, as the society in general, started to give lesser importance to religion although it was not completely removed from their identity. Because ‘ethno-linguistic’ identity was the major target of the forced assimilation campaign, its importance as a main ethnic boundary marker and a guarantee for the continuation of the minority identity increased.

While neither 1947 nor 1971 Constitution included any statement about the official language of the state, the statement “the official language of Bulgaria is Bulgarian” was put into the 1971 Constitution with the amendments in the Article 11 in 1990 [18,19]. Consequently, this statement has remained in the Article 3 of the new 1991 Constitution [20]. Of course this does not mean that Bulgaria had no official language during the communism. On the one hand, it demonstrated that there was not any requirement or ‘perceived threat’ to ensure constitutionality of Bulgarian language. On the other hand, it was a signal of the further ‘ethno-linguistic’ struggles in the post-communist period which mainly took place in the issue of Turkish language education.

According to the article 36 of the new constitution, everyone has a right to study his/her mother tongue, and as a part of the restoration of *vazroditeln protses*, in February 1991, Ministry of Education decided implement teaching of Turkish language for four-hour per week in Turkish regions. This resulted with strikes of Bulgarian teachers and protests of Bulgarian parents (p: 217, [11]). As a result of the nationalistic backlashes in southern and north-eastern regions, the government postponed the implementation and it could be started in the spring term of 1992 only after counter demonstrations and boycotts of Turkish pupils and parents (p: 189, [21]).

From 1992 until 1999 the Turkish minority pupils could study their vernacular as a 'facultative' subject out of regular school hours in municipal schools. In July 1999, with the new Law, which was amended in 2002, Turkish language courses became 'obligatory facultative' which means that Turkish language courses will be added to calculation of Cumulative Grade Point Average and they will be organised within the regular school hours. The law made possible also the instruction of Turkish language courses in high schools. However, only students who wish to pursue a higher educational degree in Turkish Philology tend to choose Turkish language courses in high schools. Additionally, there is a quota for number of facultative courses and students are generally encouraged to take other courses, which are considered more supplementary for their prospective educational careers. Parents have to sign petitions in order to express their willingness that their children can take a Turkish language course, and in order to introduce Turkish language courses, there have to be at least eight pupils which is quite difficult in worsening demographic situation of the country ([22-5], p.160,161, [8]).

Even then Turkish pupils and their families showed their interest in Turkish language courses in the first years of the implementation, their interest began dramatically to drop over time. The number of pupils decreased from about 75.000 in 1993 to 55.041 in 1995, circa 40.000 in 1998, 37.437 in 1999, 34.860 in 2000, 31.349 in 2002 and 27.751 in 2004 [22,26-29] (p: 190, [21]). Covert, in some cases even open, propaganda which signalises that study of Turkish would reduce the quality of Bulgarian knowledge of pupils and would diminish their chances to enter universities, makes parents reluctant to let their children to study Turkish language [23-25]. As it indicated by a 36 year-old, female, Turkish parent:

[Pupils] start to learn both Bulgarian and Turkish languages together at the first grade [of the primary school]. However, after that it occurs problems between [two kinds of] letters. They use Bulgarian letters in [writing of] Turkish, and Turkish letters [in writing] of Bulgarian.

There is not a single secular Turkish minority school in Bulgaria where medium of instruction is Turkish. However, there are three 'religious' high schools in *Şumnu* (Shumen), *Ruşçuk* (Ruse) and *Mestanlı* (Momchilgrad), and Higher Islam Institute in Sofia, and both of them operate in Bulgarian language. On the one hand, there is not any legal prohibition, and there are also some other foreign schools that operate in foreign language in the country, opening a secular Turkish minority school with a Turkish medium of instruction is still a "nationalistic stigma" in Bulgaria [22], as statement of the former Minister of Education, Ilcho Dimitrov, demonstrated it in January 1996: "Turkish schools will not be allowed to exist in Bulgaria... If they [Turks] want Turkish schools, they are free to go to Turkey." [30].

Establishment of such schools is out of the every day life's agenda of the Turkish minority members, where participation to the Turkish language courses are also continuously dropping. Respondents indicated basically three reasons to their unwillingness of opening Turkish schools. First, some minority members worried that it would raise the 'nationalistic attitudes' as 44 year-old woman illustrated:

... As we saw on TV, they despised the [school and] the village near Haskovo by reason of wearing kerchiefs and being a religious school. They are really getting angry! However, nobody should be angry, [because] everyone has its own beliefs... [Such a school with medium of instruction in Turkish] is not possible,

because nowadays, [the Bulgarian public opinion] has become very antagonistic towards the Turks.

Secondly, some of them fear ‘potential discrimination in prospective higher educational degrees’ of pupils. For example, 31 year-old, woman stated that graduates of schools with a medium of instruction in Turkish would face difficulties in high schools and in the university entrance exams.

If a pupil studies in Turkish in the primary school, it will be difficult for [my daughter] when she would like to continue her education either in the high school or in the university. She will study the general subjects, as well, but it would be difficult caused by studying in Turkish....

Finally, some of them, as a 36 year-old man, totally disagree with this idea, and expressed that such schools would ‘worsen the already disadvantaged situation’ of the Turkish children by hindering the improvement of their Bulgarian language skills.

Here, the requirement is the Bulgarian language. I won’t send [my children to those schools]. [Those schools] won’t be detrimental but if he studies, where will he find a job? [Then] he must work in Turkey. He cannot arrange himself here. If he knows only Turkish, he won’t buy even a [bus] ticket from [town] to our village... If you live in Bulgaria, the Bulgarian language is a must, isn’t it?

I argue that disinclination of minority parents on Turkish schools can be explained by the ‘symbolic power’ acquisition of Bulgarian language over the Turkish minority language. As Bourdieu states, language represents, manifests and symbolises the authority. Linguistic expressions are produced in the ‘linguistic market’, where they are valued and devalued in terms of their linguistic capital acquisition (p: 66,71, [31]). Additionally, symbolic power is not a specific type of power, as Thompson states, based on Bourdieu’s writings, but “rather to aspect of most forms of power as they routinely deployed in social life.” In every day life “power is seldom exercised as overt physical force: instead, it is transmuted into a symbolic form, and thereby endowed with a kind of *legitimacy* that it would not otherwise have” (p: 23, [32]). Thompson adds that:

“For different speakers possess different quantities of ‘linguistic capital’ – that is the capacity to produce expressions *à propos*, for a particular market... [T]he distribution of linguistic capital is related in specific ways to the distribution of other forms of capital (economic capital, cultural capital, etc.) which define the location of an individual within the social space... The more linguistic capital that speakers possess, the more they are able to exploit the system of differences to their advantage... (p: 18, [32])

From Bourdieu’s perspective, the official language can be considered to have an uppermost ‘linguistic capital’. Official language is also a precondition for symbolic domination of the linguistic market. It imposes itself as the only legitimate language and reproduces its legitimacy mainly via family and educational institutions. It is dominant because dominated language speakers believe, generally unconsciously, that it is so. “Speakers lacking the legitimate competence are *de facto* excluded from the social domains in which the competence is required, or are condemned to silence”. Eventually, as a leading actor in construction, legitimisation and imposition of an official language, education is “to be perceived as the only means of access to administrative positions” which propagandises the usage of the official language even in private sphere. This is because the ‘educational market’ is under domination of

linguistic products of the dominant class, which are valued more than the linguistic products of the dominated class (p: 45-62,138,192, [31]).

Strategic use of language varies also in terms of ‘linguistic profit expectations’ of its users but this is not, of course, a simple costs-and-benefits “rational” calculation but an act imposed by the symbolic power of the dominant language and the dominant ideology in the form of social, political and economic rewards, or as Millar [33] points out, by demoralisation of the individual due to low status and low prestige of their vernacular or *diglossia* [34]. In the case of the Turkish minority in Bulgaria, being Turk is somehow interrelated also to ‘rural identity’ along with the ethno-linguistic identification and eventually, it makes Turkish to be perceived as a low-prestige language compared to Bulgarian, which is interrelated to ‘urbaneness’. As 36 year-old female expressed:

... [W]hen we go to the town, we can be easily identified from our accent of Bulgarian language. They are easily recognised that we are villagers. We cannot properly speak. Only from one word! Just say ‘hello’, they will understand [that you are a Turk].

Speakers of minority languages internalise the superiority and legitimacy of the official or dominant language unconsciously, because devaluation of minority language is a covert or hidden process [35]. Turkish minority parents realise that learning Turkish would hardly be transformed into ‘symbolic profit’ due to not being used in governmental, administrative, judiciary and educational institutions, and its usage in media is very limited, as well. Hence, ‘ethno-linguistic’ struggle of the post-communist period is under the direct but ‘hidden’ interference of the Bulgarian official language policies.

## 5. Conclusion

Between 1878 and 1923, Turkish minority in Bulgaria was identified in terms of its ‘religion’, Islam, rather than its ‘ethno-linguistic’ attachment. With the dissolution of the Ottoman Empire and the establishment of the Turkish nation-state in 1923, the Turkish minority experienced similar ‘ethno-linguistic’ identity construction practices that synchronously took place in its kin-state. However, this was challenged by the Bulgarian authorities with cooperation of religious intelligentsia of the minority in order to promote ‘religious’ identification. On the one hand, for the state side, the rise of ‘ethno-linguistic’ identity was seen as a nationalistic identification. On the other hand, for the religious side, this might mean losing their power among the minority. Therefore, years between 1924 and 1944 witnessed a competition ‘ethno-linguistic’ and ‘religious’ identities.

Establishment of the communist regime in 1944 opened a new era for the identity struggle of the minority. On the one hand, ‘religious’ identities was suppressed, not only Muslim but also other denominations, according to the atheist doctrine of communism. On the other hand, ‘ethno-linguistic’ identification was promoted but by the hands of the state-party apparatuses. This state-promotion includes investments on the nationalised education of the minority, publications in Turkish by the party organs and the newly formed communist Turkish intelligentsia. After two decades, the state

looked for implementations to gradually decrease this identification and finally merge it within the 'unified communist society'. However, when these expectations failed, the state began to implement 'forced measures' in order to sustain this 'unification' or 'homogenisation'. As a consequence, in 1984, the government put into practice the forced assimilation campaign which was the most mortal action towards the 'ethno-linguistic' identification.

However, these forced implementations failed together with the communist regime itself. While 'religious' freedom mostly achieved in the post-communist period, the 'ethno-linguistic' rights' struggle is still on the agenda of Bulgarian minority politics. One of the crucial struggles of 'ethno-linguistic' identity is taking place in the issue of the Turkish minority education and Turkish language. Although, in the first years of the regime, Turks gave high importance to the previously suppressed 'ethno-linguistic' rights, this importance started dramatically to decrease.

Turks began to assign much more importance to the Bulgarian. This could be interpreted as a result of the hegemony of Bulgarian language which is continuously reproduced at schools, universities, in politics, economics and every day life. Although Turks in rural areas could escape in some instances from this hegemony, they cannot resist to the status of Bulgarian language as the prestigious language. However, as Bourdieu (p: 71, [31]) argues, the national 'linguistic market' is never totally dominated by the dominant language; in contrast, it has some spaces which allows dominated languages to get access to the linguistic capital and gain some kind of linguistic profits. Hence, there are also some spaces in the Bulgarian 'linguistic market', especially in the regions where Turks are in majority. It is no of doubt that Turkish is the mostly used language in the private sphere of the minority, because the domination of the official language hardly, or only in the long-run, eliminates its usage in the private sphere. Furthermore, Turkish may find some spaces to be used in the public sphere, as well. It is used as a de facto medium of communication in the regional level, for instance, at work and in municipal administrations; however, its usage in the public sphere is limited to communications between the minority members. In some cases, it is used also in interethnic communications where Bulgarians may want to establish more intimate communications by speaking Turkish with their neighbours.

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# Return Policies and Reverse Logistics Strategies for Environmentally Responsible Management

*Panousopoulou P.<sup>1</sup>, Manthou V.<sup>2</sup>, Vlachopoulou M.<sup>3</sup>*

*University of Macedonia, Dept. of Applied Informatics, 156 Egnatia Str., P.C 54006, Thessaloniki, Greece, {peggy<sup>1</sup>, manthou<sup>2</sup>, mavla<sup>3</sup>}@uom.gr*

**Purpose:** The purpose of this paper is to discuss how companies via return policies and reverse logistics strategies can react to the need of the market for environmentally responsible management, focusing on selected categories of products that use these strategies in the Greek market.

**Design/methodology/approach:** The paper develops a conceptual model where reverse logistics policies and flows are described. Furthermore how several companies of selected categories of products in the Greek market are presented and how they gain a competitive advantage by implementing reverse logistics in their existing supply chain. The methodology consists of a brief literature review, where significant issues and challenges, as well as, opportunities in the area of reverse logistics can be found.

**Findings:** In this paper conclusions and recommendations for changing management decisions are proposed in order for companies and firms to lead and not to follow the new legal and economic developments.

**Research limitations/implications:** The focus is based on literature and Internet research. Research should continue to include the practices that industries and companies in the Greek market use. Future research should also expand to include more members of the supply chain or reverse supply chain.

**Originality/value:** The paper provides evidence on the relationships between return policies and reverse logistics and how they can be used by companies and firms in order to align their strategy and management with environmental regulations and the changing needs of environmental aware consumers.

## Keywords

reverse logistics, environmental responsible management, environmental policies, recycling.

## **1. Introduction**

In the last decades there has been tremendous economic growth, as well as, wasteful use of natural sources and increasing consumerism, which have caused serious environmental problems [1]. Disappearance of rain forests, pollution of air and water, and depletion of the ozone layer are some of the environmental problems that may result in the degradation of the environment or continued poverty for much of the world [2]. Awareness of consumers for the environment, EU efforts on setting up green product regulations [3], and government regulations and development of international certification standards, force companies to align their strategy and respond to these changes of the market [4]. McKinnon (1995) has characterized the current degree of research on environmental issues in logistics as “small but expanding”, and a review of the literature indicates that such research was non-existent prior to 1990. Thus, environmentalism can be characterized as one of the most significant forces shaping the economy of the 21<sup>st</sup> century. Consequently, the need for more environmentally responsible business management came up to all companies as a necessity.

A company must respond to increasing consumer demand for green products and implement environmentally responsible plans as a good corporate citizen, in order to achieve its business goals and objectives [5]. Return policy, as an action of environmental awareness is seen as an important competitive weapon in the marketplace that influences product sales [6]. Companies cannot ignore the fact that more and more shoppers are likely to consider the return policy, before deciding to shop [7, 8]. Different products may be returned at different stages of their life cycles, depending on the return policy that each company has developed [9].

Another factor of competitive advantage is reverse logistic strategies and the processes of recycling, reusing and reducing the amount of used material that are implemented to the existing logistics processes [10]. It is essential for the firms to understand that the processes that are needed for reverse logistics strategies may be different from those defined for forward distribution [11]. The concept of reverse logistics emerged as an attempt to reduce the extraction of raw materials and to reduce the disposal of waste in landfills [12]. Reverse logistic strategies should be integral parts of the firm's efforts to gain the market and satisfy its customers [13, 14]. Furthermore, the firms should take into consideration that environmental friendly activities have a positive impact on their image. An environmentally responsible approach expands the company's horizon by adding the objective of minimizing the total environmental impact to its operation [15].

In this paper the different strategies of reverse logistics and return policies that companies can adopt are examined. Moreover, the implementation of these strategies in selected categories of products in the Greek market, such as vehicles, mobile phones and white goods, will be presented.

## **2. Reverse Logistics Strategies and Flows**

Reverse supply chain management is defined as the effective and efficient management of the series of activities required to retrieve a product from a customer and either dispose of it or recover value [16]. The importance of studying reverse logistics has

increased in recent years due to the increase of competition, which came up as a result of globalization and the need of companies for developing competitive advantages.

It is of great importance the fact that up to 60% of the rubbish that ends up in the dustbin could be recycled [17]. Furthermore, the unreleased energy contained in the average dustbin of a family each year could power a television for 5,000 hours, and on average 16% of the money people spend on product packaging end up as rubbish [18]. Generally, three drivers, economic, regulatory, and consumer pressure compel product returns and lead to reverse logistics decisions worldwide.

The reverse chain starts with the customer. Consumers must deposit waste in bins for it to be collected and transported, by the enterprise or body for recovering waste. Thus, they need to separate recyclable material from the remaining waste. The fact that consumers are the first link in the reverse flow shows the reason behind the importance of communicating with consumers [19] and the type of agreements reached between producers and customers [20]. In addition, relations with suppliers are a significant element in the success of the application of environmental technologies, as well as, the application of reverse logistics processes. Another reason the customers play a fundamental role in reverse logistics is that they exert strong environmental pressure on firms [21, 22].

As a result of the enforcement of environmental laws and the changing consumer needs, more and more manufacturers worldwide are taking on responsibility for their products at the end of their life span, developing strategies that incorporate environmental concern [23], which may be profitable for them too. The management of the reverse flows is an extension of the traditional supply chains, with used product or material, either returning to reprocessing organizations, or being discarded.

The polluter pays principle<sup>1</sup> is embedded in the European environmental policy, and provides a legal basis for attributing the financial responsibility for pollution [24]. Therefore, companies started to deal with recycling and reverse logistics practices, considering the concept of responsibility as essential.

The aim of the environmental strategic viewpoint of reverse logistics, is to revalue products once the end consumer has thrown them away, thus closing/extending, their life cycle. Diverse alternatives exist to do so: reutilization, repair, renovation, reprocessing, cannibalization or recycling [25].

The factors that determine the recyclability or reuse of products and materials include the purity of the recovered products, the market for the recovered products or their parts, and the monetary value of the material. Moreover, elements such as the cost of collection and transport, the cost of sorting, the cost of transformation into reusable material, and the cost of disposing of any residual material, should be examined before deciding to implement reverse logistics processes.

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<sup>1</sup>The Polluter Pays Principle (PPP) is an environmental policy principle, which requires that the costs of pollution be borne by those who cause it. In its original emergence the Polluter Pays Principle aims at determining how the costs of pollution prevention and control must be allocated: the polluter must pay.

Reverse logistics can create value for the company and its products. From a marketing perspective, an effective returns operation can enhance customers' perceptions of product quality, help minimize the purchase risks, and boost goodwill by demonstrating good corporate citizenship. On the other hand, some products that return to company through the reverse channel can be handled expeditiously and efficiently and be reinserted into the forward supply, as refurbished or remanufactured products, or as repair parts. This can create additional revenue, reduce operating costs, and minimize the opportunity costs of writing off defective or out-of-date products [26].

### 3. Reverse Logistics Examples from the Greek Market

Among the many industries that have put this type of reverse logistics technique into practice, some of these that have implement reverse logistic practices in the Greek market are the household appliances sector, the automotive industry and the telecommunication sector. These practices have already been instigated in these industries, as well as, in many others and will be implemented even more so in the coming years, since reverse logistics is being recognized as a competitive advantage for most companies [27].

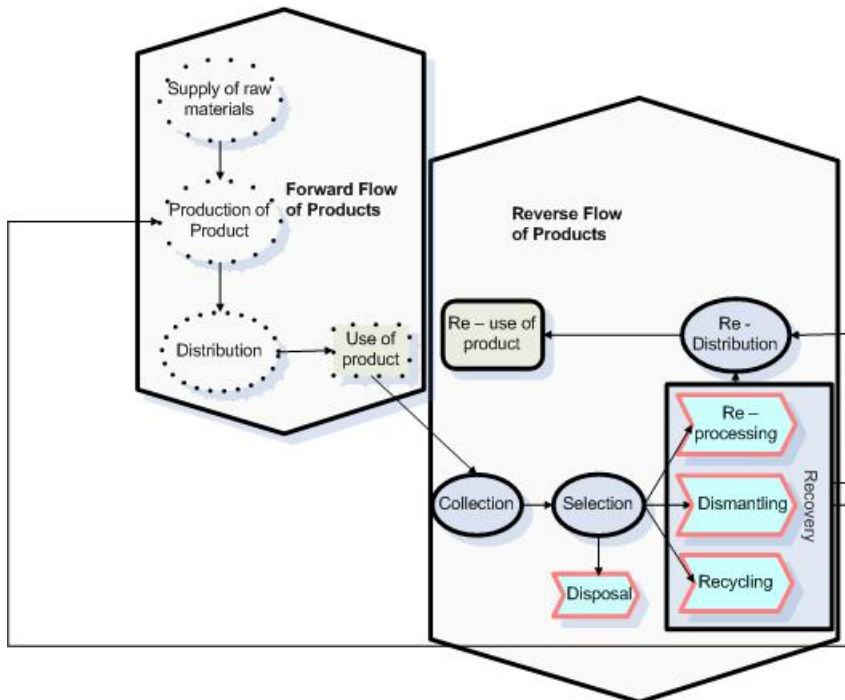


Figure 1 Forward and Reverse flow of products.

Forward supply chain is lying between fully vertically integrated firms and shows the downstream move of products to the customers. The reverse flow of products shows how they move through reverse logistics activities from consumers to upstream businesses. The management of the reverse flows is an extension of the traditional supply chains flows with used product or material returning to be reprocessed or to be disposed.

Figure 1 presents the flow of products in forward and reverse supply chains, as well as, the their activities, which will be briefly described below. The *collection* refers to the movement of used products to some points where further treatment is taken care of. The activity of collection may be imposed by legislation to some products or industries. The *selection* stage includes the inspection and separation of products, and generally all the operations that determine whether a taken-back product is re-usable and in which way. The next step is *recovery* and may include *re-processing*, *dismantling* or *recycling*. Re-processing denotes the transformation of a used product into a usable product again. This may be done either by repair or by remanufacturing. Activities such as replacement and cleaning may be involved in re-processing of products. *Dismantling* refers to the products that have parts, which can be sold individually to other markets, or can be used for manufacturing new products. Products that cannot be reused or products that have no satisfactory market potential should be *recycled*. Those that they cannot enter the recycling stage are disposed. Finally *re-distribution* means the physically moving of products or parts to future users and potential markets, which may be done by different or same channel with the forward distribution channel. The activities of reverse logistics can be recognized at the following presented examples.

### **3.1 Mobile Phones**

Mobiles are a pervasive part of modern society, and analysts predict that the total number of mobile phone subscribers is up to three billion, almost half of the world's population [28]. Greece in particular, is the second country worldwide using cell phones up to 123% of its population [29].

The fast pace of development in mobile technology means that mobile phones quickly become outdated. Greeks typically replace their handsets every 18 months [30], while many of them are still in good condition and are kept as a second device instead of recycling them.

The procedure of reverse logistics of cell phones includes *collection* of old mobile phones, along with accessories such as batteries, chargers and headsets. Furthermore, they *are sorted* to these that can be refurbished for reuse, and those that would be disposed. When a handset cannot be refurbished, it can be broken down into component parts for *recycling*. This has many benefits for the environment and the consumers. Waste is reduced and potentially harmful substances leaking into the environment from landfill is prevented. The life of useful components is extended and the need for energy and raw materials to make new phones is reduced. Finally, people who could not afford a new phone have the alternative to buy cheaper, refurbished phones, which brings economic benefits in developing and middle-income countries, and creates new markets.



The procedure of *recovery* may include a second level of separation, where metals are separated to precious and semiprecious metals. The mobile parts are ground up and useful metal content extracted. Metal can be extracted from batteries, too. There is also the case of plastic recovery of the plastic parts of phones and accessories. Energy-from-incineration is used to recover plastic from components. Outer body plastic may be granulated and reformulated for use in moldings. Finally, parts can be reused. Useful parts include aerials, battery connectors, PCBs (printed circuit boards), connectors including gold-coated edge contacts on PCBs, ICs (integrated circuits), keyboards, LCD screens, lenses, microphones, screws, SIM card assemblies and speakers.

There are several leading mobile industries that support the concept of individual producer responsibility, in order to carry out their own responsibilities. They promote with several actions the idea to consumers and retailers to bring back obsolete mobile devices for responsible recycling. Further benefits for consumers, industries and the environment can be brought by optimizing product designing for easier recycling.

The three telephone companies that operate in Greece are expanding the global availability and accessibility of takeback channels to their customers. They are also committed to continually driving visibility and awareness on this issue wherever they do business. All of them have currently developed awareness-building programs that fit into existing recycling infrastructure and Greek culture norms, as well as, pending legal requirements. They are trying to make it easier for people to recycle their unwanted mobile devices and are investing in a number of different areas to make this happen. They are also investing in putting more take back bins and collection points at their stores and care centers.

### ***3.2 Recycling of Vehicles***

About 180 million cars were in use in the European Union in 2001, and that number increased year by year. More than 80% of these cars were concentrated in the countries, Germany, France, Spain, Italy, and Great Britain [31]. The increasing car production indicates the importance of automobile industry in society. Vehicles affect the environment through their entire life cycle. Consumption of energy and resources, waste generation, greenhouse gases, hazardous substance emissions, and disposal at the end of their lives, are burdens created by automobile production and use [32].

Today, recycling of ELV is driven not only by economic and technological factors, but also by social and environmental concerns. In other words, the automobile industry is shifting toward sustainable waste management, and reverse logistics practices. Recycling options for ELV are related to the material used for vehicle manufacturing, as well as, the assembly of its components. Vehicle composition has been shifting toward light materials such as aluminium and polymeric constituents [33].

In Greece, a General Waste Law, (Presidential Decree no.116) regarding the implementation of ELV Directive published on 05/03/2004, was established. By this law, only the manufacturers are liable to set up the recycling system for non-usable vehicles. These systems have been developed in Athens, Thessaloniki, Patra, Volos and Heraklion, by the end of 2006 and are cost-free take-back systems. In the rest of Greece these systems have to be developed until the end of 2009 [34].

Two situations of disposal can be distinguished: one is when the car is worn out after a life span of ten to fifteen years, and another one is when the car is declared as total loss after a major accident. Vehicles that enter the reverse supply chain via the waste streams can either be land filled or they can be diverted from landfills and reused, because there is recoverable value. There are general examples of products that are diverted from the waste stream including recyclables via a retail deposit-refund collection system [35], and regarding automotive sector, automotive parts via junkyard scavengers [36]. Since products that are acquired from the waste stream are highly variable, availability and quality of these returns are generally not known beforehand [37].

*Collecting* and *dismantling* companies, focus on removing valuable spare parts and other components such as engines, batteries, oils and fuels, and airbags. Although these companies are essential to the reduction of ELV waste, they are small companies that are mostly interested in ELV parts that are suitable for reuse, recycling, or sale [38]. Car dismantlers play an important role in ELV treatment system for two reasons. First, the car dismantler *disassembles* parts and components that can generate value in the second-hand market. Second, they *remove* some parts in order to facilitate subsequent shredding, as well as, for safety reasons. Some car dismantlers *separate* ELVs to various metal fractions prior to selling wrecks to shredders. Cast iron from engines and aluminium are separated because these metals have a higher value in a scrap metal market [39]. After parts and components have been extracted from ELVs, wrecks are sold to shredder companies or scrap metal traders for metal recovery. There are several steps identified: shredding ELV; magnetic separation of ferrous metals; and separation of various non-ferrous metals.

### 3.3 White Goods

The take-back, reverse logistics and recycling of end-of-life electrical and electronic equipment, is one of the major and most controversial environmental issues being addressed by the European Union, Member States, and various manufacturing, logistics, treatment and recycling industry areas. In July 1999, the European Commission issued a ThirdDraft of a “Proposal for a Directive on Waste from Electrical and Electronic Equipment (WEEE)” [40, 41]. As Greece is part of the European Union, the harmonisation of all laws and regulations is one of the most important considerations. Therefore, Greek government has introduced 2939/2001 law and 117/2004 Presidential Decree and established the first corporation regarding the administration of waste electrical and electronic equipment. This corporation has a collection area that is allocated in Athens and the products collected are:

- Large appliances (refrigerator, freezer, washing machine, cloth dryer, electric cooker, microwave oven, electric heater)
- Small appliances (vacuum cleaner, electric iron, hair dryer)
- IT and telecommunication equipment (PC, laptop, printer, phone)
- Consumer equipment (radio, TV, video, DVD, console)
- Games and Equipment of entertainment and sports [42].

Consumers are able to give back large items to local authority facilities in big cities of Greece and small items to schools, where customers have to use their own transportation. There is also a bulky product selection service, which is provided by the local authority, after contacting the proper office. Companies and Institutions can give back appliances for free (by showing the invoice of the new items) after contacting by email with electrocycle S.A and set an appointment for the transportation items.

In the *collection* center of Electrocycle S.A the products are *separated* to the categories mentioned above, and are sent to the next reverse logistics chain, the *inspection*, where it is decided which one have reused possibilities and which ones should be recycled [42]. There are two potentials for the *reusable* products. The first one is to reuse them as spare parts. For example, all parts of refrigerators and other white appliances can be reused following the disassembling process in services. The second potential is to reuse the spare parts or units in other products of similar function.

Recently, a leading company in the sector of electric appliances has inserted the reverse chain, in order to respond to its customers demand for environmental awareness policy. By this strategic choice, this company may influence the shoppers' decision when choosing supplier for their house appliances and finally gain market share.

#### **4. Conclusions**

In order for companies to gain a competitive differentiator and ensure that their customer requirements are met, they must insert reverse logistics in their supply chain. This is an area of growth as competitive markets are driving ever higher standards of customer service.

The activity of collecting materials for recycling and recovering value is an old practice, but only the last decades plays an important role in many countries and in many industry sectors. In particular, the WEEE directive, and other similar regulations, which are now in development in the European Union, have and will have a very significant impact on the supply chain industry and specifically on the reverse logistics. Obviously, both European Union based companies and firms in the electrical and electronic product business, as well as, multi-national companies, selling into the European markets, will face the challenge of adapting these new specifications and directives.

In this paper a preliminary investigation of the reverse logistics practices that have been developed in specific sectors of the Greek market is presented. The take back activity and product recovery in the sector of mobile phones, the sector of vehicles and the sector of white goods were discussed in this paper, as well as motivations that led these companies to work with reverse logistics.

Further investigation on other sectors of the Greek market that use reverse logistics and the difficulties that they face during their implementation, must be performed. The challenging role the technology plays for capturing, interpreting and reporting information on all areas of reverse logistics, must also be examined.

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# The Role of the Victim in the International Criminal Justice

*Besa Arift<sup>1</sup>, Vlado Kamvovski<sup>2</sup>, Ismail Zejneli<sup>3</sup>*

*South East European University, Ilindenska n.n., 1200 – Tetovo, FYR Macedonia,  
{b.arift<sup>1</sup>, v.kamvovski<sup>2</sup>, i.zejneli<sup>3</sup>}@seeu.edu.mk*

The aim of this paper is to analyze the way the role of the victim developed in the international law and international criminal law justice starting first of all with the evolution of the individual victim's rights from Westphalia 1648 to World War II and continuing with the normative framework of a victim's right to reparation. In this regard, the main international documents dealing with victim's rights will be analyzed. As we shall see, the basic human rights conventions and declarations promote very few rights for the victim. If the European Convention for the Protection of Human Rights and Fundamental Freedoms and the American Convention on Human Rights are excluded, the other documents do not provide for an individual's right to redress or receive compensation. On the other hand, the statutes of the two recently funded ad hoc International Criminal Tribunals (the ICTY and ICTR) as well as the International Criminal Court provide in their basic legal documents numerous and very important rights for the victims, requesting, for example, that fair trial principles should be implemented "with full respect of the rights of the accused and due regard for the protection of victims...". Especially the ICC provides for many serious measures for respectful protection and compensation for the victims which will be presented in details.

## Keywords

restorative justice, victims, victim participation, witnesses.

## 1. Introduction

The new rising tendency in the modern criminal law that aims to emphasize the role of the victim in criminal law in general, including international criminal law and criminal procedure finds its roots in the historical reality that existed until the 19<sup>th</sup> century. Namely, even though the victim's rights movements seem so modern and contemporary; as experts explain, the victims did not always have to establish their rights in this manner, since until late the victim itself had the right and the responsibility to prosecute his offender as well as the burden to prove his guilt [1-6]. This reality was evident everywhere until the middle ages when the inquisitorial system appeared. Since then the above mentioned reality continued to exist in common law countries where the adversarial system gave the victim a very active role in the criminal procedure making the prosecution of crime "largely a private matter between victim and offender". [2] In

the nineteenth century, a new approach appeared stating that the criminal act cannot be treated as a private matter between the victim and the offender since it tackles and deeply injures the public interests of the state. This approach was evident in the continental countries long before, since the inquisitorial system appeared at the beginning. But in the 19<sup>th</sup> century this became a general view of the common law legal system as well, putting the victim in a secondary position. As a result of the appearance of the anthropological-positivistic school of Lombroso, the perpetrator became also one of the primary significant subjects to be studied by criminal law and criminology redirecting in this way all the state efforts towards two main objectives: guarding the public interest and treating the offender in order to re-socialize him. The following meaningful statement of Kennard was somehow forgotten:

For every crime committed, there are at least two victims: Society suffers a violation of its laws, and the actual victim suffers an injury to person or property (pp: 417, [1]).

For longer than a century the victim represents “a passive party, whose role is limited to suffering harm”. [4] Being almost totally excluded from the criminal procedure, the victim is usually subject to a secondary victimization that results on avoiding reporting crimes. It is clear though that state’s reaction towards a criminal offence is inspired by the injustice done to the victim; still the main goal of the criminal justice system remains the retribution and prevention of crime.

As for the international criminal law and the victim’s role within, the first thing that must be mentioned is that being a relatively new discipline and thus a combination of both civil law and common law principles, it also encounters the mentioned victim representation problems including the human rights perspective. Still, as it will be seen, the main changes regarding the position of the victims, at least formally, have been made precisely in the international criminal law although problems still do exist.

This paper aims to make a comparison among the tendencies to enforce and emphasize victim’s right and redress in the civil law and common law systems in order to get a clearer picture of how these rights are guaranteed in the international criminal justice.

## **2. The Role of the Victim in World’s Two Greatest Legal Systems**

### ***2.1 The Common Law System and the Victims – Ways to Actively Involve them in the Criminal Procedure***

The common law system involves actively all the parties of the process and due to the adversarial form of procedure the principles of mutual contradiction and equality of arms reach their peak. However the role of the victim in this system which seems very democratic and transparent in the first place is not at all convenient taking into consideration several aspects.

First, the role of the victim into the prosecution of the offender is quite limited so the very basic impression gained for the victims describes them as passive parties who only



appear to testify as witnesses. This is what Sebba [6] refers to as “the disappearance of the victim”, stating that unlike in the traditional adversarial procedure, the victim as one of the original parties disappeared from the contemporary common law procedure. As Fenwick [2] emphasizes, this position reflects the notion that the private interests of victims are subordinate to public interests and peripheral to them. I surely agree that the criminal prosecution is above private interests and because of its seriousness needs to be dealt by the state itself, but I don’t think that the victim should be marginalized in such an unnatural way since this represents another injustice done in order to achieve justice.

Second, the victim is usually excluded from the plea bargaining process and this is often considered as very unfair to them since this institute represents a typical way to guard the state interests at the cost of victim’s interests [1]. The plea bargaining process is a very closed one and represents a typical way of choosing a less serious evil instead of a grater one. But this is as far as the state is considered. From the view of the victim this represents a total negligence for its interests, security and everything else considered as justice.

Third, it must be taken into consideration that as mentioned above, the adversarial criminal procedure consists among others of direct questioning and cross-examination by the parties of all witnesses (what includes the victim also). There are many critiques towards this practice since the victim in particular but the witnesses as well may feel intimidated by this form of questioning especially taking into consideration the contradictory questions of the opposite party which aims to disqualify the statement of the victim or the witness as irrelevant [7]. This is especially very problematic when victims of so called delicate crimes (sexual offences, child abuse, etc.) must testify for what has been done to them. The cross examination can be particularly hard and unbearable to them, while on the other hand, the long delays of trials and the time and money wasted there makes the witnesses but the victims as well to reconsider whether all this is really worth it.

Fourth, the victim’s interests are usually secondary and only of consultative value in the process of reaching the verdict in a criminal matter. As in the previous phases, mainly the state interests are what count.

Fifth, the victim’s claim for redress, which is the main idea of the contemporary tendency for restorative justice, cannot be joined to the criminal procedure, instead it must be developed as a separate civil case that seeks for more time, more financial cost, more concerns.

All what is described above makes the importance of the concept of secondary victimization very clear and explains partly the low rates of reporting crimes, appearances in court and in general the low interest in pursuing justice through a criminal process that seems to be expensive, long and even unfair considering victims rights. This is why experts call for changes in this regard, amendments that would allow “the return of the victim” as Kennard [1] would say, with a more active participation in the courtroom and in the whole criminal process, asking even for opportunities to establish an institution called “victim’s veto” [1] in order to assure an impact of the victim’s interests in courts decisions. As radical as it may seem, it represents the voice of the silent and frustrated victims who think deep before taking the courage of going

into a legal process taking into consideration that the way things are right now, that process offers them more intimidation and less justice for what has been done to them.

## ***2.2 The Role of the Victim in Civil Law Countries***

The civil law countries basically use the criminal procedure that evolved from the inquisitorial system. Even though this system might seem as a less transparent one for the parties concentrating the power in the hands of the professional judge who controls the flow of the process, still in regard to victims' rights it offers three main ways to guarantee them a fair and just judgment.

First, the cross examination which can be very problematic and discouraging in the common law procedure is controlled by the judge in the civil law procedure in order to take count of what kind of questions are being posed and to protect the witness or the victim from unfair, unclear and capricious questions. This gives the victim a better position than in the common law system, at least theoretically.

Secondly, the plea bargaining process is not that much incorporated in the civil law system. It is clear that there are provisions for excluding an offenders guilt and punishment or giving him other privileges in order to cooperate in disclosing a greater criminal organization, but this is usually applied in great cases of organized crime, hence it does not represent a common practice as in common law states where few cases reach the courtroom due to the usual use of the plea bargaining institute.

Thirdly and the most important, the civil procedure for receiving compensation and redress for the victim is joined with the criminal procedure and the victim can realize his right to compensation in a less complicated, less expensive and faster way [8].

Even through these benefits are very important for the victim, it's passive and subsidiary role still remains as the main characteristic of this process as well. It can be that the civil law system offers a better theoretical ground for victim's compensation but there is more to be done in the terms of practical implementation of those rights in order to ensure a secure and guaranteed position for persons who suffered so much harm. This especially refers to countries in transition that are in fact civil law countries and provide all the remedies for protection of the victim's interests (even if they lack some laws, they usually pass them with no hesitation in order to be part of integrative processes) but in fact do very little for their practical protection. I can just mention a recent case in FYR Macedonia [9] where two men accused for raping two young girls (one of which a virgin) received only financial penalties and did not face the imprisonment punishment because the court was corrupted enough not only to completely ignore the rights of the victims but also the public security, having in mind that it allowed confirmed rapists to walk around freely. Therefore the gap between passing a statute and implementing the same must be taken into consideration very seriously in order to protect the victims who already have suffered so much, and also to make the community a better and more secure place to live.

### 3. Victims, Human Rights, and International Criminal Law

If the awareness is turned now towards the victim's position and role in the international law and international criminal law, the following situation will become clear: During the long existence of victims legal personality in the national criminal law whether as a primary or subsidiary subject, for centuries the victim (as an individual) was faceless and of no importance for the international law. As Bassiouni would state:

From the peace at Westphalia in 1648 to World War II, the state has been the only, and thus the primary subject of international law (pp. 90, [10]).

It is only after World War Two that the individual became subject to direct protection and the new era of individual criminal responsibility began. Thus it can be said that the human rights law and the international criminal law in their essential grounds began to parallelly develop after the Nuremberg and Tokyo international prosecutions. Individuals rights (still not mentioning specifically the victim) became one of the basic preoccupations of the international community that searched for different enforcement mechanisms to ensure the protection of human rights (special monitoring bodies and procedures to receive complaints, which unfortunately proved to be insufficient to achieve the desired protection of human rights if we have in mind all the violations and the large-scale of victimization that occurred in the last 50 years. Bassiouni [10] emphasizes that since World War Two there have been over 250 conflicts in which an estimated 170 million people have been killed). Thus the need for a specified part of the legal knowledge that would be dedicated precisely to the victims, their rights and the compensation for the harm they suffered became more immanent than ever.

The international documents that provide for human rights and protection of individuals such as: the Universal Declaration of Human Rights, the International Covenant of Civil and Political Rights, the International Covenant of Elimination of all Forms of Racial Discrimination, the Convention against Torture and Other forms of Cruel Inhuman and Degrading Treatment, the Convention on the Rights of the Child, as well as the regional conventions such as the European Convention for the Protection of Human Rights and Fundamental Freedoms, the American Convention on Human Rights, the African Charter of Human and People's rights, promote very few rights for the victim. If the American and the European conventions are excluded, the other documents do not provide for an individual's right to redress or receive compensation. Despite the awareness that those conventions are passed relatively long ago, decades before, still it is intolerable for them not to be amended in order to provide for more serious protection for victim's rights. The first international and universal document dealing specifically with victim's rights and the compensation procedure is the Declaration of Basic Principles of Justice for Victims of Crime and Abuse of Power (1985) adopted by the UN General Assembly. Besides the general definition of the term "victim"[11] this document provides for several rights for them such as:

- Access to justice and fair treatment (which includes information in time for all the important procedural aspects as well as legal assistance),
- Restitution (return of property, reimbursement restoration of rights, etc.),
- Compensation (given by the state when the means of the offender are not sufficient) and

- Assistance (material, medical psychological and social).

However, in legal terms, being only a Declaration of basic principles means that the enforcement mechanisms of this document considering the state parties are very weak. If we have in mind the legal force of the Universal Declaration of Human Rights and that of the International Covenant for Civil and Political Rights, it will be clear that the latter is a much more imperative and binding document than the former one. Therefore, in my opinion, the victim's rights should be regulated through an internationally binding document obligatory for all the state parties and with clear enforcement mechanisms and sanctions for the states who fail to implement these rules, which is not possible to be done by a declaration no matter how universal it is. All the other documents in this field of human rights remained in the "draft" phase [12,13] for decades, what speaks about this long and exhausting process of delaying the victim's rights. However, the adoption of the Basic principles and guidelines on the right to remedy and reparation for victims of violations of international human rights and humanitarian law in April 2005 gives some hope that this practice of ignoring the victim's rights as a basic human rights category is about to change.

On the other hand, the statutes of the two recently funded *ad hoc* International Criminal Tribunals (the International Criminal Tribunal for Yugoslavia and the International Criminal Tribunal for Rwanda) as well as the International Criminal Court provide in their basic legal documents numerous and very important rights for the victims, requesting, for example, that fair trial principles should be implemented "with full respect of the rights of the accused and due regard for the protection of victims..." [14]. This tendency of ensuring the balance between victim's rights and the rights of the defendant must be marked as a very important and a unique characteristic of the international criminal prosecution practice unlike the human rights documents that usually provide only for the rights of the defendant to a fair trial lacking to emphasize that this trial cannot be considered fair if it is just to only one of the parties thus the victim's rights must also be included. Even though ICTY and ICTR experiences are often criticized as a failure for the victims' reparation and redress [10], theoretically they still represent a new approach towards victim's rights and their treatment before the tribunal. Let us just remember that in the ICTY case *Prosecutor v. Tadić*, even the most radical measure for victim's and witnesses protection was implemented: anonymity towards the defendant and his council was granted to several witnesses [15]. The ICC on the other hand provides for many serious measures for respectful protection and compensation for victims as it will be explained later.

Hence, it is more than important that these two spheres of protection of human rights and therefore protection of victim's rights as well, the international human rights law and the international criminal law work together and fulfill each other in order to achieve the same goal and exchange the good practices among, initiating in this way a general obligation for all the states to include those practices in their national legislations.

## **4. The International Criminal Court – Towards a New and International Criminal Procedure**

The International Criminal Court is by all means the institution that has provided revolutionary rights for the victims of crimes under its jurisdiction. It has used the experience of the two previous *ad hoc* International Criminal Tribunals for Yugoslavia and Rwanda in order to identify the needs of the victims and to find the best ways of helping them restore the damage caused to them, receive reparation in order to rebuild their lives and, the most important, participate actively in the Court's proceedings. The balance between victim's rights and the rights of the accused has been successfully ameliorated and achieved through this international institution. This can be observed in three main categories of providing help to victims.

### ***4.1 Participation***

Unlike other national experiences as well as the experience of the mentioned *ad hoc* Tribunals, the ICC provides for clear rights of the victims to participate in all stages of the proceedings before the Court [16]. This historical fact gives the victims the possibility to present their views and observations before the Court, mostly through a legal representative and "in a manner which is not prejudicial or inconsistent with the rights of the accused and a fair and impartial trial". [16] This is an opportunity for the victims to be heard and have the feeling that they are participating in the process of achieving justice. Even though this presentation of the views of the victim does not present a legal obligation for the Chamber while reaching the verdict on the matter, it still represents a strong and important way for the victim to make their opinion public in terms of their approach to the case.

### ***4.2 Reparation***

This is probably the most revolutionary innovation brought by the ICC having in mind that this represents the first time in the history of humanity for an international court to have the power to order an individual to pay reparation to another individual and also the first time that an international criminal court has had such power [17]. A separate body of the institution is created (Trust Fund for Victims) in order to achieve the restitution-retribution balance.

### ***4.3 Protection***

Finally, unlike the previous *ad hoc* Tribunals, ICC offers a more serious protection to victims and witnesses providing for cooperation with the state parties in order to establish witness protection programs. It also includes new ways of protecting them but does not apply radical means like total anonymity for witnesses or victims towards the defendant or his counsel.

This concludes the effort to make the victims of crimes under ICC jurisdiction appear almost as direct subjects of the international criminal procedure, an effort that deserves all the support having in mind the immanent need for balance between victims rights and rights of the accused, or the restitution-retribution balance in general.

## 5. Conclusions

It can be noted that the victim slowly but surely penetrates the system of international human rights law and international and national criminal justice which were totally closed to their interests before. This can raise a general hope that the strengthening of victim's position and their rights will be one of the most important strategies of the future development of criminal law. The idea was to complete the picture of the goals of criminal law guarding the retribution as well as general and special prevention as traditional goals, going forward with the aim of making the perpetrator able to live as a common citizen after he has completed the sentence through re-socializing him, and wrapping up through the aim of developing the restorative aspect of the whole process through achieving a balance in the victim-perpetrator relation looking for ways of restoring the caused damage, when that is possible.

In this long road of repositioning the victims and giving back the powers that they previously had but guarding in the same time the state's interests, some issues must be reconsidered:

- The common law and civil law principles should be combined in a way to ensure the fair treatment of the victims, especially through the international institutions such as ICC which through their hybrid legal procedure offer space to make the needed combinations in order to achieve a more secure position for the victim. Victim's rights must be considered as equal to the offender's rights. There is a general tendency of human rights organizations to guard the due process rights of the offender, but the victims are rarely mentioned in this point. Ways to avoid the secondary victimization must be found in order to ensure a better and reasonable belief and encouragement that the legal system, whether in the national or international area, does not alienate the victims, in contrary; it gives opportunity to them to achieve justice.
- International documents and conventions dealing with human rights and specifically with victim's rights must incorporate also serious enforcement mechanisms that will change the general impression for this part of the law as a "shield without a sword". [10] Moreover, the gap between the human rights law and the international criminal law (often characterized as a "sword without a shield [10]) must be over passed in order to offer a complete protection for the victim, not only for abuses of international criminal kind but also for abuses of human rights kind.
- The redress and the compensation of the victims must be internationalized and help should be provided to the countries to implement in practice the rules in order to overrule the experience of only providing the rights theoretically but never implementing them in practice. However, victim's role must not be limited only in redress and compensation; a common sense should be found in order to allow them to actively participate in the prosecution phase as well as in the other stages of a criminal process.

It must be emphasized that the victim is more stigmatized from a crime than the offender himself (who chose in the first place to become an offender). The social position of the victim of a crime is not at all convenient and therefore it can be understood why they refuse or fail to report what has been done to them in order to overcome that part of their life. This becomes even more frustrating if the system does not provide for their rights; instead, it puts them in a position of re-victimization. The state and the society must make efforts for helping the victim overcome that stigmata and in this way, discourage the perpetrators from their acts stimulating the creation of a better environment for persons who have suffered harms.

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## Appendix

### List of Acronyms

ICTY	International Tribunal for the Prosecution of Persons Responsible for Serious Violations of International Humanitarian Law Committed in the Territory of the Former Yugoslavia since 1991
ICTR	International Criminal Tribunal for Rwanda
ICC	International Criminal Court
UN	United Nations
EU	European Union



# Social Capital and Local Development in Greek Mountainous Rural Areas

*Panagiota Karametou<sup>1</sup>, Constantinos Apostolopoulos<sup>2</sup>, Pavlos-Marinos Delladetsimas<sup>3</sup>*

*1 Harokopio University, Dept. of Home Economics and Ecology, 70 El. Venizelou Str, 17671 Athens, Greece, [karametou@hua.gr](mailto:karametou@hua.gr)*

*2 Harokopio University, Dept. of Home Economics and Ecology, 70 El. Venizelou Str, 17671 Athens, Greece, [capost@hua.gr](mailto:capost@hua.gr)*

*3 Harokopio University, Dept. of Geography, 70 El. Venizelou Str, 176 71 Athens, Greece, [p.delladetsimas@hua.gr](mailto:p.delladetsimas@hua.gr)*

Recently, there has been a growing interest in social capital and in the difficulties related to its measurement. In this paper we present the methodology used to develop a way of measuring social capital for the study in question. The paper starts off with a review of a wide range of academic studies in order to develop understanding of the notion of social capital and to identify a list of the key generic dimensions of social capital, which are considered crucial to local development. This checklist of social capital dimensions provides a basis for the subsequent empirical study. A questionnaire survey was undertaken with the local population in the two mountainous areas to check and to measure the existing stock of social capital. This was then followed up by 46 in-depth, semi-structured interviews with selected participants in both areas. It is undoubtedly a challenge to measure social capital in Greece, and especially in the Greek countryside, taking into account the country's specificities and peculiarities, and especially the fact that research on the dimensions of social capital is at an early stage.

## **Keywords**

Greek mountainous rural areas, local development, measurement, social capital.

## **1. Introduction**

The idea of social capital has enjoyed a remarkable rise to prominence in both theoretical and applied social science literature over the last decade. The concept of social capital is based on the idea that social relationships and social norms may give access to valuable resources that can improve the welfare of individuals, families, communities or even regions or nations [1,2,3,4]. However, this concept is used in different ways and with diverse meanings. At times it refers to the capacity for cooperation, for trust and civility and therefore to a particular form of local culture [5].

Voyer and Franker argue that social capital refers to the networks of social relations that may provide individuals and groups with access to resources and supports [6].

It is not entirely clear who used the term first, but an important early use was by Loury (1977) in her book "A Dynamic Theory of Racial Income Differences". More specifically, Loury argues that individuals have different levels of social capital and the utilization of social capital provides differing outcomes. Consequently, two people possessing a similar level of human capital may not obtain the same outcome due to differences in the level of their social capital [7]. However, the works of Bourdieu (1985), Coleman (1988), Putnam (1993a) and Fukuyama (1995) were those that undoubtedly contributed to the widespread diffusion of the term of social capital in both academic and policy debates [8,9,10]. Bourdieu defined social capital "as the aggregate of the potential resources which are linked to possessions of a durable network of more or less institutional relationships of mutual acquaintance and recognition" [6]. In this definition Bourdieu places emphasis on the economic nature of social capital and how it can transfer resources and power within social groups or from one social group to another [7,4]. Coleman, an educational sociologist, defined social capital by its function and its role in the creation of human capital. More specifically, he defines social capital according to Loury's vision as 'the set of resources that inhere in family relations and in community social organisation and that are useful for the cognitive or social development of a child or young person'.

Regarding the common elements and differences in their definitions, we can say that Loury, Bourdieu and Coleman all argued that social capital was not embodied in any particular person, but rather in people's social relationships. In parallel, they also supported the idea that social capital was realized by individuals. On the contrary, Putnam has argued that social capital is a resource that individuals or groups of people possess or fail to possess [11]. According to her view, "working together is easier in a community blessed with a substantial stock of social capital". So it's clear that for Putnam "communities, not people, possess 'stocks' of social capital and so social capital can be simultaneously a 'private good' and a 'public good'" [12]. Finally, Portes (1998) in his review of social capital argued that social capital has three main functions: as a source of social control; as a source of family support; and as a source of benefits through extra familial networks [13].

What is most important is to understand that all the aforementioned opinions have their strong and weak points and they can, therefore, suggest an integrated framework in the research of social capital. Everyone who studies social capital should not reject any of these views but should rather try to familiarize themselves with the basic ideas behind them, to adapt and exploit them. For example, DeFilippis argues that if we were going to use the notion of social capital in community development it would be more effective to do so following the ways that Loury or Bourdieu had conceived of it [7].

At present, the relationship between social capital and socio-economic development constitutes a controversial relation with both positive and negative interconnections and interactions. Putnam [10] argues that social capital and civil society promote economic growth. Furthermore, according to Knack and Keefer (1997) much of the economic backwardness in the world can be explained by the existence of a lack of mutual confidence [4]. Moreover, they argue that low levels of trust in a society could probably discourage its processes of innovation. What is very interesting is that

societies that are characterized by high levels of trust are also less dependent on formal institutions to enforce agreements. In addition, government officials in societies with higher trust may be perceived as more trustworthy, and their policy pronouncements are seen as more credible [4]. On the other hand, according to Trigilia, social capital does not have only positive impacts but it can also create obstacles to local development [5]. Therefore, it's important to study under what conditions social capital can favour local socio-economic development.

The following two sections present a brief summary of the contemporary literature that has been developed around the main dimensions of social capital, presenting both an outline of the conceptual framework of this research, and also the methodologies used to collect both quantitative and qualitative data in order to estimate the structure and the profile of social capital in the mountain area of Pilion and in the mountain area of Zagori. The final section concludes with the key issues revealed by the case study research.

## **2. The conceptual framework: The basic dimensions of social capital and the challenge of its measurement**

The notion of social capital and its relationship to differential socio-economic performance, between areas at different territorial levels has sparked considerable debate within the academic literature about economic and social policy in recent years. This debate has centred around how social capital is defined and how it should be measured. There is a plethora of ways to measure social capital and consensus on measurement indicators is still lacking [12,14, 15].

Social capital is not a single entity, but is rather multi-dimensional in nature. The definition of social capital dimensions used varies considerably from one study to another. This lack of clarity can be partly explained by the variety of disciplines that have examined the concept. Woolcock (1999) differentiates between “bonding” social capital and “bridging” social capital and asserts that without the latter; communities don't have what is needed to “get ahead”. Put simply one can distinguish three major approaches of social capital [16]. The micro-approach focuses on the nature and forms of co-operative behaviour, the macro-approach focuses on the conditions for co-operation and the meso-approach highlights structures that enable co-operation to take place. After an overview of the literature we can say that the main dimensions of social capital are six: group and networks; trust and solidarity; collective action and cooperation; information and communication; social cohesion and inclusion; and empowerment and political action [2,17,18,19,20,21,22].

Regarding the dimension of *groups and networks*, this is the dimension most commonly associated with social capital. The questions that are usually used about this dimension consider the nature and the extent of a household member's participation in various types of social organizations and informal networks, and the range of contributions that one gives and receives from them. It also considers the diversity of a given group's membership, how its leadership is selected, and how an individual's involvement has changed over time.

Furthermore, *trust and solidarity* has been described generically as a core element of social capital or as a form of social capital or even as social capital itself. Trust necessarily involves relationships between individuals, organizations and/or civic structures and it cannot exist independently of social relations. It has elements of confidence, expectation, motivation, cooperation, collaboration, mutual obligation and reciprocity working together in a complex social milieu [23]. Distinctions between kinds of trust are sometimes made on the basis of social/civic, institutional/organizational and psychological aspects. Similar distinctions have been described in terms of particularized trust (between friends and family), generalized trust (of strangers) and trust of government [24]. More specifically, this category seeks to procure data on trust towards neighbours, key service providers, and strangers, and how these perceptions have changed over time.

As for as the dimension of *collective action and cooperation*, this category explores whether and how household members have worked with others in their community on joint projects and/or in response to a crisis. It also considers the consequences of violating community expectations regarding participation.

Also the dimension of *information and communication* is extremely important. Access to information is being increasingly recognized as central to helping poor communities have a stronger voice in matters affecting their well-being [25]. This category of questions explores the ways and means by which poor households receive information regarding market conditions and public services, and the extent of their access to communications infrastructure.

The fifth important dimension of social capital is that of *social cohesion and inclusion, acknowledging that* “Communities” are not single entities, but rather are characterized by various forms of division and difference that can lead to conflict. Questions in this category seek to identify the nature and extent of these differences, the mechanisms by which they are managed, and which groups are excluded from key public services. Questions pertaining to everyday forms of social interaction are also considered.

Another dimension is the dimension of *empowerment and political action*. Individuals are “empowered” to the extent they have a measure of control over institutions and processes directly affecting their well-being [25]. The questions in this section explore household members’ sense of happiness, personal efficacy, and capacity to influence both local events and broader political outcomes.

According to Moulaert (2004) *social innovation* could be a further important dimension of social capital. Social innovation is based on a fruitful synergy between innovation in social relations and in the modes of satisfaction of human needs. Innovation in social relations unavoidably means improvement in communication among groups and between individuals, and democratizing decision-making procedures [26]. What is also very important to bear in mind is that the choice of indicators to measure social capital is mainly guided by the scope of the concept and the breadth of the unit of observation used.

Given that social capital is most frequently defined in terms of groups, networks, norms, and trust that people have available to them for productive purposes, the survey tools in this study have been designed to capture this multidimensionality, exploring the types of groups and networks that people, in the two mountain areas, call upon, and the

nature and extent of their contributions to other members of those groups and networks. The survey also explores respondents' subjective perceptions of the trustworthiness of other people and key (local and state) institutions that affect their lives, as well as the norms of cooperation and reciprocity that surround attempts to work together and to solve local problems. Also, a big part of the survey is devoted to the evaluation of social innovation in the afore-mentioned case study areas.

The measurement of social capital in Greece, and especially in the Greek countryside, should take into account the country's specificities and peculiarities, and especially the fact that research on social capital dimensions is at an early phase. There exist no comprehensive data sets that can be easily tracked back to earlier periods, while the fragmentation of sources is an obstacle to research. This implies the need for the development of a research toolkit for the measurement of all aspects of social capital, according to international standards. A number of features of Greece argue for caution in measuring social capital [27].

The main objective of this study is to describe the variation of individual social capital in two Greek mountainous rural areas and its ability to interpret the relationship between their differential socio-economic performance and their available stock of social capital. What is important is to construct first a methodological instrument such as an integrated questionnaire suitable for the measurement of social capital in Greece and especially in mountainous rural areas. The main research question addressed in the present study is: "Why do certain mountainous rural areas in apparently similar economic, social and environmental circumstances have a different socio-economic performance over a relatively long period of time?" The basic research hypothesis of this study is that the differential socio-economic performance is explained by the presence of different (high or low) levels of social capital and the way this operates in specific national, regional and local contexts. Finally, we have to understand how important it is to investigate social capital not only as a dependent variable, but also as an explanatory variable that can contribute to the understanding of a specific socio-economic outcome.

### **3. Research Design and Methodology**

The research strategy employed in this study consists of two distinctive components: the adoption of a case study approach and the use of both quantitative and qualitative techniques in data collection. Due to the complex nature of the social capital concept, it was decided that the scope of inquiry would be improved by having two contrasting case study areas to provide a more compelling and robust interpretation of the information collected. The Region of Thessaly (*the municipalities of Portaria, Zagora, Mouressio, Milies, Argalasti and the commune of Makrinita*) and the Region of Epirus (*the municipalities of Anatoliko Zagori, Kentriko Zagori, Tymfi and the commune of Papigo*) were the chosen case study areas for this study. Their very different social and economic development contexts and experiences provide a means of checking whether the profile and the nature of social capital are historically and locally determined.

Regarding the first case study area, it belongs to the kinds of area which have adequate resident population and economic sustainability, based on stock farming, forestry, traditional industry, tourist and vocational activities. Furthermore, the village complex

of Pilion belongs to the Prefecture of Magnesia, one of the most dynamic Greek prefectures, where population is constantly rising. The second case study area includes the village complex of Zagori. This area tends to become highly isolated, since many inhabitants have migrated to urban areas; it also faces considerable environmental problems such as soil erosion, and insufficient preservation of residential properties and monuments. Moreover, this area belongs to the region of Epirus and to the prefecture of Ioannina. Epirus ranks last amongst the 13 Greek regions with regard to per capita GNP (approx.70% of the national average). The prefecture of Ioannina has a decreasing income which is not based on the agricultural sector and there is also a gradual loss of its mountain population. However, it is also a prefecture with great intraprefectural variations in development experience, ranging from affluent middle-class urban areas to deprived isolated rural areas. Zagori is the most mountainous and most isolated area in the region. Consequently, the context of this case study provides us with the opportunity to investigate social capital in two different areas that make up a representative sample of the Greek mountainous rural areas.

For the purpose of this study, a combination of quantitative and qualitative techniques was used, on a complementary basis, to generate multiple-sourced information. To measure the available stock of social capital and its role in the development of the two (2) areas under study in all seven dimensions (groups and networks, trust and solidarity, collective action and cooperation, information and communication, social cohesion and inclusion, empowerment and political action and social innovation) a research strategy using a locally-based integrated questionnaire has been regarded as necessary. The household survey has been carried out throughout the mountainous areas of Pilion and Zagori and, as was expected, this survey provides the main empirical basis for the study. The questionnaire contained 102 closed-type questions; divided into nine different sections, they provide information about the characteristics of the residents questioned in each of the study areas and robust evidence about the household members' participation in various types of social organizations and informal networks, and the range of contributions that the individual gives and receives from them. Furthermore, it provides information about the citizen's trust towards neighbours and how these perceptions have changed over time and about the citizens' collective action and cooperation, their access to information and communications infrastructure. It also provides information about the nature and the range of differences and mechanisms, which threaten the social cohesion and exclude some population groups from key public services. At the same time, there is some evidence for the individuals' empowerment and political action and the dynamics of social innovation in the two case study areas. The research sample consisted of 318 individuals aged 15 years and over (194 of whom were resident in the Prefecture of Magnesia, and 124 resident in the Prefecture of Ioannina).

Households with a telephone, connected and listed in the official telephone directory for people and businesses in Greece, were randomly selected to take part in the survey. An introductory letter was given to the mayors and to local authorities, in each case study area, and also to the potential respondents, informing them about the survey. At each selected household only one adult could respond to the questionnaire. There were some replacements of non-participants, especially in the area of Zagori, as some owners/members of the selected households were absent.

The response rate for the Prefecture of Ioannina was 88.6%, while the Prefecture of Magnesia achieved an even better response rate of 91%. Table 1 shows the distribution of the participants in the survey in each municipality and the response rates. On the whole, the range of citizens from each municipality was well-represented in the final sample. Although some population groups had lower response rates than others, this did not constitute a major threat of introducing significant bias to the findings. The remarkably high response rate to the survey generally does not only reflect the citizens' interest in the unique nature of this study but is also the result of many other important factors such as the residence of the researcher, for a long period, in the case study areas, the technique of a face-to-face survey, the rural character of the case study areas and the composition of the sample. Regarding the response rates of the face-to-face surveys, according to the empirical results of several studies, these ranged from a low of 67% to a high of 87% [28]. As for the effects of the areas' character, it's very important to stress that people living in large cities refuse more often than people living in rural areas. Ethnic and cultural "minority" groups are often underrepresented in surveys because of distrust of public institutions and information-gathering activities, different norms and experiences regarding survey participation, language difficulties, or some other reasons [28]. In an overview of literature Stoop (2005) identified hard-to-contact groups as big-city dwellers, men, those who are in paid employment and students, and easy-to-contact groups as members of larger families (especially with small children), the elderly, women and the unemployed - groups that constitute the majority of the sample in this survey [29]. Also with respect to cooperation, the topic of the survey and the type of sponsor is likely to be important [30].

	Population (2001)	Target sample	Response Rate (%)
Prefecture of Magnesia	205,005	213	91
Commune of Makrinitza	661	35	62.8
Municipality of Portaria	2,033	35	94.3
Municipality of Zagora	3,759	38	100
Municipality of Moursio	2,690	35	100
Municipality of Milies	3,100	35	82.8
Municipality of Argalasti	1,998	35	91.4
Prefecture of Ioannina	161,027	140	88.6
Commune of Papigo	161	35	88.6
Municipality of Anatoliko Zagori	1,814	35	88.6
Municipality of Kentriko Zagori	1,217	35	82.8
Municipality of Tymfi	1,006	35	94.3

**Table 1 Distribution of participants in the survey and their response rates.**

Naturally, we should keep in mind that the reliability of responses to questionnaires is always questionable, especially for subjective questions about social norms. That is why detailed interviews constitute a precious tool to corroborate the results of a survey. For this reason the present survey was subsequently followed up by 46 in-depth, semi-structured interviews - in order to validate the quantitative data- with selective participants and key informants (31 in the area of Pilion and 15 in the Zagori area), such as officers of local authorities, organisations of local self-government, municipalities, local developmental agencies, local associations, voluntary organisations and so on. The interviews involved the administration of a pre-coded questionnaire with a limited number of open-ended questions. The qualitative information was used to validate, clarify and illustrate the quantitative data obtained in the survey. According to Narayan (2005), Chambers (1997) and Estrella and Gaventa (1997), one issue of qualitative research is the question of whose voice is being heard, and amplified, by the research. Exploring issues from the perspective of different groups thus becomes important [31,32,33]. Various groups within a community may have overlapping or very different experiences of social norms and networks. Qualitative methods that allow researchers to explore the views of homogeneous as well as diverse groups of people help unpack these differing perspectives within a community. Because social capital is relational - it exists between people - asking a group of people to respond together to certain questions and hypothetical situations may yield information that is more nuanced than data derived from surveys. Qualitative methods such as focus groups are particularly suitable for social capital research because social capital comes into play and can be observed in the course of these exercises [34].

Furthermore, we collected some secondary information relating to health, education, crime, employment, housing and deprivation in the two case study areas. More specifically, the secondary information needed for the local economic assessment of these areas was the following: a) Demographic information: population, education, age, b) Economic and social information: employment, training, c) Investments in enabling environment: laws, frameworks, enforcement, d) Hard and soft infrastructure: transport, transportation links.

#### **4. Concluding comments**

Measuring social capital on a community level is not that simple and is more complex than envisaged but contributes considerably to the endeavour of increasing understanding of the concept. The measurement of social capital in Greece, and especially in the Greek countryside constitutes a big challenge considering that the research on social capital is yet at an early phase in Greece. A plethora of features of Greece argue for caution in measuring social capital.

This study aims to add to the understanding of social capital in the Greek context. During this research we had the unique opportunity to access two different areas on a wide range of indicators of social capital that will help us to understand the relationship between their differential socio-economic performance and their available stock of social capital. The question here is: whether the existing stock of social capital defines the socioeconomic progress of a place or the socioeconomic progress of a place defines



the profile of its social capital. In fact the study will add to the argument that the concept of social capital itself can be used to cover the negative effects that a lack of social and economic resources can have on a community.

Regarding the next step of this study, this will be the analyses of data collected which illustrate the profile of the available stock of social capital in the afore-mentioned case study areas. The data will be analysed using SPSS and QSR NVivo 7. Regarding the methods of analysis, we will use descriptive statistics,  $\chi^2$  tests and factor analysis. In particular,  $\chi^2$  tests will help us to assess the difference between socio-economic development status and demographic and social capital related variables and to compare the people living in the mountainous area of Pilion with those resident in the mountain area of Zagori on social capital related variables. Finally, factor analysis will help us examine the relation between the two areas' differential socio-economic performance and their available stock of social capital.

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# The Interplay of Liberalism and Realism In The Balkans: Real(Ist) Problems and Liberal Prescriptions

*Filippos Proedrou*

*Department of International Economic Relations and Development, Democretian University of Thrace, Komotini, Greece, [f.proedrou@gmail.com](mailto:f.proedrou@gmail.com)*

The paper bases its analysis upon the interplay of liberalism and realism. The world is two-faced. In the one part, liberal values and ideas have been consolidated. Institutions have been formed and the expectations for steady peace and cooperation are omnipresent. There still remains a significant part of the global system, however, where conflict remains imminent. States have failed to establish friendly relations and solid institutions. On the contrary, hostility is sustained.

Taking the Balkans as its object of enquiry, this paper undertakes a realist-termed analysis of international politics in the Balkans. It does so, however, on the grounds that the tense situation in the region is due to the failure of the implementation of a new pan-European security architecture that would cater for peace and security in the region. Therefore, the paper prescribes solutions of a liberal institutional kind; it argues that the way out of the perpetual instability in the Balkans is the establishment of a new pan-European security system. Whichever form this takes, it has to give Russia a significant role and orient itself to becoming a collective security system that will be based on common standards, values and priorities.

## **Keywords**

institutionalism, neo-liberalism, realism, geopolitics, energy politics.

## **1. Introduction**

Theory follows practice. International relations as a specific scientific discipline was created only after the horror of World War 1 shed light to the need to understand and prevent war. Idealism was born out of the first World War terror, as did realism after World War 2 [1]. We follow this pattern to examine the current politics in the Balkans. The situation there imposes the use of a set of theoretical instruments, and excludes the use of others in order for the analysis to correspond to reality.

Joseph Nye and Robert Keohane have insightfully remarked that we live in a diversified world, with elements of classical power politics, liberal norms and post-modern governance structures. The world is two-faced. In the one part, liberal values and ideas have been consolidated. Institutions have been formed and the expectations for steady peace and cooperation are omnipresent. These have been the main vehicles of change that transformed an anarchical sub-system into a partially-governed, peaceful and stable one. There still remains a significant part of the global system, however, where conflict remains imminent. States have failed to establish friendly relations and solid institutions; on the contrary, hostility is sustained. The first world pertains basically to Northern America and Western Europe; the second to most other parts of the world [2].

The Balkan region is an interesting case as it is located geographically in the middle of a wider region that has moved to a stable political environment. Despite that, nonetheless, it remains far from becoming a part of the western world, in the sense that war is considered an issue of the past and interstate differences are resolved peacefully. The Balkan region lacks proper institutionalization. It is in the Balkans that one can easily detect the failure of the construction of a post cold-war pan-European security architecture that would integrate all actors and cater for peace and stability in the European continent.

Therefore, realist lenses are significant for the understanding of international politics in the Balkans. This regional system resembles more of an anarchical system as theorized by realists; more of a field bruised by interethnic conflict than of the world as envisioned by neoliberal institutionalists. In the Balkans, a common normative background and sophisticated institutional structures are absent. To the contrary, interethnic differences reign supreme. The absence of such institutionalist policies in the region makes realism the most appropriate theoretical framework for the analysis of the current situation in the Balkans. The region thus remains an arena for the competing policies of the dominant US and resurgent Russia.

However, as E.H. Carr remarked seventy years ago, realism precludes a finite goal, an emotional appeal, a right of moral judgement and a ground for action [3]. Therefore, although it follows a realist-termed analysis of politics in the Balkans, the paper prescribes solutions of a liberal institutionalist kind. Unless a preliminary convergence of norms and the establishment of concrete institutional structures take place, the Balkans will remain the black hole of Europe, reminiscent of traditional power politics in Europe and thus conducive to realist theorizations.

## **2. (Non-)Institutionalization of Balkan Politics and Ensuing Power Politics**

The western part of the hemisphere is by far the more, and more efficiently, institutionalised part of the world. The EU and NATO are purely western organizations, while western states enjoy a dominant role in the UN and the OSCE. The Balkan states, none the less, are more or less left out of these structures. The EU has successfully brought in Greece, Slovenia, Bulgaria and Romania, and is going to integrate Croatia in

the following years as well. NATO also has quite a few Balkan allies [4]. However, the whole Balkan sub-system is still far from being integrated in the western structures.

Membership in the UN and the OSCE, on the other hand, amounts to little. The OSCE carries marginal responsibility and wherewithal to impose peace and stability in Europe, and its main function is confined to providing a forum for discussing human rights issues [5]. The UN has become rather dysfunctional and even irrelevant, as the unauthorized wars in Kosovo and Iraq have shown [6].

None of these institutions, that is, is well-suited to deal with the cumbersome situation in the Balkans. Although NATO and the EU did maintain peace and stability in the Balkans for more than a decade, the situation in the Balkans remains fragile and tense, with quite a few sources of threats unsettled. NATO and the EU are incapable of sustaining peace on their own without making Russia an actual and co-equal participant in the process [7]. The constant deadlock in the UN also perpetuates the Balkan crises and thus emphasizes the need to move on to a different, well-elaborated order [8].

The fall of communism and the Soviet disintegration opened up the possibility for the eventual integration of the whole European continent in one form or the other. After nearly two decades, nevertheless, a new pan-European security architecture is still missing. The US preferred to deal with the post-cold war changes in the international system unilaterally by means of expanding NATO; the EU followed the same path [9]. The West, thus, both the EU and NATO, seemed to assume supreme authority with regard to European (Balkans included) affairs. Russia's initial weakness downgraded it to secondary status; it was thus deprived of any meaningful participation and co-decision powers within these bodies [10].

After the first post-Soviet decade, though, Russia is on its way of becoming a powerful second pole in Europe next to the EU, with the obvious battlefields for influence being the Caucasus, Eastern Europe and the Balkans. The standstill in Kosovo's independence from Serbia; the fears that a potential resurgence of Albanian nationalism may emerge; the possibility of a new redrawing of the Balkan map; the Russo-US struggle for retaining/ retracting spheres of influence in the Balkan region all grow into focal points for great-power controversies. Russia's resurgence, combined with US declining capability to act as the "policeman of the world" and EU's soft integrative policy revealing its limits, once more puts the question bluntly [11]; whose order is to prevail?

Therefore, a realist-termed analysis is undertaken. Relative gains reign supreme, actors fight for acquiring/ preserving spheres of influence and politics resembles a zero-sum game, where gains for one power equal with losses for the other. The outcomes then can be explained by a parallel examination of the policies of the main actors. It is these issues we proceed to below.

### **3. Power Politics in the Balkans: an Overview of the US and Russian Policies**

#### ***3.1 US Hegemony in the Balkans***

The US aims to preserve its hegemonic role in the world, hence pursuing stability and consent for the sustainability of the world-wide free trade regime it supports. [12]. Within such a framework, the US policies in the Balkan region are centred upon efforts to sustain an arc of friends. US support to the Croatian and Bosnian entities during the Yugoslav civil war earned amiable responses from Croatia and Bosnia. While the Bosnian state remains fragmented and thus highly dysfunctional, Croatia is at the doormat of both NATO and the EU [13]. Slovenia has also closely tied its future to the western structures through integration into both the EU and NATO [14].

The US has been a keen, albeit at times covert, supporter of Kosovo's independence from Serbia. The bombardment of Serbia in 1999 and the recognition of Kosovo's independence in 2008 have bred gratitude to the Kosovo Albanians [15]. Kosovo is a statelet practically in virtue of the US, thus within the US orbit.

The US has pledged support for the Albanian element overall in the Balkans hence fuelling fears that a resurgent Albanian nationalism may emerge pursuing the creation of 'Great Albania'. In 2001 the US co-negotiated a deal between the Slavomacedonians of FYROM and the Albanian minority of the country that significantly boosted the latter's rights [16]. Moreover, the US follows a friendly stance towards Albania proper reflected upon its invitation to enter NATO in 2009 [17].

The same holds true with Bulgaria and Romania that became NATO members in 2004. The US retains military bases in the two countries, enhances interoperability between their military potential and hence expands and fortifies its politico-military alliance [18]. Last but not least, the support the US lends to FYROM in its dispute with Greece over its constitutional name has also earned the US friendly and complacent policies from FYROM, another aspirant country to NATO membership [19].

US overall presence in the Balkans is thus quite dominant. Within less than twenty years since the demise of Yugoslavia and the end of the cold war, the US managed to recall the entire region into its sphere of influence, but for Serbia and still troubled Bosnia. One has also to take into account that Greece remains a loyal ally of the US. Despite the strong anti-US public sentiment, Greece has aided the US in its military campaign in Kosovo and its policies are on the whole following suit the US lead [20].

Turkey forms a similar case. Despite the escalation of US-Turkish relations in the last years, especially due to the second Iraqi war, Turkey is for more than half a century a member of NATO and coordinates closely with the White House on most international issues [21].

In politico-military terms, that is, the US has managed to turn the Balkans into its zone of influence. As we are going to see next, Russia is at pains to fight back US supremacy in the region using energy as a major lever of influence. For this reason, the US is pushing the Balkan countries to withstand such pressures. Its main success boils down

to the promotion of the ITGI pipeline (Italy-Turkey-Greece Interconnector) that will bring Azeri gas to the European market and compete with alternative Russian projects [22]. Despite this success, however, Greece and Bulgaria seem to prefer energy pacts with Russia in order to ensure their energy security in light of Russia's dominant role and potential as an oil and, especially, gas producer and distributor in the region [23]. Turkey, on the other hand, endeavours to upgrade its role from transit country for Azeri gas to this of re-seller of this gas. This creates serious obstacles to the easy-going transportation of gas from East to the West and may hamper the only mid-term viable alternative to Russian gas for the European market [24].

### ***3.2 Russia Policy: Energy-Propelled Resurgence***

In the 90s western policies dominated the Balkans. Russia was rather weak at that time and its endeavours to support the Serbian state in the 1991-1995 civil war, as well as avert NATO's campaign in Kosovo in 1999 were unsuccessful [32]. Booming oil prices, however, and forceful, pragmatic foreign policy initiated by former Russian President Vladimir Putin since the beginning of the 00s have given Russia the leverage to play a far more crucial role in the European setting [33].

As noted in the previous chapter, Russia is attempting to balance US supremacy in the region by means of its strong card, energy. More specifically, Europe is highly dependent on Russian oil and, especially, gas, and the Balkan countries are no exception to this rule. Indicatively, Greece receives around 1/3 of the oil and 80% of the gas it uses from Russia; Bulgaria is utterly dependent on Russian energy and the same also holds true for Serbia [34].

Russia endeavors to expand its network of dependency to the whole of Europe, including the Balkans. Energy dependence creates incentives for close cooperation with Russia and thus interferes with US influence in these countries. States dependent on Russia to ensure their energy security hence do need to pay attention not to upset their main supplier [35]. Energy, then, is to Russia what military bases and integration into the Western structures is to the US.

In the summer of 2007 Russia's gas behemoth, Gazprom, announced plans to construct a gas pipeline that will run under the Black Sea and carry Russian gas to a host of European states, namely Romania, Bulgaria, Serbia, Greece, Italy, Slovenia and Austria. This pipeline is competitive to and serves to undermine the profitability of the West-sponsored Nabucco pipeline that will, if implemented, carry gas from the Middle East, the Caucasus and the Caspian to the same markets [36].

In order to ensure the cooperation of these states that form crucial links to the project, Russia has signed deals with both Bulgaria and Serbia in the end of 2007 and the beginning of 2008 respectively for the transit of gas through their territory and the construction of storage facilities there. Negotiations between Greece and Russia are currently undertaken so that Greece will also participate in the pipeline. The two sides had preliminarily agreed to this in June 2007. In case this deal goes on as planned, it will exacerbate Greece and Bulgaria's almost total dependence on Russian gas and tightly grip Serbia in the Russian camp [37].

Moreover, the Burgas-Alexandroupolis oil pipeline is of huge symbolical significance. It is the first pipeline that passes through European territory (Bulgaria and Greece) and is controlled by Russian interests. Although the capacity of the pipeline is not great (35-50 million tons per year) and thus does not cause great dependence on the part of the European states, it is indicative of Russia's forceful return to the European chessboard [38].

At the same time, Russia makes significant inroads in the oil and gas market of the Balkan states. The most important move was NIS', Serbian oil monopoly, acquisition by Gazprom in January. This is added to a long list of Russo-Balkan joint ventures or Russian enterprises that have penetrated the downstream oil and gas sector in the Balkans [39]. Such moves cede partial control of these states' energy security to Russian hands. Therefore, they create sensitivity on their part and form solid grounds for close cooperation with Russia. All these initiatives aim at reducing US influence in these countries and retracting them into the Russian orbit.

Moreover, Turkey is also closely connected with Russian energy policies, not only as an importer of Russian energy, but also as a potential transit country due to its critical geopolitical position. In case Blue Stream, the pipeline that brings Russian gas to Turkey, is connected to the ITGI pipeline, Turkey's role in the expanding Russia-Europe energy chain will be substantially upgraded [40]. At the same time, Turkish interest for closer cooperation with Russia will augment.

This energy strategy forms the core of the Russian counter-attack to the domineering role the US purports to play in the Balkans. Still, the Russian policy is not confined only within energy moves. To the contrary, Russia has aroused fervent opposition to the US-sponsored recognition of Kosovo renouncing it as illegal and unacceptable [41]. There are implicit threats that Russia may use the case of Kosovo as a precedent for resolving the similar crises in its near abroad (Nagorno-Karabakh, South Ossetia, Abkhazia, Transdniestria) in its favor. Additionally, a scenario whereby Serbia incorporates the Bosnian-Serb entity with Russian tacit support and thus mutilates the Bosnian state also seems plausible [42].

Russia's divergence from western policies with regard to Kosovo arouses basically normative issues. Russian argumentation boils down to the point that any change in the map of the Balkans will instigate a series of multilateral territorial claims that will further destabilize the region. If Kosovo secedes from Serbia, the dichotomization of FYROM and the creation of 'Great Albania' comprising Albania proper, part of FYROM and Kosovo will become a more realistic goal. Kosovo independence thus will only serve to fuel Alban nationalism and threaten to transform the Balkan political geography [43].

It is obvious then, that the US and Russia are engaged in a zero-sum game, whereby they seek to maximize their influence and serve their interests at the expense of those of the other. Realist insights hence remain preponderant for the examination of current Balkan politics.



## **4. Liberal Institutional Prescriptions**

Power politics prevail in the Balkans. On the one hand, the US attempts to maintain and augment its domineering role in the Balkans. Russia, on the other hand, endeavours to win back its spheres of influence and fights back western deeds in the Balkans.

This perpetual friction is due to the lack of institutionalization. In the absence of any European-wide organization that would encompass all the central actors and undertake the responsibility to collectively cater for peace and stability, the Balkans remains an arena for great power controversies.

The current situation cedes emphasis on the need to design a new security system. This will have to bear three main features. Firstly, it will have to integrate Russia as a full-fledged partner. Indeed, the most important deficiency of western institutional structures at the moment is that they do not bring Russia in; hence unilateral actions take place and crises are not contained, but are allowed to spread. However, no disputes can be properly resolved without the acquiescence of all significant powers [44]. That means that unless Russia becomes part of a truly pan-European institution with respective authorities, meaningful coordination is precluded and power politics will endure.

Secondly, the new security order has to entail a basic normative convergence. Although it is true that the US (also the EU) and Russia hold quite distinctive perspectives on sovereignty, war, ways to resolve crises etc., they do share the insight that the primary goal is the preservation of order, peace and stability in Europe [45]. This goal, however, is currently foreshadowed by unilateral actions and competitive attitudes. It is true that power struggles remain significant even within institutional structures; the difference, however, is that in these cases they most frequently do not come ahead of and obscure collectively shared aims [46].

Thirdly, the low politics rationale is collectively shared. Although the EU is the most outspoken supporter of this attitude, Russia also believes in the power of economic integration, as envisaged in its plans to create networks of interdependence with the EU and reinstate economic ties with the CIS states; and of course, the US, albeit also willing to back its diplomatic missions with military force, is following a significant low politics agenda [47]. That means that the new security architecture can be guided by the principle of low politics promotion, the creation of dense networks of economic and social interdependence that raise the stakes for hostile actions. Power struggle thus can be confined within economic competition, as is the case in the most developed western world, and crises can be contained, so that they do not impact on the security and welfare of the people.

## **5. Conclusion**

European history shows that this is a practical way to overcome myopic self interests and rivalries. There is nothing unique to the Balkan culture that drives it constantly to the verge of war. The Balkans today resembles the whole European continent of one

century ago. But all these animosities are indeed a matter of the past. Franco-German and British-German rivalries are a good example. Within the Balkan region, Greece and Bulgaria used to be enemies and fought deadly wars with each other. Today, none the less, they have cultivated friendly relations, form part of the same pacific family and are guided by mutual expectations for perpetual peace. Even more importantly, if German nationalism of the 30s and 40s, so fervently espoused by the German people back then, has been eclipsed, the same can be done with Serbian and Albanian nationalism today.

Once scholars understand that realist premises are insufficient for the analysis of Balkan politics, this will mean that progress has indeed been achieved; this is because theory and practise are very closely correlated. Conversely, as Robert Cox wrote, theory impacts on the way we think [48]. It is true that realist lenses are for the time being useful tools to look at the Balkans. If we keep up viewing the Balkans under this prism, nevertheless, we may end up only reproducing this order. To the contrary, if we really yearn for a more peaceful future, we have to open up our theoretical framework and search for ways to bring about a new order. Following a liberal institutionalist agenda serves this fundamental goal.

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## Appendix

### List of acronyms

EU	European Union
FYROM	Former Yugoslav Republic of Macedonia
ITGI	Italy-Greece-Turkey Interconnector
NATO	North Atlantic Treaty Organization
OSCE	Organization for Security and Cooperation in Europe
UN	United Nations

# Making Sense: the Role of Memory in Media Representations of Serbo-Croatian Conflict

*Jelena Vasiljevic<sup>1</sup>, Gordana Djerić<sup>2</sup>, Bojan Zikić<sup>3</sup>*

<sup>1</sup>*Ilije Garašanina 51, Belgrade, Serbia, jelena\_vasiljevic@yahoo.com*

<sup>2</sup>*Institute for Philosophy and Social Theory, Kraljice Natalije 45, Belgrade, Serbia, djeric@instiFDT.bg.ac.yu*

<sup>3</sup>*Faculty of Philosophy, Dept. of Ethnology and Anthropology, Chika Ljubina 18-20, Belgrade, Serbia, bzikić@f.bg.ac.yu*

**This article analyses several examples of Serbian and Croatian newspaper writings during the war in Croatia, 1991-1995. The aim is to show how the conflict which marked the dissolution of Yugoslavia was converted, by virtue of narrative techniques, into meaningful stories about the Self, the enemy and reasons that ‘inevitably’ led to war and state dissolution. The focus is on the role that culture of memory played in shaping these narratives and forming ‘explanations’ so frequently offered by the media of that time.**

## **Keywords**

culture of memory, narration, war in Croatia.

## **1. Introduction**

This paper will analyze the use of memory, the appropriation of images from the past, and specific interpretations of history in several examples of writing appearing in the Serbian and Croatian press during the conflict in Croatia – between 1991 and 1995 [1]. Although it deals with the media and the war in ex-Yugoslavia, my research does not follow the well-known and often formulated premise that places these terms in conjunction to demonstrate their devastating codependence – through the role and responsibility of the media in the latest Balkan wars. What I search for are *concepts* about the war (and, more generally, the conflict and its causes). I am interested in the ways in which the war was conceptualized through the processes of transformation of information from the battlefield into narratives, stories that lent meaning to the reality of war, offering it an explanatory framework, protagonists, motives, causes and purposes.

The press is an ideal source for the study of such narratives production, as it reported on the war daily, offered different models towards its explication and interpretation and

reflected the dominant public perceptions of it. Many local histories, family memories and other narratives that figured as part of the (intimate) culture of memory, but could not be publicly articulated before the war (during the period of communism), entered the public space at the break-up of the federation and imposed their frameworks on the understanding of the war, and were consequently reflected in the media – especially the press, which gave them significant leeway in order to manipulate them towards legitimizing the dominant politics which often controlled the press itself. I therefore view the press as a source for the study of the narrative frameworks in which battlefield news was placed to be shaped in a certain way, and thus, to be read and understood in a certain way. The analyzed material, of which a small portion will be presented in this paper, consists of texts in the Serbian and Croatian press covering the war in the aforementioned five years – from the first armed conflicts in Plitvice region to the Croatian military action *Oluja (the Storm)*. These texts thematize the images of the past and employ collective memories to form narratives in an attempt to construct a point of stability from which to suggest/impose an understanding of reality. In them we can read different war stories which, in order to provide explanations, use history and put forth repressed memories, old 'truths' long 'proven' in the past and new ones legitimized in it. They are here presented and analyzed with the idea to demonstrate the connection between the culture of memory, the process of narrativization, and the conception of cognitive patterns for the presentation of (the war) reality.

## **2. The Culture of Memory and Narration**

Apart from signifying an interdisciplinary scientific field dealing with interpreting the uses and distortions of the past, the culture of memory is also used as an umbrella term for the total non-scientific public use of the past [2]. Images from the past are quite usable content for articulating the needs of today, for they are not so much a reflection of past times as socio-integrative constructs enabling the continuity of the collective identity; we also use the culture of memory to institute and enforce social images of ourselves. The past is thus an extremely active factor activated by the needs of today, whether we are concerned with a planned instrumentalization of the past by political elites in the interests of preserving power, or broader cognitive (sometimes unconscious) needs of a society to secure a learning pattern as well as reduce the complexity of reality by introducing meaning.

Images of the past are not static but mutable, and the changes they undergo are effected by the changes in the communities of memory. Wars and times of great crises especially induce great changes in the dominant images of the past, for it is then that the emphases of collective self-determination and identity shift, as well as the definitions of the Other in relation to which the new positionings are conducted. It is also at the times of crises that images of the past are invested with a new force and form, becoming part of the mobilizing moral rhetoric. The material analyzed in this paper will demonstrate the use of memory and the past in a time of crisis and war when a new framework for investing the devastated past, the war present, and the desired future with meaning was sought after.

It is also necessary to mention the importance of the narrative technique without which memory could not have the importance and mobilizing potential that it does. Narratives,

put simply, consist of a string of sequences which, ordering themselves, provide an answer to the question *what the story is*. They also often hide an answer to the question *why the story is told* [3]. The interest in the study of narratives derives from the insight that they hide the processes of cognitive patterning of different life facts into a single fabric that invests reality with meaning; through narratives we interpret and understand events surrounding us [4]. Their crucial function is cognitive, as they organize perceptions of reality into a meaningful and coherent pattern. Especially in times of crises, narratives, as stories about the self, the world, and others, find meaning in the current position through an illusion of coherence in otherwise fragmentary experiences of reality. Instrumentalization of the past would hardly be efficient without the narrative mode of rendering it, which includes its conception, selection according to a dramatic pattern, emotionalization. Fabulization reduces content and forms it into a meaningful story.

### **3. History, the Past, and Memory in the Serbian and Croatian Press**

The press material from which the examples analyzed here derive was collected by using the press clips of the largest newspaper archives in Belgrade and Zagreb – the *Borba* and the *Vjesnik* and encompasses texts covering the greatest events and turning points in the war, from 1991 to 1995. Considering my research topic, my selection criterion was not a particular newspaper, but article type. What I selected from the press clips and included in the material were texts whose content clearly strove to offer an explanation, an analysis, an interpretation of the events they wrote about. These texts are not of a primarily informative form (those on the front pages, concisely formulated), but those which transfer information in *sujet* form, usually offering a point or an explanation – mainly, thus, authorial columns, *feuilleton*, reports from war correspondents, interviews etc. For the research into the culture of memory I selected as relevant the texts in which the subject of the past, history, memory, was present in various ways; in this paper, owing to limitations of space, I will only cite a few, but sufficiently to illustrate my point.

#### ***3.1 Printed Media from Serbia***

##### **3.1.1 Historical Fate and Peculiarities**

Narratives 'polish' the content they connect, invest it with coherence and form it into a source of meaning. Thus narratives of the past yield explications of the present, the course of events are understood to be 'inevitable', and collective behaviors and characters gain an affirmation of their existence. By far the greatest number of articles from the Serbian press where we find the *topoi* of the past, memory, and history, narrativized the theme of the historical destiny of 'this area' and the peculiarities of characters and phenomena that derive therefrom. These are texts that interpret the recent or more distant past of Yugoslavia and the history of the relations of the great powers with it, drawing conclusions from these analyses of the 'inevitable' development of affairs, a break-up that was to be expected, etc. Within the range of



these motifs I also consign the texts whose interpretations and explications manipulate 'national characteristics', stereotypes, 'truths' about characters which history and popular experience have 'confirmed'.

The fate of this region has, according to numerous interpretations, been such that it has always been the victim of the interests of the great powers, especially Germany, whose *drang nach osten* was intercepted by Serbia. As maintained by some interpretations, fate is even bleaker: the history of the relations of the great powers with Serbia can be summarized in a history of hard ultimatums. In the text headed "Serbs and European ultimatums" and "How the great have sacrificed Serbian legitimate rights to their plans and egotisms" [5], those ultimatums and the losses they signified for Serbia are enumerated: from the Russian-Turkish Peace of 1812, in which Serbia "renounced its hard-won statehood", through the annexion of Bosnia and Herzegovina to the ultimatum of 1941. And "now, in 1991" comes the latest – the Hague ultimatum that "states": "erase decades and centuries of your history, renounce all your sacrifices and return to the borders and the state of before 1912...".

Very frequently, the reasons for the break-up of Yugoslavia were sought in its 'inside' history, its structural bases. These texts indicated different clusters of reasons. According to many, the Constitution of 1974 prophesied the break-up, as it followed from it that the republics will grow stronger at the detriment of the federal government, so the secessionism of the Western Yugoslav states was seen as its inevitable and expected consequence.

Yugoslavia was not the only perceived victim of its 'imposed' fate. The story of the fateful repetition of history the Serbian people was doomed to was also constructed. One text reacts to the alleged existence of camps for Serbs on the island of Pag, in Croatia, with a resigned constation that it is the fate of the Serbian population to die in camps after each war [6].

Especially interesting are those narratives which place certain characteristics of Serbs and Croats into a (para)historical context. Actually, both the Serbian and Croatian press has dealt much with 'the other side', and often used the authority of the past in these 'analyses' to confirm its 'diagnoses' and explain the 'peculiarities' of the tackled mental patterns. Dealings with the Other often yielded certain conclusions about 'us' – through comparisons of the 'what they are like, and what we are like' variety. The existence of self-critical narratives, a critical stance towards *our* 'historically generated' characteristics should also be mentioned, but they were certainly a minority compared to the themes 'vivisecting' Croathood, or more precisely '*ustaštvo* (ustashas)', or even more precisely the historical roots of the hatred of Serbs.

Such narratives sought to explain certain 'general characteristics' of Croats – e.g., the superiority they were claimed to feel:

Croathood is, as they say, the loft of Christianity, and Catholicism the only true Christianity... The feeling of Croatian superiority stems from this. Belonging to Catholicism for Croats signifies belonging to something great and gives them the illusion of being a priori Europeans because of it... [7]

More often, the question of 'Serbophobia' as the key determinant of Croathood was investigated (remarks such as: an 'ustasha' is a "Croat who derives his Croathood from

Serbophobia’’). It was noted that the ’essence of the conflict between Serbs and Croats’ stems from

...the dominant belief among Croats that Serbs are a disruptive factor, which has long interfered with the creation of the Croat state. This belief must produce an intention to disable this disruptor. It is well known what these disablings are like... [8]

Serbophobia was not the only recognized characteristic of Croathood; some texts were indicating that the Croatian people was by its nature genocidal. In an interview, the writer Đorđe Očić states that ’’Tudman’s government risks to verify the thesis of the genocidal character of the Croatian people, thus inflicting the worst ill upon it.’’ [9]

The climax of such accusations was reached around the time of the Vukovar conflicts when a single news shook the domestic press. The Italian journalist Milena Gabanelli allegedly found the corpses of 40 children (some sources said 41) and from the beginning it was stated, which Gabanelli’s claim corroborated, that these were Serbian children slain by the ’ustashas’’. Despite the many weeks’ exploitation of the topic, the corpses were never found, some ’witnesses’ withdrew, and Croatian media wrote about Serbian propaganda and lies. Finally, the story simply died out in the press, without receiving an epilog. Although the newspaper articles never clarified how the ethnic identity of the victims and executioners was determined, many explanations invoked ’well known truths ascertained in history’:

Although no one said whose children these were, it is known. For, though all children are ours, such a thing could only be done by the ustashas... Only they can close their eyes deeply enough... [10]

Reactions to such morbidity of the steaming media propoganda came from dominant narratives of individual intellectuals, articulated in certain oppositionary newspapers. They again saw the problem in some essence, formed by history and the past, only now it concerned ’our’ side:

For two centuries in Serbia, heads have gone down in the name of power, enemies have been invented, friends have been changed. The Kosovo myth is getting more clamorous... The end of the century is approaching, and irrationality roams the newspapers, the blurred screens, the streets. [11]

### **3.1.2 Authorities from/of the Past: the Sources of Legitimacy, Historical Rights, the Victim Status**

The past is an exceptionally important and powerful political and discursive factor because it is probably the most reliable and almost inexhaustible source of legitimacy we can turn to. As long as there is consensus in a society on certain images of the past and the values they confer, they will be taken recourse to as the litmus for values and referent framework in which to place the messages of today. ’’The YNA (Yugoslav National Army – J.V.) has fascists for enemies’’, states the title of a text beginning with the sentence ’’Vukovar must fall, and it is only a matter of time before it happens’’ [12]. Tanks in the streets of Vukovar thus receive their justification, for one is not to doubt the righteousness of the fight if the enemy is a fascist, and the state army his opponent. The ’halo’ of fighting against fascism is here to eliminate any doubt as to the rightness of ’our’ army’s actions.

It is thus sufficient to reach for solidified and confirmed values of formed past images to obtain an instant frame of legitimization. Those can be images of the Yugoslavian fight against fascism, as in the cited example, but they can also be images from a narrower national past. [13] As an example of the use of the latter, it is interesting to note how a text used the fate of major Milan Tepić [14] to refute the claim that the war beginning in those months was a "dirty war". Namely, the text tackles such claims by certain Western newspapers and dedicates itself to their refutation by performing a 'logical bravura'. It asks the question: "Is it possible, however, to honorably participate in a 'dirty' war? Is it possible to fight 'dirtily' for an honorable cause?". [15] Instead of an answer, it reminds of Tepić's feat and its similarity with the feat of vojvoda Sindelić. [16] For Sindelić's feat we *know* that it was magnificent and honorable, and as these feats are comparable, it follows that Tepić's action is indubitably honorable and respectable. If so, how can this be a dirty war, the author of the text wonders. In a dirty and senseless war there can be no honorable and respectable feats. Vojvoda Sindelić, as an already established symbol of honor and virtue, legitimizes Tepić's feat and serves to refute the claims of a dirty war.

The past was also used to derive the 'historical right' of Serbs to fight for the disputed territories in the seceding Croatia. The horrendous destruction and fighting in Vukovar, opened the question of this town's 'ethnicity'. The heading of a text introduces an "witness" of the "Catholic deceit that the town on the Vuka is the 'Stalingrad of Croatia'":

Vukovar is Serbian... because in 1914 in the 'diocese of Vukovar there were 14,896 Serbs (or 35 per cent) and 10,353 Croats (or 24 per cent)... Since then, from census to census, there has been deceit. The census was always religious instead of ethnic, so the Catholics were... always more numerous than the Serbs. [17]

The newspaper also reported the stance of the Serbian Academy of Sciences and Arts (SASA) presidency's members, given in a unique epistle to "foreign members, affiliates, friends and science institutions" entitled "Several basic facts about the position of the Serbian people in Croatia". The 'unenlightened' are given in this epistle several moments of older and more recent history of Southern Slavic peoples from which the centuries of freedom-loving, state-forming efforts of the Serbian people, the sacrifices it suffered through history, and finally the oppressed position it had in the Communist Yugoslavia are to be understood:

Serbia has by mid-19<sup>th</sup> century already formed an independent state... which was a parliamentary and multi-party monarchy of the Western type. In both world wars Serbia fought on the side of the Western Allies. [18]

During World War II... in 1943 was created... the second Yugoslavia, headed by President Tito and the Communist Party, in which the leading roles were taken by Croats (Tito, Bakarić) and Slovenians (Kardelj, Kidrič and others), and only a minority and marginal role was assigned to Serbs (Ranković and others)... In Tito's Yugoslavia the Serbian people and Serbia were culturally, spiritually, and materially impoverished. [19]

## 3.2. Printed Media from Croatia

### 3.2.1 Historical 'Testimonies' About the Other

An important place in the conceptualization of every conflict is occupied by the definition of the Other. We have seen how the narratives of the Serbian press reached for 'historical argumentation' and the collective knowledge of the past to explain certain 'characteristic tendencies' of the Croatian people. In the Croatian press dealing with the Other, i.e., the Serbs, is a much more prominent theme, and, I would venture to say, separately formulated, with a self-serving purpose.

As in the Serbian narratives the term 'ustasha' became a commonplace to describe the actions of the Croatian army and police, so the Croatian narratives, when describing conflicts with Serbian para/military units, but also YNA units, accepted and constantly reproduced ideological determinants from the past. "The fascist army and its 'chetnik' aides continue the raid of Vukovar"[20] Or:

Although yesterday it was again fully surrounded by the Serbo-Communist occupators, Vukovar was defended by superhuman efforts. Airplanes of the criminal Yugoslav army bombed the town again last night, aided by the Serbian fascists from the neighboring villages... [21]

Communists and fascists merge into a single face of the enemy, becoming an instant explanation why *such* an enemy *must* be fought against.

So that the *explanation* of the enemy does not remain in purely ideological terms, detailed analyses of the Serbian character were conducted, using the knowledge provided by history and the past. How to explain why the "Greater-Serbia-Communist so passionately strives to destroy all that is ours and of the world"? The answer follows:

If we pass through Serbia, which has been a part of the Ottoman Empire for centuries, we will not find a single sign that here was once the Islamic Ottoman Empire precisely because the Serbian barbarogenius destroyed all the mosques, banished the Muslims or christened them in the Orthodox faith... Continuing this path, the Serbian barbarogenius raised its own barbarism onto the level of a cult and a national myth, and today we pay with our own blood the climax of such politics... [22]

Dealing with the Other has the purpose of 'explaining' the situation by vivisectioning the mentality of the enemy in order to clarify what it is we are up against, what course of action is justified. At the same time, however, we deal with the Other in order to reposition Ourselves or confirm a position that suits us. By explaining the Other in a situation of conflicting it, we will reach some new conclusions about Us. If, along the way, we 'discover' some 'historical truths', 'confirmed' in the past, about the Other, so much the better for the historical truth about Us:

The myth of the invincibility of the Serbian army has collapsed, confirming the thesis that it is only a myth. Again is exposed this primitive mentality of a part of Dinara Serbs with an inferiority complex, who are jealous of something that Zagreb is... In a city they hated even in the former Yugoslavia, because it was more beautiful, cultured, European, intelligent than their Belgrade. [23]

Finally, for the 'Greater-Serbian aggression' to become a clear and obvious fact, suitable historical-structural causes and satisfactory explanations must be found for it. Thus, in this case, the experts were given the say. The *Vjesnik* wrote about the presentation of the book "The sources of Greater-Serbian aggression", where the authors, professors, analyzed "the Serbian imperialistic consciousness as a consequence of a pathological Serbian possessiveness"[24]. The following words have a similar ring to them:

The idea of a Greater Serbia has been deeply rooted in the Serbian tradition since the middle of the previous century. It developed from the premise that Serbs are actually the heirs of the Ottoman Empire and that Serbs should inherit all that the Turks had once occupied in the West. [25]

### 3.2.2 History and the Croats

Like the Serbian narratives, Croatian ones also searched history for the confirmation of the victim status, but also rights, before all to the statehood over the territory the Serbs refuse to admit as (only) Croatian. Within these narratives the themes are varied of the Croats' subordinate position in both Yugoslavias, described as constructs subsidiary to the Serbian interests of ruling West of the Drina, and the theme of the centuries-long presence of Croathood in the areas of today's Croatia.

It was accentuated that Yugoslavia in any form, whether a monarchy or a Communist republic, never allowed the interests of Croats to be realized, so it is justifiable to assume that a third Yugoslavia (discussed before the final secession of Slovenia and Croatia) would also be a dissatisfactory solution.

It is a fact that in both Yugoslavias the Croats were unhappy... The Communists were in no way different from the regime of the old Yugoslavia – they continued and supported Serbian hegemony over all state affairs... [26]

Another great theme in which history was called forth as a witness to Croatian rights was to prove the antiquity of Croatian statehood and the Croathood of the disputed territories. The renowned academic Ivan Supek, who often appeared as an authority in the newspapers, commences a text with the following musings: "Few peoples have such an old and precise date of their state's independence as we Croats do. John VIII in his letter of June 879 confirms to knez Branimir full authority over the entire Croatian territory"[27]. Supek is propagating the idea to mark this date as the day of Croatian statehood.

It was of even greater importance to prove the legitimate right to total sovereignty and control over the areas where the fiercest battles were taking place and where the Serbs wanted autonomy. The feuilleton "The Croathood of Vukovar" wrote about this

Croatian town where there has long persisted a European mode of life and economy... in the recent past it was not correct to write about Vukovar, because its Croathood would have been seen, because it would have been confirmed as a Croatian town[28].

This feuilleton 'confirms' it by citing the advantage the Croatian population has always had here. The trouble began with the creation of the first Yugoslavia when:

the empire in which Vukovar was an European town dissolved, and a time started when Vukovar, like the other Croatian areas, was shoved under the

gendarme boot of Yugoslavia... The Serbian minority and the officials brought here have an increasingly strong influence... [29]

After the action 'Oluja' (military operation *Storm*) and the establishment of the integrity of the Croatian state, 'proof' was given not only of the antiquity of Croathood in the recently regained areas, but also the prehistoric connection between different parts of Croatia:

Numerous archaeological remains from Knin and its surroundings confirm that this territory has belonged to Croatia for centuries... [30]

## 4. Conclusion

It is undeniable that interpretations of the past, history, and collective memories exerted a conducive influence on the formation of the explanatory framework for the war on both sides. It is also undeniable that efficient instrumentalization of the past cannot occur without the narrative technique. Both Serbian and Croatian narratives present in the press strove to invest the war with a meaning by determining its 'real' causes, defining the position of the self and the enemy... Naturally, legitimizing one's own position and delegitimizing the enemy's was of the greatest importance. Strategies for reaching this goal were varied, often almost symmetrically distributed on both sides: confirming the status of the victim, dealing with the Other and the historical relations with it etc. Differences between narratives are also noticeable, starting with the fact that Croatian narratives generally dealt with the theme of the past and memory to a lesser extent and that it was more narrowly defined – it mostly boiled down to historical relations between the Serbs and the Croats, especially in the context of former Yugoslavias. Serbian narratives of interpreting the past reached back further into history and wider into international relations between the great powers. Also, in Croatian narratives, the ultimate Other are the Serbs, while in Serbian narratives, I would say, the Other is a more diluted category: it encompasses primarily the Croats, but also all others recognized as a threat to Serbian interests, again doubly understood – as a striving to unite all Serbs and as a striving to maintain the integrity of Yugoslavia. [31] In that sense, Croatian narratives display a perhaps greater stability concerning the themes they tackle, the structure of the motifs, and the clear goal they serve: an independent Croatia with a solved problem of the uprising of the Serbs in Krajina. Serbian narratives vary from fidelity to the Yugoslav state of the past, when their standpoint of attacking the Other is fighting against secessionism and the break-up of the state, to immersion in revived nationalistic discourses, when their main line was the endangered state of the Serbian people and the injustice inflicted upon it.

## References

- 1 The paper is part of wider research into the narrativization of war in the Serbian and Croatian press and is the result of participation in the project entitled '*Spinning' out of control: rhetoric and violent conflict. Representations of 'self' – 'other' in the Yugoslav successor states* financed by the Norwegian Research Council.

- 2 Kuljić T. *Kultura sećanja*. Beograd: Čigoja štampa; 2006. This study is the most complete source in Serbian for theoretical explanations and the problematization of the use of the past and it is therefore what I will primarily be using in the explication of the term.
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- 4 Patterson M, Monroe K. R. Narrative in Political Science. *Annu. Rev. Polit. Sci.* 1998; 1: 315–31.
- 5 Brišu nam i žrtve i istoriju. *Politika Ekspres*. 21. 03. 1992. Sources indicating newspaper texts will be given in italic.
- 6 Za Srbe ponovo logori. *Večernje Novosti*. 4. 02. 1993.
- 7 Ratuje li se zbog religija. *Politika*. 28. 11. 1991.
- 8 Suština sukoba Srba i Hrvata. *Politika*. 13. 02. 1993.
- 9 Huškaju na genocid. *Politika Ekspres*. 12. 05. 1991.
- 10 Vest kao zver. *Večernje Novosti*. 21. 11. 1991.
- 11 Javna kuća – metež. *Nin*. 20. 03. 1992.
- 12 *Politika*. 08.11. 1991.
- 13 In that sense the narratives in the Serbian media were less stable and clearly articulated than the narratives of the Croatian media. The new Federative Republic of Yugoslavia was considered to be the heir of former Yugoslavia, and a part of the public and media supported this idea of continuity and heritage of the disappearing federation. In such narratives, the secessionism of the Western republics (Slovenia and Croatia) was condemned, while Serbia and the Yugoslav National Army (YNA), while it still existed, were represented as the core of the fight for the preservation of a unified state. On the other hand, nationalistic narratives concurrently grew stronger, portraying the old Yugoslavia as the graveyard of Serbian national interests and building their motifs from parts of the national past ignored by Communism. Consequently, a lack of clarity concerning the attitude towards the Yugoslav state was obviated – it was, in different narratives, both a source of injustice to Serbs, and a legitimate frame in which Serbian interests can be defended against separatist tendencies. In the dominant narratives in Croatia, as will be seen, the attitude towards Yugoslavia is clear and unambivalent: that state symbolizes the authoritarian system of Communism, with a Serbian hegemony, from which the Croatian democracy is emancipating itself.
- 14 Milan Tepić was a YNA major who, in September 1991, blew up an ammunition warehouse in which he himself was situated, to prevent the approaching Croat soldiers from obtaining arms. Because of this action, he was often compared to the famous Serbian military leader from the First Serbian Uprising, vojvoda Sindelić, who had similarly prevented the Turkish army from taking over a Serbian army garrison.
- 15 Prljavi rat. *Večernje Novosti*. 19. 11. 1991.
- 16 See reference 14.
- 17 Žico s onog sveta. *Večernje Novosti*. 14. 12. 1991.
- 18 Glas istine i razuma. *Politika*. 16. 10. 1991.
- 19 Genocid nad srpskim narodom. *Politika*. 17. 10. 1991.
- 20 Pomahnitala soldateska. *Večernji List*. 30. 08. 1991.
- 21 Herojska odbrana grada. *Večernji List*. 29. 08. 1991. s
- 22 Kocka je bačena. *Danas*. 08. 10. 1991.
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- 24 Cvijeće političkog zla. unknown source and date.
- 25 *Globus*. 27. 08. 1993.
- 26 Balvani na kninskoj cesti. *Vjesnik*. 18. 08. 1994.
- 27 Papa priznaje Hrvatsku. *Novi Vjesnik*. 04. 06. 1992.
- 28 Papa priznaje Hrvatsku. *Novi Vjesnik*. 04. 06. 1992.
- 29 *Novi Vjesnik*. 08. – 09. 07. 1993.
- 30 *Vjesnik*. 07. 08. 1995.
- 31 See reference 13.

## **Appendix**

### **List of Acronyms**

SASU	Serbian Academy of Sciences and Arts
YNA	Yugoslav National Army



# Communities, Memories and Archives in South East Europe

*Despina Syrri*

*SEERC, 17 Mitropoleos Str, Thessaloniki, Greece, dsyrri@gmail.com*

## **Keywords**

archives, Balkans, memory, transitional justice, communities of records.

This paper aims to examine existing initiatives in dealing with the past in South East Europe, particularly in the case of archives. In the countries of the Balkans most affected by the 1991-1999 wars there have been on going discussions about the documentation of the wars as countries are still struggling to find the best way(s) to deal with the past and their consequences, and to rebuild trust among the members of the society and good neighbourly relations. The debate has gained a new momentum in the recent years, continuously sparked by different developments (e.g. the 2007 decision of the International Court of Justice). New technologies are assumed to open new avenues for democratization and accountability, be it in communication and free circulation of information, and create a far larger negotiating process, with significant opportunities for the preservation of memory(ies), documentation and contestation - a far more multi-sided, multi-scalar and multi-level board where novel alliances, formations and mediations might arise.

One particular case is that of tribunals' archives, which are supposed to constitute an important legal and cultural inheritance that belongs to the world community and they must, therefore, be secured for future generations. While respecting different legal constraints, the information contained in these archives is expected be made available for new forms of use, such as scientific research and investigation by/for surviving relatives. Furthermore, the archives would serve to explain the workings of the tribunals, and consequently the advancement of the international justice system, to the general public. Who owns these archives? What in Western archival practice is called the subject of the record has to be reconsidered as a full partner in the record-creating process, as a co-creator of the record. The reciprocal 'production' and 'consumption' (shaping) of the colonial narrative of history and identity entail that former colonizers and former colonized are a community of records, sharing a joint archival heritage. So these archives too seem to constitute a legacy, a 'joint heritage', shared by a number of 'communities of records'.

## 1. Colonialism and Mass Violence in Europe

Memories and recollections of the past are often contested and the past is painstakingly constituted through the interplay of collective construction, political bargains, reversals, rationalising of refusals to come to terms with it as well as attempts to recognise the past and cope with it. The process of building societies which are not just ethno-culturally heterogeneous but also open to all diverse groups has been contingent to coming to terms with the past. While engaging in the ordering, grouping and negotiating of the past, new relationships of participation, exchange, dialogue, new meanings, disagreement and compromise, possibly trust and respect, could be established. Europe has arrived at a point where its own historical relationship with the world is part of a lively debate not only about the past, but also about the future. Discussion about the European empire(s) seems to be resurfacing as part of a European discourse of self-understanding and self-reassurance during the process of the European Union integration. Transitional justice may be framed as opening up different ways to create collective memories, to share and to transfer these through time-space. In different locations (physical and virtual) people have developed recently various practices to enact, translate and resist communities' memories.

Colonialism was central to discourse on national identity, to the continent's understanding of itself as a (or numerous) world power(s). As postcolonial studies have shown, colonial engagement neither started nor ended with formal colonial rule. Whereas certain parts of Europe experienced the traumatic violence of decolonisation, others believed that they had nothing to do with the colonial exploitation of large parts of Africa, Asia or South America. They were innocent - so many believed - of the devastations brought about by European colonialism and could therefore engage with the new postcolonial world without the dark shadow of a colonial past. Some observers have termed this 'colonial amnesia'.

In *The Origins of Totalitarianism*, Hannah Arendt argued that there was an inextricable, causal link between the establishment of European overseas colonial empires in the late nineteenth century and the murderous anti-Semitism of the Nazis in the twentieth. Imperialism came home to Europe, she argued, through the rapid spread of racial anti-Semitism beginning in the late nineteenth century, and reached its final stage in the attempted annihilation of the Jews. More recently in literature the extremes of racial politics in Europe, culminating in the Holocaust, are located in the earlier imperial experience outside of Europe. To understand the ways in which Europe's colonial past shaped discourses, mentalities, and politics in Europe, we need to examine the personnel active in the imperial realm before 1919 and their roles in subsequent decades and especially in the Nazi era. If any group carried the direct experience of 'handling' populations in the imperial realm back into Europe in the middle decades of the twentieth century, it would be the soldiers, civilian officials, and scientists who moved back and forth between the two worlds. It is important to provide empirical evidence and to specify the institution and cultural mechanisms by which ideas and practices developed in the imperial realm were transmitted back to Europe and became the bases for policies instituted decades later.

Colonialism played a central role in the thinking and work of the Polish-Jewish specialist in international law Raphael Lemkin (1900-1959) who coined the term

'genocide' in 1944. It was not least the study of colonial mass murders that provided Lemkin with a conceptual framework for analysing the German policy of occupation and extermination in Eastern Europe during World War II. Until recently however, most scholars have ignored the relationship between the phenomena colonialism and genocide. Colonial atrocities as for example the "first genocide of the 20th century" against the Herero and Nama in German Southwest-Africa 1904-08 or the wars of extermination against indigenous peoples in the Americas and in Australia are often still labelled as "pre-modern mass murders".

As Reinhart Koessler explains in his paper "Genocide, Apology and Reparation – the linkage between images of the past in Namibia and Germany" [1], the relationship between Namibia and Germany is a special one – not just by a resolution of the Bundestag saying so upon Namibia's independence in 1990, but on account of a number of linkages, both historic and current. He explores some of the ways how this connection finds expression in the frequently controversial ways of negotiating a past that on account of sometimes acrimonious exchanges, does not appear quite as bygone as up to 100 years might suggest that have elapsed since some of the key events people still refer to took place. Rather, it is his key thesis that discourses and debates around the past in both countries mutually function as it were as sounding boards, throwing back and forth impulses and themes. In a way, this may be considered as a specific case of an 'entangled history' (cf. Randeria 2002, 2006), relating social actors and public discourses within both the former colony and the former colonial power in an intricate web of repeated, and ongoing interaction. In Namibia, the concerns voiced in this context remain pressing for many groups even today.

The notion of mass violence refers to collective human destructiveness, the causes of which are mainly political, social and cultural, which therefore excludes natural disasters and technological accidents. Nor does "mass violence" cover aggression among combatants but rather violence that occurs in wartime and peacetime, that directly or indirectly affects civilian populations. State and non-state actors in conflict frequently evoke past massacres (documented or not) to justify and legitimize their own violence. The role of mass violence in modern times has acquired a special character, transforming itself in a tool of social control used to discipline populations and to transform social relationships. Genocides have also found a strong echo in the repressive experiences of the "outside of Europe", Africa, Asia, Latin America.

## **2. Memory and History**

The role of memory in different cultures and collectivities, and the European ways of dealing with memory (trans)formation has been questioned, and the relation between individuals' memories and collective memories and the eventual subsistence of a "collective memory" analysed. The different ways of memory construction and transmission and how collectivities' memories are manifested in historical and fictional narratives, visual artworks, laws and constitutions, commemorative practices, or landscapes is under investigation, as well as the influence of political, social, economic, cultural or religious concerns on collective memory, considering that some events are lamented or celebrated across generations, but some are quickly forgotten, trying to

answer the question: “What (or, who?) has the power to guide the processes of remembering?”

Which are the ways in which memories of social, political and military violent encounters have been transmitted within 20th and 21st century European culture? Which roles are played by those who mediate the memory of conflict (first-hand witnesses, historians, journalists, writers, filmmakers)? What kinds of interactions and tensions are visible between public and private discourses of memory? In what ways are memories of conflict (or their absence) shaped by the political, economic and social parameters of the present? To which ends are such narratives of the past deployed?

Memory became a heterogeneous and transnational object of research, as Philipp Ther mentions in his “The burden of history and the trap of memory” [2]:

“Historians are facing a fundamental challenge. On the whole, the concepts of remembrance and memory depend upon what a national collective imagines when it thinks back over the past. The German version of Pierre Nora’s *Lieux de mémoires* may indeed have begun to overcome this collectivism; however, the focus remains on the German remembrance of various epochs. As the Austrian cultural historian Moritz Csaky has revealed, this line of research obscures far too much the internal differences of remembrance within a nation. He also stresses the transnational character of remembrance, which, if one looks at the discourse of expulsion, one can only confirm. The German expellees remember places that have long since ceased to be German, in just the same way that Polish expellees refer to places that today belong to Ukraine or Lithuania. Also, the lost cultures of the east can in many places be understood as mixed cultures rather than imprinting them with their national stamp.”

Very succinctly, Pierre Nora in his “Reasons for the current upsurge in memory”[3], underlines some of the immediate effects of this recent surge in memory:

“The first consists in a dramatic increase in the uses made of the past for political, commercial and tourist purposes. One example of this is a sharp rise in the number of commemorative events, ... all go to show that the past has ceased to have a single meaning and that a present that is overlaid with an awareness of its own history necessarily allows for several possible versions of the past.

The second effect of this change in the way memory is organised has been to deprive the historian of the monopoly he traditionally enjoyed in interpreting the past. In a world in which you had collective history and individual memories, the historian exercised exclusive control, so to speak, over the past. ... Today, the historian is far from alone in manufacturing the past; it is a role he shares with the judge, the witness, the media and the legislator. All the more reason, therefore, to speak out loud and clear today on behalf of the “duty towards history”, rather than the “duty to remember”, the need for which a few of us were proclaiming some twenty or twenty-five years ago.

For the real problem raised by the sacred aura with which memory has now been invested is to know how, why and at what moment the otherwise positive principle of emancipation and liberation on which it is based backfires and becomes a form of closure, a grounds for exclusion and an instrument of war. To claim the right to memory is, at bottom, to call for justice. In the effects it has had, however, it has often become a call to murder.”

### 3. South East Europe

Robert Donia tells the story of the obliteration, segmentation and privatisation of memory in Bosnia. [4] Bosnia's institutions of memory have undergone a major transformation since the multiparty elections of 1990, as illustrated by the fate of those located in the city of Sarajevo. During the war and prolonged siege of 1992-1995, Bosnian Serb nationalist forces destroyed key institutions of memory while leaving others largely untouched. But the peace agreements and postwar political structures have devastated many of those that survived the wartime destruction. Nationalist elites have trifurcated libraries and cultural societies while strangling many institutions that are not dedicated to nationalist causes through neglect. The post-war political structure has orphaned the most important institutions of memory in Bosnia and Herzegovina, fragmented many of them, and weakened those that have not been divided. The privatized world of memory is becoming a highly selective one, and it is increasingly challenging to preserve the historical record apart from those themes deemed urgent by the nationalist elites. There is no possibility of replicating the wartime global outrage provoked by images of libraries and museums aflame and in ruins. In any case, that outrage did not translate into meaningful financial support from outside Bosnia for reconstitution of the lost collections. The nationalists are on the verge of prevailing in their effort to reformulate the fundamental sources of historical inquiry for future generations. It remains uncertain whether they will exercise their newly-acquired control for the benefit of all or only to advance the interests of their particular constituencies.

In the Western Balkans post-war context emphasis on firmly formatted and often dislocated conflict resolution training, adhering to set frameworks of Western knowledge, tended to marginalize the importance of direct community engagement with local power structures and the creation of opportunities for locally relevant social development. Particularly in Bosnia and Herzegovina this debate continues to be of high relevance to the people, organizations and institutions, as new mechanisms have recently been put in place (the War Crimes Chamber) and other transitional justice approaches (such as a truth commission), rarely though attempting to pose the fundamental question as to the goals that should be pursued in the process of dealing with the past. Additionally, in the other two countries involved similar, civil society mainly, initiatives on documentation have been taking place. Peace building as social politics is a long-term process which engages actors from different organizational and institutional backgrounds (including local government agencies and social service providers, civil initiatives and nongovernmental organizations with different ideologies, politicians, as well as international organizations active in the local contexts) in a set of joint efforts aimed at devising locally relevant social and economic development of their communities and relating the practices that promote social integration of the micro-level to their impact at the macro-level of social structuring and politics.

Amongst the ongoing important efforts, the National Library of Serbia over the last few years is being drastically modernized, in material, financial, mentality and operational terms, and is involved in various international networks, i.e. with the Library of Congress and EU projects. Most importantly, close contact and collaboration with the relevant Library in Sarajevo has been established. The National Library has organised a network of NGOs as partnering beneficiaries, including most well known ones, i.e.

Centre for Humanitarian Law, to provide them with access to services and information. The Library is also hosting the NGO Documentation Centre Wars 1991-1999, working on documentation projects for a series of years, such as collecting over 300 oral histories from victims (with partners in both Croatia and Bosnia), documentaries, an extensive library on related issues, a project on camp inmates, future plans for addressing war crimes perpetrators integration. Another initiative is that of the Research and Documentation Center Sarajevo in cooperation with its partners, the Humanitarian Law Center in Serbia and Montenegro and Documenta in Croatia. Worth noting is the will to overcome accumulated grievances, bitterness and guilt. There is an increased awareness on the ideological use(s) of history and that transforming narratives of atrocities into personal and historical myths will seriously damage any possibility of peaceful coexistence in the region and beyond. The very significant work undertaken by civil society organizations in all countries at times still seems to echo negative experiences of the past. Limiting dealing with the past to blame attribution, mere retribution/punishment, lags behind the effort of repairing the social bonds, rebuilding trust and attaining social justice.

#### **4. The Archives of the ICTY**

The International Criminal Tribunal for the Prosecution of Persons Responsible for Serious Violations of International Humanitarian Law Committed in the Territory of the Former Yugoslavia since 1991 was established by United Nations' Security Council resolution 827 (passed on 25 May 1993) to prosecute persons responsible for serious violations of international humanitarian law committed in the former Yugoslavia since 1991. A key component of the ICTY Completion Strategy concerns appropriate disposition of its paper and electronic records.

The primary purpose of ICTY's records is serving the primary purpose of the Tribunal [5]: to bring to justice persons responsible for serious violations of international humanitarian law committed in the territory of the former Yugoslavia since 1991. ICTY archives have a significant secondary value for several reasons, analogous to the arguments recently proposed by Bruce Montgomery with regard to the archives of human rights NGO's [6]:

- The archival record is important for historical accountability, which will be “used by researchers, prosecutors, and victims alike with the aim of analyzing and making known the dimensions of particular human rights violations”;
- The archival evidence “is important for the memory of the thousands of victims and survivors of human rights abuses, their relatives, and others who must individually confront the truth of what transpired. Retaining the memory of victims and survivors is also important to preserve at least some semblance of identity for those who suffered extreme deprivations...”;
- “Archival records of human rights abuses will likely assume new and critical importance as this evidence becomes pivotal in the adjudication of cases. Post-authoritarian governments can only be helped if they confront the crimes of the past and end impunity with the aim of building new democratic societies based on the rule of law.

Eric Ketelaar asks the question: who owns the ICTY archives? [7] Legally, either the Tribunal or its parent body, the United Nations, is the owner of the assets of the Tribunal, including documents and other materials. Intrinsically, however, one has to recognize the rights of other parties to the primary functions of the Tribunal. I argue that some principles and propositions developed with regard to archives of colonizers and colonized people should be applied to the archives of the ICTY.

What in Western archival practice is called the subject of the record has to be reconsidered as a full partner in the record-creating process, as a co-creator of the record. And aren't there other co-creators, like indictees and witnesses? Not only the individual co-creators have a legitimate interest in the records. The right to know is not simply the right of any individual victim: it is also a collective right: "A people's knowledge of the history of its oppression is part of its heritage." The reciprocal 'production' and 'consumption' of the colonial narrative of history and identity entail that former colonizers and former colonized are a community of records, sharing a joint archival heritage. ICTY's archives too constitute a legacy, a 'joint heritage', shared by a number of 'communities of records'. These communities consist of stakeholders occupying different positions, depending on the degree of their involvement in the core business of the Tribunal. The interests of stakeholders change over time: some stakeholders will not have an immediate interest; stakeholders' interests may gradually increase or decrease. It is important to take these different spatial and temporal positions into account when devising policies for custody, appraisal, access, use, preservation, etc. of ICTY's legacy.

## **5. Justice, Reconciliation, and Memory**

According to Security Council's resolution 827 (1993) the ICTY was established "for the sole purpose of prosecuting persons responsible for serious violations of international humanitarian law committed in the territory of the former Yugoslavia". The central purpose of the ICTY, as of any criminal court, is the deterrence of, and retribution for serious wrongdoing. [8] Anything more, like establishing a historical record of what happened, or contributing to healing individuals' and communities' traumas, or to reconciliation – these may be a side effect of a trial, but only if, as Mark Osiel calls it [9], the game within the courtroom and in society at large is well-played: if the trial is staged and dramatized as a "secular ritual of commemoration". [10] In the words of ICTY's first president Antonio Cassese, one of the Tribunal's aims is helping to create "an historical record of what occurred during the conflict." [11] Cassese added: "thereby preventing historical revisionism", making it clear that the objective is not so much contributing to historiography, but to prevent denial.

The Tribunal's records, however, do contain "the truth" – they describe, just as any other record, what the recorder believed or construed to be the truth, the reality. Long before post-modern thinkers started to question "the truth" or the impartiality of the record, lawyers and legal scholars had found that the truth is a legal construction. Defendants, witnesses, juries, prosecutors and judges tell, hear and record a version, their version of what happened in a particular case, a particular trial, within the legal context of that time. It is, for example, well known – but often misunderstood – that the Nuremberg Tribunal framed – had to frame – Nazi crimes against humanity as an

offence punishable only in connection to the crime of waging aggressive war. [12] The term 'genocide' was only used once during the trial. An example of this 'framing' is the documentary film showed in Nuremberg as evidence of mass killings was not filmed in any of the extermination camps, did not try to explain what we now term the Holocaust, but was construed to underpin a story of political terror and war excesses. What is recorded is never simply 'what happened'. [13]

To understand fully the significance and the meaning of these tribunals, one has to acknowledge that they necessarily have to be selective as any trial of war crimes and mass violation of humanitarian law has to be selective. [14] Only a small portion of all perpetrators – not to mention bystanders – can be indicted. The Nuremberg Tribunal tried in the first instance only 24 Germans, later another 185 war criminals were tried. These 209 stood for the thousands involved in knowingly causing the deaths of more than twenty million people and the suffering of many more millions. The ICTY has made its contribution to reconciliation, mainly through an impressive outreach programme (mainly funded from non-UN sources). One has to acknowledge, however, that reconciliation by ICTY activities only is not achievable.

Truth commissions have a much larger mandate and, therefore, more opportunities to involve victims and their families. [15] The South-African Truth and Reconciliation Commission was addressed by 22,000 people. All their stories were recorded and are in principle accessible in the TRC's archives. Two thousand people were carefully selected to tell their story in public. Seven thousand perpetrators of the Apartheid regime applied for amnesty, which was awarded in roughly half of the cases. Many of the stories of victims and perpetrators were interwoven, a beginning of a shared "truth-telling" which is indispensable for reconciliation. [16] "Truth", in the aftermath of traumatic events is not a historical truth or a juridical truth: it is psychological truth. [17] Sharing of experiences and emotions [18] connects not only victims and perpetrators, but bystanders too: "Their discomfort with the truth is a symptom of their shame and that, too, makes them victims." [19]

Such truth-telling is, according to Payam Akhavan, a legal advisor of the Office of the Prosecutor of the ICTY, not feasible in the confines of a courtroom of the Tribunal "necessarily restrained by the limits of the judicial process". The Tribunal can establish a factual record of what happened, but sometimes, according to former President Cassese "proceedings are even having an adverse effect and are ultimately rekindling nationalism and ethnic animosity". [20] The Tribunal generally "has left the various ethnic groups still firm in their differing views of how the war started, its aftermath, and the concept of collective and individual responsibilities for actions taken in it." [21] National reconciliation can not be achieved if the record of what happened "is not recognized and internalized by the peoples of the former Yugoslavia". [22]

According to today's liberal-democratic agenda, the process of "Truth and Reconciliation" (T&R) seems to be the most desirable way of dealing with the historical legacy of wars and bloodshed in ex-Yugoslavia. In order to secure the lasting peace and prosperity in the region it is necessary to reach the objective truth about the painful reality of the wars, to come to a basic consensus on "what really has happened". Only in this way it might be possible to overcome conflicting and particular visions of any respective national group. Yet, Slobodan Karamanic questions whether the concept of T&R represents an effective alternative to the partition of historical truth divided



among different nationalist interpretations of history, or is it rather inevitably caught within the same limits of national imaginary [23]. The T&R norm of objectivity entirely depends upon the category of nation. As the discourse of T&R indicates, objective truth can be derived only from the framework of national truth: every particular nation, which has been involved in conflicts, should accept a part of the responsibility for the crimes committed in their own name. Consequently, the problem of T&R is understood as a problem of national consciousness. The central ideological mechanism of reconciliation therefore takes the form of national recognition, the recognition of one's own belonging to the part of national responsibility or blame. Within this structural limitation, the concept of T&R functions as another type of historical revisionism in a double sense: on the one hand, desingularising the very political nature of the "post-socialist" nation, and, on the other, neglecting or denying a whole set of contradictions, tensions and violence that came up during the course of the second historical encounter of the principles of nation-State with the complexity of Yugoslav situation.

Martha Minow writes "the idea of accessible court records that speak for themselves...is problematic." [24] Indeed, records do not speak for themselves; they echo the user's interests, hopes and fears. This empowers the user to re-create in his or her own way what is found in the records that were created by the court in its way. That is why archives are never closed and never complete: every individual, every generation is allowed his own interpretation of the archive, is allowed to re-invent and to re-construct its view on the past. That is to say (in Hanna Arendt's words) "it has the right to rearrange the facts in accordance with its own perspective; we don't admit the right to touch the factual matter itself." [25]

## 6. Appropriating the Past

The court's verdict is final, but its reading of the historical event is not. Court records have, therefore, not more value, than other records. Law's closure has to be rejected in favour of History's and Memory's recurrence. Memory is never "finished". As James Booth writes "the legal expression of memory-justice does not exhaust the claims of the past on us." [26] "Past victims and perpetrators, or our memory of them, have the ability to return almost unbidden." [27] A trial punishes the guilty leaders, and the rest of society is freed of any burden of responsibility. But this is a premature closure, the prematurity partially explaining why the legacy of World War II still disturbs Europe, despite trials and purges of those most directly accountable. "The sense of incompleteness is not principally due to any perpetrators left unpunished but to the limited way that legal action weaves the past into the national biography, into the memory of a community." [28] It is not only the victims and their families who have to come to grips with the past: society at large has to acknowledge the past.

As an individual one determines one's own identity, but "using building materials" from history, geography, collective memory, power apparatuses, religious revelations etc. and all that within the constraints of the community one is in. [29]As John Stuart Mill argued: the strongest cause for the 'feeling of nationality' is "identity of political antecedents: the possession of a national history, and consequent community of recollections; collective pride and humiliation, pleasure and regret, connected with the same incidents in the past." [30] The common past, sustained through time into the

present, is what gives continuity, cohesion and coherence to a community. [31] The search for roots and belonging [32] may contribute to making the community into a “community of memory”. But that will also contribute to marking the limits to other groups and their members. This “dual process of inclusion and exclusion” [33] may – as the events in former Yugoslavia that led to the creation of the ICTY have shown so poignantly - generate intolerance, discrimination, cleansing and usurpation.

Legally, either the Tribunal or its parent body, the United Nations, is the owner of the assets of the Tribunal, including documents and other materials. Intrinsically, however, one has to recognize the rights of other parties to the primary functions of the Tribunal. What in Western archival practice is called the subject of the record has to be reconsidered as a full partner in the record-creating process, as a co-creator of the record. [34] In several cultures people consider records about them as records owned by them. Moreover, in many jurisdictions legislation on data protection and on medical files acknowledges specific rights of the “data subject” to be respected by the creating agency.

Jeannette Bastian has enriched archival discourse with the notion of a “community of records”. [35] Bastian refers to a community both as a record-creating entity and as a memory frame that contextualizes the records it creates. According to Bastian, the records of a community become the products of a multi-tiered process of creation that begins with the individual creator but can be fully realized only within the expanse of this creator’s entire society. The records of individuals become part of an entire community of records. [36] Communities, she argues, are defined through the relationship between actions and records, the actions creating a mirror in which records and actions reflect one another. A community of records may be further imagined as the aggregate of records in all forms generated by multiple layers of actions and interactions between and among the people and institutions within a community. [37]

Colonial archiving “shaped” local communities in the colonizer’s taxonomies, while these communities “asserted their identity and agency in response to the authority of colonial rule.” [38] This reciprocal ‘production’ and ‘consumption’ (shaping and, what Wertsch calls ‘mastery’ [39]) of the colonial narrative of history and identity entail that former colonizers and former colonized are a community of records. The same is true for other mutually associated groups, for example indigenous people and immigrants. Thus the stakeholders in ICTY’s legacy constitute several communities of records, partly overlapping each other: victims and convicted, ICTY staff and defence counsel, witnesses and prosecutors, the UN and governments.

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# Relative and Absolute Gains Problem in International Relations

*Matus Halas*

*Department of International Relations, Faculty of Social Sciences, Charles University,  
U krize 8, 158 00 Prague 5, Czech Republic*

The purpose of this chapter is to clarify and further develop the major debate in international relations between neorealism and neoliberalism that peaked in the 1990s. In order to do that the argument proceeds in three steps. First, I show that the core problem of the debate that caused many misunderstandings lies in its very foundations, e.g. vague microeconomic metaphors. Second, I reformulate the computation of relative gains and thus inevitably also of equation of the utility function. Such reformulation enhances applicability as well as precision of formulas and therefore facilitates further research. Finally, I fill in the gap of unformalized relative gains sensitivity coefficient. Formalization of the coefficient enables to determine when relative gains matter. This is done with help of three factors: power position vis-à-vis cooperating partner; power position vis-à-vis the system; and uncertainty factor. Without formalized sensitivity coefficient the criticism of agent-based modeling in international relations remains valid. Thanks to reformulated relative gains computation and the coefficient concerned, rigorous modeling of international relations system becomes more promising.

## **Keywords**

relative and absolute gains, utility function, sensitivity coefficient, neo-neo debate.

## **1. Introduction**

Debate between neoliberalism and neorealism on the possibility of cooperation among nations and the role of institutions in facilitating and strengthening such cooperation dominated the field of international relations in the last decade of 20th century. The core of the dispute concentrated upon concerns for gains that states try to meet while considering engaging in cooperative behavior. While neoliberals argued that states are basically absolute gains seekers, neorealists opposed insisting that besides absolute gains states pay attention also to relative gains. These relative gains concern should according to them also decrease the probability of cooperation compared when to neoliberal optimism with respect to that.

However, even after almost twenty years since the start of the relative/absolute gains debate in the very end of 80s important clarification and progress could still be made as recent articles some years ago successfully proved. I would try to improve the gains debate argument in three ways. First of all, my intention is to point to some definitional

misconstructions of the debate's foundations, to explain what could have led to them and how to solve them. Second, I will modify the existing equations in order to save the possibility of utility function computation since this stood at the very beginning of the debate. And third, I will focus upon relative gains sensitivity coefficient in order to formalize its computation, which is unfortunately still missing. This would enable deeper and more realistic modeling of international relations environment via agent-based simulations.

Paper proceeds exactly in the above mentioned manner and stays within security issue area considerations. The emphasis is laid upon theoretical reasoning and no full fledged case study is therefore included. Illustrative examples associated with possible real world situations are nevertheless introduced anywhere possible.

## 2. First Move: Clarification of the Debate

Roots of the debate go back to two well known computer tournaments conducted by Robert Axelrod in early 80s and later republished in his book *Evolution of Cooperation* in 1984. There he tried to answer the question "Under what conditions will cooperation emerge in a world of egoists without central authority?" [1] As the background condition for his tournaments of various strategies proposed mostly by game theorists he used iterated Prisoner's dilemma game. This game structure was used because it represents some of the most relevant situations in social sciences as for example collective action problem or security dilemma. As the outcome of the tournaments, cooperation actually really emerged. The most successful in acquiring gains from iterated Prisoner's dilemma were nice (cooperative) rules that never defected first.

Conclusion that cooperation can emerge in an anarchic world of egoists was compelling particularly for students of international relations. Neoliberals concerned primarily with international political economy accepted realists' claim of anarchic structure of international system, but rejected their assertion that such condition seriously impedes cooperation among nations (for more see [2]). Neoliberal theory views states as rational egoists maximizing their own utilities, which are independent of one another. States "do not gain or lose utility simply because of the gains or losses of others" [3]. Then, among else based also upon Axelrod's research, they proceeded to assert that more cooperation is in fact possible even among states. Institutions should facilitate and stabilize it through lowering transaction costs, providing information or identifying cheaters.

Neorealists predominantly focusing upon security issue area strongly disagreed [4, 5]. They mainly appealed to Waltz's argument that states are in fact defensive positionalists (term is from pp: 500, [4]) rather than absolute gains seekers:

The first concern of states is not to maximize power but to maintain their positions in the system (pp: 126, [6])

Increase in power may or may not lead to increase in security, which is the goal encouraged by the system. This is also why Axelrod's conclusions about possibility of cooperation combined with neoliberal claim about state as rational gain-seeking egoist are hardly applicable upon international politics [7].

But what exactly does it mean to be a defensive positionalist? It means that states try to maintain their position in the system by paying attention to division of gains from mutual cooperation. Gain seen as possible increase in capabilities is thus closely related to power defined as distribution of capabilities in the system (pp: 192, [6]). Since power is perceived as relative rather than absolute concept (see for example [8]) states are concerned with relative and not absolute gains. They try to “prevent others from achieving advances in their relative capabilities” (pp: 39, [5]) because under uncertainty with regard to others’ intentions states in anarchic system seek first of all their own survival and security (pp: 91 & 126, [6]). In such a system any division of gains from cooperation that disproportionately favors cooperating partner means decrease in one’s own security because increased capabilities of today’s partner could be those of tomorrow’s enemy. To put it simply, the debate was about whether states seek absolute gains or are concerned with relative gains since relative gains concern should decrease the number of possible cooperative interactions compared with the former case.

To move to definitional problems of relative/absolute gains debate, the first issue in need of clarification is the equation proposed for computing actor’s utility function (pp: 500, [4]) which is:

$$(1) \quad U = V - k(W - V)$$

where  $V$  and  $W$  stand for own and partner’s absolute gains from cooperation respectively, and  $k$  is coefficient of sensitivity to relative gains. Apparently  $(W - V)$  is then the relative gain. As Mosher [9] after 15 years of fierce debate pointed out, this is rather confusing definition of relative gains. It defines relativity in rather *absolute* terms, because it pays no attention to initial position of states. Such gains are merely “relative ‘absolute’ gains” (pp: 649, [9]) rather than proper relative ones. Take an example of some possible real world situation. Suppose state A has 100 tanks and state B has 50 of them. They agreed to produce new tanks together and to divide the production equally. According to above mentioned equation, there would be no relative gains at all since gains (new tanks) of states A and B are equal. Cooperation should proceed. However, consider the initial and the final ratio of capabilities of both states. The former is 100 : 50, the later is 101 : 51, which is clearly beneficial for state B, but contrariwise for state A. After 100 rounds the ratio is 200 : 150 or rather 4 : 3, which is quite different from the initial 2 : 1. Equation proposed by Grieco cannot compute relative gains properly. In fact, it enables cooperation even when state is losing power. This is despite the fact of numerous claims about importance of relative capabilities and relational character of power [4, 5].

How could this be? The misconception of the character of relative gains could be easily traced back to Waltz:

When faced with the possibility of cooperating for mutual gain, states that feel insecure must ask how the gain will be divided. They are compelled to ask not ‘Will both of us gain?’ but ‘Who will gain more?’ If an expected gain is to be divided, say, in the ratio of two to one, one state may use its disproportionate gain to implement a policy intended to damage or destroy the other. Even the prospect of large absolute gains for both parties does not elicit their cooperation so long as each fears how the other will use its increased capabilities. (pp: 105, [6])

Without any reference to power position of states, i.e. to initial distribution of capabilities, Waltz claims that asymmetric division of gains would hamper one state while benefit the other. Grieco's equation then becomes much more understandable. Even presumption of a priori same payoff matrix for all players in model of Snidal [10] could be thus viewed as 'corresponding' to Waltz. However in both cases, this is not an excuse since Waltz could easily defend himself by claiming that he implicitly assumed equal power of states concerned.

The equation problems do not end here. Suppose for a moment that two states A and B are equal in power and that gains are distributed in ratio 3 : 4. Relative gain for the first state is computed as negative being -1 but the overall utility ( $U = 3 - k$ ) could be still positive depending upon size of  $k$ . In general, cooperation when relatively losing the position is hindered only if  $k > V/(W - V)$ . If  $k$  does not fulfill this condition, actor again cooperates even though she is losing power. Fortunately for Grieco, unfortunately for the debate, he did not stipulate any formalization or upper limit for  $k$  and hence he can easily rebuff the criticism. Grieco explicitly stated only lower limit for coefficient of sensitivity  $k$  that could never be zero because.

The last point I would like to stress is the connection between neoliberalism/neorealism and microeconomic theory to which both of these theories refer. Neoliberalism in its dealing with economic issues assumes that state's utility of gains corresponds to person's utility of money. Other things being equal, my fortune of one million \$ does not change by presence of other millionaires in the city or society. Neorealists also apply microeconomic utility theory, but they apply it upon *relational* concept of power, not that of wealth. So if I have 100 nukes in my cellar while the others have none, I would be perceived as quite powerful. But in case of anybody acquiring 100 nukes, my power with respect to her will decrease significantly irrespective of the fact that I still have all my nukes. Different worlds metaphor mirrors this problem (pp: 45, [2]).

Duncan Snidal (pp: 706, [10]) partially solved some of the problems by reformulating the utility equations proposed by Grieco:

$$(2) \quad U = (1-r)V + r(V - W)$$

Such a computation of utility, where  $k$  was replaced with  $r$  belonging to interval  $<0, 1>$  and with absolute gains sensitivity negatively connected to that of relative gains, makes no longer possible some of the most profound examples of cooperation when losing. Furthermore it disqualifies the original equation's possibility of counting relative gains twice (once as absolute, then as relative gains again) in a situation of pure relative gains concern. This was possible because relative gains are necessarily subgroup of the absolute ones.

### 3. Second Move: Saving the Utility Function

As already mentioned, Mosher [9] stressed the faults inherent in original formula. He also proposed alternative reformulation of formula that could solve them. What he called relative "percentage" gains (pp: 649, [9]) should be computed as follows:



$$(3) \quad G_{iR} = \frac{G_{iA}}{W_{i1}} - \frac{G_{kA}}{W_{k1}}$$

$G_{iR}$  and  $G_{iA}$  represents relative and absolute gains of player  $i$  respectively, and  $W_{i1}$  with  $W_{k1}$  represents starting capability of players  $i$  and  $k$  respectively. This is clearly a significant progress. Other problems are however connected with this reformed equation and with relative gains computation in particular. Relative percentage gains in a form as recommended by Mosher are useless for accurate computation of players' utilities, which was however the very first concern of Grieco. Under proposed representation, state  $i$ 's utility function would be:

$$(4) \quad U_i = (1 - r_i) \frac{G_{iA}}{W_{i1}} + r_i \left( \frac{G_{iA}}{W_{i1}} - \frac{G_{kA}}{W_{k1}} \right)$$

Division of absolute gains by initial wealth at the first part of the equation is necessary for inference of discount parameter in a form as given by Mosher (pp: 651, [9]) and to enable summing of absolute and relative gains utilities, which would be impossible if one would have been in absolute and the other in percentage form. Moreover, this division of absolute gains introduces something very close to marginal utility function since given pure absolute gains concern, the utility of the same capability gain will exponentially decrease with rise of initial sum of capabilities. In order to illustrate the problem related to (4) consider again three possible "real world" tanks examples as shown in the table below:

	Example 1		Example 2		Example 2	
State	A	B	A	B	A	B
Initial capabilities	90	100	100	100	110	100
Absolute gains	9	9	10	9	11	9
Final capabilities	99	109	110	109	121	109
Relative gains	1/100	-1/100	1/100	-1/100	1/100	-1/100

**Table 1 Three examples of capabilities distribution**

In the first example, state A disposed initially of 90 tanks, benefited from the cooperation with state B acquiring 9 new tanks and ended up with 99 tanks in total. In all cases states A and B acquired relative percentage gain of 1/100 and -1/100 respectively. Note also that in all examples absolute gain of state A equals to one-tenth of initial capabilities, and absolute gain of state B is 9 tanks in all examples. Suppose for a moment that each state has on its own in all cases the same value of sensitivity parameter  $r$ . This is clearly possible since neither Grieco, nor Snidal, nor Mosher attempted to formalize the computation of sensitivity to relative gains. They merely intuitively stated multiple factors that could influence such sensitivity but without any formalization. Thus increase in one factor could substitute for decrease in value of the other. Given that, the utilities of each state would be the same in all cases. All examples would be equally valued and player would be indifferent between alternatives even in case of pure relative or pure absolute gains concern. This should however not be the case. See the first example. The relative gain of 1/100 out of 90 for state A, i.e. 0.9, is

not equal to relative loss of -1/100 out of 100 for state B, i.e. 1. Without relative gains/losses the final ratio would be 98.1 : 110, which is clearly not the original ratio of 9:10, as it should be. If power is a relational term, relative loss of one player should be relative gain of the other.

I therefore propose reformulation of utility function and of computation of relative gains. The preliminary value of relative gains can be inferred from:

$$(5) \quad W_{i2} - G_{ir} = \frac{W_{i1}}{W_{k1}} (W_{k2} + G_{ir})$$

$W_{i2}$  and  $W_{k2}$  represents sum of actor's final capabilities that are equal to  $W_{i1} + G_{iA}$  in case of actor i. In this equation I assume that relative increase in capabilities of one player corresponds to the same decrease in capabilities of the other player, which is the core of the relational nature of power. Simply stated, when we subtract relative gains from final capabilities of one actor, and add relative loss to the capabilities of the other, we arrive at the initial ratio of actors' capabilities. Relative gains are then given as:

$$(6) \quad G_{ir} = \frac{G_{iA} W_{k1} - G_{kA} W_{i1}}{W_{i1} + W_{k1}}$$

However, there is a marginal utility factor similar to that in the case of absolute gains. Relative gain/loss of  $\pm 1$  capability unit is perceived differently when state's overall capabilities add up to 1000 as when they add up to 100. Furthermore, when considering impact of relative gain/loss, the reference point is final sum of capabilities rather than the initial one. This is because relative gains are subtracted from final outcome, not initial starting point, in order to get to proportionate division of gains as is shown in (5). Relative gains allowed for marginal utility will be therefore computed as follows:

$$(7) \quad G_{ir} = \frac{\left( \frac{G_{iA} W_{k1} - G_{kA} W_{i1}}{W_{i1} + W_{k1}} \right)}{W_{i1} + G_{iA}}$$

Values of equation (6) for states A and B in three above mentioned examples are  $\pm 9/19$ ,  $\pm 1/2$  and  $\pm 11/21$  respectively. Since  $W_1 + G_A$  does not change in case of player B, it is already obvious that this player will choose first example as the best outcome for her that minimize her loss (-9/2071). With state A it is not that easy. Final sum of capabilities differ between examples and we therefore need to use equation (7). The most benefiting choice is similarly first example since it maximize the state's A gains (1/209). Note that the choice differs from the one made only upon consideration (6) without attention to marginal utility. This is because relative gain has to be the same as relative loss, but this does not hold for marginal utility. Note also that we had not needed utility function so far, or to pay closer attention to sensitivity coefficient since absolute gains as a proportion of initial capabilities were for both states same in all three examples. Utility function as stated below would be still useful in other situations.

$$(8) \quad U_i = (1 - r_i) \frac{G_{iA}}{W_{i1}} + r_i \left( \frac{G_{iA} W_{k1} - G_{kA} W_{i1}}{(W_{i1} + W_{k1})(W_{i1} + G_{iA})} \right)$$

Assume state A owns 4 jet fighters and the other state 8 of them. All of them are of the same type. Assume further that they cooperate in building additional fighters and split them for whatever reason in ratio of 1:1, or alternatively 2:3. Consider further that under splitting 1:1, net cooperation gain would be 8 new fighters (4 for each state). When splitting 2:3, 20 new fighters would be produced (8 for state A and 12 for state B). Which alternative is better for which state? Similarly as in the first three “tank” examples, reformulated equations are also in this case capable to identify most beneficial (harming) alternatives. Original formulations cannot do that. Mosher’s computation ends up with the same relative gains for state A as well as state B in both situations namely  $\pm 1/2$ . Reformulated utility function differentiates between both cases rightly favoring second alternative (division of gains 2:3) as less harming to power of state B, and the first alternative as more beneficial for state A.

Still, restated version of relative gains equation and of state’s utility makes computation of the value of discount parameter needed for continuous cooperation more difficult. Mosher [9] actually skipped the problem by the assumption of raising gains proportionately to the raising level of capabilities. Since I do not want to make any additional restrictions upon value of the relative gains, I leave this problem for further research.

#### 4. Third Move: Determining Sensitivity Coefficient

One utmost important factor is repeatedly omitted in relative/absolute gains debate. Surprisingly it is precisely the sensitivity coefficient, which determines how much do we actually care about relative gains. Of course, several merely intuitive assumptions about possible variables influencing the value of relative gains concern were stated. No formal model is however present.

For Grieco sensitivity to relative gains is among other things influenced by previous history of interactions among states (e.g. allies vs. enemies; traditional allies vs. ad-hoc coalitions), by issue area (more relative gains concern in hard security than in economy), by convertibility of capabilities among issue areas, by power position (low concern of very weak and very strong states) and by its change, i.e. declining power position causes higher concern for relative gains (pp: 45-46, [5]; see also [11]). Others stressed importance of number of states either within cooperation agreement [10] or in the system (see for example [12]). Another argument was proposed by Waltz, who sees the possibility for greater absolute gains when competition among states weakens (pp: 195, [6]). This happens when the power position of states concerned are secured (next most powerful states are far behind) and when the uncertainty in the system decreases as with second strike capabilities that renders winning of nuclear war impossible. Interdependence of power and absolute gains concern with possible acceptance of costs and relative loss for the sake of system was described by Waltz:

The smaller the number of great powers, and the wider the disparities between the few most powerful states and the many others, the more likely the former are to *act for the sake of the system* ... (pp: 198, [6] emphasis added)

For realists, there are two crucial impediments to international cooperation: uncertainty and the related fear of cheating, and the “concerns about relative achievements of gains” (pp: 28, [5]). In order to translate these assumptions into single framework, I will focus upon three factors: uncertainty, power position in the system, and power position vis-à-vis cooperating partner. I believe that these three variables can sufficiently encompass above mentioned intuitive assumptions and can be even successfully modeled. Wherever possible I would try to use marginal utility metaphor. While at the previous section I utilized it in an atomistic manner upon individual capabilities level irrespective of other players’ positions, in this section I would use it in a much more relational fashion. The emphasis would be on power as a level of capabilities *compared* to other states’ levels.

As the first variable consider marginal utility of difference in power positions of cooperating states vis-à-vis each other with respect to sensitivity coefficient. Simply stated, the greater is the distance between two states’ capabilities relative to those of ones own, the lower is the attention paid to relative gains. This is faithful to what Grieco intuitively assumed [5]. Attention peaks when states are equally powerful. Relative gain of one nuclear warhead added to your stockpile of say 10 missiles would be more useful and more valued (and therefore  $r$  would be higher) in case of cooperating with partner who has also 10 nukes than in case when she has plenty of them. Additionally, relative gain of one missile would be less praised when your advantage over your partner is already significant than in balanced situation. Marginal utility of additional relative gain of capabilities (and the  $r$ ) is therefore peaking when power positions of you and your partner in cooperation are balanced. Marginal utility of relative gain is decreasing the more you are in relative “surplus” of power compared to partner in cooperation, and also the more you are in relative “debt”, i.e. you are have less capabilities compared to another state. To formalize such a relationship I propose following formula for computation of the first power position factor  $F_1$  influencing relative gains concern:

a) if  $W_{i1} \geq W_{k1}$ : 
$$F_1 = 1 - \frac{W_{i1} - W_{k1}}{W_{i1}}$$

(9)

b) if  $W_{i1} < W_{k1}$ : 
$$F_1 = \frac{1}{1 - \frac{W_{i1} - W_{k1}}{W_{i1}}}$$

According to these equations, factor of power position vis-à-vis the partner can reach values from interval  $<0,1>$ . This power position factor also represents intuitive logic of increasing threat caused by relative losses. The most powerful states are willing to “act for the sake of the system” and thus pay less attention to relative gains. As their power decreases they are forced to reestablish their relative gains concern because threats of other states reemerge.

Second power position factor influencing relative gains concern is the state’s power position in the system. In other words, this is factor of power vis-à-vis the system with respect to concentration of capabilities and to number of players (see for example pp: 720-1, [10]). Illustrations from economic world are hard to conceive but some “real

world” examples are nevertheless possible. Consider following three alternatives. In one world there are only two states one with 100 bows and arrows, the other with just two of them. The average number of bows and arrows per state is 51. In the second world there are three states with 100, 51 and 2 bows and arrows respectively. Average number of these war machines is similarly 51. In the third world there are 5 states with 100, 76, 51, 26 and 2 bows and arrows respectively. Surprisingly, average number of capabilities is again 51. Suppose you are citizen in the most powerful state. Which world would you like to live in? Or rather, where would you be more concerned with relative gains? Consider second example. There is one big state in the system with say 101 armored divisions. Furthermore there are 49 small states each with one division, or alternatively one medium power with 49 divisions. Net system capabilities are equal in both alternatives (150 divisions). Again, which world would you like to live in? Where would you care more about relative gains?

These examples illustrate what is intuitively assumed under such terms as system stability, uncertainty connected to number of players, and translatability of relative gains to strengthen power position in the system and with respect to other even non-cooperating actors. I introduce another factor for computing relative gains sensitivity as an attempt to formalize these variables. In order to provide for power position of given state within the system of international relations I propose following equation:

$$(10) \quad F_2 = \frac{\sum_{i=1}^n F_{1ik}}{n}$$

Although this is only simple arithmetic average of all first power factor values of player  $i$  with respect to all  $n$  states  $k$ , it can easily distinguish between various distributions of players and their capabilities in the system. It is even able to reflect systemic concentration of power and to infer important conclusions useful for state’s choices. According to (10) and with regard to mentioned examples, relative gains concern would be the least intense in case of two states (100:2) and that for both of them. In the second example, world of 49 micro states plus one superpower is clearly preferred by the later. In certain way the second power factor can even support the bipolarity advantage argument [13]. The more great powers there are in the system ( $F_1 =$  close to 1), the more stable is the second power factor  $F_2$  and the less impact upon value of  $F_2$  can be made by any second, third or whichever rank power. And if the sensitivity to relative gains is higher, cooperation is more difficult. Thus maybe quite contradictory to common assumption, all other things like ideological disparities being similar, history of cold war interactions would have been even worse (less “cooperative”) in case of three or more superpowers than in case of just two.

The last factor influencing sensitivity parameter is the factor of uncertainty. We can understand it as dependent upon intensity of transactions among nations [14] (see also pp: 45, [5]), or as inherent condition of interactions under anarchy without central authority [6]. But here I would like to stress the usefulness of agent-based modeling concepts. Stability of cooperative behavior in agent-based models is the best way how to cope with formalization of uncertainty factor. I thus propose the third (uncertainty) factor as:

$$(11) \quad F_3 = \left| 1 + \frac{S_1 N - \sum_{k=1}^N G_{ikA}}{N(R_1 - S_1)} \right|$$

In this equation N represents number of iterations or rounds of the game in the simulation,  $G_{ikA}$  is the absolute gain of state  $i$  from cooperation with state  $k$ , and R (reward) and S (sucker) are payoffs from mutual cooperation as always defined in simulations in payoff matrix. I furthermore a priori assume Prisoner's dilemma payoffs ordering which is  $T > R > P > S$  but any other ordering can be easily formalized. The lowest possible gain from interactions (S) is in this equation represented with attention to reference point R as  $R - S$ . Absolute value prevents uncertainty factor from reaching negative numbers. It also enables taking into account the possibility of gains greater than the reward from mutual cooperation, i.e. temptation payoff. Such a situation increases relative gains concern too since unilateral defection is very risky interactions pattern. To sum up the third uncertainty factor's impact upon sensitivity parameter, the more stable is the mutual cooperation, the lower is the uncertainty and the relative gains concern as well.

Finally and most importantly, sensitivity coefficient can be formalized with respect to three factors simply as their arithmetic average:

$$(12) \quad r_i = \frac{F_1 + F_2 + F_3}{3}$$

I believe that such a formalization of relative gains constrain can improve future modeling of international relations environment.

## 5. Conclusion

My intention was threefold. First, I tried to show the peculiarities of relative/absolute gains debate inherent in the definition of the problem per se. Then I strived to reformulate some equations in order to secure their greater applicability as well as precision. And finally I tried to answer the question explicitly stated by Matthews: "why do relative gains concerns vary?" (pp: 112, [15])

I agree with him that it is not any more the problem whether relative gains matter or not, but rather when and under what condition do they influence the decision in international politics (pp: 117, [15]). Hopefully the endeavor was successful and the more light was put into the problem of when and why relative gains matter.

Future research is also highly important. Above all the exploration of the other possible variables shaping the relative gains sensitivity should be the first goal. That relative gains should be taken into account seriously when conducting agent-based modeling of international relations system is beyond any doubt. Only then could we significantly improve the "real world" character of the models of international relations.

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# EU's Impact on Crisis Management in South-Eastern Europe

*Cheng, Yu Chin*

*Charles University, Department of political science, Czech Republic,  
cheng@fsv.cuni.cz*

Not only the Commission proposes, but also the European Parliament addresses opinion over crisis management. Consequently, the Council of European Union finally rules out divergence and appeals to a convergence of interest on cooperation in conflict management instead. No longer, the Council of European Union creates a rapid-reaction mechanism to respond to ongoing crisis in several regions of the world. According to Council Regulation No. 381/2001, the rapid reaction mechanism needs triggering in order to stabilize society when crisis or disaster occurs in the beneficiary countries. Precisely speaking, this mechanism differs from other crisis management means, which merely focus on rehabilitation after disaster happened or prevented crisis before. Instead, rapid reaction mechanism not only involves in crisis management, but also stops carrying on damage to human beings. In fact, EU creates this mechanism in order to prevent ongoing small or medium crisis to escalate into uncontrolled catastrophe, armed conflict or war.

In addition, this mechanism observes the situation, and decides to employ what instrument to constrain crisis and what partner to cooperate in crisis management. Moreover, EU preserves the right of crisis definition in order to stop abusing rapid reaction mechanism. Per contra, abusing is not really prior argument in this research, but transparency instead. Truly, rapid reaction mechanism consumes maximum transparency in order to allocate resource excellently in crisis areas. Unfortunately, Global Corruption Report 2007 proclaims that most southeastern European countries are not capable of transparency. Clearly, it is more common to meet fraud and other irregularities in this area. Nonetheless, this research argues how rapid reaction mechanism can function in southeastern Europe, and indicates what impact on southeastern European countries may EU carry on collaboration via rapid reaction mechanism. In final, this research proves that Southeastern European countries accepts transition from EU rather than isolate themselves by the reason of national interest.

## **Keywords**

rapid reaction mechanism, crisis management, open source intelligence.



# 1. Introduction

This paper employs three research tools— Organizational Decision-Making [ODM], Open Source Intelligence [OSINT], and Single Case Study [SCS]. ODM is the theory base for this paper, and it can explain the process of decision-making in organization. Even though, one key person can affect the others' decision, but ODM still gives clear definition in that situation. Having said that, everyone can understand that every decision comes from the organizations, and will be interpreted as organizational decision. Secondly, data processing cannot be ignored when this research carries on; particularly, Rapid Reaction Mechanism [RRM]—related studies seldom appear. Therefore, collecting a great number of information is very vital to this research. Undoubtedly, OSINT is capable of processing huge information, and mapping the process of data collecting, analyzing and synthesis. In expectation, OSINT can satisfy what the research needs.

In final, this paper applies SCS to work on two countries from Southeastern Europe [SEE]; not surprisingly, this paper will not employ comparative method to compare the cases. Instead, this study focuses on every single case to discover the relevance between corruption and RRM ineffectiveness in SEE. Having said that, this paper aims to raise the corruption problem, instead of corruption comparison. This paper consists of three key parts— *crisis management*, *Southeastern Europe*, and *the failure of Rapid Reaction Mechanism*. Part One will introduce one of EU crisis management tool— *Rapid Reaction Mechanism* that is designed to solve small or medium crises within limited time, and prevent *Small and Medium Crises* to become bigger disaster or escalate into war.

In addition, this part reviews the history of RRM, and analyzes its function, and reveals its limitation. Part Two connects RRM and Southeastern Europe to research how RRM functions in that area; here it takes Bosnia-Herzegovina and former Federal Republic of Yugoslavia as examples to carry on the study. Part Three aims to discover that corruption causes the failure of RRM in Southeastern Europe. Having said that, RRM originates from rapid financing, and it becomes rapid reaction plus financing later. Although RRM designs *on-the-spot check* to counter fraud or irregularities, it might not function in the areas where needs help but suffer severe corruption, such like SEE.

In truth, SEE is facing transition, and get ready to join EU. In fact, EU membership cannot influence RRM on rescue mission; RRM is an indiscriminate helper, and it always appears wherever the countries or areas are in crises. Nonetheless, one vital variable is able to affect RRM function, and even decrease RRM effectiveness— corruption. RRM relates highly to budget, and it originates from *Rapid Financing Mechanism* [RFM] that is designed by the Commission of a Rapid Reaction Fund. With regard to RFM, it is set up to allow the acceleration of the provision of finance to support EU activities, and to fund NGOs that is contracted with the Commission. After that, the Council and the Commission plan to enhance more effectiveness of crisis management to respond critical situation, and later create RRM. According to Council Regulation No 381/2001, RRM needs for maximum transparency in all matters concerning the implementation of the Community's financial assistance as well as proper control of the use of appropriations. This is the key reason this paper argues the

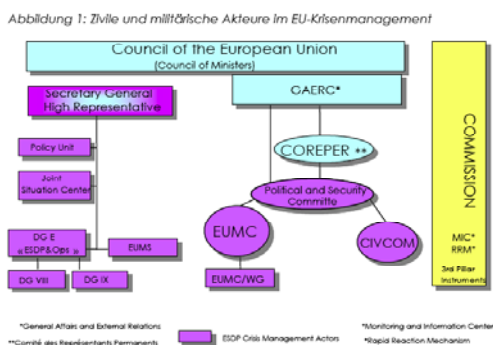
failure of RRM in SEE, but also praises the example countries from SEE that succeed in transparency transition in order to meet the condition of RRM.

## 2. Crisis Management in Timeframe

### 2.1 History of RRM

RRM originates from RFM, and it funds all operation in critical areas or countries. In fact, RFM cannot satisfy EU member states nor those countries or areas where are in critical crises. Before RRM appeared, the Commission carried on crisis management to face critical situation. From Mission Poland and Hungary in 1989 to Mission Kosovo in 2000, the Commission discovered the necessity, and reveals weakness during operation. In order to satisfy needs, the Council accepts the Commission' proposal and European Parliament's opinions, and later creates RRM to mobilize all resource and human power to curb sudden crises (Figure 1 EU civilian and military crisis management) (Note 1). In February 2001, RRM was created, and launched in May in the same year. The civilian Rapid Reaction Mechanism is designed expectedly to balance the EU's military intervention, according to RRM provisions for the deployment of police, legal and civil administration experts to use non-combat method to cope with crises.

In the beginning, RRM only conducted 19 cases, but increased upon to 65 contracts in 2003, particularly up to hundreds of cases in 2006. Especially, RRM started to fight terrorism in 2003; obviously, RRM broadens contribution and cooperate intensively with local conductors. RRM is viewed as civilian crisis management, it usually employ mediation, negotiation and other non-military tool to manage crises.



**Figure 1 EU civilian and military crisis management Source: Ehrhart, H. G. (2006). "Sicherheit + Entwicklung= Frieden. Zur Rolle Der Entwicklungspolitik in Der Zivilen ESVP". Studie Für Das Bonn International Center for Conversion**

Notwithstanding it cannot interpret that RRM use no military force, but instead RRM made decision on military operation with the Council's permission. *EU Rapid Reaction Force* occasionally took the military part of RRM programme to complete police

mission, and to prevent military conflict from escalating into war. Nonetheless, RRM has already done its contribution, but it is time to be replaced in consideration of more broad aid in critical situation. In November 2006, Instrument for Stability officially replaces RRM to counter critical and sudden crises. Moreover, IFS acquires more budget, approximately €100 million to fund more operation in the countries or areas where are suffering disaster. In theory, RRM does not disappear, and instead ISF takes the responsibility to respond crises.

## 2.2 RRM Function and its Characteristics

Only the Council decides whether to launch RRM or not, but the Commission conducts all activities. According to No. 381/2001, EU ministers must gather within 72 hours to respond sudden crises. In this timeframe, *Qualified Majority Voting* [QMV] is applied in the procedure of decision-making by the Council, but the Commission employs the procedure of accelerated decision-making to allocate all necessary resource and manpower to deal with crises. QMV helps the EU ministers to find common position on one issue, and speeds up the procedure of decision-making. Consequently, it should be noted that the introduction of QMV does not necessarily mean that states call for a vote as soon as they consider themselves in a majority coalition and that minorities are simply outvoted. Rather, the possibility of a formal vote urges all participants to search for consensus (p: 588, [22]). Furthermore, QMV can respond time pressure well, particularly happened unpredictable crises; on the other hand, accelerated decision-making speeds up the procedure of the Commission’s execution in RRM programme operation.

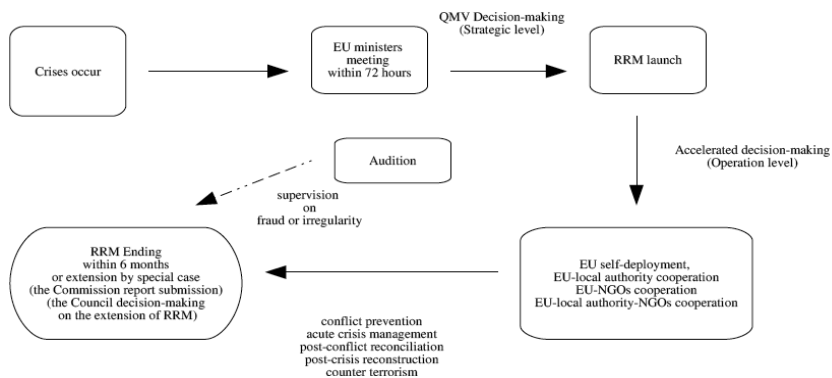


Figure 2 The procedure of Rapid Reaction Mechanism. Source: Author

Having observed that, RRM copes with many types of crises, and its main task is to stop crises becoming bigger one and even escalating into war. “Global aid, local management” appears RRM’s characteristic, and it approves that globe consists of

many locals. As we know, RRM is not a discriminative helper outside and inside Europe; however, local crisis management really takes crucial role in RRM. Apparently, some crisis management-related literature point out that misunderstanding or not decentralizing crisis management damage the effectiveness of crisis management; expectedly, EU gets the lesson, and respects the culture of local crisis management.

“One-off, kick start” is also another RRM’s characteristic. The decision-making of RRM is in timeframe, and so does its operation. RRM operation cannot operate over six months, but some situation has privilege. In Article 8(3) indicates that the exceptional cases, in view of the specific nature of the crisis concerned or its intensity, the Commission may decide on supplementary action. However, this supplementary action shall comply with the same requirements at the initial action. In general, however, RRM usually follows the regulation to operate activities within 6 months. RRM is one-off but not permanent crisis management tool, and it fulfill its mission and stop carrying on. Raising attention here, RRM stops and this action cannot be interpreted that EU stops aid in crisis areas. Reversely, the other suitable tool involves in those areas, and continues crisis management. Having said that, this is exactly definition of kick-start.

The life of RRM is from 26 February 2001 to 15 November 2006. Although the life is short, it contributes not only in Europe but also in the rest of world. In fact, RRM idea still survives but in another form, and the new tool broadens aid and helps more. In practice, RRM did not sleep in the past, but instead it opens new page of rapid reaction in crisis management.

### **3. RRM Programmes in SEE**

#### ***3.1 Former Yugoslavia Republic of Macedonia***

When RRM is designed in February 2002, the first programme happened in former Yugoslavia Republic of Macedonia [fYROM] in May 2002. EU concerned this country very much, because it is in critical situation. There are a few RRM programmes in fYROM, such as *reconstruction*, *confidence-building* and assistance to vice prime minister implementing the *Ohrid Agreement*. The EU saw the agreement signing as a diplomatic gesture aimed at forcing Macedonian political leaders to end hostilities and introduce political reforms (p: 18, [5]).

EU launched the RRM programme to help locals deal with crises, and this programme consists of two steps which acquire €2.49 million in 8 May 2001 and €10.30 million in 3 October 2001 respectively (p: 18, [5]). The RRM programme for fYROM was set up to ensure a rapid return to normal conditions for populations affected by the conflict, to kick-start key institutional reform in order to ensure respect for the timetable set by Ohrid Agreement, and to unlock other donor funds by ensuring that fYROM government was able to prepare a credible post-war budget.<sup>19</sup>

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<sup>19</sup>The Rapid Reaction Mechanism supporting, p.8

EU still observed FYROM, and did her best to ensure safety in this area. In need of rapid crisis management, EU applied Article 8(3) to extend RRM for FYROM; unlike focusing mostly on post crisis rehabilitation in previous RRM programme, the Commission decided to fund €3 million again to enhance FYROM in close consultation with EU Special Representative, under which RRM deployed high-level policy advisors to the Deputy Prime Minister, Musa Xhaferi, assisting him to fulfill his role overseeing the implementation of the provisions of Ohrid Agreement on equitable representation of minorities.<sup>20</sup> With such useful effort, FYROM was just able to pave the peaceful way to solve inter-ethnic conflict, and later this area would have chance to return to peace. Besides political solution, this country has lacked of strategy of police education and has trained less in Criminal Intelligence Operation for years. These illegal activities have already damaged FYROM's societal stability; hence, the Commission has operated RRM programme to support this country to fight against organized crime and corruption since 2003.

### ***3.2 Bosnia-Herzegovina***

Mostar with its prewar ethnic ratio of approximately 40% Croats 40% Bosnian and 20% Serbs is a microcosm of the problems of a multiethnic Bosnia and Herzegovina. The administration of Mostar is dysfunctional and segregation prevails in the daily life of its citizens.<sup>21</sup> The RRM programme supported the costs of the Mostar Commission, established by the High Representative for Bosnia and Herzegovina in October 2003—March 2004; this Mostar had to fulfill the task that stabilized the situation in the city (a microcosm of the ethnic divisions in the country) prior to municipal elections in 2004 by drafting a statute that ensures equitable power sharing between the communities.<sup>22</sup>

## **4. On-the-spot Check and Corruption**

### ***4.1 RRM Audit System***

RRM Audit system consists of the Commission and the Court of Auditors, and the two institutions share one method— on-the-spot check. According to Article 7, COA conducts on-the-spot check, and the Commission may carry on it and inspection to protect the European Communities' financial interests against fraud and other irregularities. However, this system is arguable, and maybe loses its function outside EU members' territories. Obviously, EU succeeds to integrate every member state in the field of home affairs and justice; no doubt, RAS performs well. Noticeably but not least, RAS seems unlikely to work outside EU member states. Instead of RAS, the

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<sup>20</sup>Report on the Rapid Reaction Mechanism, 16 March 2004

<sup>21</sup>Bosnia-Herzegovina, Mostar Commission retrieved from [http://ec.europa.eu/external\\_relations/cfsp/cpcm/rrm/docs/2003/bih\\_mostarcommission.pdf](http://ec.europa.eu/external_relations/cfsp/cpcm/rrm/docs/2003/bih_mostarcommission.pdf)

<sup>22</sup>Ibid.

Commission could choose diplomacy to cope with corruption and irregularities in non-EU member states. In practice, diplomacy cannot satisfy RAS, and maybe trigger diplomatic confrontation.

#### 4.2 RRM Failure and Success

Apparently, Bosnia-Herzegovina and Macedonia in *Country Rank* drop from 2005 to 2006; however, there is no change in *Corruption Perception Index Score* in these two countries. Obviously, both states improve corruption situation, according to CPI 2007. Since RRM operated programmes to assist fYROM and Bosnia-Herzegovina to counter corruption in 2003, it has not been improved obviously before 2007. Although the other political situation was better than before via RRM mediation programme, the failure of RRM anti-corruption programme still was a potential threat for these two countries. Actually, every RRM programme needs great transparency to operate; if there is transparent in RRM programme, its effectiveness will decrease. In fact, EU employs not only RRM tool but also other useful ways to improve the corruptive situation in these two countries; in final, fYROM and Bosnia-Herzegovina transit their position quite successfully, and their change gives them more opportunities to accept EU's aid.

With regard to these two cases, it is clear-cut that the Commission would not stop delivery aid to these countries, which are corruptive and also are damaged by crises, and need rapid aid. At the same time, the Commission carries on launching anti-corruption programme to enhance the sufficiency of RRM.

Country Rank	Country	2005 CPI score <sup>a</sup>	Surveys used <sup>b</sup>	Standard deviation <sup>c</sup>	High-low range <sup>d</sup>	Confidence range <sup>e</sup>
88	Benin	2.9	5	1.3	1.7 – 5.1	2.1 – 4.0
	Bosnia and Herzegovina	2.9	6	0.4	2.4 – 3.4	2.7 – 3.1
	Gabon	2.9	4	1.0	2.1 – 4.1	2.1 – 3.6
	India	2.9	14	0.5	2.1 – 3.5	2.7 – 3.1
103	Gambia	2.7	7	0.7	1.7 – 3.9	2.3 – 3.1
	Macedonia	2.7	7	0.7	2.2 – 4.1	2.4 – 3.2
	Swaziland	2.7	3	0.7	2.0 – 3.4	2.0 – 3.1

**Table 1 Corruption perception index 2005 Source: Corruption Perception Index 2005 Transparency Organization**

Table 1: (Continued)						
Country rank	Country	2006 CPI score <sup>a</sup>	Surveys used <sup>b</sup>	Standard deviation <sup>c</sup>	High–low range <sup>d</sup>	Confidence range <sup>e</sup>
93	Argentina	2.9	7	0.4	2.4–3.5	2.7–3.2
	Armenia	2.9	6	0.3	2.5–3.2	2.7–3.0
	Bosnia and Herzegovina	2.9	6	0.3	2.7–3.2	2.7–3.1
105	Bolivia	2.7	6	0.4	2.2–3.5	2.4–3.0
	Iran	2.7	3	0.5	2.3–3.2	2.3–3.1
	Libya	2.7	3	0.5	2.3–3.2	2.4–3.2
	Macedonia	2.7	6	0.3	2.3–3.2	2.6–2.9

**Table 2 Corruption perception index 2006 Source: Corruption Perception Index 2005, Transparency Organization**

Country Rank	Country	2007 CPI score	Surveys used	Confidence range
84	Bosnia and Herzegovina	3.3	7	2.9-3.7
84	Gabon	3.3	5	3.0-3.5
84	Jamaica	3.3	5	3.1-3.4
84	Macedonia	3.3	6	2.9-3.8

**Table 3 Corruption perception index 2007 Source: Corruption Perception Index 2005, Transparency Organization (i.e. gave it a score of 4 or 5 out of 5, when 1 = not at all corrupt and 5 = extremely corrupt)**

## 5. Conclusion

Studying on RRM is not an easy research, because there are few literatures, related to RRM. Although the literatures are not rich, the data-processing method—OSINT can let this research carry out and on. From the perspective of ODM, organizational performance is affected by the environment in which the organization operates<sup>23</sup>, and this performance is a direct product of the organizational decisions.<sup>24</sup> On the other word, the Commission (the organization) receives the Council’s authorization to launch RRM programme (organizational performance) in order to respond to crises, which happened rapidly (the environment). To cope with critical crises, EU exploits practical measures and different decision-makings to manage conflict.

<sup>23</sup>Organizational decision making and error, p.125

<sup>24</sup>Ibid., p.127

Before 2007, RRM is the ideal mean for the Commission to operate crisis management, but this mechanism is not always successful, particularly in corruptive countries. All the same, RRM was still functioning there and launching additional anti-corruption programme to avoid the failure of RRM. Applying SCS method, it can demonstrate the relevance between corruption and the failure of RRM; in addition to this relevance, it also witnesses the transition of SEU countries during RRM involving. Subsequently, SEU countries decide to collaborate with EU for successful RRM programme, instead of insisting their national interest in corruptive environment.

## NOTES

- 1 Figure 1 indicates the relationship and the Commission.
- 2 The External Affairs Commissioner Chris Patten received the authority to spend RRM funds of 2.5 million Euros on repairing houses damaged during the February-March fighting.

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## **Appendix**

### **List of Acronyms**

ODM	Organizational Decision-Making
OSINT	Open Source Intelligence
SCS	Single Case Study
RRM	Rapid Reaction Mechanism
SEE	Southeastern Europe
RFM	Rapid Financing Mechanism
QMV	Qualified Majority Voting
FYROM	Former Yugoslavia Republic of Macedonia

# The Evolution of Portuguese Immigration Policy between 1991 and 2004

*Joao Carvalho<sup>1</sup>, Andrew Geddes<sup>2</sup>, Charlie Lees<sup>3</sup>*

*The Department of Politics, University of Sheffield, Elmfield, Northumberland Road, Sheffield, S10 2TU, United Kingdom, {j.carvalho<sup>1</sup>, a.geddes<sup>2</sup>, c.lees<sup>3</sup>}@sheffield.ac.uk*

International migration pose as one of the most complex and dynamic challenges posed to the political power in nowadays. Traditionally associated to an emigration country, Portugal became during the 1970s and 1980s an immigration country too. The Portuguese immigration policy only became relevant in the 1990s both due to the intensification of the immigration flows and to development of the process of Europeanization of this public policy.

Immigration is increasingly regarded as a new political cleavage. Therefore, this study analyses the consistence between the liberal or restrictive character of the immigration policy developed by each of the four party governments formed between 1991 and 2004 and their location in the political left-right spectrum. On the other hand, this study also evaluates both the impact of the Europeanization process and of interest groups in the development of this public policy. The analysis of the Portuguese experience might provide some interesting insights to other new and potential immigration countries, within the context of the European Union.

## **Keywords**

Europeanization, immigration, Portugal, public policy.

## **1. Introduction**

Traditionally regarded as an emigration country, from the mid-1980s Portugal became simultaneously an immigration country. Migration flows into the country remained low until the 1990s, when this social phenomenon's development intensified and turned relevant in the domestic political agenda. From this point onwards, the immigration policy of the Portuguese state was successively modified by the four Portuguese party governments formed between 1991 and 2004. Moreover, on the turn of the 20<sup>th</sup> century, migration into Portugal expanded at a tremendous pace and the foreign population legally settled in the country doubled in dimension between 1999 and 2002.

Immigration has been increasingly regarded as a new political cleavage that crosses through the party traditional boundaries of the receiving states. Consequently, this study analyses the consistence between the location of each of the four party governments formed between 1991 and 2004 in the political left-right spectrum and the liberal or restrictive character of the modifications introduced into the Portuguese immigration policy during their respective mandates. On the other hand, this study evaluates the role not only of political parties involved in the policy making process, but also on the impact of the Europeanization process and interest groups in the development of this public policy.

The Portuguese short experience in dealing with immigration illustrates the possible quick and complex development of this social phenomenon in any new or potential country of immigration, even emigration rates continue to be relevant. On the other hand, as a member of the European Union since the 1980s, Portuguese immigration policy has been subjected to external pressures derived from the Europeanization process. Thus, it is important to regard the impact of these pressures on the management of the distinct migration flows by the Portuguese state on the selected time period. Eastern European member-states will be equally subjected to the Europeanization process of the immigration policies and emigration rates are significantly high, so Portugal might be an example to new member-states' draw some lessons.

This study focus on the immigration policy of the Portuguese state, rather than on the integration policy, which consists of the conditions provided by the host states for the settlement of the migrant citizens and their families in the receiving societies. The immigration policy of any state consists on the regulation of the different immigration flows, which is articulated through the laws related with the entrance and permanence in the host country (Geddes, 2003). The Portuguese immigration policy is formed by two distinct laws: Law of Entrance, Permanence and Expulsion of Foreigner Citizens (vulgarly known as the immigration law) and the Asylum Law<sup>1</sup>. According, to Thomas Hammar any immigration policy can be characterised as liberal or restrictive according to the conditions imposed by the state to the legal entrance and settlement in any host country (Hammar, 1985).

In order to analyse the development of the Portuguese immigration policy, this social phenomenon must be disaggregated in its four distinct dimensions. The first dimension consists of the primary or labour flows, composed by migrants who fulfil the demand of labour in the receiving societies through regular channels provided by the host state. After the settlement of the labour migrants, these pioneers attempt to bring their families from sending countries, leading to the development of the secondary flows fed by the family reunification processes. The third dimension of immigration is formed by the forced migration flow, usually associated to asylum, which is composed by migrants who abandon their home countries due to non-voluntary motives, as political

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<sup>1</sup>The Nationality Law could also be considered as part of the immigration policy of any country, since it includes some paths to obtain legal entrance and residence in a host country, per example, through marriage with a national citizen. Although, for space reasons and because this law was only modified once in the selected time period, this piece of legislation has been excluded from this general analysis

persecution. Finally, the last dimension consists of the irregular migration flows, composed by migrants who settle in foreign countries in disregard of the regular channels of immigration, consequently their permanence in those countries is regarded as irregular.

On the other hand, as a member of the European Union since the mid-1980s, the Portuguese immigration policy has been subjected to continuous pressures from the process of harmonization of the immigration policy between member-states. However, the continuous adoption of an inter-governmental approach at the EU level for the construction of a common immigration policy, as so far, left enough room to the different national governments persecute their national interests, as the Portuguese case also illustrates (Geddes, 2003).

As a social phenomenon, immigration is presumed to engender concentrated benefits and disperse costs through the society. In fact, social groups who are benefited consist of employers which are dependent on immigrant labour or have to recur to high intense use of labour; immigrant associations, who benefit from the rise of the foreign population; highly intense consumers of services provided by immigrant workers, since the cost of those services would rise if immigrants did not provide a cheap labour force to fulfil the demand for those services (Freeman, 1995; Borjas, 2006). In contrast, costs of this social phenomenon are dispersed through society, ranging from greater pressure on social services and housing to greater competition for access to the labour market (Freeman, 1995).

The inherent characteristics of immigration provide greater incentives to the benefited social groups organise themselves and to attempt to influence the decision making process. In contrast, those who take the costs face greater adversities in terms of organisation and mobilisation, due the diffusion of cost through most of the society. Consequently, it has been argued that the immigration policy of the developed states often resembled to the “client” politics model, which means that this public policy is frequently designed to favour the interests of the benefited social groups (Freeman, 1995). As we shall see, this trend was particularly evident during the second mandate of the Socialist Government.

This paper begins by addressing the mandate of the XII Constitutional Government (1991-1995), which was formed by the Social Democrat Party (PSD). This party is located at the centre-right of the left-right political spectrum. This study shall than proceed to analyse in separate, the mandates of the two following governments formed by the Socialist Party (PS), respectively the XIII Constitutional Government (1995-1999) and the XIV Constitutional Government (1999-2002). This party is located at the centre-left of the political spectrum. Lastly, the immigration policy implemented by the XV Constitutional Government (2002-2004) shall also be addressed, which was formed by a right-wing coalition between the Social Democrat Party and the Social Democratic Centre-Popular Party (CDS-PP, which is a right wing party).

## 2

The mandate of the XII Constitutional Government formed in 1991 by the PSD was marked by the necessity to harmonize Portuguese immigration policy according to the

ratification of the Schengen Agreement and of the Dublin Convention. In 1993, there were about 136 932 foreign citizens legally settled in Portugal, most of them were EU citizens, while the rest was origin from non-EU Portuguese official speaking countries, like Capo Verde and Angola (Baganha, 2005). The lack of knowledge of Portuguese political elites over this phenomenon led to the quick adoption by the Social Democrat government of the “Fortress Europe” paradigm that was predominant in the early 1990s at the EU level. Consequently, the immigration policy was interpreted as a national security issue leading to the overt implementation of a restrictive immigration policy, balanced by the realization of a process of regulation of irregular immigrants.

In 1993, the Social Democrat Government drafted both the Decree-Law no. 59/93 (law of immigration) and the Decree-Law no. 60/93<sup>2</sup>. The latter law recognized the right to free movement to the EU citizens and distinguished these individuals from non-EU citizens. In contrast, the Decree-Law no. 59/93 imposed clear restrictive conditions to the entrance and settlement of immigrants from non-EU countries. This new law of immigration imposed bureaucratic restrictions to the development of the regular immigration labour flow, favoured the access of the Portuguese speaking immigrants to long-term residence permits in contrast to other non-EU nationalities and limited the access to the family reunification processes by immigrants. It also facilitated the expulsion of non-EU citizens and acknowledged that any irregular immigrant found in the country would be subjected to expulsion<sup>3</sup>. The Government acknowledged the restrictive nature of the modifications introduced. It also justified the new bill on the basis either of the international compromises towards the EU and to the migration pressures registered in other member-states, rather than on the national reality<sup>4</sup>.

The introduction of the new restrictive law by the Social Democrat executive was preceded by the realisation of a regularisation process destined to irregular migrants settled in the country. Although, the legislator imposed distinct conditions to access the regularisation process which varied according to the national origins of the irregular immigrants, thereby favouring the legal settlement of Portuguese speaking nationals<sup>5</sup>. The concession of this general amnesty was justified on humanitarian grounds and was considered to be the first and last by the time Portuguese Minister of Internal Administration, because of the country’s compromises towards the EU<sup>6</sup>. The regularisation process derived from the publication of the Decree-Law no. 212/92 permitted the issue of 39.166 authorisations of residence to irregular migrants, most of them origin from Portuguese former colonies (Baganha, 2005).

Underlying the realisation of this regularisation process were both foreign policy and economic objectives (Baganha, 2005). On the one hand, the vast of majority of the regularised immigrants were origin from non-EU Portuguese speaking countries, with

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<sup>2</sup>Decree-Law no. 59/93, published in the 3rd of March of 1993; Decree-Law no. 60/93, published in the 3rd of March of 1993

<sup>3</sup>Decree-Law no. 60/93, published in the 3rd of March of 1993

<sup>4</sup>Assembly of Republic Diaries, I Série 44/VI/1, de 27-03-1992

<sup>5</sup>Decree-Law no. 212/92, published in the 12th of October of 1992

<sup>6</sup>Assembly of Republic Diaries, I Série 44/VI/1, de 27-03-1992

who the Portuguese state desired to maintain strong relations. This objective explains the introduction of a discriminatory principle regarding the access to the regularisation process. On the other hand, Portugal started receiving structural funds from the EU that were invested by the Social Democrat executive in the development of infrastructure, like a national network of highways. This political option led to the rise of the demand of unqualified labour on the national labour market, which was being satisfied by irregular immigrant labour (Baganha, 2005).

Following the approval of the new immigration law, the Social Democrat Government drafted a new asylum law. This action was justified on the necessity to harmonize the legislation with the Dublin Convention proceedings, but the national security approach of the Social Democrat Government was reflected in introduction of further restrictions to the development of the forced flow of immigration then the presupposed by the Dublin Convention<sup>7</sup>. Thus, the first proposal was approved by the Parliament, but vetoed by the President of the Republic on constitutional grounds. Eventually, the second law was approved both by the Parliament and the President of Republic and was justified by the Government not on the basis of the dimension of asylum in Portugal, but on potential national security future challenges<sup>8</sup>. Nonetheless, the Decree-Law no. 70/93 was effectively successful in curbing the low number of asylum requirements made in the country<sup>9</sup>.

As we can observe, the immigration policy of the Social Democrat Government was clearly restrictive towards the primary, secondary and forced dimensions of immigration. Nonetheless, this immigration policy revealed a relevant level of tolerance towards the irregular labour flow. In spite of the security approach of the Government towards this social phenomenon and the compromises towards the EU, the realisation of a process of regularisation of irregular immigrants meant that the executive also conceded priority to foreign policy objectives and to domestic economic considerations.

### 3

Following the legislative elections in 1995, the new XIII Constitutional Government was appointed by the Socialist Party. This new Government compromised either to continue to develop the process of harmonization of Portuguese legislation by following the EU recommendations and simultaneously, to subject the regulation of immigration flows to the cooperation policy between Portugal and foreign official Portuguese speaking countries<sup>10</sup>. This meant that the immigration policy implemented during this mandate distanced itself from the former security approach, becoming

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<sup>7</sup>Decree-Law no. 70/93, of 29th of September of 1993

<sup>8</sup>Assembly of Republic Diaries, I Série 79/VI/3, de 16-07-1994; Assembly of Republic Diaries, I Série 80/VI/3, de 17-07-1994

<sup>9</sup>In 1994, the Portuguese authorities received 614 asylum requests against 1.657 asylum requests received in 1993 (Corkill and Eaton, 1998)

<sup>10</sup>Political Program of the XIII Constitutional Government, 1995



explicit subordinated to the foreign policy objectives of the new Government (Baganha, 2005).

The first intervention of the Socialist executive on the immigration policy consisted in the establishment of another regularisation process for irregular immigrants. According to the Minister of Internal Administration, this action was specially designed for immigrants from foreign official Portuguese speaking countries (Público, 25/02/1996). Therefore, it was no surprise that the conditions imposed for the access to the regularisation process were more favourable to these individuals than to nationals of other non-EU member states<sup>11</sup>. The implementation of the Law no. 17/96 led to the regularisation of 31.500 irregular immigrants who were settled in the country. The majority of the accepted candidates were still from the Portuguese former colonial territories, but in lower proportion than in 1993 due to the increasing diversification of the origins of the accepted candidates (Baganha, 2005).

The concession of another general amnesty was explicitly associated by the Government with the executive foreign policy objectives towards non-EU Portuguese speaking countries. Thus, the Government continued to select immigrants according to their national origins, a policy which was abandoned by other member-states a long time ago. On the other hand, the Portuguese Government also provided unqualified labour for the domestic market through this action, in the context of strong public investment in the construction sector, due to the construction of Lisbon's World Exposition opened in 1998 and the new bridge over the Tagus River (Baganha, 2005). In fact the rate of growth of the construction sector exceeded GDP's average rate registered during the 1990s and just between 1996 and 1997, the period of the regularisation process, the rate of employment in this economic sector rose by 13.2 per cent (Baganha et al, 2001).

Afterwards, the Socialist Government decided to review the Asylum law drafted in 1993, due to a personal initiative of the Prime Minister António Guterres. This act was politically justified by the executive's desire to seek a balance between the access to a right inscribed in the Portuguese Constitution and the harmonisation process at the EU level, which was considered as being of restrictive nature<sup>12</sup>. The new asylum law – the Law no. 15/98, liberalised the admission procedures of asylum requests, extended both the family reunification rights of those granted asylum and the social support provided by the state to such individuals<sup>13</sup>. This legislation was undoubtedly less restrictive than the predecessor law, though the number of asylum requests continued to be very low on the time period analysed by this study<sup>14</sup>. This trend suggests that potential asylum seekers might seek other means to settle in the country, rather than through the asylum pathway.

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<sup>11</sup>Law no 17/96, published in the 24th of May of 1996

<sup>12</sup>Assembly of Republic Diaries, I Série 1/VII/3, de 20-02-1997

<sup>13</sup>Law no. 15/98, published in the 26th of March of 1998

<sup>14</sup>In 1999, Portuguese authorities received 293 asylum requests and in 2000, only 202 similar requests (ECRE, 2000)

Finally, the Socialist Government decided to review the Portuguese immigration law established in 1993. The application of the Schengen Agreement in March 1995 presupposed not only modifications to the national legislation, but also meant that Portuguese state lost the monopoly of issuing entrance visas to its territory. Onwards, any non-EU citizen who got a valid visa to enter any country who signed this agreement could travel freely into the Portuguese territory. This development meant Portugal would become integrated in the international routes of labour smuggling, which operated to other member-states (Baganha, 2005). On the other hand, the ratification of the Amsterdam Treaty also implied modifications on national legislation, without establishing a common-policy between the member states or drafting a deadline for such procedure (Geddes, 2003).

In fact, the Socialist Government first associated the new law with the international compromises towards the EU and, secondly mentioned the international compromises between Portugal and the other Portuguese speaking countries. In general, the Decree-law no. 244/98 maintained the restrictions towards the development of regular labour flow, but extended the access to the reunification family processes. The new legislation also introduced an exceptional mechanism to regularise irregular immigrants on humanitarian grounds, without developing the means to tackle illegal immigration and smuggling<sup>15</sup>. Immigration flows were regarded by the Portuguese elites as being exclusively derived from former colonial territories, so the introduction of this exceptional mechanism would fulfil both foreign policy and domestic economic considerations without the government having to recur to general amnesties (Baganha, 2005). In fact, this act would have a tremendous and unforeseen impact on the development of Portuguese immigration policy.

In sum, the immigration policy of the first Socialist Government was less restrictive than the predecessor policy, despite it maintained bureaucratic restrictions to the development of the regular labour immigration flow. However, it extended immigrant rights to family reunification and demonstrated high levels of tolerance towards the development of irregular flows. This demonstrates that this government pursued an ambiguous immigration policy, which blocked the development of regular labour flows, but tolerated the development of the irregular flows. This policy was explicitly subjected to foreign policy objectives and implicitly led by the domestic demand of unqualified labour. Finally, the restrictions imposed by the precedent Social Democrat Government on the development of forced immigration flows were lifted by the Socialist executive on this first mandate.

#### 4

In 1999, the Socialist Government was re-elected for a second mandate and formed the XIV Constitutional Government. By this same period, there was a boom in the construction sector, when the growth rates rose tremendously and the number of construction licenses conceded by the State tripled between 1999 and 2000 and then doubled on the following year (Baganha, 2005). Simultaneously, it was also registered

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<sup>15</sup>Article no 88 of the Decree-Law no. 244/98, published in the 8th of August of 1998

the re-intensification of the emigration rates of Portuguese unqualified labour to other member-states looking for better salaries, which only aggravated the lack of this type of workers in the domestic labour market. In fact, if new immigrants did not enter the country, there would be a bottleneck in the labour market and national employers would have to improve the wages offers to attract national unqualified workers to remain in the country (Borjas, 2006). Nevertheless, the Socialist Government would ensure that this situation would not occur.

Only one year after being re-elected and just two after the latest revision of the immigration law, the Socialist Government was under pressure due to the existence of 40.000 requests for regularisation by migrants on humanitarian grounds in the State public offices and by the employers' demands, which required the availability of more immigrant workers (Baganha, 2005). Consequently, the Socialist executive decided to draft a new law of immigration – the Decree-Law no. 4/2001. The purpose of this new bill was justified by the time Minister of Administration as a response to the labour shortage registered in certain domestic economic sectors. This Minister also recalled that if state control on the hiring of irregular migrants was intensified many “work sites would close down” (Público, 16/06/2000). In fact, the Minister publicly acknowledged the close relation between the developments in the immigration policy and the evolution of the construction sector.

The great novelty of the new immigration law was the introduction of an authorisation of permanence, a new legal figure designed to regularise irregular immigrants who possessed a valid work contract in the country. Following the approval of this new immigration law, 126.901 irregular immigrants obtained an authorisation of permanence in 2001 only, while the foreign population legally settled in the country in 1999 was counted in about 191.143 foreign citizens (Baganha, 2005). The irregular immigration flows into Portugal not only had dramatically risen in one single year, but the origins of regularised immigrants had also diversified (Baganha, 2005). The majority of the regularised immigrants in 2001 were from Eastern European countries, which who Portugal had very few relations. This change was propelled by the activity of illegal international labour smuggling organisations, whose great activity in the country became widely publicized by the national media.

According to the Decree-Law no. 4/2001, in the future, an annual report would be carried to recommend the number of authorisations of permanence to be granted on the basis of labour demand, which was a blueprint for a quota system. However, this action would only develop the bureaucratic nature of the mechanisms to manage the regular labour flow. This new law of immigration extended the rights of immigrants to the reunification process, imposed greater penalties on employers of irregular immigrant workers and criminalised the smuggling of irregular immigrants. Learning from the past experience, the executive suppressed the exceptional mechanism to regularise irregular immigrants<sup>16</sup>, which was working as a pole of attraction for the activity of international illegal organisations of labour smuggling.

In sum, the immigration policy of the second Socialist Government was marked by the “laissez-faire” policy towards the regulation of the irregular flow into the country,

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<sup>16</sup>Decree-Law no. 4/2001, published in the 10th of January of 2001

which was overtly and merely subjected to the labour market necessities. In fact, the government abstained from intensifying controls on the national economy, in order to promote the interests of this economic sector. Consequently, the immigration policy of this Socialist executive acquired the outline of a “client” policy model, as suggested by Freeman (1995). It was clearly less restrictive than the predecessor immigration policies implemented and resulted in the most expansive period of immigration to Portugal.

## 5

The demission of the Socialist government propelled new legislative elections in 2002, wherein the PSD obtained a majority of the votes. This party invited its right-wing counterpart party – CDS-PP, to integrate the XV Constitutional Government in order to reinforce the executive stability. Both parties had campaigned against the rise of the irregular flow into the country and in consequence this issue was set as a priority on new executive agenda. Nevertheless, more than 47.657 authorisations of permanence were still issued to irregular immigrants in 2002, so the foreign population legally settled in the country counted 365.701 foreign citizens (Baganha, 2005).

Unsurprisingly, the coalition government PSD/CSD-PP pressed to review once more the Portuguese immigration law, because the immigration levels into the country were too high, especially in the context of economic crisis. According to the new executive, the immigration policy would be therefore subordinated to an integrationist paradigm, which turned the entrance of further immigrants dependent on the integration of those already settled in the country. In order to achieve this objective, the Government would establish a rigid quota system to regulate the development of the regular labour flow. The announced restrictive immigration policy of the coalition Government PSD/CDS-PP was also aligned with the discourse of other member-states registered at the EU Seville Summit in 2002.

The new immigration law approved– the Decree-Law no 34/2003, established a rigid quota system that was grounded both in the labour demand and in the regional capabilities to provide social services. Thus the bureaucratic nature of the mechanisms to regulate the labour immigration flow was further developed. In contrast, the coalition Government exempted highly qualified workers from being subjected to the quota system, following the EU recommendations to increase the attraction of skilled labour. This new bill suppressed the concession of authorisations of permanence, restricted immigrant’s access to the right of reunification family and reinforced the means to tackle irregular immigration<sup>17</sup>.

The coalition Government initially settled the admission quota of new immigrants on 6.500 individuals and then extended it to 8.500. However, only a few hundred immigrants benefited of the new regulation system by the end of 2004, which represented a total failure of the new quota system according to the Director of the Portuguese border police (Público, 29/08/2005). Few months after the approval of the new immigration law, the President of Brazil made an official visit into Portugal in July

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<sup>17</sup>Decree-Law no. 34/2003, published in 25th of February of 2003

2002 and an international labour agreement was celebrated between the two countries at this event. This agreement only permitted Brazilian citizens who were irregularly settled in Portugal to obtain the regularisation of their status, if they possessed a valid working contract and proved that they entered in the country before the signature of the agreement<sup>18</sup>.

Once again, the regulation of the irregular immigrant flow was subjected firstly, to the foreign policy objectives of the Government and secondly, to the demand of unqualified labour in the domestic labour market. Following the approval of the Portuguese-Brazilian labour agreement, 13.294 Brazilian citizens settled irregularly in the country obtained the regularisation of their status. The disagreement of the PSD governmental coalition partner with the evolution of the immigration policy, led the leader to the CDS-PP to publicly advocate that “work first to Portuguese workers” (Público, 15/09/2003). Consequently, the Social Democrat Prime Minister sought to distance itself from this type of discourse, arguing that immigrants brought benefits into the Portuguese economy (Diário de Notícias, 23/11/2003).

A new regularisation scheme was also announced by a Social Democrat Secretary of State, destined for those irregular immigrants that possessed a valid work contract and had done contributions to the national insurance system (Público, 19/09/2003). This regularisation process was turned possible by the parliamentary approval of the Decree no. 6/2004, which permitted the regularisation of 5.145 foreign citizens of an overall of 53.196 requests (Público, 12/10/2005). This figure suggests that a pool of irregular immigrants continues to persist in the country, despite the occurrence of successive regularisation processes, which have consequently lost their exceptional status.

The immigration policy of the coalition Government between PSD and the CDS-PP ended up with a strong divergence between the integrationist rhetoric initially adopted and the policy development. Although this immigration policy was far more restrictive towards primary and secondary dimensions of immigration than the predecessor policies of the Socialist executives, it was also characterised by a considerable level of tolerance towards the irregular migrants. The failure to manage the development of the regular labour flow led to the implementation of limited regularisation processes destined to irregular immigrants. On the other hand, the regulation of this dimension of immigration was subordinated to the foreign policy objectives of the government and to the lower levels of unqualified labour’s demand registered in the Portuguese economy.

## 6

As we have seen, the immigration policy of the Portuguese state was successively modified by the distinct party Governments formed between 1991 and 2004. De facto, the centre-left executives led by the Socialist Party between 1995 and 2002 established immigration policies more liberal than those implemented by centre-right Governments located at the right of the political spectrum, respectively, those executives formed singly by the PSD and by the coalition of this latter party with CDS-PP. Consequently,

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<sup>18</sup>Agreement of Reciprocal Employment between Portugal and Brazil, 2003

the liberal or restrictive character of the immigration policies deployed in the selected period was aligned with the ideological background of the distinct party Governments.

Portugal as a member of the EU and of the Schengen Agreement has continuously promoted the process of integration of the national legislation according to the process of harmonisation towards a common EU immigration policy. However, the development of this effort has not impeded the Portuguese governments to pursue immigration policies grounded on domestic factors. Since the mandate of the Social Democrat Government between 1991 and 1995, wherein the influence of the EU over the policy making process was greater, Portuguese immigration policies were subjected to different paradigms. The first Socialist Government overtly subordinated his immigration policy to the foreign policy objectives and in its second mandate, subjected this public policy to economic considerations. The coalition Government between PSD and CDS-PP initially adopted an integrationist paradigm, but ended up regulating migration flows according to foreign policy objectives and to economic considerations.

On the one hand, a striking continuity observed in the immigration policies promoted by the four party governments consists in the variable levels of Governmental tolerance towards the irregular labour flow. This tolerance was especially high during the Socialist Party's mandates, but was also present during the mandates of the centre-right Governments. This attitude reflected either the successive failure of the Portuguese state to manage the development of regular labour flows and the objective to tap the demand of unqualified labour in the domestic market. This political pattern can be easily reproduced in potential and actual new countries of immigration of Eastern Europe, as the Spanish and Italian experiences illustrate. High emigration rates, as those felt in Eastern European states, can also create additional pressure for the admission of new immigrants to replace the workers who emigrate, as the Portuguese case also illustrates.

On the other hand, the immigration policy implemented during the second mandate of the Socialist Government was entirely subordinated to the labour market necessities. This "laissez faire" approach towards the regulation of the irregular flow was clearly destined to favour the interests of the employers of the construction sector. Consequently, the immigration policy of this executive clearly had the outlines of a "client" policy model. On the other hand, as one of the main investors in this economic sector and therefore as an intense consumer of services provided by migrant labour, the Portuguese state's economic interests could have been an additional factor behind the variable levels of tolerance towards the irregular flow on the selected time period.

# Problems using MLG in Comparative study: Alternatives and Solutions

Rory Shand<sup>1</sup>, Charles Lees<sup>2</sup>, John Henneberry<sup>3</sup>

<sup>1</sup> *Department of Politics, University of Sheffield*

<sup>2</sup> *First Supervisor, Department of Politics, University of Sheffield*

<sup>3</sup> *Second Supervisor, Department of Town and Regional Planning, University of Sheffield*

**This paper focuses on the uses and problems of using Multi-Level Governance (MLG) in comparative research. The initial sections of the paper introduce my research and the key hypotheses and research questions arising from it. Four key themes are touched upon, including the use of other methodologies alongside or in preference to MLG, such as Social Network Analysis, Policy Networks, and Historical Institutionalism (H.I.). The paper looks at the issues of hierarchies vs. networks, arguing that MLG literature has lacked emphasis on this issue. The mid-sections of the paper unpack the extent of the uses and limits of social network analysis in the case study areas and how compatible this methodology is with the other mentioned above in relation to my own comparative research. The paper concludes with sections on how the methodologies are best combined, how other scholars have resolved the methodology issue and the growing need to combine quantitative and qualitative data when combining methodologies.**

## **Keywords**

Comparative, governance, hierarchies, networks

## **1. Introduction**

While Multi-Level Governance continues to attract fierce debate, and issues of government vs. governance are yet to be resolved, the theory poses particular problems for the comparative researcher.

This paper will argue that comparative study demands a selection of methodologies, and a variety of perspectives, that MLG cannot always easily provide.

My own research concerns Brownfield regeneration in the Thames Gateway and Berlin. Two case study areas have been selected both in the UK and Germany (these are Barking and Thurrock in the Thames Gateway, and Potsdam and Marzahn in Berlin). The paper is intended to contribute an understanding of the continuing and valuable role of MLG in comparative research, when faced with classic issues of triangulation,

case study selection and broader institutional comparison. The paper is intended to set out the issues arising from methodology selection, rather than fieldwork data sets or empirical problems. The key terms, as above, are briefly defined in the following section.

'*Social network analysis*' and '*network analysis*' are taken to mean the same methodology, and the terms are used interchangeably. Discussion of the '*network*' or '*governance network*' is used in reference to the governance map in the Thames Gateway. '*MLG*' and '*governance*' are used interchangeably. '*Government*' is used to refer to the theoretical approach *contra* governance.

## 2. Research Questions:

- 1) How has the concept of 'sustainable development' been used by governments to engineer intended consequences?
- 2) What impact do the different institutional systems in the UK and Germany have on the efficacy of governance of regeneration?
- 3) To what extent have UDCs/community groups been able to impact on their area's regeneration? And is this due to the governance structure?
- 4) What is the impact of 'events' (Reunification, Olympics) in the case study areas? What does this say about institutional resilience?
- 5) Does the increasing capacity of the centre to drive the regeneration process mark a shift from governance to government?

## 3. Main Hypotheses:

- That the network governance model is ineffective and is bypassed by central government
- There is a disjuncture between *formulation* (networks) and *implementation* (centre)

Governance is a key theme of these research questions: that there is a gap between formulation and implementation of policy, and that the causal effect of this disjuncture is that the *theoretical* model of governance in the Thames Gateway differs from the *actual* policy process- the network governance model is bypassed in policy matters by central government. This raises the government vs. governance question once more. MLG is central to the four case studies in my research. Given the research questions above, however, several problematic issues arise:

- The government vs. governance model needs to be examined. Following Rhodes<sup>43</sup> this model emphasises the steering vs. rowing debate. Policy networks could be used as the model, but the policy networks approach has been criticised

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<sup>43</sup> Rhodes, R.A.W. *Understanding Governance*, 1997, Routledge



as being too lightweight theoretically and methodologically and therefore cannot be used as a stand alone tool. It is best employed, as Albert Weale noted, as an ‘idiom of analysis’<sup>44</sup>. The policy networks approach, therefore, needs to be embedded in another methodology, in this case, Historical Institutionalism.

- Which issues are raised by Type I and/or Type II MLG?
- The issue of network governance has to be addressed. This is better explained by network analysis models which measure the roles and strength of the actors<sup>45</sup>
- The policy networks model is relevant to the UK case studies but, a considerably smaller German literature on the model apart, is seen as a wholly ‘Anglo-centric’ model.
- Finally, does MLG retain the capacity to be used as a stand alone methodology given the need to measure increasingly complex networks systems? And the need for comparison?

#### 4. Hierarchies or networks?

The Thames Gateway demonstrates the policy process being driven by the centre. Examples of this- the appointment of Judith Armit (prior to her subsequent resignation) to oversee the process of network governance; the creation of a new Homes and Communities Agency (HCA) to coordinate policy between English Partnerships, local councils and housing corporations,<sup>46</sup> and to make explicit who these actors are responsible to. The centre is therefore clearly driving policy decisions and interfering with the network, a process eloquently characterised as ‘hyperactive government’ by Henneberry, Dixon and Catney<sup>47</sup>. This is evidently a government rather than governance problem. As Rhodes notes, MLG has attempted to deal with the emergence of networks by characterizing the ‘decentred approach (which) sees network governance arising from the bottom up’<sup>48</sup>. This approach, however, fails to account for centre infringement in the network.

I would expect to find in the course of fieldwork that in the case studies in my research, certainly in the Thames Gateway, demonstrate *in theory* governance by means of ‘numerous, overlapping, special-purpose local jurisdictions to increase citizen choice and flexibility’<sup>49</sup> but *in practice* do not resemble the evidence of day to day policy making. The governance model of networks, as Stoker observes, argues that rather than merely influencing policy these agencies actually ‘take over the business of government’<sup>50</sup> which does not explain government interference, as in the Thames Gateway, or the existence/emergence of hierarchies embedded in the networks.

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<sup>44</sup> Weale, A. The New Politics of Pollution, Manchester University Press, 1992

<sup>45</sup> Scott, J. Social Network Analysis, 1992, Routledge

<sup>46</sup> [www.communities.gov.uk](http://www.communities.gov.uk), 2008

<sup>47</sup> Henneberry, Dixon and Catney, mimeo, 2007

<sup>48</sup> Bang and Sorensen, 1999, cited in Rhodes, R.A.W., Understanding Governance Revisited, 2007

<sup>49</sup> Keating 1995; Lowery 2000; Ostrom 1972, cited in Hooghe and Marks, 2003

<sup>50</sup> Stoker, G. Governance as Theory: Five Propositions, International Social Science Journal, 1998

The problem of methodology when measuring such networks may be solved by using network analysis. Across the four case study areas, it is evident governance systems are in place; however, it is equally evident that hierarchies operate *within* and *on* these networks. While MLG does discuss and attempt to address hierarchies in networks, these tend to have been viewed by MLG theorists as partnerships rather than explicit top-down models. For example, Skelcher<sup>51</sup> sees networks as the building blocks of formal (bureaucratic) relationships while Stoker describes three types of partnership: (i) purchaser-provider relationships; (ii) negotiation and co-ordination; and (iii) ‘a shared vision and joint working which leads to the establishment of self-governing networks’<sup>52</sup> Though, as Davies notes, Stoker goes on to observe a process of ‘creeping centralization’ the focus remains on partnerships rather than hierarchies.

The assumption of large parts of MLG theory then, that ‘the coordination of these actors is no longer the result of central steering but instead emerges through the purposeful interactions of many individual actors’<sup>53</sup> does not ring true. Some governance scholars, however, have discussed the network/hierarchy conflict. Herbert Simon’s structural definition of hierarchy stresses the durability of hierarchical relationships, such as those found in the Thames Gateway governing process. Simon emphasises the ‘near-decomposability’ of hierarchies and the importance of *intra*-component linkages against *inter*-component linkages in the network.

Given the issue of hierarchies, then, is network analysis the best fit solution to the methodology problem?

#### **4.1 Social Network Analysis**

Social network analysis focuses on ‘the linkages between social entities and the implications of these linkages’<sup>54</sup> and takes several forms. Wasserman and Faust identify One-Mode Networks and Two-Mode Networks as key methods of analysis. One-Mode Networks measure actors and relations, and the scope of the framework include people, subgroups, organizations, collectives, communities and nation states. In Two-Mode Networks- or dyadic two-mode networks- the actors may be composed of the same type as in One-Mode Networks. The two sets however may consist of different types. This framework is well suited to the make up of the Thames Gateway network governance structure, as a multiplicity of actors make up the public and private agencies charged with delivery in the regeneration scheme. Following John Scott, network analysis also allows measurement of the most important actors in a given network, which will provide vital insight into the Thames Gateway governance structure, and who is more effective hierarchically. Figure 1 below shows the ‘partners’

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<sup>51</sup> Skelcher, C. Jurisdictional Integrity Polycentrism and the Design of Democratic Governance, Governance, 2005

<sup>52</sup> Stoker, G., 1998, cited in Davies, J. The Governance of Urban Regeneration, Public Administration, 2002

<sup>53</sup> Blatter, J. Beyond Hierarchies and Networks, Governance, 2003

<sup>54</sup> Wasserman and Faust, Social Network Analysis: Applications and Methods, 1994, CUP

which need to be considered in the case study areas in the Thames Gateway. (accessed and adapted from [www.gatewaytolondon.gov.uk](http://www.gatewaytolondon.gov.uk), 8/3/08).



**Figure 11 Partners in Thames Gateway**

*Figure 1* (above) demonstrates the range of actors in the network concerning two of the case study areas (Barking and Thurrock in the Thames Gateway). In network analysis terms, relations and ties (informal and formal) are measured by the dyadic nodes described above. Notable network analysis studies have used Markov graphs to measure the linkages between actors, such as the study of attitudes to work and friendship of grade school children by John Scott<sup>55</sup>. To operationalize the network in *Fig 1* one solution would be to design a Markov graph containing the inter-relational patterns of reciprocal ties in the network. Following Wasserman and Pattison<sup>56</sup> in their paper ‘Psychometrika’ the models to measure network relational ties in the Thames Gateway should look to ‘express each relational tie as a stochastic function of actor or network structural properties (including) parameters for tie density, the propensity for reciprocity of ties, and individuals’ tendencies to express and receive ties’<sup>57</sup>.

<sup>55</sup> Scott, J. *Social Network Analysis*, 1996, CUP

<sup>56</sup> Wasserman, S. and Pattison, *Psychometrika*, Logit models and logistic regressions for social networks: I. An introduction to Markov graphs and *p*, *behavioural science*, 1996

<sup>57</sup> Wasserman and Pattison, *Psychometrika*, Logit models and logistic regressions for social networks: I. An introduction to Markov graphs and *p*, *behavioural science*, 1996

The emphasis on Markov graphs in network analysis literature creates another dilemma. Alternative network models more suited to measuring ties in the Thames Gateway, such as a *dependence* graph (as used originally by Frank and Strauss, 1986) can be justified in that the dependence model focuses on *directed* relations (following an earlier prototype which the authors deemed too general and unwieldy) and in measuring the Thames Gateway case study areas, my research questions explore how the government at the head of the network intervenes. Though it may seem directed relations offers a best fit theoretical explanation of government, it is important to stress the need to examine the relations *within* the network as well as the government- network tension. The strength of the ties between actors can be measured, as in studies by Wasserman and Faust<sup>58</sup> to measure the density of ties among groups in the US.

Network analysis, like every methodology, has its limits however. Practically, when building a network it is possible for the network to grow unwieldy. A network comprised of a large amount of actors is difficult and extremely time consuming to measure. Additionally, the response rate to network analysis questionnaires can be an issue, as actors are sometimes reluctant to partake in lengthy questionnaires measuring strength of ties.

However, there is a burgeoning literature on the most effective use of measuring networks in German case studies. Scholars such as Hanse<sup>59</sup>, and Kenis and Schneider<sup>60</sup> have noted the importance of networks in German political science:

‘Network thinking will have considerable impact on future social theory building (... ) an important advantage of the network concept in this discipline is that it helps us to understand not only formal institutional arrangements but also highly complex informal relationships in the policy process’.

The German policy networks literature notes that the varying definitions of policy networks as a heuristic are potentially unhelpful when applying the toolkit to case studies. Van Waarden describes 11 differing notions of policy networks across ‘seven major dimensions and 37 sub-dimensions’ (Hansen, 1997: 672)<sup>61</sup>. Similarly, Jordan and Schubert (1992) identified 11 ‘most commonly occurring terms’.

Taking into account this growth of the use of policy networks in Germany, and the largely British traditions the policy networks literature has grown out of, it is clear that comparing the two countries merits the use of policy networks, and that it may be a toolkit further utilised by the comparativist. As Rhodes<sup>62</sup> notes:

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<sup>58</sup> Wasserman and Faust, *Social Network Analysis: Applications and Methods*, 1994, CUP

<sup>59</sup> Hansen, J. *A New Institutional Perspective on Policy Networks*, Public Administration Blackwell 1997

<sup>60</sup> Kenis, P. and Schneider, V., *Policy Networks and Policy Analysis: Scrutinizing a New Analytical Toolbox*, 1991, OUP

<sup>61</sup> Cited in Hansen J., 1997, *Public Administration*, Blackwell

<sup>62</sup> Rhodes, R.A.W., *Markets, Hierarchies and Networks*, 1991, MacMillan

‘The British contribution to the study of policy networks has demonstrated that the concept has considerable utility for the analysis of policy making in Western democracies. Its heuristic value remains considerable, primarily because the concept directly confronts, even mirrors, the administrative and political complexity of advanced industrial societies’.

## 5. Type I and Type II MLG

MLG will prove useful in a comparative context; however, as the governance structure of regeneration in Berlin is composed of far less actors in the network. Given the federal structure in Germany, it could be supposed that Type I MLG is the ‘best fit’ model. The key tenets of Type I MLG—that it is a ‘territorial’ model—fit with the principles of the Lander level and environmental groups in Berlin; for example the division between the ‘city state’ of Berlin and central government— but do not fit with the Thames Gateway. Type I MLG also fits with Berlin in regard to the research questions, notably 3) regarding communities, as the division of authority between levels has a built-in institutional commitment to the inclusion of communities in Berlin’s Brownfield regeneration through the Social City programme. The most appropriate way to measure this involvement is through MLG, as the Lander and federal horizontal-vertical axis of power in Germany are paradigmatic examples of territorial (type I) levels of governance.

Type II (functionality model) is closer to the Thames Gateway design- task specific jurisdictions, intersecting memberships, no limit to the number of jurisdictional levels, flexible design<sup>63</sup>. Type II MLG has been described by some scholars in terms which seem to fit the Thames Gateway design- as Hooghe and Marks note, studies like that of Frey and Eichenberger describe ‘functional, overlapping, and competing institutions’ (FOCJ) which ‘are flexible units which are established when needed (and) discontinued when their services are no longer demanded (and also) are an institutional way to vary the size of public jurisdictions’ (Frey and Eichenberger, 1999, cited in Hooghe and Marks, 2001:15)<sup>64</sup>.

A prescient example of this are the Urban Development Corporations (UDCs) in the Thames Gateway- in Thurrock, the UDC is one of the more powerful and established in the region, and has a life cycle of seven years (subject to review after five). However, the FOCJ model- and Type II MLG more broadly- does not quite fit with the network structure. Though Type II tenets of intersecting memberships and task-specific jurisdictions are present in the TG case study areas, the ‘flexible design’ of Type II is misleading in the TG. The flexible design in the TG has meant, as noted above, centre interference, which has meant government rather than governance, illustrating the limits

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<sup>63</sup> Hooghe, L., and Marks, G., *Unravelling the Central State, But How? Types of Multi-level Governance* American Political Science Review, 2003

<sup>64</sup> Frey and Eichenberger, 1999, cited in Hooghe, L., and Marks, G., *Unravelling the Central State, But How? Types of Multi-level Governance* American Political Science Review, 2003

of using Type II. Additionally, the network is closer in design to the ‘system- wide architectures’ of Type I.

Distinguishing between Type I and Type II MLG is problematic in itself, however. Both Types operate as dialectic; when using one it is necessary to use the other; as Type II has evolved from, and in reference to, Type I. The model of MLG in the Berlin case study areas then, would be composed of primarily Type I actors, as the key players, though I expect to find there will also exist around the Type I actors some Type II agents. Similarly in the Thames Gateway, the governance map is comprised mainly of Type II agencies, however there still exists a Type I ‘chain of command’ (London Development Agency, Thames Gateway Delivery Corporation). It is necessary therefore to keep in mind the dialectic of both Types I and II when using MLG, as well as the government vs. governance debate.

As Fairbrass and Jordan note, environmental policy has, more generally speaking, tended towards traditional forms of government rather than MLG: ‘(we) would not expect environmental policy making and implementation in the United Kingdom (...) to be either ‘multi-level’ or dominated by ‘governance’<sup>65</sup>.

This again highlights the case for accounts of the centre ‘filling in’<sup>66</sup>, but does not explain to what extent Actor *A* is more powerful than Actor *B*.

Solving this issue will involve using network analysis in the Thames Gateway case study areas as well as MLG in both the Thames Gateway and Berlin.

Comparative research also brings with it a set of historical questions. The Thames Gateway and Berlin are products of differing political systems, institutions, and norms. While comparing the governance structures may be informative in and descriptive sense (the present) a prescriptive sense (the future) MLG cannot by itself tell us a great deal about the origins of these respective systems. As comparativists we also need to look at issues around why certain events happened at particular moments, the drivers behind them, and what effect (if any) these have had. Methodologically speaking, Historical Institutionalism provides this toolkit, and allows the policy networks model to be embedded within the theory.

### ***5.1 Policy Networks: definitions and applications***

Policy Networks has been criticised for being too methodologically lightweight, and also is perhaps rather too ‘Anglo-centric’, much of the literature being based on Westminster and the hollowing out process in the UK.

This point is conceded by Rhodes himself<sup>67</sup>. There is a German literature on policy networks, tending to focus on the policy network as an ‘overarching characterization of

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<sup>65</sup> Fairbrass, J. and Jordan, A. *European Environmental Policy and the UK Government* Environmental Politics, 2001

<sup>66</sup> Taylor, A., *Hollowing Out or Filling In?*, BJPIR, 2000

<sup>67</sup> Rhodes, R.A.W., *Understanding Governance Revisited*, 2007,

public-private relations<sup>68</sup>. This literature also tends to follow the British governance theory, favouring bargaining rather than hierarchy.

Scholars such as Tanja Borzel have noted the problems inherent in defining and using policy networks as a methodology. Borzel notes policy networks have a 'Babylonian' issue in that they can be conceptualised as 'method, model or theory'<sup>69</sup> and draws a valuable distinction between the uses of policy networks as a tool and that of network analysis. Evidently, policy networks and governance literature lack the quantitative value of social network analysis. However, again following Borzel, the focus of policy networks on process is a valuable one, and one which is not *contra* network analysis as conversely, 'the two methodological approaches are not mutually exclusive but complimentary'<sup>70</sup>. In the case study areas, the internal relations of the network are distinct from the government-network relations, and the two methodologies thus need to be used in tandem. Modelling the case study areas' governance structure, the government model would need to be superimposed upon the network, rather than the government being an actor (along relational formal tie lines) in the network. This is demonstrated in *figure 2* (below), which I have termed the 'roundabout' model. In the model the government is represented by the roundabout in the middle, separate from the fluidity and exchange of the network (traffic), but always necessary and central to the relations of the network. The positioning of the government as the centre is not intended to illustrate parts of the network being above the government, rather that the government has defined its role *in and as* the centre.

Figure 2 is influenced by scholars such as Flinders' Russian Doll model<sup>71</sup> and also by Gligorov's<sup>72</sup> broken cobweb model, which stresses that the centre does not have the same relational ties with each individual actor. The model shows the usefulness of MLG in modelling the governance map in the Thames Gateway, with the structure of hived-off functionality to agencies apparent, (as in Type II), combined with network analysis to triangulate and account for the network of actors- the 'traffic'- around the centre. The model does not convey the strength of ties or rank them in order of importance; this will be conducted during fieldwork. The model is intended to postulate a way of modelling the hypotheses with the methodologies used.

In the case study areas, the need to combine methodologies, to measure both governance and the network is evidenced, as noted above, by instances such as the creation of yet another agency by central government, the Homes and Communities Agency (HCA) and leads to the government/governance debate once again (see research question 5), as the HCAs lead role should not be read as Type II but rather as 'government' interference.

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<sup>68</sup> Van Waarden, 1992, but see also Katzenstein

<sup>69</sup> Borzel, T. ., Organising Babylon: On the different conceptions of Policy networks, Public Administration, 1998

<sup>70</sup> Sciarini, 1996, cited in Borzel, T. ., Organising Babylon: On the different conceptions of Policy networks, Public Administration, 1998

<sup>71</sup> Flinders, M. forthcoming, 2008

<sup>72</sup> Gligorov, V. regional Co-operation with Punctuated Equilibria' Global Development Network South East Europe, 2004

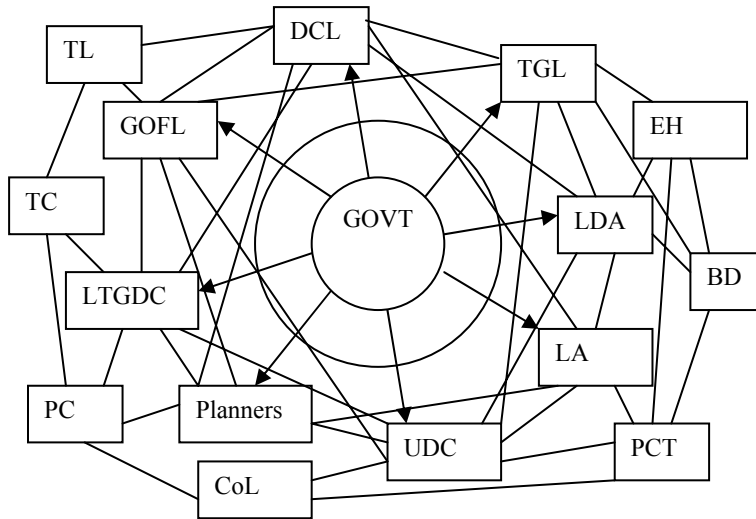


Figure 2 Roundabout model

## 5.2 Marrying methodologies: bridging the gap with Historical Institutionalism

Historical Institutionalism (H.I.) enables us to understand the processes behind institutions and norms, through path dependence, characterised by William Sewell: ‘what happened at an earlier point in time will affect the possible outcomes of a sequence of events occurring at a later point in time’<sup>73</sup>, enabling us to better understand the differences in the case studies when comparing. As Thelen notes, H.I. equips the comparativist with ‘prior expectations that we can then hold against the observed outcomes’<sup>74</sup> as H.I. enables us to conceptualise politics in terms of causality and as a process.

Related to research question 2), H.I. is the best fit selection to explain the effect of the weight of institutional difference in the case study areas (i.e. between UK and German systems), particularly the effect of federalism and the party system (the issue of Die Grünen will be returned to in later sections). Additionally, work on the horizontal-vertical axis has been carried out by some German policy networks scholars, such as

<sup>73</sup> Sewell, W., cited in Pierson, P. Increasing Returns, Path Dependence and the study of Politics, *American Political Science Review*, 2000<sup>73</sup>

<sup>74</sup> Thelen, K. Historical Institutionalism in Comparative Politics, *Annual Reviews in Political Science*, 1999<sup>74</sup>



Sharpf, who has conducted research on the issues surrounding ‘problem-generating tendencies of a decentralized decision making structure’<sup>75</sup>.

Scharpf describes how policy networks in German can be conceptualised as *Politikverflechtung*. Which has been criticised as the network linking ‘autonomous administrations only, (but he) neglected their links with societal actors and, in particular, the important role of the party system’<sup>76</sup>. This criticism is important when understanding the use of H.I. in the case study areas.

The attempt to create linkages between the horizontal and vertical axis of German governance illustrates the advantages of the system existing in this way prior to the creation of networks, and the value of Scharpf’s concept of *Politikverflechtung*, which focuses on intergovernmental relations (...) designates tendencies toward bridging the vertical and horizontal institutional differentiation of the structures of political decision making in the Federal Republic’<sup>77</sup> and also provides strong support for the marrying of the H.I. method with the policy networks toolkit. As noted above, critics of Scharpf point out the importance of extending his model to include linkages between non-state actors and agencies, as well as the role the party system has played. In comparing Germany and the UK, it is important to measure the effect of each of these. However, as above, such analyses is used to construct a case for using network analysis to explain such inter- and intra-organizational linkages, which does explain the actors’ linkages in networks, but fails to account for the strength of A) Party or B) State department *without* the explanation of A or Bs historical position in governance models. H.I. enables us to explain the strength and strategic position of an actor by path dependence and punctuated equilibriums.

As True et al<sup>78</sup> note, punctuated –equilibrium theory explains how periods of stability and mobilization arise from the interaction of multi-level decision making and institutional behaviours, creating periods of ‘punctuated equilibria’. The theory has been used extensively in studies on environmental policy<sup>79</sup>, and with regard to my case studies, will inform the comparison of institutional effects in the Thames Gateway and Berlin. The ‘general process of stability enforced by organizational routines interrupted by bursts of activity due to shifts in collective attention are general ones, (but that) these processes are mediated by political institutions’<sup>80</sup>.

In comparing institutional traditions of the UK and Germany to inform the case study research, the concept of path dependence is a valuable one. In terms of MLG, path dependence is a useful complimentary explanatory method. MLG explains the governance structures in the Thames Gateway and Berlin at the present, or over a five- or ten- year period for example, but to examine the effect of institutions it needs to be combined with path dependence.

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<sup>75</sup> Scharpf, F. Public Management and Policy Networks, Public Management, 2000

<sup>76</sup> Scharpf, F. Public Management and Policy Networks, Public Management, 2000

<sup>77</sup> Scharpf, F. Public Management and Policy Networks, Public Management, 2000

<sup>78</sup> True et al, cited in Bache and Flinders, Multi-level Governance, 2001, OUP

<sup>79</sup> Cited in True et al, , cited in Bache and Flinders, Multi-level Governance, 2001, OUP

<sup>80</sup> True et al, cited in Bache and Flinders, Multi-level Governance, 2001, OUP<sup>80</sup>.

The Path Dependency model also allows us to focus upon ‘critical junctures’, the formative period when selection of a policy path produces a particular outcome.<sup>81</sup>

These models provide a theoretical explanation of the differences in the four case study areas. The governance of Brownfield regeneration in Berlin is a product of Germany’s status as an initial environmental ‘pioneer’<sup>82</sup>, the political success of Die Grunen, and the resultant higher levels of recycling and post-materialism than was the case in the UK. Similarly, governing Brownfield regeneration in Berlin is effected by the federal nature of Germany. The unitary tradition of the UK and the perceived relative failure of QUANGOs and government agencies may also explain the UK central governments reluctance to devolve function entirely. Such factors are key drivers behind the governing process and need due consideration.

## 6. Concluding Remarks

The use of MLG in comparative politics remains important, and is a vital explanatory model in the Berlin case studies in my research. Additionally, many successful and renowned studies have utilised MLG as part of its own wider methodological toolkit<sup>83</sup>. MLG has often been successfully married with H.I. in the past, notably by scholars like Simon Bulmer<sup>84</sup> in studying the EU. Other research has problematised the selection of these methodologies in comparative analysis, notably Pollack<sup>85</sup> and Risse-Kappen<sup>86</sup>. Many of these studies have concerned comparative research and a focus on institutions of the EU which my own research does not.

The growth of network governance has however problematised the limits of MLG in identifying the importance of each actor in the network. Comparative research- especially when comparing across nation-states- can still make use of MLG, but in demanding more than one methodological model, the comparativist will face the issue of using social network analysis alongside MLG and its traditional complimentary methodologies, as governance structures become ever more complex, their relationship to government increasingly harder to measure, and the need to marry quantitative and qualitative data more pressing.

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<sup>81</sup> Peters, B.G., Pierre, J and King, D.S. The Politics of Path Dependency: Political Conflict in Historical Institutionalism, *Journal of Politics*, 2005

<sup>82</sup> Pehle, H. and Jansen, A. Germany: the Engine in European Environmental Policy, *Governance and Environment in Western Europe*, 1998

<sup>83</sup> For example, see Jessop’s work on meta-governance, 2001

<sup>84</sup> Bulmer, S. New Institutionalism and the Governance of the Single European Market, *Journal of European Public Policy*, 1998

<sup>85</sup> Pollack, M The New Institutionalism and EC Governance, *Governance*, 1996

<sup>86</sup> Risse-Kappen T. Exploring the Nature of the Beast: Theory and Comparative Policy Analysis Meet the European Union, *Journal of Common Market Studies*, 1996

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## Appendix

### List of abbreviations

BD	Barking Dagenham
CoL	City of London
DCL	Dept for Communities and Local Government
EH	English Heritage
EU	European Union
FOCJ	Functional, overlapping, competing jurisdictional institutions
GOFL	Government Office for London
HCA	Homes and Communities Agency
HI	Historical Institutionalism

LA	Local Authority
LDA	London Development Agency
LTGDC	London Thames Gateway Development Corporation
MLG	Multi-level Governance
PC	Private Company
PCT	Primary Care Trust
QUANGOs	Quasi Autonomous Non-Governmental Organisations
TC	Thurrock Council
TG	Thames Gateway
TGL	Thames Gateway London
TL	Think London
UDC	Urban Development Corporation
UK	United Kingdom

# **Acknowledgement of New Nations: Hypocritical International Attitude. Case Study: Former Yugoslavia and the Middle East**

*Dana Murgescu*

*National School of political and Administrative Studies, Bucharest*

**The issue of nations and the boundaries of nationalism is increasingly present nowadays. Small minorities are developed into "autonomous regions", which quickly turn to national states. Or not.**

**The paper tries to present and discuss the very different attitude of the international community faced with essentially the same issue: minorities longing for a state of their own. The focus will be placed on the one hand on the case of former Yugoslavia, which was divided into six republics, and now a seventh one emerged in controversy, and on the other hand on the situation in the Middle East, where the Palestinians and the Kurds cannot find the international acknowledgement so gladly granted to Kosovo.**

**The paper aims to discuss the political situation and the economic context of the two regions and attempts to discover the reasons that lead to such a different attitude of the international community.**

## **Keywords**

nations, states, international law.

Nations exist to the extent to which they are recognized by others and to which they relate to one another. The concept of nation is commonly associated with that of a state (either a national or a federal state), and the image of a nation at the global level is illustrated by the actions of the state, as international actor. The 20<sup>th</sup> century witnessed the break-down of empires and the emergence of new states and new nations. All the turmoil of the world wars made necessary the establishment of a strong international community, capable of ensuring stability, peace and negotiations as a means of settling possible disputes.

The concept of international community as regulatory and protecting entity at the global level emerged after World War I, with the founding of the League of Nations, in 1919. The main purpose of this organization was to "promote international co-operation and

to achieve international peace and security" [1]. Thus, in 1920, the Permanent Court of International Justice was created. Although it made serious steps in establishing an international rule of law, the League of Nations was unsuccessful in preventing the start of the Second World War and, as a consequence, ended its existence in 1946. All the assets of the League of Nations and most of its principles regarding global peace, international dispute solving and global law were taken over by the newly created United Nations Organization. The UN was meant to be a far more present organization at the world level. Its main purposes include "to maintain international peace and security, and to that end: to take effective collective measures for the prevention and removal of threats to peace, and for the suppression of acts of aggression or other breaches of the peace; to develop friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples" [2]. Very generous purposes, accompanied by equally desirable principles of operation, such as the equality among its members, refrain from using force against the territorial integrity or political independence of any state, or the commitment to settle any international dispute in a peaceful manner. In order to avoid the futile existence of the League of Nations, the UN Charter grants certain enforcement powers to the organization. It is true that the enforceability of international law is based on the fact that the signatory states willingly uphold and observe the international regulations in effect [3]. Without the states' agreement and commitment, no international regulation can be enforced since there is no higher authority than the sovereign state. However, as members of an international organization, states can be compelled to act in a certain way. The measures which can be employed by the UN range from making recommendations and establishing provisional measures to more serious steps, such as interrupting economic or diplomatic relations, suspending communications, or even to the use of force as a last resort in the attempt to preserve international peace and security. The UN organism responsible for preserving peace and monitoring the global situation is the Security Council. It is made up of five permanent members (The United States, China, France, Russia and the United Kingdom), with the right to veto, and ten temporary members.

The increased importance given by the international community to human rights and to the peoples' right to self-determination has encouraged older or newer nations to ask for international help in establishing their own state. We focus herein on the case of Former Yugoslavia and that of the Middle East, comparing the attitudes, actions and reactions of the international community faced with essentially the same problem: nations without a state striving to create one. We believe that Kosovo is of particular interest to the Balkan countries, all of which have several ethnic minorities within their borders. Kosovo is a precedent which might bring unease, instability and tension in the region. It could lead to many other minorities militating for autonomy or even independence. Minorities must be respected as distinct communities. They must have certain special rights, enabling them to preserve their language, customs and history. But we argue that creating new states, for nations which do not exist, instead of solving a minority issue within the state is not the best approach of the problem. There isn't now and there never was a Kosovar nation. The population of Kosovo is made up of ethnic Albanians and Serbians. Instead of finding peaceful solutions, the international community (or part of it) decided to simply allow the creation of a new state.

The territory of present-day Kosovo has been populated by Serbs as early as the 7<sup>th</sup> century and it was officially incorporated into the Serbian state in the early 13<sup>th</sup> century.

It is one of the regions with the deepest significance for the history of the Serbian people and during the Middle Ages it was the cultural, religious and political center of the Serbian Kingdom. After the well-known battle of Kosovopolje, the province fell under Ottoman domination and was integrated in the Ottoman Empire [4]. A slow process of Islamization followed, favoured by the increasing number of Turks and Albanians who came to live in the region. By the end of the 19<sup>th</sup> century, the ethnic Albanians represented the majority population of Kosovo. The Balkan Wars prior to World War I brought back Kosovo under Serbian rule. During the Second World War, the Albanian militia killed and expelled thousands of ethnic Serbs from the region of Kosovo. After the war, during the communist regime lead by Tito, the province of Kosovo enjoyed a status of autonomous region and autonomous province. Through the Yugoslavian Constitution of 1974, Kosovo virtually gained the right to self-government. However, ethnic clashes continued to occur, both from the Serbian and from the Albanian side. At the beginning of the 1980's, the ethnic Albanians started organizing protests and meetings seeking to gain the status of Yugoslavian Republic for the region of Kosovo. At the same time, the ethnic Serbs complained to Belgrade that they were discriminated and unequally treated in justice. The tensions reached a high point with the constitutional changes imposed by communist Serbian leader Slobodan Milosevic by means of a referendum which the Albanians boycotted. The province's autonomy was drastically reduced and its political institutions were dismantled and replaced with all-Serbian leaders. The ethnic Albanians were removed from public office, even Albanian professors were replaced with Serbian ones. Such repressive actions were bound to cause a response. In September 1991, the Albanian population of Kosovo presented for a referendum organized by the dismantled province Assembly, where they voted in favour of creating the "Republic of Kosovo". In May 1992 a second referendum elected Rugova as president of Kosovo. The Serbian government considered both referendums illegal and disregarded their results. The unofficial Kosovo government adopted a position of passive resistance, attempting to gain international support in favour of their movement for independence. However, this political stand built up frustration in the Albanian population. Therefore, immediately after the Dayton Agreement (1995), which put an end to the war in Bosnia, the Albanians dissatisfied with the passive resistance established the Kosovo Liberation Army (KLA), a paramilitary organization fighting for the independence of the province. The KLA engaged in attacks against the Serbian police, but also against civilians. Initially labeled a terrorist group by US special envoy to Kosovo, Robert Gelbard, the KLA were never again treated by the international community as something other than freedom fighters. In the Dayton Agreement, as well as in the Peace Implementation Council meeting in 1997, the international community urged Serbia to start negotiations with the Albanians in Kosovo regarding the status of the province. After this meeting, the KLA attacks continued to intensify and the Albanian leaders in Kosovo remained insensitive to every Serbian attempt of reconciliation. All talks suggested by Serbians were not attended by the Albanians. Under these conditions, and considering the fact that the KLA was beginning to take control of the border regions of Kosovo, the Serbian army was sent into Kosovo to restore the stability.

By this time, the international community was seriously concerned about the human rights infringements in the province and was seeking a solution. The legal arguments to consider were the right of the Albanian population in Kosovo to its self-determination, on the one hand, and the international law principles of preserving the territorial



integrity of a state and of non-interference in domestic matters, on the other hand. As UN member, Serbia was under the jurisdiction of this organization and any action contemplated by the international community should have been approved by the UN Security Council. Any decision or resolution adopted by the Security Council would have been mandatory for Serbia. Throughout 1998, NATO adopted a series of documents regarding the crisis in Kosovo [5] and possible actions the organization may take in an attempt to settle the conflict. Security Council Resolution 1199 (1998) reaffirmed the international community's concern with respect to the humanitarian situation in Kosovo, urging both parties to cease fire and negotiate peacefully. The Resolution further requests the Albanian leaders in Kosovo to condemn all acts of terrorism, and leaves the door open for further necessary action of the international community, if the situation will not improve rapidly. A further UN resolution (1203/1998) established an OSCE Kosovo Verification Mission to observe compliance with the previous Resolution. Following the failure of the Rambouillet talks, in March 1999 the KVM was withdrawn, since it found it impossible to continue its mission, due to Serbian obstruction. In the absence of a UN Security Council resolution authorizing it, NATO commenced air-strike operations on Serbia, which lasted 77 days. In addition, the NATO operation in Kosovo was even against the NATO charter, which establishes it is a defense organization, for the aid of its members. In this case, NATO attacked a non-NATO member, which was not engaged in combat and was not threatening any NATO member state.

Security Council Resolution 1244 (1999) placed Kosovo under the transitional administration of the United Nations, while its future status remained under discussion. As all previous UN resolutions, this document also restated the UN full support in observing the borders and the territorial integrity of the Republic of Yugoslavia. Over the years, the UN gradually turned over the administration of the province to Kosovo's Provisional Institutions of Self-Government, established in 2001. However, the negotiations between the Serbian government and the Albanian separatists failed to reach a positive outcome. Although Serbia was willing to grant a high degree of autonomy and minority rights, the Albanians in Kosovo refused to consider anything less than full independence. In complete disregard to the UN resolutions, on February 17<sup>th</sup>, 2008 Kosovo declared its independence. The new country was immediately recognized by Germany and shortly afterwards by Sweden. However, the number of states which have recognized Kosovo so far is below 50.

The situation of Palestine is quite the opposite from that of Kosovo. Here, we are dealing with a state, recognized by more than 100 other countries, without a formally recognized territory or clear boundaries. Because of this uncertainty regarding its borders, the state of Palestine cannot fully function. It cannot exercise its independence or even full autonomy, thus being a concept without the real, material part.

The history of the state of Palestine and its people goes back to the ancient times. Its borders varied in time, from those of ancient Palestine, which incorporated present day Israel, the occupied territories and parts of Jordan, Lebanon and Syria, to the ones established during the British Mandate, comprising the entire territory west of the river Jordan. Prior to the Ottoman conquest in the early 1500's, Palestine was a separate administrative unit, under different dominations. As part of the Ottoman Empire, Palestine was divided in three parts, placed under the control of different provinces. However, the name continued to be used for identifying the territory later incorporated

into the British Palestine Mandate. The present meaning of Palestine refers to the territories on the West Bank of Jordan and the Gaza Strip. The collapse of the Ottoman Empire at the end of World War I gave room to the European powers to establish new states under their domination. Thus, Great Britain obtained from the League of Nations the mandate over Palestine and Transjordan. The mandate was created in order to help the emerging new nations and states with the administration of their territories and with the establishment of the political institutions, until such time when they will be able to stand alone [6]. Although Great Britain had made a promise to create a Jewish state in the Middle East, the region of Transjordan was not taken into account for this action. The demographic reality of the time did not in any way justify the creation of a Jewish state in the region, Palestinians being the overwhelming majority of the population. Not even after the massive immigration prior to and during the Second World War did the Jewish population constitute the majority in the area. By the end of the Second World War, Great Britain was willing to turn over the administration of the region to the United Nations, having failed to establish a Jewish or a Palestinian state. The UN General Assembly Resolution 181, a Partition Plan for Palestine, meant to put an end to the Arab-Jewish conflict, by creating a separate state for each nation. The plan was accepted by the Jewish leaders, but firmly refused by the Palestinians, who further refused to negotiate. The neighbouring Arab states and the Arab community also rejected the Partition Plan. One day before the end of the British mandate, the state of Israel unilaterally proclaimed its independence and was immediately attacked by the adjacent Arab states. This represented the beginning of the Arab-Israeli War and, therefore, the Partition Plan was never implemented. Following the war, the later international agreements simply omitted Palestine as a distinct territory. The state of Israel was established and the rest of the disputed territories were divided among Egypt, Syria and Jordan. Under the circumstances, the Arab countries were no longer in favour of creating a Palestinian state. The armed conflict between Palestinians and Israelis in these territories virtually never stopped.

After decades of fighting in the area and watching the international passivity, the Palestinian leaders of the Palestinian Liberation Organization (PLO) proclaimed a state of their own, in November 1988, within the borders derived from the UN Resolutions 242 and 338 for ending the Six Days War. As we indicated previously, around 100 states have recognized the legal existence of the state of Palestine. However, it continues to have no sovereignty over any territory and no institutional administrative structure.

Negotiations appeared to have made a step forward in the last decade. Thus, in 2002, the UN the United States, Russia and the European Union proposed a Road map for peace, in order to finally conclude the Arab-Israeli conflict. However, also in 2002, Israel started building the security barrier separating the Palestinian-inhabited territories from the state of Israel. The official reason was that the barrier, which consists of 8-meter high walls and barriers against land vehicles, will keep away Palestinian suicide bombers. At the same time, it is a clear infringement on the right of free travel, it prevents Palestinians from going to work in Israel and has a significant negative impact on the economy of the region. In this back-and-forth attitude, in 2004 Israel unilaterally decided to withdraw its settlers and most of its military forces from the Gaza Strip. Just one week ago, the Israeli and Palestinian representatives engaged in what seem to be the most intensive peace talks of the last years. However, incidents in the Gaza strip

region continue to escalate, while the situation of the Palestinian population worsens. The humanitarian issue in the Palestinian territories may become pressing. Shortage of fuel will lead in a matter of days to the interruption of the UN aid for Palestinians and as many as 650,000 people are in danger of starvation. Electricity cuts and water supplied for 3-5 hours every four days are other great concerns of the UN.

Both Kosovo and Palestine argue the right of people to self-determination, fundamental right established by the UN Charter. Both suffered certain misfortune at the hand of their more powerful neighbours, causing humanitarian distress and concern of the international community with respect to human rights. In Palestine, the UN is involved in providing food and aid to the civilian population, while in Kosovo such actions were not necessary. And still, the attitude of the international community is very different. We would argue that the Palestinians have a greater and by far older right to a state of their own than the Albanians of Kosovo, since they existed as distinct population in the same territory for thousands of years. Palestine has an elected government, recognized by half the countries of the world. And, still, the international community chooses to apply different standards.

We feel that the significance of this paper is to draw attention to the double standards, to the hypocrisy of the international community. We believe that Kosovo is a precedent and we will witness much more ethnic unrest in the Balkan region. We consider that clearer international regulations are necessary, as well as a better accountability of the international actors. There is an international law order. It should apply to everyone the same.

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- 6 British Mandate of Palestine - <http://www.mideastweb.org/mandate.htm>.

## Appendix

### List of acronyms

KLA	Kosovo Liberation Army
KVM	Kosovo Verification Mission
OSCE	Organization for security and Cooperation in Europe
PLO	Palestinian Liberation Organization
UN	United Nations

# **Bilingual Communication: Oral vs. Written (Bulgarian Native Speakers in Czech Linguistic Environment)**

*Vesela Vladimirova<sup>1</sup>, Hana Gladkova<sup>2</sup>*

*Charles University, Department of Slavic and East European Studies, Faculty of Arts, nam. Jana Palacha 2, Prague, Czech Republic, v.vesela@gmail.com<sup>1</sup>, hana.gladkova@ff.cuni.cz<sup>2</sup>*

**The article explores the influence of L2 on L1 in the speech of first generation bilingual immigrants, Bulgarian native speakers, living in the Czech Republic. The influence from L2 occurs as interferences and code-switching and is projected into both types of speech – oral (primary) and written (secondary oral). To reach any conclusions I provide a sociolinguistic analysis of the speech behaviour of the Bulgarian-Czech bilinguals. A part of the analysis is a research on the lexical and grammatical interferences, implemented in both types of communication – oral and written. Further I explore conditions for the emergence and existence of the interference in the bilingual communication.**

## **Keywords**

bilingualism, bilingual communication, interferences, bilingual speech behaviour.

## **1. Introduction**

Communication among bilingual individuals is conditioned by numerous sociolinguistic factors that serve as a frame of the communication event. These sociolinguistic factors, such as cultural and linguistic environment, length and intensity of contact, domains of use of both languages etc. have a strong impact on the speech behavior of the bilinguals. Thus the speech act abundances of interferences on all language levels. Interferences exist not only in oral performances, but also in written communication.

## **2. The Aim of the Research**

My aim is to find out how the L2 influences the oral or written form of the performances in L1. So I will research the speech (oral and written) of Bulgarian immigrants, living in foreign linguistic environment – the Czech Republic (further CR), following their conversations, led in their native language – the Bulgarian language. Influences from L2 (the Czech language) into the speech act in L1 (the Bulgarian

language) occur in all language levels – grammatical and lexical. I will try to find out how this influence is projected into the oral and written speech, and if any differences occur in the use and the way of adaptation of the most common interferences.

### 3. Research Data

The material that I have based my research on is twofold. I have used a few sources of written material – a forum of Bulgarian women living in the CR; short text messages and emails that I have received from Bulgarian-Czech (further Bul-Cz) bilinguals; excerpts from chats with Bul-Cz bilingual individuals, living in the CR. Samples from oral conversations come from a larger sociolinguistic investigation carried out amongst 1<sup>st</sup> generation Bulgarian immigrants, settled in the CR. I used several sources of material: 1) recordings of informal natural conversations of native speakers of Bulgarian language and recordings of guided interviews (more than 80 hours of speech); 2) written notes from field work.

In both types – oral and written – the conversations were led in informal sphere of communication. This led the respondents to feel quite comfortable choosing the code and using it in the way they are used to. On one hand respondents knew each other personally (in terms of chats, emails and may be forums) on the other – they did not (in forums), but their relation was not in any way subordinated, i.e. they had same social roles and did not feel uncomfortable while speaking the way they are used to speak.

### 4. The Focus Group

As already mentioned, the participants of the research were chosen to be representatives of the first generation Bulgarian immigrants, i.e. they were native speakers of Bulgarian language, which was their mother tongue. All of the respondents are members of the Bulgarian speech community, existing in the terms of Bul-Cz bilingualism.

While choosing our respondents *first of our conditions* restricted the respondents to so called *individual bilinguals*. We assume the Adler's definition for individual bilingual as an "immigrant who enters a completely new language environment when he uses the new language increasingly more frequently, when he mixes it with his mother tongue and when, in the end, he forgets his mother tongue either partly or completely" [1]. Thus we chose individuals who use the Bulgarian language rarely (as a means of communication), because of restricted contacts with other Bulgarians in the CR and because of constricted social situations of use.

*The second condition* for choosing the right respondent was minimal sufficient competence in the L2. Because we did not aim to investigate the foreign language competence, we admitted that minimal sufficient competence in the L2 is acquired after at least 1 year, spent in bilingual community [2]. We could refer also to Haugen and use his scale of measuring bilingual competence where the mother tongue is A and the foreign language is B [3]. In terms of his definition, we aimed to adult bilinguals type Ab, who may later become aB, if certain social circumstances are present (e.g. social

factors that press the speaker to use more frequently the language of the host society – profession, marriage, longitude of stay etc.).

## **5. Analysis of the Speech Behavior of the Bul-Cz bilinguals**

We assume that the written form of the speech, used as a means of communication in unofficial sphere as forums, chats, short text messages (sms) and emails is secondary oral speech, i.e. derived and based on the oral speech. The only one difference is the form of expression – written. But the type of expression proves to be a very important factor, from which some other differences may stem. Written text is visible, so foreign elements or elements that do not belong to the structure of L1 are more salient and thus evaluated as inappropriate.

My hypothesis in the beginning of the research presupposed that the penetration of interferences into the written bilingual communication would be scarce in comparison to the oral bilingual communication. I assumed that interferences in written communication had a different character than interferences in oral communication, exactly because of the type of expression. If bilingual oral speech was rich in lexical and grammatical interferences I expected that their presence in written communication would be scarce. My explanation was based on one hand on the fact that although Slavic languages – Czech and Bulgarian use different graphical systems (Latin and Cyrillic), on the other because written interferences are more salient, thus avoided by bilingual individuals. Reasons for avoiding interferences or accepting them in written or oral communication seem to be driven by the same sociolinguistic factors – language and cultural competence of the foreign environment, length and intensity of contact, domains of use of both of the languages, social status and social role of the participants in the communication, topic of the conversation etc.

### ***5.1 Linguistic Environment***

I have already mentioned that all of the respondents live in Czech linguistic and cultural environment. This fact presupposes certain influence from L2 into L1. How strong that influence will be – this depends not only on individual characteristics of the bilingual person (e.g. quickness of acquiring of foreign languages, willingness for acquiring the language of the host society, willingness for integration and easiness of accommodation in a new environment), but also on the closeness of the languages. Thus it seems necessary to mention that both languages – the Czech and the Bulgarian are Slavic languages. This fact facilitates immigrants in acquiring the L2. Although some typological differences between the two languages exist, they are genetically close. The lexicon is constituted mainly of elements with Slavic roots, which on one hand may facilitate the acquisition of the foreign language, but on the other hand interlanguage homonymy predisposes to many mistakes.

The acquisition of the new language begins with filling the gaps in the field of lexicology, later grammatical constructions are learned. The first stage of acquiring language competence in L2 is receptive – the individual begins to understand, but hardly speaks. The next stage is productive – then the immigrant begins to use lexical

elements and to form grammatical constructions in L2. Not always he/she fully understands the meaning of what he/she had said, i.e. the exact translation of the word or the grammatical construction of the sentence [4]. Bul-Cz bilinguals are facilitated in perceiving the L2 and very soon they begin to perform meaningful units. Sometimes a few months in foreign environment with constant contact between L1 and L2 are quite enough a period for a Bulgarian native speaker to get acquainted to the bases of the Czech lexicon.

### ***5.2 The Graphical System and Manifestation of Interferences in Written Speech***

Here comes one important question connected with the graphical system of both languages – Cyrillic and Latin. Bulgarian language uses the Cyrillic and the Czech language uses the Latin graphical system. Although the majority of the Bulgarians are acquainted to the Latin graphical system, I have reached to the conclusion that if possible, Bulgarians tend to use Cyrillic in their written form of speech (forums, chats) which are public to certain extend. In the emails users are not used to writing in Cyrillic, although this trend is becoming more common lately. Emails are more personal and in familiar talk users do not tend to use Cyrillic. Only in the form of short text messages, where the Cyrillic is not well established – users write in Latin.

### ***5.3 Sociolinguistic Factors that have Impact on the Communicative Event***

I will distinguish between oral and written speech. I assume that written speech is a function of oral speech. Bearing in mind the parameters of the communicative environment [5], I can assume that in both oral and written communication participants are aware of the communicative behavior norm, i.e. where and what kind of speech is suitable for the communicative situation. Communication is unofficial and informal, although the written communication is bound to bigger extend to the codified norm of the Bulgarian language. Participants in both types of communication feel comfort while communicating, because they have equal social roles, i.e. they participate in the conversation with equal social roles, not with roles that presuppose subordination. The other difference in both types of communication is that written form does not suppose direct contact between the participants. Written communication does not also suppose simultaneousness of the conversation, it sometimes happens that he retorts of the participants are distant in time. This may led to a very important fact that the participants have enough time to think over the response and to eliminate the interferences in the speech, unless they use it unconsciously or aim to use it as a quoting. Oral communication on the opposite is always simultaneous, i.e. the respondents have no time to think over the quality of their answers and the performance is unconsidered in terms of speech interferences.

### ***5.4 Interferences in Bilingual Communication***

Interferences in speech are the main characteristics of bilingual communication. From linguistic point of view interferences in the speech are submitted as foreign elements that disturb the fluent current of the speech, i.e. they function as grammatical and

lexical deviations from the norm. Therefore in general I can divide interferences in lexical (transfer of lexical elements) and grammatical (transfer of grammatical morphemes and syntactic structures). I will not deal with the phonetic interferences, as their study demands different methods for gathering samples and for analyzing the data afterwards.

I will try to find out to what extent both types of interferences may be found in both types of bilingual communication – oral and written. Lexical interferences are more abundant than grammatical in oral speech, but do they act the same way in written speech?

#### 5.4.1 Lexical Interferences

In general I can divide lexical interferences into three types: *cultural borrowings*, *borrowings of everyday lexicon* and *terminology*.

I will assume as borrowings all lexical elements, taken from the lexicon of L2 and adapted grammatically to the requirements of the L1 system, so that they may function in the mother tongue as domestic lexical elements. Closeness of the languages may be the reason for not distinguishing the origin of some of the interferences, i.e. a big part of the lexical elements in both languages has the same phonetic and semantic structure. Thus for lexical interferences I will assume elements that have clear origin in L2 or that in some way are signaled to be implemented into the speech as interferences.

I will give some examples for borrowings in oral speech and I will try to find out if the same types exist in written speech.

- **Borrowings of everyday lexicon.** These are lexical elements used in every day life. They do not need a specific topic of the conversation to be used. They emerge in utterances mostly unconsciously, i.e. the speaker usually is not aware of their existence, accepting them as a part of the L1 lexicon. These borrowings are adapted to the grammatical system of L1. Their abundance depends on the language competence of the speaker, the longitude of interaction with the foreign language and cultural environment and intensity of interaction (profession, marriage, friends). All these sociolinguistic factors are related to different domains of use of the L2.

I will point out to some examples of borrowings from the every day sphere of communication, found in oral expressions [7]:

- Всичко ми е секънд хенд – и бедните са секънд хенд и *виежата* ми е секънд хенд. (oral)
- После почна да ходи по *пословни*, много се промени. (oral)

The suggestion that lexical interferences will be found rarely in written communication was not right. It seems that bilingual individuals who have adopted lexical elements in the speech, they do not hesitate to implement them into the written form of speech.

- *Фиаловата* водичка я пробвахме в болницата - всичко ни беше в лававо. (written, forum, originally in Cyrillic)



- При нас сега заваля снежеца за малко ама ми стана едно *дивно*. (written, forum, originally in Cyrillic)
  - **Cultural borrowings.** Cultural borrowings are amongst the most easily acquired lexical units. An immigrant gets acknowledged to cultural borrowings as soon as he/she enters the new cultural environment. Cultural borrowings may be sometimes substituted by lexical elements, bearing almost the same meaning in the mother tongue, but otherwise this substitution is impossible, because the meaning is connected to the cultural environment it exists in. There are no differences between the use of cultural borrowings in written and oral speech (ex. 5-6). After the interference is accepted in speech, it is very easy to enter the written type of speech, no matter how demanding in terms of codification the written speech is.
- Чехите като ходят на море си я купуват масово за *чибабчици*. (written, forum, originally in Cyrillic)
- Яла ли си *svíčková* na smetaně? (oral)
  - **Terminology.** Alongside with cultural borrowings one of the first lexical elements, that the immigrant gets acquainted to are terms in the official sphere of communication (state institutions) and profession. In most cases the speaker uses the terminology in his/her utterance in L1 without knowing the exact meaning or the corresponding lexical unit or phrase in his/her mother tongue. This is due to the fact that in the host country the immigrant usually has to deal with specific terms, used in different social and communicative situations, that are not inherent for the speaker's communicative behavior, acquired at the home country (ex. 7-9).
- значи отиваш там дето се издават месечни и *рочни* карти (*Хлавни надражи*) и питаш дали имаш право да ползваш безплатна карта за дете до 3г+*допровод* за теб и мъжа ти(защото имате 2 деца). Със себе си вземаш само *родните листове*, може и копия, искат ги само за сверка и ти ги връщат. (written, forum, originally in Cyrillic)
- Намерих страхотен *lis* за *ovoce* (oral)
- Пък и то това *п्राцовно поволен* докога (oral)

#### 5.4.2 Grammatical Interferences

Grammatical interferences are grammatical structures from the L2, implied on lexical elements in the mother tongue. I will distinguish between two different types of interferences – morphological and syntactical. As I mentioned above I will not follow the phonetic interferences. Grammatical interferences in speech were the topic of few other papers [8], so I do not aim to make a detailed study of grammatical interferences, but to find out their projection in the written speech.

#### Morphological Interferences

Interferences from L2 into the grammar system of L1 are scarce, but I have found evidence of penetration of morphological elements into the L1 system. Morphological

interferences occur on the level where the grammars of both languages differ typologically. As the speaker is used to L2 constructions, he/she implements the structure to his/her mother tongue.

- Тоя, дето си *нехава викат* Ладик. (oral)
- Ами утре подписвам *rezervační smlouva* а в понеделник *s maitelama* ще се срещнеме към 18ч (oral)
- Но му казах, че *barmana* не мога да работя (written, chat, originally in Latin)
- Само че не знам дали ще успее *s evrama* (written, chat, originally in Latin)

As we can see different grammatical structures are implemented into the L1 oral and written speech – from implementation of infinitive to implementation of case system, i.e. the speaker implements grammatical constructions that are inherent for the Czech language, but never for Bulgarian.

### Syntactic Interferences

Syntactic interferences are implementations of stable syntactic constructions from the L2 into the language system of L1. This may be manifested in word order or just in implementation of stable grammatical-syntactic constructions.

- *Радвал бих се* ако има гадже и има съквартиранти (oral)
- Ми защото няма транспорт към вас, утре съм на работа а *на себе* имам само официални дрехи (written, chat, originally in Latin)

At last I can say that both types of grammatical interferences, although scarce in correlation to lexical interferences, may be found in both – written and oral type of communication with no differences in the use. The speaker who is used to grammatical interferences in oral speech is not aware of their existence, thus implements them in written speech as well. The L2 structure has prevailed over the L1 structure and thus seemed to be the most appropriate for the speaker.

### 5.5 Emergence and Existence of Interferences

*Favourable conditions* in the communicative situation that provoke the emergence of interferences in both types of communication are: 1) language comfort [9]; 2) language/memory gap; 3) health/psychological conditions.

1) *The language comfort* facilitates the communication, but it may also disturb the coherence of the communicative act. Language comfort for one of the participants in the communicative situation does not necessarily mean comfort for the other participant. In bilingual language situation the mutual language comfort depends on participants' language competence of both languages. The biggest number of interferences in one's speech is due to language comfort (ex. 1-4). On one hand the speaker can not find the proper word in the lexicon of L1 so he/she utters the one that has the same meaning but is a part of the L2 system – it is easier and more comfortable (ex. 7-9). On the other hand finding the proper word in L1 takes more efforts and time,

thus the speaker uses the word with the same meaning from the L2, which is faster and requires minimal effort. Language comfort condition may be implemented not only to lexical interference, but also to grammatical. In many cases they may be due to language comfort, combined with language/memory gap.

2) *Language/memory gaps* could be temporary (connected to the situation of the current communicative event) or permanent (connected to the situation of acquiring the language competence, i.e. specific terms from the professional language that the speaker became acquainted to in Czech linguistic environment and had used them only in Czech language, not in his mother tongue, so he/she does not know the equivalent Bulgarian meaning). Grammatical interference may be due also to language gap, when the grammatical structure of the L2 becomes more stable than the structure of the L1 (ex. 10-15).

3) Lexical and grammatical interferences due to *other psychological conditions* – health condition, emotions, stress, tiredness, lack of concentration and so on. This condition may be the source for a lot of interference. While the psychological state of the speaker differs from his/her normal state, projection of interference becomes easier. In written type of communication this condition for emergence of interferences is not salient, on the contrary – it is subtle.

In most cases these conditions combine and it is hard to determine the influence of exactly one of them. Once occurred in the speech interferences are subjected to language management on micro level.

*How are interferences accepted into the speech?* Once used, interferences may be rejected or accepted by the speaker. Rejected interferences are subjected to correction strategies (self-correction or correction of the partner) [10]. Rejection of interferences is visible in oral speech. In written speech it is hard to say if the correction was meant as a strategy or just interferences did not occur. Accepted interferences are accommodated in the speech – oral and written and they begin to act as domestic lexical units – they are fully or partly accommodated to the structure of the mother tongue.

If one of the participants in the communicative event implements into the conversation certain lexical interference, further it is easier for the other participant to continue using the same interference, than to search for the equivalent in L1 (ex. 16).

- R. Скарахме се жестоко с Мишо, заради тъпата **набиячка**.  
V.V. Ами да не е искал да краде **набиячки**... (written, chat, originally in Latin)

*Rejection of code-switching* is visible in both oral and written speech. Code-switching is taken as an inappropriate deviation from the communicative norm. In oral conversations it is expressed by switching to another language, while in written speech – code-switching refers to changing the code for transmitting the message, i.e. the graphical system. In ex. (19) the speaker regards to code-switching in the conversation as inappropriate, i.e. choosing the L2 for communication with a Bulgarian language speaker, who is first generation immigrant. Changing the code seems to be inappropriate for both types of communication. In written type – changing from Cyrillic into Latin or choosing Latin graphical system as a code for transmitting the message is also taken for inappropriate (ex. 17-18):

- Извинете ме, но едва сега се усетих, че пиша на латиница. (written, forum, originally in Cyrillic)
- Извинете ме за латиницата, но така ми е по-лесно, когато пиша с една ръка (written, forum, originally in Latin).
- Zrovna s tu damu, s kterou jsem mluvil. А, пардон, без да искам минах на друг език. (oral)

Acceptance of interferences may go through conscious implementation or quoting (ex. 20). The speaker is aware of the interfered lexical or grammatical elements, but due to language comfort he/she uses the elements from the L2 as quotes. For many of the interferences I can not say if the speaker is aware of using L2 element, but does not assume for necessary to change it, due to any of the favourable conditions for emerging of interferences (ex. 1-9 and 16). I claim that grammatical interferences are more subtle and the speaker is not aware of using them. As for the lexical borrowings – the speaker has a lot of choices for their implementation and accommodation – conscious and unconscious. If the speaker is aware of them – we may consider this interference as stylistic variation.

- Ние с половинката в четвъртък ходихме на "*предпородни курс*" в нашата болница. До голяма степен ми хареса болницата, обстановката. Една "*породни асистентка*" ни обясни как протича раждането и какво правят или не правят. Единственото, което ме стресна е, че не слагат епидурална упойка. Аз бях решила, че ако много ме боли ще си поискам. Сега ви пожелавам приятен *weekend*. Отиваме в Прага да оглеждаме "*кочарки*" (written, forum, originally in Cyrillic)

It is interesting to notice that the L2 may be chosen as a code for written communication, although deviations from the norm are usually inappropriate. The next two examples, written as short text messages between first generation speakers, show choice of L2, instead of L1:

- Podalas tu zadost o zmenu formy studia? To me zajima nejvic. A jestli ne, tak co ses rozhodla ohledneprezkumneho rizeni? Ja osobne jsem podal o to 27.09. (written, sms)
- Hodne stesti. (written, sms)

It seems that interferences are something rather common not only for oral, but also for written form of communication. Our hypothesis, that written speech is more demanding in terms of using the codified norm was not confirmed. I suspected that oral and written form of expression would be very different. The study of the L2 influence and its projection in bilingual communication shows different results.

## 6. Conclusion

I can conclude that influence from L2 in the form of interferences exists in both written and oral conversations and it is manifested in the same way. Interferences may be modified or not; they may be conscious and unconscious, accepted or rejected. Code-

switching exist in both types of communication. Lexical elements that are implemented into the oral and written conversations are the same (cultural borrowings, professional terms; frequently used words from the everyday lexicon). Grammatical interferences may be found in both types of communication.

So we can conclude that no matter what form of expression – oral or written – the influence from L2 into L1 is salient in the speech of Bul-Cz bilinguals and that the written form of communication is a function of the oral speech.

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- 7 The examples of written text I will transcribe into Cyrilic, but I will preserve the Latin system only to show interfered elements from the L2 (that uses Latin). Some of the examples taken from chats and forums I will leave in their original form, if written in Cyrilic, without intervening. The oral conversations I will transcribe in Cyrilic, and I will use Latin system to show the interfered elements from L2. Influences from the L2 will be shown in *Italic*.
- 8 Vladimirova, Vesela, *Interference českých lexikálních prvků v řeči bulharských mluvčích v českém jazykovém prostředí*, In: *Sborník z VIII. setkání mladých lingvistů*, UP, Olomouc 2007 (in print); Vladimirova, Vesela, *Inovační procesy při slovtvorbě v řeči bulharských mluvčích pod vlivem češtiny*, In: *Euro litteraria&Euro lingua 2007*, TU, Liberec 2007 (in print).
- 9 Гладкова-Ликоманова, *Языковая ситуация: Истоки и перспективы*, Karolinum, Praha 2002:44 (41-54).
- 10 According to Neustupny (Neustupný, Jiří: *Sociolingvistika a jazykový management*, In: *Sociologický časopis* 38, č. 4, Praha 2002:436 (429 – 443) language management on microlevel goes through few stages: deviation from the norm; noting of the deviation; negative or positive evaluation; choosing the appropriate adjustment design; and implementation of the adjustment design. The speech management can be ceased in every stage and it may not continue.

## **Appendix**

### **List of Acronyms**

L1	first language
L2	second language
CR	the Czech Republic
Bul-Cz	Bulgarian-Czech

# Bosnian Intellectuals and the Idea of Bosnianhood: Key do Deadlock?

*Onder Cetin*

*Leiden University and ISIM, Rapenburg 59, 2311 GJ Leiden, the Netherlands,  
o.cetin@isim.nl*

**The need for a common, civic identity in rebuilding Bosnia as a civil state, with the encouragement of intellectuals building a climate of understanding and enlarging moral space, has been one of the main debates in the post-war period, which was largely obstructed by the socio-political setting established by the peace plan.**

**In this context, this paper focuses on the textual works of the main representatives of the idea of Bosnianhood to examine the variables supporting and/or impeding the formation of such a common identity. The cases will be three Bosnian intellectuals, namely Rusmir Mahmutčehayić, Enes Karić and Adil Zulfikarpašić, of which the former two are religiously-motivated intellectuals; and two NGOs, namely Krug 99 and International Forum Bosnia.**

**Taking it into consideration that the current constitutional structure can not provide the necessary political and socio-psychological background to go beyond the current divisions to achieve a common identity, it will be concluded that the way to the European Union stands as the most favourable option on the table to provide an alternative supra-identity while it also has its own deficiencies, such as lack of sufficient political will on the side of international community.**

## **Keywords**

Adil Zulfikarpašić, Bosnianhood, international forum Bosnia, Krug 99, Rusmir Mahmutčehayić.

## **1. A Theoretical Introduction**

Power-sharing has almost become the standard conflict resolution instrument following civil wars or conflicts with the nature of inter-ethnic rivalry. [1] The model has fundamentally been based on Lijphart's model of consociational democracy in the late 1960's proposing an inter-elite cooperation based on four fundamental instruments, namely (1) a power-sharing government; (2) veto rights for the issues regarded to violate national or minority rights; (3) proportionality in state bodies from elections to the allocation of civil service offices; and (4) ethnic autonomy [2]. However, following

Van Schendelen's critics in 1984 [3], it has especially been criticized within the last decade as an "impediment to peace and democracy" in the words of Rothchild and Roeder. [4]

Contrary to this model of elite cooperation, Horowitz proposed an integrative model to provide an area for moderate approaches and the fluidity of identities, such as a preferential electoral system or federalism based on heterogeneous units. [5] It is fundamentally aimed to decrease ethnic cleavages and foster inter-ethnic cooperation. This paper will neither be a comparison of the two approaches on the theoretical level nor its practical evaluations regarding the Bosnian case, although it is theoretically inspired by the latter approach [6]. I will rather analyse how a common identity, Bosnianhood was elaborated and advocated by eminent Bosnian intellectuals and socio-political figures and whether it has the chance to offer a key to deadlock of the Dayton-based political structures mainly based on the principles of power-sharing. The motivation guiding the inspiration of Horowitz's model can be followed in Joseph S. Joseph's analysis of the Cyprus case, which can easily be adopted to the Bosnian case: "The lack of cross-cutting ethnic, social or political ties prevented the development of a common Cypriot political culture and overarching loyalties among two groups. [7].

In terms of the construction of the idea of a common identity in a multicultural setting, my analyses will be limited to the textual works of three intellectuals, all of whom had political careers and two NGO's attached to the idea of a common Bosnian identity and the Bosnian experience of coexistence, reflecting all religio-cultural groups living in Bosnia in terms of their composition. The intellectuals are, (1) Rusmir Mahmutćehajić, electrical engineer by profession and Ministry of Engineer in the wartime Sarajevo government, who founded the International Forum Bosnia in 1997 and dedicated his works to developing an intellectual basis of the Bosnian Paradigm of the unity of differences; (2) Enes Karić, Islamic scholar and the former dean of the Faculty of Islamic Studies in Sarajevo, who also participated in the wartime government during the period of 1992-96 as Ministry of Culture and Education; and (3) Adil Zulfikarpašić, the Bosnian émigré and philanthropist, who founded the Bosniak Institute in Zurich, which was relocated in Sarajevo and the Muslim Bosniak Organisation, in addition to his intellectual works aimed at the development of the idea of Bosniakhood; and the two NGO's are (1) International Forum Bosnia and (2) Krug 99 [*Cycle 99*]. The following section will focus on the works of Mahmutćehajić and Karić, whose models are based on the idea of Bosnia as the unity of differences, guided by the religious point of view.

## **2. Bosnia as the Unity of Differences: Rusmir Mahmutćehajić and Enes Karić**

Both Mahmutćehajić's and Karić's approach of Bosnianhood indeed start at the very beginning from their conceptualization of Bosnia itself as a spiritual land. Indeed, this is not an idea restricted to the writings of the two intellectuals. The very core of Bosnia's existence has usually been linked to the coexistence of ethno-religious groups living there. In the words of Željko Grahovac, "(g)ifts of the very existence of such and so many diversities, are the greatest values of our [Bosnian] culture." [8] In this paradigm, togetherness was essentially regarded as a form of existence. According to



Redžić, “(t)ogetherness became the characteristics of the Bosnian historical being, her original, living and undestroyed tradition,” adding that although it may be argued that “links are weak and fragile to the togetherness of Bosnia,” ... “this impression is incorrect, because of the centuries long tradition.” [9] While this was attributed generally to Bosnia, one can also find several examples of the representation of coexistence as a traditional Bosnian value in local settings, such as being Sarajevan (*Sarajlija*), and its legendary stories during its four-years of siege of Serbian aggressors; Tone Bringa’s case of Dolina village where Muslims and Croats share the experience of rural life [10]; or Kolind’s case of Stolac, where it was regarded that “(t)o be a real citizen of Stolac is to accept and enjoy multiculturalism ... [which] runs in the genes of the people.”[11]

In this context, the two authors formulated and popularized the so-called ‘Bosnian Paradigm’ from the theological point of view, accompanied by the idea of continuity. For Mahmutčehajić, the main advocate of the Bosnia Paradigm as the harmony of religious differences, “Bosnia is the name of a unity within history dating back thousands of years, [12] and “the only European country that has been based throughout its existence upon a unity of religious diversity- a diversity that was vital for the peace and stability of the world of the past.” [13]

Bosnia has been constructed around a metaphorical system throughout this historical journey. Karić, for instance defines Bosnia as a “mosaic comprised of four communities,” “a society of Abraham,” and “the only country in Europe which sprang out from the pages of the Holy Bible and the Qur’an.” [14] On this ground, identities of “sons of Abraham” [15] has been idealized to be constructed on the presupposition of “a recognition and respect of the Other, formulated by Mahmutčehajić as “the Bosnian We” including “both A and B.” [16] The key stone of this ‘sanctuary’ and the key “to explain the survival of the multireligious and multiethnic society of Bosnia throughout history”, has been clarified by Mahmutčehajić as “the sense of the power of the transcendental over the mundane”, where each individual “represents an image of transcendental order”. [17] Within the context of this ‘unity in diversity,’ the main differentiation is to be for or against the unity of Bosnia. This is not a judgement only with reference to Belgrade and Zagreb, but also, in the words of the author, “the prevailing Bosniak interpretation of history and its practical expression in political terms”, which occasionally attempted to exchange ‘Bosnia and Herzegovina’ with a Bosniak-Muslim state. [18]

Although relatively limited the goals of ethno-national elites by drawing the post-conflict political map of Bosnia on the bases of ‘three conflicting parties.’ In need of a “structured political basis,” in post-Dayton process, according to Mahmutčehajić, “a lasting peace is possible only on the basis of accepting unification and state sovereignty of a kind of equivalent to that of Croatia and Serbia. This is the basis on which the whole region must be evaluated.” [19]. This provides us the point to move to another ideologue of Bosnianhood, or in his own terms the Bosniak Idea of Adil Zulfikarpašić, who argues that “normal Croatia” and “normal Serbia” would be the ideal neighbours for the “normal Bosnia.” [20]

### 3. Adil Zulfikarpašić and the Bosniac Idea

On 28 September 1993, the Bosniac Council affirmed Bosniac as the national name for the Bosnian Muslims. This was indeed a reaffirmation of the works of the Bosniac expatriate Adil Zulfikarpašić, who has been the main proponent of the idea of Bosniac nationhood, mainly through his publication of *Bosanski Pogledi* (1960-1967) together with Smail Balić. [21] The periodical, as well as Zulfikarpašić himself, put “the sense of Bosniac identity and the distinctiveness, integrity and equality if standing of Bosnia as a county,” at the center of their political stance. [22] Having argued that “Yugoslavia in itself does not resolve the issues of democracy, freedom, Serbo-Croatian relations, the rights of minorities and religious groups,” Zulfikarpašić believed that, “[t]he basic need” is “to adhere to democratic and humane methods when resolving our problem; ... to practice tolerance, national and religious as much as political, adding that this is the first step to resolving the form of state and accepting our common state.” [23] Zulfikarpašić’s approach on Bosnia is similar to Mahmutčehajić and Karić, with the exception that he does not ground his conceptualization on theological arguments but rather concrete socio-historical realities, such as his own experience in Foča:

“For centuries this area was the meeting place of East and West, Islam and Orthodoxy, Serbs and Muslims- their cultures, customs and ways of thinking. They were different, of course, but there was a culture of communal living, tolerance combined with rivalry and mutual respect with competition ... Bosnia had its own specific Bosnian society, a social structure that makes a country a common state.” [24]

Based on this historical achievement, while Zulfikarpašić notes that “the sense of Bosniac nationhood survived and ... transmitted to future generations under the guise of Muslim ‘nationhood’ or ethnicity, for several reasons,” [25] for whom “Bosnia is the centre and the goal, ... ideal, and ... hope- ... indivisible homeland,” [26] he proposes and “open Bosniac identity” in the words of Filandra and Karić [27]. As these two authors pointed out, Zulfikarpašić’s Bosnian nationhood does not present itself as an “exclusivist” ideology, as it is “not based on a single faith or the culture and tradition inspired by a single faith,” but rather “an attempt to introduce Bosniac nationhood as an all-embracing Bosnianhood in disguise.” [28] In Zulfikarpašić’s words, it also “is not nationalism, for it lacks exclusivity or aggressivity.” Furthermore, he argues that “[t]he Bosniac national identity has no desire to blanket everything in Bosnia, to make everyone the same.” [29] To Zulfikarpašić, Bosniac nationhood does not only have historical basics outlined in the Bosnian history throughout ages, but also stands as a “realistic possibility” [30] The siege of Sarajevo lasting from April 5, 1992 to February 29, 1996 was in fact the best evidence for it:

“You see, there are Croats and Serbs who have stayed in Sarajevo, who have survived these troubles and who openly say that they feel they are Bosniaks. I watched a programme on television several days ago where Gajo Sekulić, our professor of philosophy in Sarajevo, answered a question posed by a German journalist regarding his national identity. He said ‘Bosniak’. Who can deny him that?” [31]

In addition to these Bosnian Muslim intellectuals as individual figures, the second bloc dedicating their works to the development of the idea of a united Bosnia are group of

intellectuals united within NGOs, of which the two will be the object of the analysis of the next section, namely Krug 99, and International Forum Bosnia

#### **4. “Independent Intellectuals”: Krug 99 and International Forum Bosnia**

The standard “about us” part of the web pages of these two NGO’s provides us their aim to “defend” and “maintain” the “essence” of Bosnia and Herzegovina. Chronologically Krug 99 had rather emerged to “defend” or as they called “to preserve Bosnia and Herzegovina as the integral, independent and sovereign state, organized in the principles of civil democracy, and within its historical geopolitical borders, recognized by the international community.” It was formed mainly as “a small group of Sarajevo intellectuals, who decided not to leave their city... to elaborate the strategy, and modalities, of their intellectual resistance to the aggression and nationalism.” [32] This is one of the common points of the two NGOs, with the latter emphasizing that they believe in the need for “the formation of a new intellectual community based on dialogue, trust, and respect,” which will “oppose the existing ethno-national ideologies, which are the underlying causes of mistrust and intolerance as the main generators of social tensions and conflicts.” [33]

As reflected in Krug 99’s statement, they believe in the past heritage of Bosnia, namely multinational, multi-religious and multicultural essence of Bosnia and Herzegovina, as well as centuries old tradition and treasure of mutual life in tolerance and respect of differences and particularities of every ethnic group on this soil. [34] To help to “maintain and restore multiethnic and multicultural way of life, the organizations organized several gatherings from round tables to conferences and lectures, beside their periodicals, *Forum Bosnae* and *Revija Slobodne Misli* (Review of Free Thought). Furthermore, International Forum Bosnia’s thematic centres contributed to this end elaborated by their project “Bosnia: Research and Development”. For instance, Centre for Historical Studies (CHS) has focused on a teaching of history which would foster trust; Center for Education aimed a higher education reform in Bosnia, again through the de-ideologization and democratization of schools; and Centre for Interreligious Dialogue organized public lectures and discussion in the recent years such as “Explaining Bosnian understanding of komšiluk and care for neighbours in social sciences,” “Philosophical Sources for the Dialogue of Christian with Muslim” or “Sources for Muslim-Christian Dialogue in the work of Said Nursi.”

In search of a definition of Bosnianhood and its components through publications of this two NGOs, the findings can be summarized under three basic notions: (1) The historical continuity of the Bosnian Tradition or Paradigm; (2) The idea of togetherness, rejecting exclusivism, such as a Muslim dominated Bosnia; (3) The indivisibility and/or stability of the Bosnian state.

As noted above, according to Enver Redžić, a member of the editorial board of the Review of Free Thought, “(t)ogetherness became the characteristics of the Bosnian historical being, her original, living and undestroyed tradition.” Although it may be argued that “links are weak and fragile to the togetherness of Bosnia,” he claims that “this impression is incorrect, because of the centuries long tradition.” [35] In this

context, the Bosnian state, based on the idea of historical continuity with a unique tradition, and the Bosnian nation were accepted to be “mutually bound”: “Bosnia is its parent, as it is the guardian and protection of its existence. Bosnia gives life juices and energy to its spirit, while the spirit gives Bosnia its historic meaning.” [36] Furthermore, either named as ‘Bosnian Paradigm’ or ‘Bosnian Spirit,’ the historical Bosnian tradition of coexistence has been regarded to be “authentically expressed in Bosnia’s indivisibility.” [37] In the words of Enver Redžić, “[o]f the state depends the possibility and reality of the Bosnian nation, while of the Bosnian nation, the Bosnian state stability.” [38]

It must be noted that reducing this virtue to the dominance of the Bosnian Muslims has also been rejected. In the words of Redžić, “the reduction of the Bosnian Spirit to Bosnian Moslems would mean closing it in a Bosnian-Moslem bottle whose explosions would destroy the surroundings, but its living space as well.” [39] This was also emphasized by Enes Karić, by linking it to the idea of the Bosnian state as

“(i)n BiH Bosnianhood exists in different ways, but it exists at every peoples, Bosniaks, Serbs, and Croats. Bosnianhood in BiH means state living of all Bosnian and Herzegovinian peoples. Affirmation of the state Bosnianhood ensured is survival of not only Bosniaks, but also survival of Bosnian Croats and Bosnian Serbs.” [40]

## 5. Critique of Bosnianhood: (Why) does it (not) Work?

One of the fundamental characteristics of identity construction is forging “the Self”-“Other” relationship. In the words of Connolly [41], “identity requires difference in order to be, and it converts difference into otherness in order to secure its own self-certainty”. However, this formulation, reflecting the “typical modern practice” [42] by grounding itself on Self and Other dichotomy, requires to be broadened to include a series of “processes linking and differentiation.” [43]. As tried to be presented above, conception of the Bosnian self or in other words, the “Bosnian we” was to a great extent defined by “‘both A and B’ rather than ‘either A or B’,” as defined by Mahmutčehajić, within the borders of the historical legacy of the ‘indivisible’ Bosnian state. [44] However, Dayton Agreement, which put an end to the war, did not only legitimized the war gains, in exchange for thousand’s life, but also the idea that the peoples of Bosnia can not live together without ‘the fences’. The drawn was a “division,” which “has never been known in the history of Bosnia” [45]. The title that Mirko Šagolj gave to his article, in the *Review of Free Thought*, and the following first sentences clearly presents its reflection in the Bosnian sense: “The Most Illogical State in the World”:

“The Post-Dayton Bosnia-Herzegovina according to its interior structure is, most probably, the most illogical state creation on the world, because it represents a totally unclear and in practice, unknown combination ‘three, two, one’. The Peace agreement foreseen it to consist of three peoples.. two state entities...., to be one, undivided state within its internationally recognized borders. Such a Bosnia has never existed in her story.” [46]

In terms of establishing mechanisms and instruments of power-sharing for a so-called sustainable peace in Bosnia, Dayton Agreement, not only institutionalized but also

reproduced divisions, which are visible in the representations of nation-building processes in today's Bosnia. It can be claimed that the existence of ethno-religious communities living in their own life circles side by side could not be evolved into an integrated body of a Bosnian society, beside the occasional inter-ethnic conflicts since 19<sup>th</sup> century. However, as Redžić underlined,

“all the forms of her [Bosnia's] inner division of religious, ethnic and cultural differences haven't made walls between them, but, on the contrary, a cohesion of natural and mutual respect and togetherness, a coexistence of differences, was built by the tolerance of her people.”[47]

In an attempt to examine the viability of Bosnianhood in today's Bosnia, as an important and imported variable, Dayton Agreement and the current Bosnian Constitution as its Annex could not promote the aforementioned “cohesion of natural and mutual respect and togetherness, a coexistence of differences,” but rather reward the crystallization of the ‘walls.’ As a reflection of current division, I'd like to underline Prof. Dr. Hidajet's Repovac's words on his analysis on the division of school curriculum, which is a tiny picture of the current Bosnian fragment, maintained with the false readings and political games of the international community:

“(t)hose children who will be offered the fragments of this unique model, will, neither be able to understand values of centuries-old cultures of Bosnia and Herzegovina, as a whole, nor they will be able to become future constructors of the unique Bosnia and Herzegovina spiritual space.” [48]

Of course, it would be too simplistic to put the blame on Dayton, without seeing the three signatures of the-then representatives of the so-called warring parties in the war. The names of the two signatures, with addresses in Zagreb, but not Mostar; in Belgrade, but not Pale or Banja Luka, provides the historical legitimation to the aforementioned statement of Adil Zulfikarpašić that “normal” Serbia and Croatia would be the “safest neighbours” for a “normal Bosnia.” In other words, as Morton I. Abramowitz put it, what Bosnia needs is “democratic neighbours.” [49]

Relationship to Bosnia has not only been an indicator of the viability of Bosnianhood in terms of Bosnia's neighbours' approach, but also concerning the approaches in the inner circle, namely the peoples' of Bosnia. Undoubtedly, the idea of a Bosnian nationhood has been a part of the Bosnian Muslim nation-building process, who were imposed “muslim”hood as the national status in Tito's Yugoslavia since 1971, which Zulfikarpašić argued to be “the wrong national name” [50]. However, this alone does not legitimise to refute the idea of Bosnianhood as a sort of conspiracy to hinder or suppress of non-Muslim Bosnian identities, which has been usually reiterated by referring to Benjamin Kallaj, the Austro-Hungarian governor of Bosnia and Herzegovina, who attempted to promote the idea of *bošnjastvo* (Bosnianhood) mainly to keep the balance between the three main groups. The statement of the late president Alija Izetbegović in the 3rd Congress of his party SDA on 13 October 2001 and the recent statements of the German ambassador, Michael Schmunk, in an interview to *Vecernji List* on August 15 2007, on the idea of a Bosnian nation was confronted with harsh criticisms especially on the side of some Bosnian Serb and Croat politicians. However, the interpretation of the Croat member of the Bosnian presidency, Željko Komšić reflects that it depends on how you would like to interpret the idea, either in terms of a Bosnian-Herzegovinian identity as a civic feeling or an attempt to create a nation. [51]

When these three layers are put together, it can be concluded that presenting “the Bosniak” or “the Bosnian” “nation” as a new national identity may not be a reiteration of imposing another “wrong name”, especially after the adoption of “Bosniak” as the national name for the Bosnian Muslims. However such accusations, either from within or outside of Bosnia, should not ignore historical facts and documents where one can see the legal personality of Bosnia as a sovereign state and people living in it identifying themselves as Bosnians. As a voice from within, Vesna Kržičnik – Bukić’s statements has the potential to summarize this multi-layered problem:

“I am convinced that it is realistic to expect that all three nations eventually become one state-nation of BiH. Of course, this goal cannot be achieved by a political decree. Rather, that is a process to take larger or shorter amount of time. However, if the problem of Bosnian neighbourhood is resolved, then, inside Bosnia, a positive dialectical process shall occur (which will result in the formation of) ... homeland people that would- regardless the distinct nationalities or religions, have the feeling of homeland designation.” [52]

Taking it into consideration that the current constitutional structure can not provide the necessary political and socio-psychological background to go beyond the current divisions to achieve a common identity, [53] the way to the European Union stands as the most favourable option on the table to provide another supra-identity while resolving the classical neighbourhood problem. However, the recent difficult process of the adoption of police reform envisioning the establishment of a common police structure has also shown that it is not an easy task without the intervention of external actors, while it also revived the question whether the international community has the necessary political will with EU’s move to give up its demand to merge the police forces, beside the question of next concessions vis-à-vis such “cosmetic changes” for EU.

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- 20 Cited in Šaćir Filandra and Enes Karić (ed.) (2004), *The Bosniac Idea*. Zagreb: Globus, p. 259.
- 21 The first volume was in fact published in 1955. However, having discovered that the managing editor, Abdulah Mujakić was a secret service (UDBA) agency, the magazine was closed, till its second issue to be published in 1960. See, Filandra and Karić, *ibid*, p. 135-136.
- 22 *Ibid.*, p. 147.
- 23 *Ibid.*, p. 161. Furthermore, his view on the resolution of the problems between Belgrade and Zagreb, is undoubtedly not limited to the context of 1960's: "A Serbo-Croatian solution can be found at the moral and psychological level. If Serbs and Croats do not identify the common moral and spiritual denominator for their aspirations, if they do not find a shared supra-Serbian and supra-Croatian spiritual and moral ideal, any other compromise, even if acceptable to both sides, will leave that basic dispute unresolved." See, *ibid.*, p. 162
- 24 Adil Zulfikarpašić, Milovan Djilas and Nadežda Gaće (1998). *The Bosniak*. London: Hurst & Company, pp. 43-44. It must be noted that Zulfikarpašić adds in the following pages that what was lacking is not respect but lack of information about each other: "...even though we lived together, Bosnia suffered and continues to suffer from the fact that we don't know much about each other. The private sphere was taboo. The religious sphere was particularly taboo." See, *ibid.*, pp. 49-50.
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- 41 Connolly, William E., *Identity/Difference: Democratic Negotiations of Political Paradox*. (Ithaca, NY: Cornell University Press, 1991), p. 64.
- 42 "The typical modern practice," writes Zygmunt Bauman, "the substance of modern politics, of modern intellect, of modern life, is the effort to exterminate ambivalence: an effort to define precisely-and to suppress or eliminate everything that could not or would not be precisely defined." See, Zygmunt Baumann, *Modernity and Ambivalence* (Ithaca: Cornell University Press, 1991), pp. 7-8.
- 43 Lene Hansen, *Security as Practice: Discourse analysis and the Bosnian war*, (London and New York: Routledge, 2007), p. 37. For the former perspective, which would define cultures, nations and states in a clear-cut approach, as a country representing an ambivalent identity containing both the Islamic and Western symbols, both as a centuries-old land of coexistence and separateness, Bosnia has not only been a confusion for the modern politics and modern intellect, but rather a challenge to Western geopolitical imagination. This challenge was evidently reflected in the political reasoning of Western geopolitical imagination that shaped its policy responses towards the 1992-1995 war and the following Dayton peace plan. See, Ó Tuathail (1996), Behnke (1998), and Robison (2004).
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- 51 Interview with Željko Komšić, *Vecernji list (Bosnia-Herzegovina edition)*, Zagreb, 24 Aug 07.
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- 53 It is an already proved fact that any attempt to restore the dysfunctional system established by the Dayton agreement is going to be hindered especially by the politicians in Banja Luka by equating it with the idea of giving up “their” republic. Here, it should be noted that in a recent interview, SDA deputy and son of the late President Alija Izetbegović, Bakir Izetbegović stated that his father’s biggest mistake was to accept the name “Republika Srsпка.” See, *Dnevni avaz, Sarajevo*, 14.04.2008.

# Managing the Dilemma of Stake in Greek Accounts about Immigrants: National Disinterestedness and Axiological Continua

*Maria Xenitidou*

*SEERC, 17 Mitropoleos Str, Thessaloniki, Greece, mxenitidou@seerc.org*

The aim of this paper is to present the discursive resources and practices used to formulate accounts of national otherness in the context of Greek people talking about the effects of immigration on Greek national identity. In particular, the focus of this paper is rhetorical displays of national disinterestedness in the formulation of evaluative accounts of national selves and 'others'. This paper employs a discourse analytic approach which entails treating the method and the message of research as one. In addition, the premise is to pay attention to both resources and practices, principled by discourse as ideological and talk as argumentative and rhetorical with immediate and macro-social functions and identity implications. Participants in this research were Greek citizens and ethnic Greeks, born and raised in Greece, who were presented with questions on Greek national identity and immigration from the Balkans in focus group sessions (8). Both the focus group schedule and participants' discourse were discourse analysed, and the focus of the present paper constitutes part of participants' construction of arguments. It has been found that in the process of Greek people talking about immigrants in Greece and Greek national identity, they categorise and position other national groups along a continuum of national states and peoples. In this process, it seems that not only the world division in nation states is naturalized and taken for granted but also evaluative and hierarchical divisions between nation states as well. This is presented in three forms; first, in the form of time using temporal comparisons to measure progress; second, in the form of development; third, in the form of a civilization taxonomy, which is explicitly addressed to countries and implicitly to national categories and national subjects. In these forms, Greeks are classified as 'ahead' of immigrants in Greece in terms of their national category and Greece as 'ahead' of immigrants' countries of origin, but 'behind' countries and national categories in the 'West'. Significantly, these are presented as factual, while Greek speakers' accountability is managed by techniques which enable nationally disinterested moral profiles.

## **Keywords**

discourse analysis, national identity, otherness, axiological/cultural continuum, rhetorical dilemmas.

## **1. Introduction**

The collapse of the communist regimes in Eastern Europe and the Balkans is commonly seen as a 'cause' which has led to an increased immigration flow from these countries to countries mainly in Western Europe. Southern European countries were treated as incurring a shift from migration senders to host societies [1] [2] [3]. This shift, as a context of 'otherness' in Greece, has been theorized as contributing to re-opening the negotiation of Greek national identity, incurring a 'redefinition' to it [2] [4]. The aim, therefore, was to explore the ways in which Greek identity discourse or elements of discourse might have taken on board the presence of 'new' immigrant populations from the Balkans in Central Northern Greece. The discursive material I consider analytically comes from an empirical study I conducted in which Greek people in Northern Greece were requested to discuss in focus group sessions the meaning of being Greek generally and in relation to immigration from the Balkans (see Section 4).

## **2. Analyzing Identity as Discourse**

The guiding principle of the design of this research has been that identity is treated as a topic of discourse, in the sense it is regarded as socially constructed in language, as situational, as having an action orientation and local as well as macro-social implications, rather than assuming it as ascribed or internalized. In other words, identification is a sense-making social process as meaning is not inherent and integral in words and language but attributed to them and co-constructed. Social interaction constitutes such a sense-making social process in which identities are constituted and negotiated. As such, analyzing speakers' constructions of understandings of themselves and others in interaction, the categories they orient to and in which contexts, the resources, organizational features and structures of talk with and in which these are accomplished, immediate local and macro functions, is attempted by turning utterances into transcribed text for the analyst to analyze [5]. Therefore, instead of asking what identity people in the current research have, the aim was to see which identities were resourced in what ways and in what contexts, how they were constructed and used and what the consequences of use and construction were in the local, situational context and in identifying patterns and regularities. This way of treating identity as resource, discourse, topic and construct enables studying and analyzing it as transcribed and, therefore, in a textual format, which nevertheless diverges from treating identity and the social world as text [6], as this tends to focus less on situational pragmatics. The current research aims at a combined approach, the principles of which are presented below.

### ***2.1 Discourse Analysis and Identity***

Following the research' theoretical assumptions and the research orientation presented above, discourse analysis is regarded as a form of understanding[ 7]. In addition, it is acknowledged that there are more than a single discourse analytic approaches, of which this research employs a 'synthetic' one in order to explore identities as local

interactional accomplishments [5] as well as constructions orienting to available discourses and having social consequences [8] [9] [10] [11] [12] [13].

This is best described by Wetherell [14] in a two-sided approach she proposes as critical discourse analysis, as enabled by conversation analysis to delve into the local, interactional pragmatics and by post-structuralism to identify ideological allusions and macro-social implications. Critical discursive research in social psychology, in particular, “focuses on the situated flow of discourse”, which not only attends to the formation of psychological states, identities and interactional and ‘intersubjective’ events but also to their negotiation (p. 405, [14]). It is concerned with speakers’ use of methods and strategies and with the ways accountability is discursively managed, while describing also the form and consequences of collective and social patterning of background normative conceptions. In this sense, it is a discipline which embarks on the premise that identities are produced in discursive practices, “but seeks to put these in genealogical context” [14]. Therefore, it is not only concerned with interactional events but also with the “investigation of the social and political consequences of discursive patterning” [14]. In this sense drawing a distinction between micro and macro stances to analysis appears problematic [14] [15]. Rather, a dual, integrated stance on discursive practices as producing and enabling identities and on resources as used in these practices drawing on discourses [15] [16] appears more plausible in exploring speakers’ own understandings of their identities and identifying their orientation and implications.

This synthetic approach to studying identity draws on studies in discursive social psychology and rhetorical psychology [17] [10] [11] [18] [19] [20] [21] [14]. Namely, in concentrating on the constructive and functional dimensions of discourse, attention should be paid to the context in which identity discourse occurs and identity work is accomplished, to variability in the versions produced and to construction of identities in terms of both how, drawing on which resources, and what identities are constructed for [19].

In terms of discourse, the current research subscribes to the post-structuralist definition of macro systems which describe the world in terms of ideological content [8] [9]. The micro linguistic systems which are used to construct versions were originally termed interpretative repertoires [16]. This research subscribes to the refined notion developed by Wetherell [14], beyond the original notion as smaller scale systems including familiar grammar besides content, to their notion as lines of argument and argumentative threads. In Wetherell’s words,

[A]n interpretative repertoire is a culturally familiar and habitual line of argument comprised of recognizable themes, common places and tropes; [...] they comprise members’ methods for making sense in this context – they are the common sense which organizes accountability and serves as a back-cloth for the realization of locally managed positions in actual interaction (which are always also indexical constructions and invocations) and from which, as we have seen, accusations and justifications can be launched” ( pp. 400-1, [14]).

Finally, resources refer to devices, categories and repertoires as described above [16] [22].

### 3. The Demographic Image of Immigration in Greece

The demographic discourse with reference to immigration in Greece is treated as a resource, which may be used to accomplish policy related tasks and functions to construct immigrants as measurable entities in terms of nationality [p. 121, [9] [23] [21]. With this in mind, the collapse of the communist regimes in Eastern Europe and the Balkans is seen as a 'cause' which has led to an increased immigration flow from these countries to countries mainly in Western Europe where employment opportunities and wages were better. Southern European countries were treated as incurring a shift from migration senders to host societies [1] [2] [3]. This transformation from a sender to a receiver country has been challenged for the case of Greece, for neglecting the long history of mobility (sited above), as well for not taking into account such trends in the late 1960s [24] [25].

In the context of the post 1990s immigration waves, therefore, the case of Greece was constructed as unique [1]. First, according to a cross-reference of statistical data which derive from the 2001 census [26], the Migration Policy Institute [27] and ELIAMEP [28] the percentage contribution of immigrants to the indigenous (adjusted) population was presented to be 10.3%, treated as quite high, taking into account that other Mediterranean countries, such as Spain, reported 4% of immigrants. Immigrants, measured according to nationality, draw their origin primarily from Albania, followed by Bulgaria, Romania, Georgia, Pakistan, Ukraine, Poland, and Russia. Therefore, the vast majority of the countries of origin of immigrants in Greece are former Communist countries, primarily in the Balkans, which was deemed a differentiating factor compared to immigration in other Southern European countries. Moreover, the majority of immigrants in Greece (56%) come from a single country that shares common borders with Greece, Albania [27].

### 4. Participants and Data Collection

The target population of the current research is Greek citizens and ethnic Greeks [29] who were born and raised in Greece. The parameters which were considered relevant in the sampling process were locality and age. The age groups selected were i. 18-21 (as growing alongside 'new' immigration) and ii. 35-45 (as recipients of 'new' immigration in the sense of not coexisting in compulsory forms of socialization such as primary education).

As regards locality, a distinction was made between urban and rural areas as it was hypothesized that they would diverge in terms of the percentage concentration, the origin and type<sup>1</sup> of immigrants as well as their effect on everyday life. If we take that

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<sup>1</sup>This refers to categories constructed with reference to the purpose of mobility, such as economic/labour immigrants, ethnic Greek immigrants, refugees, and returnees as citizens of non-EU countries who are of Greek origin in that they derive from Greece or regions beyond the borders of the Greek state which were formerly influenced by Greek culture (see Petronotti and Triandafyllidou, 2003).

“a person’s identity is their display of, or ascription to, membership of some feature-rich category”, with consequences for the interaction in which the display or ascription takes place (p. 2, [5]), then place categorization as place identity should be attended to in interaction. Place is commonly regarded as an ascribed identity in both institutional and non-institutional terms. As such, both history and immigration statistics are resourced by it, thus informing the selection of Central Northern Greece in the first place and its subsequent segmentation (in fieldwork areas) in the second. “If place-identity is useful because everyone has to be from somewhere on the map, it is productive in conversation because it can lead on to more talk, further meanings, and practices” (p. 324, [30]). Thus, the selection of focus on locality in the current research should be seen as driven by that assumption rather than the one which sees place as ascribed identity (though place narratives are considered as resources to identity construction).

The research area was set in the Prefecture of Central Macedonia (Central Northern Greece) on the grounds that the percentage concentration of immigrants from Balkan states to the total population in the area is considered as significantly high. The municipalities, in which the percentage concentration of immigrants is compartmentalized and measured [26], selected were Thessaloniki (6.5% of alien<sup>2</sup> concentration), Halkidiki (8.5% of alien concentration) and Serres (2.4% of alien concentration) (see [21] on the use of statistics).

Age has been included since the ‘new’ immigration influx in Greece was publicly accounted as new in the sense of not previously experienced in such a form and extent from the particular area to Greece and also coincided with other ‘new’ geopolitical events emerging in the post 1990’s.

In addition, equal representation of gender, employment and educational status was sought across participants (women N=19, men N=20). It should be stressed, though, that the discourse analytic stance on ethnographic particulars (e.g. participants’ status, the nature of the context, the goals of participants) is to explore their relevance and use in interaction rather than consider them as being external, objective determinants (p. 216, [23]).

Participants were selected using snowball sampling. Snowball sampling “is based on the assumption that a ‘bond’ or ‘link’ exists between the initial sample and others in the same target population, allowing a series of referrals to be made within a circle of acquaintance” [31]. This has been selected since focus groups work better with participants who know one another. The main limitation of snowball sampling is that due to the ‘circle of acquaintance’ there may be too much similarity between participants, which is nevertheless managed in discourse analysis by not focusing merely on content or on individuals as the units of analysis.

Overall, eight semi-structured focus group sessions were held with 39 participants. Focus groups have been selected in order to enable intersubjectivity [32] [33]. The benefits of focus groups include gaining insights into shared constructions of everyday life and the ways in which participants interact in a (focus) group context. In addition, focus groups enable collecting rich data in one session, different linguistic techniques, a

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<sup>2</sup>Translation of term used by the National Statistics Service of Greece, 2001.

more natural type of interaction, flexibility in the moderator's role, emergent interaction and non-anticipated insights [34], and, therefore, seem to be 'compatible' with the discourse analytic approach of the current research. The very notion of interaction, in particular, which is enabled in focus group contexts is the locus of the discourse analytic approach employed [11] [14] [21], as discourse is not only analyzed in terms of resources, patterned lines of argumentation and function, but also for its rhetorical nature and the reflexivity displayed by speakers managing interactional identity implications.

The drawbacks of focus groups might be that it becomes more difficult to pinpoint individual participants' views. Nevertheless, as both this research and discourse analysis embark on the assumption that there are no mental entities in people's heads on the one hand, and that the unit of analysis is language rather than individuals on the other, focus groups provide the fora for interaction. While this may not represent random everyday talk, attention was paid on holding these group discussions in 'familiar' settings and in minimizing the moderator's role. In terms of logistics, therefore, focus groups were typically held in what the researchers take to be 'neutral' places, such as a coffee shop, a living room, a community hall. Yet, focus groups remain a kind of social interaction in their own right [35], with their own ways of establishing topic and relevance. "[T]he talk tends to be reflective, anecdotal, and off-stage, about life in some other place, and what speakers may think about it, at least when asked" (p. 5, [36]) [37] [38]. This is taken into account in the analytic process in terms of speakers' own orientations to what is being discussed as well as their own utterances.

## **5. The 'Balkans' and Greece: Constructions and Positions**

The Balkans have often been treated as a 'phenomenon' with reference to an East-West dichotomy [39]. Namely, as occurring due to an outward-looking construction of identities in the area owing to being invariably positioned as the 'other' in relation to the West, on account of prolonged co-habitation, to what was constructed as the 'east', which was up to the 19th century reserved for the 'orient' [40] [41].

Within this polarized ideological context, the Balkans are seen treated as a unitary construct, 'orientalized' by western travelers, as evaluatively 'opposite' to Western Europe, owing to the 'eastern' influence of the Ottoman ways, which were regarded as seemingly internalized [41]. In addition to oriental status as attributed in the 19th century, in the late 19th century an element of 'in-betweenness' is seen as introduced as the area being narrated as gaining in European 'exterior' while retaining its Oriental 'interior' (p. 40, [42]). This refers to "incomplete otherness", a transitional stage from oriental to western, described as never completed [43]. Besides cultural in-betweenness, this rhetoric is also traced in the rise of racism in the early 20th century, as Slavs in the Balkans are argued to have been constructed as hybrids; a peculiar mix between Indo-European and Asian tribes, while the ancient Greek is argued to have represented the prototype-metric of 'civility' and purity ( p. 123; 124, [41]). In the context of 20th century philosophical influences, being a hybrid is worse to being the oriental 'other' of Europe (, p. 125; p. 133, [41]) [43].

It should not be surprising, then, that in the context of this analysis, which argues that heterogeneity, ethnic complexity and mixture were considered problematic in the age of modernity and the latter's emphasis on authentic forms, that homogeneity and purity constituted both the crafting and the divisive lines among national peoples in the Balkans in the process on nation-state building [43]. Neither should it be surprising that in this context, both ethnic minorities and the talk of their presence were suppressed within most Balkan states.

Apart from racial classifications, in the interwar period evolutionism is also seen as leaving its imprint in the area, as the emphasis is on progress in terms of civilization and culture, constitutive of an taxonomy of cultures, "grounding the Balkans firmly in the dawn of humanity" (p. 129, [41]), either as being static or as being comparatively backward. Nevertheless, beyond a passive acceptance of these constructions, it appears more useful to treat these as resources which function to sustain one construction with reference to [44] or in relation to [45] another, thus Europe being constructed in particular ways due to the Balkans being constructed in particular ways and vice versa. These resources, constructions and traditions of argumentation appear commonplace in the way Greek people talk about Greek identity in relation to immigrants from the Balkans.

In addition, in this context and on the grounds of associating Greeks to classical times, Greeks are argued to have been constructed in even more inconsistent ways than in terms of in-betweenness, as Western Europeans looked to Greece in terms of heritage [40] [46] [47] and as a metric of cultural value on which Western Europe claimed roots and Greece was tested [48]. In practical terms, this was channeled through the mechanisms of nation-state building, which gave rise to variable versions of people/nation-state relationships [49].

In this context, Greece is argued to both 'play' on a Balkan-European Union-member identity and a tendency to deny it and "preserve a static organic notion – a nexus of state, nation, religion, and Greekness – as formulated in the early nineteenth century" (p. 191, [50]). When drawing on discourses polarized to Western European identity constructs, the Balkans are associated with the 'other' within, the oriental and the exotic, whereas in an inward-looking orientation, similarities are drawn between the constructs of Greek national identity and Balkan identity (especially as regards cultural and religious continuities). These lines are rhetorically interplayed with reference to symbolic identity implications in social encounters. This is not an exhaustive framework but a prominent one within Greek nationalist discourse.

Overall, therefore, this brief overview of constructions of Greece and the Balkans and constructions of Greece in relation to the Balkans aimed to explore the resources on which talking about Greek identity in relation to immigrants from the Balkans may draw on as well as their ideological origins and functions. On account of this, it may be argued that such a discourse is evaluatively charged.

## **6. Historic Choices of Versions of History**

As discussed above, Greece has been seen to construct its position in history based on a doctrine of difference between the Balkans and the West [51], in order to respond to



regional issues, international standards and supranational contexts [39], a contemporary example being the European Union<sup>3</sup>, according to which Greece was symbolically included in the West and most Balkan states were symbolically included in the East.

Therefore, taking into account both the ideological construction of national versions and the ideological polarization of the Balkans, it is appropriate to contextualize the relationship of Greece and Northern Greece, in particular, in terms of supranational or transnational contexts of competing narratives (p. 223, [51]). The period of national assertion in the second half of the 19th century is seen as marked by a focus on constructing 'national' cultures characterized by individual, centrifugal tendencies towards European nations which were regarded as more powerful. Balkan states individually attempted to dissociate themselves from the evaluatively negative image of the Ottoman Empire held in Western Europe and from each other for previously, physically -at least- being part of this empire, and, thus, amenable to criticisms of sharing this image. The stereotypic image of the Ottoman Empire, which is argued to have provoked the discontent of Western Europeans, who both attributed and promoted the decline of the empire along these lines, argued for a "cultural immobility and stagnation" (p. 123, [52]). Dissociation on the part of Balkan states was achieved by constituting the Ottoman culture as alien and by reverting to classical times to rediscover their ethnic origin, thus alleviating criticisms of being culturally alienated to Western Europe [41] [42]. The modern Greeks, in particular, are argued to have tried to exorcize the 'oriental' condemnation by proving to the rest of the world how 'ancient' their modern identity is [48], thus antiquity becoming a source of self-identification, a metric and a goal at the same time "as a determinant fantasy in the history of Europe's self-conceptualization" (p. 156).

Beyond the centrifugal tendencies reported for the states in the Balkans towards powerful European 'others' (see below), in terms of regional affiliations, the choices made are informed by this ideologically polarized framework as well [43]. The negative connotations attributed to the term "balkanization" and the 'in-betweenness' allowed for Greece on the grounds of ancient Greece [41] [42], enabled the prioritization of temporal rather than spatial resources for national self-definition. On these grounds, the more recent and less contested and conflicted construction of "mediterraneity" in economic, political and social terms presented a 'safer' resource for narratives of regional affiliation. Mediterraneity is a construct employed to connote periphery in European standards as reflected in European Mediterranean programs for Greece, Spain and Portugal as well as, in anthropology, to connote societies based on values of honor and shame and kinship [46]. This is presented in sharp contrast to the Balkan cultural imagery; the former as bright, open, the latter as grey and introverted. Greece has been seen to promote the former as indicating clearer links with the classical past, and thus, with Northern Europe, engaging therefore, in practical occidentalism [47]. In this context, the option of center-periphery approach to position the nation is argued to have been deemed better to the static/backward-modern approach.

This historical construction of Greece in relation to the Balkans may be also identified in post 1990s accounts. The post Cold War rhetoric of 'reconstruction' in the Balkans

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<sup>3</sup>which indicated early in the Balkan dissolution process (1992) that ethnic prevalence constituted a legitimate basis of a unitary state (see Veremis, 1996, p. 134).

was seen from various perspectives with reference to Greece's position in the area [53] [54]. Within the previous discourse, these perspectives prescribed particular roles for Greece and alluded to symbolic identities and hierarchical categories, which seem reflected within lay and non-lay accounts. In addition, besides this outward-looking interpretation, these narratives were not passively accepted but performative, in functioning to construct national selves in relation to others depending on the context.

The cultural hierarchy implied, with Greece comparatively culturally, socially and economically in a higher position to other states in the Balkans, which seems reflected in the lines of argument identified in the current research as well, functions to underline some sense of superiority [41] in relation to immigration in Greece. This may be used to either argue towards a sympathetic and humanitarian approach or towards an exclusionary approach on the grounds of immigration from Balkan states threatening cultural superiority with erosion. This is represented in a metaphor of 'dilemma and opportunity' as "Greece appears to be a window to the mythical and elusive modernity of the West, a model of prosperity, freedom, and intellectual pluralism" which if translated to hegemony and tutelage, may nevertheless re-invigorate introverted tensions (p. 208, [55]).

Apart from the role of the stabilizing power in the Balkans, as both in and out and as independent and Western according to the argumentative stake and context, the influx of economic refugees and immigrant workers from Albania, Eastern Europe and the former Soviet Republics was interpreted in terms of confirming just this role; namely, of constituting a stabilizing factor in South-Eastern Europe (p. 46, [56]). Alternative interpretations, which also guide the current research, saw this influx as a force in the transformation of Greek society and the (re)negotiation of Greek identity [1] [2]. Greek social actors' understanding of these is explored in the next section.

## **7. Banal Nationalism and Hierarchical Categorization**

This section explores categorical accounts which classify national categories defined in terms of national subjects and countries in hierarchies along a continuum. In this process, it seems that two theses apply. First the world division in nation states seems taken for granted [57], which according to thesis of Banal nationalism is explained in terms of treating national identity as a form of talking about self and community and as a form of life (p. 60, [57]); naturalized as every single second of one's life is immersed with casual national rhetoric and symbolism, casually sustaining nation states; and legitimized in universalized codes such as flags, anthems, histories. Second, the ideological origin of the imagining of 'us' - the nation - and 'them' - other nations - is traced on the one hand, in the post-enlightenment marriage of the universal and the particular in terms of western and national cultures respectively and on the other, on evaluative and hierarchical divisions between nation states with reference to 'credentials' of western culture [39].

In Greek speakers' accounts about immigration in Greece, nation states are presented as embodiments of civilizations and cultures<sup>4</sup>, which are positioned along a continuum, as they are banally classified in hierarchies. This is presented in three forms; first, in the form of time using temporal comparisons to measure progress; second, in the form of development; third, in the form of a civilization taxonomy, which is explicitly addressed to countries and implicitly to national categories and national subjects. In these forms, Greeks are classified as 'ahead' of immigrants in Greece in terms of their national category and Greece as 'ahead' of immigrants' countries of origin, but 'behind' countries and national categories in the 'West'.

The first extract illustrates an implicit comparison between Greeks and immigrants to introduce a line of argument which develops from talking about difference as national to formulating evaluative classifications (as nationality-based). In extracts 2 and 3, speakers construct educational and economic/class status as comparatively 'better' for Greeks with regards to immigrants in Greece, in the process of formulating denationalized, rational accounts to talk about prejudice towards the latter. Extracts 4 and 5 are presented as illustrative examples of evaluative classifications between Greece and immigrants' countries of origin (mainly Albania). Finally, extracts 6 and 7 exemplify an extension of the argument beyond evaluative comparisons between national subjects and nation-states, by formulating accounts of civilization taxonomy on a seemingly 'established' continuum.

#### **Extract 1 - Focus Group 1 (see Appendix 1)**

The first extract is preceded by a discussion on immigration and unemployment. In an attempt to denationalize the issue and rationalize the choice of immigrants in employment posts over Greeks, Costas makes an implicit comparison, casually treating educational status as a nationality-based characteristic.

**204 Costas:** look (.) surely these from the Balkans facilitate more because they are

**205 cheaper** (.) it is very much in the interests of employers not to take from them who

**206 s** have: studied T.E.I.<sup>5</sup> and take him who: has not done anything and will take

**207** fifteen euros per day whereas you will take twenty five euros per day (.) it

**208** interests them very much

Costas introduces his argument by alluding to a categorical distinction between "them from the Balkans" and an implicit "them from here", grounded on the choice of cheaper labor as a rational one (line 204). However, between lines 205-208 there is a shift from justification on the basis of rational grounds to substantiation of these grounds. In this substantiation immigrants are constructed as uneducated, "they have done nothing". Greeks, represented by a generalized 'you', are contrasted to immigrants as being skilled, using the example of vocational education. Vocational education is commonly

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<sup>4</sup>As civilization and culture translate the same in Greek, both terms are used, their meaning more clearly depicted in individual extracts (based on the terms as used in Delanty, 1995).

<sup>5</sup>Abbreviation for Vocational Education Institution in Greece

associated with the kinds of technical and manual labor, which are common place in talking about immigrants.

This distinction between educated Greeks and uneducated immigrants is vividly described [21] as factual and commonplace, in the use of numerical rates conventionally presenting higher wages (25 euros compared to 15 euros) as applicable to Greeks [23].

The conventionality implied in this line of argument is further illustrated in the next two extracts.

### **Extract 2 - Focus Group 3**

The next extract indicates a status constructed for immigrants as above, but grounds a more explicit difference between Greeks and immigrants using time as a resource of assimilation as progress. It follows a discussion in which a categorization of immigrants in Greece as problem makers is implied. Menelaos seeks to offer a justification which eventually alludes to a particular construction of immigrants also implying a difference with Greeks.

**790 Menelaos:** nevertheless I believe that it is education only (.) a:nd ok and we are

**791** obliged to be patient let's say twenty thirty fifty years I don't know how many>

**792** and we can't do anything else< (.) and even if we throw them all out it can't be

**793** done they will come again (.) we are obliged to be patient fifty years to wait ((for

**794** them)) to get educated this

Menelaos, shifts footing from principal to author [58] to appeal to the category of Greeks as entitled by knowledge [21] to assess immigrants' educational status. Having previously referred to immigrants – mainly from Albania – and Greeks as distinct categories, he constructs immigrants as of low educational status on which he grounds the preceding categorization of immigrants as potential problem makers (line 790). This associates educational status with law-breaking activity, and functions to factualize both this status and activity for immigrants while responding to accusations of prejudice on the part of Greeks. Greeks are implicitly constructed as different to immigrants, vividly describing this difference in numbers [21] [23] to refer to a temporal gap of educational level between the two categories (lines 791). Education is treated as a commonplace positive marker of culture and cultured people who do not cause problems or resort to illegal activities. By claiming category entitlement to 'diagnose' [21] the educational level of others, Greeks are both regarded and constructed as cultured people, suggesting a passive wait from Greeks for immigrants to reach this level, implying that it is not a measure but an inevitability. In this respect, this account implies a shared classification of immigrants – Albanians in particular – and Greeks in a temporal continuum of progress, implicitly comparing time as national [59] with the latter as more forward in the continuum.

### **Extract 3 - Focus Group 2**

In the same line but grounding difference and progress on social rather than educational status, the following extract is presented as an example of evaluative comparisons implied between Greeks and immigrants in treating prejudice as social.

**698 Manolis:** can I ask you something else? Me does it bother me today if my  
**699** daughter says today with today's – my daughter is five years old eh – if my  
**700** daughter tells me “I want to marry an Albanian” does it bother me with today's  
**701** conditions because logically >not because he is Albanian though< whatever I say  
**702** or whatever stuck up I have in my mind it bother me that with today's economic  
**703** terms logically he will be a little worker. In twenty years twenty five if the time  
**704** comes to tell me that

The accounting practice of evaluative comparisons seems to have commonly followed accounts charged with implicit or explicit prejudice. Along these lines, Manolis in the extract above formulates a personal hypothesis to respond to charges of prejudice against immigrants in Greece in a denationalized manner. In this attempt, he constructs immigrants as of low social status on which he grounds an unwillingness to engage into personal relations with immigrants (lines 700-3). This functions to factualize this status for immigrants while responding to accusations of prejudice on the part of Greeks. Greeks are implicitly constructed as different to immigrants, vividly describing this difference in numbers [21] [23] to refer to a temporal gap of social status between the two categories (lines 703-4). By claiming category entitlement to ‘diagnose’ [21] the social status of others, Greeks are both regarded and constructed as of comparatively higher social status, suggesting a passive wait from Greeks for immigrants to reach this status, implying that it is not a measure but an inevitability. In this respect, this account implies a shared classification of immigrants – Albanians in particular – and Greeks in a temporal continuum of progress, with the latter as more forward in the continuum. At the same time, it is argued that time alone will eliminate (lines 703-4) [60] prejudice which is defined in economic and social terms rather than national. Treating prejudice in this way to respond to charges of it indicate that social prejudice is commonly more acceptable to national.

In the following extract the points of comparison shift from national subjects to national spaces as participants construct a difference between Greece and Albania using time as a resource of infrastructure as progress.

### **Extract 4 - Focus Group 2**

In the preceding discussion participants defined borders as nothing more than artificial barriers, which shifts below as participants co-construct differences in terms of national space as factual.

**427 Fotis:** =didn't you have a cultural shock in Albania?

**428 Manolis:** no

**429 Fotis:** =in which cities did you go?

**430 Manolis:** =I WENT form Tirana I'm telling you I traveled a day in Korce: went

**431** the other day Tirana I returned and went Skopje [...]

**432 Fotis:** =it's like day and night

**433 Manolis:** eh guys in infrastructure it is like Greece was before: forty years (.)

**434** right? It has road network their national network has dirt and puddles

Fotis addresses a question which treats Albania using an extreme case formulation [61], in terms of a 'cultural shock' as a shared understanding [21]. By attributing this shock to visitors, Greeks in this case, it is implied that they are entitled to 'diagnose' [21] cultural levels of others, thus, of a higher cultural level by implication. Manolis responds negatively, implying that his experience of Albania was not about 'cultural shock', to be later in the exchange qualified in terms of difference in the development of infrastructure (lines 433-4). In lines 429-431 participants negotiate category entitlement by seeking personal experience on the part of the speaker as proof for the validity of their argument (p. 160, [20]) [33], which is provided by Manolis. Nevertheless, in line 432 Fotis resorts to an idiomatic phrase [62], which implicitly compares Albania to Greece. According to this, Greece and Albania are constructed as cultural extremes in the same way that day and night are the two extreme ends in the duration of a day. By implication of having previously attributed 'shock' to the Albanian extreme, Greece is constructed as on the positive extreme of this comparison. This is then explicitly shifted to a country rather than cultural level, vividly describing a difference between Greece and Albania in numbers [21] to refer to a temporal gap of developments in infrastructure between the two countries (lines 433-4). Thus, it seems that for participants time in Greece and Albania is not synchronous. In addition, time seems to be treated as linear, used as a metaphor for measuring progress [59], whereby the temporal comparison between states - being 40 years behind Greece - is exemplified in a "national road network" having "dirt and puddles". In this respect, this accounting practice implies a shared classification of immigrants' countries of origin - Albania in particular - and Greece in a temporal continuum of progress, with the latter as more forward in the continuum. This continuum, which treats time as linear, appears to be a shared discursive resource in talking about immigrants in terms of their countries of origin. Hierarchical classifications are negotiated along this continuum through the use of temporal comparisons on the stages of development as progress between countries, which is indicative of allusions to an asynchronous international present.

The next extract extends this taxonomy to national subjects.

### **Extract 5 - Focus Group 5**

Participants engage in a justification of implicit and explicit accusations of a law-breaking activity and character as associated to Albanian immigrants, by attributing blame to agents beyond immigrants themselves. This functions to factualize an image of Albanians as law-breaking as well as to imply a particular construction of Albania as commonplace.

**199 Antonis:** yes and maybe (.) then what G is saying that they were up until ten

- 200 years ago this [closed in a: state without
- 201 **Pavlos:** [seclusion (.) completely (.) nothing
- 202 **Antonis:** without knowing what is going on outside I think that it is: [...]
- 203 **Nelli:** =yes but
- 204 **Antonis:** ((he)) would say ‘I grew up inside a lie’ now easily:
- 205 **Nelli:**= excuse me why though their negative elements were more that they were
- 206 living in this environment and weren’t their positive elements
- 207 **Antonis:** eh now (.) I don’t know over there what:
- 208 **Nelli:** I believe that also as a people they are: they do:n’t
- 209 **Antonis:** = ok they are a different race
- 210 **Pavlos:** [°ok though others are: to blame (.) not°
- 211 **Toula:** [as a people they are: and ok they are and think that they are >ok not all <
- 212 post of them illiterate (.) they don’t know even to put a signature (.) that is to say
- 213 I was listening [from the guys we had in the: that that they were working since
- 214 five years old
- 215 **Nelli:** [this is what I am saying (.) that their culture is completely different
- 216 **Toula:** and that [with the grandpa on top to hi:t them that is circumstances

Participants embark to co-formulate an account of blame attribution as external to immigrants. In this process, the line of argumentation seems to be that law-breaking activity is a situational rather than an inherent characteristic of Albanians as a national category. In this line of argumentation, Albania as a state is presented as having an asynchronous course to the rest of the world by articulating a vivid description of seclusion which drew to an end 10 years ago [20]. Therefore, the argument put forward treats Albanians as a national category whose characteristics are attributed to segregation imposed from above in an extreme case formulation [61] of seclusion, resulting to a limited and distorted knowledge of the world.

Nelli then diverges from the causal accounts previously formulated as she seems to shift the focus from agents to effects. In lines 205-6, she points to negative characteristics developed as a result and attempts to shift agency for them to the national subject implying that Albanians as a national category did not do anything to transcend or escape their negative environment by developing positive qualities. Therefore, negative characteristics are essentialized as national, not extended to anyone under such circumstances. This then leads the discussion to the point of “they are a different race”, implying a difference with Greeks on account of their predominantly negative characteristics (line 207). From lines 211 onwards having presented characteristics as national and differences as national category based, Toula offers a vivid example of these differences in the form of narrative accounting and extreme case formulation [62] which further factualize differences as national. While the examples

offered by participants are moderated by compassion they construct immigrants as uneducated, growing up and living in harsh social conditions. In categories entitled to diagnose and assess [21] the social development of others, therefore, participants construct Albania as a state in a previously secluded political system and Albanians as uneducated, growing up and living in harsh social conditions. By implication, Greece is constructed as in an open political system and Greeks as educated and growing up and living in positive social conditions.

As in extract 3, reflexive attempts to rationalize (de-essentialize or denationalise) charges of prejudice on the part of Greeks or accusations of law-breaking activity addressed to (Albanian) immigrants in Greece, seem to mobilize accounts of evaluative classification, as pertaining to factual, objective and observable differences. In extracts 4 and 5, Albania as a country and a state was presented as the point and agent respectively of these differences. Infrastructure, political system and social conditions were treated as factual markers of differences drawn through explicit or implicit temporal and evaluative comparisons. These portrayed an asynchronous present between Greece and Albania in particular, the former being more advanced by implication of the latter presented in anachronistic terms.

The following two extracts extend this line of argument from nation-states to cultures and civilizations and present a taxonomy of cultures and civilizations as established and internationally shared. In extract 6 the tenants of the various classifications in this taxonomy begin to discern.

### **Extract 6 - Focus Group 3**

In talking about the meaning of Greekness, participants appear to draw on other national categories and formulate comparisons with reference to national pride. In this process, they orient to a civilization taxonomy as a conventional classification, positioning the French, the Germans and the Americans at the 'progressed' extreme and the Albanians at the other end of the extreme.

**582 Menelaos:** what does it mean to be Greek? ((reading out question 5)) [...]

**583 Petros:** what it means to be Albanian what it means to be: Bulgarian the same I

**584** believe it means to be: Greek

**585 Aggeliki:** no ok this to be Albania: n °better to be Greek°

**586 Petros:** if we were there let's say you may said the opposite

**587 Menelaos:** if because you were born here this is what we say (.) that there is no

**588** man that is born and raised in Albania and that say: s ['I don't care ' let's say

**589 Aggeliki:** [I believe that they are

**590** ashamed though (.) that they are ashamed for it

**591 Pavlos:** yes

**592 Menelaos:** =they are ashamed because they are here (.) go to Albania is anyone

**593** shamed in Albania that his Albanian? He's not ashamed



594 Pavlos: yes

595 Menelaos: because also you if they take you now in Hong Kong let's say and you

596 are the only Greek

597 Aggeliki: =I believe that we are a very proud people (..)

598 Petros: we are yes

599 Menelaos: we are yes it goes without saying

600 Aggeliki: I believe this way because you will go wherever and will

601 Pavlos: this is due to a complex

602 Menelaos: we are very nationalist [...]

603 Aggeliki: yes (..) because maybe eh we are not like France is if a German he will

604 go: anywhere he goes he will say 'I'm German'

607 Pavlos: =yes or American

608 Aggeliki: yes yes 'my honour and my pride' let's say (..) if you are: Albanian it  
609 is°

A definition of the meaning of Greekness is initially attempted using a global formulation of national identity as form of identification with a universally understood content (lines 583-4) [21]. This is contested by Aggeliki, who makes an explicit comparison between being Greek and being Albanian as the first being a clearly preferable using emotion discourse to make evaluations of national cultures (line 585) [64]. The rather mild reaction to this statement, which could have been criticized for prejudiced undertones, could indicate that it pertains to a conventional evaluation and, thus, expected in the context of interaction. Menelaos responds by a global formulation [20] which describes national identification as subjective using active voicing [65], yet he does not explicitly appear to counter potential implications of Aggeliki's turn to a Greek superiority (lines 587-9).

Rather, the argument is shifted from the meaning of national identity to criteria for national status and national pride, as resources integral to talking about Greekness. On these grounds, Aggeliki relays [58] Albanian immigrants as shameful for their national identity. In this context, external evaluation is treated as critical. Albanians are divided into two categories, as immigrants, who are treated as shameful and as national subjects in Albania who are not. On this note, Menelaos formulates an extreme case [21] analogy for Greeks (lines 596-7). However, when this is rhetorically extended to Greeks, a distinction is readily attempted from Albanians constructed in the form of a contrast between shame with reference to Albanians and pride with reference to Greeks, which is co-constructed by participants (line 598-600).

This negotiation treats 'international evaluation' as an objective metric of national status and pride, thus managing stake on the part of participants who attempt to formulate nationally disinterested accounts [20] [66]. Therefore, international recognition is presented as an objective resource of 'pride', rendering 'shame' by implication, a result of negative international evaluation.

Appeals to national pride made by Greeks is picked up for pertaining to nationalist discourse and claims to superiority (lines 602-3). Aggeliki, then, reformulates her account by orienting to hierarchical classifications between Greeks, France, Germans, Americans co-constructed by Pavlos, and Albanians using active voicing which constructs them as factual [64] [21]. In this classification, Greeks figure lower to France as a country, Germans and Americans as national categories but higher than Albanians (lines 604-8). The allocation of these categories in this discursive order presents the tenants and hierarchies of the continuum implied and manages potential criticisms addressed to claims to superiority made by Greeks, by treating the description as conventional and normative.

In the final extract, participants explicitly co-construct a classification of the ‘West’ and the ‘Balkans’ in a progress continuum with Greece somewhere in the middle, implying a clear hierarchy of cultures, but also directive roles for each category.

### **Extract 7 - Focus Group 8**

**335 Panos:** I believe there’s a different treatment of the immigrants who come from  
**336** Balkan countries e:h a:nd a different treatment of immigrants who come from  
**337** western countries (.) which are culturally more developed than Greece (.) that is if  
**338** an immigrant comes e:h let’s say fro:m Germany and for some reason lives in  
**339** Greece (.) these we treat wi:th (.) > I have the sense I don’t know let’s say< (.) we  
**340** treat with a different status (.) we give them a different status from what >  
**341** because they are not they are not like the: o:h [Balkanian immigrants  
**342 Vera:** [they have never given a reason in  
**343** anything you mean  
**344 Panos:** yes  
**345 Vera:** this  
**346 Panos:** and usually one comes from these countries which are richer to live in  
**347** Greece because:  
**348 Vera:** = to also offer something  
**349 Panos:** he loved the place and came to a more downgraded environment socially  
**350** (.) he loved the place so: e:h you consider that it is a choice of his (.) whereas  
**351** these who: come let’s say from Balkan countries come out of need [...]  
**352 Vera:** in essence he will come in order to offer (.) to offer [not to snatch to take  
**353 Panos:** yes (.) [and sees Greece with a  
**354** different eye let’s say (.) and I think that also Greeks treat him differently (.) they  
**355** show hi:m a quasi respect let’s say in those kinds of people (.) something which

**356** does not apply to the immigrants

**357 Vera:** the others

**358 Panos:** who come out of need and are economic immigrants let's say

**359 Vera:** possibly> I don't know if it stands but < from the Westerners you expect

**360** also to take something

**361 Panos:** = yes

**362 Vera:** whereas from them who:

**363 Panos:** yes you consider them that they have a better culture:

**364 Vera:** this (.) to take to steal to adopt their good elements

**365 Panos:** bravo (.) bravo

**366 Vera:** whereas from them you expect to teach them some things how to: integrate

**367** to the wider social group

The extract follows an argument which associated differences in culture and mentality between immigrants from the Balkans and Greeks with fear and insecurity, while for immigrants from Western countries this association did not follow. Panos readily attempts to explain this rhetorical inconsistency to avoid charges of xenophobia and xenomania. Firstly, it seems that immigrants from Western countries are resourced to talk about immigrants from the Balkans. Namely, immigrants from Western countries are mobilized and constructed as positive examples of immigration in Greece to formulate initially implicit comparisons with immigrants from the Balkans. By implication of constructing immigrants from Western countries as positive examples of immigration in Greece, immigrants from the Balkans are constructed as negative examples. Therefore, the comparison of immigrants from the West and immigrants from the Balkans on the same criteria effectuates an ostensibly objective account, which functions to factualize the characteristics on which differences are based, while participants managing the stigma of irrational prejudice based on national differences and immigration, since it is not nationality other than Greek per se but other reasons on which criticism is grounded and rationalized. In this way, participants seem to treat the topic as sensitive, and their accounts as potentially bearing the stigma of prejudice as integral in nationalist discourse.

As a first instance, Panos shifts footing to author [58] a comparatively different treatment of immigrants from the Balkans and immigrants from the West on the basis of contrasting the Balkan and the West in terms of countries (lines 336-8). Explanation of this is attempted through vivid description in the form of a hypothesis [20] (lines 339-342), and a shift in footing which finally formulates a description in the form of a tautology to which Vera contributes additional justification by adopting the footing of a relay (Goffman, 1981).

The criterion of different treatment is deductively presented as 'providing reasons for negative criticism', which by implication of constructing immigrants from Western countries as not doing so and contrasting them to immigrants from the Balkans

constructs the latter as doing so (line 343). The difference is gradually co-constructed [14] beyond deductive reasoning as two sets of distinctions are drawn. First, the reasons for immigrating from the West to Greece are constructed as personal choice and love for Greece (lines 346-350). Choice and love are grounded on constructing Western countries as comparatively richer than Greece. By contrast, the reason for immigrating from the Balkans to Greece is constructed as need (line 351). The second set is articulated by Vera as a causally related distinction between immigrants from the West immigrating to Greece to 'offer', whereas immigrants from the Balkan immigrating to Greece to 'take' (line 352-3).

On these grounds, the treatment of immigrants on the part of Greeks is justified (lines 353-7). This co-constructed line is then used to point to directive relationships which are treated as integral in the axiological continuum theory put forward. Thus, the subsequent role ascribed for Greece is to 'learn' (though selectively) from those up the scale and 'teach' those who figure further down the scale (lines 360-8), which is in line with Western colonial discourse and appears to have recently gained ground in official and academic discourse with reference to Greece as an 'educator' of the Balkans [53].

Therefore, the formulation of this account in an attempt to explain Greek treatment towards immigrants from the Balkans, makes an interesting case in terms of orientations and analytic inferences. First, the Balkans and the West are constructed as unitary contrasts. Second, this is extended to immigration to Greece, which leads participants to the articulation of two sets of distinctions as applicable to immigrants from the West and the Balkans. These pertain to the reason for immigrating to Greece and to capabilities and cultural capital [67]. In the process of articulating those, accounts seem to be co-constructing evaluative classifications of Western and Balkan countries and national subjects orienting to an axiological continuum with fixed positions allocated for them as 'established'. The line of argument developed is that the West and the Balkans occupy the positive and negative extremes of this continuum respectively and Greece figures somewhere in the middle. The middle point line of argument appears to conventionally draw on a discourse of Greece in a liminal state of progress, in a constant period of transition. More importantly, though, in this line of argument participants allude to hegemonic power [68] and directive roles to the categories lined (up) in the continuum, which is illustrative of a construction of the West in hegemonic terms with reference to the Rest, constructing particular categories [69] [70] [71] [72].

## 8. Conclusion

This paper concentrated on a patterned activity on the part of Greeks to orient to hierarchical structures in talking about immigrants from the Balkans. The selection of the Balkans was informed and wished to take into account the discourses related to history, geography and identities in the area. Geographical, historical, demographic and social constructions of the above were seen to draw on an evaluatively charged discourse, implying cultural hierarchies. Doing identity work drawing on constructions of immigrants from the Balkans and of the Balkans themselves, identified a patterned activity on the part of Greeks to orient to hierarchical structures in talking about immigrants from the Balkans. This activity alluded to a continuum presented in three

forms; first, in the form of time using temporal comparisons to measure progress; second, in the form of development; third, in the form of a civilization axiology, which was explicitly addressed to countries and implicitly to national categories and national subjects. In these forms, Greeks were classified as ahead of immigrants in Greece in terms of their national category and Greece as ahead of immigrants' countries of origin, but behind countries and national categories in the 'West'. This was casually articulated as pertaining to a conventional, 'established' axiological continuum, which, by implication, had an action orientation [21] of treating the West as 'educators' and the Rest as 'uneducated and in need of education, while Greece and the Greeks as conveniently in the middle.

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## **Appendix A. Participants**

### **FG 1 - participants from Thessaloniki aged 18-21**

Costas, M, 18, Student

Petros, M, 19, Student

Lena, F, 18, Student

Filio, F, 20, Student



May, F, 21, Student

**FG 2 - participants from Thessaloniki aged 35-45**

Manolis, M, 37, Self-employed

Costas, M, 37, Teacher, Higher Education

Fotis, M, 38, Self-employed

Pavlos, M, 36, Self-employed

Vaggelis, M, 37, Self-employed

**FG 3 - participants from Thessaloniki aged 18-21**

Menelaos, M, 21, Student

Aggeliki, F, 21, Student

Pavlos, M, 21, Student

Petros, M, 18, Student

**FG 4 - participants from Halkidiki aged 35-45**

Christina, F, 37, Teacher

Sofia, F, 44, Kinder garden Teacher

Litsa, F, 35, Self-employed

Lena, F, 45, Housewife

Joanna, F, 38, Hotel Employee

Vaso, F, 36, High school Teacher

**FG 5 - participants from Serres aged 35-45**

Antonis, M, 42, Farmer

Iraklis, M, 43, Teacher

Nelli, F, 40, Civil Servant

Pavlos, M, 45, Florist

Toula, F, 35, Grosser

**FG 6 - participants from Serres aged 18-21**

Alex, M, 19, Student

Dina, F, 20, Student

May, F, 21, Student

Costas, M, 18, Student

### **FG 7 - participants from Halkidiki aged 18-21**

Chris, M, 21, Student

Panagiotis, M, 21, Student

George, M, 19, Student

Petros, M, 21, Student

Pavlos, M, 19, Student

### **FG 8 - participants from Thessaloniki aged 35-45**

Panos, M, 44, Teacher

Vera, F, 35, Office Messenger

Lambros, M, 40, Bank Employee

Costas, M, 42, Unemployed

Sakis, M, 42, Contractor

### **Appendix B. Transcription Notation**

=	no discernible gap between utterances
((text))	researcher's comments
CAPITALS	louder speech
°text°	quieter speech
[	overlapping speech
Text	emphasized speech
“text”	direct speech
Te::xt	extension of preceding vowel
(.)	short pause
>text<	speeded-up speech
Text*	original term used

# The Tracking Shot: a Passage to the Auratic Image, Demonstrated in an Analysis of a Filmic Scene Employing the Specific Directing Style of Theo Angelopoulos

*Efthimios Hatzis*<sup>1</sup>, *Gregory Paschalidis*<sup>2</sup>, *Adam Piette*<sup>3</sup>

<sup>1</sup>SEERC, 17 Mitropoleos Str, Thessaloniki, Greece, [ehatzis@seerc.org](mailto:ehatzis@seerc.org)

<sup>2</sup>Aristotle University of Thessaloniki, College, Dept. of Journalism & Mass Communications, 54624 Thessaloniki, Greece, [paschagr@jour.auth.gr](mailto:paschagr@jour.auth.gr)

<sup>3</sup>The University of Sheffield, Dept. of English Literature, Western Bank, Sheffield, S10 2TN, UK, [apiette@sheffield.ac.uk](mailto:apiette@sheffield.ac.uk)

Theoretical approaches to film analysis and applied models of filmic research by and large do not entail the significant factors of the production elements. Quite possibly the theorists may not hold the hands-on knowledge of the technical aspects of film production. Contingent elements of production that can be developed in a film analysis are two-fold: 1. The machinery: the apparatus of constructing the film, for example the camera, the format, the lens, the machinery used for movement. 2. The style and artistic strategy in which the film director employs the specific apparatus. In this paper the discussion is limited to a different set of apparatus the camera movement, specifically the tracking shot, as utilized by an Auteur filmmaker achieving a recognizable film style. A specific scene from Theo Angelopoulos' *Eternity and a Day* is analysed. My argument is to identify how utilizing this specific apparatus in combination to the particular style of directing can generate an auratic effect. In other words, the attachment of a spiritual element (sublime / transcendental) in the image. Furthermore, the impact of iconography as a film style and concepts of tracking in an iconographic stage field, namely mobility through time zones and across iconostasis are developed.

## Keywords

Angelopoulos, film analysis, film style, iconography, tracking shot.

## 1. Introduction to a New Conceptual Approach in Film Studies

The concept of the representation of the invisible in a visible format is the basis of development of a new approach in film analysis. Where the notion of the invisible, the auratic image, the sublime, the transcendental in film is coded with applications of the visual conventions in Byzantine iconography expressing the Christian Orthodox theology of the visible and invisible. In developing this atypical approach to film analysis it my goal to balance this line of attack with a concrete breakdown of directorial style and specific apparatus of film production. As a basis, I will use applications of an Auteur approach. Prominent directorial style is more frequently encountered with auteur film directors. As for their scope is to communicate with the audience with the form of the film language as well as the story line. In this challenge of the film form the possibility lies to generate the invisible, the auratic image.

The Auteurist approach to film criticism is based on a theory developed by the editors of *Cashiers du cinema* as a European reaction of European, Balkan, and Soviet Cinema, which is based on individual writer-directors, as opposed to the American Hollywood industry of screenwriters and interchangeable directors. The Auteur or author of the film is the film director. As Ambros Eichenberger points out in his paper of Approaches to Film Criticism in respect to the Auteurist approach:

Describing and evaluating the work of an artist in terms of uniqueness, consistency of style, biography, and so forth can be extremely useful. This is especially so if the “author” is totally responsible for the films he has made, as happened with such outstanding film personalities as Griffith, Eisenstein, Murnau and Stroheim in the past and with Tarkovsky, Berrson, Rohmer, Kurosawa, Kieslowski, and Wenders more recently. The analysis of formal cinematographic elements such as composition, camera movement, lighting, editing and the like in major films of the “one” director cannot be overlooked, if of course the analysis is not to be limited to technical aspects, when probing deeper into the fields of meaning and significance [1] (pg 7-8)

For this new conceptual approach to film analysis, significance is the specific cinematic elements, such as the ones mentioned above, a director utilizes yielding a film style.

For this paper, I will isolate of one cinematic technical approach, and develop how this device generates the invisible within the visual medium. The invisible, the auratic effect, the sublime are terms that create the notion of art meeting the spiritual, this theological conceptual approach in film studies will be in parallel to the auteur approach. Eichenberger confronts a need for a developed theory of a theological approach.

Despite such honourable efforts, there is still no elaborated “theory” of a theological or religious approach to film interpretation as it has been attempted, if not achieved, for other disciplines. The gap between theological considerations, including pastoral ones, and contemporary art, culture and film is still formidable, although one can observe a growing awareness of the fact that both of the fact that both “world”, however differently they function, can learn substantially from one another. Theological and spiritual traditions have something to offer the film world insofar as they are concerned with the quest for

deeper meaning, truth, and wisdom about human life, history and destiny. [2] (p 8-9)

My scope is to investigate the filmic apparatus, the technical mechanisms of film production that directors utilize in this challenge of the film language. As a starting point I have chosen a Greek auteur director who's style is indicative the auratic and are influenced culturally by byzantine iconography: Theo Angelopoulos. The cinematic technique chosen is the long tracking shot-scene. Angelopoulos is recognized by this *signature* cinematic devise the question is: can the filmic technique of the long take tracking shot yield the auratic?

## **2. The Moving Camera and the Long Take**

To set up conventions for the analysis there are elements of a tracking shot that need notice. Particularly is the long take where the duration of the shot is the entire scene, and the passage of real time is central. The camera moves through space on a dolly in one uncut and linear time span. This engagement of time is a reproduction of a real time experience. Thus, untainted by a cut to a shot highlighting a detail, editing the passage of time. It becomes a more "true to life" experience for the audience.

With one long take; the tracking camera moves establishing the geography of the space, the distance between objects and their spatial orientation. The moving camera establishes the arrangement of space and proximities further than the variable focal length lens (zoom). Both in the tracking shot and the zoom there is a change in the image size, we come closer to an object or farther away. The variable focal lens zooms in on the image, essentially enlarging the image with in a fixed cropped frame. The moving camera moves through space, causing a difference in angular speed between filmed objects. The objects closer to camera move quicker than the objects farther away. This effect is clearly demonstrated when one looks out of a moving car window. The nearby poles and trees move quickly as the mountains in the far distance sluggishly. Through the function of the variable angular speed the moving camera aids in highlighting the spatial relationships, which is closer to our eye's understanding of movement through a three-dimensional space. While the zoom lens is a technical imposition on the image, our eye does contain that feature.

The moving camera in comparison to the zoom is a more organic realistic depiction of space, a simulation of a human body travelling through space and time. The tracking shot can trigger the sense of a passage, a journey through a locale.

### **2.1 Criteria of a tracking shot for analysis**

Based on the above annotations, I have compiled a list of criteria that need to be established in choosing a sequence of analysis.

- The tracking shot is one take (in one time frame)
- A long length tracking movement (well over 4 tracks long or approx. 6 meters)
- The shot is an entire scene

- There is a passage of spaces through various spaces with in the shot
- The film director is an Auteur, and has an orthodox inflected background

### 3. The Considered Scene: from *Eternity and a Day*

A scene that meets these decisive factors and lends itself to analysis is the “Solomos” scene from the 1998 Cannes film festival winner *Eternity and a Day* by Theo Angelopoulos. The film is a story of a dying Greek writer who encounters a young boy illegally emigrated from Albania, and saves him from child trafficking. In one scene on their journey, the writer teaches the boy about a Greek poet from the 19th century, Dionysius Solomos. He narrates how he was raised in Italy and returned to his island of birth Zakynthos to assist in the Greek independence. Because Solomos did not have knowledge of Greek, and order to learn the language and help his people Solomos he would pay for each new word. It is during this verbal narration where the tacking shot/scene begins. The scene is a re-enactment of the period in time (early 1800’s) when Solomos has arrived in Zakynthos and a young woman finds him to enlighten him with a new word. During the shot we hear the voice of the present day writer, telling the story to the boy.

Visually, the scene/shot stars in the middle of the sea where the young woman is being rowed on a small boat. We move towards the shoreline and the young woman leaps off the boat, a small dock is revealed and numerous fishermen and residents going about their daily routine. The young woman looks upwards towards the camera as we move backwards and loose sight of the young woman as we enter backwards into an open window of a yet to be seen building. Slowly revealed is Solomos sitting by the stone window. He is memorizing and contemplating new words out loud. Solomos stands and walks forward. The camera continues to move backwards as more of the stone building is revealed. The young woman enters through the stone columns, and whispers a word to Solomos, “moonstruck”. Solomos takes delight in the word; the young woman recites a sentence where the word is used. Solomos walks to the centre and sits on a limestone mass. He gives the young woman a coin, which walking backwards with reverence leaves. The camera continues to move backward, but now at the same time is also moving upwards. More of the building is now revealed; it is a ruin of a byzantine church. From the far back of the church enters the writer and the boy, the writer is talking to the boy which is the voice over we are hearing about the scene. They pass by Solomos with great reverence. The camera moves upwards and backwards revealing the parts of the sky in the ruined dome less church. The writer and boy without talking to Solomos, as if in a different realm of reality, exit in the middle of the frame. The camera now comes to a full stop and the scene is finished.



**FIGURE 1 Still #1 from the Solomn scene**



**FIGURE 2 Still #2 of the same continues scene**



**FIGURE 3 Still #3 of same scene**



**FIGURE 4 Still #4 (the camera moves backwards into a window)**



**FIGURE 5 Still #5 (camera continues to move backwards)**



**FIGURE 6 Still #6 (from this point on the camera rises as it moves backwards)**





**FIGURE 7 Still #7 –final position**

### ***3.1 Technical Details of the Shot-Scene***

At a basic technical examination, the shot lasts for 4 minutes and 30 seconds; the ground the tracking shot covered is the length of the floor area from the rear window to the front, an estimation of approximately 20 meters. The camera was capable of exiting the outside and entering through window via a jib arm, and extension on the dolly that allows the camera to extend up to 4 meters long. And the final height at the end of the shot was achieved with the same jib arm being raised 6 meters high.



**Figure 8 Jib Arm (6 meters length) on a Panther dolly**

The effect of the various angular speeds between the movements of the close foreground in contrast to the far background was substantially exaggerated. The foreground window and stonewall was moving at a faster speed than the still sky, sea and mountain line in the background (still#5). This effect reached a climax at the finale of the scene where the sky was revealed in the upper division of the frame. The

contrast in speed was experienced between the remains of an incomplete dome and the still sky (still#7). The stone laid floor was rolling out at a fast pace, the middle ground where the three window were moving in a slower but steady pace farther away, and the sky and background mountain line was motionless. The effect was quite remarkable; the experience of travel was felt.

### ***3.2 A Variation on the Directorial Method of Covering the Scene: the Use of Editing Several Shots***

In order to emphasize this point, let's assume a different method of covering this scene. The scene could be structured by a series of shots that would be edited to the rhythm of the scene. Without altering the action and the blocking of the characters whatsoever, one of many options in the camera coverage this scene can be:

1. Close up of the rowboat and young woman.
  2. Long shot: establishing of the tiny dock and local community, as young woman disembarks from the boat, and look towards the stone building.
  3. Over the shoulder (OTS) shot of Solomos gazing out the window.
  4. Subjective shot of the young woman looking at the ruined church and the window Solomos was sitting on.
  5. Long shot: establishing interior of the church and the position of Solomos.
- 6-11. Four close ups of the young woman, Solomos and the writer and the boy when they enter.

The above shooting list can be a feasible method of covering the scene. In fact, the director in the editing controls the rhythm and the time of the scene. For example the real running time of the scene is 4 minutes and 30 seconds, this can be easily be trimmed to 2 minutes and less. From cut to cut, or shot to shot there is an economy of time and space transition that the audience has learned to read. This method of reducing the timeline of a scene is a quite needed mechanism to control the rhythm of the entire film. For example, if a slow paced scene makes the entire film to lag, it may be cut to a bare minimum to push the storyline forward. Bordwell identifies the difference between the long-take and an editing based scene and observes the tendency of the long take to be found in primarily in certain European-Soviet films where the depth of field and staging of the actors is of importance. While the faster paced scene contained by several shots arose in the American Hollywood film industry:

If the long-take, "scenic" method of early to mid -1910s was so elegant, why did it give way to editing-based norms in only a few years? One reason was probably the success of American films with international audiences. Continuity-based storytelling (based on various shots that create the illusion of continuity) seemed to be the wave of the future, and a younger generation of directors took it up eagerly, perhaps partly as the sort of rebellion against the elders which Kuleshov records in his attacks on tsarist cinema's one-shot scenes.

Another reason why Hollywood's editing conventions swept the world so quickly reminds us that even successful solutions can produce new problems.

With the rise of feature-length film, production became more routinized. Sustained takes required lengthy rehearsal, and if someone made a mistake during filming, the entire cast and crew would have to start all over again. From the standpoint of industrial organization, it is reasonable to break the scene into shorter, simpler shots that can be taken separately, many of which need occupy only a single player and a few staff. (Pg 198) [3]

The continuity based storytelling can be a major functional, organizational and economic benefit of the covering this scene, but there is a crucial element that is missing. This crucial element is the driving force, and essence of the scene in the manner it was constructed by Angelopoulos. The crucial element is for the audience to experience a passage. This passage is a “true to life” experience, in real time, and the lifelike experience of movement through space.

It is in this movement of a passage, that the auratic experience can be placed. In comparison to the hypothetical coverage of the scene with the 11 various shots, the one take tacking shot contains an element of the viewer being placed on a visceral journey. Along with the storyline, this visual passage is also source of communication on an experiential capacity. This passage through space is an audience experience that transcends. Where the multi-shot coverage is void of this type of experience through time and space. John Orr compares the differences of the two directorial approaches in his work *The Art and Politics of Film* (2000); he compares the directing style of Angelopoulos’ sequence-shot specifically of *Ulysses’ Gaze* to Antonioni’s parallel montage of a sequence from *The Passenger*.

The stylistic framing of narrative in the two films is different as the themes are similar. Antonioni’s framing is intensive. Locke’s existential flight is played out as three parallel and intersecting narratives, jigsaws on different perceptual planes that finally dovetail together. By contrast, *Ulysses’ Gaze* is made extensive by the sequence-shot. The Italian cineaste cuts elliptically between time frames; the Greek cineaste explores the sequence as a form of contiguity, made poetic by the internal cut, the fluid exit or entrance, the time-lapse with no truncation. This is the exploration of a unified space within the range of the moving camera, which is also here equivalent to the pace of human movement or the vehicle of that movement, the truck, the bus, the ship, the train, all of which Angelopoulos uses so well. For him a cut through space is usually a cut through time, the opposite of parallel montage, as a different episode begins.[4] (pgs 79-80)

Orr’s comment brings to mind the point of view of the shot, the human movement and poetic “internal cuts” through space and the possibility o this development.

### **3.4 Camera Movement and Point of View**

The camera in this scene in passing of three different spaces: water, shore, and the interior of the church the audience lives through a visual journey. This journey is enhanced by the use of the choice of lens. The lens in at a normal focal length (45-55mm) this is the angle of view, which is similar to the human eye. It is not a wide angle or narrow angle created by a long lens (tele). This choice of a normal lens amplifies the audience’s lifelike experienced passage. It is a passage as seen through a human eye as opposed to a technical aide to view the scene, such as the long lens that

compresses space, and narrows the angle of view. The long lens (tele) creates an image that the human eye cannot reproduce. The same is true for the wide-angle lens, where the space is expanded and the angle of view widens. We have learned to read these altered simulated images through our experience with photography and cinema.

The question arises are there other technical factors of the construction of this shot that enhances this true to life experience. In analyzing the placement of the camera, which is crucial for establishing the audience point of view. In Steven Katz's text book, *Film Directing Shot by Shot: Visualization from Concept to Screen*, the notion of the camera placement in determining the graphic/visual point of view:

In a novel or a short story there is no question whose point of view we are reading at any moment. In film, the point of view can be less definite, and in some instances a shot (camera position) can convey a narrative stance somewhere between a third person and a fully subjective shot. [5] (p 268)

Katz goes on to define levels of identification in which the placement of the camera creates degrees of subjectivity. In other words depending on the placement of the camera in regards to the staging of the scene, the audience will experience a different level of identification. For example, if we have a scene with two characters: A and B. If the camera placements in the scene are predominately placed closer to the A character, the audience will have a higher level of identification with the A character. Verging on witnessing the scene through the point of view of A. Furthermore Katz points out the crucial difference between a subjective shot and an objective shot to be the vertical element of the camera position, the height of the camera placement in respect to the eye-level of the characters.

As an example of the dynamics of camera height and eye-level lets examine the renowned American film director Sidney Lumet who coins the utilization of the camera placement in dramatizing the story a "lens plot". In his film *12 Angry Men* where the action takes place in one room. A jury has meet to determine a sentence on a murder case. Lumet's explains his lens plot for this film in his writings reflecting his work as a film director, *Making Movies*:

I shot the first third of the movie above eye level, and then, by lowering the camera, shot the second third at eye level, and the last third from below eye level. In that way, toward the end, the ceiling began to appear. Not only where the walls closing in, the ceiling as well. The sense of increasing claustrophobia did a lot to raise the tension of the last part of the movie. [6] (p 81)

Here the camera height was changed in the three turning points of the movie to underline the point of view of the narrative. A high angle as if looking down on the jurors, an omniscient point of view. The second act where the jurors realize that this case needs examining and a human life is at stake, we are at eye level, following the arguments as if we too are sitting round the large table, seeing eye to eye. The third act here the tension increases and the distorted human nature and motives of the jury is exposed, the camera takes a below the eye level point of view. The tension of the film increases as the characters graphically overwhelm us.

The camera height in the Angelopoulos scene is at mostly at eye level. Thus the height of the lens is that of a person standing, witnessing the events. The slow paced backward tracking, simulates the sensation of one walking backwards. The pace is slow and

ritualistic as if absorbing art in a museum. Interestingly, in the byzantine tradition one walks backwards in the church as an expression of reverence, to continue “face to face” contact with the iconostas. If the pacing of this shot was faster, as if rushing through the spaces, the sense of the ritualistic, and reverence would be limited.

There are two moments that transcend this reverent backwards walk. The first is the passage through the window. Thus the entrance to the building of the cathedral is a mystical, supernatural passage. The second moment is even more heightened, as the young lady leaves the camera starts to rise. Slowly the camera height surpasses that of eyelevel and soars higher above. The visceral visual sensation is heightened, by the full revelation of the building. It is at this point that we fully comprehend the building that the scene took place. Coupled with the revelation of the sky seen through the dome less structure (still#7). The sky is motionless, due to the effect of various angular speeds, as we move farther away from Solomos and the back (alter) walls. It is at this climax of this transcendental visual experience that Angelopoulos breaks the time element. It is at this point in the scene where our two present day characters (the writer and the boy) enter the world of the past, observe in awe of Solomos, like a living museum, and leave. Thus the visual sublime experience of this passage is united with a paranormal moment of the coexistence of characters in the same frame of two time periods separated by over 100 years.

This coexistence of characters in the same image from different time period is a code used in byzantine iconography. This displacement of time is obviously depicted in a selection of iconography. For example, in the image of the Pentecost depicted is Apostle Paul, who at the time historically was not present.



**Figure 9** Icon of Pentecost, Apostle Paul is featured centre right.

This juxtaposition of figures from different time becomes a statement that the feast of the Pentecost is beyond the linear notion of time. Thus, inclusive for all times after.

Michel Quenot's work *The Resurrection and the Icon* reveals the theological aspect of time in icons.

Through His Incarnation, God entered time and space, becoming subject to them and assuming their laws. The icon is a depiction of the incarnate Christ that represents the coincidence of his two natures [God/Man] as a single reality, inviting those who are nourished by it to avoid opposing the divine and the human, heaven and earth. The icons of great feasts cause the depicted mystery to be present. More than others, they lead the worshipper into another "aeon." The result is an absence of chronological order and a total freedom relative to history. [7] (p 58)

In other words, in face of an icon; the viewer is participating with the actual time of the mystery, the feast. The viewer/worshiper is lead into a space beyond time an infinite "aeon". This concept of non-linear time in the Angelopoulos scene where the living coexists with the dead is a moment of the sublime, or transcendental moment where our thoughts go to the Unknown of death.

#### 4. Further Applications to Iconography

Andrew Horton, the film theorist/screenplay writer, utilized an iconography-based application to the work of Angelopoulos. In *The Films of Theo Angelopoulos: The Cinema of Contemplation*, there is a chapter entitled: "Byzantine Culture and Iconography in Angelopoulos Vision and Visual Style."

In Byzantine art, figures are generally presented in such a flat or two-dimensional poses that de-emphasize action and the dramatic. [8] (p 28)

Horton applies this observation of dimension to Angelopoulos signature long takes in a two-fold manner, first through de-emphasis of action and drama in his films. Second, the de-emphasis of background whereby highlighting the figures in the foreground, as if to isolate them of the corporeal world.



Figure 10 Scene from *The Travelling Players*, in a Byzantine icon type line up in the snow.

In addition to this concept, Horton points out the “correct” way to depict a holy persona in an icon is frontal (not in profile) to represent the full image of God within the Saint. This full frontal staging of actors in Angelopoulos mise-en-scene is a central premise of blocking scenes in his films.

Horton refers to the inverse perspective of iconography, where the viewer is the vanishing point, as opposed to a point with in the composition. This reverse of participation with the iconography is applied to the long take, and the deliberate rhythm of Angelopoulos scenes. Horton notes that the experience the audience undergoes is personal and contemplative

As a final observation, Horton refers to the inverse perspective of iconography, where the viewer is the vanishing point, as opposed to a point with in the composition. This reverse of participation with the iconography is applied to the long take, and the deliberate rhythm of Angelopoulos scenes. Horton notes that the experience the audience undergoes is personal and contemplative.

This is a point of departure; Horton does not analysis the passage of the camera over the iconoclastic image. Where the tracking shot is a crucial in undergoing an actual visual impression of a passage. This transport through specific spaces is eminent.

#### ***4.1 The Passage through the Iconographic Stage Field – the Auratic Image***

The specific locales Angelopoulos manoeuvres the camera through in this long take scene, reveals a journey. There are three different settings are: water (sea), shoreline, and the interior of a church. This transit from an analytic point of view is revealing in applications to the architecture of a byzantine church. There are many parallels to the passage intended in a Byzantine structure and this passage.

The first space, our point of entrance, is in the sea (still #1). Water is a living symbol of catharsis, purification. Baptism is with water. A believer is expected before entering the church to push aside corporeal thoughts, a form of catharsis. In Orthodox tradition, the holy water is place outside of the church building. The sea also is a symbol of unsteadiness, a form of danger and uneasiness. Expressing the dangers and difficulties of the corporeal world outside the church. There is a twofold point of beginning, one of catharsis and one of unsteadiness.

The second stage is the landing on the tiny dock. (Still#2,3,4) It is the area of work and crop. Men fishing, woman washing clothes and starting a fire to boil water, people hauling goods. This is a parallel of to the area of the narthex of the church, where the offering is placed. The area where we make the passage, from our daily work to the area of the holy and divine. Where the offering or sacrifice, acts as a reminder that our live is centred on God.

We then enter the church, and our point of departure is the elevation of the tracking shot. The point of view of the entire tracking shot, for over four minutes, has been that of a human movement walking in reverence backwards. The final seconds of this shot the human elevates, coupled with the full revelation of the structure of the church is an experience where we are now closer to heaven. We are lifted to the dome, the sky. The auratic effect, the sublime, has been experienced and achieved.

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