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Importance of Innovation Resources for Market Orientation – Financial Performance Link: Mediating Role of Proactive Market Orientation

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Abstract

The purpose of this paper is to explore the relationship between market orientation, innovation resources and companies' financial performance. Focus is put on the mediator role of proactive market orientation (PMO) in the relationship between reactive market orientation (RMO), innovation resources and financial performance in the context of Central and Eastern European (CEE) countries. Research builds on reliable scales. Four hundred and fifteen usable questionnaires were collected from companies in Slovenia with more than 20 employees. The results show a strong and positive relationship between RMO and PMO. The impact of RMO on innovativeness as an element of organisational culture is both positive and stronger than the impact of PMO. PMO proved to have a significant positive influence on the capacity to innovate. While innovativeness alone does not directly influence financial performance, the results do confirm the positive impact of an organisational capacity to innovate on financial performance. The finding of our paper is that when PMO was included as a mediator between RMO and the capacity to innovate, the result was that this indirect impact proved to be one of the strongest in the model. Also, it proves that in CEE countries, it is important to stress the influence of market and market orientation in building innovation resources and consequently financial performance. The limitation of the current study is that we considered the relationship only among few marketing resources and organisational performance. In future research, additional measures of market performance may be introduced as mediators between innovation resources and financial performance.

Keywords: proactive market orientation, responsive market orientation, innovativeness, capacity to innovate, financial performance

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Introduction

As this transition process is still happening on country level, many companies in Central and Eastern European (CEE) countries still lack experience in foreign markets and are, in comparison with developed countries, even more affected by the challenges of the new market conditions. However, some of them seem to have a greater ability to withstand the challenges of operating under the new economic conditions. Hence, present research explores one of the possible reasons for the better performance of such companies from the resource-based perspective, which is based on the premise that companies can use rare resources and capabilities to manage turbulent economic conditions, perform better (e.g. Barney, 1991; Grewal & Tansuhaj, 2001; Belak, 2013; Vrečko & Lebe, 2013), understand consumer needs more quickly and transform market knowledge to adapt to a changing environment (Breznik, Lahovnik, & Dimovski, 2019).

Hence, the purpose of this study is to explore the role of responsive and proactive market orientation and innovation resources in regard to financial performance in one of the developing CEE countries. As such, the experiences of a developing CEE country can serve as a good benchmark for other CEE countries in this transition process. In this process, market orientation becomes important especially when observed together with innovation resources and linked to performance.

Authors (e.g. Hurley & Hult, 1998; Narver, Slater, & MacLachlan, 2004; Bodlaj, Coenders, & Žabkar, 2012) suggest that responsive market orientation (RMO), proactive market orientation (PMO) and innovation resources could positively contribute to company performance and market success. Due to the historical socio-economic heritage in CEE settings, research on RMO and especially PMO in relation to innovation resources and company performance, with rare exceptions, has been neglected (Bodlaj et al., 2012) or has just focused on relating environmental proactiveness to company performance (Martin & Grbac, 1998). Also, in developed economies, studies that have simultaneously examined both types of market orientation in relation to product success as the outcome of capacity to innovate are limited (e.g. Narver et al., 2004; Atuahene-Gima, Slater, & Olson, 2005; Tsai, Chou, & Kuo, 2008; Reid & de Brentani, 2010; Zhang & Duan, 2010).

To date, research concerning the relationship between RMO and innovation resources has produced mixed results. Although the majority of studies show that the relationship is positive (e.g. Lado & Maydeu-Olivares, 2001; Matsuno, Mentzer, & Özsomer, 2002; Baker & Sinkula, 2005), some authors claim that the impact of RMO on innovation success

is not direct (e.g. Ozkaya, Droge, Hult, Calantone, & Ozkaya, 2015). Others have raised doubts about RMO's positive impact on innovation, suggesting that RMO may undermine innovativeness (Berthon, Hulbert, & Pitt, 1999) or it may lead companies to short-sighted new product research and development (Frosch, 1996). Consequently, RMO solely by itself also doesn't prove to be sufficient predictor of an organization's financial performance.

These mixed results may be due to limited understanding of market orientation solely as RMO and neglecting its PMO perspective (Narver et al., 2004). Studies (e.g. Zhang & Duan, 2010; Wong & Tong, 2012) show that the relationship between organizational performance and market orientation is stronger when PMO is also present. However, in the context of CEE countries, research regarding the interrelationship between RMO and PMO and their influences on the innovation-performance link is still scarce. Namely, authors in similar research usually include PMO and RMO as predecessors of innovation resources and do not investigate the PMO role as a mediator in the relationship between RMO and the innovation-performance link.

This research is an attempt to bridge this gap by proposing and testing a conceptual model exploring the influence of RMO on financial performance, by simultaneously examining the mediating role of PMO and innovation resources. Our expectation is that inclusion of PMO as mediator in the model will augment the influence of RMO on financial performance.

Responsive and Proactive Market Orientation

Market orientation as such has gained the attention of different researchers (e.g. Narver & Slater, 1990; Kohli & Jaworski, 1990; Narver et al., 2004; Augusto & Coelho, 2009; Zhang & Duan, 2010). But not all researchers approach market orientation as consisting of RMO and PMO. The RMO perspective focuses on understanding and satisfying customers' expressed needs, while the PMO perspective focuses their latent ones. The RMO represents, for a company, a key differentiating resource and consequently influences company performance (Atuahene-Gima et al., 2005; Jaworski & Kohli, 1993; Narver & Slater, 1990). Focus on RMO provides joint organizational focus for all the employees that is manifested in increased organizational commitment and better satisfaction of customer needs (Kohli & Jaworski, 1990). A strong RMO manifests itself through market-oriented learning (Day, 1994; Kohli & Jaworski, 1990; Slater & Narver, 1995; Liu, Luo, & Shi, 2003). RMO includes customer orientation, competitor orientation, and interfunctional coordination (Narver & Slater, 1990) if it is

approached as business philosophy; and if approached as behavioural dimension (Kohli & Jaworski, 1990; Deshpande & Farley, 2004) it includes organization-wide intelligence generation, intelligence dissemination across departments, and organization-wide responsiveness to market information.

Numerous authors (e.g. Berthon et al., 1999; Christensen & Bower, 1996; Narver et al., 2004; Blocker, Flint, Myers, & Slater, 2011; Voola & O'Cass, 2010) have criticized the benefits of RMO. Consequently, exclusive focus on RMO might lead to a deception that finding new ways to satisfy customer needs is less attractive (Cohen & Levinthal, 1990; Levinthal & March, 1993) and companies fall in a trap of perfectly satisfying expressed needs. But on the long run this can hamper company success.

Taking into account all positive and negative dimensions of RMO, some studies suggest that proactive understanding and addressing of customers' latent and future needs may influence company value-creating processes (e.g. Beverland, Farrelly, & Woodhatch, 2007; Tuli, Kohli, & Bharadwaj, 2007). Besides dealing with customers' expressed needs, PMO focuses on discovering and satisfying the latent, unarticulated needs of customers. Companies that implement PMO take several actions to discover that latent customer's needs like observing customer behaviour, working with lead users, undertaking market experiments, and cannibalising the sales of existing products (Narver et al., 2004; Atuahene-Gima et al, 2005; Jaworski, Kohli, & Sahay, 2000). Thus, PMO leads to organizational commitment in providing innovations to the market (Zhang & Duan, 2010). Authors (Lamore, Berkowitz, & Farrington 2013) claim that RMO is characterized by a market-driven approach, while PMO is considered more research-driven and focused on discovering unexpressed and latent customer needs and providing products and services to satisfy those needs.

Nevertheless, PMO has several deficiencies (Levinthal & March, 1993), such as focus on unfamiliar information and knowledge as well as information overload related to latent customer needs. However, according to Narver et al. (2004), the potential advantages of PMO clearly exceed its deficiencies. Therefore, a challenge for companies is to develop the capability to initiate generative learning processes and the associated elements in a proactive manner rather than as a response to external or internal challenges (Akgun, Lynn, & Byrne, 2006; Baker & Sinkula, 2007).

Innovativeness and Capacity to Innovate

Menguc and Auh (2006) differentiated between innovativeness and innovation, stating that innovativeness measures

the inclination of a company towards innovative behaviour, and is not the result but the means of achieving innovation. Similarly, Hurley and Hult (1998) introduced two constructs of innovation: (a) innovativeness, which reflects openness to new ideas and is an aspect of organisational culture, and (b) the capacity to innovate, which refers to the ability of a company to successfully accept and implement new ideas, processes or products.

Hence, innovativeness is a cultural aspect of the creation, acceptance and introduction of new ideas, processes and products. In other words, it refers to a company's proclivity, receptivity, and inclination to adopt ideas that depart from the usual way of approaching business (Zaltman, Duncan, & Holbek, 1973; Hurley & Hult, 1998) and implies a willingness to forgo old habits and try untested ideas (Menguc & Auh, 2006).

From the marketing point of view being market-oriented means a long-term commitment to understanding customer needs and at the same time to developing innovative solutions that produce superior customer value (Slater & Narver, 1998). As such, innovativeness could be understood as almost necessary part of market orientation.

In our conceptualisation, innovativeness includes organisational learning as the central mechanism by which organisations develop capabilities and adapt to their environments. According to Cahill (1996) innovativeness strongly motivates the capacity to innovate but only when combined with resources and other organisational characteristics (Hurley & Hult, 1998).

The definition of the capacity to innovate underscores the emphasis on what Rogers (1983) referred to as the prediffusion aspect of innovation, that is, the early production or adoption of innovation by a company (Hurley & Hult, 1998). As we can learn from some authors (e.g. Han, Kim, & Srivastava, 1998; Menguc & Auh, 2006), in the present economic situation with the growth of competition intensity and uncertainty, the company's capacity to innovate is important for achieving competitive advantage. We assume that companies with a greater capacity to innovate are better at developing and launching successful new products and services in comparison with their competitors but with the necessary precondition of RMO and PMO existence.

In general, authors (e.g. Hurley & Hult 1998; Han et al., 1998; Prajogo & Ahmed, 2006) agreed that innovativeness and the capacity to innovate are recognized as critical assets that generate value in the marketplace and in the stock market and are therefore among the most important factors that impact business performance.

Development of Hypotheses

Responsive market-oriented behaviour is characterised by proximity, refinement, efficiency and implementation, which reflect exploitation (Cohen & Levinthal, 1990; Levinthal & March, 1993), whereas proactive market-oriented behaviour is characterised by discovery, variation, innovation and risk-taking. The former deepens existing competence, and the latter broadens existing competence (Tsai et al., 2007). According to Atuahene-Gima et al. (2005), RMO augments the impact of PMO by encouraging realism in the company's attempt to foray into new and distant customer needs. Thus, it ensures the effectiveness of PMO by safeguarding against undue risk-taking (see Jaworski et al., 2000; Narver et al., 2004; Slater & Narver, 1998). Despite Narver et al.'s (2004) argument that in order to develop and maintain a competitive advantage, companies should increasingly complement RMO with PMO, to date there is, to our knowledge, still no evidence of how RMO and PMO are related. This leads to the first hypothesis:

H1: A responsive market orientation (RMO) is positively related to proactive market orientation (PMO).

The very essence of innovativeness as a cultural predisposition for developing new processes and products clearly indicates its connection with RMO. Narver and Slater (1990) emphasised that RMO refers to a culture that places a high priority on creating buyer value while also considering other stakeholders and emphasising responsiveness to market information. Companies with a strong RMO are likely to devise and adapt products, services and processes that continue to meet the needs of the evolving market. Accordingly, it is likely that innovativeness naturally flows out of a focus on being responsively market-oriented (Hult, Hurley, & Knight, 2004). Jaworski and Kohli (1993, p. 56) have argued that 'as a market orientation essentially involves doing something new or different in response to market conditions, it may be viewed as a form of innovative behaviour.' Studies indicate that RMO is an important predecessor of innovativeness regardless of the industry in which the company is active (e.g. Atuahene-Gima, 1996; Han et al., 1998; Ngo & O'Cass, 2012; Tsai et al., 2008). According to Deshpande and Farley (2004), innovativeness is the most important consequence of RMO, and the concepts should complement each other (Hurley & Hult, 1998; Han et al., 1998). Thus:

H2: Responsive market orientation (RMO) is positively related to innovativeness.

A market orientation, whether RMO or PMO, should be the foundation for a business's innovation efforts (Narver et al. 2004). PMO enables the companies to work closely

with lead users, which is linked to innovative developments (Lilien, Morrison, Searls, Sonnack, & Hippel, 2002). PMO is by its definition linked with innovativeness, which is a cultural aspect of the creation, acceptance, and introduction of new ideas, processes, and products. The empirical evidence of Narver et al. (2004) suggests that PMO increases the explanatory power of RMO well beyond that obtained by RMO alone. The same study also revealed that PMO is significantly and positively related to innovation orientation as the dimension of organisational culture. Some research even found that PMO has a greater impact on innovativeness than RMO (Li et al., 2008; Zhang & Duan, 2010). Since PMO is an evolutionary consequence of RMO and complements it from the perspective of latent needs, it should have the potential to mediate the PMO – innovativeness relationship. Accordingly, we formulate the following hypotheses:

H3: Proactive market orientation (PMO) is positively related to innovativeness.

H4: Proactive market orientation (PMO) mediates the relationship between responsive market orientation (RMO) and innovativeness.

There has been extensive research concerning the relationship between RMO and new product success, confirming a positive relationship (e.g. Lado & Maydeu-Olivares, 2001; Matsuno et al., 2002) between the concepts. As assumed, companies with a greater capacity to innovate are better at developing and launching successful new products (Prajogo & Ahmed, 2006). Companies with a strong RMO are more likely to identify and respond to new product opportunities than companies with weaker market orientations (Baker & Sinkula, 2005; Hooley, Greenley, Cadogan, & Fahy, 2005) and are also more likely to be the first to market with new generations of existing products and services (Day, 1994). RMO may reduce risks in the product development process and enhance the likelihood of new product success (Atuahene-Gima et al., 2005; Jaworski et al., 2000; Lukas & Ferrell, 2000; Narver et al., 2004). Thus, we propose the following:

H5: Responsive market orientation (RMO) is positively related to the capacity to innovate.

Latent customer needs, which are the very essence of PMO, are frequently linked to the capacity to innovate (Lilien et al., 2002). Focusing on latent market needs may alert the company to new market and technology developments as well as ideas that challenge existing cause-effect relationships. Such an orientation increases the company's ability to add new variants of market information in product development, which results in radical products with unique benefits (Levinthal & March, 1993).

Some studies, focused on the relationships among RMO, PMO and new product success, confirm that both RMO and PMO have a positive effect on new product success (Narver et al., 2004; Atuahene-Gima et al., 2005; Tsai et al. 2008; Zhang & Duan, 2010). However, the results of three meta-analyses concerning the relationship between an RMO and new product success are not uniform (Henard & Szymanski, 2001). This may be because in these studies, PMO and the capacity to innovate were not included as mediators of the relationship between RMO and performance. This leads to the following hypotheses:

H6: Proactive market orientation (PMO) is positively related to the capacity to innovate.

H7: Proactive market orientation (PMO) mediates the relationship between responsive market orientation and the capacity to innovate.

An innovative organisational culture may stimulate the capacity to innovate when other aspects of a market-oriented culture are also present. As already stated, combining innovativeness as an aspect of organisational culture with resources and other organisational characteristics, creates a greater capacity to innovate. Hurley and Hult (1998) empirically show the positive impact of innovativeness on a capacity to innovate, using this result as an argument for the inclusion of both concepts in market orientation-organisational performance relationship models. Innovativeness is expected to have a mediating power only when combined with a capacity to innovate. This leads to our eight hypotheses.

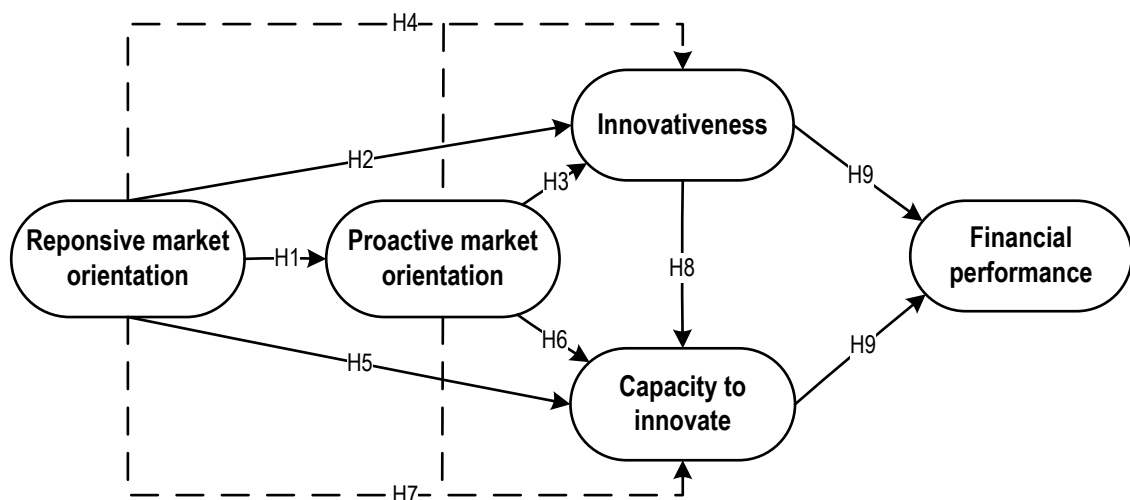
H8: Innovativeness is positively related to capacity to innovate.

Innovativeness and the capacity to innovate have the potential to satisfy the different or changing demands of customers and to accommodate uncertainties. In their seminal work, Zaltman et al. (1973) proposed that innovativeness is the medium for business success in the wake of appropriate intelligence gathering and decision making (e.g. Hurley & Hult, 1998). Research in marketing indicates that innovativeness has positive consequences for various financial performance outcomes (e.g. Rubera & Kirca, 2012; Vega-Vazquez, Cossío-Silva, & Martín-Ruiz, 2012). Also, companies with a greater capacity to innovate can develop a competitive advantage and achieve higher levels of performance. Both innovation resources are impetuses of competitive advantages (e.g. Prosenak, Mulej, & Snoj, 2008) and important organisational performance differentiating factors (e.g. Fagerberg & Godinho, 2005; Davila, Epstein, & Shelton, 2006).

Concerning the fact that financial indicators are the ultimate judge of organisational performance and, from an economic point of view, also reflect the values of all other non-financial indicators (such as market performance indicators, internal organisational performance indicators, and broader social performance indicators), they represent the outcome of our conceptual model. This leads to our final hypothesis.

H9: Innovativeness and capacity to innovate are positively related to financial performance.

Figure 1. Conceptual model



Methodology

Measurement Instrument Development

The measurement instrument for the verification of the empirical model was developed in three phases. In the first phase, items for the questionnaire regarding PMO and RMO, innovativeness and capacity to innovate were considered and adopted according to the relevant literature. For the measurement of PMO, we used the Narver et al. (2004) scale. RMO was measured using the twelve items adapted from Narver and Slater's (1990) 7-point rating scale. Previous studies indicated some potential problems with construct validity; therefore, some additional items were added to ensure a higher consistency of the scale. In the final questionnaire, four items assessing the customer satisfaction measurement (2), after sales service, and customer satisfaction objectives setting were used for measuring customer orientation. An additional four items related to competitor response, salesperson competitor information sharing, managers discussing competitor strategies and targeting opportunities for competitive advantage were used to assess competitor orientation. Items related to sharing information among functions, functions contributing to customer's value, functional integration of strategy and interfunctional information were used for evaluating interfunctional orientation construct of market orientation. The scales for the measurement of innovativeness and capacity to innovate were developed using items from the scales of Hurley and Hult (1998) and Calantone, Cavusgil, and Zhao (2002).

Following that, in-depth interviews were conducted with senior marketing executives in seventeen companies in Slovenia. The questionnaire was then examined in the third phase by expert judges (academics in the field of marketing and finance) to assess for content validity. Final questionnaire consisted of measurement scales for PMO (seven items), RMO (five items), innovativeness (five items), and capacity to innovate (two items). All items were measured on the 7-point Likert scale (from 1 'strongly disagree' to 7 'strongly agree'). Financial performance was finally measured on the 7-point scale from 'much worse' to 'much better' in comparison with their key competitors over the past three years. Market and technological turbulence were treated as control variables. They were assessed on the 7-point Likert scale adopted from Narver et al. (2004).

Sampling Frame and Data Collection

In every company, a respondent from a relevant position was identified in order to reduce the systematic error. The tendency was towards the informant with most knowledge about the research topic. Senior marketing and financial

executives in the position of CEO or a member of the Board of Directors seem to be generally reliable in their evaluations of organisational activities and performance (e.g., Venkatraman & Ramanujan, 1986). The questionnaire was mailed to 3,000 randomly selected companies in Slovenia with more than 20 employees. In total, 464 usable questionnaires were received, representing a response rate of 15.4%. Analysis of responses proved to be broadly representative in terms of industry classification and company size.

Non-Response Bias and Common Method Bias

Non-response bias was tested with the t-test. We compared the mean values of early and late respondents. T-test results showed that there were no statistically significant differences between early and late respondents. Since data for dependent and independent variables were collected by the same method, we additionally tested for common method bias with the Harman one-factor test (Podsakoff & Organ, 1986). The results of the factor analysis showed a six-factor solution accounting for 66.2% of the total variance, meaning that the chance for common method bias is rather low, since a single factor did not emerge, and Factor 1 did not explain most of the variance.

Construct Reliability and Validity

In order to assure convergent and discriminant validity and reliability of the measures, the dimensionality of the single constructs (PMO, RMO, innovativeness, capacity to innovate, and financial performance) was first assessed. Exploratory factor analysis (EFA) for RMO resulted in a three-factor solution consisting of customer orientation, competitor orientation and interfunctional coordination. Four items were omitted since they did not load significantly on their underlying factor. Confirmatory factor analyses (CFA) for the RMO revealed the same structure. The measurement model of RMO was first conceptualised as a unidimensional structure rather than as a multi-dimensional structure. The indices for the three-factor model were better, indicating that a three-factor model is more valid. Composite reliability indicators and average variance extracted were as follows: customer orientation (CR=0.77; AVE=0.53), competitor orientation (CR=0.78; AVE=0.55) and interfunctional coordination (CR=0.79; AVE=0.56). In order to gain as parsimonious a structure as possible, RMO was modelled as a second order construct and then included in the measurement and structural model. Therefore, single indicators mean values were calculated for the second-order indicators. Final constructs entering the structural model (as shown in Table 1) consisted of three

indicators for RMO, five indicators for PMO, three items for innovativeness, two items for capacity to innovate and three items for financial performance.

Factor loadings, component reliability and average variance extracted for the final measurement model are presented in Table 1. The reliability coefficient of the scale ranges from .64 to .92, which is higher than the recommended value of 0.6. Convergent validity was assessed with the average variance extracted coefficient. According to Fornell and Larcker (1981), convergent validity is established if the variance extracted value exceeds .50 for a factor. The CFA results show that in all the cases, with the exception of RMO, this criterion was met. Also, all items loaded significantly on their factors and were higher than .50.

In the next step, we tested the discriminant validity, to establish whether the measures of conceptually distinct constructs differ. This was assessed with Fornell and Larcker's (1981) test to see if the variance extracted estimates exceeded the square of the correlation between the factors making up each pair. The criterion was met in all cases.

Results

The structural model provides the basis for hypotheses testing (Figure 1). The fact that the model fit only the chi-square statistic indicated discrepancies between the data and the proposed model ($\chi^2=322.38 / df = 118; p < 0.05$).

Table 1. Items, standardised loadings, CR, and AVE for both groups

		Coefficients λ (loadings)	CR	AVE
RMO (second order construct)	Customer orientation	0.722	0.73	0.48
	Competitor orientation	0.710		
	Interfunctional orientation	0.647		
PMO	We help our customers anticipate developments in their markets.	0.731	0.84	0.52
	We continuously try to discover additional needs of our customers of which they are unaware.	0.790		
	We innovate even at the risk of making our own products obsolete.	0.659		
	We work closely with lead users who try to recognise customer needs months or even years before the majority of the market may recognise them.	0.699		
	We extrapolate key trends to gain insight into what users in a current market will need in the future.	0.679		
Innovativeness	Our company is creative in its methods of operation.	0.851	0.90	0.74
	Management actively seeks innovative ideas.	0.917		
	In our company, we are very open to innovations (e.g. related to products or processes).	0.820		
Capacity to innovate	Our company is often the first to market with new products and services.	0.838	0.76	0.61
	Our new product introduction has increased over the last 5 years.	0.721		
Financial performance	Overall profit levels achieved compared to competitors (EBIT).	0.882	0.92	0.79
	Return on investment compared to competitors (ROI).	0.924		
	Profit margins compared to competitors.	0.855		
Fit indices: X2/d.f.=2.89, RMSEA=0.06, CFI=0.96, GFI=0.93; NNFI=0.95, PNFI=0.73				
Control variables				
Technological turbulences	The technology in our markets is changing rapidly.	0.835	0.69	0.51
	Technological changes provide big opportunities in this market.	0.739		
	A large number of new products in this market have been made possible through technological breakthroughs.	0.722		
	Technological developments in this market are rather minor. (R)	0.726		
Market turbulences	In this market, customers' preferences change quite a bit over time.	0.557	0.79	0.56
	Customers in this market are very receptive to new-product ideas.	0.845		
Fit indices: X2/d.f.=8.96, RMSEA=0.02, CFI=0.99, GFI=0.99; NNFI=0.99, PNFI=0.52				

Table 2. Direct, indirect impacts and global fit indices of the model

Direct impact			Indirect impact		Total impact	
RMO - PMO	0.792	p<0.01	n.a.	n.a.	0.792	p<0.01
RMO - INNOV	0.453	p<0.01	0.179	p<.10	0.631	p<0.01
PMO - INNOV	0.226	p<0.10	n.a.	n.a.	0.226	p<0.10
RMO - CINNOV	-0.091	n.s.	0.702	p<.01	0.611	p<0.01
PMO - CINNOV	0.579	p<0.01	0.087	p<.10	0.666	p<0.01
INNOV - CINNOV	0.386	p<0.01	n.a.	n.a.	0.386	p<0.01
INNOV - PERF	0.045	n.s.	0.123	p<.01	0.168	p<0.01
CINNOV - PERF	0.319	p<0.01	n.a.	n.a.	0.319	p<0.01
RMO - PERF	n.a.	n.a.	0.223	p<.01	0.223	p<0.01
PMO - PERF	n.a.	n.a.	0.223	p<.01	0.223	p<0.01

Fit indices: $X^2/d.f.$ =2.74, RMSEA=0.06, CFI=0.95, GFI=0.93; NNFI=0.94, PNFI=0.72

Notes: RMO – Responsive market orientation; PMO – proactive market orientation, INNOV – innovativeness; CINNOV – capacity to innovate; PERF – financial performance

However, other global fit statistics suggested an adequate fit of the model. The RMSEA index of the model was 0.06, which suggested a reasonable fit. Other fit indices were in the appropriate intervals and higher than 0.90 (Figure 1), suggesting that the data fits the model.

Direct Impacts

As expected, the relationship between RMO and PMO was strong and positive ($\gamma=0.79$; $p<0.01$), which provides full support for H1. As in previous studies, the direct impact of RMO on innovativeness was positive and statistically significant ($\gamma=0.45$; $p<0.01$), meaning that we can support H2. The same also holds true for the relationship between PMO and innovativeness although the relationship was weaker ($\gamma=.023$; $p<0.01$), which gives support for H3. H5 was not supported since the relationship between RMO and capacity to innovate was not statistically significant. As H6 predicted, PMO, on the other hand, strongly and significantly influences capacity to innovate ($\gamma=0.58$; $p<0.01$). H8 was also fully supported since innovativeness and capacity to innovate are positively related ($\gamma=0.38$; $p<0.01$). Despite the non-significant direct relationship between innovativeness and financial performance, and the positive and significant relationship between capacity to innovate and financial performance ($\beta=0.028$; $p<0.01$), we can give support for H9, since there exists a positive indirect relationship between innovativeness and financial performance ($\beta=0.12$; $p<0.01$).

Indirect Impacts

Indirect impacts were tested with a procedure proposed by Baron and Kenny (1986). Therefore, a series of mediation

tests were employed. The significance of indirect effects was assessed with bootstrapping, following the procedure of Preacher and Hayes (2008). As can be observed in Table 2, PMO mediates the relationship between RMO and innovativeness ($\gamma=0.58$; $p<0.10$). Despite the fact that this relationship was significant at a less conventional level of significance ($p<0.10$), we gave support for H4. Also, hypothesis H7 was supported since the indirect effect of RMO on capacity to innovate through PMO was strong and statistically significant ($\gamma=0.70$; $p<0.01$). This relationship, together with the RMO and PMO relationship, was one of the strongest in the structural model. Other indirect relationships presented in Table 2 were weaker but also statistically significant.

Control Variables

Two additional control variables were included (market and technological turbulence) in order to assess whether they have any significant impact on PMO, innovativeness, capacity to innovate and financial performance. The control variables did not influence innovativeness, capacity to innovate and financial performance. Also, market turbulence did not influence RMO, but there was significant influence of technological turbulence on RMO ($\beta=0.16$; $p<0.01$).

Discussion

In recent years market orientation, performance research has included a proactive market orientation dimension and has acknowledged the fact that researching this relationship market orientation should be conceived hand-in-hand

with innovation resources. This paper tries to integrate these concepts in the context of the companies from a CEE country. The results of our study contribute to the field of market orientation and innovation.

To date, few studies have examined the relationship between PMO/RMO and innovation resources in terms of their impact on financial performance in CEE countries. According to Atuahene-Gima et al. (2005), the basis for the two-dimensional conceptualization of PMO is that the productive capacity of RMO is enhanced through its interaction with PMO. The RMO component of market orientation should be the company resource that overcomes some limitations of the RMO, which include the lack of breakthrough learning, inability to adapt quickly to shifts in customer needs and market conditions, and concern for the expressed, rather than latent, needs of customers.

Our research indicates that RMO/PMO and innovativeness/capacity to innovate are related to the financial performance of companies, so we can better understand their impact on the performance of companies in a CEE economy is given.

The results of this research show a strong and positive relationship between RMO and PMO. This causal relationship demonstrates the necessity of an evolutionary path in accordance with which companies have to first develop an adequate level of RMO knowledge, which is a precondition for the successful development and implementation of productive levels of PMO knowledge.

By definition, RMO is a source of new ideas and motivates companies to respond to the needs and wants of their customers as well as to competitors' actions. RMO promotes a higher receptivity to innovation through higher innovativeness in an organisational culture. Since RMO and innovativeness are both aspects of organisational marketing culture, which is creative by its essence, it is not surprising that this study, as well as previous studies (e.g. Han et al., 1998; Hurley & Hult, 1998), has confirmed that the impact of RMO on innovativeness is positive. According to our results, PMO also proved to be the predecessor of innovativeness. This is in accordance with the findings of previous research on the relationship between these constructs (e.g. Narver et al., 2004) but with a weaker impact. Since the logic of the construct of innovativeness follows the logic of PMO, we found this result somewhat unexpected. Therefore, the alternative nested model in which innovativeness was introduced as a predecessor of both RMO and PMO was constructed. However, such a model did not prove to be more valid than the initial structural model. Therefore, these results warrant further investigation.

The second unexpected result was the non-significant relationship between RMO and capacity to innovate. This indicates that the presence of RMO alone may not be a sufficient condition for the operationalization of new product development and market launching. Among others, this finding can be attributed to the circumstances in which the researched companies in a transitional economy have operated in the past. Namely, the inertia concerning these companies' capacity to innovate could still be due to past circumstances of a more or less planned socio-economic system, which did not allow free market competition.

On the other hand, if we observe the importance of PMO through its relationship with the concept of capacity to innovate, we may find its real value since PMO has a strong positive influence on capacity to innovate. This was also proved by other authors (e.g. Bodlaj et al., 2012; Narver et al., 2004). Hence, in order to intensify the launching of new products, companies must devote special attention to the development of PMO. If they do not, the presence of RMO and an innovative culture (innovativeness) are not enough for organisations to perform successfully in highly competitive markets. When the PMO was included as a mediator between RMO and the capacity to innovate, the result was that this indirect impact proved to be one of the strongest in the model ($\beta=0.700$; $p<0.01$). This is the most important contribution of our research, since according to our knowledge, no other studies have proved it. This shows that companies that are very good at understanding and satisfying customers' expressed needs cannot be successful in the early diffusion of innovations if they are insufficient in discovering and satisfying the latent, unarticulated needs of customers.

The results indicate that organisational innovativeness has a significant and positive effect on innovative capacity. Hence, when the organisational culture is characterised by more receptivity to new ideas and innovation, there is also a higher probability of the company having a greater capacity to innovate. As in other research (Hurley & Hult, 1998), an innovative culture can be an important construct for new product development and success. While innovativeness alone does not have a direct influence on financial performance, we confirmed the impact of organisational capacity to innovate on financial performance. In other words, innovativeness as the sole cultural element of companies without the capacity to innovate as the ability to successfully accept and implement new products, which stimulates the customers' adoption of innovations, is not enough. As can be seen from our results, the capacity to innovate is surely one of the important mediators between innovativeness and financial performance.

Market and technological turbulence did not influence PMO, innovativeness, capacity to innovate and financial

performance. We could speculate that the majority of the companies operating in turbulent markets and technological environments in the CEE markets are still not equipped with the entrepreneurial culture oriented towards finding new customers and satisfying their latent needs. However, this study shows a significant influence of technological turbulence on RMO. This could mean that the predominant nature of technological changes in CEE markets drives companies into the exploration of existing customer needs and transformation of the technology in order to satisfy these needs.

One of the major management implications of our study is that for companies, it is necessary to cultivate both types of market orientations in order to develop innovation resources and be successful in competitive environments. As in Zhang and Duan's (2010) study, we also established that the managers of companies can influence the market success of new product development by investing in programs that enhance the market-oriented culture of the company, especially by building strong PMO closely linked with innovativeness.

Limitations and Further Research

One limitation of the current study is that we considered the relationship only among four marketing resources (PMO,

RMO, innovativeness, capacity to innovate), and organisational performance. Future research in different socio-economic environments should include other mediators such as organisational learning, entrepreneurship orientation and relationship orientation to provide a better understanding of how organisational cultural and innovation resources can be used to yield superior performance. Additional measures of market performance may be introduced as mediators between innovation resources and financial performance. Also, the inclusion of additional control variables, such as company size, industry, buyer and supplier power, and market growth would allow for a better generalisation of the research results. In addition, also objective measures of performance could be collected and used in the structural model.

Our contribution also suggests that research on market orientation and performance may benefit from the incorporation of additional variables that have been suggested. Introducing PMO into models of market orientation and performance could possibly contribute to better knowledge of how marketing culture and innovation resources work together. Since our research represents one of the contributions dealing with PMO, we recommend an assessment of the generalisability of our findings in various markets, industries and economies.

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Pomembnost inovacijskih virov v povezavi z odnosom med tržno naravnanoostjo in finančno uspešnostjo: mediacijska vloga proaktivne tržne naravnanoosti

Izvleček

Namen prispevka je raziskati povezavo med tržno naravnanoostjo, inovacijskimi viri in finančno uspešnostjo organizacij. V pričujočem prispevku se posebej osredotočamo na mediacijsko vlogo proaktivne tržne naravnanoosti v odnosu med inovacijskimi viri in uspešnostjo organizacij v srednje- in vzhodnoevropskih državah. V raziskavi smo uporabili preverjene merilne lestvice, podatke pa smo analizirali na podlagi 415 vrnjenih vprašalnikov, zbranih v podjetjih v Sloveniji z več kot 20 zaposlenimi. Rezultati kažejo močno in pozitivno povezavo med proaktivno in odzivno tržno naravnanoostjo. Vpliv odzivne tržne naravnanoosti na inovativnost je bolj pozitiven in tudi bolj močan kot vpliv proaktivne tržne naravnanoosti. Proaktivna tržna naravnanoost ima dokazano močan in statistično značilen vpliv na sposobnost inoviranja in sposobnost uspešnega uvajanja novih izdelkov na trg. Medtem, ko inovativnost sama po sebi nima neposrednega vpliva na finančno uspešnost, rezultati potrjujejo pozitiven vpliv sposobnosti organizacije za inoviranje na finančno uspešnost. Eden glavnih doprinosov tega prispevka je, da vključitev proaktivne tržne naravnanoosti kot mediatorja med reaktivno tržno naravnanoostjo in sposobnostjo za inoviranje pokaže, da gre za najmočnejšo povezavo v modelu. Tako rezultati predstavljajo pomemben prispevek k dosedanjim spoznanjem s področja tržne naravnanoosti in dokazujejo, da je v srednje- in vzhodnoevropskih državah treba poudarjati pomembnost vpliva tržne naravnanoosti na izgradnjo inovativnih virov in posledično finančne uspešnosti organizacij. Omejitev raziskave je upoštevanje nekaterih marketinških virov v povezavi s finančno uspešnostjo organizacij. V prihodnje bi lahko vključili tudi dodatna merila tržne uspešnosti in dodatne mediacijske spremenljivke.

Ključne besede: proaktivna tržna naravnanoost, odzivna tržna naravnanoost, inovativnost, sposobnost inoviranja, finančna uspešnost

Correlation of Recruitment and Selection of Human Resources and the Performance of Small and Medium Enterprises

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Abstract

Human resources are the most significant resource of a company; this is especially true for small and medium enterprises (SMEs) in which they create the company's competitive advantage because of their uniqueness. Human resources manage other resources and are responsible for the efficiency and success of the organization. The main goal of this research is to determine whether and to what extent the recruitment and selection of human resources are in correlation with the performance of SMEs. The research was conducted in SMEs in the Herzegovina Region in the Federation of Bosnia and Herzegovina in April 2019. An original questionnaire was created for the survey, within which top managers' views on recruitment and selection of human resources were collected as well as the four-perspective performance of the business based on the Balanced Scorecard model. SPSS 20.0 was used for data analysis. Descriptive measurements used for data analysis include mean, standard deviation, and mode. The Kolmogorov-Smirnov test was used to test distribution normality. To test the correlation of variables and to determine the significance of differences, the Pearson correlation coefficient and t-test for independent samples were used. The level of significance was set to $p = 0.05$. The research results showed the correlation between the studied variables and the correlation of recruitment and selection of human resources and the performance of SMEs viewed from all four perspectives. A limitation of the research is the sample size and the sampling method. The results can be applied in the human resource management of SMEs.

Keywords: Human Resources Management, Performance, Recruitment, Selection, Small and Medium Enterprises

Introduction

Human resources represent the most important factor of business success and they represent the key strategic and competitive advantage of each organization. It's the people who, with their knowledge, skills, abilities, motivation, using and managing material, financial and information resources, have the most influence on the business results, development and survival of each company. This is particularly true for human resources in small and medium enterprises that, because of their size, seek the main support in a competitive struggle on a globalised market in the uniqueness of human resources and their quality and motivation.

Human resource management became a primary role in each enterprise and has become a key business function. Finding competent candidates and employees and choosing the ones that can affect the achievement of company goals the most has become one of the most important tasks of human resource management, but also of companies in general. Lately, young people with general development potential, who are flexible, innovative, communicative, prone to teamwork and dynamic working environment are increasingly sought after, while specific knowledge of doing a certain job is in the backseat.

Despite some progressions made, studies focused on small businesses indicate the use of rather informal HR practices than formal systems, with reluctance in formalization (Benmore & Palmer, 1996; Wiesner & McDonald, 2001; Kotey & Sheridan, 2004). The recruitment process is an important prerequisite stage in a successful hiring process. Since the quality of the recruitment process is crucial for the effectiveness of the employee selection, small companies need to invest more resources in recruiting good candidates (Zahaire & Osoian, 2013). According to Lai and Saridakis (2017) small firms, in contrast, are often reported to lack sophisticated and formalised HR practices and rarely have HR professionals and experts (Wapshott & Mallett, 2015). Instead, HR issues may remain the domain of organizational leaders, especially founders and owners, or may be delegated to other non-specialist staff as part of their wider managerial remit (Marlow, Taylor, & Thompson, 2010). It is interesting to note that over half of British employees (55%) are employed in small workplaces with no official HR specialist (Van Wanrooy et al., 2013), and the presence or absence of an HR expert largely depends on workplace size. Generally, HR activities in SMEs are informal, reactive and have a short-term outlook (De Kok, Uhlaner, & Thurik, 2002; De Kok & Uhlaner, 2001).

The main goal of this research is to determine whether and to what extent the recruitment and selection of human resources are in correlation with the performance of small and medium enterprises. Business performance of enterprises was observed according to the balanced scorecard (BSC) model. A BSC looks at an organization from four different perspectives to measure its success. Each of these perspectives focuses on a different side of a company, creating a balanced view of an organization. The perspectives that this method focuses on are the financial perspective, the customer perspective, the internal business processes perspective, the learning and growth perspective.

Numerous authors have dealt with the key elements of the BSC and their application in small and medium enterprises (Von Bergen & Benco, 2004) pointing out that the BSC model can equally be applied to small and medium-sized businesses as well as large companies. Robert Kaplan (Biazzo & Garengo, 2012) in the book dealing with the implementation

of BSCs in small and medium enterprises, points out that it is incorrect to observe that the BSCs can be applied only in large and global companies, emphasising the need for small and medium-sized enterprises to use this approach to measuring success.

Nair (2004) points out that the corporation, both big and small, can fail for several reasons. But the most significant cause of failure is not a lack of strategy, but the incapacity to execute on a balanced strategy. The BSC exists to serve this incapacity.

Theoretical Background

Recruiting and Selection of Human Resources

In modern business conditions, people have become the most important business segment, regardless of the great importance of material, financial and information resources. People have become what gives competitive and strategic advantage to organizations and businesses and enable them to survive and develop in a very globalised and competitive economy and the world. The organization is a reflection of its people and the success of the organization depends on the quality of the talent employed by the organization.

Given the evident importance of human resources for each organization and enterprise, human resources management has become a primary managerial and business function makes the essence of a manager's job that along with planning, organising, managing and controlling.

In the late 1990s, a landmark study conducted by McKinsey and Company focused on personnel talent as the most important corporate resource for organizations. As noted by researchers Jerome Rosow and John Hickey, as organizations now place a premium on human capital, a critical question centres on how people become part of an organization (Michaels, Handfield-Jones, & Axelrod, 2001, as cited in Goldstein, Pulakos, Passmore, & Semedo, 2017).

According to Barber (1998) and Rynes (1989) finding the right employees for any organization requires an intricate combination of systems working in tandem. Company needs effective systems to attract a suitable and substantial pool of applicants. You need to screen and select the most appropriate candidates, and ultimately you need to convince those selected to accept the job offer. Despite the interdependence of these systems, much of the literature on staffing organizations focuses on screening and selection, with far less attention being paid to the attraction functions. If an organization fails to attract sufficient quantities of candidates with the right

qualities, the selection system will not be effective regardless of its sophistication (Boudreau & Rynes, 1985).

Human Resources Planning should be seen as a strategic process in the management of human resources, which creates the prerequisites for taking on time the necessary actions to ensure the human resources necessary for solving problems that an organization faces in the implementation of the adopted strategy (Gutošić & Drašković, 2009).

According to Newman and Sheikh (2014, p. 416) recruitment and selection in SMEs are generally done on an informal, ad hoc basis through the use of practices which are convenient and inexpensive (Heneman & Berkely, 1999; Hornsby & Kuratko, 2003). Employee recruitment is often conducted through the use of personal connections and word of mouth rather than formally, via an established application and selection process (Carroll et al., 1999; Gilbert & Jones, 2000; Kotey & Sheridan, 2001; Cooke, 2005).

Once the planning of human resources has been completed, the recruitment process should start which is defined as a process of creating a group of qualified candidates for the vacancies within the organizations. In both professional and non-professional areas, recruitment will include an attempt to locate a diverse applicant pool with the necessary qualifications and potential, and communicate to them the available employment opportunities (Raghavi & Gopinathan, 2013).

Recruitment is a process of attracting candidates for job vacancies, who have the abilities, skills and features required for successful job performance and setting goals. Includes searching, attracting and providing candidates, and choosing the ones who best match job vacancy requirements. The purpose of recruiting is to find enough candidates to be able to choose the best.

Selection is the process of using predetermined and standard methods and techniques for a particular job for choosing those who best meet its requirements. The candidate selection process can be defined as a process of assessing the ability of candidates based on pre-defined criteria and methods, to select the best candidates. The selection process aims to predict and maximise the future performance of employees and organizations. It's also important to note that external recruitment is only one option for solving resource shortfalls in the organization.

According to Stoilkovska, Ilieva and Gjakovski (2015) the selection process consists of the following elements: the interest of the candidates for the job, review of the job, application forms, testing and interview, checking the accuracy of the information, feedback and job offer, medical examination and deployment and implementation at the workplace.

It is thought that selection is one of the most important parts in the successful management of human resources because it is the task of the selection process to find the right people for the right jobs. If this is not achieved, the organization will not be able to accomplish its mission, vision and goals (Stoilkovska et al., 2015). Managers, as well as specialists of HR departments and executives who find themselves in the role of the Committee for the admission of new workers, must know that selection is a two-way process. Both a potential employer and a potential candidate make decisions about the choice.

Numerous authors have analysed and researched what is attracting candidates to a particular company, which is the reason for talent to choose to hire in a particular company. The things that affect the employees' decisions about the right employer are also changing over time. Paterson reflects on Korn Ferry's study of 1,100 talent acquisition professionals which indicates that, unlike five years ago, compensation (i.e., salary and benefits) is no longer the top reason why candidates choose one employer over another. Nowadays, a company's culture is the number one factor. He believes that salary is still important and can help attract talent, but the overall impact is small and that the employer will not retain good people without commitment to positive culture and values, investing in improving the quality of senior management, and creating a career development opportunity (Paterson, 2018). A review of the literature shows that there is a positive relationship between the amount of pay and applicant attraction. A meta-analysis by Chapman et al. (2005) found this positive relationship to be strongest for early stages of attraction $\gamma = 0.27$, becoming less important in later stages such as actual job choice $\gamma = 0.12$.

Building an attractive job is on very important: If a job was a product to be sold, job characteristics represent the features and capabilities of the product that the company is trying to sell. The challenge is to identify what job characteristics are likely to be universally attractive to job applicants and/or to engage in job design with the target audience in mind. Chapman et al.'s (2005) meta-analysis found that the location of an organization was a significant predictor of attraction $\gamma = 0.32$, particularly for women. There are many reasons why location is important to job applicants. Proximity to family and friends, entertainment opportunities, lifestyle, spouse's job location, cost of living, school quality, crime rates, and so forth are all tied to where the organization is located (Nikolaou & Oostrom, 2015).

According to Ehrhart and Ziegert (2005) researchers have distinguished between environmental and interactionist perspectives, insofar as perceptions of the organization's culture can have a main effect on organizational attraction, or they can interact with the cultural values held by potential applicants. According to Darnold and Rynes (2013) organizational characteristics such as organizational image, location, size,

familiarity, reputation, industry, and profitability have all been shown to have significant influence during the recruitment process.

The very important factor for attracting a candidate is the employer brand. The Employer Brand is the perception that current and future employees have about the company's business as a workplace. According to Nikolau and Oostrom (2015) recruiting practice has perhaps changed more in the past six years than it changed in several decades preceding.

Balanced Scorecard

Business success can be measured by numerous financial or quantitative and qualitative measures. Quantitative data are more objective since they are listed numerically and are equally considered by all observers. However, these data are based on a particular accounting information system for legal and tax considerations that may distort the reality of the business. Despite the objectivity of financial indicators, they actually reflect past performance and do not necessarily point to the sustainability of success in the future. Over the last twenty years, great emphasis has been placed on the qualitative benchmarks of business success and achievement of company goals. Therefore, a multitude of standards has been developed focusing on quality and not quantity.

According to Kaplan and Norton (2001), one of the methods often used in many pieces of research, although modified in various forms, is the Balanced Scorecard (BSC) method, which represents a combination and a kind of balance between quantitative and qualitative business results.

The BSC framework is based on the balance between leading and lagging indicators, which can respectively be thought of as the drivers and outcomes of companies' goals. When used in the BSC framework, these key indicators tell management or owners whether or not they are accomplishing companies' goals and whether they are on the right track to accomplish future goals.

A BSC looks at an organization from four different perspectives to measure its success. Each of these perspectives focuses on a different side of a company, creating a balanced view of an organization.

The perspectives that this method focuses on are: financial, customer, internal business processes and learning and growth. BSC shows you a way to make strategy actionable. As a framework for action, it can be updated and creates a renewable methodology and framework (Nair, 2004).

Small and Medium Enterprises

Small and medium enterprises (SMEs) represent more than 99% of the total number of enterprises and employ almost 70% of the total number of employees. Small and medium enterprises are the main drivers of innovation, employment and social and local integration in Europe. In many of its documents, the European Union has put small and medium enterprises at the top of their priorities, which emphasises the need to help this sector.

SME-s in Bosnia and Herzegovina are even more important given the fact that the economy in the war and after has significantly collapsed. It is expected that small and medium enterprises could and should be the backbone of Bosnia and Herzegovina's development, which could enable faster growth, and development.

Bosnia and Herzegovina are part of a complex state that consists of two entities, the Federation of Bosnia and Herzegovina and Republika Srpska, and the Brčko District. The definition of SME-s is not fully harmonised and each entity, as well as the Brčko District, has its definition and classification.

Setting Hypotheses

Human resources are the most important resource of the enterprise. People, their development, their motivation and their satisfaction have become the main tool of competitive abilities and advantages in a highly competitive global marketplace.

Table 1. Classification of SMEs in Bosnia and Herzegovina

Classification criteria	Federation of BH			Republic of Srpska			District Brčko	
	Small		Medium	Small		Medium	Small	Medium
	Micro	Small		Micro	Small			
Number of employers	1 - 9	10 - 49	50 - 249	1 - 9	10 - 49	50 - 249	1 - 49	50 - 249
Income in KM (000)	400	4.000	30.000	10.000		50.000	2.800	11.000
Balance Sheet (Assets) in KM (000)	400	4.000	40.000	10.000		43.000	1.400	5.500

Note: KM – convertible mark

Source: The Laws of Bosnia and Herzegovina

The key managerial task and function has become to provide quality people, motivate them, educate and develop them to achieve high results and contribute to the achievement of the company's goals.

The defined problem has also defined the underlying objective of this research, which is to gain insight into the correlation of the recruitment and selection of human resources and the success of small and medium-sized enterprises. The sub-goals of this research are to come to the knowledge of whether and to what extent the recruitment and selection of human resources are in correlation with each of the four perspectives of business performance based on the BSC model (the financial perspective, customer perspective, the internal business processes perspective and the learning and growth perspective).

The problem and the objectives set for this study determined the content of the two hypotheses which state:

H1 – “There is a significant correlation between recruitment of human resources and business performance viewed from the financial perspective, customer perspective, the internal business processes perspective and the learning and growth perspective”.

H2 – “There is a significant correlation between selection of human resources and business performance viewed from the financial perspective, customer perspective, the internal business processes perspective and the learning and growth perspective”.

Methodology of Research

The Scope of the Research, Methods of Collecting and Processing Data Model

The research for this work was carried out in SME-s in Bosnia and Herzegovina in the Region of Herzegovina in the Federation of Bosnia and Herzegovina, which includes two Cantons in total, namely the Herzegovina-Neretva and Western Herzegovina Canton and part of Canton no.10. The criterion for defining SME-s was one-dimensional. The number of employees was used, which is identical in all three laws that define this matter in Bosnia and Herzegovina. Small businesses are those up to 49 employees and medium between 50 and 249 employees. The research was conducted in March and April 2019 in 32 companies.

For the study an original questionnaire was created, which consisted of three parts. In the first part of the questionnaire, basic questions were asked about the companies while in the second part of the questionnaire questions were asked about recruitment and selection of human resources in the companies. In order to measure and evaluate the recruitment

and selection of human resources, Likert scale type 1 to 5 is offered for answers to questions. To measure the performance of the company for this paper, a modified BSC method with four perspectives was used. For each of the perspectives, four indicators were selected from a group of possible indicators for that perspective. Qualitative indicators were used in a way that managers or owners were asked to give a subjective rating of performance for each indicator in four perspectives by assessing the movement over the last three years (in a scale ranging from 1 (strongly decreased) to 5 (strongly increased)).

Data are analysed using SPSS 20.0. Descriptive measurements were used in the analysis of the data: mean, standard deviation, mode. The Kolmogorov-Smirnov test was used to test distribution normality. To test the correlation of variables and to determine the significance of differences, the Pearson correlation coefficient and t-test for independent samples were used. The level of significance is set to $p = 0.05$.

Operationalization of Variables

The independent variable in hypothesis H1 is the recruitment of human resources. It was measured by subjective assessment of the following indicators: human resource planning, recruitment way of human resources, sources of information of candidates, techniques and activities used for attracting quality staff, incorporating employees into attracting talent and activities during the advertising and searching for the job candidates.

The independent variable in hypothesis H2 is the selection of human resources. It was measured by subjective assessment of the following indicators: persons in charge for testing and selection of human resources, methods used for selection, types of testing used in the process of selection and types of interviews used in the process of selection and checking the past of job applicants.

The dependent variables are the business performance of SMEs viewed from four perspectives that BSC method focuses on: the financial perspective, the customer perspective, the internal business processes perspective and the learning and growth perspective.

The financial perspective of SMEs is measured by the following indicators: income, profit, costs and loss;

The customer perspective of SMEs is measured by market share, retention of existing customers, retrieving new customers and customer satisfaction.

The internal business processes perspective of SMEs is measured by introducing innovations to business process, percentage of made errors, finishing production and

supplying the product/service to customers in time and after-sales service/customer service.

The learning and growth perspective of SMEs is measured by investments in training and education of employees, enabling employees to use new technologies, mutual employee collaboration and knowledge sharing and empowerment and consideration of employee suggestions.

Research Results and Discussion

General Information on Research Enterprises

The results of the research on the characteristics of the enterprises involved in the research are presented in a few words. The largest share of the researched companies has 25% tourism and catering, followed by Wholesale and retail of 12.5%, then Manufacturing etc. The largest number of companies (31.2%) was founded after 2010 and then from 1996 to 2010, 25% of them.

Concerning the number of employees, 56.2% of them are small businesses, those with less than 50 employees, while

43.8% of them are medium-sized companies with between 50 and 250 employees. Most companies (62.5%) are legally organised as a limited liability company. In private ownership is 81.3% of all researched companies, while 34.4% of companies have one owner and 46.9% of them has multiple owners.

Research Results on Recruiting of Human Resources

The results of the survey show that the average rating in the surveyed companies for “Properly updated employee database” is 3.81, for “Formed and accepted Human Resource Development Plan” is 3.03 and for “the development of the system for recruitment and selection of human resources” is 3.13.

Table 2 shows the descriptive statistics for assessing the adjustment of the candidate's recruitment process, the appraisal of training and employee adjustments, as well as the evaluation of competition monitoring when planning and recruiting staff.

Table 3 shows descriptive statistics for assessing the frequency of use of individual items when recruiting a job applicant.

Table 2. Human resource planning

	Min	Max	M	SD	C
The process of recruiting job candidates is adjusted to the different target groups of employees / professionals we want to hire.	1	5	3.84	1.05	4.0
We do the training and adaptation of those who are working on recruiting the staff in order for the process to be well done.	1	5	3.50	0.95	4.0
We keep track of what the competition is doing and offers to attract talented and competent candidates.	1	5	3.06	1.05	3.0

M – Mean; SD – Standard Deviation; C - Median

Table 3. Recruitment way of human resources

	Min	Max	M	SD	C
Internal Advertising (internal sources)	1	5	3.06	1.34	3.0
Manager Recommendations (internal sources)	1	5	3.59	1.04	4.0
Human Resource Department Information and Proposals (internal sources)	1	5	3.31	1.45	4.0
Outdoor Advertising through Media and the Internet (External Resources)	1	5	3.19	1.20	3.5
Direct applications, existing databases of potential candidates applying for a job	1	5	3.44	1.22	4.0
Manager's and Employee's Recommendations (External Resources)	1	5	3.59	1.04	4.0
Recommendations of friends, acquaintances,	1	5	3.50	1.11	4.0
Employment Agencies	1	5	2.69	1.38	2.5
Educational institutions	1	5	2.72	1.30	3.0
Professional internship	1	5	3.13	1.18	3.0
Professional meetings and conferences	1	5	2.31	1.26	2.0

M – Mean; SD – Standard Deviation; C - Median

The results of the research show that most of the manager's recommendations are used in the internal statements and recommendations of managers and employees for external recruitment, followed by the recommendation of friends. The results also showed very bad rating for professional meetings and conferences and employment agencies in which there is a dominant rating 1, while very low rating for educational institutions with a dominant rating 2.

Table 4 shows the representation of the use of individual sources of information on candidates.

Table 4. Using individual sources of information on candidates

	number of companies *	% (n=32)
Application form	12	37.500%
CV	25	78.125%
Motivational letter	12	37.500%
Questionnaire	7	21.875%
Recommendations	18	56.250%
Certificates and diplomas	15	46.875%
Diploma in Foreign Language Knowledge	10	31.250%
Evidence of abilities (computer literacy, driver's license, certificates etc.)	11	34.375%
Evidence of the previous performance of the jobs that the candidate worked for	15	46.875%
Other	9	28.125%

* multiple answers possible

Table 5. Using techniques for attracting quality employment staff

	Min	Max	M	SD	C
High salary and additional compensations	1	5	3.41	0.87	3.5
Positive corporate culture and company's value	2	5	3.97	0.78	4.0
Good working environment	2	5	4.16	0.85	4.0
Investing in career development (education and promotion in the organization's hierarchy)	2	5	3.91	0.93	4.0
Quality management that uses a high-quality style of leadership	1	5	3.56	0.95	4.0

M – Mean; SD – Standard Deviation; C - Median

Table 6. Usage of different activities with the aim of preparing and attracting quality staff

	Min	Max	M	SD	C
We have completely created a model for an ideal job candidate pointing out to the details of the knowledge, skills, abilities i.e. competences that candidate should have.	2	5	3.38	0.71	3.0
We have fully worked out what characteristics and values candidates should have to match with company's values and corporate culture.	2	5	3.50	0.72	3.5
We have fully worked out and determined what kind of health, energy, and power is required for candidates.	2	5	3.34	0.75	3.0
We have fully clear presented the prospect of working for the company to all potential candidates to attract the best and most excellent ones.	2	5	3.53	0.80	3.0
Company information are transparent and publicly available to all interested parties on the web site so that applicants could meet the company and to keep them interested and attracted for working in it.	3	5	3.84	0.77	4.0

M – Mean; SD – Standard Deviation; C - Median

Table 5 shows descriptive statistics for assessing the frequency of using different techniques for attracting quality employment staff.

Research findings show that the most commonly used technique for attracting new employees is positive work environment with a score of 4.16 and it is followed by a positive corporate culture and company's value with rating 3.97. Table 6 shows the descriptive statistics for the evaluation of the use of different activities with the aim of preparing and attracting quality staff.

The highest rating is for activities the Company information are transparent and publicly available to all interested parties on the web site so that applicants could meet the company and to keep them interested and attracted for working in it with rating 3.84.

The survey results also show that the average rating for the claim "In the process of attracting and advocating for engaging talented and excellent employees we included present employees as company ambassadors." is 3.66. Table 7 shows the descriptive statistics for the evaluation of the use of various activities during the advertising and searching for the job candidates.

Research results show that very few companies have developed an online job application. The average rating for recruiting human resources is 3.47. The average rating for medium-sized companies for recruiting human resources is 3.59 and for small businesses is 3.38. The results show that statistically significant

differences in the scores between small and medium enterprises were not found ($p > 0.05$). Nonetheless, if you look at the average values, certain differences can be observed.

Research Results on Selection of Human Resources

Table 8 shows the representation of the answer to the question of who does testing and selection of human resources in the company.

Table 9 shows descriptive statistics for the frequency of using different methods for selection of human resources.

The results of the research show that companies for the selection of candidates mostly use the interview and then test work. Table 10 shows descriptive statistics for the frequency of use of different types of testing in the process of human resources selection.

Table 7. Activities during the advertising and searching for the job candidates

	Min	Max	M	SD	C
We publicly advertise that we are looking for candidates for certain positions.	2	5	3.75	1.11	4.0
On the company's website, we advertise that we are looking for candidates for certain positions.	2	5	3.50	1.08	4.0
We have developed an on - line job application.	1	5	2.53	1.02	2.0
Candidates and interested in the job had possibility to tour the office / facility in the company to get familiar with the working environment.	1	5	3.66	1.15	4.0
We organised a visit for the candidates and interested in the job, warmly welcomed them and allowed them to talk with employees in order to gain insight into the relationships and satisfaction of employees in the company.	1	5	3.53	1.24	4.0

M – Mean; SD – Standard Deviation; C - Median

Table 8. Person/department in charge of testing and selection of human resources

	Number of companies*	% (n=32)
An employee of the department of human resources	6	18.750%
Manager/Director	28	87.500%
Psychologist / expert	2	6.250%
Department of Human Resources	6	18.750%
Department of Human Resources, Manager and Expert / Psychologist	5	15.625%

* multiple answers possible

Table 9. Using different methods for selection of human resources

	Min	Max	M	SD	C
Tests	1	5	2.59	1.60	2.0
Interview	2	5	4.44	0.80	5.0
Test work	1	5	3.72	1.22	4.0
General medical examination	1	5	2.31	1.40	2.0

M – Mean; SD – Standard Deviation; C - Median

Based on the results of the research testing is used very little and there are low ratings for all types of tests. The most used ones are knowledge tests. Table 11 shows descriptive statistics for the frequency of using different types of interviews in the process of human resources selection.

Table 12 shows descriptive statistics for the frequency of checking the past of job applicants.

The results of the research show very poor ratings and are particularly interesting low ratings for candidates on the Internet and social networks. Table 13 shows descriptive statistics for evaluating the significance / importance of some candidate selection criteria.

Research results show that it is considered as the most important for selection are job motivation, motivation for education and development with the rating 4.22, Professional competence with the rating 4.13 and flexibility and adaptability with the rating 4.12. The average rating for human resource selection is 3.11 and slightly lower than the rating for recruiting with the rating 3.47. There is a difference in the ratings for the selection of human resources between medium and small enterprises. The average grade for medium enterprises is 3.28 and for small businesses it is 2.97. The results show that statistically significant differences in the scores between small and medium enterprises were not found ($p > 0.05$). Nonetheless, if you look at the average values, certain differences can be observed.

Table 10. Using different types of testing in the process of human resources selection

	Min	Max	M	SD	C
Computer and online testing	1	5	2.69	1.53	3.0
Situational testing and simulation	1	5	2.56	1.50	2.5
Ability tests (intelligence, sensory, psychomotor)	1	5	2.41	1.56	2.0
Knowledge Tests	1	5	2.78	1.60	2.5
Personality Tests - Psychological	1	5	2.31	1.51	2.0
Tests of interest	1	5	2.22	1.29	2.0
Tests of attitudes	1	5	2.06	1.19	2.0
Testing of analytical abilities	1	5	2.28	1.22	2.0
Unconventional testing (graph logical testing, drug testing, polygraph testing)	1	5	1.81	1.20	1.0
Other tests	1	5	2.53	1.46	2.5

M – Mean; SD – Standard Deviation; C - Median

Table 11. Using different types of interviews in the process of human resources selection

	Min	Max	M	SD	C
Preliminary interview (at the beginning of the selection process, to eliminate some candidates)	1	5	3.25	1.48	4.0
Diagnostic Interview (more detailed conversation of getting to know the candidate)	1	5	3.59	1.39	4.0
Reception interview (the final act of selection process, more focused on informing future employees)	1	5	3.72	1.33	4.0

M – Mean; SD – Standard Deviation; C - Median

Table 12. Checking the past of job applicants

	Min	Max	M	SD	C
We check the validity of the current (or previous) position and salary of the candidate with their current (or former) employer by phone or on the other way.	1	5	3.03	1.38	3.0
We contact the current or former candidate manager to learn more about candidate's motivation, technical ability and ability for working with others.	1	5	2.69	1.20	3.0
Reports about past form Credit worthy Organizations for Commercial Loans - Credit Status, Indebtedness, Reputation, Character and Lifestyle.	1	5	2.25	1.30	2.0
Evidence of the performance on the former jobs of the candidate.	1	5	2.94	1.34	3.0
We check candidates on Google search engines.	1	5	2.44	1.52	2.0
We check candidates on social networks (Facebook, Twitter, LinkedIn, Instagram).	1	5	2.63	1.48	2.5

M – Mean; SD – Standard Deviation; C - Median

Estimation of Business Performance

Estimation of business performance was explored through a customised BSC method. Four perspectives for BSCs and trends for the past three years have been explored.

Table 14 shows descriptive statistics for assessing company business performance on the BSC dimensions.

The managers best rated the customer's perspective in the enterprise with the rate 4.02 and then the learning and

Table 13. Significance / importance of some candidate selection criteria

	Min	Max	M	SD	C
Professional competence	1	5	4.13	0.94	4.0
Cultural adaptability	1	5	3.97	0.97	4.0
Independence and self-confidence	1	5	3.94	0.91	4.0
Social skills	1	5	4.06	0.98	4.0
Physical and emotional health	1	5	3.81	0.78	4.0
Flexibility and adaptability	3	5	4.12	0.79	4.0
Linguistic ability	1	5	4.06	0.91	4.0
International job experience	1	5	3.31	1.12	3.0
Job motivation, motivation for education and development	1	5	4.22	0.87	4.0
Motivation for working abroad	1	5	2.75	1.41	3.0
Family status	1	5	2.91	1.42	3.0
Leadership skills	1	5	3.69	1.06	4.0
Something else	1	5	3.03	1.38	3.0

M – Mean; SD – Standard Deviation; C - Median

Table 14. Company's business performance on balanced scorecard dimensions

	Min	Max	M	SD	C
Financial perspective BSC1			3.83	0.56	
Income	1	5	4.09	0.82	4.0
Profit	1	5	3.97	0.86	4.0
Costs	2	5	3.44	0.91	4.0
Loss	3	5	3.81	0.86	4.0
Customer perspective BSC2			4.02	0.65	
Market share	1	5	3.91	0.86	4.0
Retention of existing customers	3	5	4.03	0.74	4.0
Retrieving new customers	2	5	4.00	0.72	4.0
Customer satisfaction	2	5	4.16	0.81	4.0
The internal business processes perspective BSC3			3.69	0.67	
Introduces innovations in business process	2	5	3.97	0.86	4.0
Percentage of errors made	2	5	3.38	0.83	3.0
Finishes production and supplies the product / service to customers in time	2	5	3.75	0.88	4.0
After-sales service / customer service	2	5	3.66	0.94	4.0
The learning and growth perspective BSC4			3.84	0.71	
Investments in training and education of employees	2	5	3.62	0.87	4.0
Enable employees to use new technologies	2	5	3.84	0.85	4.0
Mutual employee collaboration and knowledge sharing	2	5	3.94	0.76	4.0
Empowerment and consideration of Employee Suggestions	2	5	3.97	0.78	4.0

M – Mean; SD – Standard Deviation; C - Median

growth perspective with the rate 3.84. The worst is the perceived internal business processes perspective with the rate 3.69.

Correlation of Recruitment and Selection of Human Resources and Business Performance of SMEs

The correlation of recruitment and selection of human resources and small and medium-sized businesses has been calculated by determining the correlation coefficient between recruitment and the selection of human resources for small and medium-sized businesses. Business performance is calculated using a BSC model. It also calculated the correlation of recruitment and selection of human resources and each of the perspectives from the BSC model in particular.

According to the results of the research, it has been found that there is a correlation between the recruitment and selection of human resources and the business performance of small and medium enterprises.

All correlations are positive also for each question, a higher grade of an individual question means a higher rating of a particular BSC perspective. Correlation between recruiting human resources and business performance is significant with grade .441 at the 0.05 level (2-tailed). Based on the results of the research it can be concluded that the hypothesis number 1 is fully accepted. The correlations between recruitment of human resources and the perspectives of three BSCs are significant, though all of them are positive.

According to the research results, it can be concluded that the second hypothesis H2 is not confirmed. The correlation between the selection of human resources and the perspective of learning and growth is significant, and the correlation between the selection of human resources and the three other perspectives is not significant although it is also positive for each of them.

Conclusion

Human resources are the most important resource of the company. Human Resource Management is one of the most important business functions as well as management functions. Recruitment and selection of human resources are very important for small and medium enterprises as well as for large ones.

Recruitment is best described as the way in which an organization tries to source or attract the people from whom it will ultimately make selections. Recruitment strategies include efforts to reach better pools of candidates and to sell the organization as an employer of choice. Recruitment is a process of attracting candidates for job vacancies, who have the abilities, skills and features required for successful job performance and setting goals. Includes searching, attracting and providing candidates, and choosing the ones who best match job vacancy requirements. The purpose of recruiting is to find enough candidates to be able to choose the best.

Selection is the process of using predetermined and standard methods and techniques for a particular job for choosing those who best meet its requirements. The candidate selection process can be defined as a process of assessing the ability of candidates based on of pre-defined criteria and methods, to select the best candidates. The selection process aims to predict and maximise the future performance of employees and organizations.

Company performance was observed using the BSC model, where four perspectives are observed: the financial perspective, the customer perspective, the internal business processes perspective and the learning and growth perspective.

The results of the research in small and medium enterprises implemented in the Herzegovina Region show that recruitment and selection of human resources are in correlation

Table 15. Correlation of recruitment and selection of human resources and the business performance of small and medium enterprises

		BSC1	BSC2	BSC3	BSC4	BSC
Recruiting	Pearson Correlation	0.150	0.431*	0.386*	0.431*	0.441*
	Sig. (2-tailed)	0.414	0.014	0.029	0.014	0.011
	N	32	32	32	32	32
Selection	Pearson Correlation	0.017	0.124	0.233	0.427*	0.261
	Sig. (2-tailed)	0.928	0.497	0.200	0.015	0.149
	N	32	32	32	32	32

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

with the performance of SME's - measured through 4 perspectives of the BSC. Recruitment and selection of human resources are more advanced in the middle than in small businesses. The process of recruiting human resources is especially significant for SMEs, as attracting excellent talents and employing them, companies improve business performance viewed from all observed perspectives.

The results can be used for the management of SMEs and departments of human resource management. The obtained results clearly and unequivocally point to the need to develop a human resources management function in enterprises, and in this context, that special attention is paid to recruitment and selection of staff, because by finding, by selecting and employing competitive staff, companies are able to achieve their business goals and compete with competition and ensure survival and development. Companies with higher-quality attractiveness and staff selection achieve better

business performance viewed from all four perspectives of the BSC. Small and medium-sized enterprises in Bosnia and Herzegovina, due to the general political and economic situation, large emigration of the population and the lack of labour force in BiH, despite the high unemployment, are difficult to reach quality staff. They need to pay special attention to recruiting staff because they are competing with each other for staff on the labour market.

The results obtained must be taken with reserve and can't be the basis for making general conclusions but can be the starting point for further research. The limitation of the survey is the sample size and sampling method. Research needs to be conducted on a large number of enterprises. Also, quantitative and qualitative data should be used for it. In the future, it should consider the fact whether the company has the Human Resources department (regardless of the size of the department, one employee or more).

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Soodvisnost zaposlovanja in izbire človeških virov ter uspešnosti malih in srednjih podjetij

Izvleček

Človeški viri so najpomembnejši vir podjetij, kar še posebej velja za majhna in srednje velika podjetja (MSP), v katerih ti zaradi njihove edinstvenosti ustvarjajo podjetniške konkurenčne prednosti. Človeški viri upravljajo druge vire in so odgovorni za učinkovitost in uspeh organizacije. Ključni cilj te raziskave je določiti, ali in do kolikšne mere sta zaposlovanje in izbira človeških virov v soodvisnosti z uspešnostjo MSP. Raziskavo smo izvedli v MSP v regiji Hercegovine Federacije Bosne in Hercegovine aprila 2019. Za anketiranje smo oblikovali izvirni vprašalnik, s katerim smo zbirali mnenja vrhnjih menedžerjev o zaposlovanju in izbiri človeških virov, kot tudi t. i. Balanced Scorecard model štirih vidikov uspešnosti podjetja. Za analizo smo uporabili SPSS 20.0. Opisne mere, ki smo jih uporabili v analizi podatkov, obsegajo povprečje, standardni odklon in modus. Za preverjanje normalnosti porazdelitve smo uporabili Kolmogorov-Smirnov test. Za preverjanje korelacije spremenljivk in določitev značilnosti razlik smo uporabili Pearsonov koeficient korelacije in t-test za neodvisne vzorce. Raven značilnosti je bila nastavljena na $p = 0,05$. Rezultati raziskave so pokazali korelacijo med analiziranimi spremenljivkami in soodvisnost med zaposlovanjem in izbiro človeških virov ter uspešnostjo MSP z vseh štirih vidikov. Omejitve raziskave je velikost vzorca ter metoda vzorčenja. Rezultate je mogoče uporabiti pri upravljanju človeških virov v MSP.

Ključne besede: upravljanje človeških virov, zaposlovanje, izbira, majhna in srednje velika podjetja

The Fulfilment of Tax Obligation in Case of Slovenian Tax Residents Working in Other Countries^{1,2}

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Abstract

We study the impact of selected characteristics of Slovenian tax residents with income from work with source in other countries on their fulfilment of tax obligations from this income. We received anonymised data for the year 2015 from Slovenian Financial administration, which includes selected taxation data, some demographic variables as well as some data from other registers. On the sample of 9016 taxpayers of personal income tax from the group with income from work with source in other countries we found that with knowledge of some characteristics of taxpayers it is possible to discern a higher or lower probability of fulfilment of their tax obligations. Tools as the here presented model can help to increase the effectiveness of targeted inspection taxation supervision. The analysis has shown that groups of taxpayers with common characteristics share also a common pattern of the fulfilment of their tax obligations.

Key words: personal income tax, double-taxation, cross-border workers, labour mobility

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Introduction

Free movement of workers is one of four freedoms in the internal market of the EU laid down in the Article 45 of the Treaty on the Functioning of the European Union (TFEU), besides the others: free movement of goods, free movement of capital and the freedom of establishment and freedom to provide services. Free movement of workers includes the right to work in another Member State, the right of movement and residence for workers and for his family members. This principle safeguards workers from other Member States from discrimination based on nationality as regards employment, remuneration and other conditions of work and employment (European Parliament, 2019).

There are different forms of workers mobility, besides the cross-border mobility, where the country of residence and differs from the country of employment or self-employment, also the long-term form of workers mobility and the posting of workers and at the end the co-called return mobility. The long-term mobility is referred to cases where workers move their residence to another country in order to work there or to seek work for at least one years while they aren't citizens of this country. Posting of workers is a form of mobility where their employer sends the workers to another country to work there for a limited period. At the end one should consider the return mobility also as a form of labour mobility where the long-term movers return to their country of origin (European Commission, 2019, p. 18-19).

In the European Commission's report (2019, p. 19) the extend of labour mobility is presented and analysed for the year 2017. The long-term mobility is seen from the migration statistics, revealing that there have been 12.4 million people in working-age (20-64 years) which accounts 4.1% of total working-age population in the EU-28. In this group there have been 9.5% active EU-28 movers, which are employed or looking for work, which accounts for 4% of the total labour force in the EU-28. There are considerably less workers working as daily migrants, these are cross-border workers, accounting in the age group between 20 and 64 year, 1.4 million or 0.7% of the total employed in the EU-28. There has been 2.8 million of worker postings in the EU, where greatest numbers of receives are Germany, France and Belgium. Many postings has received also Slovenia, namely 163.876 workers, which is a big number according to the size of the Slovenian economy. The annual number of return long-term workers was in 2016 680.000 workers. In 2016 was the return mobility in ration 70% compared to the number of citizens who left their country (European Commission 2019, p. 19-20).

While Germany and United Kingdom (3 million and the 2.6 million) have been the biggest countries of destination,

Slovenia has around 15000 incoming workers in 2017, which is 6 % more than a year before. The Commission's Report deals also with the question of countries of origins. While the main countries of origin are Romania, Poland, Portugal, Italy and Bulgaria, also Slovenian citizens move to work abroad. In 2017 an increase is reported for movers from Slovenia to Austria, along with other countries in Eastern Europe (European Commission, 2019, p.28). As regards the return mobility, there are countries like Romania (almost 90%), which have a high share of nationals among the inflows representing the returning workers, while in Slovenia this share in only 15% of the inflows (European Commission, 2019, p.45).

Regarding the cross-border workers, the report gives data on the number of cross-border, which increased for 4% from the year 2016 to 2017 on the EU-28 level. In absolute terms the main countries of residence were France (405.000), Germany (249.000) and Poland (202.000). On average, the majority of cross-border workers is male (almost 70%), while in Slovenia this share is higher and represents 74%. There are countries with decreasing and others with increasing numbers of residents working cross-border, but Slovenia isn't among those countries (European Commission, 2019, p. 56, 78, and 166). The main countries of work for cross-border workers in the EU are in absolute terms Germany (391.000), EFTA country Switzerland (387.000), Luxembourg (186.000) and Austria (175.000) (European Commission, 2019, p.79).

Worker mobility is encouraged also in order to support the economic growth and increasing the employment in the EU, however there could be tax obstacles, such as cases of double taxation despite the existence of double taxation agreement on a bilateral basis, which would affect the mobility of workers. Wages or the pay for work often includes different types of income, which are in some cases a case of tax allowance. Very different regulations in these various types of income create complexity in taxing (Ernst & Young, 2014, p. 7-9).

Taxation rules for personal income tax differ importantly not only in tax rates but also in tax reliefs, allowances etc. In case of Slovenian tax residents with income from work with source in other countries the following taxation principle is applied, while domestic law definition of tax residency in Slovenia applies. When the income from work like salaries, wages and other similar remuneration has the source in another country, it was usually already a subject to taxation in the source country. However, the Slovenian tax residents are taxed on their worldwide income, therefore the income with source in other countries is subject to taxation also in Slovenia. This would cause double taxation therefore according to the bilateral agreements (a tax

treaty) between the source country and Slovenia a double tax relief claim arises. The most common methods are the exemption method and the credit method.³ The first one can in individual treaties take different forms, e.g. the income is exempt in the taxation in the state of residence entirely and even if there was no tax imposed in the source state, or that the income is not taxed in the country of tax residency but is taken into account when determining the rate of tax for taxing the rest of taxpayers' worldwide income. The second method, the credit method would mean that the country of residency includes the income into the tax base but then allows the amount of tax being paid in the source country as a deduction from the tax in country of residency. If the tax rate is higher in the country of residency, residual tax would be payable in addition to the tax already paid in the source country.

Slovenian tax resident has the obligation to declare his worldwide income which includes also all his income in other countries. Taxpayers can meet this obligation or they do not. The reasons why individual taxpayers don't meet their tax obligation can be different, like not knowing the law, or willingly decide not to declare the income, whereby the standard rule applies (*ignorantia iuris nocet*). In some cases, the reason can lie in inability to pay due to taxpayers' special circumstances, and many others. However, regarding the intentional tax evasion, sometimes taxpayers can have an impression, which can be wrong, that they can avoid reporting their income easier in case when the income has the source in other countries than in case of domestic source. This is the motivation for our research. We would like to contribute to the knowledge about this specific group of taxpayers in Slovenia as we would like to find out which characteristics may indicate higher probability of fulfilling its tax obligations. It hasn't been explored yet in this regard.

Kubicova and Valkova (2016) report that taxpayer with higher level of income more likely fulfil their tax obligations. Some other studies list also characteristics, like gender (Chung & Trivedi, 2003) or level of tax culture (Torgler & Schneider, 2005). In this study we would like to contribute to these findings and find out whether there are some common characteristics to these taxpayers, who omit their obligations and have source of income from work in other countries. In what follows the paper is structured in a way that first the literature review is presented. Next, the data and the methodology used in the study are presented. Finally results and conclusions are given.

³ More on taxation in triangular cases in the EU can be read in and reported by EY for the European Commission: Triangular Cases – Tax obstacles to labour mobility in the European Union and tax avoidance Specific Contract No1 TAXUD/2013/DE/303 Based on Framework Contract No TAXUD/2012/CC/117, p.20.

Literature Review

There is broad range of literature dealing with various aspects of fulfilment of tax obligations. We could classify them into more classification groups. However, due to the size of taxation literature body we only concentrate on the group of papers which analyse the questions regarding the taxation on the income from work and employment. Especially we are interested into the literature regarding the income of domestic tax residents from other countries. For this question, we find despite broad taxation literature very few studies.

Kubicova and Valkova (2016) analyse the factors which are affecting the fulfilment of taxing obligations of tax residents in Slovakia employed in other countries. With a survey they gathered data and used factor analyses to identify the most important factors, which are classified into three groups. The first one includes taxing complexity and information. The authors claim the overlapping of this result with results of previous studies. They find that the tax fulfilment is negatively correlated with the tax system complexity and positively with the availability of taxing relevant information. The second component is based on taxation literacy, whereas the tax fulfilment is positively correlated with individuals working abroad, with the intensity of their knowledge of taxing legislation. The third component includes the size of income from another country and their education level. Regarding this group the results show that it is more likely that the taxation obligation will be fulfilled if the income and the level of knowledge get higher.

Bott et al. (2014) investigate measures and activities undertaken by tax authority and their impact on the level of tax obligation fulfilment for individuals having income from other countries. Authors included 18.000 individuals into their research sample to investigate the impact of sending notice from Norwegian tax authorities. The notice included a taxation form which was already filled in with data together with instructions on how to correctly announce the income from abroad. The analysis showed that inclusion of a moral note into the notice almost doubled the average amount of income being announced when compared to the amount resulting from the notice without such an inclusion. Another positive effect resulted from an inclusion of information about a higher probability of tax authority's inspection. The authors also found out that two inclusions had very different operating modes. While the moral claim mainly augmented the amount of the income being declared, the higher probability of tax control caused the number of taxpayers who declared income from abroad to grow.

Some authors are researching individual characteristics of taxpayer and their impact on the fulfilment of tax

obligations. Kiow, Salleh and Kassim (2017) analysed the factors of individual fulfilment of tax obligations on the case of Malaysia. The authors found that the fulfilment of tax obligations is dependent from the ethical values and perception, which is formed according to the government's behaviour and the transparency of government's actions. Chung and Trivedi (2003) explored the effect of friends' persuade and gender of the taxpayer on the level of individuals' tax obligation fulfilment. Their results show a strong connection between the analysed characteristics and the declared income. Torgler and Schneider (2005) investigate the attitude of Austrian residents versus the tax payment and their tax culture. The results of the authors show a decline in tax culture between the years 1990 and 1999. Despite this decline the Austrian taxpayers still have a very high level of tax culture when compared to other European countries. Gilligan and Richardson (2005) explore the perception of tax fairness in connection to fulfilment of tax obligations in case of Australia and Hong Kong. They find that there aren't any universal connections or patterns between the perception of tax fairness and different levels of tax obligation fulfilment, which would exist across analysed cultures. The legality turned out as a crucial element in the perception of the fairness in the tax system.

A great number of research focuses on the actions undertaken by tax authorities, legislation changes and other categories with a direct impact on the individual level of tax obligations. Among the first authors who have investigated the effects of the tax authorities' actions on the fulfilment of tax obligations can be seen Allingham and Sandma (1972). They explored some static and dynamic aspects of tax evasion. They especially underlined the meaning of different compulsory measures of tax authorities. Similar findings have shown Dubin and Wilde (1988) the connection between the fulfilment of personal income tax obligations and the inspection supervision. Also, Alm, Jackson and McKee (1992) and Plumley (2002) investigated the meaning of punishments and the inspection supervision on the individuals' fulfilment of tax obligations. Lopez-Laborda and Rodrigo (2003) analyse the impact of tax amnesty on the fulfilment of obligations arising from personal income tax. The authors find out that the amnesty didn't had neither a short nor long-term impact on the behaviour of taxpayers. Opposite to these finding are the results of legislative and administrative measures in a reform procedure as they permanently positively impact the fulfilment of tax obligations. Klun (2004) investigates for the case of Slovenia the costs arising with the fulfilment of tax obligation for the taxpayers of personal income tax. She finds costs to be very low, especially since the taxpayers perceive the income declaration process as an easy-to-understand task and compare these costs to tax

consultancy costs. Few years later, Klun (2009) finds additional decline in costs for the fulfilment of tax obligations when in Slovenia the pre-filled out form was introduced for the personal income tax as the tax authorities could fill-in the data about the income which they have already collected from other sources.

Marcuss et al. (2013) investigated the relationship between the complexity of tax accounts and costs of fulfilment of tax obligation which arise for the taxpayers. The authors used the methodology of econometric models. An investigation of the existence and obstinate of tax evasion in the case of personal income taxation and the meaning of preventative measures in done by Alm and Yunus (2009). Yin (2012) listed general and specific praxis for the improvement of tax obligation fulfilment in the case of personal income tax. Yaniv (2009) presented a rational model of tax evasion in connection with the tax rate. The meaning of reporting the information is the focus of the study by Phillipsa (2014), who found out that taxpayers correctly declare their income in case when these incomes are also the matter of reporting by the payer. At the same time, they tend to evade at least the part of their incomes, which isn't under mandatory reporting obligation. Also, the authors noticed a great heterogeneity in regard to the critical amount of the undeclared income where the unfulfillment of tax obligations fully turns from partial into full unfulfillment. Similarly have Kleven et al. (2011) on the sample of 40.000 Danish taxpayers in the case of personal income tax investigated the impact of the tax inspection supervisions and the sending of notices where a chance of tax inspection is mentioned. They found that the impact of such notices is important to the level of income declaration. In a Swedish study, Bastani, Giebe and Miao (2019) analysed differences in tax filing behaviour between natives and immigrants. The authors find that immigrants with a longer stay in Sweden and immigrants from Nordic and European countries, are more similar to the natives in their tax filing behaviour than non-European immigrants. With time the behaviour of non-European immigrants converges to the natives. Therefore, we can assume that cultural background matters in the tax filing behaviour.

Data and Methodology Used

In order to explore the tax fulfilment behaviour of tax residents whose income from work has a source in foreign countries we use real-life data. In this study we use the data on the sample of Slovenian tax residents who meet the criteria of the research question. We received anonymised data from the Slovenian Financial administration. The sample included individuals, who received income from

abroad in the year 2015. In the first sample there were 9136 individuals. After excluding entries with missing data, the final modelling sample included 9016 individuals. According to the research question we are interested in the sample structure with respect to the behaviour of the tax resident regarding his tax obligation fulfilment. In the final sample there were 5474 individuals who fulfilled their tax obligations and there were 3542 individuals who didn't. The sample contained the anonymised data on taxpayer's characteristics, like demographic, economic and other data variables. Tax residents in the sample had income from work with sources in different countries: Austria, Belgium, Bulgaria, Denmark, Estonia, Finland, Croatia, Latvia, Lithuania, Germany, Luxembourg, Romania and Great Britain.

Available explanatory variables in the sample were as follows:

- Type of the taxpayer: besides the individuals who were employed there were also individuals with business activity. In the latter cases, the individuals had registered business activity in Slovenia but were employed in another country.
- Description of the registered business activity (where applicable): business sector, number of employed workers, date of the business registration, date of the business closure if closed, classification of business entity's size according to Slovenian legislation).
- The amount of the income with source in another country.
- The total amount of the income with source in Slovenia and source in other countries.
- Demographic variables on the taxpayer: gender, age, which regional Financial administration office is in charge according to the taxpayers' permanent address, number of connected persons (number of persons in taxpayers' household, citizenship).
- Number of opened bank accounts of the taxpayer.
- The status of the residency: the starting date and the date of the end of period. In some cases, the individual wasn't tax resident in Slovenia for the whole year 2015. In these cases, it should be taken into account that the tax obligation in Slovenia for the income from other countries refers only for the part of the year of tax residency in Slovenia.
- Some types of taxpayer's assets: number of cars for which he is registered as the owner, number of cars for which he is user – e.g. leasing, number of boats, and the value of real-estate properties or parts of the real-estate properties he owns.

As seen from the literature review, there are various additional factors, for which it would be worth investigating if they affected individuals' fulfilment of his tax obligations

in case of income from work in another country. Based on findings in other studies other variables could turn out as relevant too e.g. the perception of the tax system fairness, the level of tax culture, the impact of friend's persuade to do so, various social and demographic circumstances, cultural and migration background and many more. In our research we couldn't investigate all of them as these characteristics weren't available. As only an anonymised data sample from Slovenian Financial administration is available to us, we were limited to the research of the characteristics listed in the explanatory variables' list. Therefore, only those explanatory variables could have been investigated, which are available to the Financial administration (from income declarations, various registers etc.).

In order to estimate the factors that influence the behaviour of taxpayers, we estimated a model of binary dependent variable with binary logit regression. Standard maximum likelihood method was applied for the estimation of model parameters. For model estimation we used EViews' software package. Since the method is well known and no special procedures were applied, we direct interested readers to standard econometric text books in order to read more about the method.

Results

In our study we came to some findings, which we comment in this section. We estimated multiple models, in order to find out which explanatory variable are significant. The final model is presented in Table 1. Variables, which were named in the data sector but do not appear in this final model therefore seem to have an insignificant effect. The final model indicates some relationships between the examined factors and the fulfilment of tax obligations in the analysed specific group of taxpayers, namely those with income from work with source in other countries.

The dependent variable is binary, stating whether the tax obligations are fulfilled (value 1) or they aren't (value 0). The explanatory variables indicate that the probability of tax obligations being fulfilled is higher if the foreign source is in Great Britain and Croatia, even though less convincing in the latter case. The probability of tax obligations being fulfilled however declines if the foreign source is in Germany or Austria. It seems that the probability declines also when the residency falls under the jurisdiction of following regional tax offices: Brežice, Dravograd, Hrastnik and Kočevje, but rises in case of Maribor. The probability of fulfilment also declines as the amount of the foreign income rises, the number of bank accounts opened rises and as the number of cars rented rises.

In order to estimate the success of the model for classification purposes we present on Figure 1 the curves for the total classification errors at selected cut-off values (true negative, true positive). The best result is achieved at the cut-off value of 0.58, where the total share of

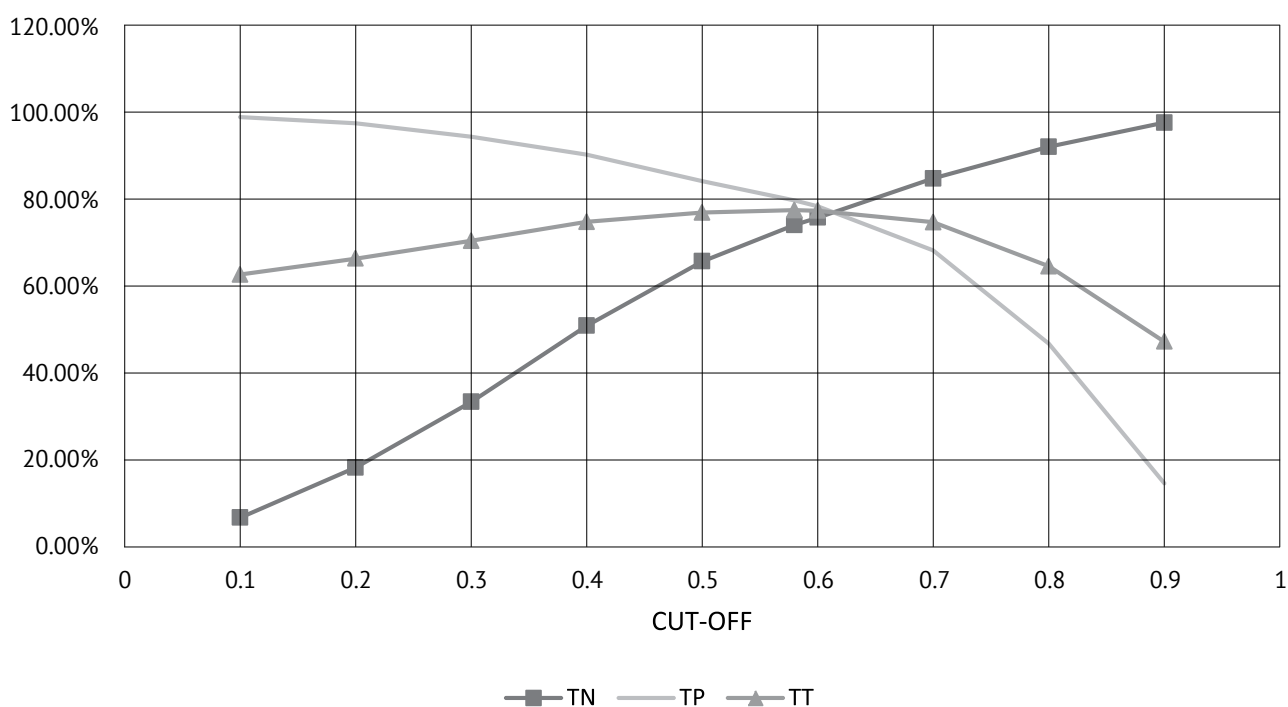
correctly classified taxpayers achieves 77.54%, while the share of correctly classified taxpayers, who did not fulfil their obligations is 74,11% and the share of correctly classified taxpayer who did fulfil their obligations is 79.76%.

Table 1. Model parameters

Variable	Coeff.	Std. Error	z-Stat.	Prob.	Variable	Coeff.	Std. Error	z-Stat.	Prob.
X1	-0.540	0.220	-2.454	0.014	X11	0.249	0.078	3.180	0.002
X2	1.913	0.511	3.741	0.000	X12	0.045	0.025	1.833	0.067
X3	0.760	0.248	3.060	0.002	X13 (C)	2.845	0.375	7.589	0.000
X4	-1.871	0.224	-8.361	0.000	X14	0.383	0.062	6.219	0.000
X5	1.016	0.152	6.699	0.000	X15	-0.709	0.203	-3.493	0.001
X6	-0.307	0.056	-5.442	0.000	X16	-0.189	0.083	-2.275	0.023
X7	-0.014	0.002	-7.737	0.000	X17	-0.706	0.278	-2.539	0.011
X8	-0.820	0.025	-32.732	0.000	X18	-0.741	0.334	-2.222	0.026
X9	-0.568	0.036	-15.623	0.000	X19	0.299	0.102	2.947	0.003
X10	-0.434	0.066	-6.618	0.000					
McFadden R-sq.	0.219	Mean dep. var.	0.607		Obs with Dep=0	3542	Total obs	9016	
S.D. dependent var	0.488	S.E. of regression	0.404		Obs with Dep=1	5474	LR statistic	2650.314	
Akaike info crit.	1.050	Sum sq. resid	1470.815		Log likelihood	-4715.644	Prob(LR statistic)	0.000	
Schwarz crit.	1.065	Restr. log likelihood	-6040.801		Avg. log likelih.	-0.523	Hannan-Quinn crit.	1.055	

Note: Variables: X1 – Income source in Austria, X2 – Income source in Great Britain, X3 – Income source in Croatia, X4 – Income source in Germany, X5 – Citizenship, X6 – Gender, X7 – Age, X8 – The amount of foreign income, X9 – Number of bank accounts, X10 – Number of cars rented, X11 – Type of the taxpayer (with and without registered business activity), X12 – Residency, X13 – Constant, X14 – Regional financial office Maribor, X15 – Regional financial office Brežice, X16 – Regional financial office Dravograd, X17 – Regional financial office Hrastnik, X18 – Regional financial office Kočevje, X19 – Regional financial office Ptuj.

Figure 1. Optimal cut-off value



Conclusions and Further Discussion

Tax residents earn income also with source in country different to the country of residency. These incomes are of very different types, like income on capital, undertaking business activity as self-employed, pensions, employment abroad or cross-border workers, gambling and lottery wins, scholarships, inheritance and many more. When international or cross border activities are performed there are at least two different countries involved where this income could be taxable. However, taxpayers may be yield to temptation of tax avoidance in one or even both countries wrongly assuming the income in one country can be easier hidden from domestic tax authority. With new technologies not only new ways of hiding assets and income have emerged but also new business models have emerged relying on the gap of jurisdiction when acting “in the cloud”. However, also the tax authorities got some new possibilities to detect the tax avoidance, like automated data exchange between the countries (e.g. CRS) on the international level, but there is also successful action on national levels.

In this study we analyse the case of Slovenia regarding the personal income tax for tax residents with income source from work in other countries. Like in most other countries, also in Slovenia, tax residents are taxed upon their worldwide income. Also, other countries’ tax regimes are relevant because the individuals analysed in our sample are first taxed in the source country and then they are taxed on their worldwide income in Slovenia under the respective regime of double taxation avoidance. It is their obligation to declare the income with source in other countries and to finally pay the personal income tax in Slovenia. However, it is up to the individual whether he will actually declare his worldwide income or try to hide the income before the tax authority. Even in case of his declaration if he will at the end fulfil its tax obligations in the country of his tax residency, this is in the analysed case Slovenia.

In this study we further contribute to this battle against the tax avoidance. In our opinion the data which is available to

the tax authority should give to the tax authority new insights on the general behaviour of taxpayers in the same manner as many companies use the data to get costumers’ behaviour patterns. Using the anonymised data from Slovenian Financial administration we estimated a classification model, in order to give to the tax authority indices which taxpayers have a higher chance of not fulfilling their tax obligations. In our case the model deals with the group of Slovenian tax residents which have income from work with source in other countries.

We estimated a model which could be used for prediction purposed in order to apply supervision and tax inspection measures focused on taxpayers with higher probability of committing tax evasion. Our findings support the hypothesis that there can be some factors identified which contribute to the higher probably of tax obligations being fulfilled or being omitted by taxpayers. The probability of fulfilment declines as the amount of the foreign income rises, the number of bank accounts opened rises and as the number of cars rented rises. On the other hand, the probability of obligations being fulfilled is affected also geographically, meaning in terms of the income source country and in terms of the regional tax office jurisdiction in Slovenia.

The findings of this study aren’t important only in regard of discovering more about the taxpayers of personal income tax with the income from work with source in other countries but also to show that classification mechanisms may be a tool in the battle against tax avoidance. Our results unveil that certain groups of taxpayers share common characteristics with predicting power on their tax obligation’s fulfilment. Therefore, it is worth to investigate other taxation areas for prediction purposes and easier targeting of inspection procedures. In the area of personal income tax also other groups of individuals could be analysed for common characteristics, like individuals with income from capital gains, self-employed individuals etc. On the other hand, corporate tax would be a very interesting taxing area to be investigated in this way.

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Izpolnjevanje davčnih obveznosti slovenskih davčnih rezidentov zaposlenih v tujini

Izvleček

V prispevku raziskujemo vpliv nekaterih značilnosti slovenskih davčnih rezidentov z dohodki od dela z virom v tujini na izpolnjevanje njihovih davčnih obveznosti iz tega naslova. Od Finančne uprave Republike Slovenije smo pridobili anonimizirane podatke za leto 2015, ki vključujejo izbrane davčne podatke, nekatere demografske spremenljivke kot tudi nekatere podatke iz drugih registrov. Na vzorcu 9016 dohodninskih zavezancev iz skupine s prihodki od dela z virom v tujini smo ugotovili, da je s pomočjo poznavanja nekaterih značilnosti davčnih obveznosti mogoče razbrati večjo ali manjšo verjetnost izpolnitve njihovih davčnih obveznosti. Pripomočki, kot je predstavljeni model, lahko povečajo učinkovitost ciljnega inšpekcijskega davčnega nadzora. Analiza je pokazala, da imajo skupine davčnih zavezancev s podobnimi značilnostmi tudi podoben vzorec izpolnjevanja svojih davčnih obveznosti.

Ključne besede: dohodnina, dvojna obdavčitev, čezmejni delavci, mobilnost delavcev

The Tax Burden CGE Analysis for Slovakia and Slovenia

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Abstract

In the paper, the static computable general equilibrium model for Slovakia and Slovenia is used for a tax burden analysis. There was considered simultaneous 1% increase in taxes on primary factors, on firms' and government domestic and imported purchases, on import taxes, on output (or income) tax, on private domestic and imported consumption taxes and export subsidies. The direct tax burden as well as the allocative efficiency effects of a tax, the welfare effects and welfare decomposition of such change for both countries is analysed. The most sensitive sectors on tax rate changes is heavy manufacturing and processed food and the most distorting effect has the tax increase on private consumption tax. The government's tax increase should generate return at least 105.75% of its costs in Slovakia and 101.92% in Slovenia, otherwise the welfare will decline.

Keywords: tax burden, welfare analysis, CGE model

Preliminary

Tax reforms stand in an omnipresent concern of European economies looking for an optimal combination of tax rates ensuring stable economic growth, good business conditions and social fairness, see i.e. *OECD Tax policy reforms* (Organisation for Economic Co-operation and Development [OECD], 2019). Each tax rate change yield to direct, excess and marginal welfare burden; which are the matter of concern in this paper. The aim is to present an impact of a 1% increase of chosen taxes together with the welfare analysis for Slovakia. The further decomposition of allocative efficiency effect in several national industries, primary factors and tax types is shown. The methodology comes from the work of Ballard, Shoven and Whalley (1985) in which the computable general equilibrium (CGE) model was used to compare the economic effect of different tax rates raise altogether with national sales tax in the USA.

The CGE models are a preferable modelling tool for the tax questions exploration since they afford abundant equations structure and do not need long time series datasets. The examples of different influences of progressive federal

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income tax to income tax or purchase tax on national level can be found in works of Fullerton, Shoven, and Whalley (1983), Ballard, Shoven and Whalley (1985), Altig et al. (2001) as well as Carbone and Smith (2008). The CGE models were used for various tax analysis for the Slovak economy, e.g. the macroeconomic effects of environmental taxes in working paper of Páleník and Miklošovič (2016), where the 1% of gross domestic product environmental tax was introduced with a parallel decrease of the tax burden by the same amount. The CGE analysis show that decreasing of labour tax has positive effect on GDP (up to 4%), on the households' income (up to 5%) and on number of employees (up to 6.5%). Remeta, Perret, Jareš and Brys (2015) evaluated the 2004 Slovak tax reform and conclude that the tax system still suffers from weaknesses leading to lower revenues and slower economic growth hence there is a need for additional tax reforms and tightening the tax administration. Horvath et al. (2019) present a novel way of linking microsimulation models with dynamic general equilibrium frameworks to evaluate not only the fiscal, but also the aggregate macroeconomic effects of actual and hypothetical tax reforms in Slovakia. They show that a move to a highly progressive tax structure leads to employment gains but at the same time is "associated with a drop in aggregate income and tax revenue". Urban, Čok and Verbič (2019) analysed the labour income taxation during 2011–2017 in Slovakia, Slovenia and Croatia using microsimulation models and assess the impact of tax-benefit systems on income distribution.

In the work of Ballard, Shoven and Whalley (1985), the dynamic elements were incorporated into the model; whilst the first models of Browning and Johnson (1984), Stuart (1984) used the static models depicting American economics where the human labour is adopted, and the human and physical supplies are fixed. The model based on the similar principles that focuses on the tax and economy analysis is well-designed by the authors Hanson and Bertelsen (1987) who worked out the influence of the tax reform from 1986 for the technological and investing decisions in agriculture. Very similar model was used by Boyd (1988) who concentrated on very detailed agronomy diversification.

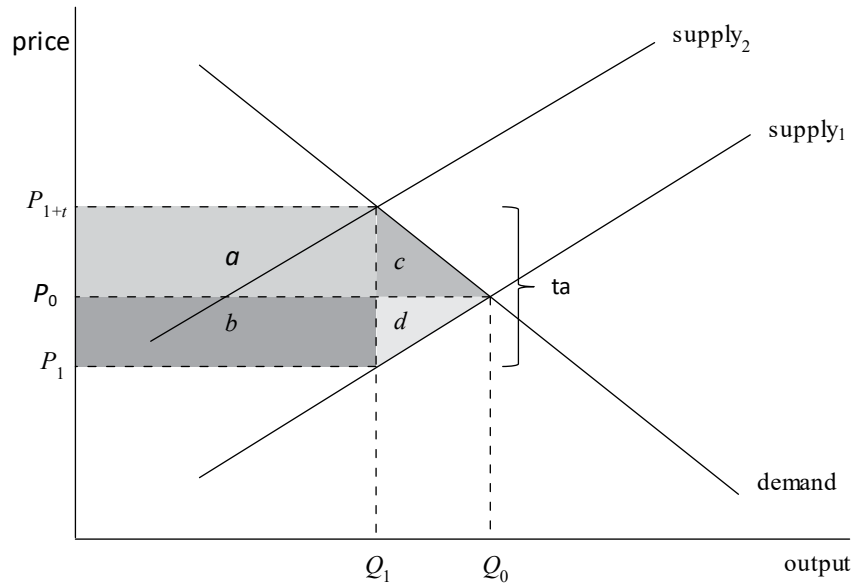
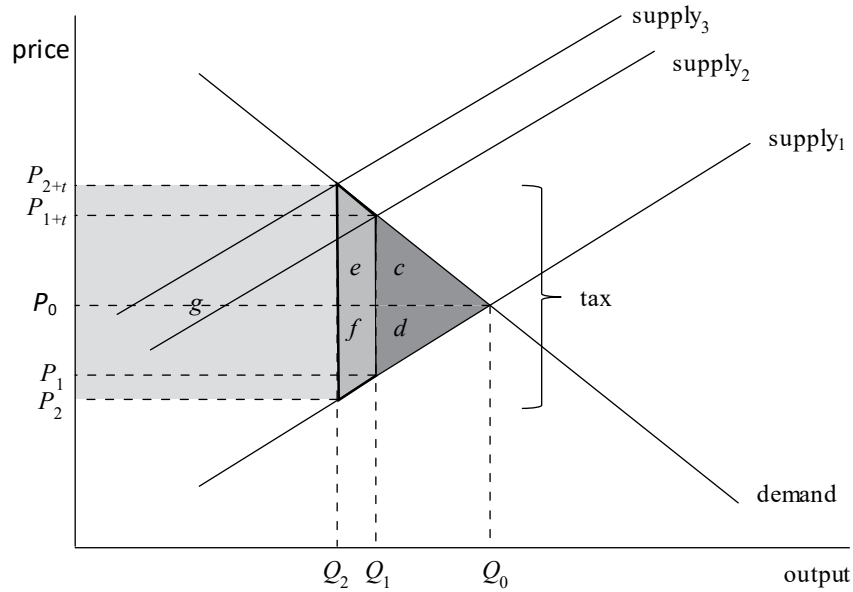
The model principles are currently used for example in works of Cutler, Shields and Davis (2018) who use the CGE model for tax assessment exploration in Colorado. Their findings show that changes in benefits coming out of the incomes can influence agricultural activities as well as the income divisions. In case of marked labour sensitivity to the change of income tax can lead to imbalances decreasing and production and employment increasing. Chernogorskiy, Kuporov and Shvctsov (2017) analyzed public charges that included financial charges as well as the marginal excessive tax burden used for charge

funding. The computable general equilibrium model with one sole product, one type of labour was used; a producer, a household and a government were the economical subjects. They define the marginal excessive tax burden as a difference between income compensation and tax. Marginal charges of public funds for Peru were assessed via similar methodology by the authors Cordano and Balistreri (2003). The authors explore incomes from all main sources including production factors taxes, natural sources, consume and import taxes. Their main interest was focused on the effect of the taxes from mineral and energetic taxes in respect of their significance for public finances in the country. The results show to the possibility of tax system improvements and at the same time they assign financial outgoings of submitted charges that could be financed from these taxes. The study "On the Costs of Excise Taxes and Income Taxes in the UK" by Parry (2003) analytically approaches the excessive tax burden; alcohol, petrol and tobacco taxes in UK specifically, and deals with the externalities and interactions among particular taxes. Figari, Gandullia and Lezzi (2018) assumed marginal public funds outgoings as an overall indicator of the tax systems and system reforms effectivity. The extension of their model was the base of empirical micro data that represented Italian population.

Direct burden is tax revenue that is paid by taxed entities (households, firms, production factors, etc.), it brings no lost to society since it is recouped by the government. Excess burden (allocative inefficiency) presents a loss in economic efficiency when producers or consumers change their consumption to avoid paying the tax. The excess burden is so called deadweight loss to society.

Figure 1 is the well-known representation of the situation of tax levy in a two-dimensional space of price and quantity. The tax shifts the supply curve to the left causing the producer price fall from P_0 to P_1 , while the consumer price rises to P_{1+t} . Output falls from Q_0 to Q_1 . The consumer's surplus loss is represented by area $a+c$, the producer's surplus loss by area $b+d$. Area $a+b$ is the direct burden of the tax, that part of the loss that makes-up the government revenue; and the area $c+d$ is the excess burden - the deadweight loss in allocative efficiency loss that is not recouped elsewhere.

Figure 2 describes an increase in a tax which shifts the supply curve further left, causing another fall in output to Q_2 , fall in the producer price to P_2 , rise in the consumer price to P_{2+t} . The triangle $c+d+e+f$ represents the total allocative efficiency – the excess burden, the trapezoid $e+f$ describes the marginal welfare burden. Its volume depends on the size of the initial tax and the new change in quantity and may be calculated according to (1).

Figure 1. Direct and excess burdens of a tax**Figure 2.** Effects of a marginal increase of a tax

Methodology, Experiment Design and Data

$$\text{marginal welfare burden} = \frac{\text{total welfare cost}}{\text{change in government tax revenue}} \cdot 100 \quad (1)$$

The rectangle g represents the direct tax burden and may be calculated through GDP identity (2) from the sources side.

$$GDP = \text{net factors income} + \text{tax} + \text{depreciation} \quad (2)$$

The static multi-country computable general equilibrium model developed by Hertel and Tsigas (1997) in Global Trade Analysis Project was used in this research. The motivation for the CGE modes is clear, this class of models describes an economy as a whole (the macroeconomic view) and the interactions among its parts (based on microeconomic foundations); moreover, it does not require long time series data since it uses a one year “shot” data. The analysis consists of six basic steps as described in Burfisher (2016).

In this analysis the standard static computable general equilibrium model with perfect competition and constant returns to scale by the Global Trade Analysis Project (GTAP) was used. Figure 3 shows the process of use a computable equilibrium model for experiments such that used in this paper.

1) For first, define the sets, variables and equations.

a) The data sets was aggregated as follows: three regions were considered, The Slovak Republic, Slovenia and the rest of the world; 57 production (and consumption) sectors were aggregated to eleven: Grains and crops (P1), Livestock and meat products (P2), Mining and extraction (P3), Processed food (P4), Textiles and clothing (P5), Light manufacturing (P6), Motor vehicles (P7), Heavy manufacturing (P8), Utilities and construction (P9), Transport and communication (P10) and Other services (P11). The primary factors were Land (F1), Unskilled labour (F2), Skilled labour (F3), Capital (F4) and Natural resources (F5); all factors were considered as mobile across sectors.

b) and c) Variables and equations are defined by the Global Trade Analysis Project model structure and may be found in Hertel and Tsigas (1997). A standard approach to production function is used in the model: Nested production function allows substitution among production factors in the value-added nest, but for the intermediate nest uses fixed input-output ratios. Regional household treatment in the model is based on the fact that it disposes of a total income according to a Cobb-Douglas aggregate utility function consisting on private household expenditures, government expenditures and savings in region (see Figure 4). For the government, a Cobb-Douglas utility function is used assuming that the initial budget shares in its consumption basket remains fixed.

2) Values of elasticity parameters and variables come from the social accounting matrix based on the GTAP10 data base (Aguiar et al., 2019) for 2014 (all variables in millions of US dollars)¹.

a) The elasticity parameters values may be found in Appendix A. The definitions follow Hertel and van der Mensbrugghe (2016).

ESUBD Elasticity of substitution between domestic and imported goods in the Armington aggregation structure for all agents in all regions.

ESUBM Elasticity of substitution among imports from different destinations in the Armington aggregation structure of all agents in all regions.

ESUBVA Elasticity of substitution between primary factors in the production of a commodity.

ESUBT Elasticity of substitution between composite intermediate inputs and value-added in the production of a commodity. For this model set 0 for all commodities.

ESUBDR Armington CES for domestic/imported allocation at region level.

ESUBMR Armington CES for regional allocation of imports at region level.

SUBPAR The substitution parameter in the CDE minimum expenditure function.

INCPAR The expansion parameter in the CDE minimum expenditure function.

3) The tax rates for Slovakia and Slovenia in selected industries and primary factors respect the GTAP set and may be found in Appendix B. All tax rates are reported as % ad valorem rate.

rTF taxes on primary factors in industries (SR for Slovakia, SLO for Slovenia)

rTO output (or income) subsidies in primary factors and industries in regions

rTPD private domestic consumption taxes in industries in regions

rTXS export subsidies in industries, by destination

rTMS import taxes in industries, by source

4) The model was solved in the RunGTAP software and has reached the baseline equilibrium.

5) In the experiment, the following taxes were assumed to increase by 1% change rate in all production sectors and all primary factors:

tf – tax on primary factors,

tfd – taxes on firms' domestic purchases,

tfm – tax on firms' imported purchases,

tgd – government domestic purchases taxes,

tgm – government imported purchases taxes,

tms – import taxes,

to – output (or income) tax,

tpd – private domestic consumption taxes,

tpm – private imported consumption taxes,

txs – export subsidies.

6) The Gragg 2-4-6 steps extrapolation was used for re-solving the model. It belongs to the group of multi-step solution procedures, which automatically divides the exogenous shock into a specific number of equal components. This procedure reduces the linearization errors which arise from the default one-step or Johansen solution method.

¹ The latest available GTAP data.

Figure 3. Description of the CGE analysis, process inspired by Burfisher (2016)

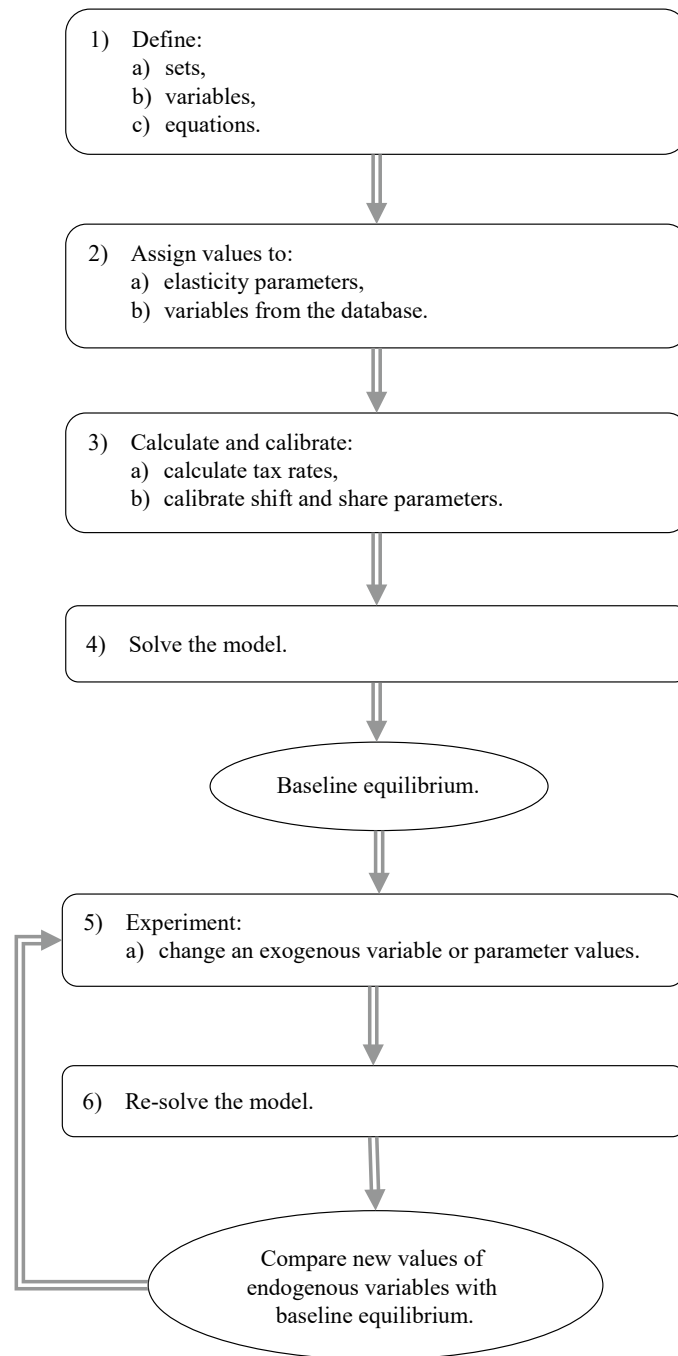
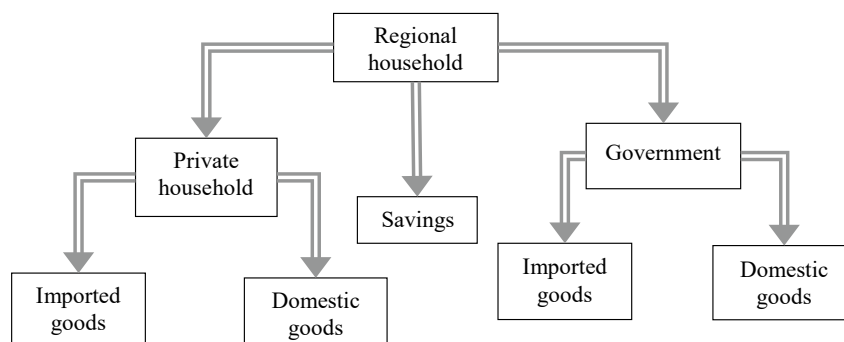


Figure 4. The regional household treatment



Source: Documentation to GTAP model

Results

The direct burden is the government income and may be derived from the Equation (2). The baseline equilibrium data gives

$$GDP_{SR,base} = 60,292 + 26,190 + 13,771 = 100,253 \quad (3)$$

$$GDP_{SLO,base} = 26,066 + 18,292 + 5,134 = 49,491 \quad (4)$$

hence the government revenue at original tax rates was 26,190 million USD in Slovakia and 18,292 million USD in Slovenia. The updated data with tax increase gives

$$GDP_{SR,updated} = 60,727 + 27,119 + 13,907 = 1010,754 \quad (5)$$

$$GDP_{SLO,updated} = 26,226 + 18,850 + 5,187 = 50,263 \quad (6)$$

The tax rate rise causes the government revenue increase in Slovakia to 27,119 million USD, which means 929 million USD direct burden increase of the marginal tax increase. For Slovenia, the government revenue rose by 558 million USD to 18,850 million USD.

The welfare analysis is made according to Huff and Hertel (2001) and McDougall (2001).

Table 1. Equivalent variation decomposition summary for Slovakia

Welfare effect	Slovakia	Slovenia
Allocative efficiency	-25.70	-19.40
Endowment	0.00	0.00
Technology	0.00	0.00
Population	0.00	0.00
Terms of trade in goods and services	-0.93	11.60
Terms of trade in investment and savings	-26.80	-2.90
Preferences	0.00	0.00
Total welfare cost	-53.40	-10.70

The allocative efficiency is -25.7 million USD in Slovakia and -19.4 million USD in Slovenia based on the Welfare effect decomposition summary in Table 1. The total welfare cost is hence 53.4 million USD in Slovakia and 10.7 million USD in Slovenia. The marginal welfare burden is, according to Equation (1),

$$\text{Marginal welfare burden}_{SR} = \frac{-53.4}{929} \cdot 100 = -5.75 \quad (7)$$

$$\text{Marginal welfare burden}_{SLO} = \frac{-10.7}{558} \cdot 100 = -1.92 \quad (8)$$

Table 2. Allocative Efficiency Effect

a) Commodity Summary			b) Tax Type Summary		
	Slovakia	Slovenia		Slovakia	Slovenia
Land	-0.007	-0.028	Factor tax	-0.806	-0.255
Unskilled labour	-0.042	-0.000	Production tax	0.849	0.224
Skilled labour	-0.430	-0.106	Input tax	-1.980	-3.620
Capital	-0.327	-0.120	Private consumption tax	-24.100	-15.60
Natural resources	0.000	-0.000	Government tax	1.170	0.308
Grains and crops	-0.095	-0.036	Export tax	-0.549	-0.127
Livestock and meat	-0.095	-0.536	Import tax	-0.354	-0.420
Mining and extraction	-0.768	-0.225	Total	-25.700	-19.400
Processed food	-6.120	-2.950			
Textiles and clothing	-1.320	-0.796			
Light manufacturing	-1.720	-1.200			
Motor vehicles	-0.462	-1.560			
Heavy manufacturing	-7.350	-7.210			
Utilities and construction	-2.730	-1.650			
Transport and communication	-0.897	-1.190			
Other services	-2.490	-1.840			
Total	-25.700	-19.400			

The welfare change per additional dollar of tax revenue is 5.75 cents per dollar in Slovakia. The government's tax increase should generate return at least 105.75% of its costs, otherwise the welfare will decline. The marginal welfare burden in Slovenia is lower, 1.92 cents per dollar, meaning that the tax increase should make at least 101.92% of its costs.

Terms of trade in goods and services measures the import purchasing power of exports. The value -0.93 for Slovakia means that the terms of trade worsen as a consequence of tax increase. In contrary in Slovenia the positive value of 11.6 mean the terms of trade improves significantly. Investment-savings terms of trade reaches -26.8 for Slovakia and -2.9 for Slovenia, this change is in the price of savings in country relative to the price of its domestically produced capital investment goods. Neither endowment (changes in quantities of the factors of

production), technology (changes in the productivity of factors and/or intermediate inputs), population nor preferences (a change in the distribution of regional household income to government, private consumer and investment spending, which may affect welfare) are affected by tax rates change, since the shock was modelled by static CGE model which has no tools to capture such long-term changes.

The excess burden may be decomposed via commodities (Table 2a) and via tax types (Table 2b). The most tax burden is allocated to the heavy manufactures sector and processed food sector in both countries. Concerning to the primary factors, the land, labour and capital owners welfare decline while the natural resources owners do not change their tax burden at all. The most distorting effect has the tax increase on private consumption tax, while the government tax has positive effect, as supposed. Let's have a closer look to the output tax effect in Table 3. The value of the production tax increase by 0.849 million of USD may be further decomposed to the effects in particular production sectors. Again, the most tax burden is levied on utilities and construction sector in both countries and the positive effects are unambiguously transferred to transport and communication sector in both countries.

Using the results for both countries, the sensitivity analysis on the elasticities for the total welfare cost was conducted. Each elasticity parameter varied by 100% and symmetric triangular distribution was used. Table 4 shows that the negative sign of the equivalent variation result is robust on the 95% confidence level with respect to each elasticity parameter tested. A closer look to the elasticity of substitution between domestic and imported goods in the Armington aggregation structure for Slovenia on the 99% confidence level allows positive result.

Conclusions

Our aim in the paper was to quantify the direct tax burden, which is represented by the government revenue resulting from a 1% increase in taxes on primary factors, on domestic

Table 3. Output tax effect

Output Tax Effect		
	Slovakia	Slovenia
Land	0.000	0.000
Unskilled labour	0.000	0.000
Skilled labour	0.000	0.000
Capital	0.000	0.000
Natural resources	0.000	0.000
Grains and crops	-0.018	-0.000
Livestock and meat	-0.002	-0.004
Mining and extraction	0.008	-0.014
Processed food	0.004	0.001
Textiles and clothing	-0.005	-0.013
Light manufacturing	0.031	-0.064
Motor vehicles	0.016	0.011
Heavy manufacturing	0.070	-0.098
Utilities and construction	-0.034	-0.115
Transport and communication	0.643	0.554
Other services	0.136	-0.033
Total	0.849	0.224

Table 4. The sensitivity analysis on elasticities for total welfare costs, 95% confidence interval

SR	mean	sd	lower bound	upper bound	SLO	mean	sd	lower bound	upper bound
ESUBVA	-53.43	0.21	-54.37	-52.49		-10.71	0.10	-11.16	-10.26
ESUBD	-54.60	5.07	-77.26	-31.94		-11.30	2.04	-20.42	-2.18
ESUBT	-53.40	0.00	-53.40	-53.40		-10.71	0.00	-10.71	-10.71
ETRAE	-53.40	0.00	-53.40	-53.40		-10.71	0.00	-10.71	-10.71
INCPAR	-52.87	0.69	-55.95	-49.79		-10.43	0.34	-11.95	-8.91
SUBPAR	-53.41	0.58	-56.00	-50.82		-10.71	0.26	-11.87	-9.55

and government purchases, on import taxes, on output tax, on private domestic and imported consumption taxes and export subsidies in Slovakia and Slovenia. Both countries have been a part of the European Union since 2004 as well as the monetary union, with Slovakia joining two years later in 2009. Within these groups and compared to other countries, Slovakia and Slovenia have similar positions in terms of GDP per capita. In 2008, both countries signed the economic crisis, which was assessed by high unemployment rates, while the increase in unemployment between December 2008 and November 2009 in Slovakia was 4.3 p.p. and in Slovenia 2.6 p.p. In terms of tax burden, both countries have undergone major tax reforms, but if we express the tax burden as a percentage of the countries' GDP as reported in Urban et al. (2019). Slovakia and Slovenia are close to the EU-28 average, but in terms of total tax burden, this burden in Slovakia is significantly lower than in Slovenia. To achieve our goal, we used a computable general equilibrium model with detailed industries and production factors to bring the opportunity to explore the effects of different taxation settings. We conducted the analysis in six consecutive steps for both countries. Our interest was to investigate the increase in tax rates, which, according to our findings, had an impact on both government revenues, direct tax burden of approximately 929 million USD for Slovakia and 558 million USD in Slovenia for both countries. The OECD document (2018) provides a comprehensive assessment of tax policy in Slovenia and makes recommendations for tax reform, where the results of their analysis also show many similarities in individual indicators, but the authors mainly focused on the analysis of labour tax burden in Slovenia. Similarly, the impacts of the tax burden on labour and various variables as well as the economic structure in Croatia have been examined by Nadoveza et al. (2016) using the CGE model, where their overall results indicate that the government should assess the potential effects of any unemployment tax reform before policy change, as this seems to have a significant impact on the labour market as well as budget revenue and expenditure. Subsequently, we performed a welfare analysis with the effect of decomposition. Tax increase resulted in worsening of the terms of trade in goods and services by -26.8 in Slovakia and -2.9 in Slovenia, and at the same time the investment savings terms of trade worsening by only -0.93 in Slovakia but improves in

Slovenia by 11.6. The allocative efficiency is -25.7 million USD in Slovakia and -19.4 million USD in Slovenia, this amount is not assigned to agents in economy and represents the deadweight loss. The marginal welfare burden is 5.75 cents per dollar for Slovakia, 1.92 cents per dollar for Slovenia, respectively, which has been quantified as a ratio of total welfare cost to change in government tax revenue. The tax burden is allocated in almost every sector; mostly in the heavy manufactures sector by value of -7.35 (resp. -7.21). For the purposes of our analysis, we considered it appropriate to choose a country comparable to Slovakia the achieved results are difficult to compare across other countries, due to differences in decomposition and differences in country tax settings. Tran and Wende (2017) in their study of quantify marginal excess burden, defined as the change in deadweight loss for an additional dollar of tax revenue, for different taxes. Their model was realised to Australian data and indicate that taxes are more distorting than personal income and consumption taxes. The marginal excess of income for the corporate income tax is 83 cents per dollar of tax revenue, compared to 34 cents and 24 cents for personal income and consumption taxes, respectively. Hansson and Stuart (1983) have calculated a wide range of marginal excess burden for Sweden. Their estimates are from 69 cents to 1.29 USD. The results presented in this research should encourage discussion of the tax burden setting. However, in the model we still see the possibilities for its extensions in different tax types handle. For future work, it might be useful to consider the implications of dynamic elements of the model.

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Appendix A

	SUBPAR		INCPAR		ESUBVAR		ESUBDR		ESUBMR	
	SR	SLO	SR	SLO	SR	SLO	SR	SLO	SR	SLO
1 GrainsCrops	0.972	0.996	0.004	0.003	0.261	0.262	2.38	2.51	4.40	4.69
2 MeatLstk	0.525	0.457	0.581	0.591	0.490	0.566	3.51	3.58	7.44	7.57
3 Extraction	0.372	0.328	1.110	1.050	0.200	0.200	7.08	6.08	16.50	20.40
4 ProcFood	0.587	0.518	0.461	0.466	1.120	1.120	2.07	2.13	4.23	4.44
5 TextWapp	0.531	0.463	0.566	0.576	1.260	1.260	3.72	3.72	7.44	7.44
6 LightMnfc	0.439	0.378	0.879	0.877	1.260	1.260	3.64	3.56	7.32	7.18
7 Auto	0.369	0.317	1.120	1.100	1.260	1.260	2.86	2.97	5.72	5.76
8 HeavyMnfc	0.377	0.327	1.080	1.050	1.260	1.260	3.64	3.45	7.71	6.87
9 Util_Con	0.368	0.317	1.120	1.100	1.360	1.350	2.13	2.13	5.07	5.04
10 TransComm	0.362	0.302	1.170	1.190	1.570	1.600	1.90	1.90	3.80	3.80
11 OthServices	0.350	0.297	1.220	1.210	1.260	1.260	1.90	1.90	3.80	3.80

	ESUBVA	ESUBD	ESUBM
1 GrainsCrops	0.286	2.54	4.94
2 MeatLstk	0.503	3.11	7.41
3 Extraction	0.200	5.21	12.80
4 ProcFood	1.120	2.11	4.37
5 TextWapp	1.260	3.73	7.44
6 LightMnfc	1.260	3.54	7.27
7 Auto	1.260	3.15	6.35
8 HeavyMnfc	1.260	3.46	7.38
9 Util_Con	1.360	2.16	4.64
10 TransComm	1.600	1.90	3.80
11 OthServices	1.260	1.90	3.80

Appendix B

rTF(SR)	Land	UnSkLab	SkLab	Capital	NatRes
1 GrainsCrops	-30.8	16.1	18.8	-44.10	0
2 MeatLstk	-29.0	25.3	25.6	-18.90	0
3 Extraction	0	64.4	64.4	0.43	0.43
4 ProcFood	0	64.4	64.4	0.43	0
5 TextWapp	0	64.4	64.4	0.43	0
6 LightMnfc	0	64.4	64.4	0.43	0
7 Auto	0	64.4	64.4	0.43	0
8 HeavyMnfc	0	64.4	64.4	0.43	0
9 Util_Con	0	64.4	64.4	0.43	0
10 TransComm	0	64.4	64.4	0.43	0
11 OthServices	0	64.4	64.4	0.43	0

rTF(SLO)	Land	UnSkLab	SkLab	Capital	NatRes
1 GrainsCrops	-28.6	24.8	24.4	-35.40	0
2 MeatLstk	-20.3	52.4	36.8	-23.40	0
3 Extraction	0	52.8	52.8	0.77	0.77
4 ProcFood	0	52.8	52.8	0.77	0
5 TextWapp	0	52.8	52.8	0.77	0
6 LightMnfc	0	52.8	52.8	0.77	0
7 Auto	0	52.8	52.8	0.77	0
8 HeavyMnfc	0	52.8	52.8	0.77	0
9 Util_Cons	0	52.8	52.8	0.77	0
10 TransComm	0	52.8	52.8	0.77	0
11 OthServices	0	52.8	52.8	0.77	0

rTO	SR	SLO
1 Land	-3.970	-4.560
2 UnSkLab	-14.000	-18.300
3 SkLab	-14.000	-18.300
4 Capital	-3.970	-4.560
5 NatRes	-3.970	-4.560
6 GrainsCrops	0.457	0.005
7 MeatLstk	0.147	-0.178
8 Extraction	-0.646	2.220
9 ProcFood	1.090	0.057
10 TextWapp	0.080	0.819
11 LightMnfc	-0.155	0.851
12 Auto	-0.054	0.367
13 HeavyMnfc	-0.190	0.473
14 Util_Cons	-0.097	-0.639
15 TransComm	0.869	1.120
16 OthServices	-0.324	0.121

rTPD	SR	SLO
1 GrainsCrops	3.38	11.70
2 MeatLstk	13.40	15.50
3 Extraction	14.00	8.35
4 ProcFood	50.20	71.60
5 TextWapp	16.50	25.60
6 LightMnfc	16.60	24.40
7 Auto	7.51	26.50
8 HeavyMnfc	63.20	26.70
9 Util_Cons	17.30	40.50
10 TransComm	2.07	5.31
11 OthServices	3.78	5.94

	rTXS		rTMS	
	SR-ROW	SLO-ROW	SR-ROW	SLO-ROW
1 GrainsCrops	0.001	0.031	0.081	0.958
2 MeatLstk	-0.001	0.000	0.090	0.332
3 Extraction	-37.800	-44.400	0.001	0.020
4 ProcFood	0.008	0.014	0.186	0.470
5 TextWapp	-0.246	-0.397	1.210	1.720
6 LightMnfc	-0.208	-0.420	0.278	0.859
7 Auto	-0.038	-0.070	0.164	0.616
8 HeavyMnfc	-0.236	-0.601	0.260	0.417
9 Util_Con	0	0	0	0
10 TransComm	0	0	0	0
11 OthServices	0	0	0	0

CGE-analiza davčnega bremena za Slovaško in Slovenijo

Izvleček

Za izračun davčnega bremena na Slovaškem in v Sloveniji v letu 2014 v članku uporabimo statični izračunljivi model splošnega ravnotežja (CGE-model) z enajstimi sektorji. Upoštevano je bilo simultano 1-odstotno povečanje v davkih na primarne faktorje, na podjetniške ter vladne domače in uvozne nakupe, v uvoznih davkih, davku na donos (ali dohodek), davku na domačo zasebno in uvozno porabo ter izvoznih subvencijah. Za obe državi so bili analizirani neposredno davčno breme kot tudi davčni učinki alokacijske učinkovitosti, učinki na blaginjo in prerazporeditve blaginje zaradi takšnih sprememb. Najbolj občutljiva sektorja na spremembe davčne stopnje sta težka proizvodnja in predelava hrane, najbolj izkrivljajoč učinek pa ima zvišanje davka na zasebno potrošnjo. Vladno povečanje davkov bi moralo ustvariti vračilo najmanj 105,75 % njegovih stroškov na Slovaškem in 102,92 % v Sloveniji, sicer bo blaginja upadla.

Ključne besede: davčno breme, analiza blaginje, CGE-model

How Festival Experience Quality Influence Visitor Satisfaction? A Quantitative Approach

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Abstract

The purpose of research presented in this paper is to determine how selected characteristics of a city event affect the satisfaction of visitors. In particular, the aim is to identify factors related to event atmospherics that determine visitor satisfaction in the city destination in continental part of Croatia. For this purpose, questionnaire was created based on previously conducted research by Bitner (1992), Oliver (1980, 1997), Baker and Crompton (2000), and Lee, Lee, Lee, and Babin (2008). It comprised measures for assessing event atmospherics, visitor satisfaction, and demographic characteristics of the respondents. The research was conducted among visitors of a city event that takes place every year during December 2018. A total of 191 questionnaires were obtained during the one-month period. Principal component analysis was utilised to determine the factor structure of city event atmospherics. In addition, multiple regression analysis was conducted to determine which factors may serve as predictors of visitor satisfaction in city event context. As a result, the analyses revealed four factors related to city event atmospherics. In addition, these factors positively and significantly affected visitor satisfaction, indicating that they have important role in determining visitor satisfaction in a city event context. These findings can contribute to the knowledge advancement of the city events, their influence on tourist satisfaction, and consequently, to better understand specific groups of visitors as well as establish efficient marketing and promotion strategies.

Keywords: experience, event experience, visitor satisfaction, multivariate statistical analysis, event tourism

Introduction

In fast growing experience economy, customers are changing their desires and expectations, seeking for more variety and customisation than they used to in the past. Nowadays, consumers are in search of experiences that 'dazzle their senses', 'engage them personally', 'touch their hearts' and 'stimulate their minds' (Schmitt, 1999) whilst indulging in 'fantasies, feelings and fun' (Holbrook & Hirschman, 1982). As a result, numerous authors have underlined the relevance of creating extraordinary customer experiences as a strategy to create value, to give companies a sustainable competitive advantage and to foster customers' satisfaction, loyalty and positive word-of-mouth (Pine & Gilmore, 1998; Berry, Carbone, & Haeckel, 2002; Prahalad & Ramaswamy, 2004; Shaw & Owens, 2005; Naylor, Kleiser, Baker, & Yorkston, 2008).

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In recent years, a consensus has emerged that characterises customer experience as a multidimensional evaluation, where different dimensions or factors contribute to form a 'holistic' view (Schmitt, 1999; Gentile, Spiller, & Noci, 2007; Kim, Cha, Knutson, & Beck, 2011), although these dimensions may be difficult to isolate, expensive to orchestrate and beyond the company's control (Verhoef et al., 2009). This challenges companies to design, manage and measure customers' experiences (Maklan & Klaus, 2011).

Most studies on customer experience are essentially conceptual or descriptive (Chang & Hong, 2010) and fail to capture the complexity of content-specific variables and its impact on experience quality and marketing outcomes (Palmer, 2010; Lemke, Clark, & Wilson, 2011). In fact, experience is a broader and less delimited concept than product or service quality. Thus, the development of experience measurement scales is a research opportunity, which would allow a broader understanding on what factors are more important in order to create positive customer experiences, with benefits for management practices.

Therefore, this research has two objectives: *firstly*, to explore how visitors perceive particular city event and to examine factors that best explain event atmospherics, and *secondly*, to identify which factors related to event atmospherics determine visitor satisfaction in the context of city destination in continental part of Croatia.

The paper is divided into five sections. After the introduction, the main findings from literature review regarding main concepts of interest are presented. The third section describes research methodology, including the research objectives and hypothesis, research instrument, data collection, and data analysis. Results of empirical research are provided in the fourth section, followed by main research conclusions.

Theoretical Background

As the field of event tourism is relatively new, dynamic and constantly developing, a critical review of the literature currently available is required to support and validate the proposed research. Literature relating to experience quality and event experience will be critically reviewed.

The Concept of Experience

This research focuses on event experiences as distinct from our day-to-day experiences, happening outside the context of 'normal' life (Walls, Okumus, Wang, & Kwun, 2011). Experiences in general are seen as a sharp contrast to

everyday life (Pine & Gilmore, 1998) and leisure and tourist experiences are often viewed as unique and special (Manell & Iso-Ahola, 1987), extraordinary (Morgan, Lugosi, & Ritchie, 2010) or 'peak experiences' (Quan & Wang, 2004), taking place outside the 'usual environment' and 'contracted time' (Volo, 2010). Experiences have been conceptualised in a variety of ways, including approaches based on motivations for experiences (Elands & Lengkeek, 2000), such as Cohen's (1979) tourists' experiences modes, or Vespestad and Lindberg's (2011) nature-based tourism experience categories.

Tourism experiences were often studied with respect to tourists' involvement or engagement with the destination/tourist site, including physical involvement, such as leisure activities and emotional involvement, such as self-concept/expression (Gross & Brown, 2008; Han & Patterson, 2007; Voigt, Howat, & Brown, 2010). Based on physical and emotional involvements, more specific attributes, which serve as the core components of tourism experiences have been developed and used for understanding leisure tourists' on-site experiences (Pearce et al., 2013). According to Pearce et al. (2013), tourism experiences consisted of five major components, namely, sensory (e.g. smell and sight), relationship (social interaction at the site), behavioural (preferences of tourism activities), cognitive (cognitive appraisal of the site) and affective (affective response to the place). In addition, tourism experiences were studied in different forms, such as activity-based (Vespestad & Lindberg, 2011; Voigt et al., 2010), emotional-involvement-based (Gross & Brown, 2006), sensory with the physical attributes and atmosphere of the place (Slatten & Mehmetoglu, 2009), service-quality-based (Wong & Tong, 2012) and people-interaction-based (Ciolfi, 2007). Thus, these previous studies suggest that tourism experience is multi-dimensional.

The Concept of Event Experience

Although there have been a number of conceptual studies of the tourist experience, the literature on event experiences fragmented, under-studied and under-conceptualised, with focus commonly on motivations, satisfaction and economic impacts. There exists little to no linkage between the sparse conceptual discussion and real-life practices, justifying the researcher's intention to create a useful and tangible academic link.

The experience economy has directly influenced the modern festival industry, with attendees craving 'nuanced, unique and refreshed experiences (to help them) achieve new levels of personal accomplishment and enrichment' (Yeoman, 2013). Events have often been conceptualised

as 'special' or unique types of experience (Getz, 2012). Planned event experiences and the meanings attached to them are the core phenomenon of event studies (Getz, 2012) and it is recognised that special event experiences should be unique, fluid, engaging and memorable, creating an ever-changing perceptual novelty (Schmitt, 1999). Beard (2014) highlighted the importance role of creative event programming in facilitating engaging and memorable attendee experiences.

This research focuses on event experience or extraordinary experiences in staged events and festival settings. The term 'event' or 'special event' (Getz, 1989) is used to describe a wide range of phenomena, ranging from mega events to community festivals and local events, all of which have quite different characteristics (Getz, 2005). Events have been defined as a onetime or infrequently occurring event of limited duration that provides the consumer with a leisure and social opportunity beyond everyday experience (Jago & Shaw, 1998). Their special appeal stems from the innate uniqueness of each event, which differentiates them from fixed attractions and their 'ambience', which elevates them above ordinary life (Getz, 1989). Van Vliet (2012) defined festivals as a gathering of a relatively large crowd in a specific public area for a delineated period, during which visitors are offered a unique experience (planned and organized with a specific purposes), including transformation and play elements, making it possible for visitors to behave and feel differently than in their daily lives.

Both definitions encompass music, sports, cultural and arts events. They are bound in space and time, and therefore are very suitable for the study of discrete experiences.

The challenges in defining festivals lies in differentiating festivals from events and special events. Festival research originated as part of event studies and has only recently emerged as a distinct field of study. Consequently, prior studies have not always made a clear distinction between festivals and events. It has been argued that key differences between festivals and other events are festivals' central focus on celebration of cultural and social dimensions, and the involvement of multiple stakeholders (Getz, 2012). Festivals differ from special events as they occur on a regular basis, whereas 'a special event is a onetime or infrequently occurring event outside the normal range/programme or activities of the sponsoring or organising body' (Getz, 1997).

Experience Outcomes

Experiences produce outcomes, such as satisfaction, emotions, cognition and behaviour. After all, the individual

is also affected by the experience (Snell, 2011) and researchers agree that experiences trigger a multitude of emotion, physical, cognitive and spiritual recreation (Pine & Gilmore, 1998, 1999; Walls et al., 2011).

Satisfaction is an experiential outcome that has been widely researched in marketing and management, where leisure experiences are regarded as consumer experiences. Tourist satisfaction is defined as 'a collection of tourists' attitudes about specific domains in the vacationing experience' (Pizam, Neumann, & Reichel, 1978) and is considered to be one of the key judgments that tourists make regarding a tourism service (Song & Cheung, 2010). One common way to measure experiences in the managerial perspectives is to analyse service quality perceptions (Quan & Wang, 2004) and satisfaction (Otto & Ritchie, 1996).

Experiences also stimulate senses and evokes emotions (Gupta & Vajic, 1999). Experiences encompass multiple sensory dimensions (tastes, sounds, colours and scents; Gretzel et al., 2006) and sensations (Gupta & Vajic, 1999). In addition, previous research (Hosany & Gilbert, 2010) used emotional measures to capture tourism and leisure experiences.

To conclude, event experiences are viewed as a process: when certain conditions are met, an experience can occur, resulting in multiple outcomes. This experience has cognitive, conative and affective components.

Research Methodology

The purpose of the research was to determine how selected attributes of a city event affect the visitors' satisfaction. In particular, the objectives were to identify factors related to event atmospherics, and to assess their effects on visitor satisfaction at the Zagreb Christmas Market.

In order to meet research objectives, the following hypothesis is proposed:

Event atmospherics attributes have positive and significant effect on visitor satisfaction.

An empirical research was based on primary data, collected with on-site questionnaire. The survey instrument contained three main parts. The first section was designed to measure event atmospherics, using multiple-item scale with 22 items. Measures were adopted from the literature on service environment (Bitner, 1992; Lee et al., 2008) and the literature relating to festivals (Baker & Crompton, 2000). A 7-point scale with anchors 'very poor' (as 1) and 'excellent' (as 7) was utilised to measure these items.

The second section measured the visitors' satisfaction was assessed by adopting measures suggested by Oliver (1980, 1997). The construct consisted of eight items. These measures encompass cognitive and affective aspects of overall satisfaction. The level of agreement with these items was rated using a 7-point Likert scale ranging from 'strongly disagree' (as 1) to 'strongly agree' (as 7).

The third section of the instrument was designed to measure demographic characteristics of the respondents, which included: gender, age, number of previous visits, level of education, country of residence, marital status, number of people in group, and length of stay.

The research was conducted in December 2018 among visitors of at various sites at the Zagreb Christmas Market. The questionnaires were distributed to those visitors who were willing to participate in the research. Participation was voluntary, and no incentives were given to the respondents. Thus, the data were collected using a convenience sampling approach. A total of 191 usable questionnaires were collected during the one-month period.

Statistical analysis was carried out as follows. Descriptive statistics was used to describe respondents' characteristics, as well as to evaluate event atmospherics and visitor satisfaction. Principal component analysis was utilised to determine the factor structure of city event atmospherics. The reliability of the event atmospherics scale was tested with Cronbach alpha coefficients. In addition, multiple regression analysis was conducted to determine which event atmospherics factors may serve as predictors of visitor satisfaction in city event context.

In addition, to ensure that questionnaire measures what is intended to be measured, validity of the questionnaire was examined. Firstly, content validity was established by addressing literature review to extract the items related to the event atmospherics construct and satisfaction construct. Secondly, construct validity was assessed with testing the degree to which construct variables that theoretically should be related, are in fact related. Analysis showed that correlation coefficients between all 22 variables in event atmospherics construct vary from 0.498 to 0.788, with $p < 0.01$, indicating significant moderate to strong inter-item relationship. What is more, correlation coefficients between 8 variables in satisfaction construct vary from 0.711 to 0.917, with $p < 0.01$, indicating strong inter-item relationship, as well. It can be concluded that questionnaire in present research meets validity criteria.

Research Results

The results are reported in several sections. Firstly, characteristics of the respondents are presented. Next, event atmospherics attributes are described, followed by visitor satisfaction description. Finally, relationship between event atmospherics factors and visitors' satisfaction with the event is examined.

Characteristics of Respondents

The sample consisted of 191 domestic visitors. There were more females (71.2 per cent) than males (28.8 per cent). An average age of the respondents was approximately 30. In terms of level of education, most of the respondents indicated that they had completed secondary school (43.4 per cent) or had graduated from university (28.8 per cent). Most respondents in the sample were in a relationship (42.4 per cent), single (34 per cent) or married (23 per cent). In terms of personal income, nearly half of the respondents (44.5 per cent) reported middle, and about 26 per cent indicated their personal income as upper middle or high.

Concerning respondents' visit characteristics, majority of the respondents (62.8 per cent) were repeat visitors that have visited the event three or more times. The most popular information source regarding the event was Internet and social media (46.7 per cent), followed by word-of-mouth recommendation from friends and relatives (35.7 per cent) and TV/radio commercials (13.6 per cent). Primary purpose of visiting the location was attending the event (73.8 per cent). Some of the respondents indicated visiting friends and relatives (10.5 per cent) as purpose of visit, while 9.4 per cent of them reported that they were just passing through. Most respondents were accompanied, visiting the event in a group of 3 to 5 people (47.6 per cent), and stayed only one day at the location (60.2 per cent).

Event Atmospherics Attributes

The results of descriptive statistics for event atmospherics attributes are provided in Table 1.

Mean scores for event atmospherics scale ranged from 3.50 to 6.17. The lowest score was appointed to the item 'availability of restrooms', while the highest score was given to the item 'visually appealing decorations'. Overall, respondents positively evaluated most event atmospherics items (mean scores greater than 5). Two items, namely 'easy access to parking lots' and 'availability of restrooms', were evaluated negatively (mean scores lower than 4). On the other hand, respondents were neutral regarding the following items: 'affordable', 'availability of proper signs for site directions',

Table 1. Event atmospherics attributes descriptive analysis (N=191)

Items	Mean	Standard deviation
1. Availability of activities/programmes for all ages	5.85	1.179
2. Quality of entertainment	5.73	1.226
3. Uniqueness of themed activities/programs	5.42	1.339
4. Availability of types of food/refreshments	5.81	1.446
5. Quality of food/refreshments	5.41	1.455
6. Availability of various souvenirs/products	5.66	1.300
7. Feeling of safety on site	5.98	1.225
8. Affordable	4.33	1.566
9. Visually appealing decorations	6.17	1.254
10. Easy access to parking lots	3.60	1.635
11. Availability of restrooms	3.50	1.704
12. Availability of proper signs for site directions	4.99	1.476
13. Enough available information (e.g. event programmes, food venues, etc.)	5.13	1.454
14. Enough available information (e.g. event programmes, food venues, etc.)	5.80	1.270
15. Cleanliness of the site	5.56	1.246
16. Safe and well-maintained equipment and facilities	5.61	1.213
17. Acceptable crowd level	5.40	1.573
18. Attentive staff who willingly respond to me requests	5.59	1.346
19. Friendly and courteous staff	5.74	1.331
20. Staff's willingness to help visitors	5.69	1.296
21. Knowledgeable staff in response to my requests	5.73	1.264
22. Availability of prompt services	5.32	1.376
<i>Overall</i>	5.36	

Note: mean scores range from 1 to 7.

‘availability of various souvenirs/products’, ‘enough available information (e.g. event programmes, food venues, etc.)’.

Principal component analysis with varimax rotation was conducted on the 22 items to identify the main factors of event atmospherics construct. The appropriateness for conducting the analysis was evaluated with KMO Test and Bartlett's Test. KMO value was high, and Bartlett's test was significant, thus the data was suitable to identify factor structure for event atmospherics scale.

As reported in Table 2, the 22 items were reduced to four factor solution that explained 70,683 per cent of the total variance in the data. In addition, eigenvalues ranged from 2.512 to 5.161, factor loadings were high (from 0.512 to 0.849), and all extracted factors contained at least three items. Hence, the rule of thumb for satisfactory factor solution, as suggested by Hair et al. (2010) was met. The four factors were labelled as ‘staff service quality’ (factor 1), ‘event offerings and programmes’ (factor 2), ‘event area’ (factor 3), and ‘convenience and accessibility of facilities’ (factor 4).

Furthermore, factor analysis results additionally addressed and confirmed the construct validity that was previously examined and reported in the research methodology section of the paper. Since factor loadings are well above the 0.4, eigenvalues are greater than 1, and there was no cross-loading of items above 0.4, the cut-off values for satisfying the criteria of construct validity, as suggested by Taherdoost (2016), were met.

Next, Cronbach's alpha coefficients were calculated for all factors, and showed adequate internal consistency of the factors (values ranged from 0.782 to 0.932). In addition, Cronbach's alpha coefficient for the overall event atmospherics scale was 0.947, and according to Hair et al. (2010) indicates its high reliability.

Visitor Satisfaction

The items in the construct of visitor satisfaction are divided in cognitive satisfaction items (items 1 to 5) and in affective

Table 2. Factor and reliability analyses of event atmospherics attributes

Factor/Items	Factor loadings	% of Variance	Cronbach alpha
Factor 1 (6 items)		21.933	0.932
EA20 – staff's willingness to help visitors	0.849		
EA21 – knowledgeable staff in response to my requests	0.840		
EA19 – friendly and courteous staff	0.837		
EA18 – attentive staff who willingly respond to my requests	0.770		
EA22 – availability of prompt services	0.722		
EA17 – acceptable crowd level	0.602		
Factor 2 (7 items)		19.026	0.882
EA2 – quality of entertainment	0.764		
EA3 – uniqueness of themed activities/programs	0.701		
EA9 – visually appealing decorations	0.701		
EA4 – availability of types of food/refreshments	0.664		
EA1 – availability of activities/programmes for all ages	0.653		
EA6 – availability of various souvenirs/products	0.603		
EA5 – quality of food/refreshments	0.578		
Factor 3 (6 items)		16.022	0.872
EA12 – availability of proper signs for site directions	0.687		
EA15 – cleanliness of the site	0.677		
EA16 – safe and well-maintained equipment and facilities	0.664		
EA13 – acceptable crowd level	0.654		
EA7 – feeling of safety on site	0.570		
EA14 – enough available information	0.560		
Factor 4 (3 items)		10.929	0.782
EA10 – easy access to parking lots	0.835		
EA11 – availability of restrooms	0.772		
EA8 – affordable	0.512		
Total		70.683	0.947
Kaiser-Meyer-Olkin (KMO)	0.912		
Bartlett's Test of Sphericity	3217.504 ($p < 0.01$)		

Note: Extraction Method – Principal Component Analysis.

Rotation Method – Varimax with Kaiser Normalization.

satisfaction items (items 6 to 8). The results of descriptive statistics for visitor satisfaction items are presented in Table 3.

Mean scores for visitor satisfaction scale ranged from 5.54 to 6.00, indicating respondents' high levels of satisfaction. Comparing the mean scores for cognitive and affective satisfaction items, results revealed that affective evaluation of the event was slightly higher than cognitive evaluation of the event (mean values were 5.75 and 5.92, respectively). Overall mean score for satisfaction scale showed that respondents were fairly satisfied with their visit of the event.

Multiple Regression Analysis

The main research hypothesis was tested with multiple regression analysis. For this purpose, factors extracted in factor analysis deemed as independent variables, while overall visitor satisfaction was applied as dependent variable.

Firstly, correlation was run to determine direction of relationship between the individual event atmospherics factors and overall visitor satisfaction, as well as to examine possible multicollinearity of variables in the model.

Table 3. Descriptive statistical analysis of visitor satisfaction attributes (N=191)

Items	Mean	Standard deviation
1. My choice to visit this Christmas market was a wise one.	5.98	1.287
2. I am sure it was the right decision to visit this Christmas market.	6.00	1.342
3. My experience at this Christmas market was what I expected.	5.95	1.211
4. This was one of the best Christmas markets I have ever visited.	5.68	1.586
5. My experience at this Christmas market was exactly what I needed.	5.54	1.575
6. I am satisfied with my decision to visit this Christmas market.	5.92	1.445
7. This Christmas market made me feel happy.	5.75	1.480
8. I really enjoyed myself at this Christmas market.	5.82	1.452
<i>Overall mean</i>		

Note: mean scores range from 1 to 7.

Table 4. Descriptive statistics and correlation matrix

Variables	Mean	SD	1	2	3	4
1. Factor 1	5.58	1.182	1.000			
2. Factor 2	5.72	1.008	0.649	1.000		
3. Factor 3	5.51	1.030	0.699	0.704	1.000	
4. Factor 4	3.81	1.366	0.549	0.523	0.556	1.000
5. Overall customer satisfaction	5.83	1.299	0.655	0.768	0.675	0.453

Note: mean ranges from 1 to 7; SD – standard deviation; all correlation coefficients are significant at 0.01 level.

Table 5. A multiple regression analysis

Model fit	
Multiple R	0.803
R ²	0.645
Adjusted R ²	0.637
Standard error	0.782
F ratio	84.494
Significance	0.000

Independent variable	b	Beta	t	Sig.
Constant	0.439		1.254	0.212
Factor 1	0.228	0.208	3.152	0.002*
Factor 2	0.678	0.084	8.035	0.000*
Factor 3	0.227	0.180	2.560	0.011**
Factor 4	0.034	0.036	0.648	0.518

Note: Dependent variable: overall customer satisfaction; * - significant at 0.01 level; ** - significant at 0.05 level

Correlation matrix revealed positive, moderate to strong, and statistically significant intercorrelations in the model. The strongest correlation with overall visitor satisfaction variable had factor 2 ‘event offerings and programmes’ ($r = 0.768$, $p < 0.01$), followed by factor 3 ‘event area’ ($r = 0.675$, $p < 0.01$), factor 1 ‘staff service quality’ ($r = 0.655$, $p < 0.01$), and factor 4 ‘convenience and accessibility of facilities’ ($r = 0.453$, $p < 0.01$).

Since correlation coefficients (Table 4) did not exceed cut-off value of 0.80, as recommended by Bryman and Cramer (2009), multicollinearity problem did not occur in this research, so it was appropriate to continue with multiple regression analysis.

According to the results presented in Table 5, the relationship between the combination of independent variables in

the model and dependent variable is strong ($R = 0.803$). In addition, the R^2 value indicates that four independent variables explained 64.5 per cent of variance in the dependent variable. Significant F-ratio ($F = 84.494$, $p < 0.01$) suggested that the model statistically significantly predicted dependent variable.

To evaluate the impact of each independent variable on dependent variable, unstandardized (b) and standardised (beta) coefficients are provided. As seen in table 5, factor 1 'staff service quality', factor 2 'event offerings and programmes', and factor 3 'event area' have significant relationships with overall visitor satisfaction. Having unstandardized coefficients of 0.228, 0.678, and 0.227 respectively, it means that every one-unit increase in 'staff service quality', there will be increase by 0.228 in overall visitor satisfaction. Accordingly, in every one-unit increase in 'event offerings and programmes', there will be increase by 0.678 in overall visitor satisfaction. As well as in every one-unit increase in 'event area', there will be increase by 0.227 in overall visitor satisfaction. On the other hand, factor 4 'convenience and accessibility of facilities' individually had no significant impact on overall visitor satisfaction ($p > 0.05$).

According to standardised (beta) coefficients, the most important independent variable with the highest statistically significant impact on overall visitor satisfaction was factor 1 'staff service quality' ($\beta = 0.208$, $p < 0.01$). This was followed by the factor 3 'event area' ($\beta = 0.180$, $p < 0.05$) and factor 2 'event offerings and programmes' ($\beta = 0.084$, $p < 0.01$). Factor 4 'convenience and accessibility of facilities' ($\beta = 0.036$, $p > 0.05$), had the smallest impact on overall visitor satisfaction. In addition, this impact was not statistically significant.

Conclusion and Implications

The present research reports how visitors perceive city event atmospherics, and what determines visitor satisfaction in the city event context.

The research results revealed that the construct of city event atmospherics is perceived through event offerings and programmes, staff service quality, event area and convenience and accessibility of facilities. Previous studies conducted in the event tourism sector identified somehow different outcomes with regard to the number and interpretation of factors that visitors use to assess the perceived experiences of a city event (Bitner, 1992; Lee et al., 2008; Yoon et al., 2010; Mason & Paggiaro, 2012; Anil, 2012). Therefore, it is necessary to modify factors that fit research context.

According to the results of multiple regression analysis, the regression model predicted the dependent variable significantly well. It means that four event atmospherics factors simultaneously have significant and positive influence on visitor satisfaction in a city event environment. These results imply that highly perceived event offerings and programmes, staff service quality, event area, and convenience and accessibility of facilities lead to higher overall visitor satisfaction with the event. Thus, the main research hypothesis is confirmed.

What is more, it has been identified that staff service quality, event offerings and programmes as well as event area projected the strongest significant impacts on visitor satisfaction. Thus, availability of different activities, variety of products and entertainment possibilities, gastronomy, as well as cleanliness, number of visitors and feeling of safety are the most important predictors of city event visitor satisfaction.

Based on these findings, event managers and local community decision makers who want to increase the level of visitor satisfaction with city event should emphasise both tangible and intangible factors of the event. Although factor 'convenience and accessibility of facilities' individually had no significant contribution to overall visitor satisfaction in the tested model, these results provide event practitioners with opportunities for improvement and growth.

This research has both theoretical and practical implications. Theoretically, it extends the literature of event tourism by exploring the relationship between visitors' perceptions of city event atmospherics and their satisfaction. Practically, it provides event managers a better understanding of visitors' reactions to city event that attracts both local and nonlocal visitors. By understanding how visitors perceive city event attributes, event managers and local community decision makers would be able to create better designed programmes and offerings, thus enhancing visitor satisfaction, and consequently positive behavioural intentions.

When considering the reported results, some limitations should be noted. The results are limited to specific city event and geographical area. Thus, broadening the research geographically to other cities where events of the same type are organised, may enhance research results. Another limitation refers to the focus on a specific event type or programme, thus results cannot be generalised to every city event. In addition, the convenience sampling procedure may have resulted with the sample that does not represent all the characteristics of the target population.

In order to broaden the contemporary literature related to the city event experience, future research should be conducted among event organisers, as well as local residents,

thus consequently gaining the perceptions from their point of view. Further, results of the present research could be compared to the results of similar research conducted in other city tourism sectors in order to provide local decision makers better understanding of how city visitors perceive all the city tourism sectors overall. Additionally, future research should examine a set of different city events simultaneously, thereby providing city event practitioners with a more comprehensive view of city event tourism. Finally,

additional analysis could be performed to examine how relationship tested in present research differs among different groups in the same population (e.g. domestic versus foreign visitors, local versus nonlocal visitors, first-time versus repeat visitors). Furthermore, qualitative based studies could help to understand why visitors value certain experience dimensions more than others. Overall, this findings research enhances knowledge on the experience concept and offer important implications for service managers.

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Kako kakovost festivalske izkušnje vpliva na zadovoljstvo obiskovalca? Kvantitativni pristop

Izvleček

Namen raziskave, predstavljene v tem članku, je določiti, kako izbrane značilnosti mestnega dogodka učinkujejo na zadovoljstvo obiskovalcev. Še posebej je cilj ugotoviti dejavnike, ki so povezani z atmosfero dogodka, ki določa zadovoljstvo obiskovalca v mestni destinaciji kontinentalnega dela Hrvaške. V ta namen je bil na osnovi predhodnih raziskav Bitnerja (1992), Oliverja (1980, 1997), Bakerja in Cromptona (2000) ter Leeja in drugih (2008) oblikovan vprašalnik. Obsegal je mere za ocenjevanje atmosfere dogodka, zadovoljstva obiskovalca in demografskih značilnosti anketirancev. Raziskava je bila izvedena v letu 2018, in sicer med obiskovalci mestnega dogodka, ki poteka vsako leto v decembru. V enomesečnem obdobju smo pridobili skupno 191 vprašalnikov. Za določitev strukture dejavnikov atmosfere mestnega dogodka je bila uporabljena analiza glavnih komponent. Poleg tega je bila za določitev vrste dejavnikov, ki lahko služijo kot napovedovalci zadovoljstva uporabnika v kontekstu mestnega dogodka, uporabljena multipla regresijska analiza. Kot rezultat je analiza razkrila štiri dejavnike, ki so povezani z atmosfero mestnega dogodka. Poleg tega ti dejavniki pozitivno in znatno vplivajo na zadovoljstvo obiskovalca, kar nakazuje, da imajo pomembno vlogo v določanju zadovoljstva uporabnika v kontekstu mestnega dogodka. Te ugotovitve lahko prispevajo k izboljšanju znanja o mestnih dogodkih, njihovem vplivu na zadovoljstvo turista in posledično k boljšemu razumevanju specifičnih skupin obiskovalcev kot tudi k vzpostavljanju učinkovitih marketinških in promocijskih strategij.

Ključne besede: izkušnja, izkušnja dogodka, zadovoljstvo obiskovalca, multivariatna statistična analiza, turizem dogodkov

What You Post is What You Get: The Mediator Role of Reached Individuals in the Causal Relationship among Posted Content Types and Follower Counts on Facebook

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Abstract

This paper discusses the causal relationships among posted content types, the number of reached individuals and follower counts of a Facebook brand page by investigating the communication forms of a Hungarian Twitch.tv live streamer. The Kolmogorov-Smirnov test for the analyses' distributional properties is followed by the Kruskal-Wallis H test, which determines significant differences in content types in terms of their total reach, reaction, comment and share counts. The Kendall's tau-b tests are performed for the examination of interrelationships among the retrieved Facebook metrics. Furthermore, mediation analysis is conducted, wherein the antecedent role is taken by post type, the follower count appears as a consequent variable and the total reach count takes the mediator role in the proposed model. The results of the analysis conclude that the analysed Facebook metrics display statistically significant, strong and positive correlations with one another; additionally, post type has a strong, significant and direct influence on reached individuals and although they do not show a significant, direct influence on follower count, they display a significant, total effect on it. The paper thereby contributes to the existing online brand personality and gaming research, offering value to the research domain of online marketing and communication as well.

Keywords: Facebook, gaming, mediation, post type, follower, reach, mediation

Introduction

Social media usage has become an economic, social and cultural phenomenon, wherein not only civil individuals but also various organizations, firms and self-marketed brand personalities (Goncalves et al., 2015) are present. Facebook, being the most frequently used online social media platform (We Are Social, Hootsuite, & DataReportal, 2019), is used not merely by individuals but also for online marketing campaigns, raising brand awareness, online word-of-mouth communication, retailing and consumer engagement (Goncalves et al., 2015).

Among the various market-oriented purposes that Facebook offers, it is a brand page-based platform opportunity, which can be used by corporations as well as self-marketed individuals. With the emergence and rapid growth of the

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gaming industry, in which digital game sales are gaining an increasing percentage of the market, growing to as high as 83%, as opposed to 17% of sales reached by physical games in 2018 (Entertainment Software Association, 2019), and a briskly increasing data volume of online gaming internet traffic (Cisco Systems, 2012), a growing number of online spectators are attending e-sport events (Sjöblom, Hassan, Macey, Törhönen, & Hamari, 2018) and watching the streaming platform, Twitch.tv. Twitch.tv, according to Johnson and Woodcock (2019), is having a particular impact on the video game industry, in terms of extending the visibility and lifespan of games, offering opportunities for game reviews and spreading knowledge and expertise in game programming as well (Johnson & Woodcock, 2019b).

Scientific research exploring the emerging trends of streaming spans back to 2012 (Kaytoue, Silva, Cerf, Meira, & Raïssi, 2012) and is receiving growing academic attention. The present study aims to discover insights about the effects of communication forms disclosed by a Hungarian online streamer, sharing content under the nickname, RandomNickname. He is defined, based on marketing theory, as a self-marketed individual, whose main 'working' platform is Twitch.tv, while only using Facebook as a means of communication with his audience. The hereby presented analysis is of an exploratory nature and aims to discover the means of received attention in terms of different posted content types on the Facebook brand page of the Twitch streamer in question.

The goal of this paper is to identify possible causal relationships among posted content forms, total reach and follower counts to investigate what kind of communication forms prove to be most successful in terms of reached individuals and follower growth on a Facebook brand page.

Theoretical Background

Self-marketed individuals, called often as personal brands or brand personalities (Shepherd, 2005), apply traditional branding techniques to represent themselves to an audience. Although there are numerous studies investigating the process of self-marketing (Khedher, 2012; Labrecque, Markos, & Milne, 2011; Parmentier, Fischer, & Reuber, 2013; Shepherd, 2005), the emergence of social media platforms and the rapid development of online communication forms enable a growing number of self-representation techniques for individuals, which makes it increasingly crucial for scientific research to investigate the outcome of the communication forms applied by self-marketed individuals from both their perspective and that of their audience.

For the investigation of a Twitch streamer's fanbase on Facebook, it is crucial to illustrate the multiple phenomena at work, which construct the theoretical frame of the analysed process itself. Thus, the academic discussion of branding will serve as an introduction for personal brands, by establishing a theoretical background for the hereby analysed Twitch streamer, RandomNickname. On account of contemporary digital marketing's substantial role in terms of advertising, distributing and seeking consumer awareness, branding and self-marketing theories will also be explored. Furthermore, the occupation of the discussed Twitch streamer and the presence of his viewers/followers will be considered from the context of digital labour and digital consumption on social media.

The most widely cited definition of the term 'brand' originates from the American Marketing Association (AMA) and is characterised as 'a name, term, sign, symbol, or combination of them that is designed to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors' (Keller, 2002, pp. 151–152). Despite its extensive occurrence in scientific literature since the 1960s, it was also criticised from numerous standpoints. Through the example of brand loyalty, Kollat, Engel, and Blackwell (1970) noted that there is an urgent need for standardised definitions for possible synthesis, comparison or accumulation of findings. The extensive literature review conducted by de Chernatony and Dall'Olmo Riley, encompassing more than a hundred studies published in the 1980s and early 1990s, revealed key elements as centres of brand characteristics, such as its legal component in terms of ownership, its equivalence to a logo, company, identity system, or an image in consumers' minds, to name a few (cf. de Chernatony & Dall'Olmo Riley, 1998, pp. 418–424).

According to Arvidsson (2005), the concept of 'brand' experienced a shift of emphasis during its academic discussion, which spans back to more than a half-century. While it focused on its producers formerly and served as an indicator of commodity quality, the focal point of attention drifted in later years in the direction of the image a brand created in consumers' minds. Therefore, the branded context, perceived by consumers, is capable of supplying buyers with particular activities offered by them, and those who employ this branded context, do apply it 'as capital in the obvious sense of a means of production' (Arvidsson, 2005, p. 244). A telling example of such branded context in the area of gaming is the rivalry of PlayStation and Xbox fans: for a PlayStation fan, acquiring and playing with that console means fulfilling the particular brand image created in his/her mind and acting on it using the branded context as a means of production. For this individual, playing on a PlayStation is different than playing on an Xbox, while an identical paradigm takes place in the minds of Xbox fans.

However, as Arvidsson (2005) noted, this enactment only takes place in the minds of devoted consumers; therefore, the duty of brand management is to apply distinct strategies to evoke it. The particular case of PlayStation and Xbox consoles and their fans has been recently studied as an example of the intense form of consumer-brand relationship called ‘brand evangelism’ (Becerra & Badrinarayanan, 2013), which consists of self-brand connection, brand community identification and brand loyalty in terms of the focal brand and the desire to harm and trash-talking regarding the rival brand (Marticotte, Arcand, & Baudry, 2016).

The implementation of brand identity, leading to the construction of strong brands, is one of the main topics of the widely cited book *Building Strong Brands* by David A. Aaker, who sees it as the most crucial task to be achieved by brand strategists. He points out that ‘brand equity is supported in great part by the associations that consumers make with a brand’ (Aaker, 1996, p. 25). The monetary aspect of brand equity, suggesting the transition of brands’ symbolic value into their monetary equivalents, is highlighted by Keller (2013, p. 57) through auction prices of celebrity memorabilia, such as the collar of Charles Dickens’s dog sold for nearly \$12,000 in 2009 or Michael Jackson’s glove, for which the highest bidder offered \$330,000 in 2010.

Consumption of a PlayStation, an Xbox or Michael Jackson’s tour glove produces the vision of a shared identity for their buyers and thereby offers an added dimension of usage-value for the product. (cf. Kates, 2002; Muniz & O’Guinn, 2001) Furthermore, through the construction of the context of consumption, in which commodities represent a particular, shared relation to their shoppers, consumers are not exclusively passive actors acquiring the products constructed for them by the producers; they likewise play an active role in the construction of their value as well. This ‘interrelationship of production and consumption’ (Ritzer, 2015, p. 413–414), termed *prosumption* is a widely discussed research area (Cova, Dalli, & Zwick, 2011; Kotler, 1986; Ritzer, 2014, 2015; Ritzer, Dean, & Jurgenson, 2012), first conceptualised by Alvin Toffler (Toffler, 1980).

In today’s global society, prosumption is especially relevant in the context of the Web 2.0 era, leading to emerging issues (Beer & Burrows, 2010). The question of fair use of copyright content during prosumption (Collins, 2010), for instance, has recently sparked global attention caused by a recent European Union’s (EU) Copyright Directive (Bonetto, 2018), which urged YouTube creators to advocate their concerns about the ‘meme ban’ as a possible outcome (Alexander, 2019). Digital prosumption, albeit directed to brands operated by global corporations, is also concentrating on single individuals, branding themselves. This phenomenon, observed by Peters before the Millennium

(Peters, 1997), is an ever-growing and fragmenting crowd, consisting not merely of ‘classic’ celebrities, such as Marilyn Monroe or Madonna but also newly emerging civil individuals, following the road what Tom Peters refers to as ‘Me Inc’ (Peters, 1997).

The phenomenon of a ‘well-known persona who is the subject of marketing communication efforts’ (Thomson, 2006, p. 104) lacks a consistent terminology, and is often termed as ‘personal branding’, ‘person marketing’, ‘self-marketing’, or ‘personal marketing’ (Shepherd, 2005, p. 591). To overcome this inconsistency, the present article addresses the concept in question as *self-marketing*, whilst defining the individuals in its core as *branded/self-marketed individuals/personas*. While the process of self-marketing is a rather well-discussed research topic (Khedher, 2012; Labrecque et al., 2011; Parmentier et al., 2013), recent academic interest turned its focus to the branded persona at work, concentrating on the aspect of labour, which is directed to achieve ‘self-commodification’, as coined by Alison Hearn (2008, p. 199), based on the thoughts of Giddens (1991). As Hearn (2008) argued, self-marketed individuals perform a distinct art of labour, wherein they set their carefully constructed images as commodities on the market, advocating their promotional message, steadily producing enhancements on their ‘marketed package’, developing their branded self over and above, to stay unique and desirable in the competitive market circulation. The mode of production, which is a particular virtue of self-branding, is based on the strategies of flexibility, innovative ways of financial, commercial and technological developments, paired with continually emerging, new sectors of production and increasing mobility, termed as ‘flexible accumulation’ (Harvey, 1990). In our contemporary era, flexible accumulation manifests in constant, committed activity; self-marketed individuals engage in it while building up and maintaining their ‘authentic self’. In passing, it is worth to note that this process is supported by ‘sometimes self-styled gurus’ (Shepherd, 2005, p. 593), who are in most cases marketing practitioners, advocating necessary skills, tips and tricks and gaining widespread attention with their books (cf. Lair, Sullivan, & Cheney, 2005).

A considerate ratio of all labour performed by today’s self-marketed individuals is immaterial, involving the creation of ‘ideas, images, affects, and relationships’ (Hardt & Negri, 2004, p. XVI). The production of affects through immaterial labour, defined as emotional labour by Arlie R. Hochschild (2012) and ‘affective labour’ by Hardt & Negri (2004), is a type of labour, which aims to generate or reduce feelings in order to construct the desired attitude in the minds of the target audience; furthermore, as Hochschild (2012) noted, it is sold for a wage, consequently possessing an exchange value. A recent example of emotional labour

was the 'PewDiePie vs. T-Series battle' on YouTube, which was a race to reach 100 million subscribers first on the platform. PewDiePie, being a self-marketed individual, was holding the title of the most subscribed channel from 2013 until early 2019, wherein an Indian music record label's channel T-Series surpassed him momentarily, thereby accelerating this battle (Binder, 2019), which formally started in 2018. PewDiePie was supported by numerous other prominent YouTubers (e.g., Jacksepticeye, Logan Paul, Andrei Terbea), celebrities (e.g., Elon Musk hosted meme review on PewDiePie's channel), civil activism in the form of marches, billboards and even a plane flying over New York City with a banner 'Subscribe to PewDiePie'. The benefit of affective labour for PewDiePie was that even though he did not win the race, he experienced a vast amount of subscriber growth during the competition, which he could in turn exchange for monetary value through the rise of his monetised video watch time.

Self-marketed personas, alike to PewDiePie, benefit mainly from their presence on social media platforms. According to Kietzmann and colleagues, social media 'employ mobile and web-based technologies to create highly interactive platforms via which individuals and communities share, co-create, discuss, and modify user-generated content' (Kietzmann, Hermkens, McCarthy, & Silvestre, 2011, p. 241) and has numerous benefits for self-branded individuals, such as audience maintenance (Hou, 2018). On the other hand, the phenomenon of user-generated content (UGC), wherein social media consumers engage in participatory actions on social media, created a participatory culture with users becoming content creators as well (van Dijck, 2009). This participatory culture manifests itself in social media users who are, albeit content consumers, participants in production as well, thereby fulfilling the notion of prosumption (van Dijck, 2009). In our contemporary era, the difference between play and labour has become blurred; hence the term 'playbour' emerged as a scientific area of study (see Ferrer-Conill, 2018). While users engage in social media activities, be it social relation maintenance, production of personal data or reproduction of already existing content through sharing, they are using their leisure time as unpaid labour for these activities, which is defined as 'the capitalist regime of time' by Christian Fuchs (2014, p. 97).

These phenomena are especially compelling in the area of online gaming, which has an ever-increasing number of self-marketed individuals, both on YouTube (e.g. PewDiePie, VanossGaming, Markiplier, Jacksepticeye, etc.) and Twitch (e.g. Ninja, shroud, Tfue, Myth, etc.).

As of 2011, Twitch.tv is getting increasing popularity in the domain of live streaming, representing a unique opportunity for self-branded individuals for audience interaction and

entertainment (Hilvert-Bruce, Neill, Sjöblom, & Hamari, 2018), being not merely a niche gaming domain, but also maturing to a broader social media trend. However, as Hilvert-Bruce et al. (2018) note, there is a still-existing research gap in this domain. The communication forms of Twitch live streamers on their brand pages, and the analysis of user attraction has become crucial, with the possibility for delivering important conclusions from an economic, psychologic and brand marketing perspective.

As it was previously discussed in past research, the phenomenon of user interest and attention is contagious and effectively influences the 'social neighbours' of the attracted individuals as well (Liu, Venkatanathan, Goncalves, Karapanos, & Kostakos, 2014; Venkatanathan, Karapanos, Kostakos, & Gonçalves, 2012; Wen & Lin, 2010). As Salganik, Dodds and Watts (2006) pointed out, people will pay more attention to posts that were previously liked by their friends. Social media serves as the basis of this phenomenon, which has amassed 2.48 billion users globally in 2017 and is projected to reach 3.09 billion individuals in 2021 (eMarketer, 2019), wherein Facebook is the most widely used platform globally with 2.375 billion registered users (We Are Social et al., 2019). User engagement on Facebook, particularly equipped by brand pages, manifests itself in the form of liking, sharing and commenting on the posts of the page (Araujo & Neijens, 2012), with the underlying potential of information promotion to the friends of the engaged user (Sabate, Berbegal-Mirabent, Cañabate, & Leberherz, 2014).

Consuming, creating and contributing are the three different user behaviours that are present on social media, which constitute the COBRA (i.e. consumers' online brand-related activities) typology, developed by Muntiga, Moorman and Smit (2011). These behaviours need a different amount of cognitive effort from users; in the same line with note-taking being a high resource-consuming activity, requiring a considerable amount of cognitive effort (Piolat, Olive, & Kellogg, 2005), consuming a message (i.e. reading on social media) demands a lesser effort from individuals than content creation. Kim and Yang (2017) argued that Facebook behaviours, such as liking, commenting, and sharing, also represent discrete cognitive efforts; while liking only needs the investment of a click, commenting and sharing need additional activities, wherein sharing a post leads it to not only appear on the users' news feed, but as with commenting, also gets pushed to their profile pages. Therefore, content sharing results in self-representation (Kim & Yang, 2017). Based on numerous studies investigating self-presentation techniques of users on social media (DeAndrea & Walther, 2011; Rui & Stefanone, 2013; van Dijck, 2013), Kim and Yang (2017) argued that sharing might need more cognitive effort than commenting, by reason of strategic self-presentation. In

addition, the authors found that posting types have statistically significant, positive influence on liking, commenting and sharing as well (Kim & Yang, 2017).

Among the different types of content, visual communication in the form of images or videos, and their superiority to textual content is well documented in scientific research. Such content is easier to process and remember for the human mind (Newhagen & Reeves, 1992) and can create framing effects on opinions and behavioural intentions as well, more so than textual content (Powell, Boomgaarden, De Swert, & de Vreese, 2015). In a social media context, previous research identified a relationship between user engagement and visual content. Saxton and Waters (2014) found that photo statuses were associated with a higher number of likes and an enhanced sharing activity on Facebook pages of non-profit organizations.

Little is known, however, from the phenomenon of reached individuals through posts on Facebook, based on the underlying reasons that the number of reached individuals is visible exclusively for the brand page owners through Facebook Page Insights data. Socialbreakers, a social media analytics company, conducted an analysis of 5,000 Facebook brand and media pages in 2015 and found that post shares strongly correlate with reached individuals in the cases of both media and brand pages on Facebook (Socialbakers, 2015). Albeit the scarcity of research regarding the role of reached individuals on user engagement, recent research indicates a significant drop in terms of organic and viral reach on Facebook in recent years on brand pages (Voorveld, Araujo, Bernitter, Rietberg, & Vliegenthart, 2018). Furthermore, Voorveld et al. (2018) found that paid reach in the form of advertising and the number of post likes were the most substantial influencing factors of organic reach on Facebook; however, paid advertising on websites outside of Facebook do not contribute to higher activity on the analysed social media platform.

Another crucial metric in terms of a Facebook brand page is its number of followers and the factors that influence its growth rate. Previous research found that discounts and sales are among factors that influence follower growth of brand pages (Edison Research, 2012). Furthermore, research found that those users who already follow a brand page of an international airline, report more positive reputation scores than those who are not following them (Dijkmans, Kerkhof, & Beukeboom, 2015).

The present paper aims to extend this knowledge by focusing on the total reached individuals and follower counts of the Facebook brand page of a Twitch.tv live streamer, RandomNickname, and asks the following exploratory research questions:

RQ1: What is the relationship between post types and the analysed Facebook metrics, such as total reach, reactions, comments, and shares?

RQ2: What is the direct influence of post types on total reach?

RQ3: What is the direct influence of post types on follower count?

RQ4: What is the indirect influence of post types on follower count?

RQ5: What is the total influence of post types on follower count?

By answering the present research questions, the author of this paper aims to contribute to the existing research domain of user attraction on social media through the discussion of the Facebook brand page communication forms and effectiveness of a Twitch.tv live streamer.

Methodology

Data collection was performed from the Facebook Page Insights of a Hungarian Twitch gamer RandomNickname with his consent. Data was collected during the time interval, starting from the 30th of November 2017 until the 29th of May 2018. During the analysed 181 days, there were 106 days where newly posted content appeared on the page.

The retrieved posts were categorised following the Grounded Theory approach previously used by Poecze, Ebster and Strauss (2018). Descriptive measurements are presented in terms of retrieved post types, total reach, follower counts and total engagement, which is calculated according to the following equation:

$$total\ engagement = \frac{reaction + comment + share}{3} \quad (1)$$

Kolmogorov-Smirnov tests with Lilliefors correction (Lilliefors, 1967) were used to determine the application of parametric or nonparametric approach in terms of analysis of variance, resulting in the use of Kruskal-Wallis H tests (Kruskal & Wallis, 1952), with Dunn's posthoc pairwise comparisons with Bonferroni adjustment (Dunn, 1964) for the examination of possible significant differences in the retrieved Facebook metrics (i.e., total reach, reactions, comments, shares) in terms of the classified post types to address RQ1. Furthermore, for the relationship description

among the retrieved Facebook metrics, such as the number of reactions, reach, comment and share, Kendall's tau-b (τ_b) as a nonparametric measure of the strength and direction of association was used (Kendall, 1945). For this evaluation, the arithmetic means of the equipped metrics were calculated based on their coded post types and are interpreted in the Results section.

To test the possible mediator function of 'total reach' (M_{reach}) in the causal antecedent variable 'post type' (X_{post}), and its effect on the consequent variable 'follower count' ($Y_{follower}$), a mediation analysis using PROCESS macro will be conducted. (Hayes, 2018)

Since there are two consequent variables in the model (i.e., 'total reach' and 'follower count'), two linear models are required for their analysis, presented hereby with the following two equations:

$$M_{reach} = i_M + aX_{post} + e_M \quad (2)$$

$$Y_{follower} = i_Y + c'X_{post} + bM_{reach} + e_Y \quad (3)$$

In the equations, i_M and i_Y represent the regression constants, whereas e_M and e_Y are estimation errors of M and Y , while a , b , and c' are the regression coefficients given to the antecedent variables ('post type' and 'total reach') in the estimation of the consequent 'follower count'. Figure 1 serves as a visual representation of the hereby analysed mediation model.

Results of the direct influences are extended with explained variance (R^2) of the estimated two regression models and their F-ratios (c.f. Hayes, 2018, p. 62).

The direct, indirect, and total effects of the model will be explained, followed with bootstrapping to generate a representation of the sampling distribution of the indirect effect through 10,000 samples derived from the original one. The shape of the ab distribution will be visualised, along with the lower and upper bounds on a 95% confidence interval.

Bootstrapping of the indirect effect was performed with PROCESS macro syntax, added with a 'save' function to store the 10,000 bootstrap sample results. Descriptive statistics, along with the performed Kolmogorov-Smirnov, Kruskal-Wallis H, and Kendall's tau-b tests were evaluated in IBM SPSS Statistics v. 25.

Results

During the time interval of the sampling, 106 posts appeared on the brand page of RandomNickname, and 75 days went by without newly posted content. On the first day of sampling, the brand page displayed 225 followers, which accumulated to 284 until the last day of the data retrieval, resulting in a follower growth of 26.22% in a half year. The following visualization represents the distribution of shared content in terms of their total reach ($\bar{x} = 187.79$, $SD = 226.825$) and total engagement ($\bar{x} = 7.42$, $SD = 8.70443$; Figure 3).

To extend the characteristics of the analysed sample, Figure 2 summarises their gender and age distribution. From the 284 followers on the last day of sampling, 231 were males, forming 81.33% of RandomNickname's fan base on Facebook, while 28.77% were females. The age group with the highest ratio of

Figure 1. Illustration of the performed mediation model

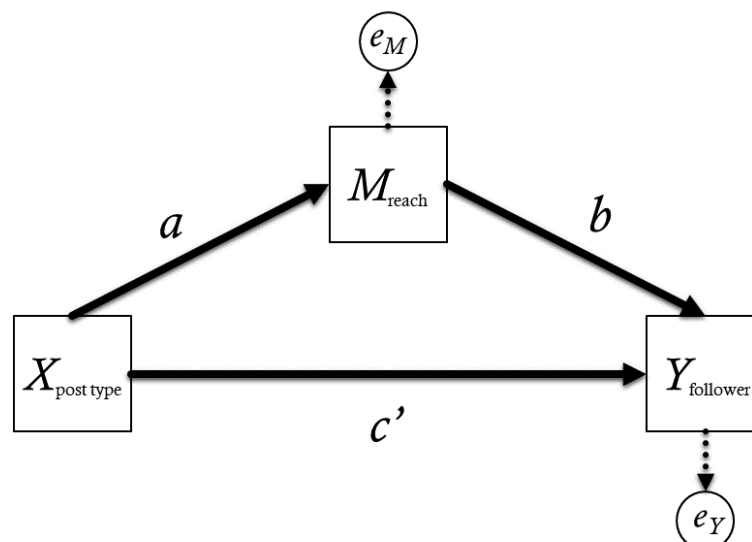
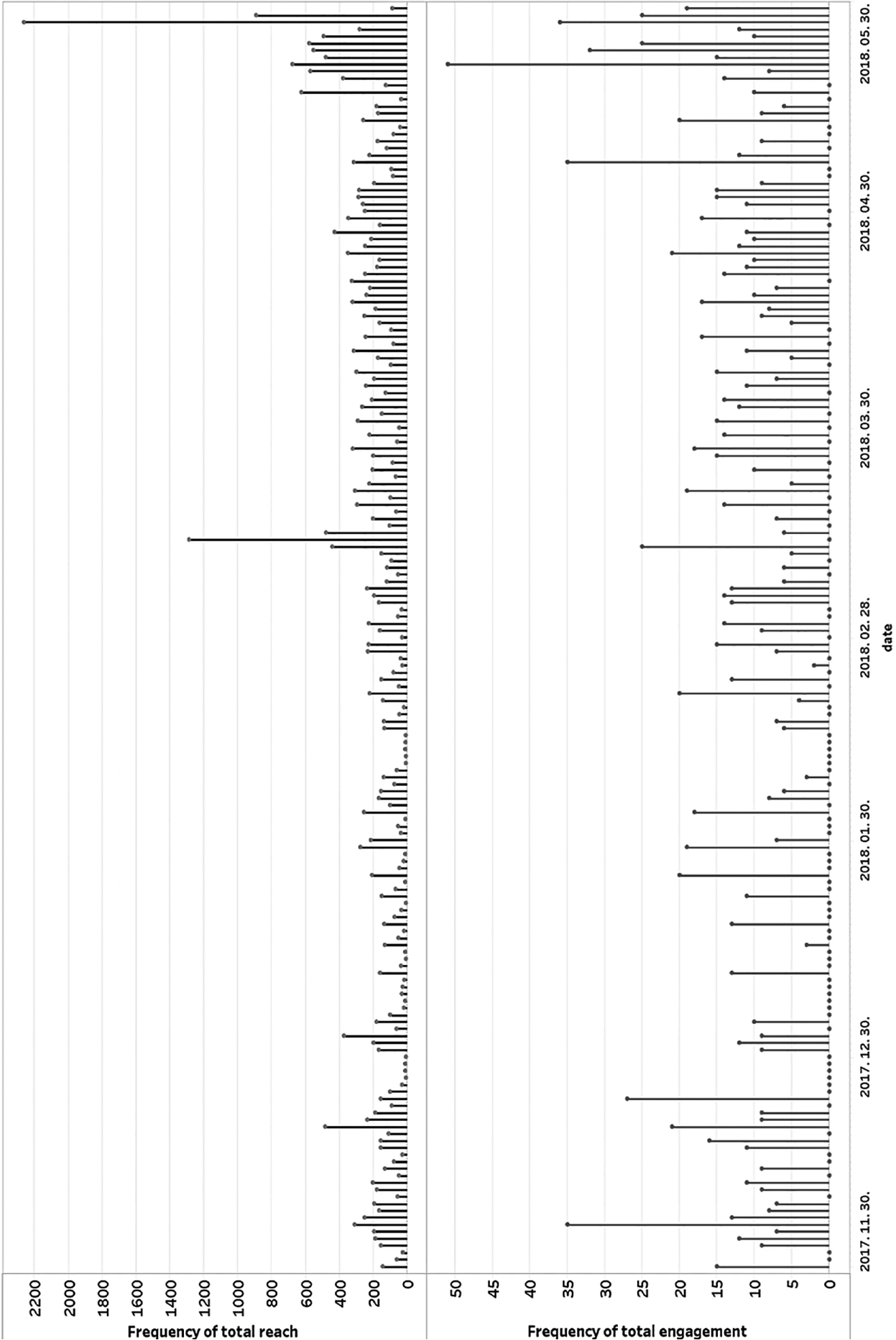


Figure 2. Post-distribution during the sampled time interval in terms of total reach and total engagement



Note: Author's visualization in Tableau 2019.1 (academic license).

fans subscribed to the page was between 18 and 24 years, constituting 52.82% of the sample, followed by those between 25 and 34 years, compiling 20.07% of all followers.

Table 1 displays the coded 13 post types in terms of their core- and subcategories, along with their arithmetic means and standard deviations regarding reaction, comment, and share scores. As the table reveals, from the 106 posts that were coded during the analysis, 60 (56.6%) contained the embedded Twitch.tv link of the channel owner, announcing the date and time of the upcoming live stream, followed by announcements in the same regard in the manner of photos ($N = 21$, 19.81%), mostly consisting of memes or visual arts related to the main games the streamer intended to play. Single-item subcategories were game links, photos about pets (i.e. the channel owner's dogs), embedded Facebook videos and embedded YouTube videos.

With the exception of subcategories containing stand-alone posts, the highest arithmetic mean in terms of reactions was reached in the subcategory live stream announcements that were posted as photos ($\bar{x} = 14.095$, $SD = 7.395$), closely followed by integrated Facebook polls ($\bar{x} = 13.5$, $SD = 14.387$) and status updates containing audience interaction encouragement ($\bar{x} = 13$, $SD = 1.414$). In terms of comments, integrated Facebook polls engaged users the most ($\bar{x} = 2.25$, $SD = 2.63$), whereas photos in the audience interaction encouragement received the highest arithmetic mean in terms of shares ($\bar{x} = 5$, $SD = 0.707$).

The descriptive analysis of total reach and total engagement scores of different coded post categories (Table 2) revealed

that in terms of total user engagement, status updates in the form of audience interaction encouragement received the highest arithmetic mean ($\bar{x} = 9.333$, $SD = 4.32$), consisting of posts asking the audience about their suggestions in terms of games to be played during the upcoming stream. Regarding total reach means, integrated Facebook polls gathered the most attention ($\bar{x} = 909.5$, $SD = 906.184$), where the audience could vote on one of the two games proposed as options for the upcoming streams. Although the follower counts of the analysed brand page moved between 225 and 284 followers during the sampled time interval, one of the integrated Facebook polls amassed a sum of 2263 reached individuals on the platform.

Kolmogorov-Smirnov tests with Lilliefors correction were used to determine the distributional characteristics of the retrieved Facebook metrics, resulting in the conclusion that they all differ significantly from normality ($p < 0.05$). Therefore, Kruskal-Wallis H tests with Dunn's posthoc pairwise comparisons as a nonparametric approach of analysis of variance were performed to reveal possible significant differences in the counts of these retrieved Facebook metrics in terms of the coded post types.

The test showed that there were significant differences in total reach scores of different post types ($\chi^2(12) = 122.023$, $p < 0.001$), between days where no posts occurred and announcements made through embedding the streamer's Twitch channel ($p < 0.001$), photo announcements ($p < 0.001$) and integrated Facebook polls ($p < 0.001$). There were significant differences in reaction scores in terms of different post types as well ($\chi^2(12) = 143.612$, $p < 0.001$); the results of Dunn's

Figure 3. Gender and age group frequencies of the analysed Facebook page on the last day of sampling (29th of May 2018).

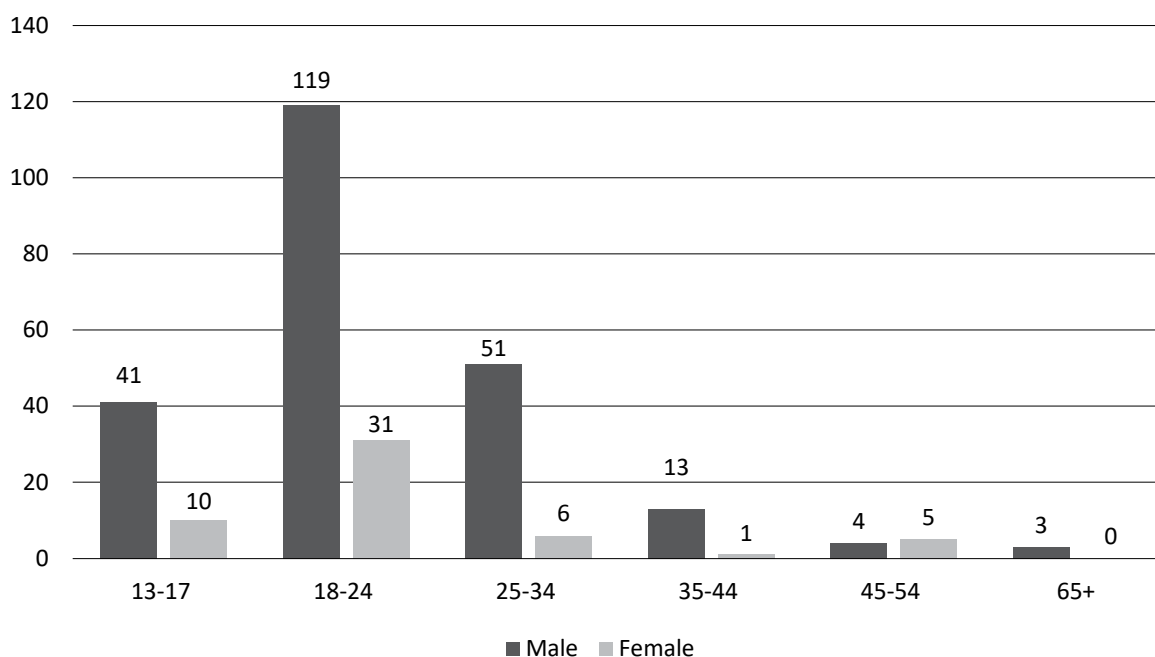


Table 1. Arithmetic Means and Standard Deviations in Terms of Reactions, Comment and Shares of Posted Content in Different Core- and Subcategories

Core category	Subcategory with final code	N	Reaction	Comment	Share
no post	(0)	75	0	0	0
Link	game (11)	1	5	0	0
	audience interaction encouragement (12)	1	20	1	0
Photo	live stream announcement (21)	21	$\bar{x} = 14.095, SD = 7.395$	$\bar{x} = 1.286, SD = 1.488$	$\bar{x} = 0.238, SD = 1.091$
	pets (22)	1	48	3	0
	audience interaction encouragement (23)	2	$\bar{x} = 18, SD = 9.899$	$\bar{x} = 2, SD = 1.414$	$\bar{x} = 5, SD = 0.707$
Status update	announcement (31)	6	$\bar{x} = 8.167, SD = 3.189$	$\bar{x} = 1.167, SD = 1.602$	0
	audience interaction encouragement (32)	2	$\bar{x} = 13, SD = 1.414$	$\bar{x} = 13.5, SD = 10.607$	0
Embedded Facebook video	audience interaction encouragement (41)	1	20	1	0
Embedded YouTube video	Twitch.tv highlights (51)	6	$\bar{x} = 8.667, SD = 7.633$	$\bar{x} = 0.833, SD = 1.329$	0
	let's play (52)	1	7	0	0
Integrated Facebook poll	audience interaction encouragement (61)	4	$\bar{x} = 13.5, SD = 14.387$	$\bar{x} = 2.25, SD = 2.63$	$\bar{x} = 0.25, SD = 0.5$
Embedded Twitch.tv channel	announcement (71)	60	$\bar{x} = 9.583, SD = 3.907$	$\bar{x} = 1.033, SD = 1.717$	$\bar{x} = 0.033, SD = 0.181$

Table 2. Arithmetic Means and Standard Deviations in Terms of Total Engagement and Total Reach of Posted Content in the Different Core- and Subcategories

Core category	Subcategory with final code	N	Total engagement	Total reach
no post	(0)	75	0	$\bar{x} = 60.63, SD = 53.786$
Link	game (11)	1	5	153
	audience interaction encouragement (12)	1	21	485
Photo	live stream announcement (21)	21	$\bar{x} = 15.619, SD = 8.316$	$\bar{x} = 356, SD = 289.161$
	pets (22)	1	51	678
	audience interaction encouragement (23)	2	$\bar{x} = 20.5, SD = 9.192$	$\bar{x} = 268, SD = 156.978$
Status update	announcement (31)	6	$\bar{x} = 9.333, SD = 4.32$	$\bar{x} = 159.67, SD = 29.757$
	audience interaction encouragement (32)	2	$\bar{x} = 26.5, SD = 12.021$	$\bar{x} = 283.5, SD = 38.891$
Embedded Facebook video	audience interaction encouragement (41)	1	21	350
Embedded YouTube video	Twitch.tv highlights (51)	6	$\bar{x} = 9.5, SD = 8.826$	$\bar{x} = 201.83, SD = 193.826$
	let's play (52)	1	7	196
Integrated Facebook poll	audience interaction encouragement (61)	4	$\bar{x} = 16, SD = 16.392$	$\bar{x} = 909.5, SD = 906.184$
Embedded Twitch.tv channel	announcement (71)	60	$\bar{x} = 10.65, SD = 4.418$	$\bar{x} = 219.92, SD = 76.681$

posthoc pairwise comparisons resulted in the conclusion that days without posting new content differed significantly from those where posts appeared with embedding the streamer's Twitch.tv channel ($p < 0.001$) and those with photo announcements ($p < 0.001$). In the same manner, comment means were also statistically significant in terms of post types ($\chi^2(12) = 64.988, p < 0.001$). Statistically different pairs in this regard were days on which no posts appeared and posting embedded Twitch.tv link announcements ($p < 0.001$), photo announcements ($p < 0.001$) and status updates including audience interaction encouragement ($p = 0.010$). Significant differences in share means in terms of post types were discovered as well ($\chi^2(12) = 26.627, p < 0.009$). Dunn's posthoc pairwise comparisons tests in this regard with Bonferroni corrections revealed that days without posts differed significantly from audience interaction encouragement photos ($p = 0.002$). Furthermore, such photo types received significantly more shares than status update announcements ($p = 0.016$), embedded YouTube videos about Twitch stream highlights ($p = 0.016$), embedded Twitch.tv channel announcements ($p = 0.007$) and photos announcing upcoming live streams ($p = 0.018$). These results are summarised in Table 3.

For the further description of the relationship between post types and their retrieved Facebook metrics, the results of the performed Kendall's tau-b tests are presented in Table 4. As the results show, all retrieved Facebook metrics correlated

with one another in a statistically significant manner, showing strong correlation coefficients.

The remaining research questions of the present paper are explored through mediation analysis, wherein post type serves the role of the antecedent variable, follower count is established as the consequent one, and total reach as the mediator of the model. As the following table (Table 5) depicts, post type did have a significant, positive, direct influence on total reach ($a = 16.6446, SE = 1.9243, p < 0.001$), however, it did not have a significant, direct influence on follower count ($c' = 0.0608, SE = 0.1772, p = 0.7320$). The direct influence of total reach on follower count was, on the other hand, displayed a significant, positive, direct influence on follower count ($b = 0.0295, SE = 0.0058, p < 0.001$).

Extending the results of the model's direct effects, the following table (Table 6) summarises the indirect and total effects of the analysis as well. The indirect effect of post type on follower counts (ab) is determined as significant, positive ($ab = 0.4912, SE = 0.2360, p = 0.007$), while the total effect of the prior variable on the latter is significant, positive as well ($c' + ab = 0.5520, SE = 0.1588, p < 0.001$).

The present results are further verified by drawing 10,000 bootstrap samples in terms of the model's indirect effect (Figure 1).

Table 3. Results of the Performed Kruskal-Wallis H tests with Bonferroni-corrected Dunn's Posthoc Pairwise Comparisons Regarding the Total Reach, Reaction, Comment and Share Means in Terms of Different Post Types

Independent variable	Dependent variable	Test result	Significantly different post type pairs
Post type	total reach	$\chi^2(12) = 122.023, p < 0.001$	no post ↔ embedded Twitch.tv channel no post ↔ photo announcement no post ↔ integrated Facebook poll
	reaction	$\chi^2(12) = 143.612, p < 0.001$	no post ↔ embedded Twitch.tv channel no post ↔ photo announcement
	comment	$\chi^2(12) = 64.988, p < 0.001$	no post ↔ embedded Twitch.tv channel no post ↔ photo announcement no post ↔ status update audience interaction encouragement
	share	$\chi^2(12) = 26.627, p < 0.001$	no post ↔ photo aud. int. enc. status update announcement ↔ photo aud. int. enc. Twitch.tv highlights video ↔ photo aud. int. enc. embedded Twitch.tv channel announcement ↔ photo aud. int. enc. photo live stream announcement ↔ photo aud. int. enc.

Table 4. Kendall's tau-b (τ_b) Correlation Coefficient Matrix among the Retrieved Facebook Metrics

	Reaction	Comment	Share	Reach
Reaction	1.000	0.865***	0.842***	0.969***
Comment	0.865***	1.000	0.817***	0.878***
Share	0.842***	0.817***	1.000	0.854***
Reach	0.969***	0.878***	0.854***	1.000

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

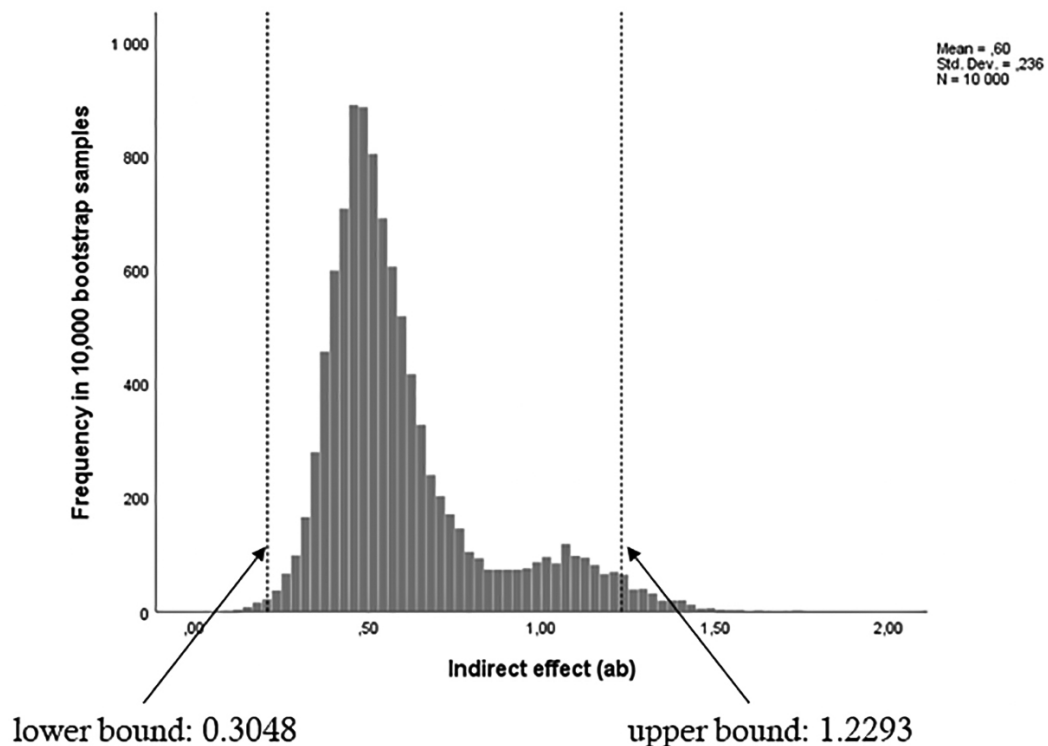
Table 5. Direct effects between the antecedent, mediator, and consequent variable of the proposed mediation model, extended with the respective explained variances and F-ratios

		Consequent						
		M_{reach}			$Y_{follower}$			
Antecedent		Coefficient	SE	p	Coefficient	SE	p	
X_{post}	a	16.6446	1.9243	< 0.001	c'	0.0608	0.1772	0.7320
M_{reach}		–	–	–	b	0.0295	0.0058	< 0.001
Constant	i_M	64.2890	20.1355	0.0017	i_Y	238.0956	1.6004	< 0.001
$R^2 = 0.2948$					$R^2 = 0.1829$			
$F(1,179) = 74.8195, p < 0.001$					$F(2,178) = 19.9234, p < 0.001$			

Table 6. Direct, Indirect, and Total Effects of the Constructed Model, Extended with Confidence Intervals

Effect		Coefficient	SE	p	Lower Bound (95% confidence interval)	Upper Bound (95% confidence interval)
Direct						
$X_{post} \rightarrow M_{reach}$	a	16.6446	1.9243	< 0.001	12.8474	20.4418
$M_{reach} \rightarrow Y_{follower}$	b	0.0295	0.0058	< 0.001	0.0181	0.0409
$X_{post} \rightarrow Y_{follower}$	c'	0.0608	0.1772	0.7320	-0.2888	0.4104
Indirect						
$X_{post} \rightarrow M_{reach} \rightarrow Y_{follower}$	ab	0.4912	0.2360	0.007	0.3048	1.2293
Total	$c' + ab$	0.5520	0.1588	0.0006	0.2385	0.8654

Figure 4. Visual representation of the indirect effect's (ab) bootstrapping results conducted based on 10,000 bootstrap samples.



Conclusion

Based on recent research in terms of user-attraction and interest on social media (Liu et al., 2014; Salganik et al., 2006; Venkatanathan et al., 2012; Wen & Lin, 2010), paired with contemporary trends in online gaming, particularly in the streaming platform of Twitch.tv (Johnson & Woodcock, 2019a, 2019b; Woodcock & Johnson, 2019), the aim of the present was to discover user-attraction characteristics of different posted content on the Facebook brand page of a Hungarian Twitch.tv streamer, RandomNickname.

The first research question (RQ1) of the paper asked the relationship between posted content and user-generated metrics retrieved from Facebook and resulted in observable significant differences in terms of reactions, total reached individuals, comments and shares as well. These were exclusively present in pairs, where content types were compared to days without newly posted content in the cases of total reach, reactions and comments, while there were no significant differences present between individual content type pairs. However, in the case of share means, significant differences between post type pairs were present as well. These included audience interaction encouragement photos receiving significantly higher share means than status update announcements, embedded YouTube videos about Twitch stream highlights, embedded Twitch.tv channel announcements and other photos announcing upcoming live streams. Furthermore, all retrieved Facebook metrics displayed statistically significant, positive, strong correlations with one another, concluded as results of the performed Kendall's tau-b tests.

Research questions 2–5 addressed the influence of post type on total reach and follower count on the analysed brand page and revealed that the type of content has a significant, positive influence on total reach (RQ2), however, its direct influence on follower count was not significant (RQ3). Furthermore, the analysis of indirect and total effects exhibited that the type of posted content did have a significant, positive, indirect influence (RQ4) as well as a significant, positive, total influence (RQ5) on follower count. In other words, the characteristics of shared material on a Facebook brand page lead to follower growth, indirectly, through the audience it reached on the platform. A telling example for this phenomenon were

the four integrated Facebook polls in the present sample, gathering 374, 429, 572 and 2263 reached individuals, several of whom became followers of the page, reflecting on the contagious nature of user interest (Liu et al., 2014; Venkatanathan et al., 2012).

The present study evaluated data retrieved from Facebook Insights with the consent of the channel- and Facebook page owner, both being RandomNickname, through a period of a half year. Furthermore, it solely interpreted the results of one brand page, which was at the time of sampling in a growing phase, resembling the increasing attention on the streamer in question on Twitch. Since this particular brand page was yet in its phase of 'infancy', compiling an audience of 225 followers at the starting point of the sampling time interval, evolving to 284 fans a half year later at the end of the time frame, in numerous cases, only a slight fraction of the followers engaged to the posted content. Furthermore, there were more than one coded subcategory containing merely one post in the sample.

A brand page with a broader audience, more balanced posted content and a more sizeable timeframe could bear the possibility of verifying the findings of the present analysis. In addition, these results can be drawn into comparison on multiple levels. Since the interpreted phenomena were present in the case of a Hungarian streamer, cross-country comparisons can reveal whether they exist in other cultures as well. Furthermore, the choosing of streamers with different communication techniques (e.g. more frequent posting, more diverse content, etc.) could enhance the results of the present analysis.

The cruciality of successful brand communication on social media walks hand in hand with the in-depth understanding of user behaviour on these platforms, detailed knowledge in terms of factors of user engagement can provide economic entities great value. The present analysis aimed to shed light on influencing elements, such as post types and their causal relationship with both reached individuals and follower growth, thereby indicating their relevance from a managerial perspective. Answers to these questions at hand can lead scientific research to expand its knowledge in the aspects of user behaviour on social media, complement our present-day understanding of the online spectating, and the interests of online gaming audiences as well.

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Kar objaviš, to dobiš: mediacijska vloga doseženih posameznikov v vzročni povezavi med objavljenimi vrstami vsebin in številom sledilcev na Facebooku

Izvleček

Ta članek obravnava vzročne povezave med objavljenimi vrstami vsebin, številom doseženih posameznikov in podatkov o številu sledilcev na strani Facebook blagovne znamke z raziskovanjem komunikacijskih oblik madžarske platforme za prenašanje videovsebin v živo Twitch.tv. Analizi distribucijskih značilnosti s Kolmogorov-Smirnovimi testi sledijo Kruskal-Wallisovi H-testi za določitev znatnih razlik v vrstah vsebin z vidika njihovega celotnega dosega, reakcije, komentarja in števila delitev, medtem ko so za preveritev medsebojnih zvez med pridobljenimi Facebook metrikami izvedeni Kendallovi tau-b testi. Nadalje je izvedena mediacijska analiza, pri čemer je upoštevana predhodna vloga glede na tip objave, medtem ko se število sledilcev uporabi kot posledična spremenljivka, celoten doseg pa v modelu prevzame mediacijsko vlogo. Na osnovi rezultatov analize je mogoče zaključiti, da analizirane Facebook metrike izkazujejo medsebojno statistično značilne, močne in pozitivne korelacije; poleg tega ima tip objave močan, značilen in neposredni vpliv na dosežene posameznike, in čeprav ti ne izkazujejo značilnega, neposrednega vpliva na število sledilcev, nanjo izkazujejo značilen, celoten učinek. Članek s tem prispeva k obstoječi online znamki osebnosti in raziskovanju igranja video iger, s čimer ponuja tudi vrednost k raziskovalnemu področju online marketinga in komuniciranja.

Gljučne besede: Facebook, igranje video iger, mediacija, tip objave, sledilec, doseg

Trade Barriers and Exports between Western Balkan Countries

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Abstract

The aim of the paper is to identify the trade barriers imposed by the Western Balkan countries. All barriers, whether tariff or non-tariff, undoubtedly impede the normal development of trade between countries. Therefore, the paper examines merchandise trade patterns in the Western Balkan region and tries to identify the main drivers of and obstacles to intra-regional trade. Intra-regional trade comes second in importance, after trade with the European Union (EU); it underperformed and was in decline in the last few years. In the region with political challenges as the Western Balkans, non-tariff barriers significantly reduce trade exchanges between the countries in this region. Currently, the trade and political disputes (tax rate 100%) between Kosovo and Serbia showed that the imposed tariffs in trade created a political reaction between the countries, interrupting the dialogue between these countries. The originality and value of the paper are reflected in its dealing with such topics as trade barriers, genesis in ethnic and political disputes that are prominent in the Balkan region.

Keywords: trade barriers, Western Balkan Countries, exports, intra-regional trade

Introduction

Economic transition in the Western Balkans was characterised by the liberalisation of trade and capital flows, which opened up domestic markets to foreign competition. It was also characterised by the elimination of trade barriers. This transition began later in the Western Balkans than in Central Europe and the Baltics. The delay occurred in the 1990s, when the breakup of the Socialist Federal Republic of Yugoslavia (SFRY) triggered prolonged and multi-focal armed conflicts, sharp declines in economic performance, the application of international sanctions and the insurgence of intra-regional physical and non-physical barriers to trade and economic cooperation (Organisation for Economic Co-operation and Development (OECD), 2019, p. 13).

After the ethnic and political crises in this region, regional trade is thought to be a driving force for cooperation, development and social and economic emancipation of the nationalities of this region. Therefore, even in the Balkan countries, exports are considered as key factor of economic development and serve as indicators of macroeconomic stability. In order to maximise exports, alliances

have been established and agreements have been signed around the world aimed at eliminating restrictive trade barriers. But even after agreements have been reached to lift trade restrictions, many countries, through additional conditions that seek to be met by other countries, mainly in goods, significantly impede the entry of foreign goods into the domestic market. These agreements may contain provisions that indirectly entitle states to restrict trade in certain cases, which are considered exceptional, which may cause exports to other countries to be affected and thus impede free trade.

According to Kittova and Steinhäuser (2018), the Western Balkans are considered North Macedonia, Albania, Kosovo, Bosnia and Herzegovina, Montenegro and Serbia. None of the Western Balkans can currently be considered a functioning market economy nor to have the capacity to cope with the competitive pressure and market forces in the global market. The best overall economic position among the Western Balkan countries belongs to North Macedonia and Montenegro. Conversely, countries assessed as the worst are Serbia, Kosovo and Bosnia and Herzegovina. Figure 1 shows the differences in the standard of living between the Western Balkan countries and European countries.

So, deepening cooperation and trade between Western Balkan countries would bring both economic and political benefits to the region by reducing trade barriers, increasing foreign investments, and improving the business

environment. The EU should strengthen the regional approach by giving all countries of the region tangible European commitment (Qorraj, 2018, p. 11). The free flow of capital, goods and services, would make Western Balkan countries more attractive for investment. These countries individually are small but collectively are a market of 20 million people. Integration in the EU would break down the regional barriers that hold these countries back from shared prosperity.

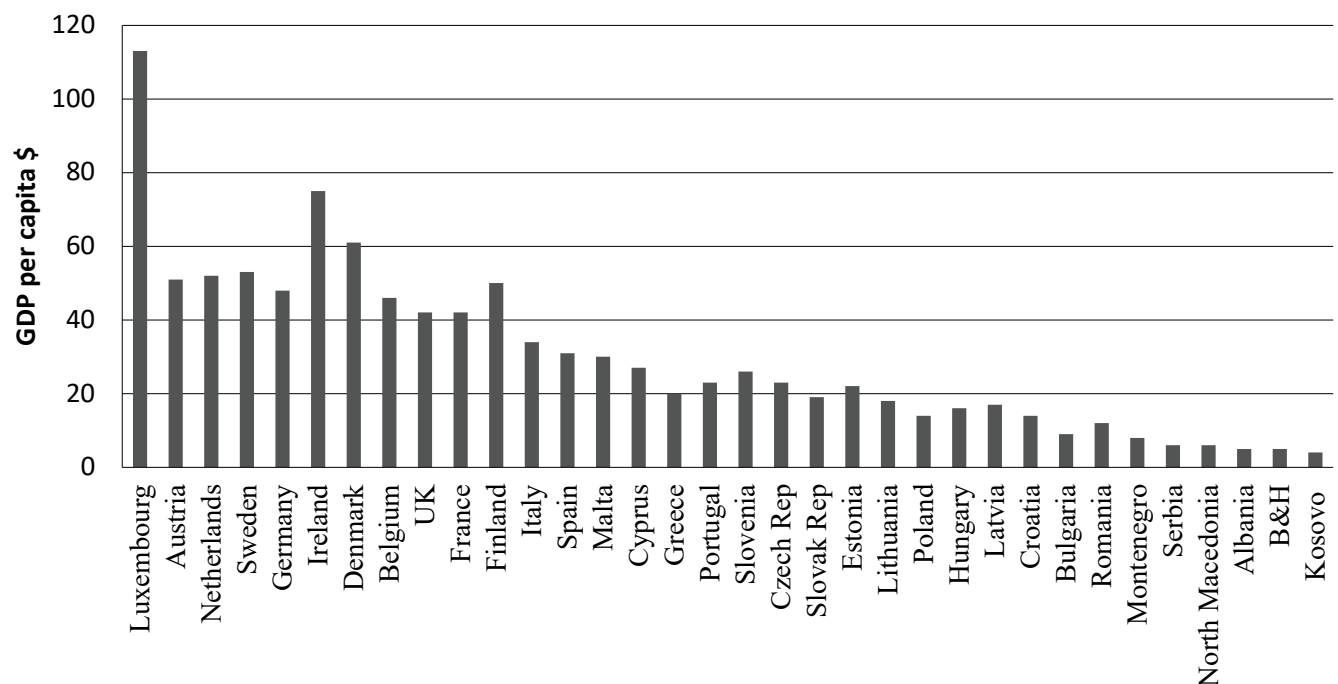
The research questions are:

1. Do the trade barriers in the Western Balkans have a political background?
2. Did intra-regional trade leads to higher trade integration of Western Balkan countries?
3. Did CEFTA and the Stabilisation and Association Agreement affect the elimination of barriers in the Western Balkan countries?

Methodology

This paper will use secondary data from official sources, research reports of local and international institutions, scientific papers as well as literature related to trade liberalization, the nature of trade barriers and their impact on the export of Western Balkan countries. So, through these data we will analyse the regional trade agreements such

Figure 1. Average GDP per capita in different groups of European countries



Source: International Monetary Fund, 2018

as CEFTA, part of which are Western Balkan countries, Stabilisation and Association Agreement (SAA), and their impact on the exports of this region. Our focus will be on the impact of trade barriers on exports, the effects of these agreements on these countries' exports and on economic development in general. Also using different figures, tables and graphs will reflect the level of exports and their impact on the economies of these countries.

Theoretical Background

There are varying reasons why countries engage in international trade. According to Krugman, Obstfeld and Melitz (2010), countries engage in international trade for two main reasons, each of which contributes to trade benefits. First, countries trade because they are different from each other, therefore countries can benefit from the differences they have. Second, countries trade to achieve economies of scale in production. In this way, countries tend to specialise in the production of such products where higher efficiency is achieved rather than trying to produce everything.

The analysis of trade, trade barriers, exports and benefits from trade agreements in the Western Balkan countries has been the focus of several authors who have attempted to draw conclusions on this issue. Although there are some empirical and theoretical evidence such as those presented by Miljovski and Uzunov (2002), European Bank for Reconstruction and Development (EBRD, 2003), Kernohan (2006), World Bank (2003), Qorraj (2010), Toševska-Trpčevska and Tevdovski (2014) and Qorraj and Jusufi (2018). There is still a marked lack of literature on the issue of costs and benefits of the Western Balkans from regional trade and trade barriers.

The evolution of efforts to facilitate trade in the Western Balkans began almost immediately after the signing of the Dayton Agreement in 1995. In 1996, the Southeast European Cooperation Initiative (SECI) was created as a modern version of a Marshall Plan for the Balkans. The primary aim of this initiative was to bring all Balkan countries to a mutual cooperation. After 2000¹, the political orientation of the Western Balkan countries had undergone a major change. In 2007 Bulgaria and Romania became EU members. In 2013, Croatia joined the EU.

In June 2012, Montenegro began EU membership negotiations. North Macedonia, Montenegro and Serbia are EU candidates, while Kosovo has a special international status because of Serbia's opposition to recognising its independence (United States Agency for International Development (USAID), 2016, 9). In 2006, the Western Balkan economies have embarked on liberalising regional trade within the Central European Free Trade Agreement (CEFTA). There are still cases, sometimes even isolated, where the business community from CEFTA members face direct or indirect barriers to trade. Although agreements do exist, it is worth noting that mutual recognition of certificates and test reports is lacking in the region. Mutual recognition agreements have not been implemented due to some formal reasons, as signatory countries do not exchange labs, but other problems are more realistic, for example, changes in testing requirements (Ministry of Trade and Industry (MTI), 2018, 3).

Tankosić et al (2011) explored the possibility of preparing Western Balkan countries for the EU market through regional trade integration. CEFTA and the SAA have promoted free trade but have not been the solution to maximise the region's trade potential. Prior to the creation of CEFTA 2006, the EU applied the Autonomous Trade Preferences to the Western Balkan countries in order to facilitate the export of these countries to the EU. As a result of free access to the EU market, countries in this region have been able to significantly increase exports of all product groups (Ognjenović and Branković, 2011, p. 192).

Trivić and Klimczak (2015) came to the conclusion pointing out the importance of communication in Western Balkan countries on trade issues, whether it is a direct opportunity to understand one another in terms of language or an intercultural dialogue focusing on improving tolerance towards the beliefs of the other side. They suggest the use of all measures to work on regional dialogue that will promote understanding, multilateral tolerance and the reduction of formal and informal barriers of trade in the region.

Almost the same results were given by Kucharčuková, Babecký and Raiser (2010), who concluded that the poor quality of institutions in many Western Balkan countries is the major barrier to greater trade integration of this region. According to Xhelili-Krasniqi and Mustafa-Topxhiu (2017), Western Balkan countries trade more with European Union than between themselves. More intensive trade between the Balkan countries would give the Balkan countries a chance to export the goods of high economic and technological level to less competitive markets. If the Western Balkan countries adopt export-led strategy of small developed countries, then current deficits in the balance of payment and external debts should be overcome in the long-term.

¹ The countries that were classified as Western Balkan countries before 2000 were Albania, Bulgaria, Romania and the countries of the former Yugoslavia (Slovenia, Croatia, Serbia and Montenegro including Kosovo, FYR Macedonia, and Bosnia & Herzegovina).

Trade Barriers between the Western Balkan Countries

In this section we will chronologically examine the trade barriers between the Western Balkan countries. All six countries have committed to deepening their collaboration within the current Central European Free Trade Agreement (CEFTA) to the point where goods, services, investments and skilled people can move freely within the region without tariffs, quotas or other unnecessary non-tariff, and other barriers (Sanfey & Milatovic, 2018, p. 7).

However, the placement of barriers within the CEFTA block is made possible because of the flexibility existing in the CEFTA agreement to do so, which in turn impedes genuine free trade. Article 23 of the CEFTA agreement allows safeguards from one CEFTA member state to be taken against another member in the event that as stated in this article “the high amount of imports of a product which causes serious harm to the manufacturer of the product. The importing country or if this high amount of imports causes serious impediments to any particular sector of the economy of the importing country that may harm the economic situation” (CEFTA Agreement, 2006, p. 18).

The CEFTA, similar to other free trade agreements, provides for the possibility of introducing measures or barriers aiming at the protection of the internal economy, production and commercial interests. It specifies in which cases, under which conditions and following which procedure such measures can be taken or eliminated. During the period 2008-2012 there have been many cases, especially with Kosovo, when different countries have applied different barriers, both tariff and non-tariff, which have not necessarily been in any respect inconsistent with the CEFTA Agreement (Kosovar Institute for Policy Research and Development (KIPRED), 2013, p. 52).

In addition to the CEFTA agreement, the Western Balkan countries are part of the Stabilisation and Association Agreement (SAA). This agreement aims to eliminate trade barriers and free movement of goods and capital between the EU and these countries. The SAA's implementation has brought negative consequences due to the opening of the domestic market as well as from the increased EU market competition. In this context, more significant and with more detrimental influence on trade are the various non-trade barriers stemming from the SAA, such as the enterprise reconstruction, social programmes and their financial implications, quality and ecological standards and their adoption costs and high unemployment. Overcoming all of these barriers is a crucial goal for each partner country in order to fully grasp the benefits in the agreement (Group for Legal and Policy Studies (GLPS), 2018, p. 27–28).

Trade Barriers between Serbia, Bosnia and Herzegovina and Kosovo

Serbia and Bosnia and Herzegovina had blocked Kosovo's exports to these countries as well as transit of goods from Kosovo through these two countries starting in December 2008, when Kosovo changed its customs stamps from “UNMIK Customs” to “Kosovo Customs”². These two countries do not recognise Kosovo as an independent state. Also do not even recognise Kosovo's customs stamps. These countries' blockade on Kosovar exports has had a major impact on reducing Kosovo's exports.

Kosovo waited for about 3 years for Serbia and Bosnia and Herzegovina to remove the blockade, and as a result of the latter's unchanging stance, Kosovo's Ministry of Trade and Industry (MTI) decided to apply mutual barriers to these two countries starting July 20, 2011. Kosovo's reciprocal action on Serbian goods was a pressure therefore Serbia accepted the inscription on the customs stamps as “Kosovo Customs” on September 2, 2011. The reciprocity measure by Kosovo was withdrawn on September 16, 2011 (Kosovar Institute for Policy Research and Development (KIPRED), 2013, p. 53).

In early November 2018, the Government of Kosovo introduced a 10% tariff on imports from Serbia and Bosnia and Herzegovina in retaliation to, what was then argued, the direct assault of these countries on the sovereignty of Kosovo. The measure followed extensive lobbying efforts by Serbia to prevent Kosovo's membership in UNESCO and Interpol. Moreover, the withdrawal of a number of recognitions from countries that have already recognised Kosovo's independence seems to have had a bearing on the decision by Kosovo's authorities. Apart from political reasons, the Kosovo's institutions argued also that the imposition of the import tariff is also a response to barriers Kosovo exporters have long been facing in these two countries, largely of non-tariff nature. Kosovo's authorities did not back down. Moreover, they went even further, increasing the tax rate to 100% (Gashi & Berisha 2019, p. 4).

Serbia is characterised mostly in almost all sectors and in all categories, for the imposition of trade barriers on Kosovo companies, followed by Albania. Since 2008, Kosovo and Serbia have had a tense trade and political relationship. Therefore, due to Serbia's non-recognition of the state of Kosovo, the trade barriers between Kosovo and Serbia are more political than economic in nature (GAP Institute, 2019, p. 20). The Kosovar exporters are obliged by the Serbian

² On 17 February 2008, Kosovo declared its independence from Serbia. As a result, on 11 November 2008, formerly United Nations Mission in Kosovo (UNMIK) Customs Services was transformed to Kosovo Customs.

authorities, respectively the food and veterinary authorities, to wait for days with their barges, because the Serbian authorities do not recognise the analysis of the Kosovar exporters (MTI, 2018, p. 4).

Trade Barriers between Kosovo, Albania and North Macedonia

The other trade barrier case is the decision that the Ministry of Trade of Kosovo took on June 11, 2012, to impose a 35% tariff on the value of imported cement in Kosovo. Albania was the country most affected by this measure, as even the largest imports of cement came from Albania. The reason for imposing this tax was to decrease Kosovo's imports. Macedonia decided on July 24, 2012 to increase customs duties on water and welded pipes exported from Kosovo to Macedonia. On 1 August 2012, Kosovo eliminated import duty on cement on Albania and Macedonia. Also, North Macedonia eliminated import duties (Kosovar Institute for Policy Research and Development (KIPRED), 2013, p. 54)

Albania applies preferential import tariffs to the other members of CEFTA, EU member states and Turkey. Preferential and non-preferential origin applies to goods from certain countries. Preferential origin is provided for goods originating in those countries that have met certain criteria to benefit from preferential tariff treatment. On September 4, 2014 a Memorandum of Understanding and Cooperation was signed between the Chamber of Commerce and Industry of Albania and the Kosovo Chamber of Commerce. This Memorandum would enable closer cooperation between these two countries in order to eliminate trade barriers. Despite this, the Albanian authorities often apply reference prices to agricultural products of Kosovo origin. (Institute for Development Policy, 2015, p. 23).

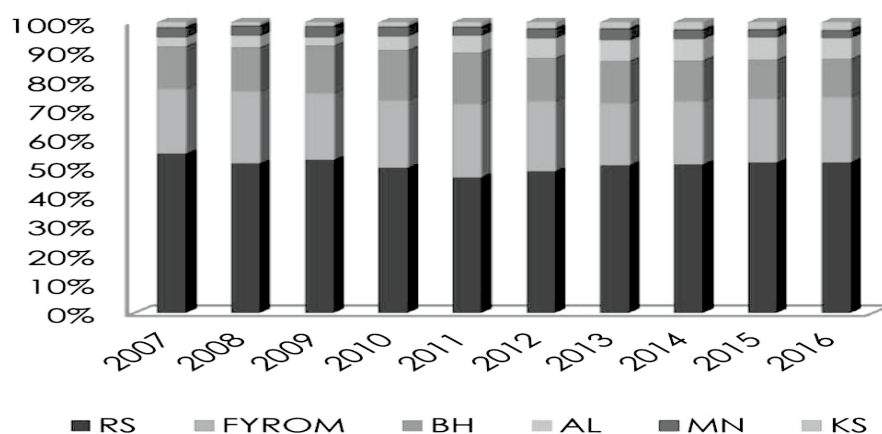
Despite these barriers, the institutions of the countries of this region have tried to support businesses in overcoming trade barriers. It should be noted that Kosovo businesses nowadays will find it much easier to address trade barriers during export, import or transit of their goods. This was facilitated by the Trade Department at the Ministry of Trade and Industry, which in cooperation with the EU project for Further Support to Trade Policy, has created a new web platform that will serve businesses in Kosovo to address through this instrument all trade barriers they face during export, import or transit of their goods in other countries, either at border crossing points or elsewhere (MTI, 2018, p. 14).

Intra-Regional Exports in the Western Balkans

Under the Stabilisation and Association Process, CEFTA 2006 and bilateral free trade agreements, Western Balkans countries have committed to deepening further their collaboration on areas such as trade liberalisation, electronic commerce and trade dispute settlements. Intra-regional trade is far less important at present. The EU is by far the region's most important trading partner. Two-thirds of the region's exports are with the EU. The share ranges from 80 % in North Macedonia to just 23 % in Kosovo (Levitin & Sanfey, 2018, p. 7).

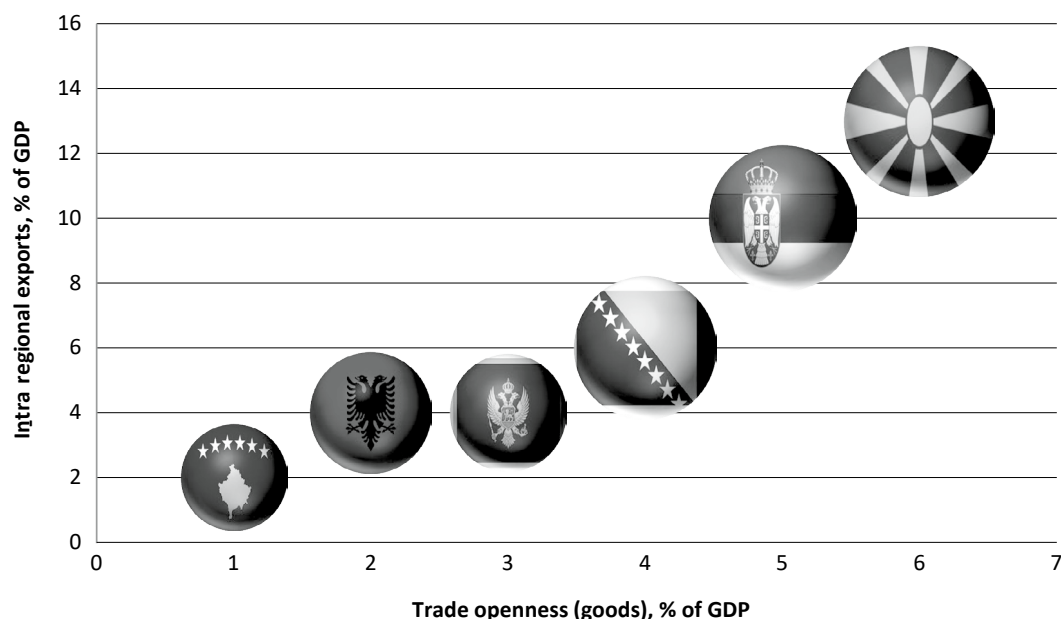
Even though there was a rapid increase of intra-regional trade, it did not lead to higher trade integration as compared to Central Eastern Europe countries. One of the reasons was that non-tariff barriers (e.g. sanitary and phytosanitary standards) appeared as obstacles. Also, the countries trade mainly goods, while integration of labour markets and increased labour mobility is still not in sight. This limits the expansion of intra-regional trade. Another thing is that there is variance of how much regional trade matters to individual countries.

Figure 2. Intra-regional exports among Western Balkan countries



Note: RS: Serbia, FYROM: North Macedonia, BH: Bosnia and Herzegovina, AL: Albania, MN: Montenegro, KS: Kosovo

Source: European Commission 2018, 11

Figure 3. Trade openness/exports to the region

Note: The flags represent the 6 countries of the Western Balkans, starting with Kosovo, Albania, Montenegro, Bosnia and Herzegovina, Serbia and North Macedonia.

Source: European Commission 2018, 11

Moldova has almost no trade and Albania has low trade with the region, while Kosovo's main exports are in the region (Balkans in Europe Policy Advisory Group, 2015, p. 10–11).

Another characteristic of intra-regional trade is that intra-regional exports in the Western Balkans are geographically concentrated and most of them originate from Serbia. As

can be seen from figure 2, in particular, in 2016, around half of all merchandise intra-regional exports originated from Serbia, while slightly more than a fifth came from North Macedonia. Both countries kept their share in total regional exports largely unchanged since 2007. Over the same period, Albania more than doubled its share of intra-regional exports. Kosovo also expanded its exports to the region,

Table 1. Western Balkan, Intra-Regional Trade, 2015 (million EUR and %)

COUNTRIES		Albania		Bosnia and Herzegovina		Kosovo		North Macedonia		Montenegro		Serbia		TOTAL	
		Imp	%	Imp	%	Imp	%	Imp	%	Imp	%	Imp	%	Exp	%
Albania	Exp			3	2%	134	63%	38	18%	25	12%	12	5%	214.3	100
	%			0%		34%		6%		3%		1%			
Bosnia and Herzegovina	Exp							48	4%	150	14%	409	37%	1096	100%
	%					0%		7%		16%		34%			
Kosovo	Exp	43	40%	3	3%			27	25%	17	16%	15	14%	107.4	100%
	%	16%						4%		2%		1%			
North Macedonia	Exp	56	10%	70	12%	174	29%			24	4%	195		590.2	100%
	%	21%		3%		44%				3%		16%			
Montenegro	Exp	15	8%	32	17%	21	12%	3	2%			80	43%	184.9	100%
	%	6%		1%		5%		0%				7%			
Serbia	Exp	96	4%	994	40%			454	18%	568	23%			2455.2	100%
	%	36%		43%		0%		67%		62%					0%
TOTAL	Imp	267		2322		399		674		912		1219		6735.6	
	%	100%		100%		100%		100%		100%		100%			100%

Source: Pere and Ninka, 2017

although from a very low base. Exports from Montenegro and Bosnia and Herzegovina did not keep up pace and lost market share in the region.

Relative to the economic size of the exporting country, from figure 3 it can be seen that regional trade has the highest share in the most open economy in the region-North Macedonia, where exports to the region top 12% of GDP. It is followed by Serbia with around 10% of GDP and Bosnia and Herzegovina with close to 6% of GDP. Despite its rise, intra-regional exports have the lowest share in Kosovo at some 2% of GDP.

Table 1 is based on the volume of exports and imports of a country to other countries in the region, by also taking into account the fact that a country's export to another country can be considered as import of the second country to the first. The table is constructed in matrix form. Each of its cells provides the value of exports/imports between the two countries. If we read the table in rows, from left to right, columns are placed on a country's exports to other countries in the region.

For example, in line Albania (row two of the table), Albania's exports to other countries have been tiered. To the right of every value is given the weight of the total exports of this country to the total for the region. The amount of exports is presented in the last column. If we continue with the example of Albania, we see that the country exported goods worth 3 million Euros to Bosnia and Herzegovina, which make up 2% of Albania's exports to the Western Balkans region, amounting to 214 million Euros total. If we read the table under the columns, the values of imports of each country from the other countries of the region are set in each row and below each value in the same column, are these values in relation to the total imports of the country, expressed in percentages (Pere & Ninka, 2017, p. 73).

From the above theoretical and tabular data, it can be understood that trade liberalization in Western Balkan, although positively seen from a political perspective, doesn't facilitate the overall export performance to a significant extent in a long term. One can suspect, that far more important job should be done in the institutional field. A favourable macro environment should be created in order to enable producers to develop modern and internationally competitive technologies, thus building and extending production capacities of the countries of the Western Balkans (Klimczak, 2016, p. 57).

So, according to World Bank Group (2017) regional collaboration to reduce trade costs, improve the transparency of barriers and regulations, and increase market access for goods and services would make the Western Balkans a more

desirable trading partner to the rest of the world, as well as support integration efforts with the EU.

Conclusions

The main conclusion of the paper is that despite the achievements over the 20-year period, political, economic and social environments in the Western Balkan countries are still weak. Regional cooperation, especially intra-regional trade could be as complementary instruments to eliminate ethnic divisions and problems of a social and economic nature, which are accumulated over a very long period of time. But intra-regional trade has not led to higher integration between these countries.

Western Balkan countries have set tariff and non-tariff barriers within the CEFTA Block in order to protect their local products. As mentioned above, when countries impose restrictive barriers, trade declines. The tariff on imported cement from Kosovo, which was followed by customs measures imposed by North Macedonia on pipes, Kosovo's reciprocity with Serbia are examples of barriers that hinder regional trade. Therefore, despite the fact that these countries are part of the CEFTA and the SAA, it has not affected them not to set different barriers to each other.

With a major impact on Kosovo exports are the non-tariff barriers applied to Kosovo products, such as the barriers to Kosovo transit goods crossing into Serbia and the frequent change of documents required by the Government of Serbia. Also, the barriers imposed by Albanian authorities on products from other Western Balkan countries, which are related to the lack of export analysis, mainly on agricultural products. Most of these barriers between countries in this region are of a political nature. Problems with crossings and long waiting times at border crossings have a direct impact on the competitiveness of enterprises in this region. Hence, the private sector in this region faces many challenges.

The governments of the countries of this region must put aside the old animosities. It is recommended to create a friendlier climate, eliminate all trade and political barriers in order to encourage Foreign Direct Investment and economic development, which would increase export growth.

There are limitations of this paper, because there is insufficient data on the trade barriers of the countries of this region. Although there is a lack of data and statistics about the trade barriers with political background, this paper will contribute theoretically to the literature of the Intra-regional trade and Western Balkans. The paper will also offer knowledge and additional sources about regional cooperation, trade matters of this region and integration of the Western Balkans to the EU.

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Trgovinske ovire in izvoz med državami Zahodnega Balkana

Izvleček

Cilj tega članka je prepoznati trgovinske ovire, ki so jih uvedle države Zahodnega Balkana. Vse ovire, carinske ali necarinske, nedvomno ovirajo normalen razvoj trgovine med državami. Zaradi tega članek raziskuje blagovne trgovinske vzorce v regiji Zahodnega Balkana in poskuša prepoznati ključna gibalna in ovire v intraregionalni trgovini. Intraregionalna trgovina je druga po pomenu za trgovino z Evropsko unijo, v zadnjih letih je bila slaba in v upadu. V regiji s političnimi izzivi, kot je Zahodni Balkan, necarinske ovire znatno znižujejo trgovinsko menjavo med državami te regije. Trenutno so trgovinski in politični spori (davčna stopnja 100 %) med Kosovom in Srbijo pokazali, da so uvedene carine na področju trgovine ustvarile politično reakcijo in prekinile dialog med temi državami. Izvirnost in vrednost tega članka se kaže v obravnavi tematik, kot so trgovinske ovire, geneza ter etični in politični spori, ki so izstopajoči za regijo Balkana.

Ključne besede: trgovinske ovire, države Zahodnega Balkana, izvoz, intraregionalna trgovina

Unions and Decisionistic-Restricted Involvement in the CSR Debate – An Explanation to a Cooperative Approach

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Abstract

Corporate social responsibility (CSR) implies the responsibility of companies for sustainable management in economic, ecological and social terms. The majority of CSR works in science and research were written primarily with the focus on ethics (moral vs. market economy), bearer of responsibility (state vs. companies) and management (e.g. best practice, manuals). This article comes from the perspective of a stakeholder group that is constantly mentioned but receive insufficient attention: unions. Research indicated early on that unions leaned back in the European CSR-debate since its beginning 2001. Based on the case of German unions, the author will analyse their motivation by studying their statements. The systematic literature review provides the basis for his qualitative content analysis of reasonable motives. The results show the unions encountering a complex environment with diverse interests, in which it is difficult to position themselves. Furthermore CSR requirements placed on companies were considered, by economy, to be set very high. Although CSR is not driven by legal regulations, it unfolds quasi-binding rules. For those reasons, it is not surprising that unions were sceptical and restrictive. With its analysis of a defensive CSR strategy, the study contributes to progress in the field of engagement in international debates. The author deals in a theoretical-conceptual way with the existing research results in this field, invalidates them and presents his own attempt with explanation. His explanatory approach extends the existing explanatory patterns by a new perspective for the problem described.

Keywords: corporate social responsibility, unions, industrial relations, CSR debate in EU, CSR actors

Introduction

Companies have been increasingly criticized for numerous incidents of immoral behaviour in public debate. The population is becoming ever more sensitive to those reports and the patterns of behaviour they describe, especially when it comes to high profits coupled with a reduction in jobs and high executive salaries and severance pay in times of economic crisis or scandal. To become more social and to accept more responsibility, some concepts have been brought up over the past years. Corporate social responsibility (CSR)—the assumption

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of social responsibility through integration into their business activities—is one of the concepts that can help companies out of the reputational crisis. The content-related facets of this concept create a field of tension of diverse interests, which can be partly heterogeneous and conflicting. CSR cannot therefore be viewed in isolation from the stakeholder approach, as the two thematic areas are closely intertwined. Thus the ‘integration ... in terms of content, time and communication and the structural and procedural implementation into the company’s activities, as well as the securing of long-term interrelationships with the relevant stakeholder groups [belong to its] central components’ (Meffert & Münstermann, 2005, p. 22). CSR basically represents the ‘way in which a company treats its stakeholders ... to put it succinctly’ (de Colle, 2004, p. 526).

Against the backdrop of the complexity of the CSR debate in theory and practice, which has been going on for years, the subject of this study emerged. The debate does not take place in a vacuum but is situated within a large circle of participants in which value conflicts and areas of conflict had built up, emotions were heated and polarized camps formed. As might be expected, there are power interests and struggles between stakeholders who want to rival one another and influence the shaping of political will-formation to their benefit. These participants also include the interest groups, in this study above all the German units, which - like the other actors - want to meet the expectations of their members and are therefore obliged to point out (re) actions. As a result, the various actors develop ideas and concepts that are primarily based on the enforcement of their position or interest representation. For his study, the author selects from the various CSR stakeholder groups.

For the author, the basis for the selection of the stakeholder group was their justified claims for involvement in the CSR debate. In this area, the author was particularly struck by the fact that the stakeholder ‘unions’ were inconspicuous in the debate, so he used this characteristic as a decisive selection criterion and consequently had a need for clarification. Preuss, Gold and Rees (2015) stated that various social actors have contributed to the global spread of CSR. Against this background, it is very strange that the unions as one of the social actors that hardly make an appearance. As part of their traditional role as employee representatives, they should participate in the discussion on the relationship between companies and stakeholders, especially in times of international labour cost competition. It is therefore appropriate to examine how Europeans unions view the rise of CSR (Preuss et al., 2015, p. 1). Eleven countries were selected in their corresponding empirical study: United Kingdom, Germany, France, Belgium, Sweden, Finland, Spain, Hungary, Poland, Lithuania and Slovenia. Rees, Preuss and Gold (2015) noted

that European unions have taken an unclear attitude about CSR. In principle, the concept is supported, but scepticism remains about the application and effectiveness of CSR measures. Respondents often view CSR as being geared to the company’s reputation rather than a real focus on improvements in working conditions and more responsible business practices. In addition, they see their role or power in the social dialogue being endangered. In some countries, union involvement is more visible compared to others. Numerous CSR union initiatives have been launched in Finland, France, Lithuania, Spain and the United Kingdom (Rees et al., 2015, p. 220). In Germany, which is considered to be a strongly institutionalised country with codified union rights and the principle of ‘social partnership’, the unions are of great importance for the national economic system. This makes it all more striking that CSR still ‘appears to be a relatively uncharted territory’ (Rees et al., 2015, p. 204).

Research and the author’s own impressions quickly showed that foremost the German unions ‘wall up’ when it comes to CSR and they had taken a passive or reserved attitude at the beginning of the debate. The wall tactics of the commonly aggressive unions is and remains questionable, because fundamentally different expectations are attached to them. Passive behaviour, however, is contrasted by a radical tone as a striking criterion. Unions suggest resolute action, but there has been precious little sign of this so far. Their message has not changed in the course of the debate. In most cases, employee-relevant CSR aspects are in the foreground, even if CSR is much more than responsibility toward employees.

The described ‘hide and seek’ tactic of the unions is and remains questionable because their appearance is historically and generally known and seen as aggressive and provocative (see Kessler, 1907, p. 20: ‘Union is throughout the primary, the employers’ association the secondary appearance. The union attacks by its nature, the employers’ association defends’.). People also remember times when ‘words ... [like] ... unions ... were associated with tremendous suggestive force that inspired the masses’ (Factory Workers Union of Germany, 1930, p. 94). Since the unions also want to be recognized as a pillar of democracy and it is so ‘important’ that they will ‘raise their voice’ (member of the German Bundestag/parliament MdB Schieder, 2016), their wall tactics are also questioned against this background. Another reason why the unions’ wall tactics are questionable is that CSR—to put it somewhat exaggeratedly—is not an issue for the Federal Criminal Police Office, but a public and social issue. This makes it all the more interesting for the researching author to penetrate and advance where he finds himself in front of imaginary closed doors.

From the author's point of view, it remains to be stated that the attitude of the unions in this context is not yet sufficiently scientifically developed and can be quite well distinguished from the otherwise dominant topics. These circumstances are underpinned by the lack of empirically verified documents in the literature, in which the explicit question about the causes of passive behaviour was put to the unions, possibly also due to a lack of willingness to testify and a reserved attitude to the matter. So, it is left to the author to analyse the motives of the unions' decisionistic-restricted attitude and to answer the following research question: *What are the causes of the unions' decisionistic-restricted attitude, when CSR is being debated?*

CSR has brought the economy and politics in with their demands intensive debate. The author's observations are intended to provide sufficient clues for his conjecture that a particular core is behind this decisionistic-restricted involvement, as one would normally expect. He will make his own attempt to explain this attitude.

Central Terms

Since the publication of the CSR EU Green Paper in 2001, all socially connected actors in the economic cycle have been forced to familiarize themselves with the CSR term. Responsibility has become a politically relevant term for companies in Europe. The Green Paper documents a definition that is always referred to in the European CSR debate:

Most definitions of corporate social responsibility describe it as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing 'more' into human capital, the environment and the relations with stakeholders (European Commission, 2001, p. 7).

Based on this definition further publications were published at irregular intervals. The first 'follow-up' was made in 2002 (European Commission, 2002). The Commission continues to adhere to the definition in the Green Paper; the CSR has not been notified of any change to this effect. The basic concept thus remains unchanged, even in the second 'follow-up' in 2006. Moreover, the Commission briefly summarized the work of the specifically established multi-stakeholder CSR forum and notes not only 'consensus among participants, but...also... significant differences of opinion between business and non-business stakeholders. ...There was no consensus, however, on topics such as company reporting requirements or the need for European standards

on CSR' (European Union, 2006, p. 5). The 3rd follow-up from 2011 includes a new CSR definition and a renewed strategy (European Commission, 2011). CSR is redefined as 'the responsibility of enterprises for their impacts on society. Respect for applicable legislation, and for collective agreements between social partners, is a prerequisite for meeting that responsibility' (European Union, 2006, p. 6). The voluntariness has not only disappeared expressly from the definition but, according to Schneider, is also 'strongly relativized' within the release. In the first papers in 2001 and 2002, the aspect of voluntariness was used 'almost inflationary' (Schneider, 2012, p. 22).

Despite the more binding nature of the commission's CSR-definition of 2011 presented in comparison to the previous ones, the most recent communication for the proponents of binding is unlikely to be a success. This 'product... will disappoint those calling for far more regulation of business' (Grayson, 2011).

In the broader context critics of CSR often warn and relate to 'greenwashing', which claims that companies have clean hands but are actually willing to engage in dubious business practices (such as child labour in supplier industries). Credibility in this respect poses a challenge or 'particular dilemma in the CSR debate.' Ensuring economic system stability and at the same time not jeopardizing sustainable development - in times of climate change and scarcity of resources - would take into account a possible 'reorientation' of the social market economy (Riess, 2012, p. 782). If, according to Milton Friedman (1970), the only social responsibility of companies would only be to make a profit. CSR is and remains ambivalent for companies.

Essentially, the unions are concerned with turning voluntarily into a legal obligation for CSR fields of action for companies. It is precisely this attribute of voluntarism that their opponents—the business association—want to maintain. They have pled since the beginning of the debate and move from this project not a millimetre. Furthermore, they are far more present in their membership representation than the unions. A consensus with the unions on the crux of the matter, namely voluntariness, has so far hardly been found.

State of Research

The scientific debate on CSR in Germany was initially triggered by economic and corporate ethics, mostly on a theoretical basis, while Anglo-American business ethics operated more practically oriented research. It is noticeable, however, that the CSR content has always been encompassed other terms. The demarcation of related concepts such as

sustainability, corporate citizenship, economic and business ethics proves to be difficult and confusing overall, as there is still no common CSR definition, which further affects the scientific debate. Often the discussion is carried out from different perspectives on these topics without explicitly referring to CSR. In relation to the flood of publications on CSR the attitude of the national trade unions in this regard is limited to a very small group of scientific publications. A first 'pitch' often mentioned in the literature was concisely made by Preuss et al. (2006) on an international level in a country comparison. The authors stated that the union role and influence of CSR depended in particular on the respective country and its framework conditions, and that CSR is also recognized as a threat by the unions. In general, CSR represents a new terrain for the European unions where the voluntary nature of entrepreneurial engagement contrasts with a legally binding duty of care for employees in Europe. Nationally limited—but very detailed—Mutz and Egbringhoff (2006) studied the attitude of German works councils in the CSR debate and their involvement in implementing relevant standards in the companies. At this point in the CSR debate, it was also clear among the expert community that unions initially behaved more passively than actively.

Frequently cited in the relevant German CSR literature and similar conviction are also Hauser-Ditz and Wilke (2004, p. 7) whose study came to a similar conclusion that, *inter alia*, 'German unions' reaction is ... characterised by restraint'. This view is sometimes represented in the union ranks as well.

Of notable relevance and important sources are two studies published by the union-linked Hans Böckler Foundation: On an empirical basis Zimpelmann and Wassermann (2012) provided a conceptual analysis of the relationship between the traditional model of social partnership, the codetermination 'arena' and the emerging CSR arena. They can recognize 'at least no dominant role' in employee representation as actors. And they noted a fragmentary state of research. Vitols' (2011) literature report offers a large overview about the activities and positions of the employee representatives at national and international level. In terms of unions' activities following points essentially were made: the relatively late time of the unions' statement of determining positions in 2005 is criticised. Particularly in 2009 the unions became active.

Haunschild and Krause (2015) have followed the development of the debate in the Confederation of German Trade Unions (DGB) and selected affiliated unions and their positions on a recent empirical basis. In the accompanying anthology the editors Preuss et al. (2015) noted that the topic of how unions deal with CSR and its rise is significant but has remained 'under-researched' so far (p. 10). It is striking that the unions - after all known as a social actor - are hardly noticed in the CSR-literature.

A dedicated study of the restricted unions' attitude in the context of CSR has been relatively unexplored in terms of its causes. There are always authors in the literature who mention the caution of the unions and that they only act hesitantly in the CSR debate. This general finding is hardly disputable even if occasionally union activities were mentioned. Thus, a considerable number of sources can be presented as evidence of restraint. However, there is a general lack of the exhaustiveness of arguments.

Only a few sources deal with this problem. Since empirically substantiated reasons are not available - although a deficit of theoretical expertise is also to be found - hypotheses are drawn up by the author on the basis of the previous considerations. Three explanatory models are used to illustrate the discussion. The study of the literature shows that the confrontation with their traditional tasks (Habisch & Wegner, 2005, p. 115) has taken a significant position. On this basis it can be concluded as the hypothesis 1. Another assumption which was found and seemed to influence a possible answer to the research question can be summarized in the second hypothesis: unions doubt that the companies mainly care for the social environment and the well-being of workers. They reasonably suspect CSR-active companies are not concerned with the benefits but with image reasons and place their lust for profit above all (Mutz & Egbringhoff, 2010, p. 280). Hypothesis 3 on unions' passivity (as an impression of its counterparts, BDA/German Employers' Association) illustrates the underestimation of the importance and failure of the unions (Zimpelmann & Wassermann, 2012, p. 38). Testing this hypothesis is guided by the question whether the unions consciously or unconsciously were blind to the CSR-issue or did not recognised it.

These three hypotheses are intended to serve as a theoretical guide to exploration and transition into the author's own approach.

Material and Methodology

A qualitative methodology is used. A literature review prepares the conceptual basis and becomes the basis for the formulation of hypotheses. The functional analysis will examine the roles and functions of unions with regard to CSR. Over time, the attribution and allocation of union functions has been constantly changing and adapted to the changing social conditions. Nevertheless, their essential functions make a remarkable influence possible. In the political-economic context, they benefit from the strong added value of the German economy in international competition. An aggravating factor that needs to be considered is the environment in where they operate as social and political associations.

A secondary research through the content-analytical evaluation (document and text analysis) of existing material is carried out, which is aimed at a secondary-analytical reconstruction of the most important texts determining positions in the CSR debate. In addition to the above-mentioned CSR publications of the European Commission (2001, 2002, 2006, 2011), the statements of the German Trade Union Confederation (DGB) and occasionally of individual unions are evaluated as relevant material.

The Attitude of the German Unions Towards CSR

The presentation of this main chapter takes place in a structured sequence: the theoretical foundations of this study on unions are briefly presented in their entirety. Starting with a general introduction and leading to the thematic context, the aim is to ensure a close connection in terms of content. Chapter on CSR and unions' interrelationship establishes the thematic interface between unions and CSR as a basis for further investigation.

Unions in Germany - Nature and Tasks

Historically, unions are entities, organizations that emerged under specific conditions and are shaped by political disputes and the level of economic development in each country. Their conditions of origin, as well as the political vicissitudes and economic cycles to which they were exposed, have been defeated as traditions in them, shaped their organizational forms and structures, and influenced their programmatic goals. ... They are the children of early industrialization and the accompanying proletarianization in the late eighteenth and early nineteenth centuries (Müller-Jentsch, 1997, p. 84).

They are a 'product of the social conflict between capital and labour within the framework of capitalist socialization', which defended itself as a solidarized and organized labour movement against material exploitation and social oppression through 'power structures' as a result of the 'increasing industrialization of capitalism' (Esser, 2014, p. 86). In this context, the terms 'counter-power' or 'counter-movement' are often referred to, because economic action is not only connected with 'exchange relations' with the social, but also the ecological environment, so that 'all goods and services, including the social and ecological Resources ... become goods and thus fall under the "laws" of the market.' In this respect, the 'countermovement' is concerned, on the one hand, with regulating the 'unrestricted use of social resources (the labour force) in the market economy'. On the other hand, 'beyond the social question' it is also about the 'use of natural resources'. Because 'basically, in both cases, it

is about questions of reproduction, once the labour force, on the other hand of nature.' The goal here is to contain the 'purely market-based use of resources' and 'to cause legal restrictions by political pressure. In current terms: It is about sustainable business, and in the wake of this development, institutions ... have arisen early in Germany' (Mutz, 2011, p. 69).

Their significant area of activity is legally stated since 1974: codetermination (Germany's law on employee co-determination). In the basic program of the German Trade Union Confederation (Bundesvorstand des DGB, 1949) codetermination is drawn up as the third pillar of a new economic order to signal the desired balance between labour and capital (Müller-Jentsch, 2001, p. 203). In the literature, the German union landscape is often referred to as the 'German model of industrial relations', which is characterized by the following five features: 'duality, intermediarity, juridification, centralization and representativeness' (Müller-Jentsch, 1995, p. 11). It is a common feature of this system that it relies on strong stakeholders. In the interplay between the employee and employer side, it becomes apparent 'that unions without the employers' associations are incomprehensible; conversely, the same applies' (Schroeder & Greef, 2014, p. 125). The German industrial relations system along with its structural features, owes its origin to its much cited success, especially in the post-war economic and political framework conditions, which were comparatively favourable in the past.

These structural features also fostered the combination of economic goals (such as labour productivity) and rising living standards. In conclusion, the German model can be finally stated:

The institutional framework of the dual system promoted, conditioned, and enforced strategies and policies of the involved actors, which strengthened the social consensus and contributed to a low level of conflict and high productivity (Müller-Jentsch, 1995, p. 16).

Due to its high system stability the German model could even be considered an exemplary role internationally until the 1980s (Schmidt & Trinczek, 1993, p. 169).

The end of the Second World War also meant an important organizational change, as the union landscape was rebuilt. The DGB unions became dominant players on the employee side and positioned themselves at the centre of industrial relations. The combination of unit and branch association principles became an organizational feature and at the same time a structure-forming centre of the German union model. New comprehensive organizations were to be founded which were united under the umbrella of the DGB (Schroeder & Greef, 2014, p. 125). The DGB - based in Berlin - acts

as the federation of unions. In accordance with its statute the DGB represents the common interests of all their member unions (DGB, 2018). The relationship between DGB and its members is characterized by a functional division. The function manifested to the DGB must be differentiated according to the external and internal relationship. Externally, it is responsible for the representation of his members towards politics. In the internal relationship with its members the DGB functions traditionally in two ways: it fulfils common tasks for all unions and creates a financial balance between small and larger affiliated unions. Furthermore, DGB acts as a general mediation and coordination office in the internal relationship of its members. Coordination is carried out in particular in the case of political opinions of the members on the assessment of draft legislation, (inter)national committees and policy areas. The arbitration function is carried out in competing conflicts of its affiliated unions, if delineation difficulties of organizational areas and/or the responsibility with new sectors occur. Organizing and coordinating all interests through the umbrella organization becomes more complicated as there are fewer member unions and an imbalance in member strength (Hassel, 2003, p. 108).

The DGB also formulates its claim to representation as follows:

Unions will remain interest-related combat organisations and social reform movements in the future. They must fight for a different future, for social alternatives, for the overcoming of socially unjust and ecologically intolerable conditions. They must develop resistance and counter-power as well as forward-looking initiatives and sustainable concepts in order to assert freedom and democracy, solidarity and justice (DGB, 1996, p. 2).

Following the unified union principle under an umbrella organisation, the DGB's claim to representation comprises a holistic approach. This requirement considers a representation of interests of all employees without consideration of political or religious opinion, occupation and status groups (Rüb, 2009, p. 133). Currently there are eight members (DGB, 2019a). The unions IG Metall (metalworkers), ver.di (united services) and IG Bergbau, Chemie, Energie (mining, chemicals and energy) together register a DGB membership of more than 80%. In the other five unions, relatively homogeneous groups of employees are organized. Another distinguishing feature compared to the first three is that their financial resources and influence on the course of the DGB are much more limited (Schönhoven, 2014, p. 78).

As a political actor, the DGB cannot currently be ascribed any leadership role. Collective bargaining policy is the responsibility of the member unions, which coordinate it independently, especially since their specialist and policy departments have the appropriate resources to exert political

influence. They thus play an essential role as actors in collective bargaining policy for the labour market, while the DGB plays its role as coordinator of cross-union interests in the political arena at national and regional level, particularly in social policy matters (Schroeder & Greef, 2014, p. 130). The task of the DGB as coordinating body is made more difficult by the mergers of its members. Finding and coordinating an organisational conglomeration of all interests through the umbrella organisation becomes more complicated if there is a smaller number of member unions and an imbalance in membership strengths (Hassel, 2003, p. 108). 'In the shadow of the three giant associations' ver.di, IG Metall and IG BCE, the DGB 'scope ... for the independent representation of overarching interests and the development of own initiatives is even smaller than before' (Schönhoven, 2014, p. 78). Overall, it can be said that the structural and organisational balance of power of the German union model is currently characterised primarily by the fact that the resource-strong and self-sufficient individual unions are opposed by an umbrella organisation which tends to be weak in terms of resources (Schroeder & Greef, 2014, p. 128).

The Dual Nature of Unions: Interplay of Different Interests

There is an understanding of literature that unions appear to be exposed to ambivalent effects in the performance of their functions. The thematization of the 'twofold character ... is almost as old as the trade unions themselves' (Müller-Jentsch, 2003, p. 654). Since then, researchers have been exploring how this ambivalence takes shape. Many theoretical considerations have arisen here. As 'first, immediate organizations of wage laborers and as an element of capital relations' they form a 'counter-power of the workers to the power of capital, but they are also a factor of order. Because they organize the workers and that means they organize them, they channel their anger, ... revolt and ... powerlessness. These roles can 'contradict each other in the crucial task of representing the interests of the working class in the economic and political conflicts. ... unions are always both; this dual character is a stigma attached to them since their creation' (Zoll, 1976, p. 7). Both options are not mutually exclusive because 'union policy always has, at least superficially, positive effects on the capitalist system, and union policy, which is inherently conditioned by the capitalist system, must recognize this system as the basis of its action' (Crusius & Wilke, 1971, p. 44).

The arrangement of a union twofold character can have different dimensions. 'The respective contents of the opposition conceptual pairs are highly variable' (Müller-Jentsch, 2003, p. 654). In the thematic context, reference is made here to professors Kurz-Scherf and Zeuner who made a worthwhile

contribution, which highlights the range in a differentiated und multifaceted manner. By exercising different roles and political perspectives, they define unions' 'in-between as a mode of existence.' Influenced by socio-economic change unions oscillate between

defending the achievements of the past and participating in a comprehensive restructuring of modern societies. In this contradictory simultaneity of opposition and cooperation the old ambivalence of the unions continues as a countervailing power and factor of order; at the same time, it is a manifestation of the structural problem of unions as a mediator of differing and contradictory interests - both internally and externally - in a situation of fundamental change of constellations of interests, conditions of action and challenges.

Kurz-Scherf and Zeuner also refer to Müller-Jentsch ('intermediary') from a conceptual-referential point of view ('the in-between') and exemplify the range of fields: 'the poles meditation is sought, mediator or mediation are varied, are diverse: capital and labour, state and society, politics and economics, democracy and capitalism, world of work and life. The unions are between different and contradictory structuring principles and logics of action of modern societies, and this 'in-between' characterizes their peculiarity as well as their internal and external ambivalences' (Kurz-Scherf & Zeuner, 2001, p. 147)

CSR and Unions' Interrelationship

Regardless of how and whether CSR can 'be a useful tool to strengthen the social and environmental responsibility of companies' or whether this work should be prioritized to other actors, there are definitely connecting factors for employee representatives, in particular: defining social and environmental business goals, introducing CSR management systems, introduction of environmental and social reports, what content should be displayed, introducing codes of conduct, the organization of stakeholder dialogues and the question of which representatives should attend' (Heil, 2006, p. 8). In unions' conflict, any involvement will always occur when the legally guaranteed codetermination is might be restricted. Therefore, their concern is clear: CSR should be established as a complement to legal participation, not entrepreneurial flexibilization. On the other hand, the expanded organization of work resulting from globalization will give rise to new union fields of activity, which can be addressed through transnational re-regulation by means of supranational or international standards (Zimpelmann & Wassermann, 2012, p. 45).

Looking at the three big pillars of CSR (economy, environment and social involvement) and German unions the

thematic separation has just been as characteristic as the disregard for integrating an environmental and social dimension of sustainability into a common approach. Connecting lines between environmental, labour market and social policies were at best only addressed in the context of job security (Vitols, 2011, p. 69). This is proven by a few examples, e.g. since 1976 the German Confederation of German Trade Unions (DGB) has promoted its environmental and employment policy profile and positioning in its policy program (Gabaglio, 2003, p. 53).

Although the integration of environmental and social issues is a very difficult task, unions in Europe can not be denied that in recent decades they have ignored environmental issues in the workers' range of interests. In recent years, they have developed more and more to a social player, because they have faced up to the challenges of environmental policy and aroused practice-oriented policy approaches.

Unions' Key Statements on the CSR Debate

In the early stages of the DGB and its affiliates - in terms of the number of publications - has kept more reserved in the debate since 2001. In its 2001 statement, the DGB basically supported the concept as the first reaction to the publication of the Green Paper. It is a significant 'impetus at European level on corporate social responsibility.' However, it quickly became clear that the DGB is sceptical of the voluntary approach and prefers a regulative variant: 'The DGB considers this to be inadequate' (DGB, 2001).

Several years later the DGB introduced its CSR-position a couple of times so the central positions can be identified and interpreted even more precise. Their basic outlines are (esp. DGB, 2009):

1. Voluntariness vs. binding status: CSR could only supplement binding rules, but never replace those. This position was clearly expressed from the beginning. This general postulate of a binding CSR regulation and the resulting maxims to oblige companies to implement social responsibility and the corresponding reporting form the path of their demands.
2. CSR and codetermination: CSR cannot be a substitute for codetermination. DGB department head Schneider criticizes in addition to the voluntary nature of voluntary commitments ('What is voluntary, can also voluntarily be left again. Therefore, CSR remains a fair weather organization.') a lack of benefit for participation: 'Where there are conflicts, ... the CSR standards are quickly up for debate. They cannot be effective. That's why CSR cannot be a substitute for co-determination' (Schneider, 2011, p. 58). But it may be noted that on the one hand the 'either-or'-discussion has been successfully overcome.

On the other hand CSR-instruments provide new scope in the work of the employee representatives that can supplement and revitalize codetermination (Zimpelmann, 2011). The concern of employee representatives that CSR could include participation and/or serve as a substitute, 'this goal is in Germany off the table'. Zimpelmann's and Wassermann's 2012 empirical study provides the opposite: 'Co-determination has been used by employee representatives as a trailblazer for voluntary social corporate responsibility right up to international framework agreements. ... Codetermination is a basis for CSR in Germany - not the other way around.' (Zimpelmann & Wassermann, 2012, p. 207).

3. After initial restraint, CSR and its development continue to be viewed critically and sceptically, despite their approach to the issue of participation in joint and establishment of their own initiatives, as well as a more nuanced and guided debate (esp. DGB 2009). In addition, it was clarified that this should not be regarded as a basically negative or 'non-negative' attitude (Hexel, 2011, p. 230). However, this does not suggest a complete endorsement. Such a restriction includes due caution in relation to the CSR concept.

The unions' scepticism is formulated in terms such as 'fair weather event' and framed as 'green-washing'. Due to the primarily profit-oriented motivation, this approach is viewed critically in the ranks of the trade unions. In doing so, they agree with the general critics that companies only have reputation effects in mind. But it also needs to be considered that the strategic messages that unions express are on the one hand between a 'confrontational' culture of dialogue based on 'naming and shaming' and on the other hand 'efforts to create framework agreements should be established by dialogue structures' (Zimpelmann & Wassermann, 2012, p. 23). The unions' statements are predominantly criticism papers, some of which conceive of stringing together similar content. The formulated criticisms focus on the voluntary nature of the debate on this position, which in accordance with the position in question constitutes the relevant resistance line.

A practice-oriented study project 2013 of the University of Münster comes to the conclusion that the employee representatives make the impression at that time, 'still in the search for their own, unified viewpoint in the CSR discussion' (University of Münster, 2013, p. 114).

DGB also issued an opinion on the recent publication of the European Union (directive 2014/95/EU). In the CSR reports, which have so far often been published on a voluntary basis, management was free to decide how and on what to report. The 2014/95/EU directive introduces a minimum degree of binding force. For the 2017 financial year, large companies

throughout Europe had to publish non-financial reports for the first time. The DGB confirms this directive as a step in the direction of more binding rules (DGB, 2016a, p. 2).

As these non-financial statements include employment and social matters those have an impact on labour relations, so as part of a project in 2016-2018 called 'DimasoLab' experts from 12 countries examined the possible impact of the Directive on industrial relations in Europe in order to contribute to a constructive debate on the role of unions and employee representatives in non-financial reporting. Unions and employee representatives concluded that non-financial reporting (NFIR) can make an important contribution to providing valuable information. In all countries it was criticised that although the NFIR contained extensive information, there was little coverage of the sensitive issues that were of most interest. In most cases, the data provided was unclear, excluding important information (e.g. subcontracting or supply chain). NFIR is rather seen as a marketing and communication strategy to meet the expectations of the financial community and rating agencies. As unions and employee representatives were not involved in this process, the decision on the content and nature of the information was entirely in the hands of management. It was agreed that a binding standard was needed to improve the quality and comparability of NFIR. In countries with a traditionally high quality of life and a strong culture of co-determination, such as Germany, the information value of NFIR was not considered to be particularly high, as other channels are used to obtain the required information (Arbeit & Leben, 2018, p. 87). Thannisch, DGB-official and responsible for CSR, has reiterated the results: 'Employee representatives on the supervisory board must be able to classify the non-financial reports They can be important actors ... in verifying the accuracy of the information. The more ... detailed the reports are, the better employee representatives can ... demand social responsibility. Ideally works councils and unions should therefore be [involved] during the preparation of the reports' (Thannisch, 2018). Any demands such as higher involvement and critics (e.g. CSR as PR instruments) have already been formulated in previous opinions (e.g. DGB, 2009). In this respect the attitude towards CSR has not changed in the course of time.

Excursus: The Unions' Up-to-Date-Role as a Societal Actor and Thematic Integration into the Research Context

Another context confirms the research findings and gap of this study. This will be demonstrated by a current role of unions as societal actors and a related concept.

From a strategic point of view, the concept of Porter and Kramer and 'Big Idea' exists besides CSR, called Creating

Shared Value (CSV): ‘the principle of shared value ... involves creating economic value in a way that also creates value for society by addressing its needs and challenges. ... The concept ... focuses on the connections between societal and economic progress’ (Porter & Kramer, 2011). CSV and CSR address equivalent issues or rather pursue social and economic goals. Several multinational companies have committed themselves to CSV and CSR, for instance the Swiss foodstuff Company Nestle (Nestlé, 2019, Good food, good life).

As already initiated in the previous chapters above unions are an association that primarily cares about the interests of employees (tasks like intercompany collective agreements, negotiations with the employers, organization of wage disputes e.g. strikes, advice and support on employment issues). Furthermore they represent special companies’ interests: well-being of workers and companies (twofold character or ‘dual nature of the unions). While the CSV and unions’ interrelationship has already been illustrated it must be stated that societal issues are addressed by unions as well. There are several examples they are engaged in:

- equal work equal pay (DGB, 2019b),
- right to further education (DGB, 2019c),
- safety at work (DGB, 2016b),
- reduction of working time (DGB, 2019d), and
- labour market integration (DGB, 2017).

As both concepts - CSV and CSR - are related to each other the author makes a first general conclusion in this subchapter: as a consequence of Porter and Kramer’s CSV it can be stated that CSR is desired societally and entrepreneurially. Unions represent special company and societal interests: enumerated issues above are partly union core issues but also address societal aspects. So the next conclusion is that unions contribute to a strong society and therefore to shared value.

A final conclusion that can be drawn from these comments: they underline the recognition that unions already initiated societal issues consistently alongside core business. As a consequence of this conclusion CSR should be more in unions’ focus. But the status quo is entirely different: (in light of the above explanations and state of research) CSR is barely considered by the unions. So further research regarding the reason(s) is required.

Significance of the Results for Further Investigation and Reconciliation

Even if concrete research results to answer the main question are still outstanding, a first interim conclusion should be given.

A union passive behaviour can be claimed to be empirically confirmed or at least initial assumptions can be confirmed. Hauser-Ditz and Wilke (2004) and Mutz and Egbringhoff (2004), in particular, affirmed this empirically, stating that a timid commitment was being made by works councils, even though ‘it is about original topics.’ Although the potential for discussion was high at an early stage, little was done by the unions. Passive behaviour, however, is countered by a radical tone as a striking criterion. Unions indicate they would take decisive action, but there is little sign of this at first. It is surprising that union statements were scarce at the beginning of the discussion around 2001 and if they were accompanied by scepticism and criticism. Fears of coexistence and a tension between co-determination and CSR were quickly introduced. The unions will always remain determined opponents of the course, to make co-determination rights looser. However, as early as 2004, Hauser-Ditz and Wilke (2004) produced initial empirical findings that did not indicate any intended deprivation of participation rights (p. 8). Thannisch (2009) also points to the fact that at least no explicit possible demands were placed in the debate (p. 335).

The increasing internationalization of economic activity, the environment and its relationships is relatively often addressed in the unions’ contributions, not without a reason. Very early ‘in the run-up to the Green Paper’, the German United Services Union Ver.di for instance became aware of this area, after all ‘things are addressed ... which also follow the unions with concern’ (Zimpelmann & Wassermann, 2012, p. 51). This progressive development and its consequences are not hidden from the unions, either. In this context they must be in a position to keep an eye on the protection of workers even under such conditions. The Europeanization and globalization of union and works council work has been intensified in the wake of the rise of the CSR. Clearly a need for action was seen here.

In the thematic context it is doubtful whether CSR is a classic union topic. There are disagreements in science and practice. Sometimes proximity is produced, sometimes distance. At least one principle of kinship can be expected, as original trade union issues are attached. In summary, it can be stated that areas are recognizable and symbolic relationships can be established that represent trade union territory. However, ambiguities could be detected early in the statements. Therefore it is not surprising why ‘over here ... the DGB deals with its topic ... rather cautiously.’ In this context it should be mentioned: the global age holds various political and practical challenges in the broader sense; and in the narrow sense one finds oneself in the situation of the defence of the well-tried legal codetermination model, so that on the whole a ‘caution ... with voluntary forms of corporate social responsibility seems to be understandable’ (Zimpelmann & Wassermann, 2012, pp. 46, 57). This (strategic) caution is in need of explanation.

Setting and Discussing the Hypotheses about Reasoned Unions' Decisionistic-Restricted Involvement

In the following chapter, we illustrate and order the central research question of the selected variety of explanatory approaches through hypotheses. In the further course, these hypotheses serve as a theoretical guide to exploration and transfer into one's own approach. These three initial hypotheses are:

Hypothesis 1: Traditional Causes

Presentation and Analysis

The study of the technical literature shows that in this context the confrontation with unions' traditional tasks has taken a significant position. In the discourse perspective has been represented several times: in an interview in 2012 the German business associations 'future' and 'BAUM' expressed themselves 'sobered by unions and employee representatives ... also because the employee representatives in sustainability issues could be more competent and active.' The 'future' interviewee said: 'I still see the unions in their traditional image' (Zimpelmann & Wassermann, 2012, p. 43). Segal et al. concluded in a 2003 European study that CSR along with its initiatives is intervening in the traditional union domain. Understanding this as a 'fundamental challenge' is being pushed aside by the unions. A missing direct CSR 'mandate' turns out to be problematic (Segal et al., 2003, p. 44).

Friedrich und Hadasch even recognize a generally restrictive attitude in the German engagement debate and extend their findings to all actors:

On the contrary, the traditional socio-political actors seem to have a wait-and-see attitude that is characterized by traditional role models and the avoidance of clear positions. ... The outlined positions of socio-political actors can be understood as an expression of routine-based interpretation patterns of a (new) topic. The actors position themselves on the basis of proven and familiar routines, which, however, meet changed framework conditions. ... The debate suggests a revival of a traditional sense of engagement (Friedrich & Hadasch, 2010, p. 138).

If one reads the preceding statements that support hypothesis 1, one thing is quickly pointed out: this approach, which is taken as a 'traditional' justification and not yet revised, assumes that CSR and traditional trade union lines do not seem to be compatible. In order to develop this hypothesis, it is first necessary to recall the traditional tasks or traditional role of unions and briefly specify them in order to develop an understanding of this assumption.

Union work in Germany is historically served by the following major and classic tasks and functions: as a protective organization against disproportionate capitalist labour use they resolutely act on behalf of their members. Labour market, pay policy including social policy in negotiation with business associations (principle of conflict and social partnership). Through the regulation of industrial relations, they influence the economic policy as an 'intermediary' organization and consequently participate in shaping the entire economic and social system. The author points out and considers that even the traditional tasks mentioned above can become more flexible and intense over time and cannot be handled through routines. In addition to the exploration of parallel structures of the original trade union field of activity and the area of CSR this information may also guide the further remarks. However, this raises the question of whether reforming forces are even present in the trade union ranks.

Of special relevance for weakening the hypothesis 1 is pointed to the relations and 'thematic intersections' pointed out by Zimpelmann and Wassermann (2012, p. 26). Ver.di also gives the impression of a kinship principle and then expressly refrains from a core issue: 'The topics ... are ... a renaissance of classical topics (...).' Even if 'a real CSR without the participation of employee representatives is inconceivable' and 'classical participation can also be understood as a subset of comprehensive CSR', 'CSR is not a core topic of classical trade union education' (ibid., p. 51). Affirmative in this context is the evaluation of Mutz and Egbringhoff who also refer to the polarities of a structural nature: 'Issues such as compliance with social standards, equal opportunities, health, anti-discrimination, reconciliation of family and work or social commitment are essentially original tasks the unions. From this legitimate negotiation and design claims could be derived' (2006, p. 27).

As a result, despite the conceptual and structural differences, both arenas are related and demonstrate a common trade union functional requirement. Regardless of whether CSR does not stand in the way of traditional tasks, it even inspires them: CSR also brings new tasks or familiar tasks in a new guise. A further scope of hypothesis 1 therefore concerns the examination of whether the tasks within these guidelines exceed union competences and resources and that restraint can be justified. In this context, for example, the training and qualification of union employees themselves plays an important role. Vitols confirms that there is an important and decisive driver for engagement in the debate: 'An important influencing factor is the knowledge of CSR. For example, employee representatives may not generally have the information and skills necessary to solicit sustainability initiatives' (Vitols, 2011, p. 267). Hauser-Ditz and Wilke also assume a direct relationship between sympathy and qualification (Hauser-Ditz & Wilke, 2004, p. 24). Nonetheless, one

could expect unions to be academically positioned not only for routine activities, but also to be able to face unique and challenging tasks in principle, to be able to exercise them and to strive for any new tasks. In the contemporary history of trade union development, the author now concludes that the unions are subject to traditional temptations, but that, overall, they also set a dynamic course. They are able to develop activity rather than simply reacting.

Conclusion

Despite the described deficiencies the authors of the quoted contributions have made scientifically valuable and readable contributions, but these do not substantiate the hypothesis convincing, since CSR already includes traditional task packages, the priority pursuit of traditional tasks identify no indication of lack of skills and resources and unions are already (partially) committed beyond their traditional tasks.

So the author does not recognize the restriction of decisionism by the logic of a traditional task pursuit as a solution, since the two areas - traditional tasks and CSR - obviously have a closer relationship to each other than repeatedly assumed. As a result, the recording is omitted or the hypothesis approach 1 is excluded. For this reason, the author now switches to the next hypothesis, which he examines in the following chapter.

Hypothesis 2: Doubts about the Social Substance

Presentation and Analysis

Egbringhoff and Mutz made the following assumption based on a broad-based works council survey in 2006: The unions are so far predominantly sceptical towards CSR They doubt that companies are concerned with the social environment or the well-being of employees; rather, they suspect that only economic motives represent the actual driving force Trade union representatives point to many negative experiences in the area of environmental protection or equality, but also to inconsistencies, which are obvious when companies despite high profits dismiss employees and at the same time gain a positive image with CSR/CC programs. ... Such concerns are the cause of many years of restraint on the part of the unions (Mutz & Egbringhoff, 2012, p. 280).

They refer in this study to strategies of works councils in large companies dealing with CSR and CC on observations and statements of group works councils. Overall, there is a lack of initiative, with marketing tricks and credibility having a significant impact on the strategic stance: Only in a few cases are works councils proactive and consider CSR and CC a future topic that can be shaped

by their own ideas and contributions. However, CSR and CC initiatives initiated by the works councils are rare. ... The fact that the importance of CSR and CC activities is increasing is well known to many works councils: 'This is becoming more and more important, as many still have to rethink', according to a general works council. To find a new role, you look for the own in the stranger. This is always the case when works councils have the impression that it is an 'established' market-oriented PR strategy. ... Then the projects are reflected sceptically and their own participation critically weighed. ... A group works council summarizes this: It is indeed a balancing act: Where does a credible commitment cease and where does the real satire begin? We have not blocked things, we have been very positive, but without being used by the workforce or the publicity (Mutz & Egbringhoff, 2012, p. 28).

A common assumption from the impression of CSR-active companies is that they are not concerned with the benefits but with image reasons. In the debate social issues - in contrast to the other two pillars - play the main role anyway. This weighting represents quite well the unions' tendency, which was found in a 2003 study of the European Foundation for the Improvement of Living and Working Conditions that suggests that the involvement of employee representatives is lower for example if the topic of the CSR environment is discussed: 'They ... found that worker representative involvement is weaker when it comes to local community and the environment' (Bronchain, 2003, p. 14). With regard to the social aspect, which according to the European Trade Union Confederation survey of 2003 is favoured by the unions in Europe and is particularly postulated to be active in this area, they feared that it would lag behind the other dimensions and fall short of it:

The social dimension is the one favoured by the unions, and the area that needs to be stressed, because it concerns the unions' deepest concerns. Some people believe that social aspects of CSR tend to be neglected or get left by the wayside (Beaujolin, 2004, p. 8).

In fact, there are approaches and constituted ideologies from the past that are specifically uninterested in the interaction of unions and social policies and do not consider their irrepressible use in this domain compulsory. 'Unions are not "inherently" programmatic social movements—they are much more pragmatically oriented' (Hemmer, 1982, p. 506). In this connection reference is made to the work of Richard Hyman, who distinguishes three trade union identities. One of these identities, called 'business unionism', characterizes the unions as economic actors in the labour market, who primarily want to assert the economic interests of the employees in collective bargaining. This type is widespread especially in the Anglo-Saxon language area (Hyman, 2001, p. 8). Not to be overlooked are lines of connection to the trade

union movement 'Trade-Unionism', which Lenin addressed in 1902, and which he criticized negatively and critically, saying that 'the union-only struggle is the struggle for [the workers] themselves and their children, and not a struggle for any future generations with any future socialism' (Lenin, 1955 [1902], p. 392). There is a conflict of interest, which Hyman (1996) deduces as follows: 'Unions are primarily organizations representing the interests of employed workers, a function that will be undermined if at the same time overarching socio-political goals are pursued, so they must be political Keep out of entanglements (p. 12).

The explanation makes it plausibly clear that the imposed character of union struggle in social matters can be over-zealous. If the CSR phenomenon is seen as a social force field, the commitment of the unions does not have to be a mandatory exercise. But if we return briefly to the origin: even though the unions have lost the 'character of a movement' after the completion of processes of institutionalization and 'attachment', they have originally come from a 'social movement' (Kurz-Scherf & Zeuner, 2001, p. 148). In the DGB statute the interests of the DGB and his members can be clearly read as a task in socio-political matters. This shows that the unions seem to be equipped with more extensive, sufficiently strong and necessary competencies in order to be able to intervene in overlapping areas compared to their well-known minimum competencies. CSR must be understood as a holistic task in terms of social policy which has a cross-cutting function in relation to adjacent areas and calls for far-reaching overlaps with other trade union activities.

Another way to examine the hypothesis critically puts the question of trust in the spotlight. Those who doubt the social promises of the concept play with their credibility. In fact, in recent decades, the credibility of the economy has not made it to the best. The scandals around false balance sheets of the US energy company Enron or the rise and the stock market crash on the new market went around the world at that time. However, if the core problem is distrust, then the behavioural approach, from the author's point of view, is far too short to deliberately move away from the CSR process. This circumstance should lead to more activity, early countermeasures or at least accompanied the process controlled to refute the charge. Hauser-Ditz and Wilke (2004) also recommend this application-related point of view in their study:

If, as observed in some companies, there are doubts about the credibility of the CSR commitment, then workers' representatives can at least offer points of attack to test the seriousness of the projects and to demand concrete measures. It therefore seems important to actively support the CSR process through the employee representatives and to help shape it in the interests of the employees (effective regulatory mechanisms, linked to their own institutions). This

reduces the risk that something is going past the employee representatives and, in the end, actually goes against them (p. 24).

Conclusion

The analysis revealed a number of plausibility arguments which can be summarized as the conclusion that doubts about the social purpose of the concept - whether they are unjustified or justified - can not and must not affect the activity. This is the main criticism of Hypothesis 2, as a proper involvement of social partners in the debate can be expected.

If you look into the soul of the unions, you actually need to arouse desire and there is more evidence for it than against expressing an opinion on this subject. 'Social' is in the CSR-term and takes recourse to self-imposed responsibilities. Unions have emerged from a social movement. It is part of their self-image. The hypothesis, however, according to the author's criticism, misjudges a commitment to action on the part of the unions, which apparently have difficulties in recognising a preventive attitude or even an indispensable competence.

Hypothesis 3: Underestimation of Importance and Failure

Presentation and Analysis

Testing this hypothesis is guided by the question of whether the unions consciously or unconsciously were blind to the CSR-issue or did not recognised it. In this approach, no scientific insight but the case of an oversimplification of trade union action is reflected, introduced by the opponent. The BDA explains that the DGB and its members almost 'overslept' the issue (Zimpelmann & Wassermann, 2012, p. 38). This general reproach may also be undermined by other passages. It is noteworthy that this accusation is not just the usual criticism of opponents in mind but the approach suggests quite directly, the unions were recklessly withdrawn from the debate. With this hypothesis, a general criticism could rather be linked to the union attitude. From what has been said so far one can quickly get the impression that the unions are not participating in the debate or are participating only because of their symbolic importance since they may find it an annoying additional task. The unions have apparently simply failed to address corporate responsibility as a potential area of influence. This omission would make the impact of other actors acting on CSR leaders, most notably the European Commission, even more effective. However, important aspects are overlooked. Basically, the approach is

guided by the question of whether the unions consciously or unconsciously ‘overslept’ or did not recognize the topic.

If this assertion of the BDA representative was correct to some extent, however, it would be necessary to explain whether the unions had attached too little or no importance to the topic. The representative may find himself off the mark because the state of art is another one: one of the first empirically produced, recognized in science and often cited work on the merged topics CSR and trade unions in Europe is the contribution of Preuss et al. who published in 2006 a first transnational overview of the CSR role of unions. Particularly revealing in this context is that CSR was perceived as a threat in particular. Above all, the great threat arises from the conceptual point of view which could give management more power and scope for decision-making (‘In many cases CSR is perceived as a threat to unions, as it transfers yet more power and discretion to managers’, Preuss et al., 2006, p. 258). This news should have spread like wildfire through the European Union landscape and warned them to be cautious. It is hardly to be assumed, a topic with structured threatening potential, simply too overslept. However, hypothesis 3 may also suggest that unions have completely neglected to tackle the issue. This judgment would be very presumptuous. The approach of a complete omission confronts the facts which show that occasional activities (e.g. participation in the multi-stakeholder forum) and publications (statements, brochures, etc.) are to be found. The impression of a symbolic participation can be understood more in this respect.

A final theoretical test of Hypothesis 3 is judged from an Anglicist point of view which explains its weakening as follows: CSR can initially soberly convey a modern, innovative world and an international dimension by first envisioning the term. This assumption seems to exist if one takes into account that the term is in fact only in circulation in Germany since the 2001 Green Paper. However, CSR not only reads like an innovative concept, it also has corresponding potential. Whether understood as organizational or management innovation, when introduced, change processes drag on through the organization of a business. Innovations can affect the social sphere, for example, the personal adaptation of working hours, the implementation of (environmental) management systems for the purpose of sustainability reporting as well as technological environmentally friendly changes in the production process with the goal of ‘resource efficiency’ (Gelbmann et al., 2013, p. 41). Innovations are substantial for companies, especially in industry. The corporate world is challenged by new developments and mostly prepared for new innovations. Innovative topics are not leaving their mark on the unions either. They are usually not overslept but tend not wanted if the risks seem too large or incalculable for instance the need for change for existing technologies and related massive changes in the established

value chain. It would not be presumptuous to assume that representatives have a general influence on innovation introductions and therefore a reason for interest.

Conclusion

There is no accurate proof that could support Hypothesis 3. The BDA representative drew the conclusion from the restraint of the unions that they had misjudged the signs or had not recognised them at all. The findings from the technical literature available and the author’s own assessments do not confirm this hypothesis. The accusation is therefore unfounded: there is no evidence to support this attitude. The author is ultimately concerned that any behaviour is not unfounded and is not a coincidence. Every conscientious and sensitive interest group (including trade unions) is fundamentally concerned with tackling any matter that has any bearing on its remit. Worrying issues and developments are generally addressed and not negated. Occasional activities contradict general union inactivity. Apart from that innovative topics always stimulate curiosity and activity.

Critical Appreciation, Conclusion and Transition into an Own Explanatory Approach

The hypothetical explanatory approaches are based on assumptions, in which a number of deficiencies could be noted. Overall, it is noticeable that all previous approaches are based on rather one-sided and one-dimensional ideas that are analytically negligible and can be reduced to a small number of attributes. All previous approaches do not or hardly discuss the political framework, they find their limit(s) there.

An abstract logical conclusion might be that the unions’ behaviour - relatively simply assumed - was illuminated only in terms of their basic characteristics. The previous work has therefore left open questions and flanks that need to be deepened. A short insight will be given here.

The previous findings and analytical results of this work do not adequately take into account the economic significance of unions in the debate and what position they take and for which reason. Impulses for dealing with this issue give for instance Zimpelmann and Wassermann (2012, p. 57). They have provided impulses from which to find own interpretations and ideas which are important for a politically oriented model of thought: ‘Looking at the many political and practical challenges in the “Global Village” ... makes unions’ caution ... understandable.’ The high international relevance of the topic requires political attention because situations arise that bring great challenges for German policy. Into this

opinion is to penetrate further, because it is in the opinion of the author to choose a more comprehensive approach or an all-round view than previously worked on in the literature since the union decision-making behaviour contextually has to take into account various stakeholder interests.

Mutz and Egbringhoff (2006) pointed out the feature of the dynamic constellations in the CSR landscape:

'If one asks about the benefits or advantages and disadvantages ... for the employees, one often only sees the individual measures or projects and thus only isolated facets, we have been able to work out that ... it is a multi-layered field in which contradictory constellations of interests and ambivalent implications arise in some cases, and that therefore the view of the whole would be desirable' (p. 171).

We are dealing with different interests which can only be solved together, on the one hand, and which have to be contextualised together, on the other.

'A ... CSR/CC understanding could aim to combine problems and new demands in the world of work and life with a civil society perspective. The processes of dissolution of boundaries on which this connection is based make it possible ... for different concerns to be mutually acknowledged. This recognition could result in fruitful cooperation between different stakeholder groups' (p. 175).

Nevertheless, there are isolated activities and projects in which unions are also active at the international level. In this context, they have joined a current campaign in Germany in favour of a supply chain law to curb the violation of human rights by multinational corporations. German companies would not sufficiently meet their responsibilities. Again and again there are reports of child labour, destroyed rainforests and environmental destruction. The federal government should create a legal framework so that corporations can be held liable (Germanwatch, 2019).

Problems that go beyond this and internationalisation are often ignored in theory and practice. The conclusion of the following quotation from Vitols will also prove to be a very important contribution to this work, as it is important for the author's own explanatory model. Vitols summarised some highlights from an event of the Council for Sustainable Development's Multistakeholder Forum held in 2007:

'The view that employee representatives are reluctant to find their role in the area of sustainability was, for example, represented at a multi-stakeholder forum of the Council for Sustainable Development. Some participants in the forum assumed that unions would have difficulties in positioning and positioning themselves in the sustainability discourse because, on the one hand, they have different core issues

and competences than those that are given high priority in CSR. In the opinion of the relevant actors, these include in particular issues in the value chain or ecological issues such as climate protection. On the other hand, the unions would have difficulties in opening up to international debates on sustainability due to their national organisational structure' (Vitols, 2011, p. 12).

This quotation also suggests that positioning in the global market is difficult and is usually described from the usual perspective, which reaches national borders. In this respect, it is precisely here that the problem and the claim seem to exist at the same time, which are in need of explanation.

Unions need to look at two aspects: looking at their organizational and external challenges. At the centre of this analysis the CSR market conditions and the motives of affiliated unions emerge. Unions need to look at two things when positioning their responsibilities: the corporate side and in their own or, more precisely, in their organization. These two points of view must be taken into account that show that the unions are faced with a dilemma in the decision-making process. On the one hand CSR is no longer completely voluntary. On the other hand, the umbrella organization DGB has difficulties responding to all its members. These two aspects are at the forefront of the problems.

CSR seems to have upset the economy, the unions as well. They cannot prove a clear role since CSR represents an impressive conglomeration of interests and within these interconnections a concrete positioning is difficult. The insecurity behind it can be seen as a two-component mixture: the coordination of the rather heterogeneous interests of the individual union clientele is a difficult challenge. Their function as a system support does not allow a radical confrontation with the social partners since disadvantageous consequences for the enterprises can fall back on them and their clientele. These considerations and premises need to be substantiated in a detailed investigation.

Summary of Results and Conclusion

A dedicated study of the decisionistic-restricted involvement of unions in the CSR context has entered relatively unexplored territory with regard to its causes. Some premature assumptions have already been written. It is hardly surprising that this attitude spread like wildfire in the debate in a very short space of time. What the material examined has in common is that employee representatives are shown to be in a predominantly defensive position. Essential examples of their assumptions have been taken up in the present work and formed the starting point of the scientific investigation.

The unions are known as an organisation that signals a willingness to struggle: a quality that was put to the test when they came into contact with CSR. Consequently, it was important in the study to trace the reasons for their passivity. And because the author's approach to the subject also includes the analysis of traditional patterns of the German union movement, few historical aspects were also recalled which the author considered important for a fundamental explanation of the union policy orientation. In addition to the essential characteristics, the author has identified other characteristics that are important for strategic behaviour. Their CSR positioning consistently shows that a critical-sceptical attitude is appropriate.

The exemplary answers found to the research question were presented as hypotheses, based on the behavioural findings in the literature. The hypothesis model was analysed, evaluated, partially dismantled and critically appreciated. The explanatory power of the three approaches was different. What is striking is that the causes cited in the literature, which led to the hypotheses, all disregard the ambivalent constellations of interests of the unions and thus could not provide any relevant results on the author's explanatory approach. The study was intended to substantiate the finding that the unions had legitimate reasons to refrain from radical enforcement in the debate.

By bringing together the decentralised analytical results of this work, a central picture can be inferred and a covert attitude discovered that significantly distances itself from the type of confrontational union. However, a hard fact emerged from the soft engagement. The author's observations have provided sufficient evidence to suggest that there is a different core behind the decisionistic-restricted behaviour than would normally be assumed. The study has provided a picture of a union strategy in dealing with CSR that is incompatible with the widespread perception of the public and counterparts. For this reason, we should always be warned against premature false conclusions. With their demands, CSR has given economy and politics an explosive debate. One characteristic of this debate was the resulting demands on companies, which were argued by economy set too high. The unions occasionally countered the reservations of companies and their associations with references to a quasi legal claim to CSR, but largely left it up to the formulation of demands. And the strict and demanding tone it contains can therefore only be conveyed symbolically in order to consider the underlying goals of the CSR concept to be meaningful. Although the current CSR framework is not shaped by legal provisions, it tends to have unpredictable effects at the expense of companies as a result of quasi-obligatory requirements. As a result, it is not surprising that unions are so restrictive in their decision-making that they have for a long time neglected CSR issues.

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Sindikati in decizionistično omejena vpletenost v CSR razpravo – razlaga s sodelovalnim pristopom

Izvleček

Korporacijska družbena odgovornost (CSR) narekuje odgovornost podjetij za trajnostno upravljanje na ekonomskem, ekološkem in družbenem področju. Večina znanstvenih del in raziskav o CSR je bila napisana primarno z osredotočanjem na etiko (moralno vs. tržno gospodarstvo), nosilca odgovornosti (država vs. podjetja) in upravljanje (npr. najboljša praksa, priročniki). Ta članek uporabi drugačen pogled, in sicer pogled skupine udeležencev, ki se jo stalno omenja, vendar dobiva nezadostno pozornost – sindikati. Predhodna raziskava je pokazala, da so bili sindikati v ozadju evropske CSR-razprave, odkar se je leta 2001 pričela. Na osnovi primera nemških sindikatov avtor tega članka s študijem izjav članov sindikata analizira njihovo motivacijo. Sistematičen pregled literature zagotavlja osnovo za kvalitativno vsebinsko analizo smiselnih motivov. Rezultati kažejo, da se sindikati soočajo z zapletenim okoljem z raznolikimi interesi, v katerem se težko pozicionirajo. Nadalje so se obravnavale zahteve do podjetij glede CSR na ekonomskem področju kot zelo visoke. Čeprav CSR ne vodijo pravna določila, razkriva polzavezujoča pravila. Iz teh razlogov ni presenečenje, da so bili sindikati skeptični in restriktivni. Študija z analizo obrambne CSR-strategije prispeva k napredku na področju vključevanja v mednarodne razprave. Avtor se na teoretično konceptualen način ukvarja z obstoječimi raziskovalnimi rezultati na tem področju, jih izpodbija in predstavlja svoj lasten poskus razlage. Njegov razlagalni pristop razširja obstoječe razlagalne vzorce z novimi pogledi na opisani problem.

Ključne besede: korporacijska družbena odgovornost, sindikati, industrijska razmerja, CSR razprava v EU, CSR akterji

Anti-BEPS Measures and Their Impact on Business Performance of Multinational Enterprises

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Abstract

This paper discusses the harmful tax practices of multinational enterprises (MNEs) and the fight of international organizations against them. We focus on the anti-tax base erosion and profit shifting project (anti-BEPS project) of the Organisation for Economic Co-operation and Development (OECD), namely its 15 actions, which we present in the first part of the paper, using descriptive and analytical methods. In the second part, we use critical and synthetic methods to assess how the selected aspects of multinational business will be impacted with described actions. Our conclusions show that MNEs will have to adapt their business structures and plans according to new tax regulations, which will also lower their profit levels due to unavailability of established harmful tax structures for lowering their tax bases. At the same time, our results indicate that the legal approach in introducing new measures on the subject field, lead to legal uncertainty in tax matters. Due to the scope of analysed problems, it was impossible to introduce individual problems in depth; however, we provide readers with the general characteristics and goals of introduced actions that are necessary for understanding our evaluation of their impact on certain fields of international business. Our paper contributes to literature and practice, as it provides general insight into recent and important international tax law developments that enterprises will have to consider when doing business across borders.

Keywords: BEPS, OECD, international tax law, tax, DTC, tax planning, profit shifting, tax base erosion, corporate income tax

Introduction

Interconnection and interaction of national economies and markets increased enormously within the last few decades. Established and traditional tax systems are put before a challenge, where the existing rules in connection to complex organizational structures of multinational enterprises (MNEs), create opportunities for tax base erosion and profit shifting (BEPS). Legislators are challenged to establish tax systems, which will enable and secure taxation of profits in the place of their creation, i.e. in the place of economic performance and value creation and thus restore the trust in fairness of taxation. Daily news provides headlines on profit allocation issues, whereby the profit, achieved by an MNE in one country, is being shifted to another country, often with the purpose of achieving favourable tax treatment of said profit and to decrease worldwide tax liability on a group level. Such actions deprive economies from taxes, which should have been collected for profits achieved on their territory. The most notorious cases have

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been related to harmful tax practices of MNEs like Google, Amazon, Facebook, Apple, etc. (i.e. the GAFA companies).

BEPS occurs when MNEs shift their profits from jurisdictions of their creation in compliance to the applicable tax laws, however usually misusing the laws or rather their legal loopholes. Such profit shifting is one of the biggest issues of international taxation and shall be treated broadly, also from macroeconomic aspect and with respect to the integrity and fairness of tax systems. The scope and tactics of MNEs go nowadays well beyond doing paper business offshore. Using differences and loopholes in tax systems is the main tool to achieve unintended tax benefits, whereby the common aim of BEPS practices is to minimise tax or even to pay zero tax in some tax jurisdictions.

Tax jurisdictions that noted BEPS of MNEs on their territory announced a determinative combat against harmful tax practices, i.e. fight against BEPS, aiming to establish tax environments that will diminish opportunities for BEPS manoeuvres. Their fight is unified under international organizations such as OECD and European Union (hereinafter "EU"). On such shortly described grounds, the OECD had in October 2015 adopted 15 actions, which shall be or are recommended to be implemented by the countries to prevent or at least limit BEPS. Out of 15 measures, only 4 are mandatory, binding the OECD and joining countries to adopt them, while other 11 measures are recommendations.

More related to the Slovenian tax system are the EU measures, prepared by the European Commission and other competent bodies, which rely on and consider strongly also the OECD anti-BEPS measures, although implementing also the other measures, which often have roots in the practice of the CJEU¹. This paper, however, focuses on the 15 OECD anti-BEPS actions. It is to be emphasised that the anti-BEPS measures deal mainly with direct taxation, while indirect taxation is recognised as problematic as well, especially on the field of digital economy taxation. Nonetheless, in this article, we are dealing only with the direct and corporate taxation.

Illegal/Legal/Immoral Tax Practices and Where Do We Find BEPS

Differentiating harmful tax practices represents one of the main issues in anti-tax avoidance and evasion legislation. Terms like tax fraud, tax evasion, tax avoidance, aggressive tax planning, have as many definitions as there are authors on the subject field. A lot of misunderstandings are caused

by inadequate translations of international documents to local languages. However, the clearest guideline is established among tax avoidance and tax evasion, the former representing actions within the legal frame, the latter being generally prohibited by the applicable law (such as reporting false income or expenses to tax authority with the aim to evade the applicable tax). Aggressive tax planning means using the advantages in technicalities of tax systems and tax system mismatches to achieve lower tax base (Cordewener, 2017, p. 61)². From an economic point of view, legal considerations apart, harmful tax practices have similar effects, namely a reduction of revenue yields, and are based on the same desire to reduce the tax burden (Kirchler, Maciejovsky, & Schneider, 2003, p. 535).

Sandmo put harmful tax practices definitions to simpler and efficient words. He explained that tax evasion means breaching the law. When an individual omits to report an income, which should have been reported under the applicable tax law, he acts illegally. The taxpayer is in such circumstances concerned whether he will be caught by tax authorities or even by the prosecuting authorities. Tax avoidance on the other hand, runs within the tax law frames and represents using loopholes to lower tax liability. Conversion of personal income to capital income, taxed under a lower tax rate, is such a typical example. The taxpayer in such cases, does not hide from the tax authority. To the contrary, he will even declare his transaction before them, so that he would achieve the desired goal. Sandmo wonders also how tax avoidance is any different from reacting to higher prices with buying less products than usually. If e.g. flight transport prices increase, and we use railway instead, do we avoid taxes? A very simplified explanation of tax avoidance would thus be that it represents actions causing an unintentional though legally compliant consequence of tax regulation. These are actions, incompliant to the purpose of regulation, however, compliant by the book (Sandmo, 2005, p. 645).

Strategies of MNE's are tax planning and using the loopholes and mismatches of tax rules for the purposes of artificial profit shifting to zero or minimal tax rate jurisdictions, where they do not perform any economic activity, or the latter is performed in a very limited scope. They are cutting their tax bases using tax recognised payments, e.g. interest and royalty payments. Most BEPS practices are legal, i.e. within the frame of tax avoidance. Nevertheless, such practices are unfair, since they undermine integrity of tax systems. Cross-border business models of MNEs are using BEPS to gain competitive advantage against enterprises doing business locally (Organisation for Economic Co-operation and Development (OECD), 2019).

¹ Court of justice of the European Union.

² See also McBarnet, 1992, p. 60.

Anti-BEPS Measures of the OECD

As aforementioned, in October 2015 the OECD presented 15 reports on actions that should contribute to preventing or limiting harmful BEPS practices of MNEs. Actions of effected jurisdictions were especially motivated by the last financial crisis and various scandals, caused by several data leakage incidents on business of MNEs (e.g. LuxLeaks, Panama Leaks). Public became interested in subject theme and country leaders promised to take actions. The justifiable fear was that if no unified measure is taken soon, governments will seek unilateral measures to gain political points, which would have disrupted the established international tax system and cause even more loopholes, mismatches, i.e. BEPS opportunities as well as double taxation.

The purpose of international taxation regulation was always preventing double taxation and, though ineffectively, misuses of tax system. The fact that MNEs found opportunities to avoid tax outside of said purpose, should not serve for dismantling the international tax system as a whole. Namely the rules on preventing double taxation helped in globalization, which resulted also in economic growth and poverty limitation, not only in tax avoidance and evasion. The goal is thus to keep a stable and secure international tax system and at the same time adjust its institutes where their purpose was corrupted, and they were used for BEPS. The action plan is designed to close tax avoidance loopholes in the patchwork of domestic fiscal laws and bilateral tax treaties, and to correct the corrosive impact of tax competition (Van Apeldoorn, 2016, p. 478). Using the loopholes in corporate income taxation is undoubtedly declared and deemed as an unfair tax practice of the MNEs (Schreiber, 2015, p. 104). Justifiable means of preventing double taxation shall, however, remain a guideline and a goal in implementing anti-BEPS rules. The anti-BEPS actions are attacking misuse of tax benefits, where they are not intended and justified. In other words, MNEs performing a substantial activity in a certain jurisdiction should not be impacted or denied tax benefits that eliminate or limit double taxation³. To prevent negative impacts of anti-BEPS measures where tax benefits are justifiable and compliant to their true purpose, economic reality will be regarded instead of paper reality, aiming to divide harmful practices from good, not tax only motivated ones.

In light of the abovementioned, the OECD's anti-BEPS reports recommend or bind the countries to take necessary actions by either implementing new tax rules into their

legislation or amend the existing ones. These reports are comprehensive and by hundreds of pages per report also impossible to be summarised shortly. Hence, we state herein the measures and only very shortly explain their main focus and aim. For detailed reading, readers are directed to OECD's webpage, where all reports and other useful anti-BEPS material are available for free of charge access.

1) Action 1: Tax challenges arising from digitalisation

Action 1 deals with challenges that new digital businesses and transactions bring to the traditional tax systems. Considering high reliance on intangibles, internet and technology, digital companies are assumed to be particularly apt at optimising their corporate structures by navigating between national tax regimes in order to lower tax bases in places of factual value creation. To some extent, this is even characterised as unfair competition between traditional industries and companies that have embraced new technology (Lee-Makiyama & Verschelde, 2016, p. 56). Where business is run online and globally, the aim of anti-BEPS action plan is to find effective measures to follow and detect the place of profit and to tax it in the place, where it creates value. The digital world makes this task even more difficult because it facilitates cross-border collaboration, production, and sales of intangible goods and services. Factors, such as the use of new payment systems, e.g. bitcoin and the enhanced trading of personal information for "free" services in the cross-border business-to-consumer context. Accordingly, hybrid entities, which take advantage of different national laws that promote dissimilar and often conflicting tax outcomes, may be deployed to a greater extent to take advantage of this new global reality. Similarly, enhanced global activity in the digital world leads to more treaty shopping to take advantage of treaties with countries that have low- or no-income taxes (Cockfield, 2014, p. 937).

Action 1 basically considers other anti-BEPS actions, whereby they shall be adequately adjusted to digital economy. When an enterprise maintains a significant digital presence in an economy, it may still lack a *nexus* to it, resulting in the fact that it is not taxable in it under the existing international tax rules. The focus of Action 1 is put on how taxing rights on income generated from cross-border activities should be allocated among countries, and the suggestion that the changes caused or facilitated by digitalisation – notably scale without mass, heavy reliance on intangible assets, and the importance of data – require to revisit some fundamental aspects of the international tax system (so-called 'profit allocation' and 'nexus' rules) (OECD, 2019a).

³ See also (Pinkernell, 2013, p. 739).

2) Action 2: Neutralising the effects of hybrid mismatch arrangements

Interaction of various jurisdictions in combination with application of international tax rules, means also different and incoherent interpretation of certain institutes, causing different tax treatment of the same institute among various jurisdictions. OECD BEPS Project tackles the misuse of hybrid instruments and hybrid financial instruments that create tax optimization opportunities for MNEs, since hybrid mismatches can result in the fact that less or no tax is paid in the end (Rust, 2015, p. 89). E.g. an entity resident in State A provides a convertible loan to an entity resident in State B. State B treats payments arising out of such a loan to be deductible interest, whereas State A considers such payments to be dividends and allows a participation exemption. The taxpayer enjoys tax favourable treatment in both jurisdictions due to the difference in qualification of the payment (Govind & Zolles, 2018, p. 235).

Slovenia adopted hybrid mismatches rules in October 2019, within the process of adopting the EU ATAD⁴.

3) Action 3: Controlled Foreign Company (hereinafter: CFC)

One of the most typical means of profit shifting is allocation of the profit to subsidiaries in low or zero tax jurisdictions. MNEs were establishing subsidiaries in such jurisdictions, however, such establishment may also be well founded when it has economic sense and purpose. Where such subsidiaries are established for actually doing business in a certain jurisdiction, providing that a subsidiary in fact has a certain degree of substance (e.g. staff, assets, significant functions), the issue of subsidiaries, even in low tax jurisdictions, is not problematic. Where, to the contrary, a subsidiary is established only or mainly for tax purposes, without justifiable business or financial reasons, the Action 3 provides that countries shall implement such rules that the income, shifted to such controlled entities, will be able to be re-allocated back to the parent company and taxed according to tax rules, applicable in their tax jurisdiction.

Slovenia implemented CFC Rules with January 1st, 2019. The CFC Rules were implemented under the ATAD of the EU.

4) Action 4: Limitation on interest deductions

Interest payments are generally tax deductible. MNEs found the way to lower their tax bases by financing their subsidiaries by debt instead of equity. Enterprises of high tax jurisdictions were paying interests to related persons of lower tax jurisdictions, causing tax base erosion in high tax jurisdictions and profit shift to low tax jurisdiction. A well-established rule in the field is thin capitalisation, providing that debt financing should not exceed a certain relation to equity financing. Moreover, the interest payments shall always be determined and paid according to the Arm's Length Principle. It is now being recommended to adopt further interest deduction limitation rules based on fixed ratio rules, limiting tax recognised interest expenses and economically equivalent payments in comparison to EBITDA level (net interest/EBITA ratio; OECD, 2016).

Slovenia currently regulates thin capitalisation rules, whereby interest on the loans, granted by the qualified 25% direct or indirect shareholder, when such loans exceed four times the amount of the share of the relevant shareholder in the taxpayer's equity (loan surplus), determined with respect to the amount and the period of the loan surplus within the tax period, are non-deductible, unless the taxpayer proves that such a surplus could be achieved also towards non-related creditors. With respect to loans that do not represent the loan surplus, the interest on such loans, received from related persons, may be considered deductible only up to the amount of the last published recognised interest rate, which was known at the time of granting the loan, unless the taxpayer proves that he would under the same or comparable circumstances receive the loan under an interest rate, which is higher to the recognised interest rate also from a non-related creditor. Interest limitation rules are also regulated in Art. 4 of the ATAD. However, the European Commission determined Slovenian thin capitalisation rules as adequate and granted an exception, under which Slovenia may postpone implementation of interest limitation rules amendments to year 2024.

5) Action 5: Harmful tax practices

Action 5 represents the minimum standard to be implemented by the countries. It addresses preferential tax regimes, mostly the issues with their detection and monitoring. Action 5 elaborates further on the nexus approach, stressing the evaluation of substantial activity in case of intangible assets. A simultaneous automatic exchange of tax decisions (e.g. advanced pricing agreements, other unilateral transfer pricing agreements, agreements of permanent establishments, actions of related entities, etc.) that represent a BEPS risk was also agreed. The latter is

⁴ Council Directive (EU) 2016/1164 of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market OJ L 193, 19th July 2016, p. 1–14.

of particular importance, since the lack of transparency of specific tax regimes is one of the reasons why they are harmful and trigger BEPS opportunities in the first place.

6) Action 6: Prevention of tax treaty abuse

One of the biggest success of the international taxation system is the network of bilateral international agreements, entered by the countries mainly to agree on the taxing rights with the purpose of avoiding double taxation (hereinafter “DTC”). Double taxation represented an obstacle to MNEs in expanding their business cross border, however it unintentionally provided options for misuse in form of e.g. treaty shopping. By using the latter, MNEs were achieving tax benefits that were not intended for their cases. Action 6 proposes amendments to the OECD Model Convention⁵, expressly eliminating the purpose of tax avoidance and evasion from the general purpose of the DTCs. A minimal standard to fight treaty shopping shall be implemented, together with the limitation on benefits rule and a principle purpose test. Action 6 is a minimum standard.

7) Action 7: Permanent establishment status

Permanent establishments (hereinafter “PE”) are often used to avoid taxes. Namely, its former definition in the most of DTCs enabled MNEs to avoid triggering PEs and consequently paying adequate taxes in countries where they had performed their activities. The main issue of the former definition were the exemptions, under which a certain economic presence was not deemed a PE, therefore not taxable in that economy. Such exemptions were e.g. ancillary activities (e.g. warehouse, marketing, exhibitions) and short-term projects in construction businesses. MNEs changed their usual distribution models to agencies, formally transferring all essential distribution functions to other related companies. In a country, where an enterprise previously paid taxes on sales profits, it now pays taxes only to agency commission profits. Agency commission incomes are often further reduced by payments for various management and maintenance services (e.g. management fees, IT fees, insurance fees). Action 7 stresses that where such function transfers are artificial, the PE status can no longer be avoided. Moreover, it establishes that where such functions are important and form a coherent activity with activities of other related entities, they cannot be deemed ancillary.

One of the most famous cases on the field of PE misuse is Amazon’s. Amazon is an international on-line retailer,

basing its business model on warehousing and fast delivery to customers. In countries, where Amazon held a warehouse, it has been avoiding triggering a PE due to warehousing being deemed ancillary activity under the DTC and usually also local tax regulations. Now, therefore, under Action 7 an activity cannot be deemed ancillary, when it forms a coherent activity with the other functions. It was recognised that warehousing is one of the main activities of Amazon, thus, cannot be deemed ancillary.

The short-term project exception was exploited enormously by the construction MNEs, which misused the exception by fragmenting the activities among related and unrelated parties and concluding several short-term contracts for the same project. Action 7 recommends implementing the anti-fragmentation rule to prevent such practices.

8) Action 8 – 10: Transfer pricing

The main goal of Actions 8-10 is connection of profits to the MNE’s created values. A special attention is given to hard-to-value intangible assets. An MNE member shall be entitled only to profit, attributable to its factual activity. Cash box companies are in the centre of attention.

9) Action 11: BEPS data analysis

The action envisages methodologies for data collecting and monitoring, measuring fiscal effects of harmful tax practices and impact of the BEPS actions. In 2015 the OECD determined that the cost of tax avoidance of MNEs amounted from 100 to 240 billion of dollars, which corresponds to 4-10% of the worldwide corporate income tax (OECD, 2019a).

10) Action 12: Mandatory Disclosure Rules

Action 12 recommends rules that will oblige taxpayers and their advisors to disclose aggressive tax planning arrangements. Tax authorities will be able to detect harmful tax practices in advance and they will be able to target such practices more effectively.

The most related to Action 12 is the EU DAC⁶ 6 Directive, which was implemented also in Slovenia in June 2019.

⁵ OECD Model Tax Convention on Income and on Capital.

⁶ Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, OJ L 64, 11th March 2011, p. 1–12.

11) Action 13: Transfer pricing and Country-by-Country reporting

The centre of Action 13 is the transfer pricing documentation, which shall be formed in 3 pillars: i) a master file, which can be prepared on a group level; ii) a local file, which is prepared for a local entity; and iii) Country-by-Country report. Moreover, under Action 13 all large MNE groups are liable to report by country aggregated data about their global income distribution, taxes paid and economic activity among the tax jurisdictions (hereinafter "CbC Reporting"). The purpose of CbC Reporting is to provide tax authorities first and at least minimum indications of economic activity of an MNE group on their territories, which can enable more targeted audits. Action 13 is a minimum standard.

Slovenia adopted the CbC Reporting and exchange rules within the DAC 4 implementation. The three-pillar transfer pricing documentation as also envisaged by Action 13 is thus already implemented.

12) Action 14: Effective tax dispute resolution

Action 14 is the minimum standard as well and it aims to improve tax dispute resolution among the countries. The Mutual Agreement Procedure is well established tax dispute resolution tool, however, it proved to be time consuming and ineffective. Action 14 provides recommendations for improvements. The institute is important as a tool of adequate DTC interpretation.

Slovenia amended its rules on the Mutual Agreement Procedure in June 2019.

13) Action 15: Multilateral instrument (the "MLI")

With Action 15, OECD aimed to simplify the implementation of necessary amendments into existing DTCs, by proposing a multilateral instrument. By concluding and ratifying the MLI, existing loopholes in DTCs are intended to be eliminated, while the countries are able to avoid new and often hard bilateral negotiations in amending all of the DTCs. Nevertheless, MLI provides a lot of options available for countries' discretion, which makes the use of the MLI as well as the DTCs relatively complicated. Some countries, Slovenia as well, are preparing consolidated texts of the DTCs, simplifying the use of newly amended DTCs. The release of the MLI constitutes an important step towards the most significant re-write of international tax rules in a century. It is the multilateral convention enabling the simultaneous amendment of more than 3,000 existing bilateral conventions for the avoidance of double

taxation. It aims at eliminating loopholes and mismatches among them, which are susceptible to allow aggressive tax planning. In 39 articles, it implements Actions 2, 6, 7 and 14 of the BEPS Project, regarding hybrid mismatches, treaty abuse, artificial avoidance of permanent establishment status and dispute resolution of international tax disputes (Valente, 2017, p. 219).

Slovenia was among the first 5 countries to ratify the MLI, which is valid on its territory as of July 1st, 2018.

Impact of Anti-BEPS Measures on Business of MNEs

After presenting very shortly the main issues dealt with the OECD 15 anti-BEPS actions, we evaluate in the remainder of the article, which actions and to what extent they impact business performance of MNEs, providing that the countries of their business will in fact implement and more importantly execute efficiently, not only the minimum standards but also other recommended actions. We note that international business might be impacted in practically every aspect. From market expansion to inter-company transactions, doing business among related parties will have to adopt to new tax law developments. Nevertheless, we have selected some of the most obvious impacts, i.e. we assess, how will the established international business models, consulting and digital businesses, mergers and acquisition (hereinafter "M & A") practices, have to adapt to be tax compliant.

A) Business Models

One of the main conclusions, which can be derived from all of the adopted anti-BEPS actions, is that business models that serve the purpose of decreasing or even avoiding/evading tax liability are endangered. Enterprises which survive only due to the tax purposes, especially cash box or shell companies and conduit companies, will most probably become inefficient within the MNE group and the MNEs will gradually withdraw their business in countries, where their economic presence is intended for tax or mainly for tax purposes. Severe consequences to profits of enterprises, forming an MNE group, are not expected in countries, where enterprises execute significant value creating functions, since tax benefits are being reserved for active conduct of business (i.e. the "ABC Rule") only (Klink, 2016, p. 7).

It follows that where economic or other substantial presence of an MNE is established for purposes of e.g. obtaining DTC tax benefits, Action 6 shall prevent such misuse of

the DTC, combined with Action 15. If a tax authority will determine that a transaction was performed mainly for tax purposes, it shall deny the otherwise applicable tax benefit. Tax authority shall use the limitation of benefits rule and the principle purpose test subsequently to determine if the main or one of the main purposes of a transaction is decreasing or avoiding tax.

Furthermore, the CFC Rules under Action 3 will cause income re-allocation in the events of related entities without significant substance, back to its parent company, where they will be taxed under the tax law of the parent company. In this respect, the positive effects of the existing hybrid mismatches shall also be taken into consideration in doing cross-border transactions. Loopholes and discrepancies in tax treatments of hybrid instruments should now on be settled and not available for exploitation any longer. However, different approaches and non-mandatory nature of the majority of anti-BEPS actions may fail to close the loopholes or even create new ones.

The other aspect that is on the spotlight of the BEPS project is debt financing among the group. As already explained briefly above, Action 4 of the OECD anti-BEPS project tackles BEPS aimed to lower the tax base by tax recognised interest payments, which may be excessive or even contrary to the arm's length principle. The MNEs will have to balance debt financing and review existing financing models.

One of the main points of the entire OECD anti-BEPS project is finding the economic reality instead of relying to the paper reality. Tax authorities shall look behind the contractual provisions, especially when auditing payments related to intangible assets. Intangibles are by their nature mobile and represent one of the most important and commonly used tools in BEPS practices. Tax authorities will seek the nexus among the executed payments and value created. Functions transferred on paper will be revised according to the factual background of the functions *de facto* performed. With the intangibles the "DEMPE" function analysis will be emphasised, meaning that to avoid income re-allocation for tax purposes, the MNEs should review where they have allocated development, enhancement, maintenance, protection and extortion of the intangibles functions and if such allocation matches the factual place of the function performance or not.

Enhanced transparency (Actions 5, 12, 13), especially automatic and simultaneous exchange of data and tax decisions, should in theory enable the tax authorities targeted and effective audits of MNEs' international operations. Important indicative data are being reported throughout all the markets of an MNE group's business performance. It will be difficult for MNEs to hide conduit or other

non-function enterprises in their ownership chains from the tax authorities. Consequently, tax advisors and internal tax staff will obtain a more significant role in ensuring tax compliance. Tax departments within the group will have to cooperate in assisting and providing the relevant data to all the members within the MNE group to ensure consistency and coherent reporting. Administration and tax advisory costs will therefore increase.

Transfer pricing schemes of MNEs are being revised as well. The existing transfer pricing documentation will necessarily have to be revised in order to verify, if it still includes sufficient data and analyses, as recommended by anti-BEPS Actions 8-10, 12 and 13. This will definitely increase costs of preparing compliant transfer pricing documentation, which are already very high, especially for local companies of smaller markets.

Mobility of the staff is particularly common with MNEs. E.g. postage of leadership staff to manage a related company, sending employees for education, posting employees to work on a specific project abroad, allowing home offices abroad, are being done within daily business. MNEs will have to revise such practices and assess their tax liabilities in foreign markets anew. Namely, if certain functions travel with staff to other countries, a PE may be triggered, under recommendations of anti-BEPS Action 7, even more often and faster than up to date. Nevertheless, practice shows that MNEs as employers are often unaware of travels of important staff and its tax implications. Hence, MNEs will have to establish a system of controlling, to monitor the place and functions of their hired staff.

B) Impact to Consulting Business

The public recognised tax, legal and financial consultants as the associates to MNEs in conducting harmful BEPS practices. Selling innovative and effective tax planning arrangements was practically one of the main income sources for the most successful international tax advisory companies. Action 12 intends to limit such cooperation by imposing reporting liabilities on potentially harmful tax schemes to tax authorities by the consultants themselves. Tax consultancy firms will have to implement measures to comply with new reporting demands and a decrease in income in respect to selling harmful practices is expected. However, such decrease may be replaced by tax compliance advisory services, which will probably become of a high demand considering the uncertainty and complexity of the new measures. Firms specialised in specific international taxation topics will gain advantage in comparison to general tax advisory firms. Services of such specialised experts will become more expensive in consequence.

C) Digital Business

MNEs of digital economy represent a special challenge for legislators. Namely, it is difficult to establish the place of their economic presence, of their nexus. Action 1 is one of the broadest and least clear actions, leaving room for country specifics, causing insecurity regarding future liabilities for digital MNEs. Recommendations on the field of digital economy are not very specific, causing a major legal insecurity and unpredictability of tax impacts. This causes issues for digital companies with respect to entering new markets, pricing of their products and business strategy (Flynn & Bates, 2016, p. 15). Amended PE definition within the Action 7 represents a high risk of triggering unknown PEs for digital companies, causing difficulties in assessing tax liabilities. Digital companies often use mobile employees, namely they enable employees home offices in various countries. When such employees will perform functions, essential for the business (e.g. software development), a PE may be unintendedly triggered in the place of employee's residence. Unintended PEs represent risk in potential penalties for omission of tax reporting and payment as well as additional tax payment and administrative burden in the event of recognised PEs. A place of a hired server may in some cases of digital companies (e.g. companies whose main purpose is offering data storage or hosting) represent a PE risk. A thorough review of the entire business model, existence of mobile employees as well as location of crucial assets, will have to be performed in order to detect unintended PEs and to manage associated risks. Increased reporting liabilities within Action 12, 13 and 5, may unintentionally provide grounds for tax audits, hence digital MNEs shall be well aware of the data, being reporter to tax authorities throughout the entire group.

D) M & A Transactions

Anti-BEPS actions will impact all phases of a M & A transaction (targeting, due diligence, structuring and evaluation). In the post-transaction phase also, the integration and compliance of reporting will be impacted. Limitations within the scope of Action 2 and 4 will impact financing of the transactions, especially debt financing models. Professional investment funds, e.g. private capital funds and pension funds will be impacted by Actions 6 and 7 regarding the access of DTC tax benefits, economic substance requirements and amended PE definitions. Limitations of preferential tax regimes and innovation financing will cause previously tax favourable arrangements inconvenient. Anti-BEPS actions represent enhanced tax liability and tax compliance cost that could impact the risk, structure and value of a transaction. Value of a target will be harder to determine, whereby investors, willing to undertake tax risks and of the knowledge to

evaluate and recognise them, will have a big advantage on the M & A market. The tax due diligence will be oriented to the past and to the future, whereby tax advisors shall have the capacity to foresee the consequences of anti-BEPS actions implementation to the tax position of the entire MNE group. Tax policy of the target may undermine or crush the tax policy of the entire group. Action 12 will enable tax authorities to detect tax motivated transaction to tax authorities in the very early stage of the transaction (Eagers & Bennett, 2016, pp. 30–33).

Upon acquisition of a group, tax due diligence will have to be performed in various countries due to numerous specialties, available to the countries for implementation. Due to emphasised tax compliance, the price of tax due diligences is expected to increase. It is recommended that tax experts take part in contract drafting and negotiating. Potential tax risks shall be taken into account in the representations and warranties catalogue and indemnities for additional tax liabilities should be agreed for detected risks. A special attention should be granted to proper function and risk allocation and usage of proper transfer pricing methods. Compliance with reporting liabilities should also be thoroughly reviewed. Additional warranties should be agreed on the field of PEs, namely the seller should warrant that to the best of his knowledge, he is not aware of any cross-border activity that could form a PE or vice versa, that he is aware of all cross-border activity and that to the best of his knowledge, such activities do not trigger PEs on relevant markets.

A general tax warranty clause, which was usually agreed in purchase agreements in the past, may also cover all mentioned tax risks. However, the sellers are strongly advised to avoid too broad tax warranty or indemnity clauses. The anti-BEPS actions can be so far reaching that sellers, who are not reassured of their international tax position, should refrain from agreeing to general tax warranty or indemnity clauses in agreements. If they would nevertheless accept to agree to general tax clauses, attention to proper liability limitation should be given. It is thus preferable for both contracting parties to precise tax clauses in the agreements as strictly as possible or to understand the consequences of agreeing to broad clauses and take the unknown additional liabilities into account when setting a price.

Conclusion

MNEs had innovatively and effectively used the loopholes in international tax system, which were caused due to the collision of various national tax systems on the otherwise global market. Tax legislation sovereignty is a difficult international law topic and so far, the countries were protecting

their tax systems from harmonisations. Access to secret information, several information leakages, combined with financial crisis, are only a few facts that attracted public attention to unfairness of taxation of MNEs in comparison to local companies. It has become politically favourable to claim to protect tax bases in countries of MNEs' economic presence. International institutions had to act in their attempt to prevent unilateral measures that would definitely follow, if no effective unified solutions would be offered to legislators. The OECD BEPS project is thus a good attempt to protect tax bases where they are supposed to be taxed and prevent double taxation, which would be caused by unilateral measures of the countries. Maintaining effective tools to prevent and eliminate double taxation are hence of crucial importance to MNEs and global economy.

Nevertheless, we cannot totally avoid the unfairness of the public opinion and focus of legislator to harmful tax practices of the MNEs. In our opinion local companies should not be disregarded when assessing the reasons of low corporate income tax yields. It is a fact that interactions of various tax systems on the global market provide more opportunities for loopholes and their misuse in doing international business. However, especially in small export-oriented countries, like Slovenia, legislators should implement further restrictions to international transactions with caution in order to prevent foreign investment leakages from their economies. Potential amount of avoided corporate income tax should always be weighed against other positive fiscal effects that incur as a consequence of employments, investment, innovation, sale, etc. MNEs bring know-how, technology and usually contribute to the growth of small economies⁷.

As we have indicated above, implementation of anti-BEPS actions will increase cost of doing business internationally. MNEs will be even more prudent and cautious when entering new markets, especially where they will encounter higher tax liabilities and administration in comparison to expected earnings. On the other hand, implementation of envisaged actions will represent economic burden to fiscal authorities as well. Undeveloped tax jurisdictions will find it difficult to implement or execute the anti-BEPS actions due to poor infrastructure and incompetent staff. Advanced tax jurisdictions, e.g. most of the OECD member states and member states of the EU, are already executing actions to prevent or limit anti-tax avoidance practices for years and they have an advantage over emerging tax jurisdictions. Moreover, Burgers and Mosquera argued that the participation on equal footing of developing countries in the BEPS

Project are not sufficient to legitimise the role of the OECD and the BEPS 44 group of countries that participated in the BEPS Project in setting international tax standards for developing countries. The reason is that there has not been a true decision-making process. Since the content of BEPS Actions has been decided by the BEPS 44 group with developing countries having only a consultative role (Burgers & Mosquera, 2017, p. 31). Nevertheless, positive effects of anti-BEPS measures could hardly be effectively measured so far, which is the ground for the OECD to recommend improvements of analytics and reporting (e.g. especially within Action 11 of the BEPS Project), which will enable the OECD to measure the scope and consequences of BEPS practices as well as the impact of anti-BEPS measures. It also has to be emphasised that the majority of the anti-BEPS actions leave discretion to the countries in choosing proper means of preventing certain BEPS practices, providing that there is a lot of room for creating further loopholes in international tax system which MNEs will be eager to use.

Discrepancies among national tax systems and potential unilateral measures of tax jurisdictions represent a risk for uninterrupted functioning of common markets, such as the internal market of the EU. With this respect the institutions of the EU aimed to prevent fragmentation of national tax policies and unilateral measures of its member states that could impair functioning of the internal market of the EU and adopted several anti-tax avoidance measures for the EU member states to implement them⁸. Since 22 of 28 EU Member States are also part of the OECD, it was necessary to provide for a common implementation of the BEPS Action Plan that could also fit with the EU legislation and the relevant CJEU case law. For this reason, the instrument of the Directive was the most appropriate in order to ensure a coordinated and uniform application of rules which substantially affect the single market (Ginevra, 2017, p. 137). In this light, the Anti-Tax Avoidance Directive (the ATAD⁹ and ATAD II)¹⁰, requires member states to implement adequate legal measures to combat harmful tax practices. The ATAD provides a legal frame for adopting CFC Rules, Interest Limitation Rule and Hybrid Mismatch Rules, whereby it also provides measures, outside the OECD anti-BEPS project, i.e. General Anti Avoidance Rule and Exit Taxation Rule. Nevertheless, the EU anti-BEPS measures share the problem with the OECD BEPS Project, i.e. setting only

⁷ E.g. Durst argued that the most important impediment to effective control of base erosion is the pressure of tax competition – namely, the fear that effectively imposing income taxes on inbound investors will deter employment and economic growth (Durst, 2014, p. 3).

⁸ The EU Anti-Tax Avoidance Package (see <https://www.consiliium.europa.eu/en/policies/anti-tax-avoidance-package/>).

⁹ Council Directive (EU) 2016/1164 of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market OJ L 193, 19th March 2016, p. 1–14.

¹⁰ Council Directive (EU) 2017/952 of 29 May 2017 amending Directive (EU) 2016/1164 as regards hybrid mismatches with third countries OJ L 144, 7th June 2017, p. 1–11.

minimum standards or recommendations within the soft EU law to be implemented, leaving discretion to the EU member states to take stricter actions, which may fail the cause on the subject field – i.e. to prevent unilateral actions of the member states, securing functioning of the internal EU market. Discretion and unclarity regarding execution of

anti-BEPS actions mean uncertainty, which contradicts to one of the founding principles of the tax law, i.e. certainty in tax matters. Taxpayers must be aware of tax implications of their businesses in advance. Only by taking the applicable taxes into account, they will be able to properly evaluate their transactions.

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Anti-BEPS ukrepi in njihov učinek na uspešnost multinacionalnih podjetij

Izvleček

Prispevek predstavlja škodljive davčne prakse mednarodnih podjetij (MNP) in boj mednarodnih organizacij proti njim. V prispevku se osredotočamo na projekt Organizacije za gospodarsko sodelovanje in razvoj (OECD) za preprečevanje erozije davčne osnove in prenašanja dobičkov (projekt za preprečevanje BEPS), in sicer na 15 ukrepov, sprejetih v okviru tega projekta, ki jih predstavljamo v prvem delu prispevka z uporabo deskriptivne in analitične metode. V drugem delu s pomočjo sintetične in kritične metode analiziramo vpliv omenjenih ukrepov na izbrana področja mednarodnega poslovanja. Naši zaključki kažejo na to, da se bodo MNP-ji morali prilagoditi novim davčnim regulativam, kar bo povzročilo tudi znižanje ravni njihovih dobičkov, saj za zniževanje davčnih osnov ne bodo imeli več na voljo uveljavljenih škodljivih davčnih struktur. Hkrati pa smo zaključili, da obstoječi pravni pristop pri uvajanju novih ukrepov vodi v pravno negotovost v davčnih zadevah. Zaradi obsega analizirane problematike je bilo nemogoče poglobljeno obravnavati posamezne ukrepe, zato bralcem na splošno predstavljamo značilnosti in cilje predmetnih ukrepov, ki so pomembni za razumevanje naše ocene njihovega vpliva na izpostavljena področja mednarodnega poslovanja. Prispevek bo uporaben v literaturi in praksi, saj omogoča splošen pregled trenutnih in pomembnih premikov v mednarodnem davčnem pravu, ki jih bodo MNP-ji morali upoštevati pri čezmejnem poslovanju.

Ključne besede: BEPS, OECD, mednarodno davčno pravo, davki, KIDO, davčno načrtovanje, prenos dobičkov, erozija davčne osnove, davek od dohodkov pravnih oseb

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Smart Cities Marketing and Its Conceptual Grounds

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Abstract

The most frequent definition of the smart city in the literature defines it as a developed urban area that creates sustainable economic development and high quality of life. Therefore, a city should always be capable of identifying and effectively resolving its key development challenges in order to improve the quality of life of its citizens. Regarding economics approach, the authors rely on endogenous growth theory derived from Arrow. The authors explore the role of smart city management and governance, which will have to combine the need for capital with the need to ensure the environment that this capital will enhance modern urban producing factors. Hence, the authors discuss communication aspects and the importance of the evolution toward smart communities, where the idea is not on making places smart anymore, but rather focus on humans and their needs. For an emerging smart city, market built up of smaller cities and municipalities describes the changing role of marketing and the shift of roles in its processes in order to show the urge to become familiar with the spirit of open innovation and rethink marketing strategy in this emerging reality.

Keywords: smart cities, marketing, economics, conceptual grounds

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Introduction

Promoting cities to become smart primarily derives from the problems caused by rapid urbanization—usually deteriorating quality of life in big agglomeration. Despite the adjective smart is commonly used this term has not necessary being completely adopted in academia and politics. However, the common denominator of all initiatives and positions is that they live in the environment of still deficient proves and theory.

Looking for robust smart city concept we found that this concept is still in progress (Johnson, 2008; Boulton, Brunn, & Devriendt, 2011; Mora, Deakin, &

Bolici, 2017; Law & Lynch, 2019; Shoaib & Shamsi, 2019). This means that there still no consistent or unanimous use of terms has been adopted. Here we refer to Johnson (2008) who understands the use of smart city as an urban labelling phenomenon, noting that the label smart city as a concept in not always consistent. The plurality of the concept is best presented through Giffinger et al.'s (2007) who introduced issues, such as, awareness, flexibility, transformability, synergy, individuality, self-decisiveness, and strategic behaviour, all being crucial parts of the smart city concept.

Even more, according to Harrison et al.'s study (2010), a smart city is a part of being subject to instrumentalization and interconnectivity actually an intelligent city. For the Natural Resources Defense Council (2014), smart means more efficient, equitable, sustainable, and liveable, while Toppeta (2010) emphasises most the improvement in sustainability and liveability. Rios's (2008) sees smart city as a city that gives inspiration, shares culture, knowledge, and life, and motivates its inhabitants to create and flourish in their own lives. Giffinger et al. (2007) highlighted the performance of smart city in economy, people, governance, mobility, environment, and living. Washburn et al. (2010) on the other hand conceptualise smart city with giving the biggest attention on the use of smart computing technologies. Smart computing means new generation of integrated hardware, software, and network technologies for providing IT systems and advanced analytics for optimising the business processes. Industry 4.0 technologies allow a technological transformation of cities therefore harnessing the potential of the 4th industrial revolution will require cities to integrate new innovation and technology-related concepts (Hobcraft, 2019). Especially the Internet of Things, the Internet of Services and the Internet of Energy as aspects of Industry 4.0 should be considered as elements that can create the connection of the Industry 4.0 and Smart City initiative (Lom et al., 2016).

The facts presented above support the statement that smart city is a very complex concept. In this respect, it must be considered rather as organic system combined of many elements. Following the discussion in the literature (Kanter & Litow, 2015, Koch, Rapp, & Kröger, 2013) a smart city is "organic integration of system". In this respect, also the interacting of its parts will define the level of smartization. Being subject to action of humans living together in agglomeration none of these elements cannot operate or be treated separately. Functioning in the form of network modern cities- smart cities are actually acting as organisms using their nervous system as developed by their citizens. This brings us to the term intelligence of cities including interrelation and interacting of digital communication networks, given intelligence as well as software – all of them making smart city similar to organism with nerves and brains.

Marketing necessary mean addressing people with new possibilities referring to a products and services. To steer people into smart city values there will be surely no unified marketing approach, but one will have to consider the difference in their reasoning as a consequence of existing historical, cultural and economic experience. As empirical proof shows there three factors are being more and more influenced by thinking and perspective in their social network and environment (Macdonald, 2017). Here, the very same facts can be accepted immediately because they are supporting social network general position or will be rejected because it wants to abruptly change this position.

In this article, the authors try to combine recent knowledge on definitions and economics relevant to smart cities, which could support modern view on marketing function promoting the smart city idea.

Urban Economics and the Case for Smart Cities Marketing

Being brought to agenda whenever discussion on urban agglomerations takes place, smart cities became a mantra for participants in these discussions. Following new technology impulses and the need for circle economy the idea is making us conscious, which new technologies could contribute to our (better) living. Addressing of these problems the World economic Forum (2016) set four priorities in the field using principles of circular economic: smart energy networks, smart shareable home, optimised mobility and shareable, reusable buildings.

Bringing in all kinds of network the idea challenges at least two facts: i) will humankind accept limitless robotization and cybernetics in everyday life and ii) shall human typical stochastic and random acting be handed to artificial intelligence and robots?

Smart city principles will need intelligent support by the policy makers, firstly by using favourable fact at their disposal. Complying with smart cities concept more indigenous approach will have to take place, such as "building on existing qualities and assets, linking related industries to one another, mobilising companies and citizens to innovate..." (Urbact II, 2015, p. 7). It is the fact that the players in the political market act on basis of imbedded freedoms mostly from the times with allegedly vast environment resources in the scarce economy. The pace with which technology has brought excessive production of goods and services has not only burden the environment but have also deteriorated the quality of living in urban areas. The policy makers will have to address these problems and

introduce circular economy amid changing people perception on their freedoms as well as prevent inhabitants from free riding. We see the possible system of approaches to achieve best results from circular economy-oriented measures—be accepted by three main measures: informing of inhabitants on positive consequences of change in behaviour, financial (tax) incentives and popularization through targeted marketing.

Here the position of economic policy is, however, by far not simple. As the “*contradictio in adiecto*” we firstly find the relation between cybernetization and freedom, the last being core human value. The freedom to interhumanly acting would in this case be defined and limited by vast network of tangible and intangible support offering us the benefit of enlarging our productivity and leisure. This opens the space for governmental and corporate steering of the systems thus reducing democracy (Poole, 2014). Spreading all over the world such smart city idea would secondly require simultaneous and equal values and development level on a global scale. If not so, civilization clashes between worlds with different levels of historical development that can be measured in centuries, could easily just by deploying their brain trust undermine and put civilization living its remote world in an unpredictable situation.

Smart city marketing is being challenged through peoples’ need to make cities more human oriented. We must, however, beware the fact that the city is an agglomeration also in economic and political sense. Here we do not completely agree with Polese (2013) that cities are in the first line agglomeration of people and not economic or political units. As we see with state capitals, their political weight and economic power as a rule attract people who are needed for such city to operate and perpetuate its position. Therefore, despite its human orientation smart city and its marketing will include the city’s need to consider all three pillars of its existence as human, economic and political formation.

Successful smart city marketing will therefore consider some facts dealing with economics, which are constraining the plans to change the nature of existing cities. The same is with policy to attract specific human capital from other cities to relocate in order to achieve higher competitiveness. These facts are (to be compared with Polese, 2013): city’s location and relative size mean certain predestination, although this may change following historical or technology change, city’s accessibility and connectivity exposition to political and technology change and the footprint that industry specialization has left on the city.

Being triggered by deteriorating quality of life in modern cities different initiatives among which smart cities have

special position, are more and more taking scientific position. However, it is not enough to disregard markets and economic patterns proved in economic theory and search for a completely new approach, without understanding the basic economic knowledge that defines agglomeration growth and transactions. Synthesised from the literature (to be compared with Gale, Pack & Rothenberg, 2002; O’Sullivan, 2007; Kotkin, 2017) these basic economic facts and axioms could be quoted as follows:

- Bid rent theory - As long as there will be city centres and suburbs, there will also be the bid rent curve falling sharply from the centre showing the falling density of users of city centre services;
- Location equilibrium will at the end of the day drive the prices of immobility to the levels that correspond attractiveness of certain location – arriving at Pareto optimal allocation;
- Self-reinforcing effects deriving from moving of compatible people and services to certain areas are causing concentration of wealth or poverty in cities’ sub regions;
- Externalities cause inefficiency as a person or company rises the quality of life in a certain city area and is not paid for it;
- Economies of scale cause specialization of higher knowledge to concentrate in a city or its area;
- Zero economic profit ends the competition - as incumbent companies reach zero profit at certain production level, they will still continue their business, but no new firms will enter the very market.
- With merging of different urban areas subject to income segregation, local governments will also in the future have to consider Pareto optimum. This means measuring total costs and benefits of such action and assuring positive sum.
- Suburban fiscal transfers to central cities create agglomeration economies and prevent weakness of central city government, which negative economies would spread also to the suburban area.

Therefore, no matter how prosperous the smart cities ideas may be and what will be their impact on urban policies, they will have to comply with facts and behaviour patterns explained by urban economics. They can be influenced to a certain degree, but not expelled. In this respect, directing marketing to exclude them would be risky and costly with practically no long-term effect.

Put in a more concentrated way this means that persons and companies respond to price differentials when relocating across the space (Brown, 2013, p. 45). This can of course be modified but not aborted through any means of intervention or regulation. Therefore, discussion on economic principles in urban economics starts from considering the city as market experiencing supply and demand functions.

Despite the fact that urban economic theory findings cannot be ignored, there is some criticism needed and it is proving the need for further search not only in scientific sense but also when acting, for instance, when the field of marketing is concerned. Here we should firstly not forget possible market failure and imperfections in the price mechanism (Goodall, 1997, p. 7) in this area, which is why urban economics and policy have been necessary linked to planning (Kaza & Knaap, 2012, p. 31). Further on it is of utmost importance for studies supporting theory to base on reliable data. This can often be a problem in measuring cities location choices and so often proxy variables are implemented (Harris, 2011, p. 369). Therefore, there is a room for data obtaining to build a robust ground for smart cities marketing analysis and implementation. Next, the “normal” reaction of people to price incentives has to be monitored also from the point of behavioural economics stressing that the people’s information is imperfect and that there are several ways in which people display their human limitations. These are their limited powers to problem solving thus following the rules of thumb to simplify their decision-making, their propensity to follow conventional wisdom; they can be influenced by how problems are presented (in media), their limited willpower and sometimes altruism. Besides, individuals rather react to a loss of a value than to a gain in the same value (Brooks, 2012, p. 20) which additionally underlines the importance of marketing information function.

Changing Role of Marketing in Smart Cities

From assumptions, regarding urban economics discussed above we have learnt that smart city marketing will be interwoven with many factors. Here we want to analyse its changing role from rather one/few-dimensional activity serving the promotion of technology solutions into a multi-dimensional set of activities, which can take the role of the development booster and redefine the structures steering the development of the city. At this point a short notice that this is not something what persons active in the steering structures or citizens always openly embrace, but more a challenging transition which can be led with different approaches, some addressed in our discussion.

Smart city marketing has been performed by two main groups: smart city solution providers and city authorities with all those acting on behalf of them. With technologies opening many easy and accessible communication channels the communication with the crowd has drastically change. From the mass media with one-way communication, now many possibilities have been appearing to interact with groups of people in so-called two-way and many-to-many communication. This brought to the emergence of new

forms of collaboration among local governments, research institutes, universities, businesses (e.g. Public-Private Partnerships) and now also with citizens (e.g. Public-Private-People Partnerships). A new understanding of innovation has been embraced, grounded in the concept of open innovation ecosystems and on citizens’ empowerment for shaping innovation and urban development.

To create sustainable economic development and high quality of life, which as we have learnt has been adopted as the aim of smart cities, we should always be capable to identify and effectively resolve its key development challenges and citizen needs. Here we want to stress the importance of the evolution toward smart communities, where the idea is not of making places itself smart anymore, but rather focus on humans and their needs.

Thus, citizen inclusion in the decision-making processes has become an imperative, which caused the beginning of a vivid and let’s call it *demanding* evolution taking place right now. Vivid evolution is seen from examples from the United Kingdom. There tweaked tax return notices resulted in millions of pounds of savings in three short weeks (Halls-worth, List, Metcalfe, & Vlaev, 2014). Next is the scheme that personalised text message reminders on unpaid fines, which was estimated to benefit the UK government by over 800,000 pounds worth of additional payments each week. As a last one let us quote from before mentioned inspired projects performed in Finland to search for human-centric governance through experiments (Annala et al., 2015). The evolution is also demanding, because it is bound to the so-called maturity or readiness level of a specific city or environment. As with definition for smart cities also here we are still without one general definition for what the maturity stands. Simplifying we can understand it as a set of different methodologies measuring different dimensions and aspects of city development with focus on transforming governance and service delivery models as well as citizen and business engagement by increasing use of data and digital technologies.

The business-as-usual approaches for example in form of classic one-way communication techniques which only inform and not really boost the interaction that cities have used for well over 100 years to involve citizens are not typically effective today, if they ever really were (DeKeles, 2015). Empowering citizens means that they not only have a voice, but also, they are regarded as a key stakeholder helping shape the development. Lessons learnt from the past development of the smart cities is that acceptance of new technologies should be not taken for granted. Moreover, this is exactly the turning point in the new role of the smart city marketing which has open innovation in its DNA and not only as a “nice thing to do”.

Open innovation research indicates that “unknown outsiders” can constitute an important source of innovation and value-creation. There has not been much research discussing open innovation in public sector or public organizations dealing with production, delivery and allocation of goods with and for citizens (Koch et al., 2013), but things are changing, because citizens engagement is the only way to earn the understanding of citizens’ needs. Talking about those, latest research shakes our picture of understanding the world. It shows that in the past leaders competing for votes had the wrong understanding of citizen priorities: in European elections since 1970 the life satisfaction of the people is the best predictor of whether the government gets re-elected – much more important than economic growth, unemployment or inflation (Clark et al., 2016).

In the harmony with principles of open innovation, smart city marketing does not only become the tool to understand citizens’ needs, it can also become the creating force of a new market. Smart city market so far has been a large city domain, like Barcelona, Amsterdam, and Vienna, to mention some in Europe. True, the predictions show that soon half of the world population will be living in big cities, but it is also true that the rest will remain in smaller urban centres. Being a human needs’ catalyst, by use of artificial intelligence and big data smart city marketing can help us understand also the patterns of needs and demand in smaller cities. Thus, it helps create new partnerships between smaller cities based on the same problems to solve which can grow in a new market – the smart city market of smaller cities and municipalities. First initiatives of this kind, such as FLAPAX – European Smart Community Accelerator, are already appearing (Starc-Peceny, 2016).

We have already mentioned innovation lead with citizen engagement in United Kingdom with tweaked tax return notices and other examples. However, does the open innovation in the DNA of the smart city marketing lead to a complete loss of leadership and decision making for authorities? A controversial example to reflect this point is the current case in Tokyo, where Yoichi Masuzoe, governor of

the Tokyo Metropolitan Government has taken the decision to take a big investment and build the 6,000-unit Olympic village to function exclusively on fuel cell power (Spector, 2016). As we know, the electric power has been so far the mainstream “future energy” although not being a completely clean energy source. Starting at this point an open debate in Tokyo about which, electric or fuel cell power – which is at this point still more expensive, but clean, should be used for the Olympic village, would probably bring more to a confusion than productive discussion. Readiness level and understanding of an average citizen about different power sources and technologies is too low. From this, we learn that open innovation goes in hand with the city maturity level and the role of smart city marketing specialists is to recognise it. Masuzoe has taken a step risky for his career and financially, but might give Tokyo the chance to become the lighthouse for the rest of the world with benefits for city’s air quality, resilience to natural disasters, and, most emphatically, the potential to seriously cut contributions to climate change. We are yet of the verge of understanding what pays and what not and it will be interesting to observe and learn the emerging era of Public-Private-People Partnerships and cooperation.

Conclusions

Since the development of understanding that building smart cities is not a mere technological issue, smart city marketing has grown from rather one/few-dimensional activity serving the promotion of technology solutions into a multi-dimensional set of activities. Cities need to learn to deal with the principles of urban economics, behavioural economics as well as open innovation and rising of maturity level of involved stakeholders. Smart city marketing is not only a promoter anymore. It has grown into a tool for understanding of citizen needs. And, even more, it can also become the creating force of a new market in which smaller cities might take the chance to become faster and more efficient in guaranteeing citizens well-being.

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Konceptualne osnove marketinga pametnih mest

Izvleček

Najpogostejša v literaturi sprejeta definicija pametnega mesta se nanaša na razvito urbano območje, ki ustvarja trajnostni gospodarski razvoj in visoko kakovost življenja. Zato bi moralo biti mesto vedno sposobno prepoznati in učinkovito rešiti svoje ključne razvojne izzive, da bi izboljšalo kakovost življenja svojih državljanov. Glede ekonomskega pristopa se avtorji opirajo na endogeno teorijo rasti po Arrowu. Avtorji preučijo vlogo pametnega upravljanja in upravljanja pametnih mest, ki bo morala združiti potrebo po kapitalu in potrebo po zagotavljanju okolja, da bo ta kapital okrepil sodobne mestne dejavnike. Na podlagi tega avtorji razpravljajo o vidikih komunikacije in pomenu razvoja do pametnih skupnosti, pri čemer ne gre več za vzpostavitev pametnih mest, temveč je središče na ljudeh in njihovih potrebah. Za nastajajoče pametno mesto, ki ga sestavljajo manjša mesta in občine, avtorji opišejo spreminjajočo se vlogo trženja in prenos vlog v njegovih procesih, da bi pokazali potrebo po seznanjanju z duhom odprtih inovacij in potrebo po premisleku na področju tržnih strategij v to nastajajočo resničnost.

Ključne besede: pametna mesta, marketing, ekonomika, konceptualne osnove

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Primer 1b: Another graphic way of determining the stationarity of time series is correlogram of autocorrelation function (Gujarati, 1995, p. 36).

Primer 2a: Engle and Granger (1987) present critical values also for other cointegration tests.

Primer 2b: Engle and Granger (1987, p. 89) present critical values also for other cointegration tests.

Navedbe virov v seznamu virov

Primer 1 – Knjiga: Gujarati, D. N. (1995). *Basic Econometrics*. New York: McGraw-Hill.

Primer 2 – Članek v reviji: Engle, R. F., & Granger, C. W. J. (1987). Co-integration and Error Correction: Representation, Estimation and Testing. *Econometrica*, 55(2), 251-276.

Primer 3 – Poglavlje v knjigi, prispevek v zborniku: MacKinnon, J. (1991). Critical Values for Cointegration Tests. In R. F. Engle & C.W. J. Granger, (Eds.), *Long-Run Economic Relationships: Readings in Cointegration* (pp. 191-215). Oxford: University Press.

Primer 4 – Elektronski vir: Esteves, J., Pastor, J. A., & Casanovas, J. (2002). *Using the Partial Least Square (PLS): Method to Establish Critical Success Factors Interdependence in ERP Implementation Projects*. Retrieved from <http://erp.ittoolbox.com/doc.asp?i=2321>

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References in the list of references

Example 1 – Book: Gujarati, D. N. (1995). *Basic Econometrics*. New York: McGraw-Hill.

Example 2 – Journal article: Engle, R. F., & Granger, C. W. J. (1987). Co-integration and Error Correction: Representation, Estimation and Testing. *Econometrica*, 55(2), 251-276.

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