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Capital Accumulation – Intangible and Tangible Assets in Global Value Chains

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Abstract

At the microeconomic level, the accumulation of intangible assets is a substantial factor in companies' productivity. In terms of the macro level, intangible assets have a positive effect on economic growth, participation in global value chains (GVC) and competitiveness. The principal purpose of this article is to analyze the far-reaching effect resulting from the accumulation of intangible assets and their outcome on the creation of value-added contained in gross export. Building tangible and intangible infrastructure is the interests of economies to absorb as many new technologies as possible in the highest possible quality. There is a direct causal link that the accumulation of knowledge-based capital has a positive effect on the creation of domestic value-added contained in the country's gross export. The article will use panel data techniques to analyze the dynamics of capital accumulation and its impact on the creation of domestic value-added contained in gross export and participation in GVC. The database is created based on newly published data EUKLEMS (2019). Our results confirm the importance of the accumulation of intangible capital for the creation of domestic value-added in export. We show that the accumulation of intangible assets is an important driver of countries' participation in global value chains and value-added trade through a positive effect on exported domestic value-added.

Keywords: Knowledge- based capital, intangible assets, global value chains, domestic value added

1. Introduction

From history, we have seen the traditional factors that are needed to produce the final product. There are three essential factors of production – labor, land and capital. It was emphasized in their theories by classical economists (like Adam Smith), who also saw the source of the country's wealth at work and achievement of economic and productivity growth through the development of an international division of labor and specialization. We are currently witnessing that the most developed economies require other factors in their production process, based mainly on innovations, such as organization and business processes, know-how, databases, software, and another intangible asset. Due to the recent structural and technological changes rise specific types of intangible assets is information and communication technologies (ICT). The use of these types of assets can have a significant impact on the development of economies. The central motive of economic development is to achieve long-term growth in standard of living. One of the fundamental ways to achieve this result is to build a knowledge-based economy by investing in various forms of intangible assets supported by innovation through the implementation of the proper policy decision. The policy implementation method has changed as a result of innovations, rising labor productivity and gradual transformation into knowledge-based economies. In many of members countries in the European Union, we have recently seen an increase of investment in knowledge-based capital compared to tangible capital investment.

Intangible assets also with the development of global value chains (GVCs) have fundamentally changed global trade and the nature of international competition. The purpose of any country or enterprise is to participate in globally organized production through activities characterized by a high degree of value-added. In general, the production process in the GVCs, creating a value is not evenly allocated. High value-added activities concentrated in those economies and firms deal with highly sophisticated and original activities. These activities are at the beginning, and the end of the value chains, and are closely related to the „smile curve” described in detail by Baldwin (2014). We can characterize these countries by a high share of domestic value-added in their export. Advanced economies are dependent more than ever in history on the production, distribution and use of knowledge. Proper identification of factor that facilitates countries implementation of mentioned knowledge and integration into the GVCs is becoming an important research topic and also a key stimulus for policymakers in setting their economic development and achieving sustainable economic growth. Based on this, we direct the research to the accumulation of intangible assets and their impact on the creation of domestic value-added contained in gross export and the level of the country's participation into GVCs.

The determination and explanation of the driving forces in the GVCs are relatively little reviewed, and the literature is still scarce, although there is a pace of development. One of the most important reasons is that absence of fast, accurate and detailed, aggregated data on trade with value-added. Of course, not only at the level of countries but also in their industry. Their publication is but rather a sporadic. In this context, we present an analysis of the specific drivers of integration in the GVCs in the form of investments in intangible assets.

In most empirical studies, they deal with the role and impact of knowledge-based capital on the level of labor productivity or to achieve economic growth. In this article, we are interested in the research of the role that intangible assets in the country's participation in GVCs and the creation of domestic value-added contained in gross export. For this purpose, we will focus on the specifics of individual types and forms of intangible assets as well as selected forms of tangible assets. We are examining whether investments in knowledge-based capital will ensure the growth of domestic value-added contained in gross export and can increase the level of the country's participation in GVCs.

The article as it follows: In the first theoretical part, we present an overview of the literature in the field of GVCs and intangible assets and their impact on various macroeconomic areas. The second part describes the user data and the implemented empirical analysis. In the third part, we present the results of the analysis. And in the last part, the summary of the essential findings of this article.

2. Literature Review

The functioning of the GVCs and the creation of value-added within them is already mapped (Cattaneo, Gerrefi, Baldwin, Timmer, Koopman). However, the empirical literature focuses mainly on the role of tangible capital in the production process and its effect of standards of living, economic growth and productivity growth. Adarov and Stehrer(b)(2019).

However, the role that knowledge-based capital plays mainly in the form of ICT and NonICT assets - is not mapped in detail. The basis of this research was laid by the work of Corrado et. al 2004 and 2009 which created a branch of literature emphasizing the role of intangible capital and provide an extensive theoretical and analytical summary of this area of study. Moreover, followed by the development of several literature streams on the impact of intangible assets on a range of macroeconomic areas.

According to the OECD (2011), intangible assets do not have a physical form and mainly focus on three areas: 1. computer information, where we include software and databases, 2. innovative ownership, which includes scientific and non-scientific research and development, copyrights, design and trademarks, 3. economic competencies, where we involve ownership interests in the brand, human capital, organizational capital, know-how, marketing and advertising. The Innovation Policy Platform (2013)

There is a reciprocal relationship between GVCs participation and intangible capital. Intangible capital creates new expertise and knowledge and thus can increase the absorption of the company in the form of the use of external inputs from the production chain. To a large extent, this relationship influences and shapes the success of companies and countries in the market. Thus, determines how the value is distributed within the GVCs. The rise of ICT and cross-border connectivity creates better opportunities for participation in international production and trade due to the fragmentation of production processes and the redistribution of individual trade functions between several countries. Predominantly a country's backward participation into GVCs has the potential to reduce production costs in the domestic economy due to the crossing of knowledge borders between countries and enterprises. The result can be a growing level of new investment in knowledge-based capital and the integration of newly acquired knowledge into the production of domestic enterprises whose production is part of a globally organized production network. It will lead to an increase in the volume of domestic value-added contained in gross export. The growing share of domestic value-added is a positive signal that the country participates in those activities that generate a higher rate of domestic value-added.

After a slowdown in the growing trend of investment within the European Union after the economic crisis, we detect a slight increase in the most affected EU countries since 2015. We can also recognize a massively growing trend of investment in intangible assets in the United States and Japan. Based on the purpose of achieving long-term economic development, technological progress along with increasing competitiveness EU countries undoubtedly demand a positive growth trend in the accumulation of investment. Investments into tangible and especially intangible assets, ensure the achievement of technological progress by reducing inefficiencies in the production process, raising the limit of production possibilities and create production surrounding through participation in the GVCs. The result can be the participation of countries in the GVCs in those activities creating higher value-added in the final product.

The integration of global markets is a principal determinant of economic performance and has the potential to ensure production efficiency in domestic companies. It also has the potential to redistribute resources between efficient and successful economies and less successful ones. The performance of the economy and its sectors can be enhanced by investing in knowledge-

based capital, such as ICT, research and development, organizational capital and management. Marcollin at. all (2016) These strategic investments in the long-term and sustainable building of enterprises and the economy include both private and public expenditures.

In order to understand the role of innovation and the contribution of intangible assets to a country's participation and value creation in GVCs, it is crucial to take this intangible capital into account. The literature oriented to enterprises level has provided brilliant treatment of the relationship between intangible assets and value-added in GVCs. But we can see the lack of empirical literature that would map the link between knowledge-based capital and the country's participation in the GVCs. Corrado and Hao (2014) confirm the assumption that intangible capital provides a higher contribution to value-added in the pre-production and post-production stages than tangible capital. Jona Lasinio (2019) shows the conditional impact of intangible capital at country and industry level on participation and appropriation the value-added in the GVCs. The result of the involvement of the domestic enterprises into GVCs and the accumulation of investment in intangible assets is an increase in the quality of the final product, creating high value-added in production activities on international trade. At the same time, the literature presents the interrelationship between investments in intangible assets and participation in the GVCs. Investments in intangible assets referred to as „knowledge-based capital” provide companies with the ability to better coordinate and monitor suppliers and to integrate inputs of different quality or technological content into production. The growth of investments in intangible assets, especially in the field of human capital, provides companies with a valuable opportunity to compare employees more efficiently with tasks in production and to map their quality and quantity. The increase of the accumulation of intangible assets within the GVCs might be accompanied by a slowdown due to the preference for the type of production in another country at the expense of the domestic one until the investment in the knowledge-based economy completely sopped.

The impact of backward and forward participation in GVCs is an essential element of this article. We intuitively assume that the country's participation in GVCs will create an opportunity that might increase productivity through the spillover effect and as a result of an increased degree of specialization in specific activities. This opportunity is most evident in the case of backward participation because companies can use imported inputs of higher quality, even at lower costs. In the case of forwarding participation, the effect of the intangible capital smaller compared to backward participation into GVCs. Adarov, Stehrer (a) (2020)

Jona Lasinio (2019) has shown that investment in intangible assets in advertising and marketing research, as well as design, have a positive impact on backward participation into GVCs and more on the export of final products than intermediate products. Training and organizational capital are fundamental intangible assets, especially, to creating domestic value-added. Countries that rely on foreign inputs to their production must have high-quality and efficient information and communication network. Information and communication technologies are crucial intangible assets for backward participation. On the other hand, tangible assets are a principal factor for the success of forwarding participation. Smaller countries that have higher backward participation and report a higher foreign value added in export as opposed to domestic value-added content.

Macrollin at. all. (2016) also examine the study of the economic links between investments in specific assets, known as knowledge-based capital and various forms of integration into the GVCs. They used data on 25 OECD member countries for the period 2000 – 2011, where it confirms that these two factors can be mutually reinforcing and analyzes the direction of benefit. They examine whether there is an impact of investing in knowledge-based capital on participation in the GVCs or vice versa. They provide evidence that both directions may exist, suggesting that investment in knowledge-based capital and integration into the GVCs may be mutually reinforcing. This statement only confirms the already existing empirical literature on productivity, investment and GVCs at the enterprise level. The existence and growth of investment in knowledge-based capital lead to the creation and dissemination of ideas and innovations, incorporated into the inputs that are the subject of trade in intermediate goods in the GVCs. At the same time, as mentioned in the introduction, it might have an impact on the way resources are redistributed between successful and less successful companies or countries and can lead to productivity growth. The composition of capital in individual sectors differs in a significant way because it is specific to every particular sector. In this article, we explicitly use the EUKLEMS database, which has newly updated data. It divides tangible and intangible assets and classifies specific types of capital assets. In figure 1, we can observe the structure of intangible and tangible assets used in this article.

Table 1 Tangible assets

Tangible assets	
NonICT	Residential structures
	Total Non-residential investment
	Other Machinery and Equipment
	Transport Equipment
	Cultivated assets
	Computing equipment
ICT	Communications equipment

Table 2 Intangible assets

Intangible assets	
SoftDB	Computer software and databases
RD	Research and development
OlnnPror	Other IPP assets
	Design
EconComp	Advertising and Marketing Research
	Purchased Organizational Capital
	Vocational Training

Of course, we take into account that there are some socio-economic asymmetries in different EU countries. It is mainly an area of investment in ICT capital. We take into consideration the countries of Eastern Europe characterized by a specific specialization, the quality of infrastructure and other different factors from the countries of the west EU. The same is the truth for competitiveness and productivity. We are aware that we are not able to cover all the types of tangible and intangible assets in the economy within this article. But we use data that we consider closely linked to the participation of companies and countries into the GVCs. We will discuss more detailed information on the data used and their processing in the following section.

3. Methodology and Results

DATA AND DESCRIPTIVE STATISTICS

The next table (Table 3) presents variables that are classified as tangible ICT (IT, CT) and intangible ICT assets (SoftDB) and NonICT assets. The level of information and communication technologies is one of the main factors for the country participation and development in GVCs. We also distinguish between digital capital and capital invested in software and databases. Partial data on tangible and intangible assets are retrieved from the EUKLEMS database that contains an extended classification of capital assets types.

In the case of intangible assets related to economic competencies (EconComp), we used aggregated data. We did not divide them into individual types, due to the absence of partial data for observed period. The data for intangible assets such as design and economic competencies comes from the INTAN-Invest database. In the empirical analysis, we used aggregated data of NonICT capital, ICT capital, SoftDB capital, OlnnPror capital and EconComp capital.

Table 1. variables used in the regression

In short	Variable	Source
I_IT	Computing equipment	EUKLEMS
I_CT	Communications equipment	EUKLEMS
I_Soft_DB	Computer software and databases	EUKLEMS
I_TraqEq	Transport Equipment	EUKLEMS
I_Omach	Other Machinery and Equipment	EUKLEMS
I_OCon	Total Non-residential investment	EUKLEMS
I_RStruc	Residential structures	EUKLEMS
I_Cult	Cultivated assets	EUKLEMS
I_RD	Research and development	EUKLEMS
I_OIPP	Other IPP assets	EUKLEMS
I_DSGN	Design	INTAN-Invest
I_ECON	Economic Competences	INTAN-Invest

We use panel data for 15 EU countries and the period 2000 – 2015 (240 observations). Due to the absence of data for whole EU countries during observed period, our analysis is concentrated on these 15 EU countries - Slovak Republic, Czech Republic, Austria, Germany, Denmark, Greece, Spain, Finland, France, Italy, Luxembourg, Netherlands, Portugal, Slovenia and Sweden.

The selected period corresponds to the availability of data for GVCs participation available on the OECD statistical database – TIVA (Trade-in Value Added). Specifically, we express the aggregate level of participation in the GVCs for the whole country (backwards and forward). At the same time, we also demonstrate the level of domestic value-added contained in gross export

(EXGR_DVA) in absolute number. As these are member states of the European Union, all data are converted and expressed in EURO. The reference annual average exchange rates are from the EUROSTAT. In a table no.4, there is descriptive statistics of the selected intangible and tangible assets and the level of countries participation into GVCs, as well the value of domestic value-added contained in gross export. In the case of intangible assets, specifically ICT, we are monitoring the ongoing shifts from investments in fixed assets towards investment in intangible assets, which represent the purchase or creation of digital services.

Table 2. Tangible and Intangible assets and global value chains – descriptive statistics of the variables in the regression (2000 – 2015)

Variables	Mean	Median	Minimum	Maximum	1st. QU	3rd. QU
Computing equipment	2 958,8	1 796,9	166,0	21 507,4	569,8	4 167,8
Communications equipment	2 609,2	1 016,0	78,0	14 393,2	361,1	4 467,0
Computer software and databases	9 016,9	3 518,2	118,1	60 756,0	10 11,3	13 880,0
Transport Equipment	11 469,4	5 254,4	435,5	75 586,0	2 183,0	14 667,2
Other Machinery and Equipment	23 948,2	9 816,2	502,4	122 576,1	5 366,2	26 513,9
Total Non-residential investment	33 372,1	13 234,0	1 931,3	132 962,0	8 642,0	57 675,0
Residential structures	34 265,9	11 418,8	618,5	174 244,0	4 375,9	52 500,0
Cultivated assets	320,9	176,4	0,3	1 867,0	59,8	445,2
Research and development	11 754,3	5 800,5	75,3	80 002,0	1 124,3	13 626,2
Other IPP assets	1 112,1	519,5	3,5	5 340,0	270,5	1 456,5
Design	4 501,8	2 159,2	213,0	20 752,4	713,6	5 495,5
Economic Competencies	19 354,5	7 508,7	480,9	98 183,3	3 927,3	22 259,4
Domestic value added in gross export	23 1021	104 567	6 230	1 623 301	4 8545	283 382
Backward GVC participation	31,54 %	28,92 %	16,95 %	68,84 %	24 %	17,5 %
Forward GVC participation	19,06 %	19,12 %	10,60 %	26,77 %	34,1 %	21,4 %

REGRESSION SPECIFICATION

In the econometric analysis, we use aggregate data on tangible and intangible assets and the level of domestic value-added in exports. We added two controls variables - the corporate income tax rate and education expenditure. With these control variables, we confirm the correct setting of the model as we assume a negative relationship. We expect, that the reduction of corporate income tax, should increase companies' opportunities to accumulate intangible or tangible assets.

We used a fixed-effect model for panel data. The Sargan Hansen test statistically confirmed the use of a fixed-effect model versus a random effect model. We tested the overall model. To reduce potential endogeneity concerns and to allow for a deferred reaction of DVA, all explanatory variables are lagged by one year.

Based on the previous, we formulate our hypotheses as follows:

H1: *Accumulation of intangible assets is more important for the creation of domestic value-added contained in gross exports than the accumulation of tangible assets*

H2: *Investments in intangible ICT assets will have a more significant impact on the creation of value- added in gross exports.*

The data used for all assets for all countries are in the form of a natural logarithm. To be able to test the presented hypotheses, we econometrically estimate the equations for participation in global value chains and the level of domestic value- added contained in gross exports concerning the effect of intangible assets. The main equation has the form:

$$\begin{aligned}
 \ln DVA_{c,t} = & \\
 \beta_0 + \beta_1 \ln K_{NonICTC,t-1} + \beta_2 \ln K_{ICTC,t-1} + \beta_3 \ln K_{SoftDBC,t-1} + \beta_4 \ln K_{RD,t-1} + \beta_5 \ln K_{OlnnPror,t-1} + & \\
 \beta_6 \ln K_{EconComp,t-1} + \mu_i + \mu_t + \varepsilon_{i,t} &
 \end{aligned} \tag{1}$$

where, c = country (15 members country of EU), t = time. $\ln DVAc,t$ presents indicators of the country's overall participation in the GVCs in form of domestic value-added in gross export. $\ln Kc,t$ represents the level of accumulation of a specific tangible and intangible asset in a given country, see Table no. 3.

RESULTS

In this section, we present the main results of our analysis. In the next Figure 1 and Figure 2, we present the evolution of average values of intangible assets, tangible assets and ICT asset variables over time. We can see the increase in the average volume of intangible assets in selected EU countries. We also see a slower growth rate of ICT assets. The share of intangible assets in total assets is smaller than the share of tangible assets (e.g. in 2015 115,503 million € for tangible assets and 57,881 million € for intangible assets). The average level of intangible assets in 2015 is higher than in 2000 by almost 42%. The same applies to ICT capital, which increased by 30% in the same period. While, the average value of tangible NonICT assets increased by only 18.5% in the same period.

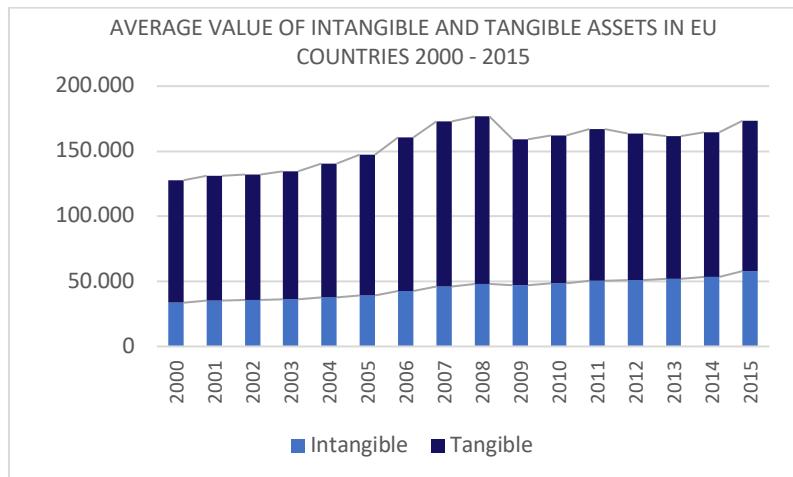


Figure 1 Average value of Intangible and Tangible assets in EU countries.

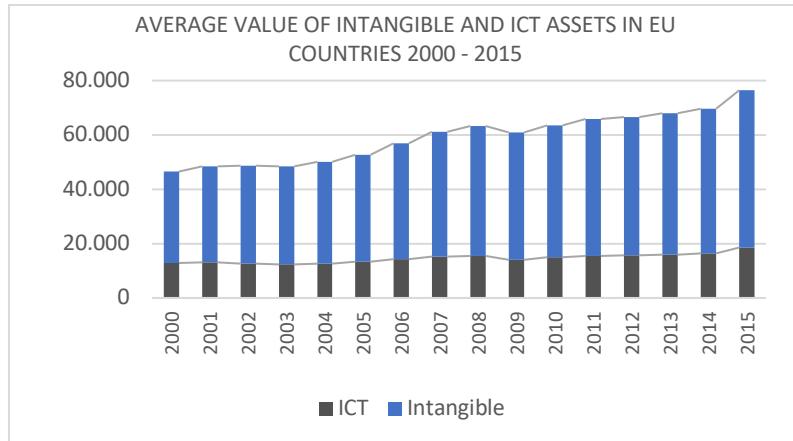


Figure 2 Average value of Intangible and ICT assets in EU countries

The main results are presented in Table 4. All regressions include time and country fixed effects. We report a specification with the main variables of interest while in the following columns, we gradually add in variables. Tangible assets are displayed in NonICT capital, where contains Transport Equipment (TraEq), Other Machinery and Equipment (OMach), Total Non-residential investment (OCon), Residential structures (RStruc) and Cultivated assets (CULT).

Intangible assets are divided into partial variables. SoftDB contains Computer software and databases assets. R&D presents intangible assets, associated with research and development. OlnnPror contains intangible assets from Other Intellectual Property

Product (OIPP) and design. EconComp demonstrates assets about advertising and marketing research (AdvMRes), Purchased Organizational Capital (PoCap), and Vocational Training (VT).

The estimates confirm that computer software and databases (SoftDB), research and development (RD) and economic competences (EconComp) are positively correlated with domestic value-added in gross export. The estimated association between domestic value-added in gross export and SoftDB is 0,138 and is significant, which indicates that a 10 % rise of intangible assets in SoftDB is ceteris paribus correlated with a 1,4 percent increase on domestic value-added in gross export. The estimated association between domestic value-added in gross export and R&D is 0,063. We see that it is significant, which indicates that a 10 % rise of intangible assets in R&D is ceteris paribus correlated with a 0,63 percent increase on domestic value-added. The coefficient on tangible assets is statistically significant what we expect. Other variables also reveal some intriguing results. The Other Intellectual Property Product seems to be important as well. The coefficient on Research and Development R&D is statistically significant and positively affect the domestic value-added but at the p-value level of 0,1. Surprisingly, the coefficient on ICT tangible capital labelled as ICT is statistically significant, and the effect is negative, which suggest that negatively affect domestic value-added in gross export.

TABLE 4. Countries determinants of domestic value added in gross exports 2000 – 2015

	Dependent variable: In_D.V.A.				
	(1)	(2)	(3)	(4)	(5)
ln_NonICT	0.267*** (0.046)	0.283*** (0.042)	0.265*** (0.042)	0.158*** (0.050)	0.018 (0.051)
ln_ICT	-0.017 (0.043)	-0.123*** (0.042)	-0.129*** (0.041)	-0.139*** (0.040)	-0.058 (0.039)
ln_SoftDB		0.248*** (0.036)	0.253*** (0.036)	0.228*** (0.035)	0.143*** (0.035)
ln_R&D			0.096** (0.038)	0.094** (0.036)	0.063* (0.034)
ln_OlnnPror				0.184*** (0.052)	0.089* (0.050)
ln_EconComp					0.310*** (0.051)
ln_cit	-0.142** (0.066)	-0.079 (0.060)	-0.094 (0.060)	-0.144** (0.060)	-0.106* (0.055)
ln_eduexp	-0.184 (0.148)	-0.048 (0.135)	-0.076 (0.133)	-0.159 (0.131)	-0.132 (0.120)
Observations	225	225	225	225	225
R2	0.181	0.343	0.365	0.405	0.504
F Statistic	10.579*** (df = 4; 192)	19.964*** (df = 5; 191)	18.197*** (df = 6; 190)	18.388*** (df = 7; 189)	23.895*** (df = 8; 188)

Note: *p<0.1; **p<0.05; ***p<0.01 Source: Author's calculations

We expect a negative effect on the control variable, as the growth of corporate income tax hurts the business environment and has negative effects on the creation of domestic value- added. In the case of expenditure on education, we expect a positive effect, but this control variable is not statistically significant. Therefore, we do not interpret this control variable.

5. Conclusions

We focused on analyzing the effects of the accumulation of intangible assets on the level of countries' participation in the GVCs and the creation of domestic value-added. We used the divided structure of intangible and tangible assets into individual types and their role in the participation of countries in the GVCs in the form of the content of domestic value-added in gross exports. We applied panel data for 15 member states of the European Union for the period from 2000 to 2015.

From descriptive statistics, we can confirm that the average level of growth of intangible assets between 2000 and 2015 reached more than 42%. On the other hand, the growth rate in our period for tangible assets is at the level of 18.5%. ICT capital is an important factor in the development of the GVCs. In selected EU countries, the difference was more than 30% between the average accumulation of ICT capital in 2000 and 2015. ICT capital thus increased by 30% in the observed period. It confirms the importance of intangible assets, and in particular intangible ICT capital to the level of domestic value-added included in gross exports and the subsequent overall participation of countries in the GVCs.

The main contribution of this article is that we specifically distinguish between tangible and intangible ICT capital and express the effect they have on a country's participation in GVCs. Summarizing the analytical results of our research, we make several contributions to the literature and policy discussions on intangible assets and countries' participation in the GVCs in the form of domestic value-added included in gross exports.

We show that the accumulation of intangible assets is an important driver of countries' participation in global value chains and value-added trade through a positive effect on exported domestic value-added. The accumulation of intangible assets of economic competences creates the highest positive impact on the creation of domestic value-added contained in gross exports. We confirmed the assumption that intangible ICT assets, such as databases and software, will have a strong positive effect on the creation of domestic value-added; thus, creates an effective environment for the development and deepening of countries' participation in the GVCs. We can confirm the generally accepted assumption that the development of science and research will have a positive effect on the level of domestic value-added. We confirm the importance of both tangible and intangible capital as a driving force the creation of domestic value-added. The accumulation of intangible assets, especially R&D, Economic Competences, and intangible ICT assets, represent the key factor for the further development of economies and their gradual shift within the so-called smiling curve.

We witness the unexpected events connected with the coronavirus pandemic and its negative effects. It will require extraordinary political efforts aimed at the effective uptaking of ICT capital, both tangible and intangible. In conclusion, the achievement of increased absorption of technology, innovation and digitization should be encouraged. It might be a necessity for EU countries to further increase the performance of their economies and productivity after the current economic downturn.

We realize that the topic is not exhausted and goes far beyond the content of this article. The content itself was to present the impacts resulting from the accumulation of intangible and tangible assets on the level of domestic value-added in gross exports. The further research could focus on the implications for the level of participation in GVCs or to focus on the impact of intangible and tangible assets on specific sectors of the economy.

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Evaluation of financial performance of small family business for the purpose of efficient financial decision-making of owners

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Abstract

Owners and managers are "naturally" interested in the financial health of the company. In addition to them, it is of interest to other interest groups such as potential investors, creditors and others in the field of making quality financial decisions. The information platform for financial decision-making is the information contained in the financial statements of the company. Measuring the financial performance of small family businesses based on accounting information is important to make quality decisions by the owner, which is the focus of this paper. This research was conducted to give a detailed view of the analysis of financial statements of small family businesses and the practical aspects of its application. The business results of a small family business are analyzed using selected financial indicators. The paper uses the method of content analysis and one of the methods of financial analysis known as "ratio analysis".

Keywords: small family businesses, financial statements, performance, evaluation, analysis, financial decisions, owner

Introduction

Family is one of the most basic institutions of society. A family business is a business that is actively owned and/or managed by several members of the same family. As Đurić (2015: 81) points out, family businesses range in size from manufacturers who employ a lot of people and have millions of Euros in equipment, to lone window cleaners with buckets and sponges.

The definition of a small business varies in countries and industries and is often based on the number of employees, annual income or type of ownership. "Small businesses play an important economic role in many countries in terms of their ability to contribute to their local communities and economies" (Ng, & Harrison, 2013: 93). Family businesses are usually defined in terms of the structure of the board of directors (formally or informally) and the participation of the family in top management positions. According to the definition of the European Commission, a family business is an enterprise of any size where the majority of votes are held by a person who founded or acquired the share capital of the company or is owned by spouses, parents, children or direct heirs of the child and at least one family member is involved in running the company (Tomorrow's Company Team, 2011). The role of the family member as a subordinate is important, because it indicates a hierarchical relationship in which the owner has more power than employees, and family descendants (children and grandchildren) and collateral family (spouses, relatives, aunts, uncles or in-laws) are taken into account. The regulatory framework for classifying companies by size and according to certain criteria varies depending on the regulator in a particular country. Thus, in the Republic of Serbia, the provisions of Article 6, paragraph 1 of the Law on Accounting ("Official Gazette of the RS", No. 73/2019) stipulate that legal entities and entrepreneurs are classified into micro, small, medium and large legal entities, depending on the average number of employees and operating income in the business year and the value of total assets determined on the balance sheet date of the regular annual financial report. Micro legal entities are those legal entities and entrepreneurs that do not exceed the limit values of two of the following criteria at the balance sheet date: (1) average number of employees ten, (2) operating income EUR 700,000 in dinar equivalent, (3) value of total assets at the balance sheet date EUR 350,000 in dinar equivalent; whereas legally treated as small legal entities are those legal entities and entrepreneurs that on the balance sheet date exceed the limit values of the two criteria referred to in paragraph 2 of this Article, but do not exceed the limit values of two of the following criteria: (1) average number of employees 50, (2) operating income EUR 8,000,000 in dinar equivalent, (3) value of total assets at the balance sheet date EUR 4,000,000 in dinar equivalent. Observing the current situation in the Republic of Serbia, it is pointed out that the total number of companies is dominated by micro-companies (about 80%), followed by small companies, while medium and large companies account for a very small share. Therefore, special attention should be paid to identifying the framework for efficient management and development of this dominant group of companies.

Small and medium-sized enterprises (*Small and medium-sized enterprises -SMEs; small and medium-sized businesses - SMBs*) are of primary importance for understanding the problems of family businesses. Although the term SMEs is widely used, there is no general definition for this term, and the abbreviation SMEs is used by international organizations such as the World Bank, the

European Union, the United Nations and the World Trade Organization, and the geographical location of small and medium enterprises, as well as legislation specifically for the state influence numerous definitions of small and medium enterprises (Simonović, 2019: 52). Adequate adaptation of information technology capabilities to the strategic goals of small and medium enterprises is of key importance for the success of modern enterprises (Damnjanović et al., 2016: 162). Adequate use of information technology is a basic factor in improving the business performance of the company. The business evaluation includes two types of performance - financial and non-financial. Control is especially important for efficient enterprise performance management. Namely, management control is a process in which the organization seeks to achieve the planned or desired results, or "performance", i.e. it is a method of managing the performance of the organization (Šljivić et al., 2015:40).

The family business is one of the fastest-growing areas of management research. The reason for this is the growing awareness within the academic community that most companies around the world are family-controlled, that they differ from other companies when looking at the performance of both groups of companies (family and non-family), and as such are important to many people, globally observed. The growth of small businesses is considered the essence of entrepreneurship (Edelman et al., 2010). Cater & Young (2016: 56), in their paper focused on six family factors that affect growth, namely family dynamics, vision and planning of leaders, preparation and development of successors, conflict management, community participation and risk-taking attitudes among family leaders and found that, although these six factors differed in the importance of their effect from case to case, they were active in each case. Small business owners in developing countries are important, and the growth of small businesses is influenced by many factors (Brenner & Schminke, 2015). Individuals, like founders, play a larger role in the growth paths of small enterprises than in more well-established, larger enterprises (Gundlach and Sammartino, 2020: 92). Unlike small companies, changes in the characteristics of corporate companies bring with them new challenges and initiate changes in the way companies operate. Faced with growing risks in a highly competitive environment, company management has significantly improved its theoretical and methodological solutions and improved management practices (Knežević et al, 2012). One of the most important aspects of management is the management of the company's performance. The emphasis in this paper is on the analysis of the financial performance of small family businesses in the context of efficient financial decision-making of owners.

Research has suggested that family businesses depend heavily on the owner as an individual – the decision-maker (Barnett et al., 2005: 126). “Although the interest in family business research is growing rapidly, the area of financial decision making is underestimated” (Motylska-Kuzma, 2017: 351). „Family firms that are located in economically less developed regions tend, on average, to present higher productivity levels, and this seems to indicate that family firms may constitute a driver of regional convergence regarding dynamics and development“ (Teixeira & Correia, 2019: p. 297). Small firms are subject to unexpected changes (Morrissei & Pittavai, 2006). They have limited financial and human resources (Morrissei and Pittavai, 2006). The results of the study by Huerta et al. (2017: 111) suggest that three types of participants may propose accounting practices in small family businesses - family employees, non-family employees, and external experts - with varying degrees of influence. They also emphasize that owners accept proposals from high-impact participants without further examination, evaluate proposals from medium-impact employees, and ignore proposals from low-impact employees. Employees with great influence are professionally competent family employees.

Hienerth and Kessler (2006) addressed the problems of measuring the success of family businesses in a sample of small Austrian firms, and identified four dimensions of overall family business success — management, resources, environment, and entrepreneur — unaffected by size and industrial effects. In the research (Gundlach and Sammartino, 2020: 109), it was not found that small business owners are particularly different from their counterparts employed in comparable strategic roles within organizations (in relation to the literature and changing the scale regarding typical entrepreneurial personality traits) In one of the papers (Bartram, 2005) points out that small business owners-managers, compared to larger business owners-managers, have a lower level of formal education and participate less in activities related to skills development and training, and that they do not give enough attention to the activities of owner training for efficient management of small family businesses. A key finding by Walker et al. (2017) was that, given certain conditions and business requirements, small business owners are not too busy for training.

The key product of the accounting information and reporting system are the financial statements, and among them as fundamental stand out: the balance sheet and income statement. In addition to these two reports, for an integrated view of the financial performance of the company, it is important to analyze cash flows in the statement of cash flows and cross these data with profitability flows, in order to make an adequate assessment of the quality of company earnings. The context of management accounting for small businesses, as well as for small family businesses, is quite unexplored and more academic attention should be paid for it. For owners of small family businesses, an important issue is related to the application of available financial management techniques in a real environment, especially in the field of managing funding sources. Thus, Michaelas et al. (1998: 246), points out that owners of small family businesses have an aversion to external sources of financing. They prefer to use undistributed profits when possible, and borrow only when necessary. Ratio analysis and cash flow analysis are the most commonly used techniques of financial analysis in a real environment, which can indicate important aspects in the design of financial performance. Unlike ratio analysis, which focuses on evaluating the market performance of products and financial policy, cash flow analysis focuses on company liquidity and financial flexibility. (Knežević et al., 2019: 32).

As Malichová & Ďurišová (2015: 238) point out, financial performance is the subject of interest of various stakeholders. Each of them has its own specific information interest, i.e. information request directed towards the system of external financial

reporting of the company. The mentioned information addressees are most often viewed as internal or external. The internal implies management, and it is primarily interested in fulfilling the target performance - profitability, solvency and liquidity. Regular and occasional reports and a lot of transparent information are available to it, unlike to the external users (investors and creditors) who can only use publicly published annual financial reports (Mitrović & Milašinović, 2019). "Financial management involves the analysis of financial indicators that determine the result of management, based on data from financial statements and market performance of the company" (Sredić & Serdar, 2012: 43). "The information contained in the financial statements is of great importance for decision-makers and enables them to create guidelines for the future operations of the company" (Grgur & Milojević, 2019: 18). Information on the financial results of internal activities presented in the financial statements is useful for the decision-making process - planning, directing and control. Certainly, the owners are especially interested in the adequate financial performance of the company, especially in sustainable profitable operations and maintaining the liquidity and solvency of the company.

The remaining part of the paper is organized as follows. Section 1 focuses on evaluating the financial performance of small family businesses in order to make quality financial decisions for owners. Section 2 presents a theoretical model of ratio analysis as a tool of the owner in evaluating financial performance and its limitations. Section 3 shows the application of ratio analysis to the example of a domestic business - a small family enterprise. Finally, section 4 presents the advantages of the application and the limitations of this analysis.

1. Evaluation of the financial performance of small family businesses in order to make quality financial decisions by the owners

The main reason for measuring business performance is to support decision-makers at different hierarchical levels (Martins & Mergulhão, 2006:3). Timely, relevant and reliable financial information helps owners and other information recipients make good decisions. Business success actually begins with understanding the way accounting information is generated and then analyzed to make good financial decisions. Financial analysis is the application of financial statements in the analysis of the financial position of the company and performance, as well as for the purpose of evaluating future financial performance (the forecasting); Subramanyam & Wild, 2009:13).

Research shows that family businesses on average have the commitment and long-term strategic focus of majority ownership and management that do not prioritize quarterly results, but the intention to ensure long-term business sustainability for future generations, and that since the family runs the firm, there are no principal-agent problems, the interests of the majority owner and top manager are already united (Đulić, 2015).

"Investors, creditors and other people from the business environment rely on accounting information in making good business decisions based on valid information. Would it be more profitable for the investor to buy more shares in a certain company or to sell the existing ones as well? Would a bank employee approve a loan to a business owner to expand a business?" (Dragić, 2017:163). Knowledge of indicators that represent financial performance related to the dynamic environment in which companies operate, as well as the continuous pressure of their environment to improve is a key element of increasing competitiveness and strengthening market position. Regardless of the fact that growing attention is paid to non-financial indicators in measuring performance, it is an indisputable fact that financial indicators are suitable to factually and accurately assess the state of a company based on its previous development. Non-financial performance measures have been receiving increasing attention among modern organizations in recent years, as they provide additional information for managers (Ahmada & Zabria, 2016: 476). Azemina (2018: 1857) states in her paper that a literature search has shown that in the last twenty years there have been significant cases of interest in performance appraisal, and that the growing literature on this issue is focused on promoting performance evaluation.

Financial statement analysis applies analytical tools and techniques using data from financial statements to perform measurements and relationships that are significant and useful for decision making (Bernstein, 1993). It is known in both academic and professional literature that there are several tools that can be used for the analysis of financial statements, of which the ratio analysis is probably the most well-known in management circles, and the most widely used. The main purpose of the ratio numbers is to enable the assessment of the financial condition of the company, as well as the trend of changing the financial condition of the company. The ratio analysis is based on the DuPont model (DuPont Model by F. Donaldson Brown) and this model is widely used in considering the relationship between profitability factors and total investment (Knežević et al., 2011: 27).

2. Ratio analysis as a tool of owners in the evaluation of financial performance and its limitations

Financial analysis is used primarily for two purposes: a) to compare with the standard and b) to predict future perspectives (Kastantin, 2005: 42). Techniques of financial analysis that are otherwise considered traditional are horizontal and vertical

analysis, as well as often used in a real environment - ratio analysis. The financial ratios are extremely useful in four areas of management (Emerald Backfiles):

(1) *Trend analysis*. Historical indicators of the company can be shown on a chart, thus revealing historical changes and trends. These indicators would include: sales, sales per employee, changes in sales, market share, invested capital per employee, earnings per share, share price, receivables collection period, price-earnings ratio, return on invested capital, gross and net margin, total turnover assets, inventory turnover, etc. In this context, it is necessary to keep in mind that historical results are not indicators of future results (Simonović et al., 2019: 247), but they are certainly an adequate guideline for predicting future trends.

(2) *Comparison between firms*. One can compare one's own performance shown in relation to competitors of companies and other firms in the same industry. Special information interests in this regard would be the following financial indicators: sales growth, sales per employee, various costs per unit of sales, credit periods, gross and net margins, asset turnover and return on invested capital.

(3) *Evaluate performances*. This segment is related to the incentive of managers in terms of comparing the actual performance with the set goals. Ratio analysis can be used together or as a cheaper alternative to determining deviations generated by a standard costing system. Accounting performance measurement is important for financial planning and control, for the realization of the financial goals of the company, and for motivating and controlling the activities of managers (Simonović et al., P. 217).

(4) *Forecasting*. Financial ratios can also be used as an aid in forecasting, especially forecasting financial statements. Historical and projected indicators can be used by decision-makers to predict future cash flows, income statements, balance sheets and cash flow statements. However, it is necessary to emphasize that forecasting only on the basis of historical financial trends is not enough, but requires consideration of non-financial factors (emphasized by Kovjanić).

In the ratio analysis, financial indicators are used to measure the characteristics of the company such as profitability, liquidity, solvency, capital structure and operational efficiency. Profitability is of primordial importance for the reasonable existence of any profit-oriented organization. The key motive of any business is continuous profit-making. Any business that is characterized by losses is very susceptible to liquidation.

"There are many limitations in the application of financial ratio analysis, starting with the fact that the industrial category of companies is often difficult to identify, that accounting practices differ from company to company, which can affect the value of ratios, as well as seasonal effects, inflationary effects, etc. "(Dragić, 2017: 172).

3. Analysis of financial performance on the example of a domestic company

The aim of applying the case study method is to identify the financial strengths and weaknesses of the observed domestic enterprise, by properly establishing the relationship between the balance sheet items and the income statement. A domestic company (small family business) was selected to apply the ratio analysis. This analysis is mainly based on secondary data. These data were taken from the financial statements including the balance sheet and income statement from the set of financial statements of this company. The applied case study covers a three-year period from 2017-2019, and the required data were obtained from the database of the Business Registers Agency (www.apr.gov.rs).

The test results are shown below:

- a) of the liquidity of the company;
- b) the solvency of the enterprise;
- c) profitability of the enterprise;
- e) efficiency of the enterprise.

Liquidity testing

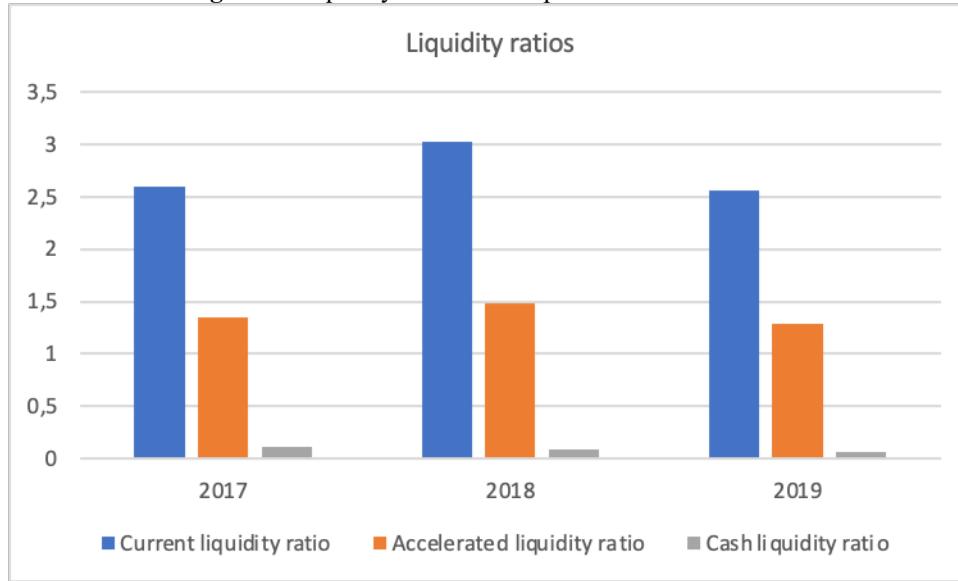
The current liquidity ratio is the one whose calculation tries to answer the question: can the company pay its obligations in a short period of time? The calculation of reduced liquidity ratios excludes inventories from the calculation. Namely, inventory valuation is a key problem in measuring profit and can take several months until inventories are converted into cash. Therefore, the reduced liquidity ratio is the sharper estimate of the company's ability to settle short-term liabilities than the current liquidity ratio. The following is an overview of the value of current liquidity ratios, reduced ratios, i.e. accelerated liquidity and cash liquidity ratio.

Table 1. Liquidity analysis ratio for the period 2017-2019

Financial ratios	2017	2018	2019
Current liquidity ratio	2,5943	3,0206	2,562
Accelerated liquidity ratio	1,3502	1,4889	1,2807
Cash liquidity ratio	0,1064	0,0905	0,064

Source: Authors' calculations based on company financial statements

The observed company has a high current liquidity ratio in all three years (Table 1: 2.6; 3.0; 2.6), which are quite high ratios (e.g. three times higher current assets than short-term liabilities in the year), especially if it has in mind that its desirable, reference value is around 2.0, but 1.5 is also considered acceptable. The ratio of reduced liquidity shows that in all three years, short-term liabilities are higher than liquid (monetary) assets, which is a positive trend if we keep in mind that this ratio is traditionally expected to be approximately 1.0. The cash liquidity ratio shows that every dinar of short-term liabilities in the company is covered with 0.1 dinars of cash flow from business activities in 2017, with 0.1 dinars in 2018 and 0.1 dinars in 2019.

Figure 1. Liquidity ratios for the period from 2017-2019

Source: Authors' calculation (Table 1)

As can be seen from Figure 1, liquidity indicators show noticeable oscillations, and in 2018 the highest values of current and reduced liquidity ratios were the highest, while the cash liquidity ratio showed the highest value in 2017.

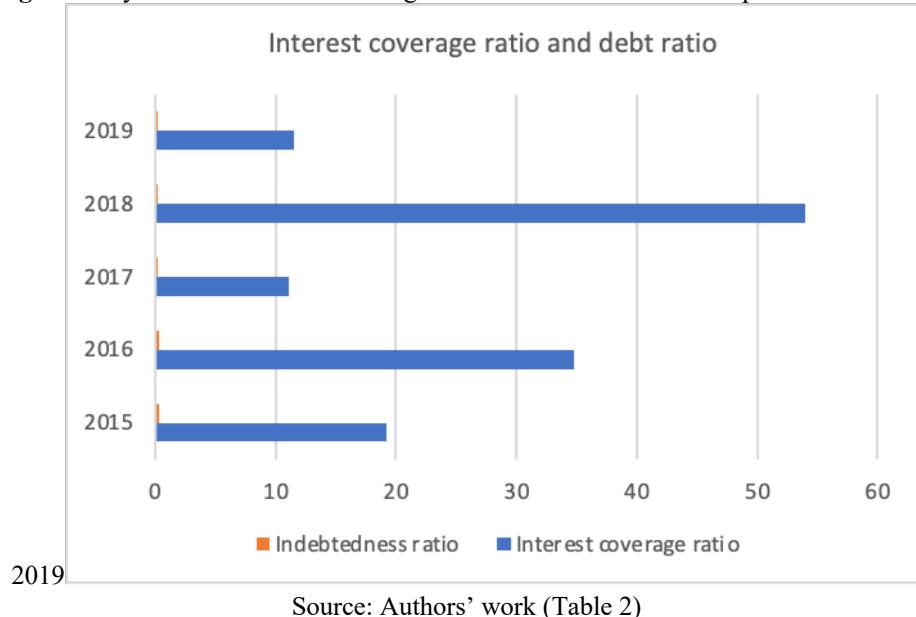
Solvency testing

The solvency ratios are presented below. These financial ratios are important in assessing the company's ability to meet long-term liabilities and for analysing the financial structure. The solvency ratios are presented below (Table 2, Figure 2, Figure 3).

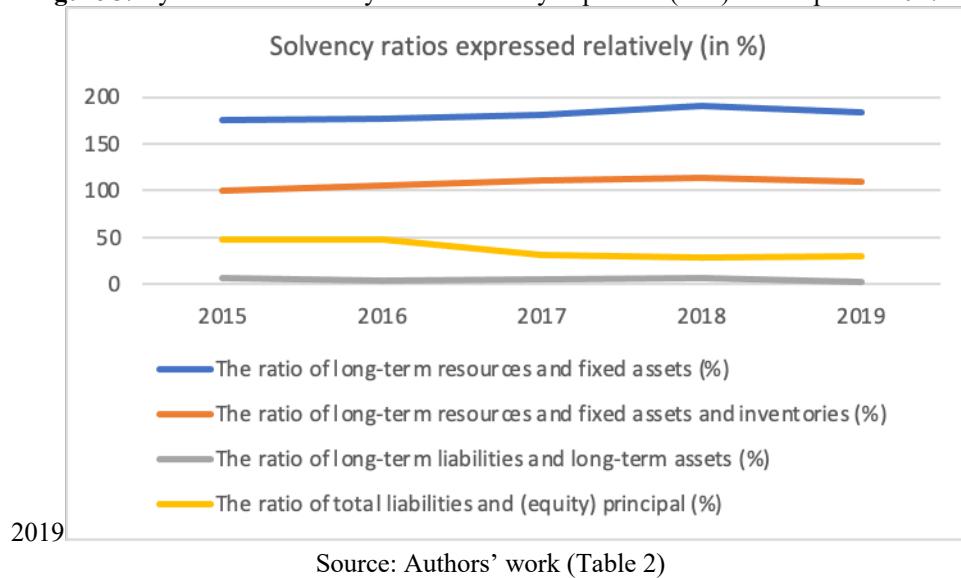
Table 2. Solvency ratios for the period 2017-2019

Solvency ratios	2017	2018	2019
Interest coverage ratio	11,125	53,9447	11,4907
Debt ratio	0,241	0,2177	0,2321
Ratio of long-term sources and fixed assets (%)	181,2477	190,2723	183,1731
Ratio of long-term sources and fixed assets and inventories (%)	111,274	113,2142	109,2495
Ratio of long-term liabilities and long-term assets (%)	5,3126	6,6582	1,9695
Ratio of total liabilities and equity (%)	31,7498	27,828	30,2304

Source: Authors' work based on company financial statements

Figure 2. Dynamics of interest coverage ratios and debt ratios for the period from 2017-

Source: Authors' work (Table 2)

Figure 3. Dynamics of solvency ratios relatively expressed (in%) for the period 2017-

Source: Authors' work (Table 2)

Based on Figure 2, it can be seen that the interest coverage ratio is extremely high in all three years (11.12; 53.94; 11.49), which is a good picture for (potential) creditors of this company. It is especially high in 2018, where it shows that every dinar of interest is covered 53 times by the company's earnings. The indebtedness ratio used to draw conclusions about the company's solvency shows that, on average, about one-fifth of assets are financed from borrowed sources (0.24; 0.22; 0.23), and the rest (most) from own sources, and shows a steady tendency to move through the years. This indicator is important in credit risk assessment. The ratio of long-term sources and fixed assets in all three years shows that in all three years the fixed assets are fully covered by long-term sources, as well as that there is a positive net working capital. The ratio of long-term sources to fixed assets and inventories shows that fixed assets and inventories are fully covered by long-term sources in all three years. The ratio of total liabilities and equity shows a steady trend, observed over the years, and at the same time that the observed company finances most of its assets with its own capital in all three years.

Profitability testing

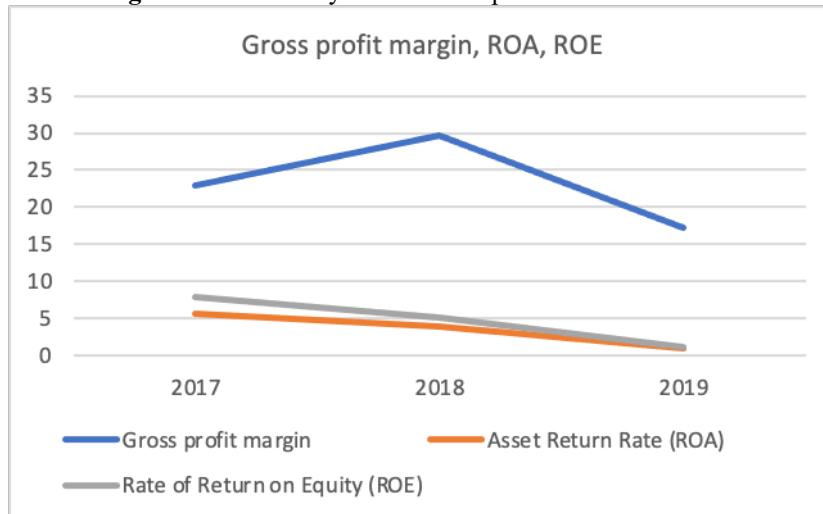
Profitability ratios are aimed at identifying the links between the profits that the company has made and the resources that are engaged to generate the profit (Abraham et al., 2008: 399). A high gross profit margin is indicating that management is investing a good effort to reduce production costs (Podile, 2015: 469). The gross margin ratio is the percentage of each monetary unit (RSD) after the seller has calculated the costs of goods/products or services sold to the buyer. Return on total assets (ROA) is an indicator that the company can use its financial resources in generating value for shareholders. Higher values of the company's ROA indicate the better financial performance of the company. ROA and ROE show the rate of return on invested funds, i.e. they show how much net profit the company has made with engaged business assets (ROA), i.e. engaged capital (ROE). The profitability indicators are presented below (Table 3, Figure 4; Table 4, Figure 5; Table 5, Figure 6).

Table 3. Profitability analysis for the period 2017-2019

Profitability ratios	2017	2018	2019
Gross profit margin	22,889	29,6969	17,1732
The rate of return on assets (ROA)	5,6189	3,8915	0,9088
The rate of return on Equity (ROE)	7,8377	5,0496	1,1725

Source: Authors' work based on company's financial statements

Figure 4. Profitability ratios for the period from 2017-2019



Source: authors' work (Table 3)

The gross margin indicator varies between 17% and 29% in the observed three-year period (which is not considered satisfactory indicators). Based on Figure 3, it can be seen that the gross profit margin showed growth in 2018, while in 2019 it dropped significantly, even below the level it was at in 2017. The analysis of the ROA of this company shows that for every 100 dinars of average engaged business assets, 5.6 dinars were realized in 2017; 3.9 dinars in 2018, and 0.91 dinars in 2019. ROE shows that in 2017, the company made a net profit of 7.8 dinars per 100 dinars of average engaged capital, 5.0 dinars in 2018 and 1.2 dinars in 2019.

When testing the profitability of the company, the importance of making a comparative overview of several forms of company earnings is emphasized:

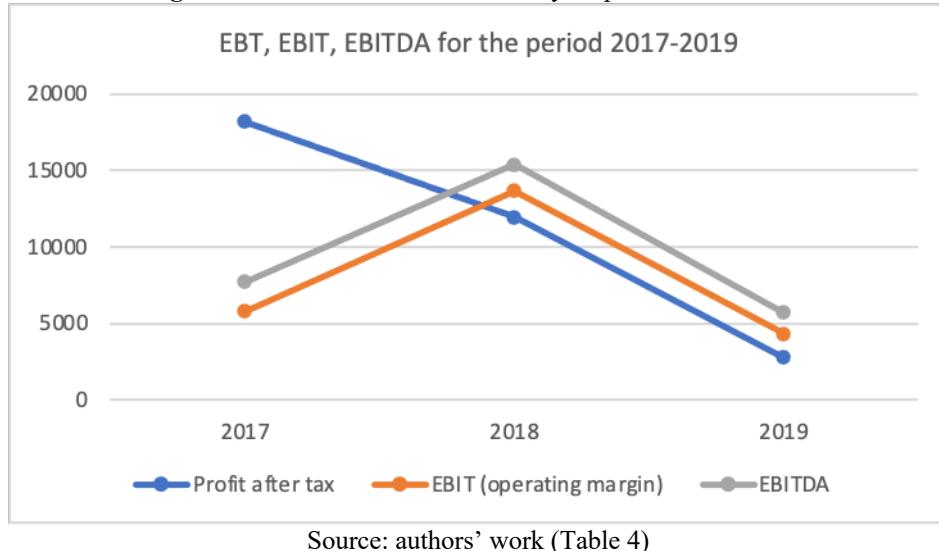
Table 4. Earning capacity of the company for the observed three-year period (2017-2019)

Name	2017	2018	2019
Profit after tax	18198	11948	2782
EBIT	5785	13648	4309
EBITDA	7691	15373	5710

Source: Authors' work based on the company's financial statements

As can be seen on the basis of Table 4, all three forms of the reported result are positive for the observed three-year period. However, net profit has a tendency to fall sharply over the years, which is a very negative trend, and a warning signal for management to reconsider why such a decline in net profit occurred in the observed period. EBIT and EBITDA show oscillations by years.

Figure 5. Results trends for the three-year period - 2017-2019



Source: authors' work (Table 4)

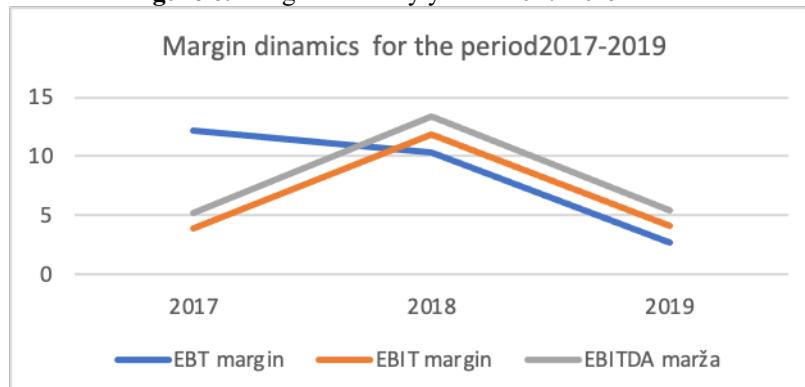
Profit margin, EBIT margin and EBITDA margin play a particularly important role in measuring a company's earning capacity. The movement of these indicators is shown in the following table:

Table 5. Profit margin, EBIT margin and EBITDA margin for the three-year period (2017-2019)

Name of financial indicators - margin	2017	2018	2019
EBT margin	12,19362	10,36631	2,634594
EBIT margin	3,876255	11,84126	4,080686
EBITDA margin	5,153375	13,3379	5,407453

Source: Authors' work based on company's financial statements

Figure 6. Margin trends by years - 2017-2019



Source: authors' work (Table 5)

EBITDA margin is considered a good indicator of a company's financial health without the need to take into account the effects of financial and accounting decisions, as well as different tax jurisdictions (Knežević et al., 177). As can be seen from Figure 5, the EBIT margin and EBITDA margin show identical trends for the observed period, in 2018 they have a sharp jump, and in 2019 they will return to the level of 2017. In contrast, the EBT margin shows a decline over a three-year period, so the causes of such a

negative phenomenon should be examined in more detail. Special attention should be paid to the structure and dynamics of revenues and expenditures outside the core business operations zone.

Efficiency testing

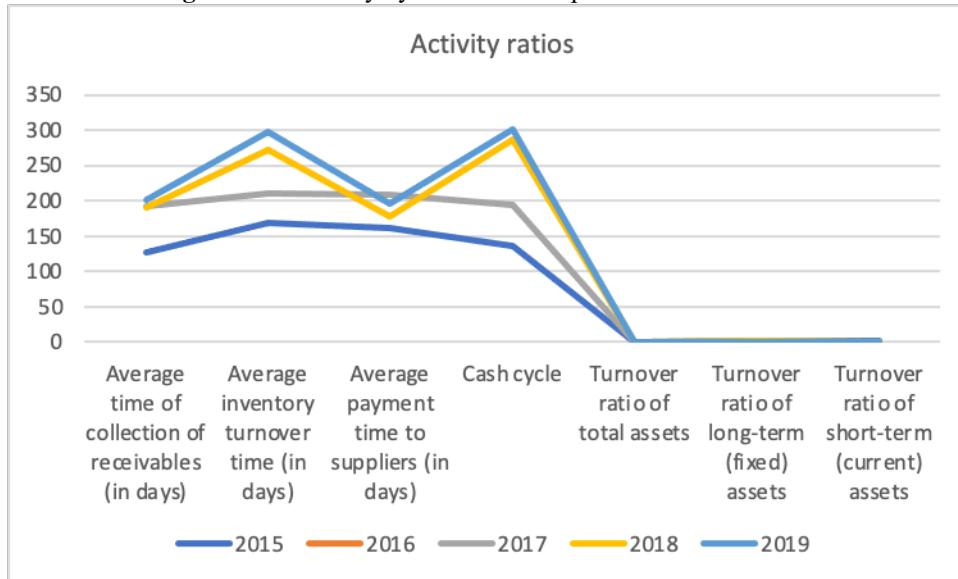
Efficiency ratios determine how productively a company manages its assets and liabilities to maximize profits. The calculated efficiency ratio is presented below (Table 6, Figure 5).

Table 6. Efficiency ratios for the period from 2017-2019

Financial ratios	2017	2018	2019
Average time of collection of receivables (in days)	192,2495	190,8016	200,8248
Average inventory turnover time (in days)	209,9321	272,8633	297,4424
Average payment time to suppliers (in days)	208,3538	177,6645	196,1333
Turnover ratio of total assets	0,4608	0,3754	0,345
Turnover ratio of long-term (fixed) assets	1,1249	0,8756	0,8118
Turnover ratio of short-term (current) assets	0,7842	0,66	0,6024

Source: authors' work based on company financial statements

Figure 5. Efficiency dynamics for the period from 2017-2019



Source: authors' work (Table 6)

The average time of collection of receivables from customers in 2017 was shorter than the average time of payment of liabilities to suppliers (192:208 days), while this is not the case in the next two years - 2018 and 2019. This means that the observed company collected receivables from customers faster in 2017, but the more it settled its obligations to suppliers, while in the next two years the situation was reversed, suppliers were paid faster than receivables from customers are collected. This credit policy indicates that it may cause problems in the coming period, especially for a company that would face a financial crisis. The turnover ratio of total assets shows that 0.45 dinars of sales revenue in 2017, 0.37 dinars in 2018 and 0.3 dinars in 2019 are generated per one dinar of invested total assets. The turnover ratio of fixed assets shows that 1.1 dinars of sales revenue in 2017, 0.9 dinars in 2018 and 0.8 dinars in 2019 are generated per one dinar of invested fixed assets. The turnover ratio of current assets shows that 0.78 dinars of sales revenue in 2017, 0.66 dinars in 2018 and 0.6 dinars in 2019 are generated per one dinar of invested current assets.

A final assessment of the financial performance of the analyzed company

The liquidity position was strong in the case of the observed company, thus reflecting the company's ability to pay short-term liabilities in due time. This company relied less on external funds in terms of loans, thus providing a higher degree of protection to creditors. The rate of return on assets (ROA) and the rate of return on equity (ROE) show a negative trend, as both decrease in the

observed three-year period in continuity. The trend of EBIT and EBITDA margins does not show stable growth, which is not a good signal for investors who want such growth. The trend of net profit is unfavorable (declining in continuity), which is a bad picture for potential investors and creditors. Solvency analysis indicates a stable financial picture for the observed three-year period. In the field of efficiency, attention should be paid to the speed of collection of receivables from customers, and signal to the financial management to pay attention to the credit policy of the company.

Conclusion

Financial analysis refers to shaping the future. It provides tools to family owners (and other interested recipients) who need to make sophisticated judgments on complex and challenging business issues. Encouraging training and skills development of owners in the field of human resource management, as well as in financial management, is of particular importance for the efficient management of small family businesses. The popularity of ratio analysis as the most popular technique in evaluating financial performance is attributed to its ease of use and the fact that it controls size so that comparisons between the company in question and others with which it is compared can be meaningfully made. Ratio analysis can reveal relationships between financial items and trends that cannot be clearly identified by inspecting the underlying financial statements, which with additional reports generated by the management accounting system, can greatly increase the owner's efficient financial decision-making capacity, especially given the modern environment that is very dynamic.

It has long been recognized that the ratio analysis technique is considered a powerful management tool for management control purposes. It provides users with key financial information and indicates areas that require deeper research of the observed tendencies of selected financial indicators. Ratio analysis as a key technique of financial analysis is simple, but the interpretation of the obtained results is a complex matter. It is also emphasized that a good understanding of the methods and rules used for the preparation of financial statements is required.

The concluding assessment of the financial performance of the observed company can point the company owner to critical points, identify areas where there is a chance to improve financial performance, but also enable the planning of future financial trends. The limitation in this analysis is that no comparison was made with the financial performance of key competitors, bearing in mind that these data were not available, given that it is a small, family business, which even has a widely diversified business activity. The directions of future research could be focused on the analysis of the financial performance of "peer" groups of family businesses. This requires a publicly available database.

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A Synoptic View on Organizational Change Theories applied on Current Developments in the Automotive Industry

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Abstract

This paper links aspects of the change theory with the adaption of the business models of companies in the automotive industry to their economic environment which is characterized by fundamental change requirements due to upcoming megatrends. A comprehensive model of organizational change is developed merging different basic theories of change into a synoptic approach to explain organizational change over time. The interdependencies between the basic theories will be used to link the different theoretical approaches. The practical impact of the different theoretical aspects which explain organizational change is then shown looking at some of the current world leaders in the automotive industry.

Keywords: organizational change, change management, automotive industry

1. Introduction

The automotive industry is currently on the brink of a new era due to elementary changes in the technological, sociological, and ecological environment which will determine the future of the players in this sector. It is obvious that megatrends have massive impact on the future business models and the long-term success of companies in that sector. The current necessity for fundamental change of car manufactures shall be mirrored by a comprehensive view on organizational change which will be developed in this paper.

This study will initially discuss the basic typologies of change that can be observed in organizations. It will be shown that change is on the one hand a permanent, i.e. incremental, process but also appears as disruptive, i.e. fundamental, change which requires leadership, either anticipatory or reactive.

Organizational change will be explained by different theories of change which will be merged synoptically into a comprehensive model of organizational change. That merged concept is in essence based on the company life cycle theory and the jumping the s-curve concept. The change concept will then be set into the context of the teleological approach which postulates that the companies' leaders must set change goals based upon the organizations' objectives. The implemented solutions must be evaluated and modified. The evaluation and modification process will lead to adjusted solutions which, in a dialectic approach, combine initial initiatives with stimuli from the environment. In this process organizations with the best answers to the challenges will be selected by the market in the evolutionary way.

Thereafter it will be outlined why the automotive industry is currently at a tipping point which requires fundamental change and leadership to manage that change. Some megatrends will revolutionize the automotive industry within the next years. The industry will experience change in the entire motor technology, cars will drive autonomously, they will be digitally connected, and people will want to buy mobility instead of owning a car. As will be seen in this paper this is the third fundamental change, the third revolution, in the history of the car manufacturers.

The current challenges of the automotive industry will then be reflected in the light of the different theoretical aspects of change theory. As will be seen from exemplary observations of the current behavior of car producers and from statements of the executives of leading players in the industry it is possible to link the theoretical approach to current developments in the industry.

2. Theoretical Background on Organizational Change

2.1. Typologies of Change

Change is not only a precondition for the survival of nature but also of societies as well as of organizations. Consequently, change must be an integral part of the DNA of every organization. Accordingly, a company's behavior consists not only of pricing, innovation, and differentiation actions, but also focuses on benefitting from first-mover advantages or the ability to compete with a repertoire of different competitive moves (May & Stahl, 2017).

Looking change from the perspective of how profoundly it transforms the organization two types of change can be observed. *Incremental change* is a continuous process of small step changes. The underlying values, attitudes and behaviors in the

organization remain unchanged. Ideally, the organization manages this change process being a learning organization (Dillerup & Stoi, 2016). *Fundamental change* on the other hand leads to a strategic realignment of the company. Such a change process can only be employed successfully if it is driven by high-quality leadership and not just excellent management (Kotter, 1996).

A second view on change concentrates on the question how change management was triggered. In that sense change consists of reactive and anticipatory changes. *Reactive changes* are forced responses of the organization to external events. *Anticipatory change* on the other hand is initiated by the management in anticipation of events still to come to create competitive advantage for the company (Nadler & Tushman, 1990).

The two views can be combined in a matrix as shown in figure 1. Anticipatory change management and incremental change situation leads to a (fine) *tuning* of the organization to be prepared for gradual future changes in the business environment. Anticipatory change management of fundamental change is a realignment of the company that anticipates future changes in the business environment and leads to a *re-orientation* of the organization. Reactive incremental change in an organization leads to an *adaptation* of existing processes to make immediately necessary changes. Organizations that react to fundamental change necessities that they have not foreseen are in a *re-creation* change mode (Nadler & Tushman, 1990).

Table 1. Basic typology of change

	<i>incremental</i>	<i>fundamental</i>
<i>anticipatory</i>	<i>tuning</i> modifications of existing processes in anticipation of future events	<i>re-orientation:</i> Strategic change in anticipation of future events
<i>reactive</i>	<i>adaptation:</i> modifications of existing processes as reaction on immediate demand	<i>re-creation:</i> Strategic change that is prompted by immediate demand

Source: Modified after Nadler & Tushman (1990)

Although incremental change alters an organization permanently and is important for the success of an organization, it is the way fundamental change is treated in an organization which determines its survival in the long run. Therefore, most change management theories focus on the aspect how fundamental change can be managed.

2.2. Organizational Change Theories

Depending on the theoretical approach organizational change theories either only focus on the organization or they take environmental aspects into account. According to Van de Ven & Poole (1995) who conducted a comprehensive literature research on theories which explain organizational change there are four basic theories which serve as a building block to explain change processes in organizations: life cycle, teleology, dialectics and evolution.

The *life cycle* is regarded as a sequence of stages. Characteristics acquired in earlier stages are (cumulatively) retained in later stages and a common underlying process leads to a prescribed mode of change which is channeled in a prespecified direction (Van de Ven & Poole, 1995). A typical life-cycle model was developed by Greiner (1998) who describes the development of an organization with five successive stages of growth. Each stage is characterized by a typical management style used to achieve the goals followed by a typical management problem that must be solved before the next stage can be achieved. The path of growth is predetermined, management must be aware of the stage the organization is in to know when it is time for change and which specific solution must be applied to overcome the hurdles which might prevent the organization from reaching the next step.

In the *teleological school of thought* the change is a repetitive sequence of formulation of goals, implementation, evaluation, and modification of goals based on what was learned by the organization (Van de Ven & Poole, 1995). This approach assumes that the organization has a clear objective. It defines its change targets accordingly and pursues them sustainably. To achieve their targets, leaders choose strategies that adapt to the environment and adjust them if disturbances occur in the environment (Müller-Stewens & Lechner, 2016).

One approach which merges the aspects of life cycle and the teleological view is Nunes' & Breene's (2011a) concept of "*jumping the s-curve*". To survive as an organization, it is imperative that its life cycle must be relaunched from time to time. As a company's life cycle can be described - in analogy to the product life cycle concept - with a s-curve with illustrates performance over time, the leadership task is "*jumping the s-curve*". Companies are compelled to reinvent themselves periodically and switch from the maturity stage to the growth stage of the next business (Nunes & Breene, 2011b).

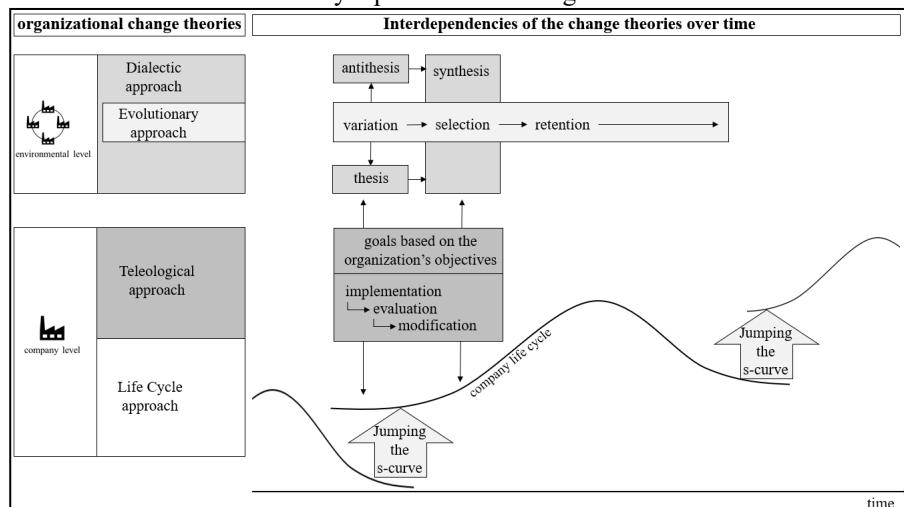
The evolutionary and the dialectic approach describe change in the context of pluralistic social systems and focus on the mutual influence of organizations on each other's organizational change. The *evolutionary approach* describes change processes as a repetitive sequence of variation, selection and retention among numerous competing organizational entities (Van de Ven & Poole, 1995). Organizational changes that prove to be superior solutions will replace existing forms (survival of the fittest) and will then be retained by the organization (organizational inertia) (Müller-Stewens & Lechner, 2016). Like in Darwin's theory of evolution this is a perpetual prescribed process. In the *dialectic approach* conflicts between entities emerge due to thesis and antithesis that collide, become a synthesis which will be the thesis in the following cycle (Van de Ven & Poole, 1995). Change occurs when the challengers gain sufficient power to confront established organizational processes (Van de Ven & Sun, 2011).

2.3. Synoptical View on Organizational Change Theories

The different types of change models can not only be seen as alternative perspectives on the explanation of change processes but can also be regarded as alternating explanation schemes during the development of an organization. In this sense cycles of organizational change consist of long periods of evolutionary change with the incremental unfolding of an organization in a life cycle process which are occasionally disrupted by revolutionary periods of teleological and dialectical change processes (Van de Ven & Sun, 2011). Based upon this general idea the different perspectives of organizational change are connected in the following synoptical view that reflects their impact on the organization at certain points of time during the company life cycle.

In this approach the fundament for the explanation of change processes is the life cycle concept. During its existence, the organization is in permanent interchange with its environment. The environment influences the change process in the organizations, especially at the beginning of a life cycle when the organization's strategy is selected in the evolutionary process and the strategy can persist in the competitive environment. With the fading dynamics at a mature stage of the life cycle, need for change becomes obvious and revolutionary change must be implemented. To start a new life cycle the s-curve must be jumped. New objectives must be set in a teleological sense of change. This objective setting by the organization's leaders produces a thesis which might be challenged by other ideas from inside the organization as well as from the competitive environment (antithesis). A good leadership will merge the best aspects to come up with a synthesis which can rise the organization to the starting point of the new s-curve and help the organization to survive in the evolutionary process. The described interdependencies are visualized in the following synoptic chart (Table 2) which shows how the different theoretical approaches apply and interact over time.

Table 2. Synoptic view on change models



Source: Table created by the author

3. Change Management Requirements in the Automotive Industry

If the active change management requires a certain sense of urgency it must be worked out if the considered company and its industry face unequivocal indicators that its life cycle has passed its peak. As will be seen, the automotive sector is currently challenged by some fundamental changes which will entirely transform the current business models of the car producers.

3.1. Megatrends as Initiators for Change

Every industry is permanently impacted by trends. Trends that fundamentally and sustainably change the society, technology and basic economic principals are called megatrends. The decisive feature of megatrends is their broad impact (Zukunftsinstutit, 2020). According to Horx (2011) megatrends are characterized by their long-term nature and their rooting in past developments. They are ubiquitous and complex as they link social, political, and economic aspects in a new way. Although this change process

is not a linear sequence of developments, but often interrupted by countermovements, it is in the long-run very resilient against the reversal tendencies.

3.2. Megatrends and past Revolutions in the Automotive Industry

The automotive industry has been part of two megatrends yet which have led to fundamental changes in the industry. New industry leaders evolved and some of the existing players disappeared.

The first megatrend which revolutionized the automotive business was the introduction of mass production in this industry by Henry Ford I in 1913. Using assembly lines meant that cars were no longer produced in small manufactures with extremely limited production capacities at relatively high costs but in large factories. The car became affordable and accessible for the broad public (Hüttenrauch & Baum, 2008). Some large players, like e.g. Ford, General Motors and after the second world-war Volkswagen survived whereas most small manufactures disappeared.

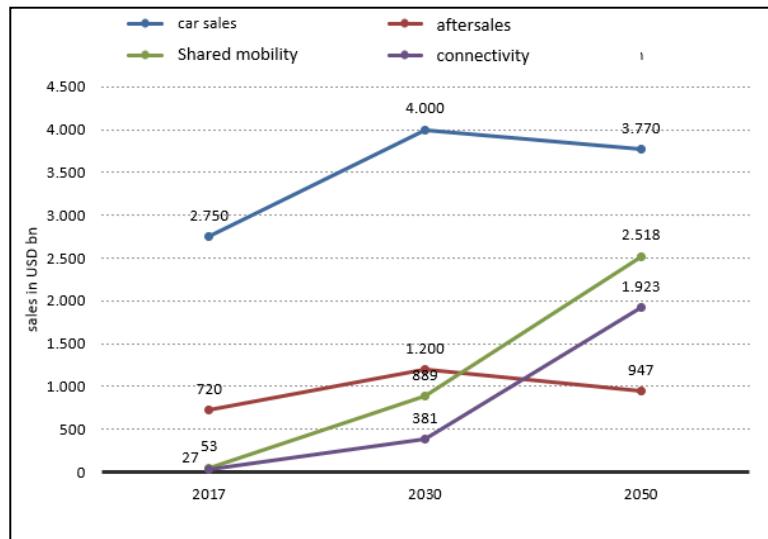
The second revolution in the automotive industry took place when Toyota implemented lean management. Efficiency was fostered by decentralization and simultaneous processes which lead to a new understanding of value creation in the automotive industry (Pfeil 2018). Today, all large modern car producers co-operate with their suppliers, have developed strategic alliances, produce globally and have adopted their strategies to local market requirements. Toyota has become one of the largest car producers in the world.

3.2. The Upcoming Third Revolution in the Automotive Industry

Global megatrends show that the automotive industry is now facing a new challenge which will fundamentally change their business model and can be regarded as the third revolution in the automotive industry. Four trends will dominate and significantly change the automotive industry set-up in the next years: Autonomous driving, shared mobility, connectivity and electrification. Even though individual players are already position themselves in these key technologies, currently no player seems likely to be able to dominate in all of them as there are still technological and economic challenges for each trend that must be overcome (McKinsey & Co., 2017). Although these trends have been observed for quite some time, they are have now gained disruptive power on the industry because consumers are perceptive for the new trends, technology is improving rapidly and government is setting the regulatory framework for the new trends (McKinsey & Co., 2016). In a recent study on the future of mobility by the think tank Zukunftsinstitut for the Allgemeiner Deutscher Automobilclub e.V. (ADAC), the world's largest automobile club, the situation was summed up as follows: "We are facing a similar revolution as the world did when the car was invented 125 years ago. Hidden behind all the apparent continuity lies an evolutionary transformation of the mobility system, which must not be underestimated" (Zukunftsinstitut, 2017).

Revenue generation in the automotive industry will be different in the future. As can be seen in the following chart (Figure 3), turnover generated with car sales and aftersales services will reach its peak in 2030, whereas shared mobility and connectivity will become more and more important revenue contributors (Accenture, 2019).

Figure 3. Projected market volume of the global automotive and mobility industry by business segments in 2050



Source: Accenture (2019)

Nevertheless, car-related income will still be at a high level and must not be neglected when thinking about necessary changes in the industry. But the car production program will be affected electrification. The projected share of new registrations of electric-powered passenger cars in total new registrations will increase in Europe from 5% in 2020 to 29% in 2030 and in China even from 9% to 38% according to a projection by the Verband der Chemischen Industrie e.V. (VCI, 2019). However, timing must be considered diligently by the leaders of the industry when they react to these change requirements. The conventional car with a petrol engine will still dominate the market for quite some time and will generate significant revenues (Boston Consulting Group, 2018) which are necessary to fund the repositioning of the automotive industry. PricewaterhouseCoopers (PwC, 2019) pointed out in a study on automotive trends that car producers should not abandon their long-term CASE (Connected, Autonomous, Shared and Electrified mobility) strategies, but they should temper them with short-term realism.

4. Conclusion

As can be seen from chapter 3, the automotive industry currently faces its third revolution. The practical impact of the different theoretical approaches to explain change shall now be analyzed exemplarily looking at some of the current world leaders in the automotive industry.

The industry is facing *fundamental* change challenges. Most car manufacturers acknowledge that the described megatrends will entirely change their future business model. They take up that challenge *anticipatorily* which can be seen from the different initiatives which they have communicated. Daimler AG, for example, describes its CASE strategy in detail on the innovation site of their homepage (Daimler AG, 2020). In the 2018 Annual report, the CEO of Daimler AG, Dieter Zetsche, concludes his chairman's letter with the words: "2019 is a year of change for Daimler: With your [the shareholders'] approval, we will restructure our company. We are accelerating into the era of electric mobility. At the same time, we are entering new dimensions in connectivity, autonomous driving and mobility services. Each of these fields offers enormous opportunities for Daimler in the future. Our team has the will and the skills to use them." (Daimler, 2019).

The change process to emission free cars might be used to apply the different change models. All car producers have clearly stated that this will change their business model in the long run. The car manufacturers have postulated in the *teleological* sense clear goals based upon their objectives in order to *jump the s-curve* because they have acknowledged that their life cycle as producers of cars with petrol-fueled engines is approaching its end. However, the focus of change is set differently, depending on the potential the company attributes to the different technical solutions. Volkswagen AG e.g. very clearly focuses on battery technology. With reference to a recent study from the consulting company Horváth & Partners Volkswagen AG answers the question if hydrogen should be given a chance to drive electric motors as follows: "Volkswagen Group's position is clear: as a large volume manufacturer, it is banking on battery-powered electric cars" (Volkswagen, 2019). Other car producers do not position themselves as explicitly as producers of battery-fueled cars. Hyundai Motor Company, for example, wants to invest EUR 6bn into the fuel cells technology. Until 2030 they want to produce 500.000 vehicles with fuel cells and gain leadership in this sector (Kölling & Bay, 2018). These different resource allocations to certain technologies can be seen as *thesis and antithesis* which will over time lead to modifications of the strategies of the car producers and lead to a *dialectic synthesis*. Over time a

selection process will take place in the industry. The car producers will have changed their business models, new players will appear and challenge the repositioned automotive producers. New competitors have already emerged, some of them with a business model which is similar to the envisioned future business model of the existing car makers, like Tesla Incorporated which besides its core competency in battery-fueled cars is also working on autonomous driving and shared mobility solutions (Koenen & Postinett). Others challenge the car manufacturers only in certain sectors, like e.g. Alphabet's subsidiary Waymo LLC which aims to bring fully self-driving technology to the market (Waymo LLC, 2020). In an *evolutionary approach* this is the *variation and selection process*. Those players who have found the best solutions to the megatrends will be retained and will be able to live the next company life cycle.

5. Outlook

Further research should be conducted on the synoptic view of change theory. Not only the interdependencies over time which have been developed in this paper could be elaborated in more detail but also the concrete preconditions which must be set to be able to link the theories could be studied further.

A systematic view on the different change approaches by the automotive producers could be generated based upon the aspects which have been outlined in chapter 4. In certain intervals the progress of the change of business models of the automotive companies and alterations from the initially intended change targets could then be observed systematically and interpreted using the synopsis of the change models.

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Trends in gender and regional disparities in the Romanian pension system - Analysis of the relation of working time to retirement time across the NUTS 2 regions

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Abstract

Demographic change is leading to cost increases in Romania's pension systems. One of the political response strategies is to increase the statutory retirement age in the pension system. This political measure confronts Romania with regional and gender-specific challenges. Accordingly, this paper takes a regional perspective, which analyses the effects of the increase of statutory retirement ages at NUTS 2 levels, differentiated by gender. The central result is that a further increase in the statutory age should consider identified disparities. Women spend a much longer time in retirement than men, measured by the average adult life. This finding illustrates the gap in life expectancy between the sexes in Romania. The current differences in the statutory retirement age intensify this effect. Furthermore, small regional differences for women as well as men regarding the participation in pension life could be identified. One conclusion is that policy initiatives to reduce the inequalities revealed should be accompanied by reforms to increase the statutory retirement age.

Keywords: policy analysis, regional economics, gender research, pension reform, statutory retirement age

I. INTRODUCTION

The pension system in Romania is facing significant challenges. A key challenge results from demographic and economic developments, which increasingly put financial and performance pressure on the system. One solution is to raise the statutory retirement age in the pension system. The increased average life expectancy usually justifies this political measure. It is argued that by raising the statutory retirement age, policymakers respond to changing demographic conditions.

So far, regional perspectives and differences between the genders are not considered in this political approach. As a result, it is unclear what effect the increase in the statutory age will have on the regional and gender-specific situation. Accordingly, it is examined whether unintentional transfers from regions, with low average life expectancy, could occur to regions with high average life expectancy. During this, the regions are also examined for gender-specific differences.

To this end, the paper focuses on an empirical evaluation of the effect of increases in the statutory retirement age on the ratio of working time to retirement time in the NUTS 2 regions. Following research question is raised:

- How do increases of the statutory retirement age in the Romanian pension system affect the ratio of working time to pension time on a regional level and differentiated by gender?

The answer to this question aims at testing the following two hypotheses:

- The increase of statutory retirement age leads to an unintended redistribution effect from weak NUTS 2 regions with a lower average life expectancy to strong NUTS 2 regions with a high average life expectancy, measured by the ratio of working time to retirement time in relation to average adult life.
- Gender-specific disparities and regulatory differences lead to different participation levels of men and women in the Romanian pension system.

Against the background of demographic change, the answers to these questions and the hypotheses' testing are of high social relevance. After all, it is the task of Romanian politics to adapt the pension systems to a rapidly changing demographic environment. In the search for policy responses, potential distributional effects, and gender-related differences must be considered. Through the regional perspective, in combination with the gender perspective, this work makes a significant research contribution that provides additional information on the effects of increases in Romania's statutory age. The chosen combination of gender and regional perspectives opens up a new outlook on the Romanian situation. Through this approach, this paper will generate new empirical findings. Doing so contributes to closing the research gap regarding the increase of statutory retirement age and its

regional impact on men and women in Romania. This case study is to be placed in the larger Central European context. This research follows up on a comparable country study by Dörstelmann (2020) on Hungary to further expand its empirical basis. However, the insights gained are also strictly limited to the specific regional aspects regarding gender disparities and represent only a first exploratory approach.

Hence, the chosen methodological approach is presented in Chapter 2. This is followed by Chapter 3 with remarks on the current state of the political and scientific discussion. In Chapter 4, the empirical evaluation and discussion takes place. The paper concludes with a conclusion.

II. METHODOLOGICAL APPROACH

The used methodology builds on Dörstelmann's (2020) country study on Hungary. In this way, it follows from a study on Hungary and expands the empirical data basis regarding gender and regions concerning the statutory retirement age. Accordingly, this work is also situated within the framework of comparative policy analysis (see Dunn 2018: 4f.). It examines the effect of increases in the statutory retirement age on the ratio of working times to retirement times at NUTS 2 level within Romania. It should be noted that the analysis aims to identify potentially unintended distributional effects. This relationship is measured by the length of retirement time as a proportion of the average adult lifetime at NUTS 2 level. The analysis differs with respect to gender. Naturally, there are numerous other influencing factors. However, this paper does not claim to provide a conclusive picture but focuses on analysing the defined criterion as an explorative approach. According to Dörstelmann (2020: 310), this criterion is determined by using the following equation:

$$\text{RatioWorkPensionTime} = \frac{[(\text{life expectancy at 65} + 65 - \text{statutory retirement age})]}{(\text{life expectancy at 65} + 65 - 20)}$$

Thus, a standardised adult and working life, based on the legal-regulatory framework, is examined. Individual work careers and pension plans of women and men are not considered. In doing so, this essay is a classic policy analysis, as presented by Blum, Schubert (2018: 70f.) or Knoepfel et al. (2007: 9). The use of projections is based on policy modelling's methodological approach (see Crawford 2006: 771). In line with the policy analysis, according to Kraft and Furlong (see 2018: 9), the analysis addresses five points: policy, policy alternative, evaluation criterion, evaluation of alternatives and conclusion. Therefore, this study is embedded in the analytical framework from Dörstelmann's (2020: 311) Hungary study:

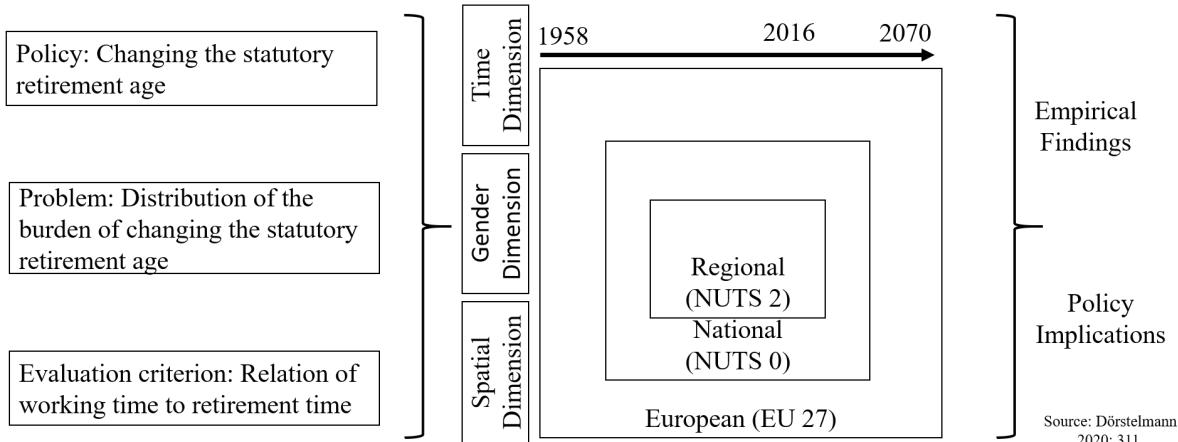


Figure 2: Analytical framework

As shown in Figure 1, three dimensions of analysis are interlinked: The first is the time dimension, which compares the historical and future developments of the statutory age limits, demographic change, and its effects between different points in time. On the other hand, the spatial dimension, where regional differences between the NUTS 2 levels in Romania are empirically evaluated. Finally, the differentiation by gender evaluates the differences in average life expectancy and the legal and regulatory framework. Overall, this is an interdisciplinary work that operates at the interface of pension policy, gender research and regional economics. The primary sources of empirical data are the United Nations (2019), the Organisation for Economic Co-operation and Development (2020), the European Commission (2017, 2018) and Eurostat (2020a).

III. THE STATUTORY RETIREMENT AGE IN THE POLITICAL AND SCIENTIFIC DEBATE

General literature reviews on changes in the statutory retirement age in pension systems are provided by Álvarez-García et al. (2020), Pilipiec et al. (2020) or Jantan (2020). Furthermore, Jorgensen and Jensen (2010), Moog and Müller (2011), or Dolls et al. (2016) conclude that an increase in statutory retirement ages could improve the sustainability of public finances. This general conclusion is reflected in the European Commission's policy objectives (European Commission 2010, 2012; Carone et al. 2016). Specific observations of the pension system in Romania, by Adascalitei (2017), Adascalitei and Domonkos (2015), Arpad (2019), Cojocaru and Suciu (2017), Drumitrescu and Drăghia (2019), as well as Mladen and Ghența (2017), come to comparable results. Accordingly, welfare losses caused by the demographic change could be minimised or compensated for by raising the statutory retirement age. Studies by Vogel et al. (2013) or Tyrowicz et al. (2016) indicate that raising the statutory retirement age could have this effect.

Based on such results, the OECD (2019: 28f.) and the European Commission (see Carone et al. 2016: 43f.) advocate an increase in the statutory retirement age. The justification is higher average life expectancy which shifts the ratio of working time to retirement time so that an increase in the statutory retirement age would only keep the ratio constant (OECD 2019: 28). Romania acted in the same way so that substantial increases in the statutory retirement age for both women and men were decided. Furthermore, this age will continue to rise in the future. This is confirmed by an overview of the European Commission (European Commission 2018: 56).

However, regional and gender-specific perspectives have not been taken into account in previous research. So far, this perspective has only been adopted in Dörstelmann's (2020) Hungarian case study. Thus, Romania lacks information at NUTS 2 level for the evaluation of these measures. This research gap is to be closed in the present study.

IV. ROMANIAN CASE STUDY - RELATION OF WORKING TIME TO RETIREMENT TIME RELATED TO AN AVERAGE ADULT LIFETIME AT NUTS 2 LEVEL

A. Demographic change and financial pressure

The background to the increase in statutory retirement ages in the pension system is demographic change. The average life expectancy in Romania is increasing for both women and men.

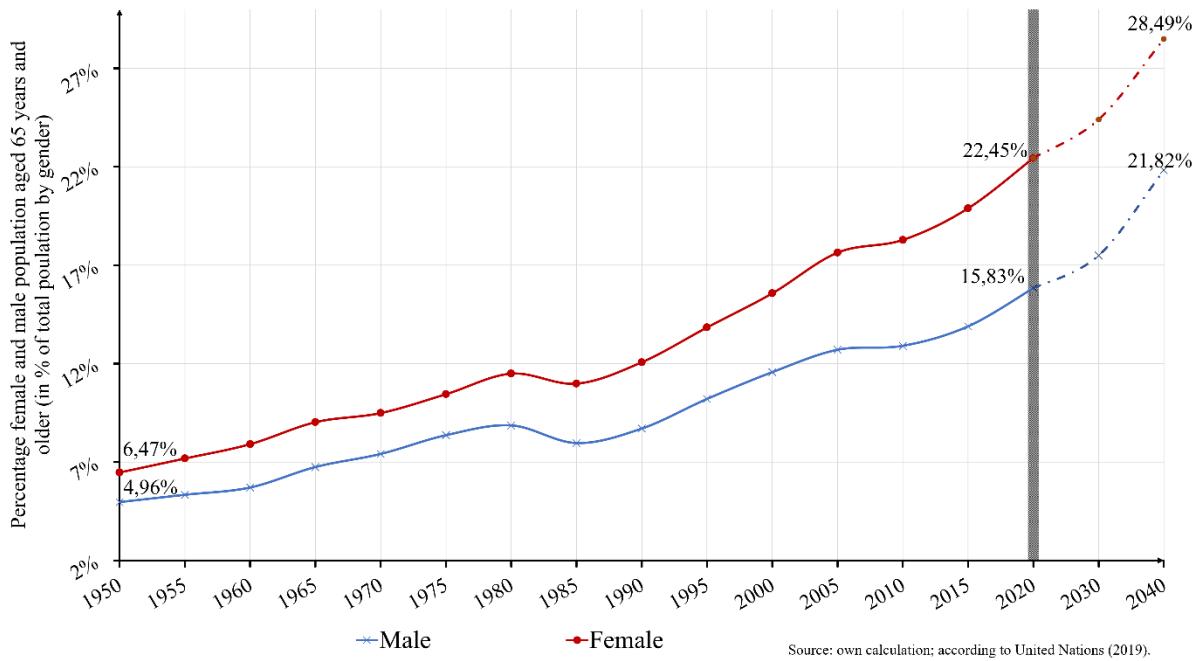


Figure 3: Romania's ageing population

Figure 2 illustrates this ageing process. The proportion of 65+-year-olds in the Romanian population increased significantly between 1950 and 2020. For women, the figure has grown from 6.47% to 22.45%. Within the male population, the percentage of 65+-year-olds has risen to 15.83%. An acceleration of the ageing process in the mid-1990s can be observed across all genders. Despite a slight levelling-off in the 2000s, this acceleration will continue to pick up speed in the future. For example, the forecasts indicate almost exponential growth until 2040. This will probably increase the proportion of 65+-year-olds in Romania's female population up to 28.49% and in the male population up to 21.82%.

Furthermore, the observation highlights existing differences in the ageing process. Gender-specific disparities, in particular, become visible. Although the proportion of 65+-year-olds in the female population has always been higher than the male proportion, the gap has widened increasingly. For example, this gap was 1.51 percentage points in 1950 and has risen to 6.62 points by 2020. Based on the forecasts, the female population of 65+-year-olds will continue to show stronger growth dynamics than the male population. According to the United Nations' population projections (2019), the gender gap is expected to increase to 7.08 percentage points by 2040. One consequence of this ageing process is that by 2040 more than one in four women and one in five men in Romania will be 65 years or older.

The driving force behind this pronounced ageing dynamic in Romania is two ongoing trends: increasing life expectancy and decreasing/stagnating fertility rate.

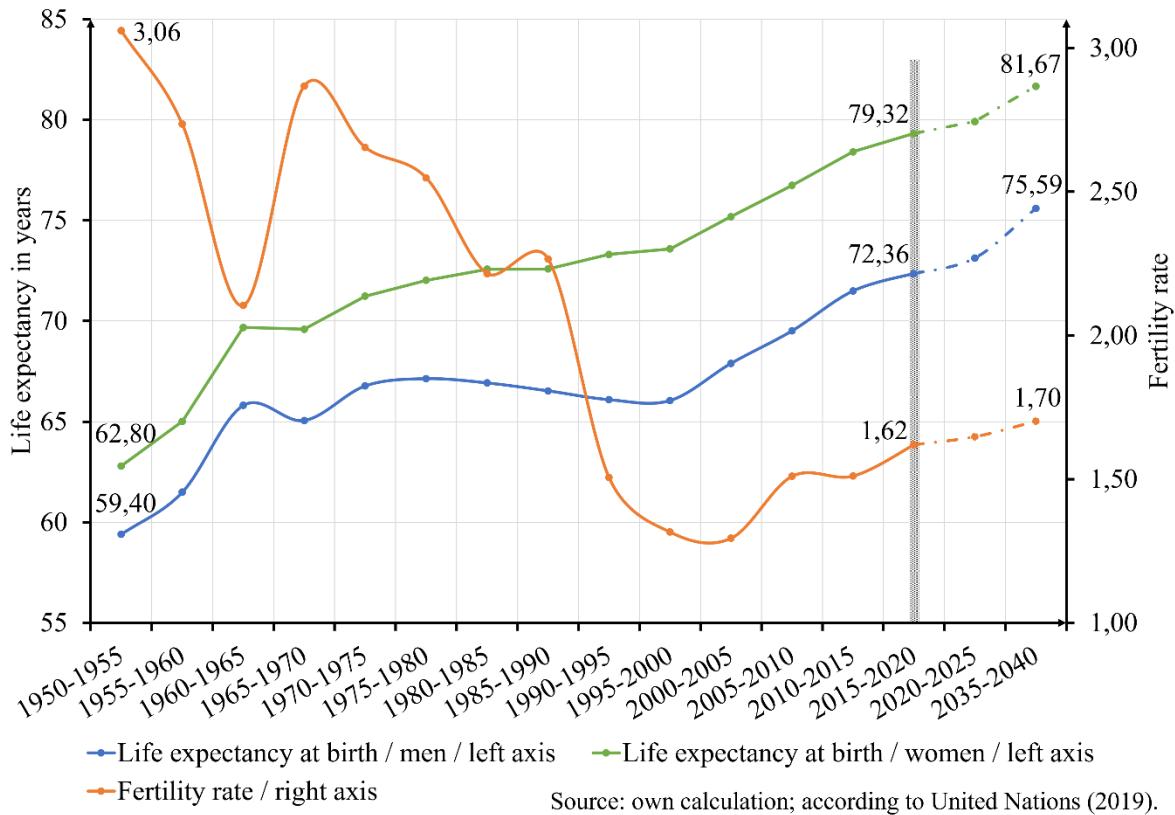
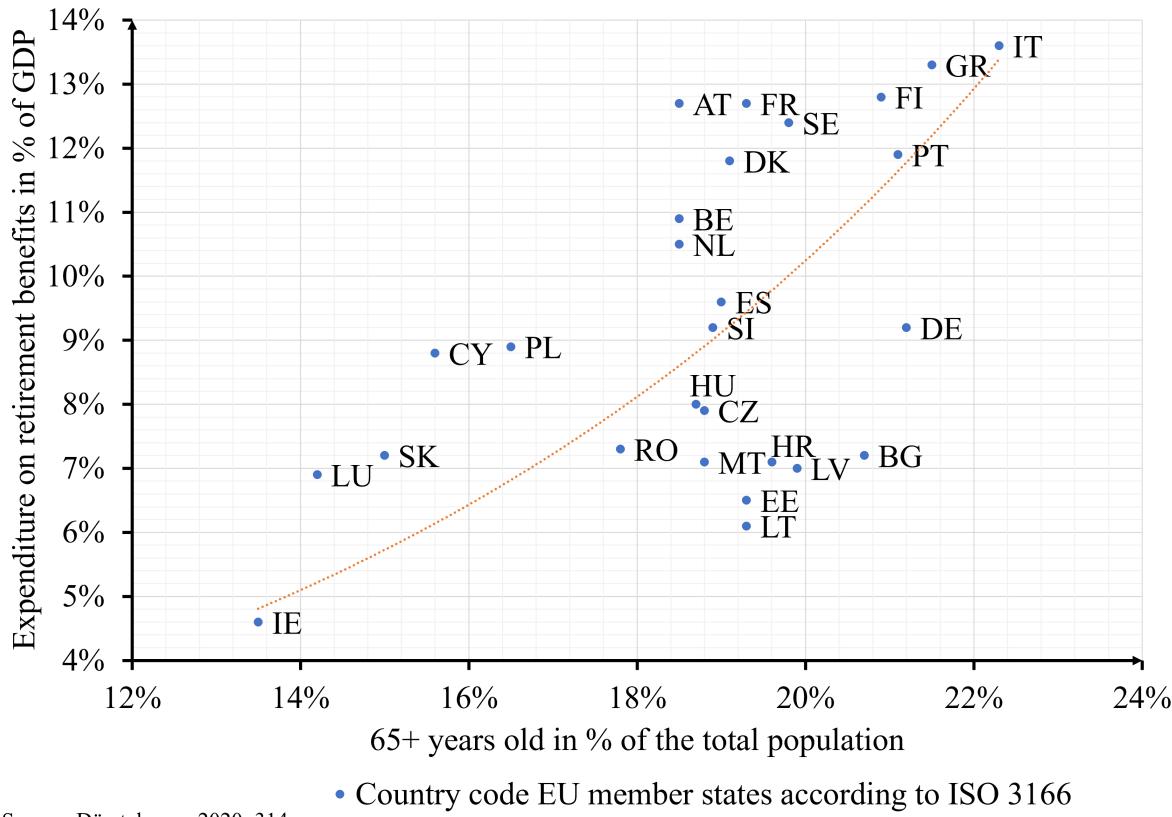


Figure 4: Life expectancy and fertility in Romania

Figure 3 illustrates both trends for Romania. The average life expectancy at birth for the 1950-55 cohort was 62.80 years for women and has risen to 79.32 years for the 2015-20 cohort. For men, life expectancy at birth has increased from 59.40 years to 72.36 years. Forecasts indicate that this growth trend will continue in the coming years. The data also show gender-specific differences in Romania. The findings correspond to the observation of the population share of 65+-year-olds (see Figure 2). The gender gap in life expectancy was significantly smaller in the 1950s. For the 1950-55 cohorts, this gap was only 3.4 years and now stands at 6.96 years. This difference between the sexes seems to be constant, as it is carried forward in the forecasts.

The trend in the fertility rate goes into the other direction. This rate fell from 3.06 in 1950 to a low of 1.29 in the 2000s. Since then, there has been a slight increase so that the rate is currently at 1.62. Likewise, the effects of the politics of Nicolae Ceaușescu are seen. Specifically, the consequences of Decree 770, which since October 1966 has made the use of contraceptives and school education about contraception punishable (Kligman 1998).

Furthermore, population projections indicate that this rate will probably rise to 1.70 by 2040. All in all, these demographic processes pose complex challenges for Romania. A partial aspect of this problem is the increased financial requirements resulting from the ageing process.



Source: Dörstelmann 2020: 314.

Figure 5: Population structure and costs EU-27 in 2017

Figure 4 illustrates that an ageing population is associated with rising costs for society. This cost increase is mainly due to cost increases in the old-age security systems. As society ages, these systems increasingly require resources, measured in the gross domestic product (see Dörstelmann 2020: 314). For Romania, it is evident that it has a slightly younger society compared to the European average. The costs of ageing are around 7.2% of GDP.

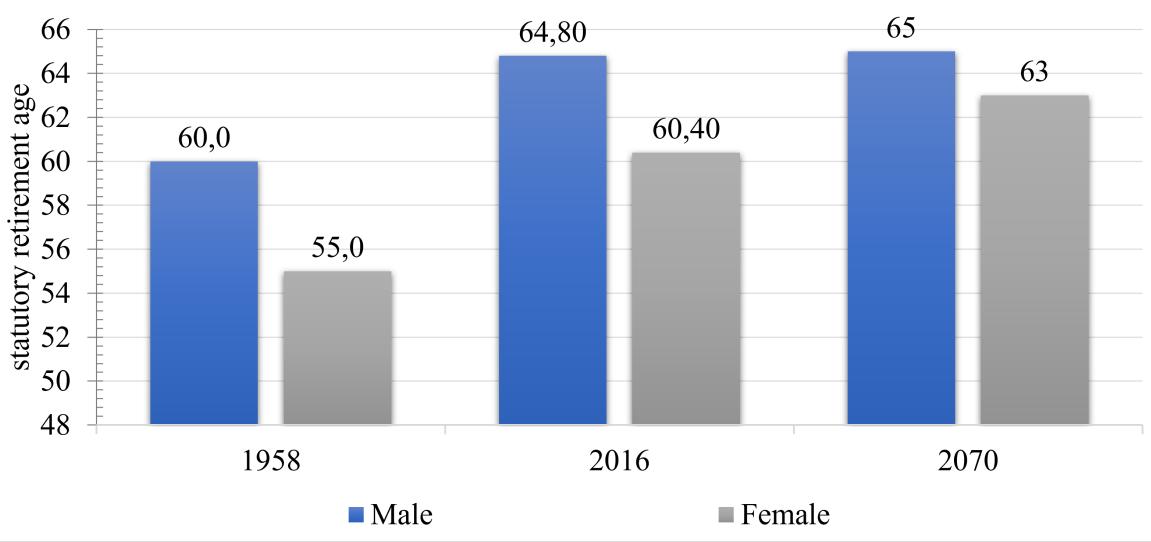
Furthermore, there are country-specific differences since countries in the EU have quite different cost levels, although having a comparable degree of ageing. This finding is in line with expectations since the European Union member states decide for themselves on retirement systems. These systems are correspondingly differentiated and efficient. However, in a ranking of 70 countries by Allianz and Euler Hermes (2020: 4), the Romanian pension system ranks only 50th in the financial and demographic starting position, sustainability, and performance level.

Overall, the result remains that the Romanian population's ageing comes with costs in terms of GDP. This result remains independent of specific country structures, such as the degree of ageing and the security system. Finding answers to these cost increases is an urgent challenge that Romania must face. The level of benefits, the level of contributions, the statutory retirement age and productivity can be used as a starting point for reforms.

Therefore, the adjustment of retirement age in Romania by raising the statutory retirement age for both women and men has already been decided (European Commission 2018: 56). This approach is justified by intra- and intergenerational fairness, as the increase in the statutory retirement age would merely keep the ratio of working time to retirement time constant (OECD 2019: 28). Accordingly, statutory retirement ages would only be adjusted to the increased average life expectancy. To what extent this justification stands up to empirical examination will be worked out in the following.

B. Supra-national Perspective - Effects of the reforms of the statutory retirement age on the ratio of working time to retirement time

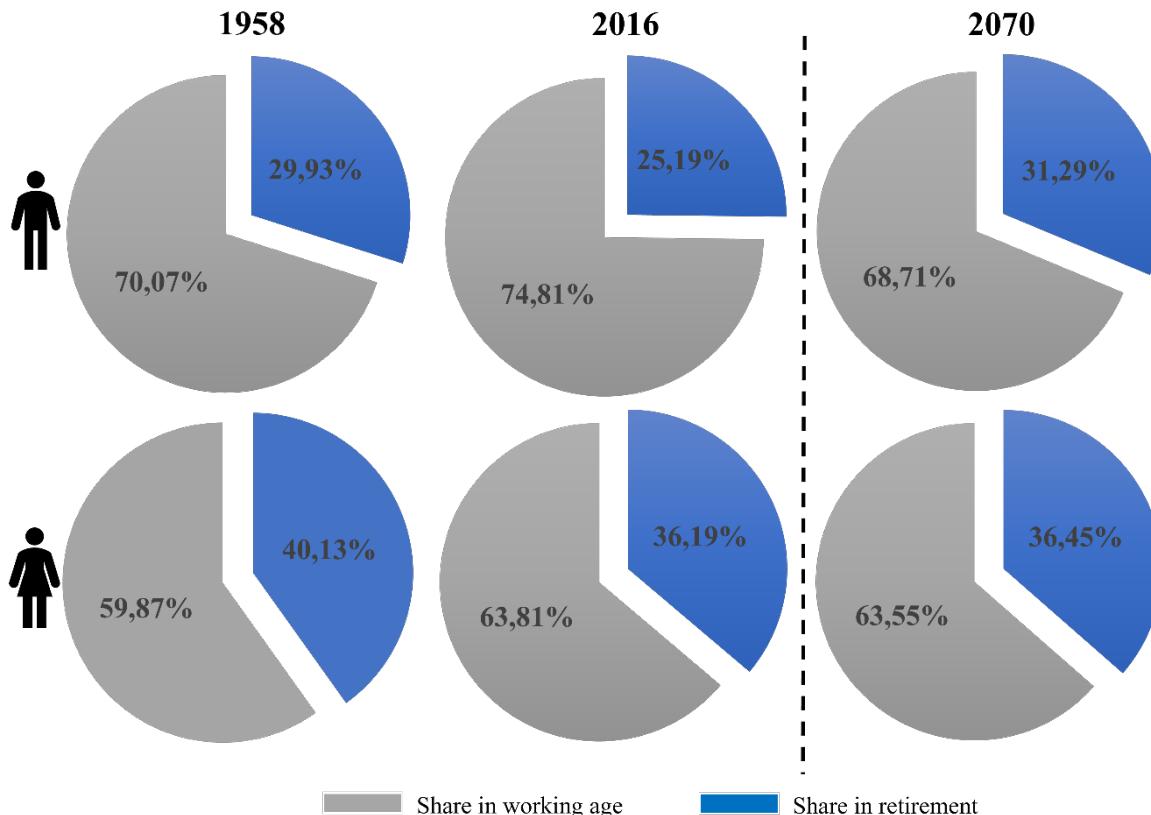
The statutory age of retirement for women and men in the Romanian pension system has been and will be increased in the coming years. Between 1958 and 2016, women's statutory retirement age has increased from 55 years to 60.4 years. That of men has increased from 60 years to 64.8 years during this period. According to current regulations, the retirement age will continue to rise to 65 years for men and 63 years for women by 2070.



Source: own calculation; according to OECD (2011: 30), European Commission (2018: 56), Láng (1997).

Figure 6: Development of the statutory retirement age in Romania

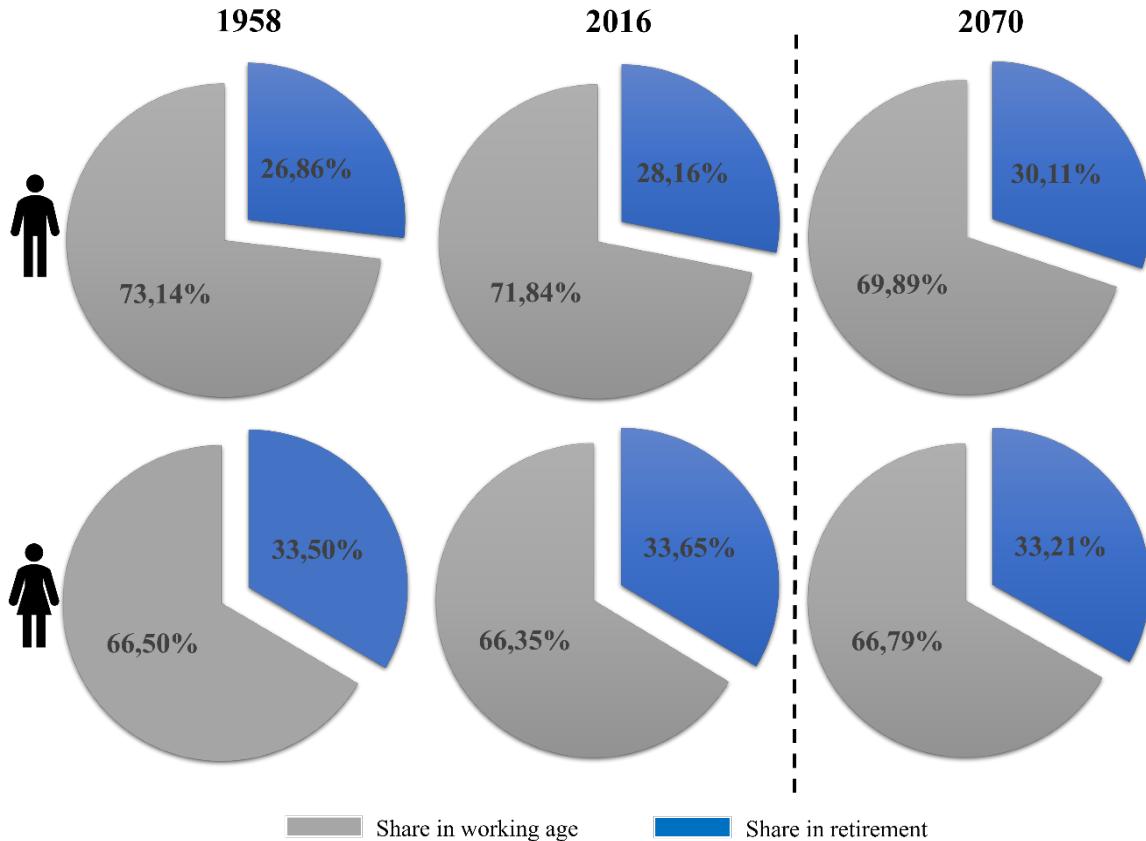
By raising the statutory retirement age, the Romanian population will participate longer in working life, which will reduce the financial burden. There are two effects: longer working life and shorter time for receiving benefits. The aim is to improve the financial sustainability of the pension system. The justification for the measure is that the ratio of working time to retirement time should remain constant. This ratio would otherwise shift due to increased life expectancy and, without adjustment, would be unilaterally at the expense of the younger population. This is a political approach that has already been seen in neighbouring Hungary. On the other hand, in Hungary, the legal-regulatory equality of men and women is already further advanced, at least as far as the statutory retirement age is concerned (Dörstelmann 2020: 315).



Source: own calculation; according to OECD (2011: 30), OECD (2019: 28), European Commission (2018: 56), United Nations (2019), Láng (1997).

Figure 7: Relation of working time to retirement time related to average adult life in Romania

The data analysis in Figure 6 disputes the approach according to which women and men's retirement age would only be adjusted to the increased life expectancy. The relationship between working time and the retirement age has shifted significantly. As a result, the proportion of retirement has decreased for both women and men, despite rising life expectancy (see Figure 3). For men, the proportion of life in retirement fell from 29.93% to 25.19% between 1958 and 2016. For women, too, the proportion of retirement has fallen by 3.94 percentage points to 36.19%. These numbers show that both sexes will have to work longer in the future. Furthermore, it becomes apparent that women and men will have to work more than they gain relative to average life expectancy. This discrepancy is somewhat more pronounced in the male population. To sum up, there is a gender gap due to different life expectancies and different retirement age regulations. In 1958, women in Romania spent an average of 10.2 percentage points more time in retirement than men. This gender gap remains at 10 points in 2016 and has therefore been constant.



Source: Dörstelmann 2020: 316.

Figure 8: Relation of working time to retirement time related to average adult life in EU 27

Figure 7 shows the ratio of working time to retirement time in reference to an average adult life within the EU-27. Comparing the data with the Romanian numbers (see Figure 6) reveals further country-specific characteristics. First, it is noticeable that in 1958 the retirement time for women and men was above average in Romania. This result is due to the low retirement age during the communist era. If we look at the women's values, we see that working time to retirement time in Romania is in line with the European average. A similar picture emerges when comparing the male population's values, although they experienced a disproportionate reduction in their retirement time between 1958 and 2016. Finally, the forecasts indicate that the convergence process already underway within the EU will continue in the future.

In summary, the data give a first insight into the fact that women and men are burdened differently within the Romanian pension system. The gender-specific discrepancy between the pension periods is the first indication of this. It also points out that the increase in the retirement age was more than an adjustment to rising life expectancy. The gain in a lifetime experienced by the population is disproportionately added to working life. It should also be noted that due to the country's communist past, in the 50s, a relatively low retirement age was applied in Romania. Although the proportion of retirement time for men is currently below the European average and that for women is above it, there is a trend towards a convergence of Romanian numbers with those in the European Union. However, the question arises as to whether this finding, based on nationally aggregated data, also holds up at the regional level.

C. Regional Perspective - Relation of Working Time to Pension Time NUTS 2 level

The following regional perspective in Figure 8 reveals disparities both between regions and between the sexes.

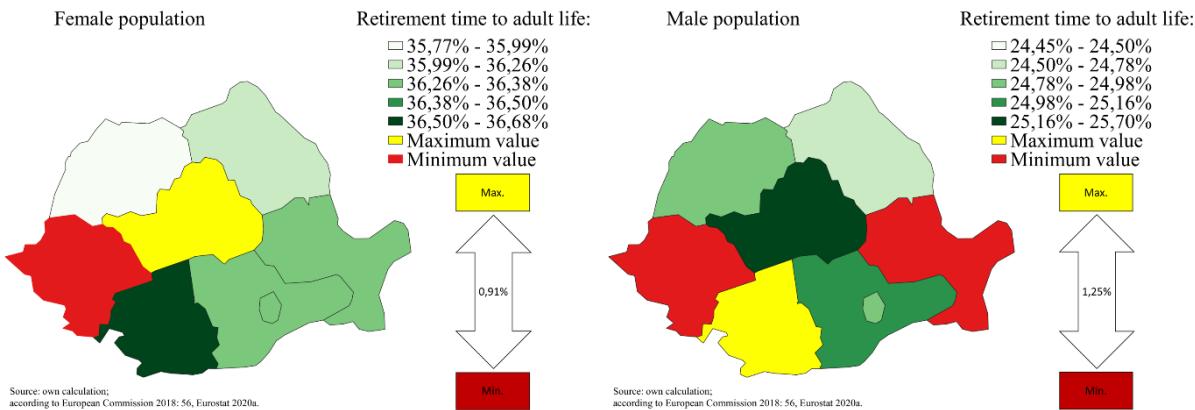


Figure 9: Length of retirement as a proportion of the adult lifetime at NUTS 2 level

The differences become evident by looking at the extreme values: The most extended relative retirement periods concerning an average adult life are for women in the NUTS 2 region Centru (RO12) with 36.68% and the lowest in Vest (RO42) with 35.77%. There is a range of 0.91 percentage points, which women in Centru spend longer in retirement than women from Vest. For men, the most significant regional differences are between the Sud-Vest Oltenia region (RO41) and the two regions Vest (RO42) and Sud-Est (RO22). Men from Sud-Vest Oltenia spend 1.25 percentage points more time in retirement concerning their adult life than men from Vest and Sud-Est.

Thus, the empirical findings underline that there are regional differences in the relative length of retirement periods between the NUTS 2 regions of Romania, despite the uniform regulations. This research result is empirical evidence for the regional differences in the burden resulting from the interplay between the statutory retirement age and regional life expectancies. After all, citizens spend varying lengths of retirement relative to their life expectancy in different regions. As a result, although the same retirement age applies in all Romanian regions, citizens receive pensions of relatively different lengths. The greater the regional differences in average life expectancy, the greater the relative burden on regions with lower life expectancy. Thus, the research question posed is affirmative, and the first hypothesis is confirmed: NUTS 2 regions in Romania are burdened differently. This needs to be considered if further increases in statutory retirement age are to be discussed.

However, the overall picture also includes the fact that regional differences are low, at 0.91 percentage points for women and 1.25 points for men. This means that the average life expectancies in the regions are close together. This result can be interpreted as an indication of comparable living conditions with only minor differences. On the other hand, the gender gap is evident. A comparison of the regions with the maximum and minimum values of women and men reveals significant differences. The difference between the maximum values is 10.97 percentage points, and that between the minimum values is 11.32 points. This result leads to consequences for political measures regarding the increase of statutory retirement ages both at the regional level and in terms of gender.

On the one hand, empirical evidence suggests that the EU and Romania's ratios continue to converge. This is due to further increasing life expectancies. Accordingly, national, and European support should be continued to strengthen regions.

On the other hand, there seem to be pronounced gender disparities in Romania concerning retirement length. This is partly due to the legal and regulatory framework. It has been shown here that political measures have already been introduced to align the pension system's statutory retirement age (Figure 5). However, the difference is mainly due to the gap in average life expectancy. This gender gap must be considered in future reform approaches to the pension system. In any case, approaches should be pursued that aim to close this gap in life expectancy.

V. CONCLUSION

It has been argued that cost increases for the entire society accompany the ageing of the Romanian population. One way to reduce these costs is to increase the statutory retirement age. The study shows that corresponding political measures have already been taken. However, there is a lack of information regarding the regional impact and gender-specific conditions resulting from the increase in the statutory retirement age. In order to close this research gap, the question has been answered in this paper: How do increases in the statutory retirement age in the Romanian pension system affect the ratio of working time to retirement time at the regional level and differentiated by gender? During this, the hypothesis was tested, according to which Romanian citizens at NUTS

2 level are differently burdened by the increase of the statutory retirement age. Another hypothesis tested how gender-specific disparities and legal-regulatory differences affect men and women's participation in retirement life.

The central result is that due to the differences in average life expectancy and the statutory retirement age, women and men participate in pension life for different periods. Disparities in average life expectancy between the sexes are very pronounced. In particular, men's average life expectancy should be increased if the retirement age increases further. Furthermore, it was shown that the increase in the retirement age is more substantial than the increase in average life expectancy. As a result, the proportion that the population spends in retirement is decreasing. This applies to both men and women. However, it was also pointed out that the values are approaching the European average in the long run. Regional differences regarding the time spent in pension within the sexes were not strongly pronounced. Nonetheless, these were present. This means that some citizens contribute more to Romania's old-age security than other regions depending on the regions.

Consequently, a policy implication is to balance regional and gender disparities if the retirement age is to be raised further. Ultimately, this convergence of living standards requires investment in the regional equivalence of living conditions to advance gender equality in terms of average life expectancy.

From these remarks arise many starting points for further research. On the one hand, different variables should be examined concerning gender-specific differences. Likewise, new questions arise regarding the causes of the identified regional disparities. Furthermore, the model could be scaled up to all European NUTS 2 regions to expand the empirical database.

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Training Community Parents for Employment and Social Innovation: An Example from Austria

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Abstract

As one of the most significant global displacement crises, the Syria crisis created millions of refugees some of whom arrived in Europe in recent years in big numbers. Due to these recent refugee influxes, the already diverse demographical structure of European countries has gone through a change. As expected, this change introduced some steps to support the integration, language learning, and employability of the people who newly arrived. This paper introduces Community Parents Action, a step taken to empower immigrant parents by enhancing their involvement in the education and schooling of their children, and justifies the necessity of empowering parents from a migrant background by relying on the relevant research and theoretical discussion. The paper also tackles the importance of parental involvement of migrant parents and the challenges of migrants in terms of parental involvement, and the correlation of parental involvement and educational achievement. The underlying theoretical perspectives and relevant literature for the Action are discussed in this paper with a focus on educational attainment, economic integration and parental involvement.

Keywords: integration, migration, educational attainment, family involvement

1. Introduction

The world has experienced an unprecedented increase in terms of migration in the last decade. According to the data of the United Nations between 1990 and 2019, the number of people who hold the status of immigrants rose by 272 million (United Nations, 2020). This number accounts for 3.5% of the whole population in the world. On the other hand, migration has become a more complex phenomenon due to the increasing diversity of people who are immigrating. This complexity has affected both parties, namely, the countries that are receiving immigrants or losing their population. As Czaika and de Haas (2014) explain, the traditional categories of immigration or emigration countries are not valid anymore either. For example, Europe, the continent of emigration in the previous centuries, has been a hot spot for immigration for several different reasons, including wars, need for the workforce, new country borders due to partition etc. These reasons stem from the European continent while sometimes from other continents.

In recent years, the big part of immigrants settling in Europe are refugees. For example, the Syrian conflict has been a reason for a large number of refugees heading towards Europe starting from 2012. Eurostat's (2020) data shows that Europe welcomed about 3.9 million refugees only in 2018. It can be said that the majority of these are the ones who had to leave their country due to the conflict there. According to the United Nations' numbers, Europe hosts mainly Syrian refugees. However, the source of the refugee population in Europe cannot be limited to the Syrian war. Ongoing violence and unrest in different parts of the world such as in Afghanistan, Venezuela or Bangladesh, is another source of the refugee population in Europe.

Big inflows of refugees bring social, cultural, and economic consequences, including whom to call a refugee. United Nations defines refugees as "persons who, because of the well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion, are outside the country of their nationality and are unable to return" (Paola and Brunello, 2016 p.7). Due to their sensitive and life-threatening situations and long term plans to settle in the host countries, refugees pose different issues rather than immigrants. Hence, prompt actions should be introduced to facilitate smooth and quick social and economic integration for refugees. In this paper, refugees, people from a refugee background or people with a refugee background are used interchangeably.

Actions that have targeted immigrant integration in Europe have also the responsibility of attending to refugees. Several countries in Europe adopted policies and practices to be able to accommodate the needs of people from a refugee background along with people from a migrant background. However, as Europe has been a hotspot for immigrants, with or without refugee status, several European policies, practices, and actions have been migrant-oriented. Austria, like several other European countries, has welcomed a big number of immigrants since the '60s and people with refugee experiences mainly since the '90s. Currently, 20.7% of the whole population are considered as people from a migrant background in Austria (Statistik Austria, 2020). The immigrant-coloured demographic structure of the country yield to initiations, actions, planning and adjustment to create social harmony and to facilitate the smooth integration of people with a migrant background.

This paper tackles one of such actions that target boosting social and economic integration of newcomers through education-related initiations, namely, Community Parents Action. The Community Parents Action in Austria, planned under the framework of the project Fast Action Boost, aims to increase the knowledge of parents about school and education-related topics and to create empowered and knowledgeable parents with migration background who can act as community leaders to inform and train other parents. The project targets a smooth transition to the job market and economic integration profiting from the empowerment that the Action offers to parents in terms of knowledge access and opportunities to achieve the potential as well.

2. The Action to Empower Refugee Parents

In line with the necessity of supporting refugee parents due to their challenging experiences and long term settlement plans in the host country, several projects and actions have been launched in Europe; and Community Parents Action is one of them. Community Parents Action takes place within the framework of the main project Fast Action Boost (FAB) which is financed by the European Programme for Employment and Social Innovation (EaSI). This program aims to promote employment that is high quality and sustainable and to ensure the social protection of people from a refugee background. Defeating social exclusion, poverty and poor working conditions are also in the scope of the main program. FAB includes nine partners from six different European countries and pursues an urban approach to accelerate the integration into the labour market for people with migrant backgrounds especially with refugee experiences. FAB focuses on launching activities and programs in the respective cities and aims to exchange partnership models for refugees. Sharing good practices after analysing them is one of the goals of the project. The project targets the development and implementation of at least one labour market-relevant pilot measure for the integration of refugees, especially women.

The Community Parents Action targets the improvement of parent-school collaboration, parental involvement in educational decision-making, and parent empowerment. The target group of the Action are parents who find the Austrian school system and the education system for their children as a challenge and who need support to come over these challenges. On the one hand, the new, complex Austrian system creates ambiguities and uncertainties for the parents, on the other hand, these ambiguities often form the basis for misunderstandings in schools. Hence, Community Parents Action does not target only individual empowerment and learning but also the increase in the active and functioning parent-school collaboration. Through a systematic but flexible process that allows working parents also to attend the training, a group of parents with a refugee/migration background will receive a 'Certificate of Proficiency' (CoProf) using a theory-practice model after completion of a multi-step training program and will be ready to transfer the knowledge to their community and peer parents.

Community Parents Action targets increasing knowledge and building the capacity of parents from a refugee background who were recently introduced to Austrian education and schooling system. Parents' increased knowledge about how to guide their children through educational paths is targeted. Besides, Community Parents Action aims to enable quicker job market integration of parents from a refugee background by raising awareness about further education systems and by building self-confidence under the guidance of trainer parents. Hence, the economic integration of immigrants, educational achievement in the context of migration and parental involvement of parents from a migrant background are key topics that build the background of the Action.

2.1. Economic Integration and Reproduction

It is known that the economic growth of a country has a direct connection with the nation's educational outcomes. What students know and can, therefore, is very important for economic prosperity in a country (Hanushek and Wößmann, 2011). Academic achievement is an important step for migrants in terms of economic independence and growth. The increase in the educational attainment of immigrants would create a chain effect in terms of increasing the economic integration of second-generation immigrants. However, studies show that in Europe immigrants are less educated and suffer from unemployment and lower wages more than natives suffer (Crul et al., 2019). The educational achievement gap between the migrants and natives, on the other hand, creates an important issue for the countries. Several countries still experience challenges to integrate immigrant families and their children into the educational system and to support them in terms of economic integration (Algan et al., 2010). The persistent challenges in these matters create a recession in terms of intergenerational mobility among immigrant communities where limited income and low educational achievement are reproduced (Cobb-Clark, Sining and Stillman, 2012).

Research shows that first-generation immigrants have lower education than second-generation immigrants as well as second-generation immigrants lower than native peers do (Raabe, 2019; Van Ours and Ohinata, 2011). As first-generation immigrants mainly arrive in the host country at an age after school, the investments, policies, and action target the second-generation immigrants to boost their educational achievement. The investment for first-generation immigrants stays at a level of integrating the newly arrived to learn the language and the culture of the host country to an extent where they can get integrated merely into the job market. This, however, impedes the improvement of human capital not only individually but as a family. Human capital is an important factor for economic success and naturally for economic integration in a host country for immigrants (Singer, 2012). For the integration process of immigrants, human capital plays an important role in that it influences both the employment chances and the amount of income both of which are important for socio-economic integration. Investment in human capital would mean better life standards, self-confidence, improved skills and talents for the migrants in a country, which will also lead to opportunities

to support the family sources for educational achievement. The accumulation of human capital starts at an early age and first-generation immigrants mainly start accumulating human capital in their home country. This can continue in the host country and additional investment in training or education for first-generation immigrants can pay off to break the reproduction of low economic and educational achievement among migrants (Docquier and Marfouk, 2006).

2.2. Educational Attainment for Immigrants

In many European countries, students from migrant backgrounds show lower educational attainment than native peers do (Dronkers and De Heus, 2012; Ledwith and Reilly, 2013; Ohinata and Van Ours, 2012; Shapira, 2012). The discrepancies among the test scores of immigrants and natives, especially, in languages and math, can be traced back even for the second-generation immigrant children. As education is mostly affiliated with the quality of future socioeconomic conditions, educational achievement can give valuable hints about the future socio-economic conditions of these groups in the host country. Hence, the association between educational achievement and the factors that influence them have been the topic of research for a long time in the immigrant context (Rumberger, 2010). In the literature, several factors such as the socioeconomic, cultural, environmental, and psychological factors were found to be linked to immigrant-origin children's academic performance in school. Some other factors may include, home language (Chiu, Pong, Mori and Chow, 2012), family socioeconomic status (Sung, Suk-Young, and An, 2009), academic motivation (Aarepattamannil, 2012), parental monitoring (Scott, Andrew, Sands, and Brian, 2009), school-based positive supportive relationships (Su'arez-Orozco, Pimentel and Martin, 2009), or student perceptions of school climate (Su'arez-Orozco, Gayt et al., 2010). However, research, on the other hand, showed that none of these factors can account on its own for this discrepancy of educational attainment for migrant children. Linear explanations should be avoided and holistic perspectives should be adopted.

An example linear explanation is the excessive focus on socioeconomic status and its effect on the educational attainment of immigrant children. Social and economic resources that a family has may result in differences regarding educational achievement. For instance, poverty can make it difficult for many parents of migrant background to see a better future for their children even with better education (Portes and Rumbaut, 2001). Similarly, several studies (Dustmann, Machin, and Schönberg, 2010; Fuligni, 1997; Wilson, Burgess, and Briggs, 2005) tackled the academic achievement and its relation to students' socioeconomic status. However, several studies revealed that there is a weak relation of family's socioeconomic status to educational attainment for students from a migrant background and socioeconomic status does not account for the achievement gap between students from a migrant background and their native peers (Azzolini, Schnell and Palmer, 2012; Kingdon and Cassen, 2010; Lenkeit, Caro and Strand, 2015; Strand, 2014).

As socioeconomic status falls behind explaining the educational attainment of children from a migrant background, the research adopted other methodologies to predict the educational attainment of these groups. Luthra and Soehl (2015) suggest that the economic, cultural, and social capital of the families are better predictors of attainment than socioeconomic status. Social capital is an important perspective (Coleman, 1988) that we can employ to understand the cultural differences' impact on academic success or the given importance of schooling. This perspective points to the importance of culture and social class that can influence the qualities that individuals possess and that constitute their attitude towards education and academic achievement. In light of this perspective, Aldous (2006) points out that cultural beliefs can affect the value that parents place on their children's education and parent-child interactions concerning schooling. In addition, social networks play an important role in educational outcomes next to cultural beliefs as they have an impact on cultural and social life (Modood, 2012). Social networks are known to be tighter for migrants and ethnic social networks can provide an environment for their children that affects educational attainment (Basit, 1997; Goulbourne and Solomos, 2003). These social networks can be regarded as resources that are mobilized to transmit values and aspirations to the next generation (Basit, 2012; Modood, 2012). For instance, social networks can be used to gain information about the education system and the conditions of the contemporary labour market in the host country. However, social networks may fall behind of providing the required information and support about educational opportunities, further education or schooling system as such information may not be easily available to immigrants so easily (Shah et al., 2010).

Another perspective can be the parental expectations and parental aspirations (Fuligni and Fuligni, 2007) that should be discussed beyond socioeconomic factors in terms of affecting the educational attainment of children. Parents' aspirations can be described as the parents' wishes for their children to receive good grades in school and to pursue education beyond compulsory schooling. The academic success of children from a migrant background has been found to have a positive correlation with parents' aspiration and motivation. As Aldous (2006) discusses, parents' aspirations for the education of their children have a positive impact on the aspiration of the children for their education, as well. There is growing evidence that parents from a migrant background have higher expectations and aspirations for their children's educational attainment than native-born parents (Raleigh and Kao, 2010). Furthermore, like Raleigh and Kao (2010) point, immigrant parents are more likely than native-born parents to maintain high expectations and aspirations for their children's educational attainment over time. Similarly, the results of the study by Aarepattamannil and Lee (2014) indicated that immigrant parents hold high expectations and aspirations for children's educational attainment, and these expectations and aspirations are related to their children's school performance. This shows a positive and interdependent correlation between the academic success of the children and the parents' aspirations and expectations.

Parents from a migrant background are inclined to have concerns about their children's education and they seek opportunities to support them in line with their expectations (Fuligni, 1997; Su'arez-Orozco et al., 2009). As Fuligni and Fuligni (2007) point, "regardless of their countries of origin, foreign-born parents believe in the importance of doing well in school and attempt to instil such an attitude in their children" (p. 236). This attitude can be affiliated with the fact that immigration is an arduous journey (Su'arez-Orozco et al., 2009). Immigrant parents may develop the belief that the best way to succeed in the new country for their children is to strive academically and pursue a good career (Fuligni and Fuligni, 2007).

Immigrant parents may consider education and educational success as a means to reverse the initial downward mobility that these parents had experienced through migration (Modood, 2012). Bauer and Riphahn (2006) suggest that the higher expectations and aspiration of immigrant parents result in higher intergenerational mobility among immigrants than among natives. They base this perspective on their research that found a significant hike in the academic achievement of second-generation immigrants when compared to first-generation immigrants or natives from families with higher expectations in terms of academic attainment.

In parallel to the aforementioned factors that are linked to the academic achievement of children from a migrant background, immigrant parents face challenges including cultural, linguistic, and psychological challenges in the form of social, economic, or environmental stressors in the journey of supporting their children's education and academic life (Katsiaficas, Su'arez-Orozco, Sirin and Gupta, 2013). For example, language barriers may be challenging for parents from a migrant background (Strand, 2014), or institutional discrimination may play an important role as well (Gillborn, 2005). Research has indicated how the lack of opportunities in the new country for children from a migrant background may change and affect the parents' thinking in terms of the academic success of their children. The less advantaged parents may encourage their children to get jobs, marry, and have children early (Suárez-Orozco and Suárez-Orozco, 1995), which can be considered as a shortened path to adulthood.

2.3. Parental Involvement

There has been a great number of efforts to define parental involvement across different contexts. Parental involvement is mainly understood as involvement in school-based activities such as attending teacher-parent conferences, committee service, voluntary work etc. Besides, home-based activities such as supporting students in their homework and tasks can also be understood as parental involvement. On the other hand, parental involvement includes parents' engagement in decision-making, and school leadership (Bolivar and Crispeels, 2011). One of the most comprehensive definition was provided by Feuerstein (2010). Feuerstein (2010, p.29) explains parental involvement as "parent involvement encompasses a broad range of parenting behaviour, ranging from discussion with children about homework to attendance at parent-teacher organization (PTO) meetings".

Regardless of its definition, parental involvement in education can promote a wide range of benefits including lower dropouts, higher resilience, higher academic achievement, and higher engagement in extracurricular activities (Park and Holloway, 2013). The engagement of parents in education has a positive impact on the academic success of children. Parental involvement yields more motivated learners, higher educational aspirations and better academic achievements (Cheung and Pomerantz, 2012; Day and Dotterer, 2018; Park and Holloway, 2013). The success of parental involvement is to observe from early childhood education age and through all education careers. It promotes social and emotional skills and enhances the motivation to learn (Mena, 2011). School attendance can be more regular and students' attitudes towards school can be positively affected by regular parental involvement. Therefore, the academic literature has been paying attention to the research dedicated to informing and increasing parental involvement. Several administration plans, government development plans and programs have introduced increasing parental involvement as a central goal of their programs and agenda (Park and Holloway, 2013).

The efforts, planning, and encouragement to increase parental involvement, however, may not be enough to achieve this aim. Parental involvement cannot be performed by all parents at the required level. Several factors, such as employment situation, language competence, socio-economic status, play a role in the process of parental involvement. A few studies have been conducted to investigate the parental involvement dynamics across parents with different backgrounds. The reason can be that different parental backgrounds result in different understandings about the necessity of parental involvement and in different types and frequencies of parental involvement. Studies have found that long-term unemployment, regular low-income, or being a minority or being immigrants play a big role in parental involvement (Lee and Bowen, 2006). In addition, being a member of a specific culture or immigrant group, cultural or socioeconomic factors influence parental involvement and the way parents get involved (Turney and Kao, 2009), too.

The relevant literature shows a correlation between the educational level of parents, their employment status, and their involvement in their children's education. As discussed by Leong, Berzin and Hawkins (2019), parents with more education are more likely to be employed and with higher levels of employment ends up in increased involvement in education. They explain this phenomenon as when a parents' education leads to employment, this may lead also to higher expectations from education, which brings involvement in their child's education. As immigrant parents are known for their motivation to get good jobs and attainments in the host country (Byun and Park, 2012), parental involvement is specifically a topic to be discussed in the immigrant context, which can bring new insights.

2.3.1 Parental Involvement in the Immigrant Context

The recent movements of people globally have increased our need to understand how the change in demographics influences schooling, the interactions among parents and schools, and the cooperation between parents and schools (Koyoma and Bakusa, 2017). Similarly, such changes reflect on the parental involvement and attract the attention of the research to investigate the effects, challenges and benefits of parental involvement for children from a migrant and refugee background. As Jaynes (2003) discusses, parental involvement benefits all students but especially minority and immigrant students. The higher dropout rates and lower academic achievement among immigrant students in several countries have shown that immigrant and minority students still fall behind their native peers (Goldsmith and Kurpius, 2018). When the positive outcomes of parental involvement are taken into consideration, the academic achievement and resilience of immigrant students can make use of effective parental involvement. The research indicates the emergence of beneficial, assertive interactions between parents and school personnel that improve schooling for migrant children (Jasis and Marriott, 2010). In this process, providing support and encouraging the immigrant parents through state-funded programs as well as school outreach to parents in terms of parental involvement can increase the involvement to the required level and in the required way (Park and Holloway, 2013).

According to the research of Lee and Bowen (2006), immigrant and/or low-income parents get involved less than other families in a given definition of parental involvement. However, this may not mean less interest in education. When analysing the patterns of parental involvement among different groups of parents, several factors and barriers should be taken into consideration. Immigrant parents have mainly high aspirations and expectations for their children's academic achievement (Calzada et al., 2015). These aspirations and expectations may diverge among the immigrant groups or within the groups based on several background variables such as education level, income, or cultural understandings or values, though. Immigrant parents, hence, may try and manage to be involved in different ways than expected by teachers. For instance, diverse cultural beliefs and practices may shape how parents contact teachers or whether to shake hands or bow when they meet or whether offer teachers gifts or arrive punctually for meetings (Flaitz, 2006). Disputing with teachers, judging teachers' opinions, or stating own ideas can be also affected by the culture of the parents. Hence, the parental involvement for the parents from a migrant background should be understood concerning more complex social and cultural aspects, otherwise, it may lead to some assumptions and preconditions.

In line with the aforementioned argument, ethnicity and socioeconomic situation play an important role in determining the patterns of parental involvement (Al-deen and Windle, 2015). The endorsement of the importance of education, expectations from education, levels of home-based or school-based involvement vary among different groups of parents from different backgrounds. However, an important factor is the barriers that immigrant parents face to be more involved or involved at all. When the migrant background and low socioeconomic status are combined, parents may experience some barriers to their involvement. These barriers can be a result of cultural mismatch, hesitation, trust, language, logistic barriers etc. (Calzada et al., 2015). Similarly, immigrant parents vary from each other in terms of the reasons for their involvement (Day and Dotterer, 2018). Some may be involved for moral support while some others for academic support or some may target both.

Research has concentrated on the immigrant groups and investigated the attitudes towards parental involvement across different immigrant groups as well. The study of Hunstinger and Jose (2009) showed that Chinese-American parents' involvement is mainly in home-based activities such as helping with home assignments. The same study showed that European-American parents are more likely to do a voluntary job in schools. On a similar topic, Chung (2012) studied the experiences of Korean mothers about parental involvement. In this study, it was found that Korean mothers, contrary to expected from immigrant parents, employed negotiation and several strategies to be heard by the school bodies and to be involved more.

However, generalizations among the immigrant or minority groups about parental involvement can be misleading as there are several confounding structural elements (Yamamoto and Holloway, 2010). Language, trust, and familiarity with the school system can be some of these confounding aspects. Socioeconomic status is another confounding aspect that has extensive connections with parental involvement regardless of migrant or minority background (Park and Holloway, 2013).

Research on the involvement of immigrant parents has focused on the barriers that parents face and on how to explain different patterns of involvement among immigrant parents. In the study of Al-Deen and Windle (2015), the involvement of migrant mothers in the education of their children has been studied. This study showed that cultural capital has a strong influence on parental involvement. Another important finding of this research is the family dynamics before immigration. Previous occupation, gendered disadvantages for women, and family economic relations were all found to be relevant for the parental involvement post-migration.

Immigrant parents face several barriers to be involved in school-based events or home-based support. Their engagement both in home-based and in school-based activities can be challenged due to several factors. One of the challenges is the lack of comfort with the language of the host country (Ramirez, 2003). In the case of language incompetence, immigrant or refugee parents may need interpreters for their communication with the school. This also limits their academic support for their children. On the other hand, lack of language competence may create the feeling of being disapproved and disempowered which keeps the parents away from engagement (Georgis, Gokiert, Ford and Ali, 2014). The study of Al-deen and Windle (2015) with immigrant mothers showed that mothers with more mobility freedom tend to speak the language of the host country better and this results in a broader social network, self-confidence and more parental involvement and parent-school interaction, which increase the academic achievement.

Logistical barriers, on the other hand, form another group of factors that affect parental involvement. Access to schools and being engaged in school-based activities may require transportation or time. Being full-time employed, having no childcare facility for the other siblings, being able to use public transportation to reach school are some of these factors that should be considered as relevant points during the discussion of parental involvement (Turney and Kao, 2009).

Apart from language or logistics, other factors have an impact on the parental involvement of immigrant parents. Unfamiliarity with the expectations of the schools, teachers and education systems in the host country can affect the relationship between parents and schools. From a historical understanding, we can expect that migrant and minority parents may have experienced unfair treatment, misunderstanding and discrimination more than other parents and that may have created a feeling of mistrust. The mistrust can keep parents away from schools. However, the schools have the tendency to evaluate the amount of parental support with the amount of their involvement in school activities and their presence in the school environment (Georgis, Gokiert, Ford and Ali, 2014), which may end up in false generalizations.

The different attitudes of immigrant parents towards parental involvement may result in some misunderstanding. Teachers may interpret the limited parental involvement as a lack of interest, motivation or value for the education (Allen, 2011). Interpreting the differences in parental involvement based on the cultural differences, background information and minority group may lead to generalizations that may cause stereotypes and marginalization. This can harm the parent and school interactions (Koyoma and Bakuza, 2017). However, as Park and Holloway (2013) discuss, not being in the school may not mean any parental involvement at all. These parents can be engaged in home-based activities rather than at the school site to compensate for their absence from schools. As Day and Dotterer (2018) found in their research, immigrant parents show great interest in being involved in home-based involvement and this involvement appeared to be beneficial for educational attainment among immigrant children. Hence, it is important to support immigrant parents to be involved more to profit from it.

On the other hand, the research with immigrant parents shows that there are different understandings of parental involvement among immigrant parents. Being present in school, taking an active part in school activities, involvement in homework, or regular communication with teachers are some of the norms among the parents. However, these norms are influenced by the interactions among immigrant parents and teachers. Bolivar and Crispeels (2011) found that immigrant parents benefit from their involvement to a limited extent if they are not appreciated by the school authorities and teachers. Their involvement may stay at the level of being present but does not affect any decision-making process at school if they are not encouraged. Similarly, the study of Doucet (2011) points out that immigrant families' engagement in school is less valued and these families are considered as needing help or encouragement from schools to engage in schools. This deficiency-oriented perspective may yield to mainstreaming and marginalizing immigrant parents by denying their interests, values, and knowledge.

Another reason for the misconception of parental involvement among immigrant parents can be the invisibility issue. As Goldsmith and Kurpius (2018) discuss, the involvement of immigrant parents is less visible than the involvement of other parents most of the time. Immigrant parents' physical existence, efforts for academic support, or participation in school events may not be recognized due to their limited engagement in decision-making processes, not taking part in the administration of parent associations or less communication with teachers or school principals.

Besides, the understanding of the involvement of immigrant parents suffers mainly from static notions of culture and norms of society. With these norms, parents are considered as passive characters who are in the recipient position who should adjust to the new education system and who should adopt it (Koyoma and Bakuza, 2017). However, immigrant families bring new perspectives, different experiences, and expectations with them. Their engagement can re-shape the norms about parental involvement and bring new insights to the school-parent relationship. Hence, attempts to increase parental involvement among immigrant parents is crucial.

2.3.2 Parental Involvement in the Refugee Context

The relevant literature has paid attention to immigrant parent involvement in recent decades; however, less attention has been given to the involvement of refugee parents (Georgis et al., 2014). Refugee parents, however, should be tackled as a distinct group of parents due to their aspirations and motivations for immigration. When compared to other immigrant parents who mostly leave their countries voluntarily and relatively in less challenging conditions, refugee parents mainly escape conflict and life-threatening situations. Unlike most immigrants, refugees leave their homelands, usually abruptly, owing to the fear of persecution because of their religion, nationality, membership in a social group, or expression of political opinion (Rutter, 1994).

As McBrien (2011) discusses, many resettled refugees have either no or very limited experience with schools and formal education systems, which requires support and encouragement in the host country. Therefore, many recent refugees arrive in the host countries unprepared in terms of school systems. In the case of refugee parents, additional life challenges make parental involvement especially difficult. Research conducted with refugee parents shows that apart from cultural understandings of parental involvement, logistics issues, or language, refugee parents confront several other challenges due to trauma, loss of loved ones or torture (Lewig, Arney and Salveron, 2010). Refugee parents may find it challenging to support their children in their education because of their severe emotional distress, lack of language and education, low socioeconomic status, and cultural integration problems (McKay, 1993).

On the other hand, refugees have experienced repressive governments and they have had to deal with lengthy bureaucratic procedures in their resettlement process. Hence, as Earner (2007) suggests, this ends up in distrust of refugees in authorities including school authorities. This trust issue gets combined with the lack of experience about schools and both can extend to less or no parental involvement. Thus, the success of refugee families' involvement depends on the supports they receive in the host country. Outreach to refugee parents can be an effective and necessary route to achieve success academically among refugee students.

Thinking that immigrant parents are not interested in the education of their children and that they are uninvolved should be considered as a harmful and pervasive myth (Giles, 2005). Instead, the required steps should be taken to increase the engagement and to overcome the challenges that keeping immigrant families away from getting more involved both in school-based activities and in home-based activities. The study of Goldsmith and Kurpius (2018) showed that the immigrant parents' effort to help their children achieve academically does not depend on a high income or high levels of parent education. The efforts were found to be rooted in their culture and influenced by the outreach of educators and school authorities. This study pointed to the necessity of the initiatives for engaging parents. Also as Jarmuz-Smith (2011) discusses, providing meaningful engagement opportunities is the key to parent involvement. These opportunities should offer concrete emancipatory ways for parents to build knowledge of the education system, school settings, and involvement possibilities and to build the capacity for further involvement in the educational system.

However, there are some requirements that programs should adopt when trying to engage parents. Firstly, these programs should be in line with the cultural aspects. The efforts to engage refugee parents should be culturally responsive and should invite collaboration more than integration. Culturally accepting and appealing practices would encourage refugee parents to participate in such programs (Rivera-Singletary, 2010). On the other hand, the factors that impede immigrant parents' involvement should be targeted by these efforts too. Family responsibilities, no help for childcare, language issues, mobility problems, long working hours, or gender-related hesitations are some of the obstacles that the initiations should outcome (Rivera-Singletary, 2010).

3. Conclusion

The relevant literature as well as recommendations of international organisations and the global players engaged in the discussion of immigrant integration point to several important aspects that should be taken into consideration while planning programs for enhancing immigrant integration (Al-deen and Windle, 2015; Bolivar and Crispeels, 2011; Turney and Kao, 2009). As it is discussed, it is very important to offer opportunities that can assist refugee parents and immigrant parents who are first-generation migrants to accelerate the re-accumulation and re-improvement of their human capital. Due to missing educational background and challenging economic and social conditions, parents may have not developed the required competency to support their children, which can be aggravated due to immigration and settlement in a foreign country where language skills add up to the existing challenging situation (McBrien, 2011). The training programs should enable fellow refugee parents to come together and increase their knowledge about the key elements of education and schooling system of the host countries as well as further education possibilities for themselves as well as for their children. Supporting parental involvement and motivating parents not to give up on their children's educational success should be an important role of the host countries.

Besides, several immigrant groups are characterized by their strong social bonds with their own cultural group and they are criticized of being socially embedded in these groups and less engaged in the integration efforts. However, as several scholars (Ferlander, 2007; Lancee, 2012; Putnam, 2007) explain, the lack of opportunities to get informed about and engaged in host country's culture, health, social or political system as well as educational provisions may lead immigrant groups to turn into ethnic groups or immigrant fellows with the hope of getting the required support to settle in the new country. Hence, reaching immigrant groups that are embedded in wide social networks, such as the Syrian refugee community in Austria, can be paramount to increase awareness about the education system and demands of the social, economic and political integration. Community Parents Action, in line with this notion, creates opportunities for members of immigrant social networks to develop capacity and to expand the acquisition to their wider network. In addition, programs should employ a culturally sensitive methodology that engages parents from a migrant and refugee background as trainers, consultants and capacity builders for fellow immigrant parents. That would allow to mobilize a number of immigrants through already existing social networks of the immigrant groups (Modood, 2012).

Given the positive influence of parental involvement on academic achievement and development, the programs for integration should intervene in the malfunctioning cycle of inheritance of education in vulnerable families from migrant or refugee backgrounds (Day and Dotterer, 2018; Koyoma and Bakuza, 2017). By engaging parents or legal custodians of the unaccompanied refugees via consultation programs and training for capacity building, higher success in academic achievement and indirectly in labour market integration for immigrants can be achieved (Macias and Paniagua, 2018). Hence, parental involvement should be a cornerstone of the programs offered to refugee and immigrant parents. Programs are suggested to provide consultation and helps families be more involved and persistent in terms of supporting their children's education by building upon the existing high expectations of migrant parents. The involvement of mothers is especially targeted as the Action adopts an emancipatory expectation from the project activities for the female migrants and refugees. Community Parents Action pays special attention to include female refugees and migrants and to encourage them to get involved in the decision-making processes of their labour market options and their children's education and future.

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The States in Digital Era: Internet Governance and Improving E-Democracy

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Abstract

This paper will make theoretical overview of internet governance and its implementation as a global politics goal for the states. As known, internet governance is the complementary development and application by governments, the private sector, civil society and the technical community, in their respective roles, of shared principles, norms, rules, decision-making procedures, and activities that shape the evolution and use of the Internet.

In the paper is given focus of digitalization as a common global political priority for the states, as well as theoretical descriptive overview of the shared recommendations from the United Nations and Council of Europe related to implementation on internet governance.

The paper will emphasize as well on building on line democracy, as well as on improving and straightening e-democracy, protecting human rights and rule of law in digital era.

At the end of the paper, we conclude that the power of Information and Communication Technologies have a great potential to accelerate human progress, to ensure that public policy for the Internet is people-centred in order to build democracy online, to protect Internet users, and to ensure respect and protection for human rights online. We will also conclude that in future is also important for the states to ensure that public policy for the Internet is people-centred in order to build democracy online, to protect Internet users, and to ensure respect and protection for human rights online.

Keywords: digital government, on line democracy, global interconnectedness, human progress, freedom of expression

1. Introduction

The Internet helps people to seek and share information, to stay up to date what is happening worldwide, but also educates people on democracy and supports their public participation in democratic processes as well as social, economic and cultural development.

According to United Nations (UN) the Internet governance is the development and application by governments, the private sector and civil society, in their respective roles, of shared principles, norms, rules, decision-making procedures, and programmes that shape the evolution and use of the Internet.

The United Nations 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs) have embraced the spread of Information and Communication Technologies (ICTs) and global interconnectedness as having great potential to accelerate human progress, to bridge the digital divide and to develop knowledge societies. Governments worldwide are now cognizant of the power of ICTs and digital government for the advancement and transformation of public institutions, and the public-sector landscape more broadly, and their service delivery capabilities.

Digital government can play a role in building effective, inclusive and accountable institutions to support policy making and service delivery for the SDGs. This UN division supports digital government development for responsive, efficient, effective and equitable delivery of public service to all people, building public trust and ensuring transparency, participation and collaboration in the development process.

In the context of the rapid pace and change in technologies relevant to digital government, this work is essential. ICTs are constantly evolving and are dramatically transforming societies, cultures and economies.

The world has seen rapid advancements and changes of technologies in the ICT ecosystem such as social media, big data and the Internet of Things. Mobile technologies and broadband connectivity, already common in developed countries, are now also extending rapidly in developing countries and emerging markets. Social networks have made profound changes and impacts on the

ways people interact with one another and with their governments. Open government data and cloud computing, coupled with the use of mobile devices, have further enriched the ICT ecosystem.

In the context of expression on line, there is increase in codes of conduct for behaviour on line.

The Council of Europe plays a pivotal role in ensuring that human rights apply online as well as offline. This principle has been anchored in the Council of Europe's Internet Governance Strategy for 2016-2019 (IG Strategy). So, on 30 March 2016, at its 1252th meeting, the Ministers' Deputies adopted the Council of Europe Strategy 2016-2019 on Internet Governance and mandated the Steering Committee on Media and Information Society (CDMSI) to oversee its implementation, in close co-operation with the Thematic Co-ordinator on Information Policy (TC-INF). They further noted that the Secretary General would provide them with a mid-term report on its implementation and a final assessment of the IG strategy (CoE, SG/Inf(2018)).

The overall aim of the IG strategy 2016-2019 is to ensure that public policy for the Internet is people-centred in order to build democracy online, to protect Internet users, and to ensure respect and protection for human rights online. In particular, the strategy is defined by a series of key actions and activities which seek to protect the freedom, privacy and security of Internet users and to empower and engage them as stakeholders in Internet governance dialogue. The strategy is being implemented over two biennium cycles (2016-2017 and 2018-2019), focusing mainly on the implementation of legal instruments, the development of new policy documents, and initiatives to raise awareness and build capacity. The Strategy underlines the importance of keeping the Internet open and free-flowing. It reminds us that it continues to be shaped by a variety of stakeholders which means that its governance is a shared responsibility, one which is multi-stakeholder. In other words, this means inclusive dialogue and co-operation between international organisations, private sector, civil society, academics, technical community and governments.

The effective protection and promotion of democracy, human rights and the rule of law in the digital world is a shared task and a common goal between many stakeholders. This necessitates partnerships and synergies with and between states, international organisations, civil society, the private sector, technical and academic communities. The Council of Europe will therefore review, strengthen and develop synergies and partnerships with key stakeholders, including the European Union; the Organisation for Security and Co-operation in Europe (OSCE); the Organisation for Economic Co-operation and Development (OECD); the United Nations (UN) and its agencies (UNODC), the International Telecommunication Union (ITU), cultural networks and representative professional associations, research and academic communities etc.

In this context, the Internet Governance Forum (IGF) is a multi-stakeholder forum for dialogue on public policy issues related to key elements of Internet governance. Since its first meeting, in 2006, the IGF has been convened annually by the United Nations Secretary General, in accordance with the mandate set out in the Tunis Agenda for the Information Society. As a platform for discussions, the Forum brings various stakeholder groups to the table as equals to exchange information and share good practices. The IGF facilitates a common understanding of how to maximize Internet opportunities and address risks and challenges.

The IGF was created to provide a space for dialogue to identify problems and explore solutions. In this respect, the IGF has exceeded expectations – it has proved to be a space for discussions that could not have taken place anywhere else. The IGF is continuously evolving and coming into its own. It has proved its worth as a “go to place” where the community gathers to share experiences and exchange information.

In the book, *Networks and States*, the author Milton Mueller is presenting how Internet governance poses novel and fascinating governance issues that give rise to a global politics and new transnational institutions. Drawing on theories of networked governance, Mueller provides a broad overview of Internet governance from the formation of ICANN to the clash at the World Summit on the Information Society (WSIS), the formation of the Internet Governance Forum, the global assault on peer-to-peer file sharing, and the rise of national-level Internet control and security concerns. Internet governance has become a source of conflict in international relations. *Networks and States* explores the important role that emerging transnational institutions could play in fostering global governance of communication-information policy (Mueller, 2010).

The UN General Assembly Resolution 56/183 (21 December 2001) endorsed the holding of the World Summit on the Information Society (WSIS, 2020) in two phases. The first phase took place in Geneva from 10 to 12 December 2003 and the second phase took place in Tunis, from 16 to 18 November 2005. The objective of the first phase was to develop and foster a clear statement of political will and take concrete steps to establish the foundations for an Information Society for all, reflecting all the different interests at stake. The objective of the second phase was to put Geneva's Plan of Action into motion as well as to find solutions and reach agreements in the fields of Internet governance, financing mechanisms, and follow-up and implementation of the Geneva and Tunis documents.

Internet governance is the complementary development and application by governments, the private sector, civil society and the technical community, in their respective roles, of shared principles, norms, rules, decision-making procedures, and activities that shape the evolution and use of the Internet. For UNESCO, Internet Governance is a central issue. The Organization acknowledges the potential of the Internet for fostering sustainable human development and building inclusive knowledge societies, and also for enhancing the free flow of information and ideas throughout the world. The Organization therefore advocates an open, transparent and inclusive approach to Internet Governance based on the principle of openness, encompassing the freedom of expression, respect for privacy, universal access and technical interoperability. Ethics and also the respect for cultural and linguistic diversity in cyberspace are other key concerns of the Organisation.

All of these elements are essential for United Nations Educational, Scientific and Cultural Organization (UNESCO) to fulfill its mandate and mission entrusted to it by Member States (UNESCO, Internet Governance). UNESCO recognizes that the Internet holds enormous potential for development. It provides an unprecedented volume of resources for information and knowledge that opens up new opportunities and challenges for expression and participation. The principle of freedom of expression and human rights must apply not only to traditional media but also to the Internet and all types of emerging media platforms, which will contribute to development, democracy and dialogue (UNESCO, Freedom of Expression on the internet).

1. Freedom of Expression: Respecting and protecting the human rights of everyone in the digital world

UNESCO assumes its responsibility of promoting freedom of expression on Internet and related right such as privacy and has integrated it to its regular program. The Organization explores the changing legal and regulatory framework of Internet and provides member states with policy recommendations aiming to foster a conducive environment to freedom of expression and privacy on the Internet.

Following UNESCO 38th General Conference Resolution "CONNECTing the Dots: Options for Future Action", the Organization therefore stands for the approach of Internet Universality, which is based on the R.O.A.M principles of Human-rights, Openness, Accessibility and Multistakeholder participation. These principles are essential to ensure an open, transparent and inclusive Internet worldwide. In order to trigger a discussion on a wide range of issues related to Internet freedom at global, regional and national levels, UNESCO has organized a series of workshops in past WSIS Forum and Internet Governance Forum meetings since 2006. UNESCO is also publishing a Series on Internet Freedom that seeks to capture the complex dynamics of Internet Governance in a wide range of issues including privacy, hate speech, encryption, digital safety and journalism sources. UNESCO is now developing Internet Universality indicators to help governments and other stakeholders to assess their own national Internet environments and to promote the values associated with Internet Universality (UNESCO, Freedom of Expression on the internet).

Also, according to Council of Europe Internet Governance Strategy 2016-2019 Mid-term report of the Secretary General, SG/Inf(2018)19 by 17 May 2018 the Council of Europe's member states have a duty to protect and ensure respect for the rights and freedoms of internet users relating inter alia to non-discrimination, freedom of expression, freedom of assembly, association and participation, privacy and data protection, education and literacy, protection of children and young people, and access to effective remedies when rights and freedoms are violated. The Council of Europe has organised a high number of national, regional and international events to raise awareness of the specificities of the online environment when it comes to access to and exercise of human rights online. It has also co-operated with National Human Rights Institutions and organised conferences for judges of member states to promote an exchange of views with regard to the evolving number of disputes before national courts that involve the internet. Furthermore, the Council of Europe has engaged in various awareness-raising campaigns and events, as well as in the preparation of studies and reports aimed at facilitating better understanding of emerging internet-related challenges and at identifying possible solutions and common approaches. Another aspect of this work consisted in providing human rights policy guidelines and recommendations to facilitate interpretation and implementation of relevant provisions and principles contained in international treaties (CoE, SG/Inf(2018)19).

2. Building democracy online

Democracy is a system of government that bases its legitimacy on the participation of the people. Abraham Lincoln once said that democracy is "Of the people, by the people, for the people".

The word democracy comes from the Greek words "demos", meaning people, and "kratos" meaning power; so democracy can be thought of as "power of the people": a way of governing which depends on the will of the people.

There are so many different models of democratic government around the world that it is sometimes easier to understand the idea of democracy in terms of what it definitely is not. Democracy, then, is not autocracy or dictatorship, where one person rules; and it is not oligarchy, where a small segment of society rules. Properly understood, democracy should not even be "rule of the majority", if that means that minorities' interests are ignored completely. A democracy, at least in theory, is government on behalf of all the people, according to their "will" (CoE, Compass: Manual for Human Rights Education for Young People).

Today there are as many different forms of democracy as there are democratic nations in the world. Democracy is one of the universal core values and principles of the United Nations. "While democracies share common features, there is no single model of democracy", is noted in the UN Resolution on promoting and consolidating democracy (A/RES/62/7).

Albert Camus noted "Democracy is not the law of the majority, but the protection of the minority".

Successful democratic governance must inevitably focus on promotion and protection of human rights and fundamental freedoms. The relationship between democracy and human rights is intricate, symbiotic and mutually constitutive. A rights based approach to democracy grounded in the rule of law is considered increasingly the most consistent safeguard against human rights abuses (Democracy and Human Rights: The Role of the UN, 2013).

We could summarize that democracy cannot be defined without human rights.

Human rights can be protected effectively only in a democratic state. A functional democracy that accommodates diversity, promotes equality and protects individual freedoms is increasingly becoming the best bet against the concentration of power in the hands of a few and the abuse of human rights that inevitably results from it. In turn, the greatest protection of human rights emanates from a sustainable democratic framework grounded in the rule of law (Democracy and Human Rights: The Role of the UN, 2013).

However, a "democracy" is also incomplete without a thorough-going respect for human rights. Taking part in government, in a genuine way, is almost impossible to do without people having other basic rights respected.

In Universal Declaration of Human Rights (UDHR) as a milestone document in the history of human rights, in article 19 defined freedom of expression "Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers".

It is important not just to be able to think what you want, but also to be able to express that opinion out loud, whatever that opinion may be. If people are prevented from discussing their views with other people, or presenting them in the media, how can they "take part" in government? Their opinion has essentially been discounted from the possible alternatives under consideration (CoE, Compass: Manual for Human Rights Education for Young People).

In the digital era, strengthening e-democracy and protecting civil rights is great challenge.

Digital tools and social media have empowered people through widespread access to information and global connections. Citizens are using technology to hold governments to account and to exercise their civic rights. Governments are using technology to be more transparent, accountable and inclusive (Digital governance).

In this term, the Internet will save democracy. Or so Internet techno-hype led many to believe. With each new communication medium comes a wide-eyed view about its potential (Clift, 2000).

In 1998, the author Steven Clift stated in *Democracy is Online 1.0*, "Perhaps the most democratizing aspect of the Internet is the ability for people to organize and communicate in groups. It is within the context of electronic free assembly and association that citizens will gain new opportunities for participation and a voice in politics, governance, and society. In the next decade, those active in developing the Internet and building democracy have an opportunity to sow the seeds for "democracy online" in the next century. Like the founding of any modern nation, the choices made today, the ideals upheld, the rules adopted, and the expectations created will determine the opportunities for democratic engagement for generations to come." So, anything we do incrementally to improve democracy through the Internet is something we can consider an accomplishment.

Clift underlined that "we all have different definitions and experiences of democracy. This article focuses on the Internet and participatory democracy within the context of representative democracy. It uncovers exciting developments. The reality is that our many-and quite different-democracies are changing because of the use of information technology and networks. In the long run we don't know whether the changes will be for the better or the worse.

The challenge for us, as citizens, is to be engaged in this process of change. We will be engaged through our existing institutions, be they non-profits, universities, the media, companies, or governments. We must be involved as individuals and through the creation of new, mediating citizen organizations that are "of" the Internet, not just "on" it. We are experiencing a convergence of democratic institutions and processes with the Internet" (Clift, 2000).

Building e-democracy is an integral part of building e-government. Democratic systems can nearly always be made more inclusive, more reflective of more people's wishes, and more responsive to their influence and to work on democracy improvement.

Therefore, building democracy online is an integral part of the Council of Europe's mission of making democratic institutions work.

Electronic democracy offers new opportunities to enhance public engagement and participation in democratic institutions and democratic processes. In this way, it helps empower civil society and improve policy-making procedures. E-democracy's strength lies in its capacity to facilitate both bottom-up and top-down initiatives, and its growth can contribute to a redefinition of political priorities and a transformation of the ways our local and global communities are governed. E-democracy initiatives are underway throughout Europe at all levels of governance in an effort to enhance transparency, accountability, access and dialogue. These developments, when seen as complementary to traditional channels of democratic participation, offer a means to improve governance and consequently reinforce public confidence and trust in democratic procedures and values. The Council of Europe has long taken the lead on digital policies relating to government action as exemplified by the Committee of Ministers Recommendation Rec (2004)15 on electronic governance and Recommendation Rec(2004)11 on legal, operational and technical standards for e-voting (CoE, CM/Rec(2009)).

Everyone should be able to exercise their rights and freedoms online, in particular the right to freedom of expression and the right to the freedom of assembly and association without any discrimination. This presupposes, *inter alia*, the take-up of competences for democratic citizenship in formal education settings, robust action to counter hate speech, comprehensive inclusion and participation of citizens in cultural and public life, and proper conditions for electronic voting.

Building democracy online featured highly among the topics addressed in the annual editions of the World Forum for Democracy (WFD) in 2016 on "Democracy and equality – does education matter", and in 2017 on "Is Populism a Problem?". The latter focused on the issues and solutions for political parties and media actors to remain relevant in the 21st century democracies,

showcasing digital initiatives to combat the spread of false information online, and of enhancing citizen's participation in decision making. The WFD secretariat will continue to work together with the network of digital democracy innovators, in order to develop innovations in the field of participatory e-democracy to be presented at the Forum's future editions.

The Recommendation CM/Rec(2009)1 of the Committee of Ministers to member states on electronic democracy (e-democracy), adopted by the Committee of Ministers on 18 February 2009 at the 1049th meeting of the Ministers' Deputies, in accordance with Article 15.b of the Statute of the Council of Europe is sharing the best practices in member states in implementing CM/Rec(2009)1 on electronic democracy and develop practical guidelines for implementing e-democracy strategies.

Also, on the basis of Rec(2004)15 Council of Europe is developing and presenting e-governance guidelines and an e-government toolkit in cooperation with the Centre of Expertise for local government reform.

3. Conclusion

Internet Governance is understood as the development and application by governments, the private sector and civil society, in their respective roles, of shared principles, norms, rules, decision-making procedures and programmes that shape the evolution and use of the internet.

In the digital era, strengthening e-democracy and protecting civil rights is great challenge.

Digital tools and social media have empowered people through widespread access to information and global connections. Citizens are using technology to hold governments to account and to exercise their civic rights. Governments are using technology to be more transparent, accountable and inclusive. Digital government can play a role in building effective, inclusive and accountable institutions to support policy making and service delivery for United Nations 2030 Agenda for Sustainable Development and the Sustainable Development Goals.

Therefore, the United Nations supports digital government development, and in the context of the rapid pace and change in technologies relevant to digital government, this work is essential. Also, the Council of Europe has organised a high number of national, regional and international events to raise awareness of the specificities of the online environment when it comes to access to and exercise of human rights online.

According to above mentioned, we may conclude that the power of Information and Communication Technologies have a great potential to accelerate human progress, to ensure that public policy for the Internet is people-centred in order to build democracy online, to protect Internet users, and to ensure respect and protection for human rights online. Democratic systems can nearly always be made more inclusive, more reflective of more people's wishes, and more responsive to their influence and this is governmental challenge for democracy improvement.

Having in mind the challenges that brings digital era for the future, especially the aspect of cybersecurity, in the future is also important for the states to ensure that public policy for the Internet is people-centred in order to build democracy online, to protect Internet users, and to ensure respect and protection for human rights online.

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