

# Serbia as an eCommerce Region: The Role of Trust

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## 1 Introduction

Serbia is the country which has an important geographical location in Southeast Europe, which descended on a path of economic changes after a decade of stagnation. The World Bank has rated Serbia as the "leading reformer in 2005."

Higher rates of Internet use have been noted in the past few years in Serbia. These data are even much better than they are shown in presented statistics, because the population of Kosovo was taken in them, while there are not any accessible data about the penetration of Internet in Kosovo. However, like Albania (Papazafeiropoulou, 2004), Serbia experiences a paradox of high Internet growth and limited access to the Internet. An explanation of the paradox could draw on the time factor: because of the late start, there has been no sufficient time for achieving a better Internet penetration and bridging the digital divide with earlier adopters. According to (Travica et al., 2006) the software industry, e-payment/e-banking, and legislature give a pass to e-commerce, telecommunications and people attitudes halt it, while the state of network/delivery and education also encourage ambivalence.

As telecommunication infrastructure is growing very fast in Serbia in these days, main obstacle for better treatment of Serbia as real eRegion is in attitudes if the citizens of Serbia. This paper focus social aspects which are slowing the penetration of ICT and Internet into all parts of life in Serbia, with the trust as the most important factor.

## 2 Serbia: reasons for mistrust

Significant group of new researchers are taking trust as the most important factor of cultural perception for acceptance of e-commerce activities (Genis-Gruber et al., 2006). These authors are taking trust as a proxy for cultural differences among countries. Oxford Dictionary defines trust as the strong conviction that someone can have faith in some person or thing. More specifically, trust in e-commerce is defined as belief in competence, reliability and security of system in risky situations (Tung et al., 2001).

The trust is a major driver of e-commerce when the domains of the economy, national culture and group psychology are mixed. The typical Serbian customer appears to maintain seriously undermined trust, in addition to

being disillusioned and impoverished (Vidas-Bubanja et al., 2002). The old retail chains went bankrupt during the 1990s, giving way to a burgeoning black market and makeshift street shops. Quality assurance, product return policies, product servicing and other modern trading methods went to oblivion. As a result, trust in merchants disappeared. In the late 1980s, banks in the former Yugoslavia, encouraged by the federal government, engaged in overselling hard currencies to citizens. Rather than getting cash, the buyers would have the purchased amounts credited to their bank accounts. With the breakup of Yugoslavia, Serbian banks proclaimed this money to be "old savings" and canceled withdrawals for the next ten years. Recently, allowance was made for smaller withdrawals.

The scheming in the early 1990s caused another crack in trustworthiness of banks. Once again before the eyes of the government, pyramid-based banks took millions of dollars from individual citizens as their clients, attracting them with unrealistic interest rates. When the schemed banks broke, a large number of clients found themselves robbed of their money. Both the depriving of clients of their money and pyramid banks were characteristics of a period characterized by an overall decline in legality and ethics and a downright criminalizing of economy and the society (Dinkić, 1995). Because of these misgivings with banks, the Serbian client has refrained from putting the money in the bank again. This fact surfaced when the euro was introduced as the official currency of the European Union at the dawn of 2002, and citizens of Serbia brought 8,000,000,000 German marks to banks, which amounted to about a half of the 2001 GDP of Serbia-Montenegro.

The situation is slowly changing since the political and economic changes that commenced in 2000. New financial authorities introduced stricter financial control, reformed the banking system, and suppressed the black money market. The National Bank of Serbia gradually began compensating the clients who were robbed by pyramid banks. The consumers' trust may also be bolstered by a credit system that is in a steady process of recovery and by weeding out the black market and unregulated trading. Still, some applied psychology studies may be helpful for understanding the consumer profile relevant for B2C e-commerce in Serbia. According to (Vujić, 2004), most of the population is traditionally oriented and prefers stability, even if this implies stagnation. But, international brands

could make a difference with younger customer groups. In spite of a significantly limited purchasing power, the young consumer appears to equate fashionable foreign brands with a satisfactory value proposition regardless of price/value ratios. The value is seen in a social status and wealth that the brands are believed to signify (Maričić, 2002).

With respect to B2B e-commerce, the main problem is the lack of national legislation that is in the process of development (see the section on legislation). B2B Web sites mainly offer product information, and some of them support order taking. All the other activities are happening in back-offices. Currently, a significant problem for all commerce in Serbia is delayed payments caused by a strict control of the amount of circulated money. Therefore, many companies have no money to respond promptly to their pay obligations. What sort of partner is to be trusted in this business environment?

### 3 Impacts of Culture

Older consumer groups also exhibit their own peculiarities. For example, they prefer national brands, and the motivation appears to be political in character. Political chats are cultural ritual that consumes time and energy of the people (Kovacic et al, 1992). Today, these rituals evolve around the topic of "international community", an overused term in politics and media which refers to foreign powers that influence Serbia. The lack of trust in the "international community" appears to be creeping into older consumers' choice making.

Another cultural trait is a strong focus on the past time dimension (Jerotić, 2003) and a longer time horizon (Trompenaars & Hampden-Turner, 1998). On a list of 42 countries based on the perceived length of time horizon (the average of the perceived extension of the past, present, and future taken together), Serbia ranked about the top of the list (Trompenaars & Hampden-Turner, 1998: 131), being in the neighborhood of Hungary and Austria.

Shopping in physical market places is still considered an important social event in Serbia. For example, green markets are still very popular: this is where one can meet a friend, personally pick out the produce, and enjoy bargaining with sellers. Supermarkets are a new type of shop that gains in popularity. Catalogue-based selling is another innovation, which, of course, has a direct link to buying on the Internet. The German retail giant Neckermann, in collaboration with Serbian Post, has recently introduced mail-order sales. Delivery times and unfulfilled orders appear to be difficulties with distracting effects that mark the early stage of this sales channel. A counter example is the sales service called "Order Now," which combines TV and the Web for the purpose of display and ordering products. It uses cash-on-delivery payment, and increases customer's value by supporting a product return policy.

### 4 The winds of change

The typical Serbian customer appears to maintain seriously undermined trust in merchants and banks. This is a

consequence of chaotic 1990s, when whole retail chains disappeared, black markets burgeoned, and both the government-run banks and pyramid schemes deprived clients from their savings. Older consumer groups do not trust foreign goods due to cultural praising of tradition and mixing of political attitudes with buying preferences.

In contrast, younger consumers embrace fashionable international brands, taking these as significations of social status and wealth. Another important fact which is encouraging is the fact that things are changing in the usage of electronic cards. While in 2003 there were only 250,000 users of them, strong penetration of the electronic cards usage is evident, so in 2005 there are more than 3,000,000 of registrated users and significant growth is also registrated in 2006. Also, strong penetration of Internet, specially among younger generations, gives hope to the growing idea about Serbia as an important e-region.

While regulatory changes and actions of financial institutions could strengthen consumers' trust, cultural characteristics could moderate adoption of B2C e-commerce. These refer to time orientation, cultural valuing of shopping in physical stores, a lack of tradition of catalog-based shopping, and mixed experiences from early uses of this channel. B2B e-commerce faces challenges ranging from legal foundations, through partner trustfulness in a cash strapped economy, to e-branding of domestic businesses.

A mistrustful, conservative customer believes in the national misfortunes from history, stemming from the "unfortunate" crossroads-based position of Serbia. But, such ideas are loosing ground every day and people are beginning to see that "the crossroads of Europe" presents a great developmental opportunity for Serbia and a lot of younger people are trying to find their opportunity in the connection with the neighbors..

Serbia could benefit from a non-traditionalistic, more ambitious strategizing that capitalizes on Serbia's geographical location. For instance, the country might seek development opportunities through participation in international B2B trading cycles. In so doing, Serbia can draw not only on its traffic/delivery potential, but it can also find a lucrative placement for its software industry. The expatriate business community that has proved its worth in invigorating Serbian e-commerce may play a role in the process. The ongoing changes in e-banking/e-payment and legislature are supportive of such a B2B strategy. And so is the creation of conditions for facilitating business that has made Serbia the "leading reformer in 2005" (World Bank, 2005). Given that B2B rather than B2C e-commerce has a significant effect on economy and that the Serbian consumer currently has a very limited purchasing power, it is through B2B e-commerce that Serbia may have chances to become involved in the loops of the new, electronic, global economy.

If we analyze all the facts presented, we can see that there is a need for an institution which will not be a part of the rulling system and which could play an important role in the spread of the ideas connected with e-commerce and another usage of ICT among the people in Serbia and in the connections with other regions which are traditionally partners with Serbian people and other Serbian entities. The ideas of eInvoicing and Living Labs are strongly in

line with these facts and their implementation could help in the growth of trust to the B2C e-commerce and other dimensions of ICT usage.

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