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COMPETITIVE ADVANTAGES OF FOREIGN FIRMS ON THE JAPANESE MARKET

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Abstract

The aim of the paper is to encourage companies to critically consider the opportunities, challenges and approaches for entering the Japanese market. It is a conceptual paper, based on literature review, observation, and analytical reasoning. Although Japan is facing daunting economic and demographic challenges, the country avails of and builds on a remarkable set of advantages. Companies should carefully take stock of their resources and reflect how to use them in view of the peculiarities of the Japanese environment. Intercultural competence – at a company, team, and individual level, is a critical success factor for foreign firms, aspiring to enter and operate on the Japanese market. The paper offers some directions about the potential of the Japanese market and also serves as an impetus for specific actions to be undertaken by interested parties.

Keywords: International Business; Entry Strategy; National Culture; Comparative Management; Intercultural Competence

JEL: F23; M16

Introduction

Japan is the third largest economy in the world. The country occupies leading positions for global competitiveness and remains a prime technological power. Japanese people enjoy a high living standard. Nevertheless, the country faces daunting demographic and economic challenges. Japan is the first country with super-aging population. More often than not the Japanese economy is commented from the perspective of “the lost decades” and the difficult market access for foreign companies due to tariff and non-tariff barriers. Although less numerous, there are researchers who describe the period, starting from the beginning of the 1990s not as “lost”, but as a time for “critical revision of corporate strategies and structures ... as a standstill but one that is filled with the implementation of necessary new

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programmes” (Stoychev, 2008). Change requires time, persistence and patience. Sustainable results and modernization can be achieved through policies, reflecting the specific socio-cultural context in Japan. Perseverance and change, tradition and practicality, deeply rooted national values and contemporary international best practices are combined in the Japanese way of thinking, behaving and managing.

Despite the widely spread view about the “hindered” market access, in practice the Japanese Government offers competitive tariff rates. For the European companies, a significant role is fulfilled by the Economic Partnership Agreement between the European Union and Japan. Non-tariff requirements of the Japanese regulator are a function of the peculiarities of Japanese consumers, who demand high quality, innovative, healthy and environmentally friendly products, adapted to the local living conditions. As early as at the stage of generation of interest towards the Japanese markets, foreign companies should decide how to define their efforts for entering the market – in view of “barriers” (tariff and non-tariff) or in view of “opportunities”, which require careful research and adaptation (both product-wise and behavioural adaptation).

The author argues that the success of foreign companies in Japan depends on the sophistication of business strategies development and implementation as well as on the firms’ competence for behavioural adaptation to the socio-cultural characteristics of the Japanese business environment. Macro level negotiations for liberalization of international trade are necessary for creating attractive market conditions but not sufficient for success of international business in Japan. The firm and its management should carefully consider the resources at its disposal and reflect on their adequate exploitation in tune with the specifics of the Japanese environment.

Effective business strategy should be built on strong theoretical foundations. Awareness of the theories for firm’s internationalization is instrumental for developing management capacity and honing analytical skills for doing international business. Theory assists companies in better defining their specific advantages and considering how to capitalize on them on foreign markets. Hence, applications of established theories for economic internationalization from the perspective of their practical value for companies, aspiring to enter and operate on the Japanese market, are discussed below. Accordingly, extensive description and analysis of the theories per se are not viewed as an objective of the paper.

Theories for the internationalization of the firm and their applications to the Japanese market

First, applied are views from the theory of Stephen Hymer, who argues that a company, entering an overseas market should wield a special advantage which is strong enough to overcome the local knowledge disadvantage, suffered by foreigners (e.g. liability of foreignness). Next comes the theory for internalization which

posits that the inclusion of overseas operations within the organizational borders of the firm leads to cost effectiveness for it. Follows the organizational capability view on the process of internationalization, asserting that internationalization contributes for new knowledge creation for both the company and the society at large. Further appears the contingency theory which postulates that internationalization is gradually becoming indispensable for attaining a strategic fit between the company and its environment. Then transpires the business network theory, stating that internationalization is not possible unless companies participate in appropriate networks of business partners, and inevitable if firms want to keep their place in the networks they already are part of. Last but not least, the institutionalization theory construes internationalization as a function of recognizing the legitimacy of the firm by the institutions from the foreign environment (Forsgren, 2008).

Which advantages can be viewed as ‘special’ by Japanese consumers and business partners?

In terms of technical competences, an advantage on the Japanese market is product differentiation. While in terms of behavioural competences – not at all less important, is intercultural competence.

The Japanese value innovations – both product innovations and process innovations. The precedence of ‘the new’ over ‘the old’ is already a tradition. However, the approach should be adapted to the peculiarities of the local context. A recurring failure factor for foreign companies in Japan is the insufficient understanding of the Japanese consumer. Japanese consumers differ from European consumers. „Japanese consumers expect sincerity, not calculations“ (March, 1990, cited in Uzama, 2009). They look for companies which think about their needs and wants first, and just then – about their profits. Japanese market is conducive to quality, innovative, and locally adapted products, with high service standards. Japanese distributor companies continually scan the international market in a quest for product innovations. Zero-defect products, reaching customers in perfect condition, as well as flexible and responsive marketing system, integrated and catalyzed by harmonious relationships are indispensable for firms’ success in Japan. However, copying competitors’ marketing strategies and products is not unusual practice for Japanese companies. Hence foreign firms’ special advantages which they plan to capitalize on the Japanese market should not be easily vulnerable and emulated by competitors.

The uniqueness of the Japanese national culture and business practices highlights intercultural competence as a major competitive advantage for effective participation in the Japanese market.

Japanese culture has shaped itself in a relative isolation from other cultures. The “development in isolation leads to race, language, and cultural homogeneity” (Yunker, 1990). Japan shows unusual combination of cultural orientations which will not surprise the researchers of Japanese culture (Benedict, 1974; Matsumoto,

2002). Although the Japanese culture is Confucian and relationship oriented one, it also shows medium level of in-group collectivism and one of the highest scores on institutional collectivism in the world (Javidan, House, 2001). As compared with the other Confucian countries, Japanese culture is more strongly oriented towards harmony and intellectual autonomy, while it is less embedded (conservative) and hierarchical (Schwartz, 2006). Japanese national culture is high context (Hall, 2000), formal, masculine, monochronic and emotionally reserved (Gesteland, 2003), with high uncertainty avoidance and long-term orientation (Hofstede et al., 2010).

The preliminary cultural preparation, appropriate attitude, and skills for developing intercultural mindset by the participants in the system of international business are imperative. A factor with no less importance is the organizational support and understanding for the requirements of the Japanese cultural context by the entire company. Intercultural competence should work at several levels – individual, team, and firm. Consistency of efforts, made at all the three levels is a success factor in international business.

The internalization of operations on the Japanese market

Meaningful and reliable relationships with Japanese partners are a way for reducing firms' transaction costs without undertaking authentic internalization of the Japanese operations. Building a climate of trust, interdependence and caring precedes discussions of business issues. Written contracts have a symbolic role. Business is founded on relationships and mutual understanding. The change in the circumstances around each of the partners is a good reason for digression from the provisions of the written contract. If one of the partners experiences difficulties, it is expected that the other party should help – the way a friend takes care of a friend. Establishing business relationships with the Japanese requires time and patience on behalf of foreign counterparts. Foreigners must allow the Japanese to get to know them and to judge how much trust and dependence they can confer on them. However, at a later stage the patience pays off to an extent that strong relationships might render the internalization of operations on the Japanese market useless. Thus, the company may allocate resources for other investments. Culturally driven business attitudes and practices neutralize the sources of transaction costs to foreign firm on the Japanese market.

On the background of the stereotype for the Japanese as enigmatic and inscrutable, it is worth mentioning the results of a survey, carried out among German companies that operate in the fast-moving consumer goods sector in Japan (Bebenroth et al., 2014). The representatives of the German businesses claim that they have managed to build healthy relationships with their Japanese counterparts. They work hard to establish the German products in Japan, incur asset-specific costs for the sake of the joint business, show satisfaction from the economic results of the partnership, achieve fit with the strategic plans of the Germans. The

Germans recognize the experience of their Japanese partners as an advantage but at the same time believe that the German products are important for the success of the Japanese. In general, the Germans define the cooperative behaviour of their Japanese partners as a key success factor for their operations in Japan.

Equity or contractual participation, company-owned or intermediary channels of distribution? That is a central issue of foreign market entry strategy. The geographic and cultural distance of the Japanese market, highly developed intermediary sector, Japanese attitude for cooperative behaviour towards approved foreign partners substantiate an entry strategy through intermediary and contractual (e.g. licensing) modes. Notwithstanding, the establishment of a juridical person in Japan does not involve complex procedures. Moreover, specialized law offices provide registration services to foreign businesses. The next step which is a physical presence can be implemented through the so called serviced offices which offer physical space, juridical address, receptionists, utility services with an option for one year contract (Maurer, 2013). There are opportunities at hand, and the business practice is versatile.

The eclectic paradigm as it applies to the Japanese market

Localization features such as the quality of transport, legal and commercial infrastructure, Government policy, access to technologies and human capital define the attractiveness of the Japanese market. From a firm's perspective, the capitalization on these characteristics is a function of their matching with the firm's specific advantage, together with the abilities of the company to further develop its advantages in a dynamic order. The high purchasing power and demands of Japanese consumers make the Japanese market suitable for testing and sustaining innovations, viewed in a broad sense.

The interpretation of the dynamic and complex interplay between the firm's specific advantage and location-specific advantages is tightly related to the knowledge management theory and business network theory.

The relevance of the organizational capability theory on the Japanese market

The marketing know-how for the Japanese market is ingrained in its business environment. Besides, the know-who factor plays a primary role in the Japanese cultural context. The synergy of firm's knowledge with local knowledge about the Japanese setting is an imperative. The array of contractual and equity transactions within the international strategic alliances allows the combination of competences – both internal and external to the firm. The foreign company may be competent in manufacturing but not in selling the product on the Japanese market. In this case, a partnership with a local counterpart is a reasonable approach for entering the Japanese market. Thus transaction costs may increase but so do the benefits from the value created together with Japanese partners. As a highly developed market, Japan offers foreign businesses a fertile soil for new knowledge creation

and development of new skills, besides the opportunities for capitalizing on existing firm's knowledge and skills. Capabilities for constituting a community with Japanese stakeholders underlies the strategic approach for entering and operating in Japan. The technical tools of the strategy are necessary but not sufficient. The creation of value together with local partners facilitates the symbiosis between the creation and utilization of the resultant assets.

Moreover, international business practice shows that the experience on the Japanese market is a success factor on the global market. The skills, acquired as a result of foreign firm's participation on the Japanese market raise its capacity for innovations. The demand for impeccable quality and manufacturing makes firms continually strive for improvement – for using environmentally-friendly materials and work processes; for offering optimal solutions in terms of ergonomics, storage, and discharge of goods (Slavova, 2008). The sophisticated demand in Japan is a factor of global competitiveness for local as well as for foreign companies.

The contingency theory as it applies to the Japanese market

The contingency theory highlights two primary dimensions of the behaviour of foreign companies on the Japanese market. These are the information processing and adaptation behaviour. It is interesting to note that these two dimensions are quite pronounced in the strategic approach of the Japanese companies when they themselves enter foreign markets. The capacity of the firm for environmental scanning, information processing and analysis, and on that ground its capacity for technical and behavioural adaptation to the peculiarities of the Japanese business environment, to a considerable extent define the success or failure of foreign companies on the Japanese market.

In a collective monograph, devoted to the Japanese experience in management and marketing, prof. Vassileva and prof. Slavova (2008) describe the Japanese consumer as “an enlightened” one. Prof. Vassileva clarifies that “both Japanese business buyers and consumer buyers go into product details and functionalities more than anywhere in the world”. The Japanese demand to be perfectly informed about product characteristics. They read great amount of marketing information about products. After the purchase, they use “detailed product descriptions and instructions”. Japanese consumers avoid products from unknown companies, “whose values they do not understand” (Vassileva, 2008). Hence, it is imperative for foreign businesses to build company and brand identity on the Japanese market, which to be a part of all their messages and events. The character and the level of the details might be quite different from those used on other markets. Prof. Vassileva underscores that adaptation to the Japanese market often proves to be challenging for brand managers and graphics designers, used to work on other markets. However, prof. Slavova (2008) points out that just the foreign companies, that correctly understand Japanese consumers and adequately adapt to their demands, are the most profitable ones.

The business network theory as it applies to the Japanese market

The entry into the Japanese market is very much a function of investments in time and resources for building and maintaining relationships with Japanese companies and personally, with their representatives. A crucial success factor is understanding the Japanese company context. Although there is no category such as a typical Japanese company, foreign firms are to some extent facilitated by the relatively lower variation of the organizational and behavioural characteristics of Japanese companies. However, relationships have a strong personal component. The Japanese want to know that not only the foreign company but personally its representatives commit to the success of the partnership. Hence, from the perspective of the business network theory, the capitalization on the macro environmental factors hinges on the building and maintaining relationships and positions within the micro environment. The environmental scanning should encompass both country level factors and business network level factors. It is worth noting that despite the Western ‘packaging’ of the business network theory, at its heart the theory reflects the Eastern values about the demarcation lines between ‘internal’ and ‘external’, accordingly between members and non-members of the in-group.

The institutionalization theory as it applies to the Japanese market

Regardless of its ‘outer’ changes, Japan keeps its national identity. Japanese society has a multilayered structure, which flexibly entails traditional and new elements – in view of the circumstances at hand specific characteristics emerge on the surface (Ono, 2005, cited in Kuhara, 2008). There are established models and expectations which are accepted by the society, and at the same time, there is a consciousness for “critical renewal” (Stoychev, 2008). Foreign companies in Japan should be continually preoccupied with building and maintaining their legitimacy in the Japanese institutional environment. The uniqueness of the Japanese social context presupposes relatively large institutional distance with the rest of the world. However, the question is not so much about differences but rather how to cope with them. The adaptability of the firm to the institutional context, that is the institutionalization of the firm may predominate over the organizational and technical efficacy as a key competitiveness factor on the Japanese market. Hence, the advantage goes to national cultures, scoring high on flexibility and humility. These are cultures which do not seek the absolute truth and the single most correct decision. Minkov (2011) defines as such the East Asian and East European countries.

Japanese market is customer- and socially oriented (Ueda, Sasaki, 1998). Japanese companies are interested not only in the profit but rather in the value which they offer to the customer and the benefits which they create for the society at large. Product quality is high, and customer service – impeccable. Societal benefits are lifetime employment, cooperation within business associations at various lev-

els (local, national), and social harmony (Uzama, 2009). These Japanese-specific attitudes and practices blur the lines between a firm and the market, which occupy a central place in the transaction costs theory. That is, although the customer keeps to be the most prominent stakeholder, firm's relationships with the other actors from the environment are not less important – rapport with partners, coordination with competitors, compliance with Government policies, pricing which reflects societal interests, besides the company's profit objectives.

Conclusion

Each of the theories, evoked above offers a specific view on the possibilities for creating and sustaining competitive advantages by firms, participating in the system of international business . It is clear that firms' participation in international business should not be an end in itself. Whether it is reasonable for a company to participate in international business and what are the prerequisites for value added creation, respectively for increasing the competitiveness of the company through its participation in the diverse forms of international economic relations – these are fundamental management questions. The paper offers some reflections over the application of the theories for the internationalization of the firm in view of the peculiarities of the Japanese market. Further on, it is the role of managers to combine and use the clues for the analysis of firms' behaviour for the purpose of developing and executing a comprehensive entry strategy.

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COMPETITIVE ADVANTAGES OF FOREIGN FIRMS ON THE JAPANESE MARKET

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Abstract

The aim of the paper is to encourage companies to critically consider the opportunities, challenges and approaches for entering the Japanese market. It is a conceptual paper, based on literature review, observation, and analytical reasoning. Although Japan is facing daunting economic and demographic challenges, the country avails of and builds on a remarkable set of advantages. Companies should carefully take stock of their resources and reflect how to use them in view of the peculiarities of the Japanese environment. Intercultural competence – at a company, team, and individual level, is a critical success factor for foreign firms, aspiring to enter and operate on the Japanese market. The paper offers some directions about the potential of the Japanese market and also serves as an impetus for specific actions to be undertaken by interested parties.

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Equity or contractual participation, company-owned or intermediary channels of distribution? That is a central issue of foreign market entry strategy. The geographic and cultural distance of the Japanese market, highly developed intermediary sector, Japanese attitude for cooperative behaviour towards approved foreign partners substantiate an entry strategy through intermediary and contractual (e.g. licensing) modes. Notwithstanding, the establishment of a juridical person in Japan does not involve complex procedures. Moreover, specialized law offices provide registration services to foreign businesses. The next step which is a physical presence can be implemented through the so called serviced offices which offer physical space, juridical address, receptionists, utility services with an option for one year contract (Maurer, 2013). There are opportunities at hand, and the business practice is versatile.

The eclectic paradigm as it applies to the Japanese market

Localization features such as the quality of transport, legal and commercial infrastructure, Government policy, access to technologies and human capital define the attractiveness of the Japanese market. From a firm's perspective, the capitalization on these characteristics is a function of their matching with the firm's specific advantage, together with the abilities of the company to further develop its advantages in a dynamic order. The high purchasing power and demands of Japanese consumers make the Japanese market suitable for testing and sustaining innovations, viewed in a broad sense.

The interpretation of the dynamic and complex interplay between the firm's specific advantage and location-specific advantages is tightly related to the knowledge management theory and business network theory.

The relevance of the organizational capability theory on the Japanese market

The marketing know-how for the Japanese market is ingrained in its business environment. Besides, the know-who factor plays a primary role in the Japanese cultural context. The synergy of firm's knowledge with local knowledge about the Japanese setting is an imperative. The array of contractual and equity transactions within the international strategic alliances allows the combination of competences – both internal and external to the firm. The foreign company may be competent in manufacturing but not in selling the product on the Japanese market. In this case, a partnership with a local counterpart is a reasonable approach for entering the Japanese market. Thus transaction costs may increase but so do the benefits from the value created together with Japanese partners. As a highly developed market, Japan offers foreign businesses a fertile soil for new knowledge creation and development of new skills, besides the opportunities for capitalizing on existing firm's knowledge and skills. Capabilities for constituting a community

with Japanese stakeholders underlies the strategic approach for entering and operating in Japan. The technical tools of the strategy are necessary but not sufficient. The creation of value together with local partners facilitates the symbiosis between the creation and utilization of the resultant assets.

Moreover, international business practice shows that the experience on the Japanese market is a success factor on the global market. The skills, acquired as a result of foreign firm's participation on the Japanese market raise its capacity for innovations. The demand for impeccable quality and manufacturing makes firms continually strive for improvement – for using environmentally-friendly materials and work processes; for offering optimal solutions in terms of ergonomics, storage, and discharge of goods (Slavova, 2008). The sophisticated demand in Japan is a factor of global competitiveness for local as well as for foreign companies.

The contingency theory as it applies to the Japanese market

The contingency theory highlights two primary dimensions of the behaviour of foreign companies on the Japanese market. These are the information processing and adaptation behaviour. It is interesting to note that these two dimensions are quite pronounced in the strategic approach of the Japanese companies when they themselves enter foreign markets. The capacity of the firm for environmental scanning, information processing and analysis, and on that ground its capacity for technical and behavioural adaptation to the peculiarities of the Japanese business environment, to a considerable extent define the success or failure of foreign companies on the Japanese market.

In a collective monograph, devoted to the Japanese experience in management and marketing, prof. Vassileva and prof. Slavova (2008) describe the Japanese consumer as “an enlightened” one. Prof. Vassileva clarifies that “both Japanese business buyers and consumer buyers go into product details and functionalities more than anywhere in the world”. The Japanese demand to be perfectly informed about product characteristics. They read great amount of marketing information about products. After the purchase, they use “detailed product descriptions and instructions”. Japanese consumers avoid products from unknown companies, “whose values they do not understand” (Vassileva, 2008). Hence, it is imperative for foreign businesses to build company and brand identity on the Japanese market, which to be a part of all their messages and events. The character and the level of the details might be quite different from those used on other markets. Prof. Vassileva underscores that adaptation to the Japanese market often proves to be challenging for brand managers and graphics designers, used to work on other markets. However, prof. Slavova (2008) points out that just the foreign companies, that correctly understand Japanese consumers and adequately adapt to their demands, are the most profitable ones.

The business network theory as it applies to the Japanese market

The entry into the Japanese market is very much a function of investments in time and resources for building and maintaining relationships with Japanese companies and personally, with their representatives. A crucial success factor is understanding the Japanese company context. Although there is no category such as a typical Japanese company, foreign firms are to some extent facilitated by the relatively lower variation of the organizational and behavioural characteristics of Japanese companies. However, relationships have a strong personal component. The Japanese want to know that not only the foreign company but personally its representatives commit to the success of the partnership. Hence, from the perspective of the business network theory, the capitalization on the macro environmental factors hinges on the building and maintaining relationships and positions within the micro environment. The environmental scanning should encompass both country level factors and business network level factors. It is worth noting that despite the Western ‘packaging’ of the business network theory, at its heart the theory reflects the Eastern values about the demarcation lines between ‘internal’ and ‘external’, accordingly between members and non-members of the in-group.

The institutionalization theory as it applies to the Japanese market

Regardless of its ‘outer’ changes, Japan keeps its national identity. Japanese society has a multilayered structure, which flexibly entails traditional and new elements – in view of the circumstances at hand specific characteristics emerge on the surface (Ono, 2005, cited in Kuhara, 2008). There are established models and expectations which are accepted by the society, and at the same time, there is a consciousness for “critical renewal” (Stoychev, 2008). Foreign companies in Japan should be continually preoccupied with building and maintaining their legitimacy in the Japanese institutional environment. The uniqueness of the Japanese social context presupposes relatively large institutional distance with the rest of the world. However, the question is not so much about differences but rather how to cope with them. The adaptability of the firm to the institutional context, that is the institutionalization of the firm may predominate over the organizational and technical efficacy as a key competitiveness factor on the Japanese market. Hence, the advantage goes to national cultures, scoring high on flexibility and humility. These are cultures which do not seek the absolute truth and the single most correct decision. Minkov (2011) defines as such the East Asian and East European countries.

Japanese market is customer- and socially oriented (Ueda, Sasaki, 1998). Japanese companies are interested not only in the profit but rather in the value which they offer to the customer and the benefits which they create for the society at large. Product quality is high, and customer service – impeccable. Societal benefits are lifetime employment, cooperation within business associations at various levels (local, national), and social harmony (Uzama, 2009). These Japanese-specific

attitudes and practices blur the lines between a firm and the market, which occupy a central place in the transaction costs theory. That is, although the customer keeps to be the most prominent stakeholder, firm's relationships with the other actors from the environment are not less important – rapport with partners, coordination with competitors, compliance with Government policies, pricing which reflects societal interests, besides the company's profit objectives.

Conclusion

Each of the theories, evoked above offers a specific view on the possibilities for creating and sustaining competitive advantages by firms, participating in the system of international business . It is clear that firms' participation in international business should not be an end in itself. Whether it is reasonable for a company to participate in international business and what are the prerequisites for value added creation, respectively for increasing the competitiveness of the company through its participation in the diverse forms of international economic relations – these are fundamental management questions. The paper offers some reflections over the application of the theories for the internationalization of the firm in view of the peculiarities of the Japanese market. Further on, it is the role of managers to combine and use the clues for the analysis of firms' behaviour for the purpose of developing and executing a comprehensive entry strategy.

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OPPORTUNITIES FOR THE CIRCULAR ECONOMY IN COVID-19 TIMES – THE EXAMPLE IN PLASTIC WASTE MANAGEMENT

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Abstract

Covid-19 has serious consequences for the global sustainable policy. Scientists have yet to assess the long-term impact of Covid-19. In the short term, however, some directions are already emerging. Global plans for the accelerated introduction of the principles of circular economy are becoming now inevitable. One of the crucial areas of research during Covid-19 is waste management, especially the efficient decisions for plastics use and plastic waste mitigation. If plastic waste management is not effective, the generation of plastics wastes will enormously increase in the next decades. The paper reviews how the adoption of circular strategies for plastic waste management created opportunities both from an economic and environmental point of view during Covid-19 period. The methods used include literature review analyses and personal reflection on the role of circular economy as a change driver in plastic waste management.

Keywords: Circular Economy; Plastics; Waste Management; Sustainability

JEL: Q51; Q53; Q56; Q57

Introduction

Covid-19 crisis brought instability to the 17 Sustainable Development Goals 2030 by slowing down the process of achieving them. At the same time, it has become clear how the role of the circular economy (CE) principles is become increasingly important in developing new organizational and technical processes. CE approach proposes a new model of production and consumption which entails reducing waste to a minimum and it replaces the end-of-life concept with restoration and recycling. The CE can undoubtedly help to reduce carbon emissions by 25%, to limit plastic wastes (especially in marine areas) by 80%, and to generate savings of more than \$ 200 billion with 7 million additional job employment worldwide (Ellen MacArthur Foundation, 2019). A serious challenge in Covid-19 times

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for the CE is plastic waste management due to the widespread use of plastics and their packaging in public healthcare. The generation of plastic wastes constitutes a considerable problem for waste management systems globally. If plastic waste management is not effective, the generation of plastics wastes will enormously increase in the next decades.

The paper aims to analyze whether plastic waste management creates opportunities for the circular economy and which they are in times of Covid-19. The paper reviews how the adoption of circular strategies for plastic waste management created opportunities both from an economic and environmental point of view during Covid-19 period.

The methods used include literature review analyses, and personal reflection on the role of circular economy as a change driver in plastic waste management.

Outlook on circular economy in Covid-19 times

The collection of information and data during Covid-19 times is important to determine the direction of change in the application of the principles of the circular economy. NASA, European Space Agency, Earth Observatory pollution report the positive effects of the pandemic to reduce air pollution by between 20-30% in some key cities around the world. The European Environmental Agency notes other beneficial effects on the health of the population, such as reduction of road traffic noise and reduced traffic congestions, increased cleanliness of the ecosystem, including marine areas, beaches, and others. International Energy Agency notes an annual decline in energy demand of 6%, which will recover to 4% in economic rise. There is also a six-time reduction in carbon emissions compared to the 2008-2009 crisis. The Covid-19 crisis makes it possible to clearly select the positive and negative effects of the pandemic on sustainability. (See Table 1)

Table 1: Covid-19 sustainability effects

Positive effects	Negative effects
Reduction of carbon emissions due to lower consumption of fossil fuels	Increase in hazardous medical waste
Reduction of air pollution (including noise level), water pollution due to reduced tourist flows, transport, and industrial activity	Increase in municipal waste
Ecological restoration of biological balance and diversity	Fewer recycling activities (mainly plastic), leading to an increased environmental risk of pollution

Source: According to Rume and Islam (2020)

Covid-19 has definitely introduced new sustainability standards and put international business and its supply chains to test. The crisis has shown how vulnerable and weak the global manufacturing systems are, and how critically dependent on raw materials. The UN Economic and Social Council and the Sustainable Energy Committee issued an opinion in 2020 regarding the need for alternative policies and new business models to give some security to companies in the transition to a CE with related know-how and R&D investments. UN-ESC (2020) In this sense, the CE has been defined by some authors as a „constructive driver“ of the Covid-19 change. (Baldwin and Evenett, 2020) Table 2 summarizes the main challenges facing the circular economy during the pandemic.

Table 2: The circular economy – difficulties before Covid-19 and opportunities after Covid-19

Pre-Covid-19 Difficulties	Post Covid-19 Opportunities
Thermodynamic factors related to the restrictions in recycling on the combustion of raw materials	Governments will be forced to adhere to the principles of green logistics and efficient waste management
Complexity in reducing the ecological footprint in time and in appropriate space	The circular economy as a national approach will reduce the external dependence on one country or on one production center
Reluctance to change the interrelation between the government and the national economy	A systematic shift of national polluting industries to a more decisive fight against pollution, which will require new technologies, intelligent production systems, renewable energy sources.
Reluctance to change the interrelation between consumer and company	The creation of new jobs in the public sector (e.g. healthcare) will be stimulated.
Fragility of ecosystems and difficult cooperation with regional authorities	Closing food chains and using regenerative agriculture issues, restoring the value of organic nutrients through an anaerobic process, expanding food collection, social and equitable redistribution
Lack of consensus on the role of recycling	Achieving an optimal balance between outsourcing and local production

Sources: According to Korhonen et al. (2018) and Ibn-Mohammed, T. et al. (2021)

The situation can be considered temporary and will change with the post-Covid-19 reality, in which the economies will again depend on the changes they make in their industrial activity, on their availability of energy efficiency

solutions, and on the transition to wider use of renewable energy sources. Covid-19 also opened the door for the localization of many industries in the countries themselves³ (Javorcik, 2020), which resulted in the possibility to improve or to destroy some social innovations and environmental activities in the local economy. A project of the Spanish Ministry of Science and Innovation summarized that in Covid-19 times the economic reality requires a clearer account of the interrelated economic, social, and environmental costs (object of the environmental accounting) because of the use of many resources and the generation of waste. One of the most striking examples is related to the hospitals that have enormously increased the generation of waste, especially plastic wastes. (Larrinaga and Garcia-Torea, 2021)

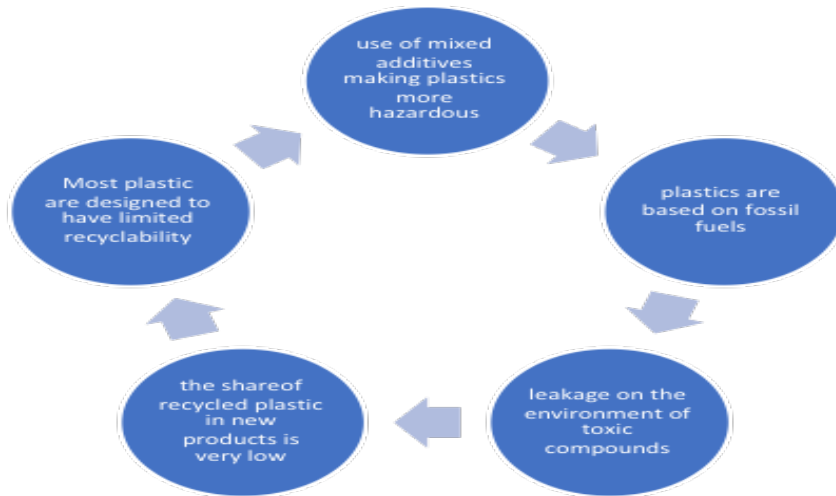
Plastic waste reality in Covid-19 times

The circularity of plastics includes the production of plastic raw materials, production of recyclates (export and import), and conversion to plastic parts and products. More than 60% of plastic products have a life cycle between 1 and 50 years, even more. The family of plastics is divided mainly into thermoplastics (polyethylene, polypropylene etc.) which materials are with reversible characteristics. The other group is thermosets plastics which cannot be easily remelted or reformed (as various resins, silicone, and unsaturated polyesters etc.). The characteristic of plastics is that the production of 1 ton of plastic generates 2.5 t of CO₂ or 20% of CO₂ emissions in the chemical industry, which according to the Circular Economy Network and OECD data is responsible for the largest volume of CO₂ calculated in Mt CO₂ eq. (Circular Economy Network, 2021) The distribution of emissions depends on the way plastic is processed. In combustion, CO₂ is generated immediately, while in recycling the emissions of CO₂ is reduced by approximately 90%. That is why plastic waste management is of strategic importance for the success of the circular economy and in the future, most plastics should become alternative feedstocks such as recycled oils or secondary plastics. Figure 1 represents the main challenges and issues for the circularity of the plastic system.

The appearance of Covid-19 led to the generation of 1.6 million tons/day of plastic waste and their increased demand is related to prevention in healthcare. Over 1/3 of the medical wastes are made of plastic and there is an increased use of plastic-based packaging materials. If plastic waste management is not effective, its volume will increase to 56% by 2040. It is also important to note that approximately 20% of total oil production per year is used for plastic production. In Covid-19 times, global oil demand declined, the prices fell and the cost of plastics (mainly resins) fell. Virgin plastic materials have become more competitive

³ For example, Bulgaria and Romania produce mainly machinery, but Lithuania, Slovakia and Poland concentrate huge industrial equipment, and Hungary and Poland attract the transport equipment production.

goods than resins, leading to temporary chaos in the plastics recycling industry and lower revenues for local authorities from plastic waste management. (Ebner and Iacovidou, 2021)



Source: Based on European Environmental Agency (2021)

Figure 1: Challenges in shifting from linear to circular plastic system

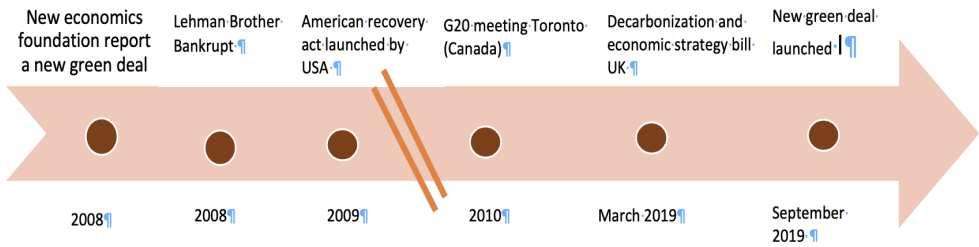
Depending on their degree of readiness to recover waste, some countries have created an additional burden by mixing plastic waste with municipal waste. A similar trend is observed in countries where the capacity of landfills for plastic waste treatment is weak (e.g. Cambodia, Philippines, Thailand, India, Malaysia, Vietnam). For these countries, there have been reports of improper waste management and the mixing of plastic and hazardous medical waste. However, very often, the capacity of landfills for plastic waste treatment is also associated with funding from municipal programs (e.g. in Illinois, Virginia, Ohio in the US), which is drastically reduced during Covid-19 crisis. (Sharma et al., 2021)

Other countries are looking for innovative solutions or to impose taxes on single-use plastics, encouraging recycling.⁴ For example, flexible and strong polyesters such as films and foils can reduce the weight of plastic packaging by more than 4 times, and hence reducing the increased environmental footprint and negative long-term effects on the environment. The use of laser-induced breakdown spectroscopy or other thermal and hyperspectral imaging has also been reported, which allows artificial intelligence to classify and separate easily mixed plastic impurities. (Parashar and Hait, 2021)

⁴ The EU has its own Directive on the re-use of plastic products, which must become a reality in all Member States by 2026.

Third countries have expanded the use of thermochemical processes (as direct combustion, torrefaction, pyrolysis, and gasification) by waste-energy technologies in response to the requirements of a circular economy. In general, plastic waste collection includes landfill, energy recovery, recycling, export of the surplus for recycling. As a rule, plastics can be recycled mechanically, incinerated, or disposed of. A specific feature is that many of the plastics have a high content of impurities and crosses of many polymers. For example, 10 million medical masks per month are equivalent to 40,000 kg of plastic for the environment. Plastic medical waste due to Covid-19 (like grape stem waste, orange juice residues etc.) is considered a good source of energy due to low moisture content. A key advantage of thermodynamic processes in plastic waste is the ability to upgrade the heating value of the wastes and to enhance the energy and economic value of wastes. (Felix et al., 2022) Thus, the circular economy becomes a motivation for the accelerated transition to energy-efficient technologies and direct waste mitigation. It is no coincidence that some new studies show that Covid-19 crisis has a very strong influence on the energy efficiency policy of many regions and cities. Various scenarios related to reducing energy use or reducing carbon emissions have been tested. A study in Meili Town (Southeast China) shows that through the Roadmap for Energy Efficiency and the pandemic-with-circular economy scenario in the conditions of Covid-19, until 2040 the application of the principles of the circular economy can lead to a 47-55% reduction in final energy demand and to a 53-65% reduction in carbon emissions. (Su and Urban, 2021)

Energy efficiency is crucial for the plastic industry. Plastics, thanks to the combination of their properties (lightweight, durability, flexibility, insulation properties, etc.), play indeed a major role in contributing to reducing GHG emissions (Plastic Europe, 2020). The reduction of energy consumption will have a GHG impact by recycling plastic waste through renewable energy sources (also including the use of hydrogen as a fuel for high-temperature processes) and will accelerate the transition toward a low carbon economy. The global green energy scenario could resume successfully in a few years, provided many governments accelerate their green policies before another new global economic shock or crisis causes further economic, social, and environmental damages (Hosseini, 2020). The Green Deal has always been a good response to a crisis. This was a fact in the United States after the financial crisis of 2008-2009 through the US Recovery and Investment Plan, which had set aside nearly \$ 120 billion to increase state energy efficiency. Subsequently, the idea of the Green Deal spread to Britain and the European Union. The green discussions opened more seriously the European political space after the 1990s. Figure 2 presents the chronology of some crucial events for the Green Deal which clearly outlines the boundaries before and after the financial crisis of 2008-2009.



Source: Based on Mastini et al. (2021)

Figure 2: Main chronology of the idea of Green Deal

There is currently a hard discussion about the Green Deal and its negative impact on economic growth (degrowth). Proponents of the Green Deal argue that it will further stimulate economic growth through more public investment in renewable energy, by securing more jobs, i.e. through a policy of economic transformation. Proponents of the idea of a negative impact on economic growth (degrowth) argue that reducing harmful emissions will hinder economic growth and as consequence a rapid energy transition to clean energy is not possible. According to proponents of this idea, the change must start with people's behavior in order to recycle more. The Green Deal is at the heart of the EU's ambitions of becoming circular, which targets are: no net emissions of greenhouse gases by 2050; economic growth decoupled from resource use; no person and no place left behind. The New Circular Economy Action Plan is included in the European Green Deal and launched by the World Business Council for Sustainable Development (see Figure 3).

Because of Covid-19, one-third of the 1.8 trillion-euro investments from the Next Generation EU Recovery Plan, and the EU's seven-year budget will finance the European Green Deal. To meet EU objectives, plastic waste needs to be captured as a valuable resource and turned into new products. This transition from a linear economy to a circular economy requires different recycling technologies. According to Becchetti et al. (2021) EU Green Deal will be successful if is given a priority to activities where the "creation" of economic value has a positive effect on environmental sustainability, health, and job opportunities as well as the bottom-up participation process of citizens. Thus, the EU Green Deal is a "social vaccine" against Covid-19 negative consequences. The realization of the CE paradigm in post Covid-19 reality will differ in each European region after the European Green Deal implementation, ranking into account geographical, environmental, economic, and social dimensions, but also institutional settings and industrial structures. No doubt that CE and European Green Deal will represent the new industrial strategy for social cohesion, digital transition, and zero waste economy. (Arsova et al., 2021)



Source: Based on European Commission (2021)

Figure 3: Main targets of the European Green Deal

The circularity of plastic waste in European Union

The circularity of plastic waste is a part of the modern industrial approach of the European Union. Moreover, between 20-30 million tons of plastic waste are generated annually in Europe, which generates between 50 and 80 million CO₂ emissions (Circular Economy Network, 2021). The European organizations processing data and statistics for plastics in Europe are Plastic Europe (Association of Plastic Manufacturers in Europe) and EPRO (European Association of Plastic Recycling and Recovery Organization). The plastic industry is the seventh most important for the European economy, with the potential to create more than 2.4 times higher GDP. Europe (EU-27, Great Britain, Switzerland, and Norway) accounts for between 15-17% of world plastic production for the period 2018-2019, making the continent the third-largest producer in the world with 16% (after Asia with 31% and NAFTA countries with 19%). In the European plastics industry operates more than 55,000 companies with an annual turnover of over 350 billion euros/ year. For the period 2014-2019, the trade balance in the plastic industry for Europe (EU-27, Great Britain, Switzerland, and Norway) remains positive and without significant changes both in terms of production and in terms of plastic processing. In 2018, plastic waste extra-EU exports decreased by 39% compared to 2016.

Before Covid-19 crisis in Europe, a ten-year period of evolution in plastic post-consumer waste treatment is observed (+19%): recycling is becoming the most important EU option for plastic packaging waste (42%), followed by energy recovery (39.5%). By increasing the share of recycled plastics, European countries have a chance to reduce primary plastics production by more than 60%. The post Covid-19 reality will require changes in the current European Directive 2019/852 on Packaging and Packaging waste “as a key opportunity to accelerate and further scale up the circularity of the EU economy” (Plastic Europe, 2021) as well as the revision of the Circular Economy Action Plan towards New Circular Economy Action Plan (EP Resolution 2021/0040).

A new role will be given to the EU’s Circular Plastic Alliance which targets 10 Mt recycled plastics used in European products by 2025 and conversion of feedstock up to 80% of the planned capacity agenda. The fact that European legislation does not allow for waste processed for use as fuels by chemical recycling technologies (as pyrolysis, gasification, depolymerization etc.) to be considered recycling should not be ignored. As mentioned by the European Environmental Agency in 2021, the increased focus on plastics and circularity in EU strategies will result in the adoption of new directives and the amendment of existing ones. And as we have already mentioned, during Covid-19 and in favor of the CE, the use of thermochemical processes is becoming more and more applied. If we take a closer look at the content of plastics in disposable medical masks, we will discover that they contain components that belong to the category of thermosets plastics as polyurethane or polyester, which implies a search for innovative solutions in chemical recycling (Fadare and Okoffo, 2020).

A review of data from the European Circular Economy Stakeholder Platform shows that there are many successful examples in plastic waste management, but at the same time, Covid-19 reality limits the range of examples in plastic waste management related to prevention and hygiene in healthcare. In 2021, as part of the Italian Circular Economy Stakeholder Platform, a company named Tecnotrust (Toscana region) has patented the CleanBags machine, which disinfects medical materials with varying degrees of contamination (bags, masks, tubes, etc.) for 10 seconds and subsequently recycles plastic materials from them. In Spain, the results of the three-year Life-Repolyuse project (2017-2020) under the European program Life are expected. The project aims to promote the reuse of polyurethane in various industries, thus alleviating the problem of plastic wastes. Another example comes from the Dutch company Pryme, which will launch in 2022 chemical recycling to convert waste plastics into petrochemical products with a high conversion rate and low carbon footprint (less than 92 000 t/CO₂ per year), due to self-sufficient procurement of renewable energy. In the UK, the Plastic Energy company has already developed a patented thermal anaerobic conversion (TACOIL) to use

plastic waste (mixed or contaminated) to new suitable plastic packaging with high and low density as polypropylene and polystyrene.⁵

Covestro (formerly part of Bayer Group's chemicals and plastics unit) with more than 30 manufacturing plants worldwide and annual turnover between 12-14 bill. euro is one of the leading suppliers of premium polymers. Covestro is a strategic partner of Plastic Europe and represents a part of the Circular plastic Alliance and the European Circular Economy Stakeholder Platform.⁶ The company plans to contribute to the collection of the \$ 1.5 billion needed to eliminate plastic waste over the next five years. One of the interesting ideas in this direction is to turn waste PET bottles into premium 3D printing filament (fibres). Another innovative idea is to develop the chemical recycling as supplement to mechanical recycling. Covestro has already developed a smart technology to chemically recycle soft polyurethane foam and has completely recovered two core raw materials through enzymatic recycling. The produced small molecules from the polyurethane can be re-used in manufacturing. Covestro has also partners to develop a blockchain solution to trace different plastic components. Another important step for the company will be the signature of "Corporate contract for wind energy" in 2025 in Germany and Denmark which will allow Covestro to reduce for 10-long period the amount of electricity needed to manufacture basic chemicals by 25%. The use of green energy in Belgium is already a fact from 2021 and allows the company to reduce the environmental footprint in Belgium by more than 38 000 metric tons of CO₂, equivalent to the emission of 20 000 cars per years. One of the challenges for Covestro is to replace crude oil. Thus, a partnership with Nestlé will allow to produce renewable hydrocarbons from old oils and fats.

These examples do not conclude all new ideas in plastic waste management in Covid-19 times, but rather outline the direction of the European policy and business actions in the coming years. In this regard, it is important to note the recommendations of the European Environment Agency, which proposes the circularity of plastics to include some principal steps:

Decomposition of plastic elements by removing hazardous substances and promoting the use of bio-degradable plastics through uniform labeling scheme;

Recycling of plastics, whose levels are currently relatively low for Europe (32% vs. 43% for landfill) in order to achieve zero waste to landfill as a future target;

Reducing the dependence of plastics production on traditional energy sources which will influence also the price regulation and quotas for recycled content;

Encourage the use of life cycle assessment (LCA) methodology and carbon footprint (CF) calculation in plastic waste management. LCA allows evaluating the environmental issues associated with a product, process of activity, by identifying and quantifying the consumption of material, energy and emissions into the environment. A process related to LCA is the calculation of the CF, which

⁵ Official web site of the European Circular Economy Stakeholder Platform

⁶ Official web site of Covestro

is an environmental indicator that measures the human activity impact on global climate (global warming potential, GWP) and records quantitatively the so-called greenhouse gases as per the equivalent carbon dioxide (CO₂-eq.). (Gallucci et al, 2019) Italy is one of the countries in the European Union which, thanks to the Institute for the Promotion of Plastic Recycling (Istituto per la Promozione delle Plastiche da Riciclo) applies successfully LCA and CF for polyethylene.

Conclusions

As a result of Covid-19, the sustainable model has changed, expanding its scope with Circular Economy principles and Green Deal implementation. Recently, the economic viability of the European and global plastics recycling market has also showed to be under significant pressure. The current crisis has prepared many companies for new pandemic situations. At the same time, both businesses and governments are expecting to partner more efficiently and more quickly, and all employees – to be better prepared to comply with uniform health protocols for the business to function properly. It can be assumed that these steps will encourage more sustainable practices in the field of CE, incl. financing in green infrastructure, in management of plastic wastes, in different projects for new sustainable technologies (3D printing, blockchain, etc.), (Karmaker et al., 2021). Crucial for promoting the principles of circular economy is becoming sustainable industrialization through more efficient energy policies; the higher use of renewable energy sources, the municipal recycling and reuse of waste as well as the change in consumer behavior, incl. reducing of CF for households and the international cooperation in the field of global climate change.

During Covid-19 and beyond, much more attention will be required to: waste recycling while creating higher value; lower production of primary materials with low carbon emissions; improved production process and optimized manufacturing cycles associated with long-lasting products and/ or the possibility for easier re-use; further innovations in economic policy; application of the principles of corporate social responsibility, effective public governance as well as good social inclusion.

The above-mentioned conditions require correct legislative and financial decisions by the authorities, smart solutions from businesses, state incentives for environmental policy in waste management. At the same time, it is important to conduct for healthcare workers an educational campaign to properly separate medical waste (plastics, hazardous, etc.). More social programs to promote thermodynamic processes as a catalyst for a CE are also needed. Anti-Covid-19 incentives should encourage work on specific »green« tasks related to effective plastic waste management. Only in this way the CE can be the real long-term change in favor of the whole world.

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SPECIAL FEATURES OF HUMAN RESOURCE MANAGEMENT IN BUSINESS ORGANIZATIONS DURING COVID-19 PANDEMIC

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Abstract

This article outlines several emerging features of human resource management, revealed by the identified human resource management (HRM) initiatives and practices, implemented in the contemporary leading business organizations under the conditions of Covid-19. The performed literature review presents the main current challenges, confronting companies and several emerging important characteristics of the HRM strategy. The system perspective is applied to identify some deeper changes that have been undertaken within certain critical HRM components for successfully surviving and thriving business organizations as recruitment and selection, training and development, compensation and benefits, work-life balance and teamwork. Based on the accumulated qualitative data, special features of HRM that emerge during the Covid-19 crisis are grounded.

Keywords: Human Resource Management; Human Capital; Employee Engagement

JEL: M12, J24

Introduction

The main aspects of the crisis caused by the ongoing Covid-19 pandemic – health, financial, economic and social – posed new challenges to human resource management (HRM) in modern business organizations, pursuing not only their own survival but also successful development under the new conditions in their business environments. In such a tense, dangerous, uncertain, unpredictable and volatile environment, the importance of one component from the traditional human resource systems, implemented in large organizations, has sharply increased, i.e. the “Establishment and maintenance of safe and healthy working conditions” that is otherwise relatively well regulated in comparatively developed and rapidly developing countries around the world. It should be obligatory noted that the functioning of this component in the HRM system remains almost unnoticed under the normal conditions of the organizational existence. Exploring the nature of the virus proceeds slower than the medical professional group, society and business leaders desire, which situation has repeatedly contributed to the implementation, repeal and amendment of various anti-crisis measures. The latter hindered

at all times the maintenance of a long-term orientation in the planning of the stakeholders' activities and the interactions with (or among) them.

For this reason, at first glance, some anti-crisis measures taken may seem inadequate, contradictory or untimely, but in fact their essence is based on the knowledge, results and experience, accumulating up to specific moments during this key marker event. In this way the array of the aforementioned measures gradually formed their basic essence, accumulated new nuances in their content, stabilized, dropped or refined a number of their specific attributes. Thus, concrete measures emerged, oriented to organizing of the production processes, office layouts, ventilation, sanitation and human density of company premises to ensure the necessary level of security, guaranteeing the (business) continuity in the functioning of the organizational formations. Monitoring and measuring the results of the anti-crisis measures taken to protect the health of working people has turned some of them into deliberate requirements of state institutions in the realization of the socio-economic relations in many countries around the world, while other measures – still not so popular, have acquired the status of good practices, voluntarily implemented by succeeding companies from different regions of the world (Milota, 2020; Balgeman et al., 2020; Centers for Disease Control and Prevention 2020; Dua et al., 2020; OSHA 2020; Furtado et al., 2020).

However, the purpose of this publication is to review HRM management initiatives and practices in leading companies beyond the semantic field of the „establishment and maintenance of safe and healthy working conditions“, undertaken in response to events that occurred or in rare cases, embedding proactive HRM activities. Based on this qualitative data, special features of HRM that emerge during the Covid-19 crisis are grounded.

1. A general overview of the HRM field in the pandemic

The Covid-19 pandemic accelerated to a great extent the slowly creeping digitalization of the workforce in the contemporary organizations, not only in the high-tech industry. The positive perspective to the current crisis allows considering it as a useful opportunity to revise implemented HRM strategies, processes, approaches and organizational structures, with some orientation to the lean approach in company management and especially its HRM function (Financial Times, 2020; Wickramasinghe, Wickramasinghe, 2020). In such turbulent environment a number of HRM related challenges may be defined, as follows (Financial Times, 2020; Wickramasinghe, Wickramasinghe, 2020; Lund et al., 2020; Ellingrud et al. 2020):

- ❖ Achieving a shared understanding of multiple nuances, embedded in the meaning of flexibility – (a) in perceiving working schedules as flexible or fragmented ones by managers, employees, clients, government institutions, etc., (b) in used places of work, and (c) in realized employee interactions with managers.

- ❖ Reflecting on and wisely changing the dominating employee frame of reference, emphasizing the embedded importance of “why” the employee does a certain activity in the firm over “what” the contributor performs.
- ❖ Timely understanding and even stimulating human thoughts and feelings, regarding new ways of working by fast adoption of certain technologies.
- ❖ Rebalancing the interests of diverse company constituencies by assuming some HR initiatives and responsibilities outside the boundaries of the organizational setting, but always and to great extent for its immediate or indirect benefit.
- ❖ Satisfying the urgent need of employees for vacant Covid-19 related jobs not only in the healthcare industry, but also in diverse sectors of economy where the crisis embedded great market opportunities (for example IT jobs, delivery services, etc.).
- ❖ Undertaking timely employee dismissal in sectors heavily affected by the crisis and/or applying for participation in government programs to retain staff in affected companies under these adverse conditions.
- ❖ Identifying and balancing the organization’s responses to specific needs of diverse employee groups (women, LGBTQ+ employees, people of color, working parents), because of the positive relationship between higher diversity leadership and realized profitability in business organizations.

The complexity of the aforementioned challenges requires from the HR managers and specialists to collaborate intensively with other managers in the company and even some stakeholders outside it as potential candidates, government officials, competitors, local community, etc.

2. Forming characteristics of the Covid-19 HRM strategy

The current pandemic finally brought to perceiving the HRM in the companies as a business function by the respective constituencies in and outside the organizational setting, because the implemented forced changes in operating business models or their entire shifts required the timely contribution of the HRs by ensuring the availability of needed talent capabilities, skills and knowledge (Schmidt, 2020). Thus, the HR’s support to organizational survival (i.e. business continuity) and possible successful development in the future became apparent. When organizational development is emphasized, at least several important HRM strategic initiatives in congruence with Covid-19 conditions may be outlined, as follows:

- ❖ The establishment and maintenance of external partnerships in the HRM field (Schmidt, 2020): (a) especially with companies that had to lay off or furlough large numbers of their personnel, thus generating higher added value to the organizational performance through timely hiring of needed human resources. The aforementioned partnerships proved their usefulness even to companies whose business collapsed during Covid-19 crisis who could

- efficiently and effectively realize their outplacement policies through them, preserving the human face of their management in turbulent times. (b) by HR managers who start to practice open source collaboration, intentionally sharing pandemic response plans, templates, research, crisis management related thoughts and ideas within their professional communities.
- ❖ Supporting multiple switching among numerous nuances of work models as co-located, distributed, hybrid or fully remote one (Schmidt, 2020; Paychex 2020).
 - ❖ Boosting the agility of the HRM function by adopting a useful means to measure the achievement of formulated goals in the HRM sphere as objectives and key results (OKRs) and make fast decisions regarding potential pivots and related budgeting in concern with the entire talent ecosystem. Executing of continuous reassessment and re-imagination of followed HR strategy becomes the new norm due to changes in performed work in business organizations and necessary workforce. Thus, the tracking of data insights into different categories of personnel (alternative, part-time, former employees, etc.), even potential candidates or employees, their knowledge, skills and capabilities, employment preferences are useful to HR managers and specialists who try to maintain a healthy fit between changing organizational needs and available workforce (table 1) (Schmidt, 2020; Deloitte. Insights 2020, pp29-34).
 - ❖ Persistent satisfying of the organizational need to comprehend the essence and usefulness of previously neglected HRM spheres as diversity, inclusion, belonging and equity and implement deliberate activities, regarding them that should cover the whole employee journey in the company. Such HRM approach brings to increases of creativity and productivity levels among personnel members (Schmidt, 2020).
 - ❖ Directing the efforts of the HRM department to the fuller utilization of the available human potential in the company and deliberate stimulation of its increases in the near future in order to prepare the business organization for existence in an unpredictable and disrupted world by not only capturing employee potential for growth (learning) and adaptability, but also developing the leadership ability to cultivate potential among followers (subordinates). The HRM department should ensure the timely transformation of professed organizational values to managerial actions by gaining the support of the senior executives and supervisors (table 1) (Deloitte. Insights, 2020, pp29-34).

Table 1: Tracking the realization of undertaken HRM initiatives in response to Covid-19 crisis

OKRs of the HRM activities	Descriptions...
1. Key milestones to higher employee potential utilization...	1.1. Tracing and analyzing job evolution in the company and outside it (object of change, frequency, depth). 1.2. Appraising the current personnel preparedness to perform the work of the future: (a) Identifying current capability, experience, and skill gaps. (b) Composing plans to close the aforementioned gaps. 1.3. Assessing employee ability to change continuously and their agility (speed, effectiveness). 1.4. Judging the preparedness of company leaders for the future (trends, challenges, scenarios, success attributes).
2. Key milestones to take advantage of the whole talent ecosystem, supplying capability to the company...	2.1. Quantifying employees who provide direct or indirect services to the company. 2.2. Assessing the situation on the Internal talent market of the company. 2.3. Appraising the situation on the external talent market for the company. 2.4. Identifying employee retention drivers, i.e. personalizing the risk of leaving the company and elucidating the related reasons.
3. Key milestones to transform organizational values to daily actions...	3.1. Reassessing the balance in the relationships with company constituencies, regarding dominating workforce social contract. 3.2. Appraising company's diversity policy by criteria as presence of diverse employee communities and their strength of influence. 3.3. Analyzing employer branding initiatives (organizational culture characteristics, workforce image, dominating leadership styles). 3.4. Assessing organizational risk, resulting from peculiar (extreme) cultural manifestations in the company (i.e. the cultural forms).
<p><i>Source:</i> (see Deloitte. Insights, 2020, pp31-34).</p>	

3. Recruiting and selection

Timely management reactions to increased market demand of certain products and services forced many companies to reinvent their hiring processes in congruence with the new pandemic limitations by speeding them up, heavily digitalizing them and enhancing the communications among constituencies (candidates, HR specialists, prospective managers) (Albert-Deitch, 2020). The current hiring process as a whole (recruitment and selection of candidates) may be described by several characteristics, as follows: (a) decreased duration of the interval, formed

by the moment of candidate attraction (the scheduling of initial interview) to the moment of closing the deal (i.e. making a job offer) to three or maximum four hours, (b) wide use of videoconferencing platforms and (group) phone communications to interview candidates, keeping the rule of social distance, (c) providing individual virtual follow-ups for selected candidates, (d) arranging final interviews (30 minutes) for the further selected candidates with a potential manager, and (e) synchronized HR's schedule with the working agenda of the potential managers for respective candidates.

The pursuing of a strong fit between the individual purpose of the candidates and the organization's purpose, semantically transposed to the levels of the respective jobs, also represents a good HRM recruitment and selection practice under the pandemic conditions. This statement is based on empirical results, revealing that: (a) employees with individual purpose in congruence with their jobs are inclined to demonstrate higher levels of personal productivity in comparison to their colleagues, (b) there is a positive correlation between the "purposefulness of employees and ... company's EBITDA margin", and (c) a strong sense of purpose, observed in employees' behaviors, is associated with successful demonstrations of human abilities as resilience and recovery from crises (Dhingra et al., 2020).

4. Training and development

Garcia, Maples and Park (2020) recommend that the companies, striving to prosper under the conditions of Covid-19 crisis and after it, should creatively and timely reconsider their capability-building approach, because the new requirements for work safety and health conditions make it almost impossible for the HR departments to rely on in-person, hands-on learning through case-studies and simulations of real business situations. The elaboration and upgrading of employee capabilities and the increase of personnel resilience impose the implementation of a new training and development approach, appropriate to the current conditions that integrates desired employee learning of knowledge and skills, their daily intensive on-the-job applications and sustainable behavioral changes across diverse personnel categories. The aforementioned approach may be characterized as digitally delivered, mitigating both physical and psychological distance among employees and innovative in implementing simple and robust reinforcements to sustain desired employee behavioral changes, driving a change-oriented culture. Digital training content should stimulate the active participation and gaining of experience by the trainees through virtual workshops, although the learning priorities are set by HR managers. Employee intrepidity to adopt the new skills in their work life, change their work-related behaviors and realize improvements of their on-the-job performance should be deliberately augmented. So, virtual training is expected to become an intersection point among acquiring and maintaining of technological fluency, developing a pragmatic attitude to problem solving, delivering and learning appropriate content, smooth facilitation of conducted remote meetings,

ensuring direct electronic access to higher rank managers, whenever possible mixing it with safe and useful in-person experiences. The link “cherished behaviors – specific on-the job results for each employee – immediate consequences for each employee – corrective actions” should be adapted to the requirements of remote-working contexts (Garcia, Maples and Park, 2020).

Another point of view discloses that a novel perception of workforce potential is needed, defined as “giving workers more freedom to choose how they can best help tackle critical business problems as organizations and ecosystems evolve” in order to sustainably increase to a greater extent the overall company performance (Deloitte. Insights, 2020, pp. 20). The establishment of virtual “opportunity or talent marketplaces” for current company employees and potential candidates is identified as an effective and efficient way of achieving the aforementioned organizational goal, based on the employee voluntary initiatives. They are defined as “platforms that make visible and communicate to workers defined opportunities” (i.e. roles that may undergo frequent reinventions) “for professional development, training, mentorship, project participation, networking, promotion, diversity, and inclusion” (Schrage, et al., 2020). These platforms serve as a means of aligning closely the officially declared employee interests, passions, and capabilities with the current and potential company demands. The employee interests, passions, and capabilities may be characterized as pliable to reinvention in congruence with emerging needs, oriented to identifying critical gaps, (re-)(ab-)solving unexpected and potential issues, supporting employees to reimagine key parameters of work performed, compatible with the use of AI-enabled technologies, tracked by managers in real time, frequently analyzed for whole teams (Deloitte. Insights, 2020, pp.22-23).

5. Compensation and benefits

The current crisis brought to the full and open communicated inclusion of a new item in traditional lists of employee wellness and benefits, supplied by companies, i.e. mental health support. Frequently, HR managers’ giving a lead in sharing own mental health struggles may be highly valued by troubled employees (Schmidt, 2020) who will probably perceive an added touch of humanity in the exercised role modelling efforts by the subject of management.

Furthermore, a great deal of working parents desperately need the support of the HR managers and specialists, especially during these crisis times when mingling of professional and parenting roles may decrease employee concentration, productivity and emotional stability. Some useful HRM solutions in this sphere may be recommended (Dowling, 2020; Rodsky, Smith, Johnson, 2020):

- ❖ Improving the communication for the existing perquisites for working parents in the companies and even design specific packages for them (reimbursement of kindergarten expenses or subscription to on-demand sitter service).

- ❖ Establishing support groups of working parents in the company.
- ❖ Scheduling specific time periods for working parents when they are allowed to close their electronic business communication channels.

In the Covid-19 pandemic some new benefits come into being as HR managers try to adapt their compensation and benefits policies to the new conditions as altered employee preferences, imposed governmental restrictions and urgent company needs of cost control and reductions (Paychex, 2020). For example these are catered team lunches or outdoor picnics, half-days once per week, employee appreciation activities, virtual happy hours, tuition assistance, paid time off, gift cards, organized outdoor small group activities and free coffee and/or tea (arranged to be monthly delivered to remote workers).

6. Changing attitudes to “work-life” balance

The adherence to strong divide between employee’s life in the company and his personal one has already become impossible, because the Covid-19 pandemic situation disclosed and mixed to some extent these two spheres of human life by imposing remote work (entirely from home or hybrid) and digital communication among working people (Schmidt, 2020; Deloitte. Insights, 2020). This made life much more difficult for the working parents and other categories of diverse employees whose pending challenges and struggles have become intrusively visible to colleagues, managers and other stakeholders, and have not received adequate attention by many HR and other managers yet (Dowling, 2020; Rodsky, Smith, Johnson, 2020; Ellingrud et al., 2020, p.7). Such organizational climate brings forth the short term effects and long term consequences in realizations of all the nuances of office politics. Frequently the employer requirements to distant employees to stay longer hours reachable and available break enacted labor legislation, defining the work day duration and the obligatory schedules of work breaks that may contribute to employee psychological issues (burnout, depression) and physical health issues (fatigue, muscular or eye illnesses). It is an indisputable fact that in majority of the countries all over the world the labor laws do not regulate the current stage of development in the societal-economic relations – especially the remote work, highly increasing under the conditions of Covid-19 crisis.

It may be also concluded that a dominating number of organizational settings have not yet created inside written regulations, arranging the rights and obligations of their virtual employees or those, contributing in a hybrid way. The trade unions seem very slow posing this issue in the ongoing process of national or even international industrial relations (European Union, International Labor Organization), taking into account the Covid-19 related challenges that a great deal of employers have to surmount. For example the European parliament discussed the employee “right to disconnect” from the Internet and e-mail in December 2020 without facing any negative repercussions, approving a directive to be interpreted in the national legislative systems of the single member states, but several weeks later the

deputies recommended the adoption of a regulation to be directly abided by all member states (Hansens, 2020; Associated Press 2020; Lynch, 2020, European Parliament, 2021).

That is why some leading companies brought forth the idea of integrating work and personal lives of the employees through design and implementation of certain well-being practices simultaneously at three levels within the organizational setting (organizational, team, individual) and the environments in which work is designed (cultural, relational, operational, physical and virtual) (Deloitte. Insights, 2020, p. 17). For example, design of work environments, facilitating employees' physical, mental, and emotional health needs or modeling behaviors, oriented to well-being (e.g. taking micro-breaks, using video connection only for key meetings, etc.).

The HRM department's interventions in the sphere of employee "work-life balance" during the Covid-19 pandemic should be an indispensable part of the company's overall diversity, equity, and inclusion (DEI) strategy that is supported by specific HRM practices as performing frequent employee pulse surveys, proposing to employees virtual/ flexible work options (including extended family leave), implementing manager trainings for inclusive virtual/ hybrid leadership, providing regular leadership communication and engagement (Ellingrud et al., 2020).

7. The new aspects of Teamwork

Teamwork has become the "golden standard" of boosting organizational performance in contemporary succeeding and innovative companies, since bright, creative and engaged team members intensively collaborate to find better solutions to pending organizational issues, including external adaptation, internal integration and increasing the speed of learning and work (Schein, Schein, 2017; Deloitte. Insights, 2020, pp.24-26). Many teams in companies today perform in more than one location, even contributing across the borders, virtually or at least with some remote members, shifted at certain periods or for the completion of certain tasks, always bearing in mind the need to comply with safety requirements. Thus, the increase and maintenance of employee engagement has become a priority for the HR managers and specialists, especially in the emerging new daily work related critical incidents – for example video meetings. The accumulating experience reveals that turning on the video connection among participants in a virtual meeting, providing them with clear orders, advises and strong follow up materials may improve teamwork efficiency and effectiveness. That is why one of the aims of contemporary HRM is to guide the employees and their managers in the creative reinventions of occupied job roles in two perspectives – pursued increase in added value creation for the company, and performed daily on-the-job activities (Financial Times, 2020).

Another important aspect of potential advantageous management impact on teamwork is identified eight months after the start of the pandemic (Morieux, Tollman, 2020), i.e. relational productivity that has to be taught to organizational leaders,

struggling to solve pending issues, originating from the crisis. The relational productivity is defined as “the differential performance created by effective behavioral interactions in an organization”, dominating under the conditions of “specific organizational context” (Morieux, Tollman, 2020, p.5). Leadership, engagement and cooperation are determined as the three key drivers of relational productivity whose deliberate organization-wide implementation through concrete recommended steps and creative elaborations by managers may increase the overall company performance (table 2). Of course the influence of certain new and specific for the respective firm and its personnel members’ roles, structures and processes, regarding these endeavors, cannot be ignored by HR managers and supervisors, too.

The HR managers and specialists now possess a new instrument to accelerate company growth or at least to minimize the negative influence of the business environment in comparison to the competitors. This is the next phase of the elaboration in teamwork, emerging after the proclaimed pursuit of diversity among team’s members, i.e. “superteams”. The last is defined as “combinations of people and technology leveraging their complementary capabilities to pursue outcomes at a speed and scale not otherwise possible” (Volini et al., 2020) that requires managers’ adopting a new point of view to technology as an additional team member and collaborator, and creatively transforming the performed work. Empirical evidence reveals that cherished organizational culture, building workforce capability and technology not only exercise great impact on the forming of superteams, but also matter to work transformation. The success in this HRM sub-area also depends on the establishment of the right ownership on superteam creation in business organizations that is better to be shared among managers and specialists in the HR, IT and other specific company spheres who have to struggle for integrating humans with technology in order to realize the synergy of “complementary capabilities to re-architect work” in more human and personalized ways (Deloitte. Insights, 2020, p 24-28).

Table 2: The components of relational productivity

DRIVERS	WHAT LEADERS PERFORM...
<i>1. Leadership: How Managers Create Value</i>	1.1. Interacting with more personnel members across the company and doing it more frequently. 1.2. Virtually communicating more directly and clearly, concentrating on the essence of work.
<i>2. Engagement: Going Beyond the Minimum</i>	2.1. Using (organizational) “purpose to move people beyond grief to action.” 2.2. Applying two ways of fostering employee engagement: (a) a “macro” way by cultivating a collective sense of purpose; and (b) a “micro” way by cultivating a sense of compulsion in their employees through time-limited and iterative sprints.

<p>3. <i>Cooperation: Putting Individual Autonomy in the Service of the Collective</i></p>	<p>3.1. Establishing the right context for cooperation in the virtual or hybrid working environment. 3.2. The new context should be highly appreciated by the employees.</p>
<p>Source: (Morieux, Tollman, 2020).</p>	

Conclusion

Based on the performed literature review, disclosing an array of implemented successful HRM initiatives and practices in business organizations in response to the occurring changes in the business environment due to Covid-19 pandemic, at least several key components of the HRM system beyond the core one of “Establishment and maintenance of safe and healthy working conditions” may be identified – HRM strategic management, recruitment and selection, training and development, compensation and benefits, work-life balance and teamwork. Analyzing them and their content, i.e. bundles of HRM initiatives and practices within each one of them, permits formulating several emerging features of HRM that constitute its specificity at the initial stages of the current crisis, as follows:

- ❖ Accelerated and deep penetration of technologies in the aforementioned key components of the HRM system in the business organization.
- ❖ Implementation of agile approach to undertaken anti-crisis measures in the field of HRM, supporting organizational resilience and flexibility.
- ❖ Wider adoption of talent management perspective within the functioning HRM systems in the surviving and thriving business organizations (for example HRs engage with initiatives outside the company and/or are oriented to the wellbeing of more constituencies and society as a whole).
- ❖ Reformulating the HRM strategy of the company in congruence with the adopted new overall company development strategy in response to the crisis.
- ❖ Stimulating a more humane approach in the “employer (manager) – employee relationships” because of the crisis.

It should be taken into account that the aforementioned bundle of special features of HRM originate from just the first year of coping with the Covid-19 crisis and may deeply change in the near future. But the business efforts in recovering from it will continue at least several years (Froni, Marcellino, Stevanovic, 2020; UNCTAD, 2020; Charumilind et al., 2021) that opens space for pursuit of other critical initiatives and practices in the HRM sphere with high potential to create greater value added to company’s survival and thriving. Thus, the world of business may soon get into situation in which the current ways of getting things done in companies and realizing of inter organizational collaborations may be vastly transformed, contributing to inevitable restructuring of the content of different components in the functioning HRM systems, creating new components and ceasing the existence of redundant ones.

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THE NEED OF TRADE FINANCE

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Abstract

Trade finance will remain an important component of international financial flows. Historically trade finance has tended to be highly vulnerable in times of crises. Despite the central role played by trade finance, there has been limited analysis of its role in international capital flows, especially during periods of crisis. All institutions and individuals having worked on trade finance have noted the absence of a globally consistent set of statistics. Despite continuous progress regarding guidance, definition and compilation under all institutions most recent statistical manuals, compilation at both national and international levels has been lagging. Twelve years after the Great financial crisis of 2008-2009, the need and the issue of trade finance re-emerged as a matter of urgency.

Keywords: Trade Finance; Documentary Credit; Documentary Collection; Cash-in-advance; Open Account

JEL: F1, F3, F4, G2

Introduction

As lifeblood of the day-to-day international trade finance is supporting the fluidity and security necessary for the movement of goods and services in the transactions between importers and exporters around the world. (OECD, 2020) Trade finance will remain an important component of international financial flows, especially to emerging market economies, depending heavily on bank-financed trade credits for supporting their export and import activities. Historically and neglecting times of normal economic activities, trade finance has tended to be highly vulnerable and can fall dramatically in times of crises, as was the case in East Asia in the late 1990s and during the latter half of 2008 in the global economic crisis 2008-2009. Even creditworthy borrowers won't be able to secure adequate funds to finance their export and import activities. All credit constraints faced by the exporters hold the recovery of the economic activity and the growth of the countries.

Indeed trade finance differs from other forms of credit, such as investment or working capital. In times of turmoil the risk is rising with the difficulty of securing and enforcing credible commitments across borders. In the global economic crisis 2008-2009 a number of banks, global buyers, and firms surveyed by the World

Bank are reporting to be constrained by lack of trade finance and other forms of finance, such as working capital and pre-export financing (Chauffour&Farole, 2009). The costs of trade finance are substantially higher in comparison with pre-crisis period.

The G-20 agreed to ensure the availability support for USD 250 billion of trade finance in 2009 and 2010 during the 2008-2009 economic crises, trying to avoid the future impacts of a shrinkage of trade finance on the real economy (OECD, 2020). Due to the significant impact of the Coronavirus pandemic (COVID-19) on the world economy the concerns are rising with respect to the cost and availability of trade finance pushing governments, multilateral groupings, public institutions to reflect on possible responses.

Despite the central role played by trade finance, there has been limited analysis of its role in international capital flows, especially during periods of crisis. Market conditions for trade finance are difficult to assess because of absence of data. Bank trade finance is functioning over the relationship between the bank and its individual clients. Pricing and availability of bank-intermediated trade finance depends on complex relationships between client, counterparty and counterparty banks. As a result, the data is a mix of proprietary information about bank-client relationships. The data on open account and cash-in-advance transactions is connected in the same way as individual customer relationships. But the problems are rising without information clearing house acting as a transactions channel through banks.

All institutions and individuals having worked on trade finance have noted the absence of a globally consistent set of statistics. Until 2004, a series of trade finance statistics was taken from balance of payments and BIS banking statistics, under the work of four international institutions, i.e. the IMF, World Bank, Bank of International Settlement (BIS) and OECD. Statistical information about the source of trade transactions finance has been “lost” in many countries, abandoning foreign exchange controls, mainly in the 1990`s and 2000`s. The data did not improve much in 2014 when the BIS made a great general assessment of trade finance supply (BIS, 2014). In recent years, with support from the WTO, professional associations of trade finance suppliers (the Berne Union, the International Chamber of Commerce, Factoring International, SWIFT) made progress in collecting trade finance data. Despite continuous progress regarding guidance, definition and compilation under these institutions most recent statistical manuals, compilation at both national and international levels has been lagging.

Developments of trade finance in 2020 were mainly determined by the impact of COVID-19 pandemic. Unfortunately the statistical situation had not improved at the beginning of the COVID-19 crisis in comparison with the 2008-2009 global financial crises. Twelve years after the Great financial crisis of 2008-2009, the need and the issue of trade finance re-emerged as a matter of urgency.

Literature review

Until the global financial crisis in 2008-2009, only few economic researchers took an interest in international trade finance. On the other hand, there were models on international trade without investigating financial problems. They were considering perfect capital markets, admitting that the cost of external finance is the same as internal finance (Melitz, 2003). In contrast, there was a quite large amount of economic literature on inter-firm trade credit, as suppliers' credits and cash-in-advance without touching its international aspects (Fisman and Love, 2003).

Love et al.(2007) study the question whether trade finance collapses in times of crisis. They study the use and extension of trade credits by firms in Indonesia, South Korea, Malaysia, the Philippines and Thailand during the Asian financial crisis and Mexican firms during the 1994 Peso devaluation. Trade credits, in their research, have double usage – for domestic, as well as for international transactions. The authors do not consider internationally active firms. They show that firms cut out from bank financing in times of liquidity problems cannot find a substitute in the form of trade credit extended by other firms. The explanation is found in the scarcity of financing which has effects over all sources of financing in times of crisis (be it bank credit or inter-firm credit). According to the redistribution theory of Meltzer (1960) and Nilsen (2002) firms redistribute liquidity in the form of trade credit throughout the supply chain; the general lessening of trade credit would affect the whole chain.

Quite soon economic researchers have started to think about financial frictions in the models of international trade. International trade constraints are greater than domestic trade for two reasons. First, international transactions are exposed to higher level and a lot of risks, such as the exchange rate risk, the political and non-payment risks. Second, the financing needs of internationally active firms are larger, as a result of the time lag between actual production of the good and its delivery.

For the first time financial constraints are included into models of international trade by Manova (2013) and Chaney (2005). They confirm that due to the imperfect contract enforcement and higher non-payment risk, there is a higher mark-up on external finance. As a result, higher cost of external finance may stop firms originally fit to export. That is the case in countries with a low level of financial sector development and for sectors with a high financial vulnerability. Berman and Héricourt (2010) find out that access to finance increases the probability of becoming an exporter by using firm-level survey data from the World Bank for nine emerging and developing countries. Country's financial development is another determinant of firms' probability to become exporters.

The literature on finance and international trade is more extensive in comparison with the literature on financing terms used in international trade, which is new, but expanding. Schmidt-Eisenlohr (2013) created a model describing the compromises faced by trading partners while choosing financing terms. When the cost of financing and the quality of contract enforcement in the exporter's

country are higher than the same in the importer's country, open account terms are more preferable than cash-in-advance financing terms. In the case of low quality contract enforcement in both countries and low letter of credit fees, the letter of credit is the most preferred financing term.

The Schmidt-Eisenlohr model (2013) is extended by Antras and Foley (2011) by a dynamic setting showing how the choice of financing terms in international trade also depends on the duration of the relationship between the trading partners. As repeated interaction helps develop trust the use of cash-in-advance financing decreases with the duration of the relationship. The authors tested their model prediction by using data from a large US poultry firm.

Demir and Javorcik (2018) investigate another factor that matters for the choice of financing term in international trade. To show that an increase in the level of market competition leads exporters to extend more trade credit to their buyers the authors investigate firm-level customs data disaggregated by financing terms. As a result, there is an increase in open account terms financing.

The usage of letter of credits across countries is explored by Niepmann and Schmidt-Eisenlohr (2017). The authors use SWIFT data, covering nearly 90% of global letter-of-credit transactions, presenting an extensive set of empirical calculations over various country-level characteristics that affect the use of letter-of-credit. Unlike them, the essence of Crozet et al (2020) is product-level factors that affect the intensity of the usage of letter-of-credit in international trade. As a result from their analysis products that rely more on trade insurance registered a greater decline in exports to destinations affected by the Great Recession than other products did. The supply of letter-of-credits is negatively influenced.

The choice of financing terms by trading partners is also influenced by the banking sector development. By detailed information about imports transactions from Columbia Ahn and Sermiento (2019) prove that import was significantly influenced by bank liquidity shocks via the letter of credit channel during the Great Recession. Other authors, Demir et al. (2017) show that firms use letter-of-credits less (more) intensively when exporting to countries for which the cost of letter-of-credits increased (decreased) after the Basel II adoption by the usage of mandatory adoption of the Basel II framework in Turkey, affecting the cost of holding letter-of-credits by banks.

After proving the importance of access to finance for international trade transactions, the next question is whether specific trade finance instruments can help to overcome financial constraints. Letters of credit, supplier credit, and cash-in-advance are used in international trade strongly. Eck et al. (2012) find out that 96% of all exporters among the German firms use supplier credit through firm-level survey data. Moreover, exporters and importers also use a higher share of supplier credit on their inputs and receive a higher share of sales as advance payments than domestic traders. Then the next question comes – why internationally active firm use trade credits so actively?

Inter-firm trade finance gives a quality signal which lower the uncertainty of trading internationally prove Eck et al. (2012). By the inherent quality of get-

ting better the information on trading partners, trade credits are facilitating access of the firms involved to credit in general. On the other hand, Eck et al. (2012) find that supplier credits may lead to more bank credits for financially constrained and internationally active firms. For that reason trade credits may be interpreted as complements not only substitutes to traditional bank credits. Furthermore, the positive relationship between export credit insurance and trade is investigated by Van der Veer (2010) and Felbermayer and Yalcin (2011). Export credit insurance data before that is analyzed by Egger and Url (2006), Moser et al.(2008).

The international trade in goods and services is impossible without the day-to-day lifeblood of trade finance. More precisely, trade finance provides fluidity and security needed for the movement process of goods and services (Auboin and Meier-Ewert, 2008). Some 80 to 90 percent of all trade transactions are said to be financed.

What is it Trade Finance?

Trade finance takes many forms, from arrangements strictly between importers and exporters, to insurance services, to credit from banks. All these arrangements are characterized by different types and amount of risk.

In normal circumstances *open account financing* is the most common form of trade finance. On some pre-specified terms the exporter is extending credit directly to the importer. The exporter bears both the credit risk and the weight of providing liquidity in the transaction. As an alternative to paying banks for risk mitigation open account arrangements among unrelated parties rely on established relationships, trust and reputation.

Some open account transactions are insured by Export Credit Agencies (ECAs). They are much more closely related to bank-provided export credit than other forms of open account financing being not bank-intermediated trade finance. Much of the trade is trade between wholly-owned subsidiaries of the same parent firm or other closely-related parties (known as intra-firm trade) and probably has little if any need for bank or ECA trade finance.

Another alternative for the exporter is to claim for prepayment from the importer or *cash-in-advance* (often involving a discount). The importer bears both the performance risk (e.g. for non-delivery) and the burden of providing liquidity for the transaction.

Between open account and cash in advance there are many intermediate approaches that allow exporters and importers to finance their trade transaction through *bank-intermediated trade finance*. By such products banks verify delivery of their goods, guarantee payment for goods upon delivery and provide liquidity for the transaction before, during and after shipment. *Letter of credit* is the most familiar bank-intermediated trade finance form. The banks act as a guarantee for payment for the exports in their simplest forms, known as documentary credits. When the importer's creditworthiness is lower or less known than the importer's bank, the typical "unconfirmed" letter of credit would be used. The importer's

bank, acting as an issuing bank, is a guarantee to the exporter that payment should be made upon presentation of documents confirming delivery of goods. If the exporter is concerned about the creditworthiness of the importer's bank or the risk associated with the importer's country, greater protection to the exporter may be provided by the usage of „confirmed” letter of credit. The confirmation is a guarantee from another bank, typically the exporter's own bank.

Bank-intermediated trade finance may be presented by many other forms concerning bank lending, risk mitigation or other support for trade.

Exporters' liquidity may be raised in addition to guarantees in the form of advance of shipment, either as export-related working capital or transaction-specific financing (to buy inputs or to finance production for a specific goods export order). Importers can also be financed but after the delivery of goods allowing time to gain proceeds by selling the imported goods.

Exporters can also relieve the necessity to provide liquidity for the transaction by selling their trade receivables at a discount at banks. Banks are adding to guaranteeing payment and are taking on the credit risk as it is in the form of *forfeiting*.

Other form of bank-intermediated trade finance is the combining of working capital credit, purchase of export accounts receivables, export credit insurance, and bookkeeping and documentary collection services into financial packages for exporters by banks, sometimes referred to *export factoring or supply-chain financing*.

There is also another scenario, known as *documentary collection*, for facilitating trade by banks, without providing guarantees or liquidity and easing the delivery and processing of trade documentation, as it is in a letter of credit transaction process. Banks do not bear any risk for non-payment.

The development of secondary markets of trade finance facilitates banks to sell part or all of their original trade finance contracts through syndicated loans, asset-backed securities, or bilateral transactions between banks. By the usage of secondary markets banks are addressing risks from excessive concentration of risk in individual importers, importing countries or sectors.

Trade Credit and Trade Finance

A great part of the working capital of most firms is defined as an “account receivables”. That is the money owed by customers in the supply chain. Account receivables are matched partly by “accounts payable” on the liabilities side of the balance sheet. Or they are the money owed to suppliers further up in the chain. The interconnected chain of receivables and payables is compared with the glue that binds supply chains together in the real economy and maintains their operation, both domestically and internationally (Carstens, 2020; Kim and Shin, 2012).

Aiming to provide credit to customer firms, the receivables may be financed by non-financial corporation with their own resources. All these relations are defined as “trade credit”. As an alternative they may choose “factoring” to relieve banks' exposure and that to other financial institutions. As short terms financing via

factoring, receiving immediate cash firms sell their account receivables at a discount to a third party known as the “factor”, which is typically a bank. External financing is mainly common for importers and exporters. And the term “trade finance” is used collectively for all such arrangements facilitating international trade.

In the world of interconnected payables and receivables, firms borrow from their suppliers and lend to their customers. Trade credit chains are created. They are functioning parallel to the flow of goods along supply chains. For non-financial corporations trade credit is a significant form of funding. The volume of trade payables can be compared with that of outstanding corporate bonds. It is about one third of non-financial corporation’s outstanding bank loans (Boissay et al., 2020). They are mainly oriented to financing of inputs. Therefore they are not so influenced by the cyclical ups and downs of corporate loans and bonds. As a result, their volume is stable and about 20% of GDP over the past 25 years.

In comparison with trade payables, trade finance, measured by the share of cross-border factoring in total factoring, has constantly rising up over the past two decades (Boissay et al., 2020). The increasing of international trade, mainly the lengthening of global value chains, is in parallel with the rising long-term trend of trade finance. Trade finance has become more significant in the context of global value chains since financing needs increase with the length of supply chains (Bruno et al, 2018; Bruno and Shin, 2019).

Mechanism of Trade Finance

Trade finance mechanism is supporting two basic aspects of the trading process – risk mitigation and liquidity.

Any economic exchange is characterized by the element of risk. Principally to what extent the seller will succeed to deliver and the buyer to pay or accept, the goods or services as agreed in the trade contract. All these risks are rising in an international trading environment provoked by factors as macroeconomic volatility, political risk, information asymmetry and moral hazard. As a result the traders are using different facilities to mitigate and/or compensate for these risks.

Usually exporters face a gap between the time of the done production costs and the time of payment of the importer. A *liquidity gap* appears, getting greater by the payment terms granted to buyers as a period of days or weeks in which to realize the payment. This time period is getting longer in international trade due to the necessary time for products transportation to their markets. Firms are looking for credits to overcome the liquidity gap.

The great number of trade finance instruments involves credits extended bilaterally between firms in a supply chain or between different units of separate firms. Banks also play a central role in facilitating trade. They provide finance provisions, different facilities, organize and manage the payment mechanisms such as telegraphic transfers and documentary letters of credit (L/Cs). Different entities

take part in the activities of the banks, such as export credit agencies, private insurers, and multilateral development banks.

Export credit agencies (ECAs). They are quasi-governmental agencies that in general provide cover in the form of partial or comprehensive insurance and guarantees against counterparty risk. In practice ECAs do not provide direct funding to traders. By guarantying the trade financing to the exporters they are enlarging the role of the banks.

Private insurers. The role of the private insurers in the market as providers of trade credit risk, political risk insurance and bonding facilities is rising recently. Especially in providing short-term credit insurance they are standing higher in comparison with ECAs in all OECD countries, with exception of Japan and Canada. (Chauffour and Faraole, 2009). Insurance policies are normally used by exporters as collateral to enlarge the working capital or to unlock accounts receivables. Banks also often hold insurance policies on their L/C business lines.

Multilateral development banks (MDBs). The World Bank, International Financial Corporation (IFC) and a lot of regional development banks (i.e., EBRD, Inter-American DB and African DB) deal with formal trade facilitation programs to support their member countries. These programs extend the role of developing country banks. By issuing guarantees they are providing risk mitigation of the delivered trade financing in restricted credit lines conditions. The customers of these programs are mainly classified as small- and medium-size enterprises with no minimum transaction size.

Table 1: Overview of Trade Finance Products

Category	Products
Inter-firm/Supply Chain Financing	Open Account
“Traditional” Bank Financing	Investment Capital Working Capital Pre-export Finance
Payment Mechanism and Liquidity	Letter of Credit Issuance Supplier Credit Buyer Credit Countertrade Factoring and Forfaiting
Risk Management	Advance Payment Guarantees Performance Bond Refund Guarantees Hedging
Export Credit Insurance/ Guarantees	Export Credit Insurance Export Credit Guarantees

Source: Author

Table 1 presents the main products included in discussion of trade finance – from inter-firm credit to traditional forms of bank-provided credit (for liquidity and investment) and products for mitigating the risk and the liquidity gap in international trade. L/Cs is the most often used international trade finance products. In the L/Cs process the importers and exporters entrust the whole process and the mitigation of the counterparty risk to their respective banks.

There are a lot of differences between trade finance and the rest forms of credit (e.g. investment and working capital) with important economic effects during periods of financial crisis. The most important one is that trade finance may be received not only through third party financial institutions but also through inter-firm transactions. According to traditional economic theory if the company has no access to bank credit, due to high implicit inter-firm trade credit costs, it can obtain financing through suppliers. (Petersen & Raghuram, 1997)

The prevalent usage of inter-firm trade finance is a result of its certain features. It is allowing trade partners to better mitigating risk than third parties. *Informational advantage* is the first specific feature. Trade partners are in better position than banks in assessing the risk of non-performance, non-payment, or strategic default. Informational advantage hypotheses in a restricted way may explain the extension of credit depending on the nature of products and services traded and on the market power of suppliers and buyers. (Giannetti, Burkart & Ellingsen, 2007; Fabbri & Klapper, 2009) The second advantage is *the trust*, or more specifically *encapsulated interest*. Having greater interest the buyer stay in business and continue to work with them, suppliers may be more willing than banks to extend credit. (Giannetti, Burkart & Ellingsen, 2007)

Not being in business of financing, the aim of trading firms offering credit is to raise the competitiveness of their basic product or service. They extend credit on terms that allow it to maximize the profits of their core offering. As a result, the market power is depending on the dilemma of extending or receiving inter-firm trade credit. The size of the competitiveness in the market and the industry structure of the suppliers determine their actions. Not so powerful suppliers are extending less credit and similarly powerful suppliers are demanding more favorable terms. The economic literature argue that firms with less market power extend more credit (Fabbri & Klapper, 2009), and that a customer that generate a large share of its supplier's profits tends to have more credit extended to them (Giannetti, Burkart & Ellingsen, 2007). Giannetti, Burkart & Ellingsen (2007) also find that suppliers of services tend to be highly differentiated, extend more credit than suppliers of standardized goods. Being practically impossible to divert services present no "moral hazard" and limit the risk of strategic default. Thus, emerging market exporters, being relatively small and selling mainly standardized products, are possible to be forced to extend favorable credit terms and have not got possibilities to demand similar terms of their input suppliers.

Trade finance – whether offered through banks or within the supply chain, is comparatively illiquid in comparison with a standard credit line or working capital loan. It cannot easily be diverted for another usage. The high collateralization is the other difficulty – credit and insurance are provided directly against the sale of specific products or services, whose value is calculated and secured.¹ It means that the risk of strategic default on trade finance is low. In supplier-extended credit the risk of trade finance is even lower. Buyers are less likely to default on supplier-extended credit, because of the liquidity problem. The bank credit is somewhat more liquid. “The moral hazard” is greater in the case of bank financing. In the event of non-payment, the supplier is obtaining higher value from liquidizing the collateralized asset (i.e. goods being traded) than the bank. The nature of the product being traded is important in both cases – the differentiated the product the less it poses a moral hazard to buyers (Giannetti, Burkart & Ellingsen, 2007) and the greater the relative liquidation advantage that would accrue to supplier over bank (Fabbri & Menichini, 2009).

Another specific feature of trade finance, connected with greater potential risk, is its international context. Cross border trades face macro-level risks which can influence the value of return (e.g., exchange rate fluctuations, changes in policy) and the possibilities of default (e.g., conflicts, political upheaval). In parallel they face specific counterparty risks in relation with greater difficulty of enforcement across borders, intensified in many developing countries by poorly functioning institutions, especially legal systems (Menichini, 2009). Weak cross-border enforcement increases the risk of strategic default on the part of suppliers, creating the problem of “credible commitment” across borders (Ellingsen & Vlachos, 2009). Finally, the cross-border nature of trade finance limits the assessment of the counterparty credit risk. These risks may be mixed in the case of supplier-extended credit, by the fact that greater part of suppliers operate in “credit chains” – i.e. firms which extend credit to their suppliers in turn have credit extended to them from their suppliers. Working capital provided by inter-firm credits to support production and trade is critical. At the same time they are vulnerable to shocks as they can quickly create problems across the chain (Kiyotaki & Moore, 1997; Raddatz, 2008), strengthening the systemic risk.

Conclusion

The necessity of trade finance theory revision is obvious. While the current pandemic-related crisis did not have a financial cause, one of its results has been that many countries were experiencing difficulties in accessing trade credit. They are mainly developing economies with high structural trade finance gap before the pandemic. After the begging of COVID-19 banks experienced an increase in

¹ That is not true in all cases. Such products are perishable (i.e. their value erodes quickly) and extremely differentiated (there is little or no market value outside the intended buyer). The services are not generally able to be collateralized.

failures by traders to fulfill payments. Governments, export credit agencies and international financial institutions rapidly intervened to support private markets. Multilateral development banks have provided record amounts of trade finance guarantees and liquidity in the developing countries. Foreign exchange resources have been supplied by large central banks through swap agreements. How to encourage the recovery of trade flows remains the question in 2021, despite the substantial efforts to date.

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ARTIFICIAL INTELLIGENCE, CLIMATE CHANGE AND CIRCULAR ECONOMY: A BULGARIAN PERSPECTIVE

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Abstract

Artificial Intelligence (AI) has become a much discussed topic and research field worldwide. It has a wide range of implementations: machine learning, natural language processing, neural networks, automotive driving, medicine, education, etc. Issues such as Climate Change (CC) and Circular Economy (CE) are vital for sustainable development. This article provides an overview of existing research in these areas, analyses and tries to contribute some consideration for AI utilization on environmental issues. It figures out interdependence between AI, CC and CE. The outcome of the study provides some views for Bulgaria.

Keywords: Artificial Intelligent; Climate Change; Circular Economy

JEL: O33, Q01, P4

Introduction

Alfred Marshall (Marshall, 1895) focuses on human activities or human well-being, instead of wealth. He defines political economy as the study of humanity in relation to the ordinary affairs of life. It examines that part of the personality and social activity which is most closely connected with the acquisition and use of the material requisites of welfare. So on the one hand it is a study of wealth, and on the other, more important, it is the study of man. This means that the main object of the economy, whether capitalist or otherwise, is the distribution of scarce resources for production, goods and services in order to meet the needs and desires of the people. The challenge arises due to the lack of resources, which is opposed to the ever-increasing needs and desires of human individuals. In the same context we can mention Lionel Robbins (Robbins, 1932) who emphasizes on his studies the lack of resources in the human economic activities.

Bearing in mind scarcity and lack of resources, combined with the growing human population, the environmental issue and climate change become more and more important. CC has an enormous impact on human lives and economy. Weather disasters or accidents caused by pollutions and greenhouse gases again today are agenda.

The Circular Economy is a relatively new paradigm for changing the linear models of economic development, transforming the way of production and reuse of products. The main idea is that waste production can be minimized through eco-design, recycling and reuse of goods (Dimitrova, 2020). CE is a vision of how an economic system can be ideally sustainable, practically based on closed cycles of physical resource and energy flows at different hierarchical levels and by different actors in which, after each original use, subsequent use maintains or enhances the resource-based economic value and creates or enhances environmental and social value. The CE vision of closed cycles and retained value is connected to being an instrument which contributes to Sustainable Development. In order for that to happen, a break with the current state of the linear economy is needed (Del Río et al, 2021). Once the goods (the various objects and materials) have performed the functions for which they were created, they must be recycled and re-incorporated into new goods. In this way, the circle for the use of materials will be closed and a state of waste-free economy will gradually be reached (Zhelyazkova, 2017).

Knowledge is one of the characteristics of the circular economy. It can be defined on the one hand as the accumulated experience of the stakeholders for the changing priorities in the society towards sustainable production and consumption, and on the other as training with data and indicators for the specifics of the circular business model (Dimitrova, 2020).

In our days humanity has to deal with immense quantities of data in order to acquire knowledge. What makes mere data information is the understanding of the relationship between individual data or between data and other information. In other words, that which is essential for creating a database or collecting information is the context, i.e. the relationship between the pieces of data. When information is further processed, it has the potential to become knowledge. The information is further processed when an existing model is found between the data and the information. And when one is able to realize and understand the patterns and their consequences, then this collection of data and information becomes knowledge. But unlike ordinary context-dependent information, knowledge tends to create its own context.

Machine learning itself, the study of algorithms which improve themselves through data, is not a new domain of research. The fundamentals underlying the modern advances in the field were established by researchers in the 1950s and developed throughout the subsequent decades (Hwang, 2018). However, the computational power more and more occupies our lives, private and social. In order to acquire more knowledge and be more productive humanity has to rely on the disruptive technology. AI for better or for worse (the opinions of the scientific community are not unequivocal) will continue to consolidate its role as a driving factor for the economy.

Artificial Intelligence and Sustainable Development Goals

The phenomenon of AI is making our lives completely different. Defining AI is a relatively difficult task. There are few understandings of the term Artificial Intelligence. Although the terminology is in use since 1955, in our days discussion on this issue accelerated rapidly. For the purposes of this article, we will try to clarify some features of the AI.

One of the simplest definitions of an intelligent system is as follows: a system which processes information in order to do something purposeful. A common definition explains AI as a computational product built through human intervention that thinks or acts like humans, or how we expect humans to think or act (Dignum, 2019).

A multitude of papers write about different scientific topics every day across the globe. Taking into consideration all those papers written, in many different languages, it is obvious that scientists and experts can't possibly know about every case that is been published across different countries. They even probably would not have time to read them all even if they knew they existed. Various forms of AI, such as natural language processing, have the ability to read papers in multiple languages.

In the healthcare and medicine for instance, AI has the ability to predict outcomes with a degree of confidence and prescribe optimal actions—in the case of healthcare, recommending treatment options that are tailored to the individual patient. It is possible that AI systems could find causes, help design new treatments for cancer faster with greater success rates, and lower negative reactions to the drugs being used (Astorino, Simmonds, and Puget, 2019).

The environmental concern, mainly related to CO2 emission reduction, water protection, energy saving is a potential source of innovation. A research (Gallucci, Dimitrova, and Marinov, 2019) highlighted that there is a link between eco-innovations and trade. The adoption of measures aiming at improving the transition to eco-innovation (such as diffusion of green technologies or environmental certification) will improve the intra-industry trade favouring the whole economic performance. Eco-innovations seem to be able not only to directly reduce pollution, but also to foster overall environmental performance via market transactions, both domestically and internationally. Authors concluded that eco-innovation can be a driver to incentivise the intra-industry trade without compromising on the increasing greenhouse gas emissions, climate change, land degradation or energy consumption which characterise trade growth.

There is a plenty of knowledge out there. In our information era, defined from Alvin Toffler in the last decade of the previous century, we have to deal with an extremely enormous bulk of data. And these data increase exponentially. In order to tackle with knowledge management one has to enforce tools and techniques which have the potential to evaluate and process all existing information. To be

more productive and efficient, this activity should be powered by Artificial Intelligence applications.

When we are talking about innovations, more than ever, we need well-working knowledge management process. Working in such a direction, knowledge management platforms would be useful. These platforms should be designed to work with embedded AI components in them. Powered by AI and having abilities to learn, the machines would accelerate and improve the process of knowledge creation and management of innovations. AI is a powerful tool for knowledge allocation and distribution. But the control should always be in the hands of man.

Some studies point to serious obstacles and problems in the practical application of the theory of material cycles, renewable energy sources and the concept of circularity in general. This refers to the constraints related to thermodynamics, the spatial and temporal boundaries of the system, the control and management problems associated with inter-industrial and inter-organizational material and energy flows (Stoichkova, 2020). In order for man to tackle such obstacles, AI must be brought into play.

One of the many viabilities of AI is selection of waste products. Multi-sensor-driven AI tools for instance help in retrieving vital information such as colour, size, shape, density, physical and chemical composition of plastic waste. Gathering such information about plastic waste greatly enhances the separation process. These data collected about plastic waste are also distributed and validated on the blockchain platform, which serves as a trust-based network. This blockchain platform is used (Sankaran, 2019) as a backbone to share and validate valuable information (also known as digital transaction) between plastic waste separators, recyclers, and feedstock buyers (manufacturers). Information transacted also contains data regarding supply, demand, specifications, bidding- and offer-price of recycled feedstock. These blockchain smart contracts powered by multi-sensor data-fusion will encourage manufacturers to confidently procure more recycled plastic feedstock and, hence, reduce our increasing dependence on fossil-fuels. Radical Innovations Group is testing these advanced tools with different early-stage adopters to gain more real-time insights and thereby increase the impact of these tools in mainstream usage (Chidepatil et al., 2020).

Bulgarian case

Research has shown that a circular economy in Europe can create a net benefit of €1.8 trillion by 2030, while addressing mounting resource-related challenges, creating jobs, spurring innovation, and generating substantial environmental benefits (Ellen MacArthur Foundation, 2019).

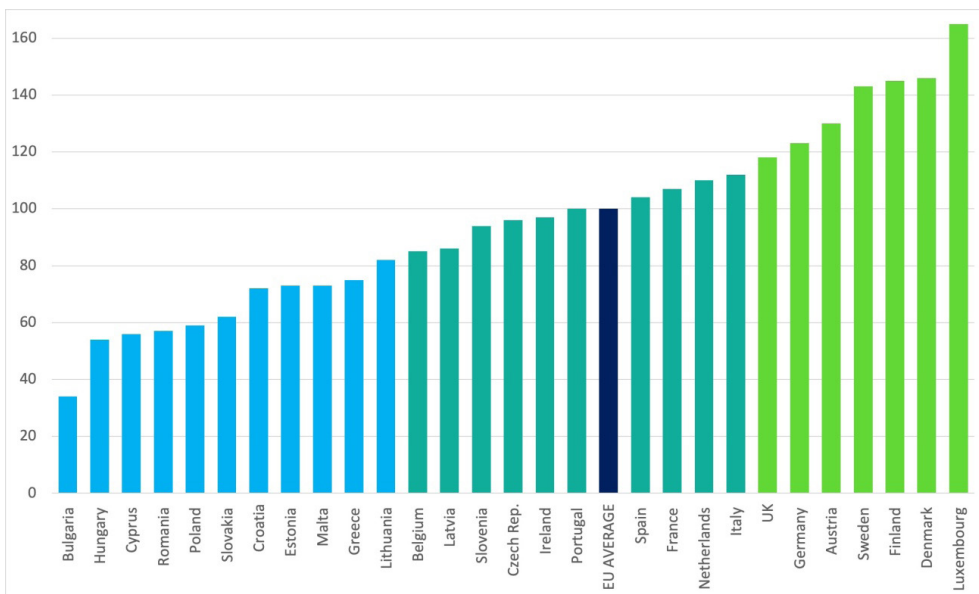
In December 2015 the European Commission adopted a Circular Economy Action Plan to give a new boost to jobs, growth and investment and to develop a carbon neutral, resource-efficient and competitive economy (COM 190, 2019). Circularity has opened up new business opportunities, given rise to new business

models and developed new markets, domestically and outside the EU. In 2016 circular activities such as repair, reuse, or recycling generated almost €147 billion in value added while standing for around €17.5 billion worth of investments.

What is the current situation of the CE in Bulgaria?

In order to turn the waste of one enterprise into a raw material for another, it is necessary to change the legislation. This is not a fact in Bulgaria. There is a conflict between different regulations. According to the law on waste management in the country, companies are required to register waste as such. This prevents their subsequent sale as a raw material (Stoichkova, 2020).

According to the 2019 Eco-Innovation Scoreboard (Eco-IS) results, Bulgaria continues to be ranked last of the EU Members States, and remains a “modest innovator” despite its willingness to reach the “moderate innovator” group as is planned in its strategic vision up to 2020. Despite the efforts made in recent years by the Bulgarian government to improve the legislative framework and to promote innovation, eco-innovation and circular economy, Bulgaria still lags behind in these areas.



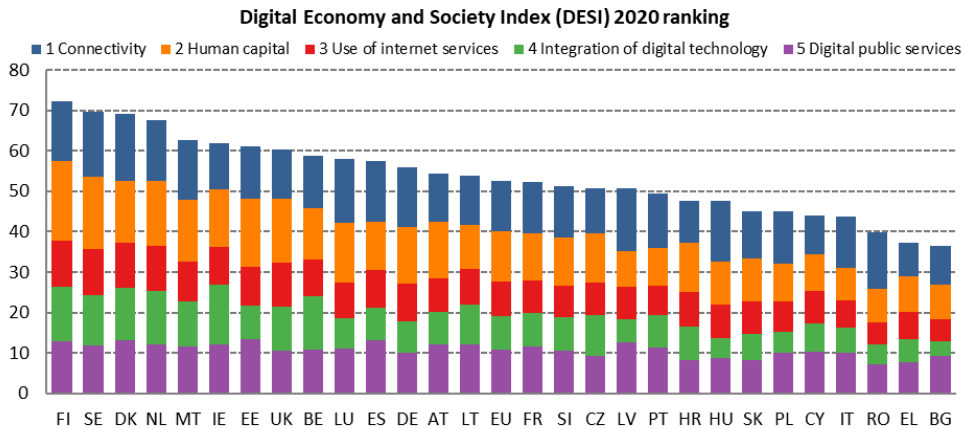
Source: Eco-innovation in Bulgaria: EIO Country Profile 2018-2019

Figure 1: EU28 Eco-innovation Index 2019, composite index

The analysis of the composite Eco-innovation index shows that Bulgaria scores low on component one (Eco-innovation inputs) which could be partly explained with the relatively low GDP of the country and misbalances within the research system. The country has relatively higher performance for two of the indicators. For ‘Eco-innovation activities’ Bulgaria scores 65 and comes 22nd in the EU.

For ‘Eco-innovation outputs’ Bulgaria scores 19 (five times lower than the EU average) and has the penultimate place in the EU, only before Hungary (Zhechkov, 2019).

On the other side of the topic is the development of overall digitalization in Bulgaria. Shown on figure 2 is a comparison between the EU member states in regards to implementation of digital technology in the society.



Source: Digital Economy and Society Index (DESI) 2020

Figure 2: Digital Economy and Society Index (DESI) 2020 for all EU member states and UK

Despite Bulgaria staying relatively well on the map by connectivity indicator, the overall picture is not good according figure 2. Regardless, the dynamically developing ICT sector in Bulgaria there is still a lot of work to be done. According to the Bulgarian Ministry of Transport, Information Technology and Communications (Digital Transformation of Bulgaria for 2020-2030), the ICT sector is one of the fastest-growing in the economy and the software industry is the fastest-growing segment with an average annual increase of 17% since 2007. In the document it was also concluded that currently companies in Bulgaria do not take full advantage of new digital technologies and innovative business models. The state of industry digitalization varies in different sectors, especially between high-tech and traditional sectors. In order to ensure rapid digitalization of the economy, every enterprise should be able to implement solutions that support the development, testing, and experimentation with new products and services based on digital technologies, including artificial intelligence. Particular attention should be paid on improving the access to advisory services and financing for high-risk innovative start-ups, both in the early stage of their development and in their scalability.

Bulgaria is a signatory to the Declaration of Cooperation on Artificial Intelligence.

Despite all the good intentions, Bulgaria still does not have a clear map for implementation of Artificial Intelligence in the eco-area and Circular Economy. There are numerous official documents on the topic with recommendations only.

What could be done?

In order to increase implication of the AI applications, collaboration and common projects between scientists and experts around the fields are needed. In addition more disruptive technology and scientific methodology should be included in the sustainable development agenda. There are dedicated scientific works in Bulgaria, concerning AI or CE issues.

The most important step in developing the intelligent system for approximation of sustainable innovation is to identify, according to prior information, what will an innovation result in depending on the company's capabilities and limitations. It cannot be decided in advance, but after analyzing the data on hand, an accurate estimation can be given. An inference system can easily and automatically solve this issue. The innovation potential can be efficiently approximated by artificial intelligence-based neuro-fuzzy inference system (Guban et al., 2019). This model is based on the synergistic work of the fuzzy-logic and the neural network theories. The combination of the two artificial intelligence methods would result in a precise and flexible, however a very stable and arrhythmically well formalized method, which is fuzzy and exact at the same time.

AI and blockchain technologies play an important role in the Fourth Industrial Revolution (Industry 4.0) and have a significant impact on business. AI can help implement the blockchain technology. On one side AI techniques can be used to optimize energy consumption, on the other they can improve the performance of hash function and in such way to help solve privacy problems (Terziyski, Hadzhikolev, and Terziyska, 2019).

Conclusion

In a state of limited resources the economies need to provide reliable and state-of-the-art decisions in order to tackle sustainable development goals and related challenges. Focusing on the economic growth we strive to increase gross domestic product encouraging the consumption of more and more commodities. This has its consequences in the form of a more polluted and exhausted planet. Hence, we have a contradiction. In order to keep the balance between economic growth and a secure future we have to work on solutions guaranteeing sustainable development. And this is not new. Experts and scientists have already reiterated upon such issues a long time ago. The United Nations Development Program defined 17 goals in 2015. In 2030 these goals should be reached in order for people on Earth to live a better life. Now is the time for action, the time for harnessing modern disruptive technologies for human welfare.

As is figured out above, few implications of AI could increase the positive impact on climate and resource management. And these are only a fraction of the whole. Benefits from AI could be derived by analyzing large-scale interconnected databases with the goal of developing joint actions aimed at preserving the environment. In regards to climate action, there is evidence (Vinueza et al. 2020) that advances in AI will support the understanding of climate change and the modeling of its possible impacts. Furthermore, AI will support low-carbon energy systems with high integration of renewable energy and energy efficiency, which are all needed to address climate change. AI can also be used to help improve the health of ecosystems.

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ORIGIN AND EVOLUTION OF THE SINGLE EUROPEAN SKY

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Abstract

The objective of the research is to present the origin and evolution of the Single European Sky initiative and to outline its importance for the European economy and the European aviation industry. The paper defines as its subject and reviews in detail the concept of the Single European Sky, the economic factors that have led to its formation and the European regulatory framework that is comprised of a set of EU-wide rules on Air Traffic Management (ATM) safety, on the provision of ATM services, on airspace management and on interoperability within the network, as well as financial support to the technological modernization programme (the SESAR project). It presents the rulemaking activity of the European Commission in order to deal with the inefficiency of the European Air Traffic Management System due to the fragmented character of international airspace, fragmented into smaller air traffic control centres divided by the national boundaries, effectively limiting integration, interoperability and economies of scale and leading to induced delays, excessive air-traffic control costs and uneconomical flight trajectories. The applied research methodology includes content analysis, analysis of statistical data, historical data, graphics, conclusions, and generalizations. The hypothesis is that the strategic goals of the Single European Sky initiative and its implementation are beneficial for the competitiveness of the European aviation industry, and the common rules and the introduction of a harmonized legislative framework will contribute to improving the efficiencies of air traffic management while accounting for the interests and singularities of all stakeholders in the European aviation value chain.

Keywords: Aviation Industry, Single European Sky; European Commission; Market for Air Navigation Services; Defragmentation of the Sector, Air Traffic Management, Regulatory Policy of the EU

JEL: L93; R48

I. Introduction

The intent of this report is to present and explain the trends in the development of the legislative initiatives aimed at regulating the provision of air navigation services in Europe. The main area of focus is the Single European Sky initiative which has been designed to improve the overall efficiency of air traffic management

in Europe by creating common rules and introducing a harmonized legislative framework.

The importance of the topic is comprised by the essential role that the aviation industry has as a major contributor to the European economic prosperity. It is a key generator of economic growth, employment, and trade. Air transport is a strategically important part of the EU's internal market, facilitating the competitiveness of European industry and services and promoting the mobility of people and goods while propelling economic growth. Air transport supports 13.5 million jobs and \$991 billion in European economic activity. This is 3.6% of total employment and 4.4% of total GDP in European countries in 2018. The number of people employed by the aviation sector in Europe is estimated to be 2.7 million people directly in 2018. According to the analyses:

- ❖ 553,000 (21% of the total) come from employment by airlines or handling agents as flight crew, check-in staff, maintenance crew, or head office staff;
- ❖ 230,000 (9%) have had jobs with airport operators in roles such as airport management, maintenance, and security;
- ❖ 1.4 million (53%) have worked on-site in airports in retail outlets, restaurants, and hotels
- ❖ 395,000 (15%) have been employed in civil aircraft manufacturing, including systems, components, airframes, and engines;
- ❖ 69,000 (3%) have worked for air navigation service providers in jobs like air traffic control and engineering¹.

In the years immediately prior to the COVID-19 crisis, air transport had gone through a period of exponential growth. It had been constantly evolving, noting a consistent increase in the level of flight traffic. In 2019, for example, the total passenger numbers increased for almost all European airports compared with 2018, and could be established at 1,034 million, an increase of 3.8 % compared with 2018².

Air traffic management is a key factor in the European aviation value chain. It aims to ensure a safe, fast, and cost-effective flow of air traffic in order to minimize fuel consumption, carbon emissions and flight duration. Air traffic management (ATM) is needed to ensure safe and efficient air transport in the context of increasing level of air traffic using limited airspace volume. It involves many stakeholders, including air navigation service providers (ANSPs), airline operators, airports and the entire air navigation industry. “Air traffic management” means the aggregation of the airborne and ground-based functions (air traffic services, airspace management and air traffic flow management) required to ensure the safe and efficient movement of aircraft during all phases of operations³.

¹ <https://aviationbenefits.org/around-the-world/europe/> , visited on 1st October 2021

² Air transport statistics – Statistics Explained (europa.eu), visited on 1st October 2021

³ Regulation 549/2004 – SES Framework, EUR-Lex – 32004R0549 – EN – EUR-Lex (europa.eu)

Air traffic management comprises three main services:

- Air traffic services (ATS) – their general purpose is ensuring safe and orderly traffic flow (facilitated by the air traffic control (ATC) service) as well as providing the necessary information to flight crews (flight information service, FIS) and, in case of an emergency, to the appropriate (e.g. Search and Rescue) bodies (alerting service). ATS is mostly performed by air traffic controllers. Their main functions are to prevent collisions, e.g. by applying appropriate separation standards and issuing timely clearances and instructions that create orderly flow of air traffic (such that accommodates crew requests for desired levels and flight paths, ensures continuous climb and descent operations, reduces holding times in the air and on the ground). ATS relies on tactical interventions by the controllers and direct communication with the flight crews usually during the entire flight.
- Air traffic flow management (ATFM) – its purpose is to regulate the flow of aircraft as efficiently as possible in order to avoid the congestion of certain control sectors. The ways and means used are increasingly directed towards ensuring the best possible match between supply and demand by staggering the demand over time and space and also by ensuring better planning of the control capacities to be deployed to meet the demand. Supply and demand can be managed by imposing various restrictions on certain traffic flows. Also, supply can be increased by appropriate sector management (e.g. increasing the number of controllers working at the same time). ATFM measures can be seen as pre-tactical, as they do not affect the current situation but rather the near future.
- Airspace management (ASM) – its purpose is to manage airspace in the most efficient way in order to comply with all the interests of its many users, both civil and military, using limited airspace volume. This service concerns both the way airspace is allocated to its various users (by means of routes, zones, flight levels, etc.) and the way in which it is structured in order to provide air traffic services.

Air navigation service providers (ANSPs) are in charge of controlling air traffic in the most safe, efficient, and cost-effective manner. This requires the effective management of airspace ensuring the necessary enhanced airspace capacity through technological and infrastructural improvements, as well as improvements of the efficiency of the service through providing skilled and productive manpower and an innovative and technological approach to airspace management. Effective air navigation services are a crucial component of a high-performance aviation industry to provide the highest standard of safety in aviation, to minimize delays and to boost connectivity.

European airspace users are charged for the air traffic management services they receive, based on the type of aircraft and the distance flown in the area of responsibility of each air navigation service provider (ANSP) according to the

planned trajectory. Air navigation service providers (ANSPs) collect terminal charges for the use of radio navigation equipment and flight services in the area of airports and route charges for air navigation services when flying in the serviced airspace. Charges are established on a cost basis, in accordance with the Principles of the European Organisation for the Safety of Air Navigation – EUROCONTROL – for the establishment of the cost base for air navigation services and for the calculation of the cost unit. ANSPs’ main revenues are from charges invoiced and collected by EUROCONTROL, according to the provisions of the Multilateral Agreement relating to route charges. According to an analysis by the European Court of Auditors in 2016, airspace users have paid approximately €9 billion for these services – an average of around €900 per flight⁴.

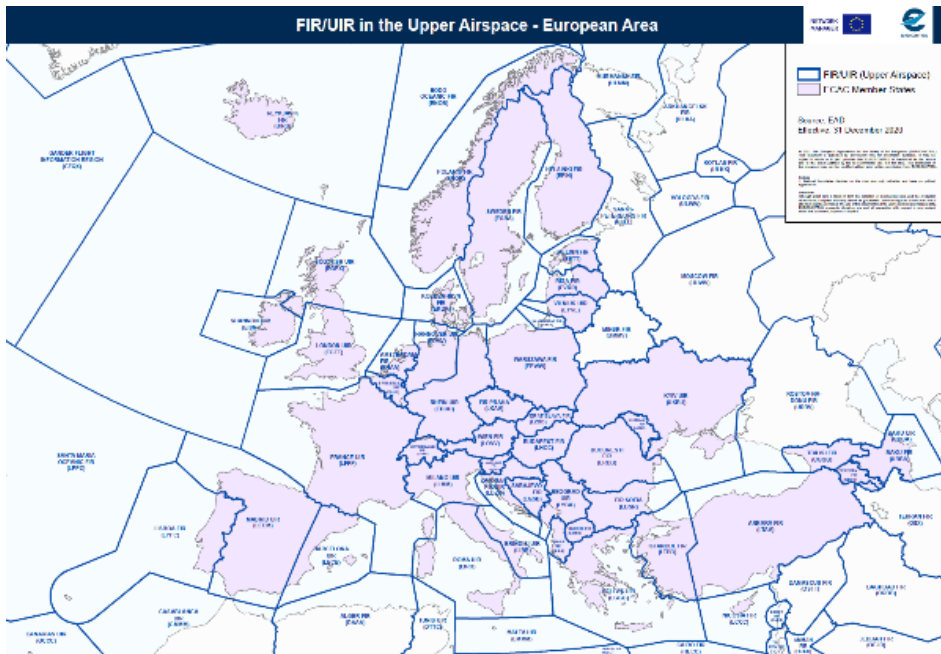
ATM can be characterized as a network industry. However, the industry is not market-oriented. It consists of hundreds of air traffic control sectors served by 63 air traffic control centers and more than 16,900 air traffic controllers responsible for managing the air traffic from / to 450 European airports, as well as from and to third countries (see attached map 1) compared to 13,000 ATC in the USA serving 23 Air Route Traffic Control Centers. ATM in Europe has traditionally been developed and provided at national level by the respective ANSP. European ANSPs are largely organized by State boundaries with different working arrangements and cost structures, whereas the US system is operated by one single ANSP. The European ANS system covers 37 air navigation service providers (ANSPs) participating in a cost-efficiency benchmarking report, representing business worth EUR 8.6 bn⁵. This complex structure serves over 26,000 flights per day in the EU, includes approximately 38,000 flight hours per day and operates based on a network of air routes that continue to be optimized at national, although not yet European, level. Therefore, many issues revolve around the level of fragmentation and its impact on ANS performance and costs such as:

- The fragmentation of the European skies into a number of sectors and regional control centers, divided on the basis of national borders and managed by national air navigation service providers (ANSPs);
- The limited possibilities for integration, interoperability and economies of scale due to the different procedures and specific tools that each ANSP uses;
- The monopolistic position of the air navigation service providers in relation to the much more competitive aviation market.

⁴ Special Report No 11 from 2019 of the European Court of Auditors: „The EU’s regulation for the modernisation of air traffic management has added value – but the funding was largely unnecessary“, page 8

⁵ https://ec.europa.eu/transport/modes/air/ses_cs, visited on 08.10.2021

Map 1: European Flight Information Region (FIR) Charts -2021



Source: EUROCONTROL⁶

As a result of the continuous significant increase in air traffic volume in the recent years before COVID-19 crisis, as well as due to the development of the single aviation market, fragmentation of the European airspace has caused serious capacity problems as well as great delays for passengers. In addition, it has led to unnecessary fuel consumption and unnecessary emissions and has generated charges for the use of infrastructure higher than those that would have been inherent in the operation of the latter at European rather than national level. While the cost of provision of air navigation services in Europe is around €8 billion per year, the total additional costs incurred by airlines due to suboptimal profitability and fragmentation of European airspace have been estimated at around €4 billion per year.⁷

All these factors have led to an increasing need for the adoption at European level of common rules and development of a harmonized legislative framework known as the Single European Sky initiative. The European regulatory framework comprises of a set of EU-wide rules on Air Traffic Management (ATM) safety, on the provision of ATM services, on airspace management and on interoperability

⁶ Flight information region (FIR/UIR) charts – 2021 | EUROCONTROL, visited on 07.10.2021

⁷ Report from the Commission to the European Parliament and the Council on the Implementation of the Single Sky legislation: time to deliver 14.11.2011, page 2.

within the network, as well as financial support to the technological modernization programme (the SESAR project) which is aimed at providing a framework for the creation of additional capacity and for improved efficiency and interoperability of the ATM system in Europe. The aim is to transfer regular competencies from the previous intergovernmental practice to the European union framework. The initiative is European and is open to neighboring countries.

II. Single European Sky

II.1. Origin of the initiative

As already noted, the Single European Sky initiative has been launched as a response to the delays resulting from the inefficiency of air traffic management (ATM) in Europe, which reached their peak in the late 1990s. Delays have had financial and economic consequences for airlines, their customers, and the community as a whole. Airlines have incurred additional costs for their aircraft fleets, as well as for their crews and ground staff, as delays prevent them from operating in optimal conditions. They must also compensate passengers for the discomfort caused by delays. According to the European Airlines Association, in 1989, approximately \$4.2 billion were lost due to delays caused by air traffic control, excessive air traffic control costs and uneconomical flight trajectories⁸.

However, the initiatives in Europe to deal with air traffic management inefficiencies date back to the late 1960s, when serious problems resulted from the accumulation of air traffic at certain points in the European airspace, in particular in Belgium, France, Germany, Switzerland and England, as, at that time, there necessary technology, as well as communication and navigation frequencies to restructure the airspace were unavailable. Several initiatives of the International Civil Aviation Organization (ICAO), in particular of the Organization's European regional office, follow to address the current problems. The first ICAO meeting on Air Flow Management was held in July 1970 to provide an opportunity for balancing and managing airflow. Subsequent meetings in October 1970 and March 1971 marked the introduction of Air Traffic Flow Management as an additional air navigation service approved by ICAO. With the subsequent ICAO meeting in November 1971 in Geneva, some important recommendations were adopted and introduced:

- Rec. 9/10 on balancing the increase in traffic and the capacity of the air navigation system;
- Rec. 9/11 on establishing mechanisms to improve the organization of air traffic in Europe;

⁸ “Towards a Single System for Air Traffic Control in Europe”, Consultant's Final Report to the Association of European Airlines, September 1989.

- Rec. 9/12 on an advisory process on the organization of air traffic in Western Europe;
- Rec. 9/13 on the introduction of common measures for the organization of air traffic flows.

These four recommendations were adopted by the ICAO Air Navigation Commission (ANC) in 1972 and approved by the ICAO Council, laying the foundations of the strategic concept of Centralized Air Traffic Management in Europe introduced in 1989 by EUROCONTROL through the creation of the Central Flow Management Unit (CFMU), which saved significant funds for air transport across Europe and millions of hours of delay for passengers. In fact, since the establishment of EUROCONTROL in 1960 by its six founding members – Belgium, Germany, France, Luxembourg, the Netherlands, and the United Kingdom – the organization’s main goal has been to create a single European upper airspace. This goal was only partially fulfilled at that time, but the idea gained support over time. It is important to note that one of the reasons that led to the establishment of EUROCONTROL is the commissioning of jets, which required a completely new air traffic control environment due to the doubling or even tripling of speed, and the ever-increasing number of aircraft travelling through European airspace. This creates the need to provide improved and more efficient air navigation services and strengthens the belief of the Member States of the organization that a unified approach to ATM is more effective than any given national one. Several actions have been taken in this direction subsequently, such as the establishment of an experimental center in Brétigny-sur-Orge, France, in January 1967 in view of the need for an experimental center to coordinate and carry out activities related to the technical aspects of ATM equipment and services, as well as to coordinate and harmonize the efforts of the Member States’ departments for the technological development of ATM services. Very quickly the main activity of the center became the creation of incentive practices within the center, in which new facilities and methodologies have been tested in a simulated environment, thus facilitating their commissioning and integration.

In line with ICAO’s initiatives since the early 1970s, EUROCONTROL has been actively addressing the challenge and need for rapid change in the complex situation in European airspace. Business travel has been growing significantly, charter flights flourishing, and Europe’s skies have become increasingly congested. One of the significant events in this direction was the establishment by EUROCONTROL in 1972 of the Central Route Charges Office (CRCO). Based on the system adopted by ICAO, the seven member states of EUROCONTROL signed the multilateral agreement on the collection of “charges” for the use of en-route air navigation services and equipment. In addition, the EUROCONTROL Member States which were not EUROCONTROL members signed bilateral agreements empowering EUROCONTROL to collect route charges. When in 1971 the Central Route Charge Office (CRCO) began

operations, its main purpose was to introduce a centralized and harmonized system for the collection of charges for air navigation services on behalf of the Member States and the subsequent payment of those funds to the relevant national authorities. Building and maintaining a complex and flexible central charging database system has created an efficient system that soon became a choice for each Member State, as it proved to be far more cost-effective than traditional charging methods. In accordance with ICAO recommendations that full cost recovery should be gradual, the recovery rate for EUROCONTROL route charges started at 15% from November 1971. This rate was increased to 30% on November 1973, then doubled to 60% in November 1975. In October 1981, the rate rose to 100%. This made Europe the first region in the world where a joint, simple, and cost-effective system for route charges was established. This system has evolved and endured over the years because of the close cooperation between the CRCO and States, air navigation service providers (ANSPs) and airspace users' representatives.

In 1972, one of the most important events which served as a powerful impetus to the concept of full integration of European air traffic management became a fact – the commissioning and operational implementation of the Maastricht Upper Airspace Management Center – Maastricht Upper Area Control Center (MUAC). This was the first truly international and multinational ATM center in Europe. MUAC manages the upper airspace (from 24,500 to 66,000 feet) over Belgium, the Netherlands, Luxembourg, and northwestern Germany, which is one of the busiest and most complex airspace areas in Europe. It has played a key role in the integration of European airspace, as for the first time the provision of services has been based on air flows rather than national borders.

In 1980, the classic scenario of demand exceeding supply developed, when the capacity of the European ATM system could not meet the ever-increasing air traffic. Between 1960 and 1990, the level of scheduled air traffic doubled approximately every eight to ten years in number of flights, and even more than twice in terms of passenger numbers. When the lack of airspace capacity to deal with the increased level of air traffic became a major challenge, a new approach to deal with the series of air and ground congestion problems and subsequent delays in departing and arriving traffic in Europe was needed. As business travel continued to increase – especially in Eastern Europe towards the end of the decade – delays in arrival became a benchmark, leading passengers to claim compensation from airlines. This, in turn, led airlines to put increasing pressure on ANSPs to address the problem of capacity shortages and delays generated. The great degree of public and political pressure on national governments led to the convening of a meeting of transport ministers at the European Civil Aviation Conference (ECAC) in October 1988 – MATSE 1 (Ministerial meeting on the air traffic system in Europe). The most important decision agreed upon was the creation of the Central Flow Management Unit and the entrusting of its development and management to EUROCONTROL, thus giving this agency a particularly important operational role, in contradiction

with its just-ratified convention. The main role of the CFMU was to make optimal use of airspace by centralizing air traffic management throughout the region and balancing demand and capacity at a pan-European level as well as to provide a coordinated response to crisis problems such as delays, airport closures or airspace emergencies of any nature.

In the 1990s, a series of meetings of transport ministers were held at the European Civil Aviation Conference to evaluate and launch programs and projects that would help foster cooperation and promote homogeneity in European airspace management, such as MATSE 2, that took place in April 1990 and resulted in the launch of the EATCHIP program – a program for interoperability and harmonization and integration of European air traffic management. Given the earlier establishment of the Central Flow Management Unit (CFMU) in 1988 to deal with the urgent problem of capacity management, EATCHIP provided the development of additional backup capacity through more efficient and integrated interoperability systems. This greatly contributed to the later creation of the ECAC En-Route strategy, which developed a radically new approach to cooperation in the management of European air traffic control. At the next meeting in 2 years – MATSE 3, a Strategy for building a common interface between airport systems and air traffic management systems, Airport / Air Traffic System Interface Strategy (APATSI) was agreed. To increase the capacity of European airports through greater efficiency and a modernized coordination program, the APATSI program was the first project to be fully initiated and implemented by ECAC itself, and EUROCONTROL had a key role to play in providing the framework in which the APATSI program initiatives were to be implemented. EUROCONTROL had been working on upgrading and standardizing the communication interface between air traffic management and airports, developing a Delay Analysis System – EDAS (European Delay Analysis System), creating its own Central Office for Delay Analysis – CODA) and developing a harmonized methodology for the validation of ATM procedures.

All these initiatives made a significant contribution to the development of future wider improvements to the single European ATM system. At that moment, the movement towards integration at European level had firmly embraced the world of air transport and the pace of development was moving faster and faster. In March 1996, the Central Air Traffic Control Authority – CFMU – became fully operational. This was a huge step forward in integration policy. Through it, all issues related to the management of air traffic flows in all 36 ECAC Member States were now coordinated and controlled by a single pan-European center instead of five regional flow control centres. Although the creation of the CFMU took longer, it quickly achieved remarkable results – the average flight delays in 1997 were half of those in 1989, but the problem of delays still remained serious due to the increased level of traffic in Europe.

According to a 1998 EUROCONTROL study, traffic had increased by 4.8% and delays during the busier summer season had increased by 42.8%. The average value of delays in the summer of 1998 of 5 minutes per flight reached crisis levels, maintaining delays throughout the following 1999 of an average of 4.3 minutes per flight. According to a 1999 Boeing study of the market situation, “Global Market Demand and Aircraft Supply Requirements,” the summer of 1998 saw the worst flight time performance for airlines worldwide in several years. There was an extreme lack of capacity in ATM systems due to the significant increase in air traffic intensity in the airspace. This was illustrated by planned block times. By comparison, for example, in 1988 in Europe, a Boeing 737 took 4% more time to fly the same distance as in US airspace. While EUROCONTROL had been arguing that only 20% of the delays were due to ATM problems, it became clear that improvements were needed to meet consumer demand for air transport. System capacity was not the only concern of airlines. Increased airport charges and ATM services were also worrying.

In 1989, the Council of Europe and the European Ministers of Transport decided to formalize the active participation of all Member States in the framework of EUROCONTROL by demonstrating their will to address ATM issues (Council Resolution 89 / C 189/02 of 18 July 1989). d.). In 1996, the White Paper “Air Traffic Management – Freeing Europe’s airspace”⁹ was published. The European Commission (EC) began to recognize the technological and institutional limitations of the air traffic control system, such as the fragmentation of airspace, the many national air traffic control centers, the lack of effective decision-making mechanisms and enforcement power mechanisms, and the costly delays. On 16 July 1998, the European Council adopted a decision authorizing the Commission to open negotiations with the Member States of the European Community with a view to concluding an agreement establishing a European Aviation Safety Agency (EASA), which would have the legal form of an international organization. In 1999, the EC issued its first communication to the EP and the Council on the creation of the Single European Sky. The Report of the High-Level Group on the Single European Sky was published in November 2000. According to the findings of the studies in the report, the demand for air transport had been constantly growing between 5 and 7% compared to years prior and this growth rate was expected to continue in the years to follow, which would lead to at least a doubling of traffic every 12 years. The improvements made in the national air traffic management (ATM) systems that make up the European ATM system were insufficient to meet demand, as a result of which delays remained at unacceptably high levels. In 1999, 21% of all flights were delayed by an average of 25 minutes, and even in June 2000, 13% of all flights generated delays of more than 15 minutes, with an average flight

⁹ Air Traffic Management – Freeing Europe’s airspace , Commission of the European Communities, 06.03.1996 <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:51996DC0057&from=en>, visited on 09.10.2021

delay of more than 20 minutes¹⁰. The report acknowledged that airspace should be designed, regulated, and strategically managed within a pan-European framework. It examined how the European Union, with its legal system, its decision-making process, its political control mechanisms, and its responsibilities, could respond to the need to harmonize airspace rules. The report reaffirmed the need to establish rules at Community level to distinguish between the functions of regulation and the provision of services, as well as to introduce a certification system aimed at complying with the requirements of the public interest, particularly with regard to safety and improving the fee-setting mechanism.

Based on the findings of the report and the analysis of the situation in the sector, with the approval of the Council, the Commission launched a dialogue with senior representatives of Member States' civil and military aviation institutions within a high-level group. The aim of the group was to assist the Commission in preparing proposals to improve the situation. EUROCONTROL was invited to provide its technical expertise. In addition, the Commission included representatives of stakeholders in the group (airlines and other airspace users, air navigation service providers such as NATS – the ANSP of Great Britain, Direction de la Navigation aérienne – the ANSP of France, DFS – the ANSP of Germany, etc., industry producers, trade unions, professional organizations, and consumers) in the context of an industrial and social group. The aim of this initiative was to create a “Single European Sky”, based on a single airspace and ATM system, designed, managed and regulated in a harmonized way to ensure the efficient use of the Single European Sky for all users. In October 2002, the European Community signed a protocol to join EUROCONTROL at a diplomatic conference held in Brussels. This could be evaluated as one of the most significant steps towards the harmonization of air traffic management in Europe and the SES. The European Commission took its place in the Interim Council – the Managing Authority of EUROCONTROL. The European Commission started to coordinate the policies of the Member States and voted on their behalf in areas where they had exclusive competence. Among these areas were research policy, standardization, trans-European networks and the Single European Sky (which also had mixed competences). A Memorandum of Cooperation was signed on 22 December 2003 between the European Commission and EUROCONTROL. It covered the implementation of the Single European Sky, global satellite navigation systems, research and development, traffic and environmental statistics, and international cooperation.

¹⁰ Single European Sky Report of the high-level group, European Commission, Directorate-General for Energy and Transport, November 2000, p.9 https://ec.europa.eu/transport/sites/default/files/modes/air/single_european_sky/doc/ses1_2000_hlgr_report_en.pdf, visited on 09.10.2021

II.2. Evolution of the Single European Sky I

II.2. Single European Sky I

Having realized the urgent need of actions towards a harmonized legislative approach, the EC adopted in 2004 the first legislative package of the Single European Sky (SES) initiative with its main objective being the reduction of fragmentation of European airspace (between Member States, civil and military aviation and different technologies), dominated by national monopoly service provision, thus increasing its capacity and efficiency of air traffic management and air navigation services. In practice, the SES was envisaged to lead to a reduction in flight time (due to shorter routes and fewer delays) and, as a result, to a reduction in flight costs and aircraft emissions. The main policy instruments of the Single European Sky initiative are a coherent set of legislative instruments that will, in principle, address the key issues identified in the European ATM. They have led to enforcement powers combined with financial incentives that should encourage significant improvements in ATM.

Since the launch of the SES initiative, two broad legislative packages have been adopted – SES I and SES II, consisting of four regulations and over 20 implementing rules and Commission decisions. A number of implementing regulations (Implementing Rules) in the operational, technical, and financial fields have been developed for their implementation.

The first legislative package from 2004 was comprised of four basic regulations, focused at increasing safety and overall efficiency in the provision of ANSs and increasing capacity in order to meet the needs of all airspace users and to minimize delays. The regulations provided the framework for the creation of additional capacity and for improved efficiency and interoperability of the ATM system in Europe:

- The Framework regulation (EC No 549/2004) – laying down the framework for the creation of the single European sky;
- The Service provision regulation (EC No 550/2004) – on the provision of air navigation services in the Single European sky;
- The Airspace regulation (EC No 551/2004) – on the organisation and use of airspace in the Single European sky;
- The Interoperability regulation (EC No 552/2004) – on the interoperability of the European Air Traffic Management network.
- The framework of the four SES regulations is closely linked to the development of European aviation safety legislation, the latter including a number of tasks entrusted to the European Aviation Safety Agency (EASA) and the launch of a large-scale project to modernize air navigation equipment and systems – SESAR. The preamble to the Framework regulation explicitly states that its application and reception does not affect the sovereignty of

the Member States over their airspace and that it will not prejudice local requirements relating to public policy, public security, and defense matters.

The Regulation obliges Member States to establish a national supervisory authority (NSA). National Supervisors ensure the oversight of the ATM regulatory framework in all EU Member States. They are responsible for the certification and supervision of air navigation service providers.

The Regulation also requires the Member States to prepare annual reports on which the control, monitoring and assessment of the impact on the ANS of the harmonization of the legislative framework for the establishment of the SES will be based. The reports shall include an assessment of the results achieved by the actions taken in accordance with this Regulation, including relevant information on developments in the sector, in particular, on economic, social, technological aspects and employment, as well as on the quality of service in the light of the original purpose and in terms of future needs. For its part, the European Commission periodically reviews implementation and reports to the European Parliament and the Council every three years, the first of which was on 20 April 2007.

The Regulation introduces the term “functional airspace block” (FAB), which means an airspace block based on operational requirements that reflect the need to ensure more integrated airspace management, regardless of existing borders. The concept of a ‘functional airspace block’ was created in response to the fragmentation of European airspace and mainly focuses on airspace management based on operational requirements and not on national borders. However, the current regulatory framework does not provide for FABs that are able to effectively address fragmentation in terms of airspace management, service provision or supply of technical equipment. The original concept for setting up the FAB was set out in a 2001 Commission communication, which referred to the creation of control areas beyond national borders¹¹. It provides for the creation of a European Upper Flight Information Region (EUIR), allowing for the reconfiguration of this airspace in control areas beyond national borders on the basis of operational requirements. The definition of control zones facilitates the establishment of functional airspace blocks in which responsibility is assigned optimally and in accordance with the operational requirements for one or a group of air navigation service providers. The boundaries of these functional airspace blocks do not need to coincide with national borders and they shall be created to support the provision of air traffic services in the regional control centers responsible for airspace of optimal size in the EUIR. This approach would ensure a more efficient use of airspace, technical systems and equipment and manpower. This will also reduce costs for airspace users.

¹¹ COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT on the creation of the Single European Sky, COM (2001) 564 final/2, Brussels, 11.12.2001

The other three regulations are intended in particular to improve and enhance safety and reorganize airspace on the basis of traffic instead of national borders.

Regulation (EC) (550/2004) sets out the general principles relating to charging schemes. Article 14 of the Regulation provides for the development of a charging scheme for air navigation services, which will contribute to achieving greater transparency regarding the determination, imposition, and entry into force of charges for airspace users. This scheme is in line with Article 15 of the 1944 Chicago Convention on International Civil Aviation and the EUROCONTROL system for overflight charges. The Regulation states that the charging scheme is based on the costs of air navigation services incurred by air navigation service providers for the benefit of airspace users. The scheme distributes these costs between different categories of users. Among the basic principles for establishing the cost base for charges provided for in the Regulation are the following:

- Costs that are paid jointly by airspace users represent the full cost of providing air navigation services, including the corresponding amounts of interest on capital investment and depreciation of assets, as well as maintenance, operating, management and administrative costs;

- The costs that should be taken into account in this context are the costs determined in relation to the facilities and services provided in accordance with the ICAO Regional Air Navigation Plan for the European Region. They may also include costs incurred by national supervisory authorities and / or recognized organizations, as well as other costs incurred by the Member State concerned and the air navigation service provider in connection with the provision of such services;

- Charges reflect the cost of air navigation services and facilities provided to airspace users, taking into account the respective productive capacity of the different types of aircraft.

II.2.2. Single European Sky II

According to the initial forecasts, the potential benefits that the creation of the Single European Sky was expected to bring once it would be fully built around 2030-2035 were enormous: it was expected to triple airspace capacity, halve the cost of ATM, to improve safety tenfold and reduce the environmental impact of aviation by 10%. These projections were translated into a set of high-level objectives by the EC that support the decision to launch the SESAR project and to commit it to EU funding. The Commission's DG Mobility and Transport adopted them as medium-term objectives in its SES policy. In the special report from 2017 of the European Court of Auditors it is stated that these targets, however, have been set with regards to the sharp increase in air traffic, using 2005 as the base year, but even then they lacked in-depth analysis. Subsequently, with declining demand, these targets became inadequate in terms of capacity and unattainable in terms of cost-effectiveness. Between 2000 and 2016, the movement increased

on average by only 1% – significantly below the forecasts included in the SES preparatory documents (5% -7%). In addition, airlines used aircraft with higher seating capacity and / or operated them with higher load factors. As a result, the expected growth in air transport, measured in passengers, was not reflected in a proportional increase in air traffic. Although these high-level targets were later included as part of the European ATM Master Plan approved by the Council in 2009, they should be seen as aspirations rather than target levels. According to a study by the Performance Review Commission of EUROCONTROL to assess the impact of SES on the effectiveness of European ATM, published on 21 December 2006, despite the fact that, in 2005, 7 billion euros were paid by airspace users, the cost-effectiveness of the European ATM system was estimated at approximately €2 billion. The cost inefficiencies stem from the low productivity of the European ANS system and the high maintenance costs, mainly due to the fragmentation of the ATM system, duplication of infrastructure and facilities within the various ANSs, preventing the full use of economies of scale¹².

Because it has turned out that slower growth has also changed the basic expectations of airspace users from the SES initiative: since 2008, their main focus has shifted from increasing the capacity of the ATM system to reducing its costs. This trend has continued to develop in the following years, with the main focus being on achieving effective ATM in terms of capacity and costs, but also on synchronizing the system with the requirements of the European Green Pact and introducing new technological developments, achieving digitalization and decarbonization of the aviation industry.

To tackle these issues, the Commission presented a second package of measures – SES II in 2009, which introduces Regulation (EC) № 1070/2009 of the European Parliament and of the Council of 21 October 2009 amending Regulations (EC) № 549/2004, (EC) № 550/2004, (EC) № 551/2004 and (EC) № 552/2004 in order to speed up the process of building a truly single “European sky” in the period after 2012.

The SES II package aims to respond to the significantly increased volume of air traffic by increasing safety levels, reducing costs and delays, and the impact of air traffic on the environment. It is based on five points of reference: efficiency, safety, technology, airports, and the human factor.

A mechanism for reviewing the efficiency of air navigation services and network functions has been introduced, that includes:

- EU-wide performance targets in key areas of safety, environment, capacity and cost-effectiveness;
- National or functional airspace block plans that ensure coherence with EU-wide targets; and

¹² Performance Review Commission (PRC), 21 December 2006, Evaluation of the impact of the EEN on ATM Performance, p. 24.

- Periodic review, monitoring, and comparison of the efficiency of air navigation services and network functions.

It entails the EC developing a Performance Scheme, consisting of a number of elements for monitoring performance data in the provision of ANS. Mandatory performance targets have been set under the “Performance Scheme” in key areas – such as safety, environment, capacity, cost-effectiveness and incentives – in order to improve the overall effectiveness of ATM and ANS. The performance targets have been adopted by the Commission through a committee procedure. The first reference period for the Performance Scheme covered the calendar years 2012-2014. From 2015 onwards, each reference period was defined to cover five calendar years. The “Performance Review Body” designated by the Commission have assisted in the preparation of these objectives and monitors the implementation of the Performance Scheme. EUROCONTROL has been appointed as the EC Performance Review Body.

Another of the SES initiatives would also be worth mentioning – the major project that the EC has also launched in order to modernize the technology of the European ATM System – SESAR Joint Undertaking (for the Study of Air Traffic Management in the Single European Sky), set up in 2007, which manages the technical and industrial dimension of the SES, i.e. the development and deployment of the new European ATM system. The total estimated cost for the SESAR development phase (2008-2024) is €3.7 billion, to be shared equally between the EU, EUROCONTROL and the industry. The deployment phase (i.e. the large-scale installation of the new system between 2015 and 2035) may require around €30 billion to be provided by the aviation sector (90%) and the EU (10%).

II.2.3. Single European Sky II+

Despite the progress made in recent years since the introduction of the two SES legislative packages, the full integration of European airspace is far from being achieved. According to the Commission, the implementation of the initiative has been significantly delayed, and the ATM system has remained highly fragmented. By comparison, in the United States, for example, which covers similar-sized airspace, airspace is controlled by a single supplier, as opposed to 38 ANSPs in Europe. The US service provider controls almost 70% more flights with 38% less staff. The main root causes for this difference in productivity in Europe are the shortcomings in establishing and enforcing the Performance Scheme, ineffective supervisory authorities, and the disproportionately high amount of support staff in the service providers¹³. The lack of an effective ATM system has created additional costs of around €5 billion per year and has had a negative impact on aviation carbon emissions. In 2011, the total direct and indirect costs of air traffic control in

¹³ Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the implementation of the Single European Sky (recast)/ * COM/2013/0410 final – 2013/0186 (COD) */

Europe amounted to around €14 billion. Direct costs alone (collected in the form of user charges) account for more than 20% of the total operating costs (excluding fuel costs) of the most efficient airlines.

To address these difficulties and speed up the implementation of SES II, in 2013 the European Commission proposed updating the SES legal framework, known as SES II+. The package has proposed merging the four SES regulations into a single one (Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the implementation of the Single European Sky (recast) / COM / 2013/0410), structured in the following key areas: National authorities; Performance and charging schemes; Functional airspace blocks (FABs); Support services; Network Management, Involvement of airspace users. The ultimate goal of the revision is to improve the efficiency of air traffic services and air traffic management capacity, as well as cost effectiveness. Once fully implemented, the Single European Sky was expected to provide a seamless, safe, and modern air transport system that would not adversely affect the environment, the aviation industry, and passengers.

The proposal also includes changes that would increase the efficiency-based existing rules and introduce certain limited market measures (i.e. it proposes to split and procure some support services).

The SES II+ proposal includes the following main areas:

- strengthening the independence of national supervisory authorities (NSAs) through increasing unbundling and independence from air navigation service providers (ANSPs) and strengthening the role of the Performance Review Body in order to make it a fully independent stakeholder in the Performance scheme, including by EUROCONTROL;

- increasing the efficiency of the support services by separating them from the core air traffic services and opening them to the market in order to stimulate innovation and create new business opportunities;

- Focusing ANSPs on customer needs by improving their governance in order to ensure better consultation and by allowing airspace users to participate in the preparation of ANS investment plans;

- making the FABs a more efficiently targeted and flexible instrument based on industry partnerships;

- strengthening the role of the Network Manager through the gradual expansion and introduction of an industry-led management system.

However, the proposal has faced great difficulties and resistance, in particular, due to its huge scope. Due to the political dispute between Spain and the United Kingdom over the status of Gibraltar's airport, the legislative process remained blocked in the Council pending the settlement of the dispute between the United Kingdom and Spain. It should be noted, however, that to date, given Brexit, this issue is no longer relevant.

Undoubtedly, the implementation of the Single European Sky project remains a key priority in European aviation policy, given the still-untapped potential for significant savings in the aviation sector and the European economy as a whole.

II.2.4. Revised proposal for Single European Sky II+ in the context of the global pandemic of COVID-19

In the last years before the COVID-19 crisis, the European Commission and the European Parliament have taken a number of strategic and operational initiatives to address capacity issues in European airspace (for 2018 alone, flight delays were over 18 million minutes). In this respect a study conducted in 2019 – Airspace Architecture Study, should be mentioned, as well as the report of the specialized commission Wise Persons Group from 2019, which provided key recommendations for the future of the Single European Sky. According to the Commission, the lack of ATM capacity has led to additional costs, delays and CO₂ emissions, with delays in the EU alone costing almost €6 billion in 2019 and leading to 11.6 million tonnes (Mt) of CO₂ emissions. With this in mind, in 2020 the EC has initiated the renewal of the Single European Sky II + legislative package known as SES II ++. Most of the revised proposals are based on recommendations from the studies in 2019.

The revised Single European Sky legislation aims to address the issue of the non-expanding ATM capacity and to introduce measures that will especially improve the environmental indicators that can be achieved in the light of the European Green Pact, as well as new technological developments.

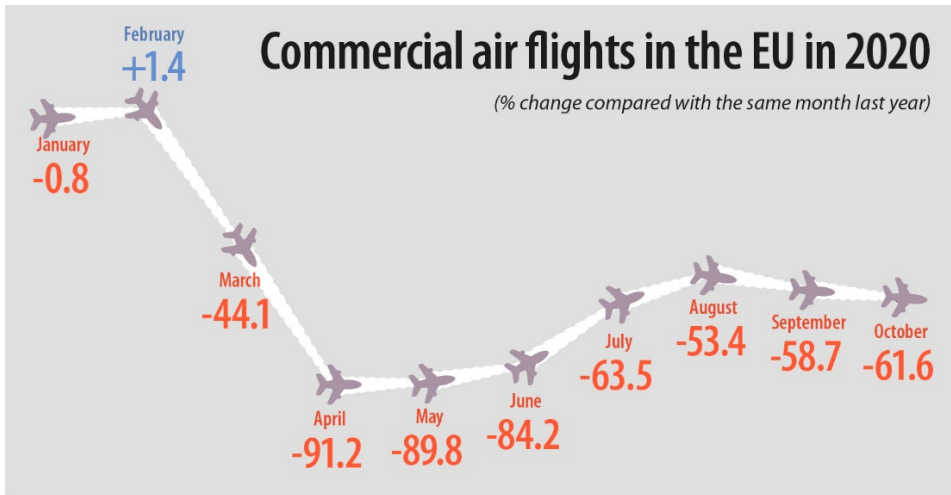
It should be noted that this is happening in the context of the unprecedented crisis caused by the global pandemic of COVID-19, which has had a detrimental effect on air transport, effectively bringing it to a near-halt due to closed borders and the sharp decline in global travel.

II.2.4.1. COVID-19 pandemic impact on aviation industry and ANS

A brief overview of the impact of the COVID-19 pandemic on the aviation sector and ATM, both in Europe as well as globally, has been provided in this report. The attached image provides information on the impact of the pandemic and the sharp decline in EU traffic. The provided graphic shows that in the first months of the crisis, the decline in the level of commercial flights traffic in the EU was more than 90%, and in the following months, although slowly increasing, it reached almost 60% reduction compared to the level of traffic in 2019.

The recession is having a huge impact on air transport, given government restrictions on travel in many countries, as well as the imposition of requirements that vary between countries and make it difficult for airlines to operate. This is reflected in a reduction in passenger traffic, a drastic reduction in the indicator taking into account the offered kilometers per passenger seat – Available Tsveta

Kilometers (ASK), a reduction in passenger traffic – Passenger Load Factor (PLF), and a reduction in air traffic to record lows.

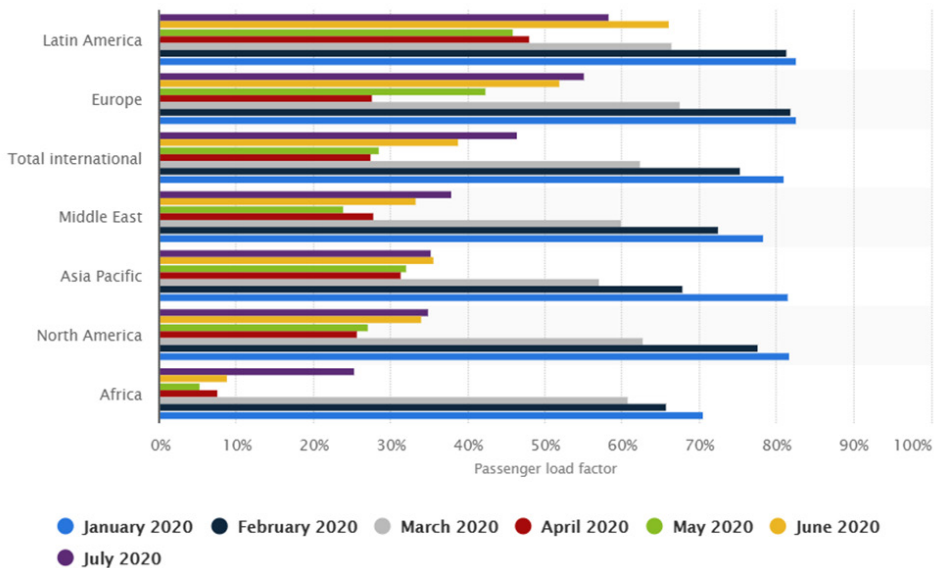


Source: Eurocontrol

ec.europa.eu/eurostat

Source: EUROCONTROL

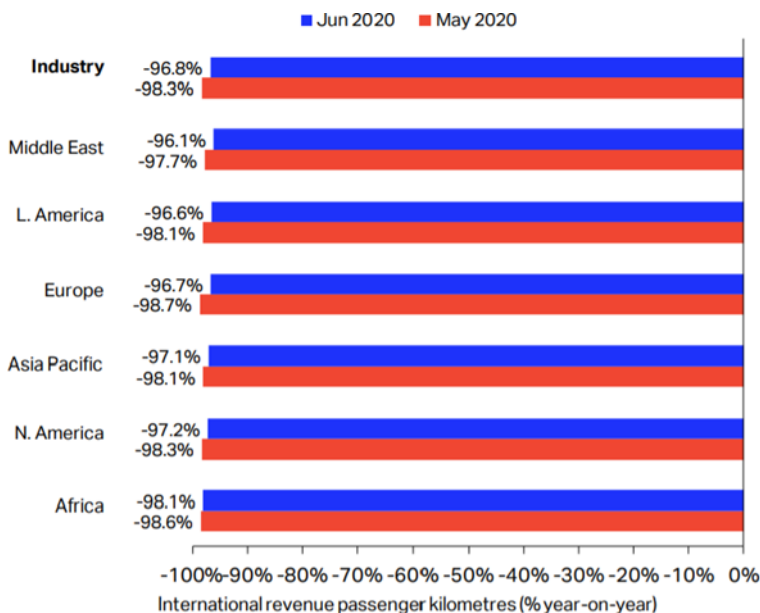
To present the empirically reduced demand for air transport, the data for a fundamental indicator that forms the structure of a company’s profit – the loading of flights with passengers or the so-called Passenger Load Factor, (PLF) shall be examined.



Source: Statista

The data show that the decrease in PLF in April 2020 compared to January 2020 in some regions is more than twice. It is interesting to note that among the most affected regions are Africa and the Middle East. The African market is still difficult to access and dominated by several traditional airlines. The continent's economic dependence on trade counterparts such as China, the United States, India, and the EU is underscored by reduced traffic given the economic consequences and travel constraints imposed on these partners. The Middle East has been hit hard by COVID-19, especially in May 2020, when more governments introduced restrictive measures and restricted access to their borders. Airlines operating in the region operate mainly long-haul and intercontinental flights through their bases in the Persian Gulf. It is their traditional passenger flow that is hampered by restrictive measures in Australia, the EU, the UK, the US, Canada, India, Africa.

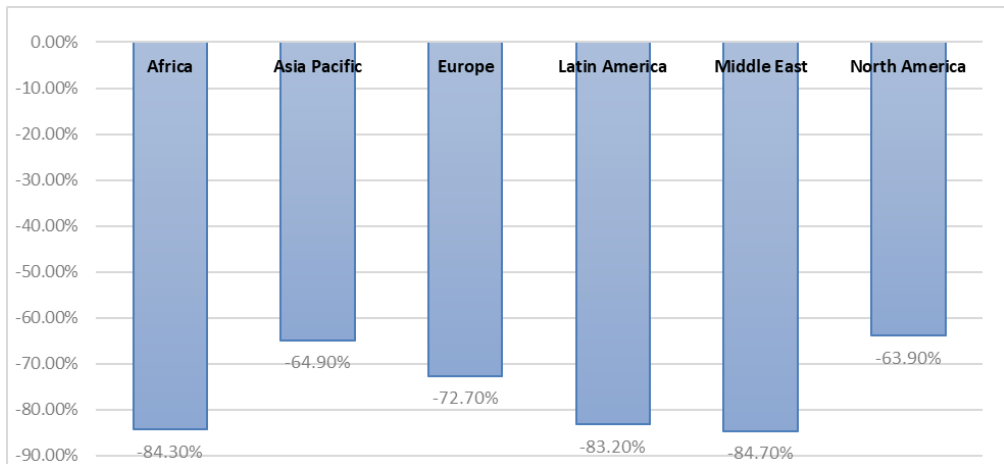
The above conclusion is also supported by the empirical data representing the kilometers traveled by regular passengers on international routes – International Revenue Passenger Kilometers (RPK). This is an indicator that also illustrates the volume of passengers carried to the respective destination, calculated by the flight distance.



Source: IATA Economics, IATA Monthly Statistics, June 2020

The data show a slight improvement in June 2020 compared to the previous month. However, the decline in all regions of the world is almost 100%.

Available Seat Kilometers (ASK) data should also be noted. In July 2020 the numbers were lower by 70.1% compared to the same period for 2019.



Source: Author

The decrease among air operators in Europe is respectively 72.7%, while in other regions of the world there is a decrease of nearly 85%. This proves once again the serious contraction of air traffic and the service of regular destinations.

According to EUROCONTROL, the number of passengers served in Europe is 1.7 billion less than in 2019, 51% of the fleet in Europe is forced to stay on the ground, and more than 191,000 people employed in the aviation sector are left without work. This leads to 59% less revenue from charges for air navigation service providers in Europe.

II.2.4.2 Proposal for revision of SES II+

In these extremely difficult conditions, a very natural question arises as to whether the right time for changes in SES legislation is now. However, the crisis is one of the reasons given by the Commission for the proposed reforms. In its communication of 22 September 2020, the EC stated that it is the sharp decline in traffic levels due to the pandemic that requires more sustainable air traffic management – i.e. one which ought to be able to function well both under the steady growth of air traffic over the last decade and significant unforeseen variations in traffic, such as those caused by the COVID-19 pandemic, while more easily adapting airspace capacity to demand¹⁴. According to the EC this would require a minimization of the main fixed costs of ANS, so that in the event of a subsequent reduction in the level of traffic, the system would be able to cope with the lower revenues for ANS from ANS fees. This requires changes to allow

¹⁴ European Commission – Press release: Single European Sky: for a more sustainable and resilient air traffic Management, Brussels, 22 September 2020, file:///C:/Users/ThinkPad/Desktop/UNSS/%D0%A0%D0%B5%D1%84%D1%80%D0%B5%D0%B0%D1%82%20%D0%B8%D0%BD%D1%84%D0%BE/Single_European_Sky_for_a_more_sustainable_and_resilient_air_traffic_management.pdf, visited on 26.10.2021

operations to take place in the safest, most cost-effective, and environmentally-friendly conditions, as well as measures to reduce aviation emissions, in line with the objectives of the European Green Deal.

According to the Commission, the lack of ATM capacity leads to additional costs, delays, and CO₂ emissions, with delays in the EU alone costing almost € 6 billion in 2019 and leading to 11.6 million tonnes (Mt) of CO₂ emissions¹⁵. Meanwhile, requiring aircraft to fly in congested airspace instead of taking a direct route leads to unnecessary CO₂ emissions, as is the case when airlines are forced to choose longer routes to avoid refueling areas with prohibitive costs. The revised Single European Sky legislation aims to address the issue of non-expanding air traffic management capacity and to introduce measures that will particularly improve the environmental performance that can be achieved through ATM.

One of the motives of the EC for the updated proposal is that in order to enable the sector to better realise its economic potential while operating more sustainably, it would be necessary to provide for a revision ensuring a more flexible provision of air navigation services, fit for the operating environment of today and of the future. According to the Commission, the revised Single European Sky legislation aims to create a European airspace that is efficiently managed and uses state-of-the-art technology. It aims to provide joint network management that allows airspace users to fly on optimal and environmentally friendly routes. It will provide digital services that do not necessarily require local infrastructure.

The main changes envisaged in the Amended proposal for a Regulation of the European Parliament and of the Council on the implementation of the Single European Sky¹⁶ are the following:

- Creation of a competitive environment (markets for different types of air navigation data), economic certification of ANSPs, organizational and financial separation of air traffic management services from other types of services, a new independent body within the European Aviation Safety Agency (EASA) to be in charge of assessing and approving the allocation of costs between en route and terminal services and of assessing and approving the performance plans for en route air navigation services; as well as increasing the powers of the Network Managing Authority (EUROCONTROL) to manage airspace capacity;

- A concept has been proposed for the introduction of a common unit of charges when flying in the upper airspace of the Single European Sky. They shall be calculated on the basis of the weighted average of the different charging units of the respective air navigation service providers. Revenues from the common charging unit shall be redistributed in order to achieve revenue neutrality for the relevant air traffic service providers;

¹⁵ Commission Staff Working Document, A fresh look at the Single European Sky, Brussels, 22.9.2020

¹⁶ Amended proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the implementation of the Single European Sky (recast), Brussels, 22.9.2020 r. COM (2020) 579 final, 2013/0186 (COD)

- A concept related to the modulation of charges has been proposed, foreseeing modulation of charges (reduction of charges of the airlines applying environmental measures or reduction of the charge unit of ANSP in case of deteriorated quality of services).

It should be mentioned that certain proposals presented by the EC for the revision of SES II + have been met with hesitation by the Member States. Some of them have declared exploratory reservations throughout the package and have been skeptical about the legislative proposal. The main argument being made against the proposals is that in the context of the unprecedented crisis, all assumptions on the basis of which the recommendations are made should be thoroughly reviewed and revised. One of the main reservations that should be mentioned is related to the fact that the proposed changes would lead to limited decision-making powers of states to provide air navigation services in the airspace under their control, rather, transferring them to supranational structures, which is in contradiction with Article 1 of the Convention on International Civil Aviation¹⁷ (Chicago Convention) according to which every State has complete and exclusive sovereignty over the airspace above its territory.

Currently trialogues on the text proposals in the legislative proposals between the Commission, the Parliament and the Council are under way. It is still unclear when the trialogues will end and whether common ground and acceptable compromise proposals will be found.

III. Conclusion

In conclusion, it should be noted that despite the given reservations and contradictory positions, considering the unclear future of the recovery of traffic in the coming years, the need for a consolidated approach and uniform measures by all stakeholders remains, in order to overcome the consequences and restore the state of the aviation industry as a whole. For the successful implementation of the SES initiative and the development of safe, cost-effective, and environmentally-friendly ATM, close cooperation, and interaction between all stakeholders in European ATM is of great importance. It is of the utmost necessity to work together and consider the interests and specificities of all stakeholders in decision-making until the legislative reforms achieve the objectives of the SES.

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Abbreviations:

ASK – Available Seat Kilometers

ANC – Air Navigation Commission

APATSI – Airport/Air Traffic System Interface Strategy

ATM – Air traffic management

BULATSA – Bulgarian Air Traffic Services Authority

CFMU – Central Flow Management Unit

CODA – Central Office for Delay Analysis

COVID-19 – severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2)

CRCO – Central Route Charges Office

DFS – Direction de la Navigation aérienne

EASA – European Aviation Safety Agency

ECAC – European Civil Aviation Conference

EDAS – European Delay Analysis System

IATA – International Air Transport Association

MATSE – Ministerial meeting on the air traffic system in Europe

MUAC – Maastricht Upper Area Control Centre

PLF – Passenger Load Factor

International RPK – International Revenue Passenger Kilometers

SESAR – Single European Sky Air Traffic Management Research Programme

BRAND FOUNDATIONS AND BRAND BUILDING PRINCIPLES IN CONSUMER PRODUCTS

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Abstract

The scientific report aims to explore the fundamental principles in brand building that can support organizations in differentiating meaningfully their consumer products. This study reviews the brand architecture development and setting brand foundations. A part is dedicated to the different archetypes used in the brand architecture, consumer emotional territories and frame of reference. The emphasis is placed on the brand triangle structure used for brand positioning and the top of the triangle – defining brand promise. Interaction between brands in portfolio strategy is also discussed within several phases – Corporate, Global Portfolio and Market Prioritization, Prioritization of Local Market Portfolio, Local Portfolio Management. Author defends the thesis that best-in-class execution of these principles is the key to win vs competition and drive sustainable long-term value creation.

Keywords: Brand Architecture; Brand Foundations; Brand Archetypes; Brand Triangle; Portfolio Strategy

JEL: M310

Introduction

Versatile products and offerings in multiple and expanding sales channels are racing to satisfy consumers' needs and drive their preferences & choices. Differentiating products in this competition via meaningful and engaging brands is critical element to resonate with users and impact on their purchase decisions. Innovative and advanced companies are seeking to establish in-house consistent process across departments for growing brands.

Major objective of the report is to explore practices and identify the successful principles in brand creation that will have strongest impact the setting of brand foundations, ensuring product differentiation and brand engagement, that will deliver sustainably vs long-term businesses value creation ambitions. Object of the examination is the consumer products organizations in the process of brand creation and development. The subject of the study is the process of setting brand

fundamentals. To achieve the main objective of the study, the following tasks are considered in the report:

- Defining brand architecture framework and brand building principles approach with sections as a roadmap to build a brand. Assessing the value and power delivered by strong, distinctive and engaging brands. Identifying Frame of reference, Brand Archetypes and Consumer emotional territories.
- Illustrating and bringing brand positioning to life via Brand equity triangle and brand positioning statement.
- Creating Portfolio strategy and management – optimizing interactions, prioritizing, focusing, developing and deploying portfolio to drive growth.

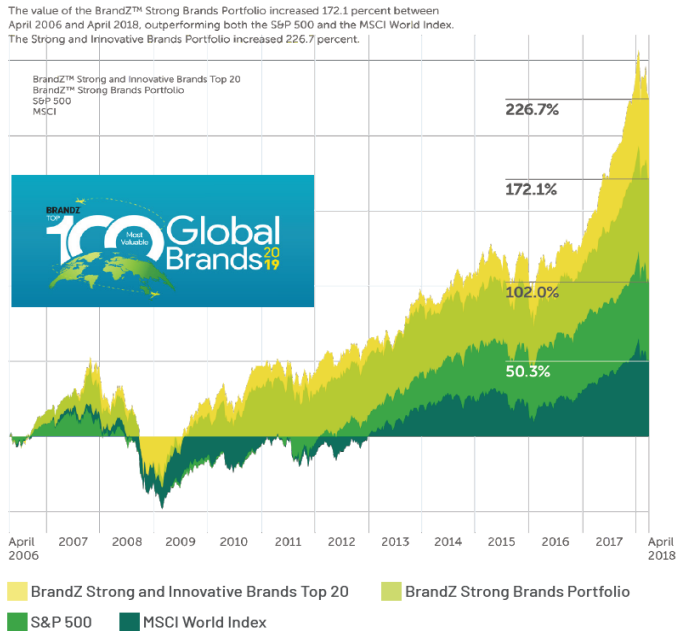
Defining brand architecture framework and brand building principles

Assessing value delivered by strong, distinctive and engaging brands

Differentiate meaningfully and engage consumers with relevant purpose. Surpass competition, drive value and sustainable brands growth. Outline model and principles for brand building to ensure consistency. In the era of branded products and consumer society, diverse forms of this statements should serve massively across organizations, delivering products and services, as a north star and performance ambition. Brand equity makes a greater correlation to Gross Profit vs focusing solely on developed product characteristics. Great brands deliver shareholders' growth. Evidence for that can be found in many examples and studies, s.a. the BrandZ¹ Report. Using Kantar's equity framework, BrandZ shows that meaningfully different brands generate superior shareholder value growth. The share price growth S&P 500 is 102% for all companies while those with strong brands, as calculated by BrandZ have enjoyed greater growth. The value of the BrandZTM Strong Brands Portfolio increased 172.1 percent between April 2006 and April 2018, outperforming both S&P 500 and the MSCI World index. The strong and innovative Brands Portfolio increased 226.7 percent. After the 2008 global financial crisis, strong brand portfolios bounced back into the black after eight months while the world and the S&P took nearly 2.5 years. Strong brands protect from losses during the bad times and help to generate additional shareholder return.

The stronger brand equity, the better the business performance in shareholder value. The most meaningfully different brands in the top 100 have grown in value by 253% over the last 12 years, compared to just 50% for those brands low in Meaningful Difference. Ability to create desirable brands underpins most brand-building businesses overall performance.

¹ Kantar BrandZ is the largest global brand equity study: 4 million consumers, 18,000 brands across 51 markets It's the only brand valuation ranking that measures the contribution of the brand, from a consumer perspective, that is also validated in market sales <https://www.kantar.com/campaigns/brandz>



Graph 1: BrandZStrong Brands Portfolio vs S&P 500

Source: BrandZ™² / Kantar Milward Brown (including data from Bloomberg)

Defining brand architecture and brand building principles

Focus on brand building serves as a bedrock for the growth to come. Successful companies need to develop sustainable principles for that process, covering everything – from a P&L to a creative brief. They should serve as a knowledge center as well as a guide to company’s beliefs around brand building. In other words, it is a guide to organization’s beliefs about the art & science of brand building to inform and inspire its brand builders globally.

Acclaimed author, known as the “Inspirational King of Marketing” (Forbes) once said: “Marketing is not about the things we make, it’s about the stories we tell.” (Godin, Seth 2016)

This is the meaningful difference. Understanding and defining the connection a brand has with both the consumer and culture helps to define a brand’s purpose and reason for being. This is where the need for global Brand Architecture (BA) comes in.

BA creation is the process of creating “what a brand stands for” and “why it exists.” It is extremely important as this becomes the foundation and inspiration

² The BrandZ™ Strong Brands portfolio is a subset of the BrandZ™ top 100 most valuable global brands The BrandZ™ Strong and Innovative Brands Top 20 is a subset of the The BrandZ™ Strong Brands Portfolio brands that score high in being Dynamics and Different

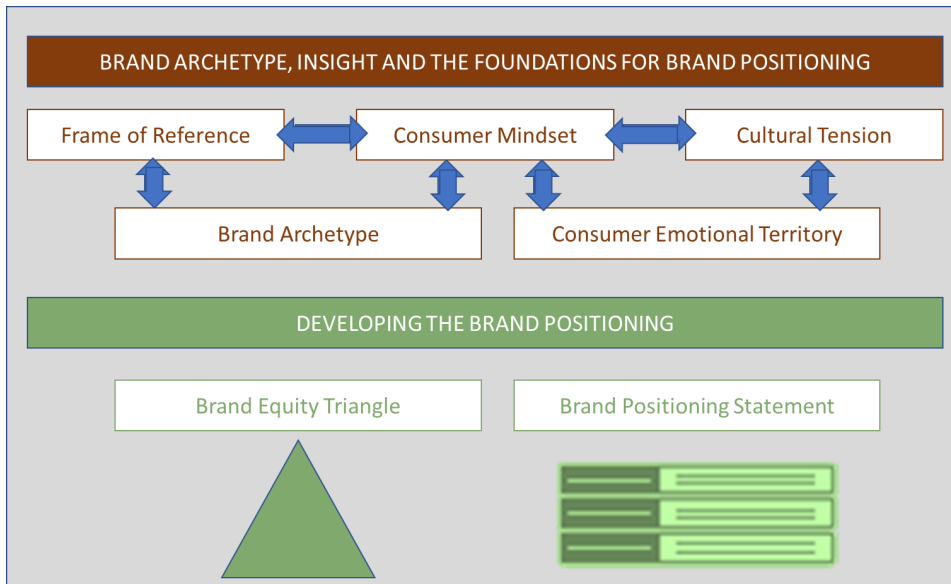
for how a brand comes to life in the consumer’s world. Effective brand positioning is distinctive, meaningful, credible and engaging. It provides a common global language to ensure the brand is able to remain consistent globally. Progressive organizations need to develop it for all core brands.

The power of brands

A brand is defined as a distinctive bundle of attributes, benefits and values that people associate with a particular name or symbol. While all brands share the same definition, they are not all created equal. Brands like Apple, Coca-Cola, Google, Nike and BMW set themselves apart from others and have become iconic. So, what makes a brand great?

All brands deliver a variety of functional benefits: great taste, refreshment, unique packaging, power, etc. However, not all brands are effective at communicating on an emotional level. Brands that deliver meaningful and distinct emotional benefits, allowing consumers to look and feel a certain way, are more successful in building a “shortcut” to the intuitive part of the brain, which is responsible for making most consumer purchase decisions.

What does this have to do with brand architecture? Brands having a distinct BA are more effective at connecting with consumers emotionally. As a result, they are more likely to be purchased, which drives brand volume and value. The ability to build powerful brands becomes the company’s ability to ensure it deliver growth and shareholder value.

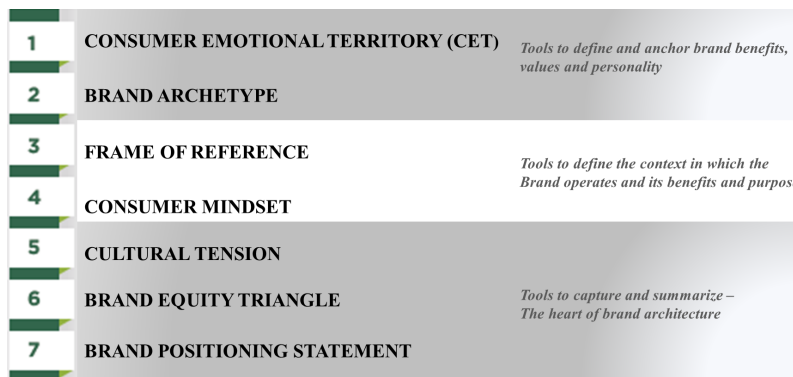


Graph 2: Brand Architecture Framework

As streams, BA is neatly divided into “two schools” (McKinsey&Company, 2014³). Ones, who favor a dominant corporate brand (s.a. Virgin or Amex) chose the model of the *Branded House model*. Others, opt for the *House of Brands*, typified by numerous sub-brands with little or no mention of the company behind (e.g Reckitt Benckiser, Pringles, Milde).

Another concept for BA is that it can be structured in three different ways (Olins, Wally 1990)⁴: *Monolithic structure* (everything relies on the Corporate brand – Sony, IBM); *Endorsed structure* (an organization endorses its name and identity to a group of companies – GM, P&O); *Branded structure* (company operates through a series of unrelated brands – Procter & Gamble, Unilever, Diageo etc.)

BA puts all brand building elements in one and ensures they all take part in the process, work together in alignment and synergy. In this masterly created clockwork, each of the components has its own and unique role which can be grouped in three streams:



Graph 3: Brand Architecture components

Consumer Emotional Territory CET

Brands like McDonald’s and Nike are able to simply show a logo and everyone recognizes them. People associate Apple with innovation and design while IBM is associated simply with computers or technology. Brand like Red Bull quickly communicate the feeling of energy by simply showing their dueling bulls logo. The key to their success lies in a strong consumer emotional territory which they’ve built with consumers around the world.

CET represents the associations consumers have with a brand that create a “shortcut” in their minds to recognize and connect with a brand. This helps to define how a brand makes consumers look and feel. It is s foundational piece of the

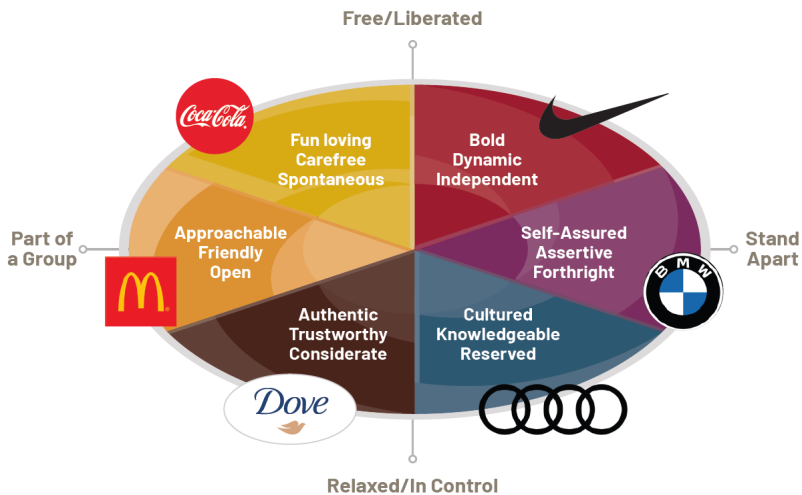
³ McKinsey & Company is a globally renowned management consulting firm, founded in 1926 by University of Chicago professor James O. McKinsey, Revenue: 10.5 billion USD (2019);; Employees: 30,000 (2019)

⁴ Wally Olins, one of the world’s leading corporate identity designers. co-founder of Wolff Olins and Saffron

brand’s positioning and helps defining brand benefits, personality and values – part of the Brand Equity Triangle.

Brands can be plotted according to their benefits in a chart with two axes to identify their emotional territory. (1) Consumers’ desire to be part of something or to stand apart from the crowd; (2) Consumers’ desire to feel relaxed and in control or to feel free and liberated.

CET framework originates in the work of Swiss psychiatrist who works on the two axes in the beginning of 20th century (Jung, Carl, 1909). Later to this, he comes with the concept for archetypes (Jung, Carl, 1947). This model is adopted worldwide by many brands as it is culturally universal. Modern marketing perspective states that consumer needs are in a constant state of flux, with different needs overlapping and intermingling. Needs are directly influenced by the context and situation in which an individual is, mood and feelings. There are more differences between the same consumer making brand choice on two different occasions than between two different consumers choosing same brand on the same occasion.



Graph 4: Consumer Emotional Territory Framework.

Source: NEEDSCOPE⁵, Kantar

⁵ Kantar NeedScope, 2021, New Zealand – Unique brand planning system to help develop and manage irresistible brands. Using proprietary models, NeedScope uncovers the drivers of irresistibility in brands; and adds value throughout the marketing process. It applies qualitative and quantitative research approach to help their clients. At their core, there is an understanding of the 8 drivers of irresistible brands. Emotion is always at the heart driving consumer brand behavior. <https://www.needscopeinternational.com/about-1><https://www.kantar.com/inspiration/brands/how-can-you-build-brand-equity-through-meaningful-purpose>

A brand's CET is identified by matching its stories, values, personality and benefits to the emotions described in each territory. As examples, Coca-Cola provides a carefree and uplifting feeling for consumers, while Dove communicates natural purity. Nike's "Just Do It" campaign speaks to bold independence, while BMW communicates self-assurance and status. The key for brands to build a successful emotional connection with consumers is to focus on a primary territory and consistently communicate that emotion in a distinctive way.

Brand Archetypes

Nielsen's report projects that US consumers spent about \$600 million on video and audio content in 2019 (an increase of 10% compared to 2018). That number is projected to grow to one trillion by 2023. Simply, this means people love to be entertained and they love a good story. Franchises such as "Game of Thrones," "Fast & Furious" or "Stranger Things" tell magnetic stories that start with a common component: archetypes.

Archetypes are characters and stories that have universal meaning that stand the test of time. They are helpful in defining a brand's personality, values and purpose, as well as how a brand can tell its stories. The father of archetypes (Jung, Carl, 1947) develops the original twelve brand archetypes that all stories share at the subconscious level. Over time other scholars and academics studied the archetypes and confirmed that these stories transcended time, culture and geography. As such, they are a key component of how successful brands communicate to consumers around the world. Archetypes and their core stories are more resonant and easier for people around the world to connect with because they bring to mind enduring human stories that are repeated over time. Archetypes ennoble life by highlighting its meaning (Margaret Mark, Carol S. Pearson, 2001; *Building Extraordinary Brands Through the Power of Archetypes*, p.21). They are thus a helpful mental shortcut to brand meaning.

Defining a brand's archetype consists of a two-step process: a brand out and consumer in exploration. Reviewing past and current brand communications, both its images and language help to identify the core values of a brand and how it presents itself to consumers. Pairing this with consumer research and insights on how consumers view the brand provides further clues about the brand's archetype.

For existing brands, the archetype should stem from the brand truths – its genuine stories, its history of communications and the perspectives of the consumer. For new brands, the archetype can emerge as the brand triangle develops. Key anchor for the archetype is the brand values. These provide the beacon to know which archetype best represents the brand. Focusing on the single archetype helps to develop and strengthen the brand's positioning.



Graph 5: Brand 12 Archetypes Wheel. Source: brandspeak⁶

Frame of reference



Graph 6: Brand Frame of reference

Brand's frame of reference is a key component of the brand positioning statement. It defines the market in which the brand operates and competes. This includes direct competitors, indirect competitors (delivering similar needs with

⁶ brandspeak – one of the UK's leading market research companies, delivering game-changing, qualitative, quantitative and ethnographic research to B2C and B2B companies in the UK and globally. <https://www.brandspeak.co.uk/blog/articles/brand-archetypes-bonding-with-your-consumer/>

different product features) and adjacent markets (delivering similar needs but with products from different categories).

A great example of defining a brand's frame of reference comes from a Nintendo case study and their launch of the Wii gaming console⁷. Instead of limiting their direct competitors as only Sony and Microsoft, who also produce gaming consoles, they expanded their frame of reference to include indirect competitors such as television and board games, as well as adjacent markets such as books and outdoor activities. A way, for families and friends entertain themselves at home, this allowed Nintendo to attract more non-traditional gamers. Frame of reference shouldn't be too narrow – with the potential to be blindsided by competition or miss out on larger trends – or too broad as this can lead to confusion.



Example 1: Extended Brand Frame of reference, Nintendo Wii Campaign

Bringing brand positioning to life via Brand Equity triangle

The brand positioning really comes to life through the brand equity triangle. It provides direction and boundaries for everything a brand does. It is the touchstone of the brand's activities, informs on what a brand should or shouldn't do and provides inspiration for activating a brand at the market level. Brand equity triangle is global in nature and should not be adapted or changed locally. Equally, focusing on one elements vs others, risks leading to communications that don't reflect the holistic/true nature of the brand.

The brand equity triangle includes the following:

Brand Story/Reasons to Believe – Ownable and unique statements, often focused on the brand's history, process, product or place, that are motivating and relevant to consumers

⁷ Nintendo Wii positioning and campaign is a successful best practice and renowned case study. Campaign is Nintendo Wii Music Online Commercial – Ode To Joy: https://www.youtube.com/watch?v=rvkz_jnahSc

Brand Assets – Visual, auditory or sensory elements that a consumer strongly associates with a brand. These should be representative of the brand’s most distinctive assets.

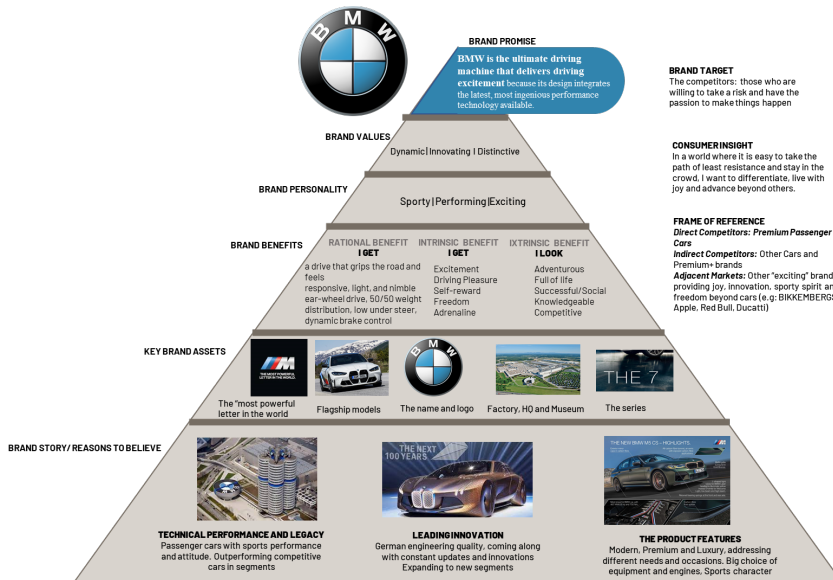
Brand Benefits – Provide insight into what a brand offers consumers: • Functionally, “I get...,”; • Socially “I look...,” and • Emotionally, “I feel...”.

Personality – Defines the brand’s style, attitude and tone of voice.

Values – The principles and beliefs that a brand stands for and represents, what a brand believes in and cares about.

Brand Purpose – A summary statement that explains why the brand exists.

A brand with the right identity and meaning can make a customer believe it is relevant and “my kind of product.” The strongest brands will be those to which consumers become so attached and passionate that they become evangelists and attempt to share their beliefs and spread the word about the brand, according to the inventor of Brand Pyramid and Brand Equity Model. (Keller⁸, Kevin Lane, 2013; Strategic Brand Management IV-edition, p.134)



Graph 7: Brand Equity Triangle. Example developed with BMW brand.

The power of the brand positioning statement or Brand Promise is in providing a framework for decision-making. Keeping the statement practical and simple language makes it easier to communicate to brand stewards and makes a strong springboard for all activities.

⁸ Kevin Lane Keller (1956) is a professor of Marketing with the focus on branding and strategic brand management. Due to his experience in branding, he invented the Brand Equity Model (1993) which is sometimes called Customer-Based Brand Equity Model (CBBE model) and the Brand Pyramid

Portfolio strategy and management

A process by which the company determines how to focus, develop and deploy its portfolio in a way that leverages consumer needs and drives growth for organizations. It involves prioritizing, optimizing, launching, acquiring and divesting brands delivering against consumers' needs and achieving competitive advantage and financial performance.

Consumer needs, wants and behaviors are changing constantly — shaping and shifting the market. Companies need to respond to these changes, adapt and evolve their portfolio.. Disruption comes from anywhere. E.g, demonstrating changes in consumer behavior brought about by disruption is instigated by innovation in the supply chain at Zara⁹:

Zara disrupted high street fashion by revolutionizing its supply chain, which it owns end to end. This enabled Zara to compete on its speed to market, embodying the idea of “fast fashion”.(Zhou,M. 2019; HBS Case study). Zara adapts couture designs, manufactures, distributes and retails clothes within two weeks of the original design first appearing on catwalks. This is in stark contrast to the average six months it takes to produce items in the fashion industry. Zara grown their sales from \$1.3 billion in 1996 to over \$32 billion in 2017.

Optimizing how brands work together

Attention has to be given to how the brands are positioned and perceived in consumers' minds in order to maximize growth and minimize cannibalization (e.g., P&G brands stealing share from other P&G brands). It's essential for clear distinctiveness between the positioning, product delivery and messaging of brands. It's simply not efficient to have several of in-company brands competing for the same consumer need and purchase opportunity. Equally, if there's a consumer need that none of our brands or competitor brands are currently meeting, companies need to evaluate the size of the opportunity and – if attractive – develop a plan to extend, reposition, create or acquire a brand to meet these needs.

The creation and management of a strong portfolio of brands also enables a company to increase its mind share with the customer – enriching the relationship beyond just margin and pricing negotiations. Recent category management achievements in large chain accounts across markets have been facilitated by P&G (e.g. P&G with Pampers makes category arrangement in store chains as market leader) .

Four distinct phases can be identify to how company approaches portfolio strategy

⁹ Zara SA, stylized as ZARA, is a Spanish apparel retailer based in Arteixo, A Coruña, Galicia, Spain. The company specializes in fast fashion. It is the largest company in the Inditex group, the world's largest apparel retailer. Founded: May 24, 1974; Revenue: 19.56 billion EUR (2019); Number of locations: 2,270 stores



Graph 8: Example for portfolio strategy and management four phases model

Corporate Portfolio Strategy

Based on company key strategic objectives organization reviews and assesses the key global trends that will affect its business and core categories over the next 5–7 years. This helps size the growth opportunity of the category, evaluate the growth potential of owned brands and identify any gaps. Subsequently, a compelling vision and “manifesto” is created which outlines the principles in portfolio strategy. Brands are usually categorized into three groups: Global Priority Brands, Global Emerging Brands or Regional Priority Brands. Decisions enter into new categories, acquire or create new brands or to divest existing brands

Global Brand Portfolio Architecture and Market Prioritization

Companies review their portfolios, identifying the optimum architecture required to deliver the corporate strategic priorities and growth targets. This is not the same as brand architecture, but requires some of that same content. Portfolio architecture should be in place that concerns how the various sub-brands and expressions work together to optimize growth opportunities minimizing cannibalization. What makes them distinct is clearly defined.

Local Market Portfolio Prioritization

In this phase, local markets seek to translate the Global and Corporate priorities and strategies into clear growth targets and priorities for their market. The local leadership team is guided by the Corporate portfolio strategy and principles. They

then assess and propose the optimal portfolio choices that will deliver their growth ambitions.

At the market level there can be more granular data available and, as an understanding of the local landscape is built, a local business unit may find it useful to review commercial opportunities (e.g., distribution, rate of purchase and price). At the conclusion of phase three, the local organization make decisions about which brands need focus – setting clear growth targets, identifying strategic priorities, investment levels.

Local Portfolio Management

The last phase involves the marketing leadership team of the local business unit. Using the data available, the team segments the market creating a consumer choice framework. Local markets create their own frameworks depending upon the data available, local insight and the key drivers of choice in each market. A brand portfolio strategy that is confused and incoherent can handicap and sometimes doom a business strategy (Aaker, A.David 2004, Brand Portfolio Strategy). One that fosters organizational and market synergies, creates relevant, differentiated and energized brand assets, and leverages those brand assets, on the other hand, will support and enable business strategies

Conclusion

Brand differentiation in a meaningful way to engage consumers appears as critical to win over competition and drive sustainable value creation. Successful practices evidence that organizations need to ensure proper brand foundations setting, underlying in the very beginning of brand building to “move the needle”. Understanding the connection between brand, consumer and culture results as extremely effective in inspiring creative ideas and platforms for all brands in an organization.

The study showcases that companies who dedicate cross-functional focus, support and capabilities behind defining brand architecture framework and brand building principles set a cornerstone to their long-run future stellar growth. Putting consumer in the heart, the deep understanding, analysis and identifying of Frame of Reference and Brand Archetypes to enter relevant Consumer Emotional Territories are critical enablers. Strong model of Brand Equity Triangle proves to secure sustainability over time of the models and the gain of high margins. Exploring further the link between brand development and product performance, showcases that for greater expansion, portfolio approach is needed to widen revenue pools and size of prize. Here, a proper portfolio management strategy, stepping on the four identified phases can further boost the stellar growth of an organization. Taking the time to build, evaluate and evolve brand architecture and portfolio strategy with care will ensure that company brands can continue to grow by building meaningful distinction with consumers around the world.

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EFFECTS ON INTERNATIONAL MANAGEMENT DURNIG COVID-19

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Abstract

Globalization in the world is a process of creating a liberalized and integrated world market of goods and capital, as well as shaping a new international institutional order that serves the development of production, trade and financial transactions on a global scale. In the long run, in the conditions of globalization, the market economy cannot function effectively and develop its international competitiveness without conflicts, if the principles of operation of the multinational corporations are not in accordance with the international environment of the management. Human resource management must inevitably follow the international human resources market. This means continuously exploring the functional characteristics of international management in order to be able to identify potential problems in the international markets of human resources and managerial staff. Personnel recruitment, management, governance and control of multinational corporations are functions of international management that shape international personnel policy. The need to develop the strategic functions of human resource management incorporate the values of the cultural and religious characteristics of individual entities in function of the special values of international management as part of the social culture globally. A new reality caused by the COVID-19 pandemic has imposed a new way of managing globally. Companies must transform much of their operations online, and thus manage both domestically and non-internationally.

Keywords: international management, strategies, COVID-19

JEL: M1, M12

Introduction

The governance of the international market speaks of successful management by the managers of those multinational corporations, the successful economic and legal policies of the host country, professional and well-trained managers who will know how to respond to the changing global environment. The conditions of the global market are harsh, and entry is difficult, so that competitive in the international market will be only those companies that know how to work according to

world standards and regulations and will apply internationally oriented management in their operations.

When the operations of the organization reach a significant level, then the operations are directed outside the home country, by opening branches and partnerships in other countries. Then the organization transfers its technology, knowledge and capital to other countries, and with its development and implementation of international strategy through permanent training and development of its human resources, its nature becomes more complex.

Reasons for opening companies outside the host country can be: finding cheap labor, location of necessary resources and their utilization, as well as finding new markets around the world. The United States in recent decades is ranked first in the World Trade Organization, followed by EU countries, Japan.

Working internationally has been going on for a long time, and its importance and value have been increasingly emphasized in the last few years, for which the dominant multinational corporations are to blame. The international market is a playing field for modern managers. This means organizational ability to give initiative that will translate into creating quality international business plans that with strategy, organization and control over human and material resources will enable the company to successfully perform in the international market. It means functional directing and harmonization of the internationally oriented business through planning, organizing, managing and controlling the set tasks and employees in order to realize the organizational goals. In such conditions, the managers of the multinational corporations are faced with the challenge of planning, organizing, controlling in accordance with the economic, legal-political and cultural dimensions of the new environment. They face challenges in conquering new places and governing new markets globally. For that purpose, it is necessary for the managers to follow the changes that permanently occur with the process of globalization, the newly created changes in the markets, the liberalization, the new sophisticated needs of the consumers and the like. In such conditions, the function of human resources must develop new strategic capacities, by changing the role of international management in order to successfully perform on the international market.

International Management

The role of international human resource management has changed significantly in the last three decades with the application of resource theory that directs research to the internal aspects of the company at the expense of its competitive advantage: “application of a strategy that gives positive results to the corporation, it is specific and unique and is not applied by other companies, it is a prerequisite for the competitive advantage of the company”. According to Barney, this strategy, which takes care of the valuable resources of the company, will give significant results both domestically and internationally. Resource theory emphasizes the role of human resources in achieving sustainable competitive advantage domestically

and internationally, and strategic management imposes the need to implement human resource management in the strategic performance of corporations in the domestic and international market. According to Barney, an organization's competitive advantage can only be created through resources that are scarce and cannot be easily replaced or imitated. Human resources will be a competitive advantage of the organization only in conditions when the organization has a heterogeneous demand for human resources, the need for high quality and professional staff to work in the organization that can not be imitated and replaced. With such resources, the organization will be competitive with others who have the conditions for implementation of modern technology in operation.

While human resource management is an area that defines employee relations and the way of organizing work in the organization in order to achieve the set organizational tasks and goals, strategic human resource management directs human resource management to implement strategic decisions and goals of the organization. Strategic human resource management is a relatively young branch of management that saw its development in the 1980s with the works of Fombrun and Beer. Strategic human resource management is a macro aspect of human resource management and is a discipline that analyzes all strategies of human resource management and their impact on the organization. meeting organizational goals through employees. Fombrun, Tichy and Devanna introduce the notion of an "improvement model" according to which HRM systems should be managed in accordance with the organization's strategy. According to that model: strategy, HRM and organizational structure complement each other, they are interconnected and harmonized, and they are influenced by other external factors such as: economic, political and cultural influence from the environment. Fombrun focuses on integrating organizational strategies with HRM strategies. The impact of Fombrun's model on HRM development is of great importance due to the emphasis placed on HRM internal practices as well as their alignment with the organization's strategies. Unlike the Fombrun model, the Beer model differs primarily in that according to this model the choice of organizational strategy will depend on the limitations and capabilities of employees. This model places more emphasis on external influences and internal interdependence of components. A major influence on the development of HRM is the HRM model from Harvard University where the focus is on the classification of input and output at both organizational and societal levels.

Guest, unlike previous models, gives a classification of HRM policies and practices and analyzes their interrelationship with the performance of an organization. His main hypothesis is: "if an integrated system of HRM practices is applied in a coherent manner, then superior individual and organizational performance will be obtained". According to this model, the task of HRM is to create a connection between employees and the organization in order to their commitment and achieve appropriate organizational behavior that will result in

greater efficiency and effectiveness of the organization. Guest believes that HRM practices should be created in order to obtain appropriate HRM results such as quality, commitment, flexibility.

However, neither in the empirical nor in the theoretical research there is still a consensus which HRM practices are a precondition for achieving organizational goals. The scope of HRM's interest includes the basic HRM practices: selection, training, evaluation and awards. They are a prerequisite for successful operation of any organization, and the basis of this study where the focus will be on the impact of training and professional development of managers for successful performance in the international market.

With the expansion of the corporation, with its very passing beyond the borders of its home country, the relationship between it and the representative office abroad in another country remains. The factors that affect the relationship that will exist between those parts of the corporation depend on several factors. The home country sends managers and technology from its home country to the host country. In this way, the home country gets closer to the host country because with the help it provides through know-how, it helps in the development of human and material resources in the host country. Also, by opening that organization in their country, through various types of interaction, it brings the country into the system of the global organizational structure, and thus brings it closer to globalization changes. However, the relations between the home country and the host country are not always at a high level. Socio-cultural differences between them can cause problems such as insufficient and good communication, and thus cause problems in the operation of the corporation. Also national selfishness and the influence of powerful multinational corporations can cause feelings of underestimation and exploitation. Multinational corporations with their managers need to have a team that will take care of overcoming all misunderstandings and finding social and diplomatic cooperation with the host country. Managers face the challenge of working with people who have undergone different types of education, culture and who have different value systems. On the other hand, they are in a country with its own economic, political and legal system. It all affects the work of managers in multinational corporations.

Conclusion

The globalization in the modern world comes with technological and economic development. Nowadays, the globalization gives us an easier access to global goods and information, it makes the average human richer in knowledge as well as in status, it "celebrates" the individualism. Etymologically speaking, the word *globalization* comes from Globe (lat. *globus* meaning sphere) and the word reflects itself in culture, nation and in different linguistic units. On a broader level, globalization is seen in contemporary art, the relocation of nations which is most clearly seen in migration, how the human movement becomes easier and simpler,

and how the language of the individual is already more understandable to his neighbor. But, of course, it is inevitable to say that every major change in the individual is not left without traces. The advantages that globalization offers can be summarized as follows: greater international and multinational exchange, lower market prices resulting from greater competition among sellers, greater stock choice originating from the same source, ie. the larger the market the better the quality of the goods. Employment is higher, and thus the choice of the person to choose his place where he can advance with his career. On the other hand, it is not only the person as an individual who benefits, there are also companies that receive cheaper and better goods in a much more accessible way. As the mobility of the individual increases, so does the business. In the modern world, a businessman can move his business to the other side of the world and still work from home.

The work of the WTO (World trading organization) has gone much better and is increasing its effect every day. It is inevitable to mention the flaws arising from this process. However, talking about a turn of events that has changed the world, from the 1960s onwards, it is not easy to say that many things in the economy have changed, but also for the worse. Let's start with inequality. Smaller businesses, the so-called local businesses have a difficult start to break into the market precisely because of the huge competition. Already developed businesses are trampling on every beginner and everyone who comes to the arena of buying and selling, faces the same problem. Thus, small businesses fail because they do not have enough strength to fight with already developed corporations. One of the biggest problems faced by the individual as a living being not only in the business sector but in his life in general is ecology. The use of means of transport on a daily basis greatly exceeds all the limits that nature has given us in resources. The destruction of vast areas of forest due to urbanization, the excessive amount of plastic and gasoline used to transport these same goods makes the planet Earth a worse place to live. As much as the world is connected to things that happen on a positive level, the same is reflected on a negative. The simplest example is countries whose production depends on one place to another. So, if the business in the less developed country does not deliver the required outcome, the same business in the more developed country can not evolve according to plan. Thus, the countries of the Western Balkans, which are China dependent not only in medical and technological terms, but also in business in general, may suffer a lot in the near future due to certain unexpected phenomena – Covid 19. This raises the question: will the pandemic change all this? Antibiotics, car parts, technique, technology, can a person live only on local products? As the world domesticates itself, countries are expected to raise their taxes not only on imports and exports, but also in general economic conditions.

A post-pandemic recession the world had not hoped for. The unemployment in America is at the same level as after the Great Depression. But, on the other side of the coin lies an interesting phenomenon that no one expected until now.

Paradoxically, instead of the pandemic supporting the domestic employee, it encourages the employer to hire an experienced foreigner because in these conditions the whole company is digitalized. Why invest in new ones, when with just two clicks the manager can reach already experienced candidates who will do the same job even for a lower salary. Although a Chinese can do the job faster and more efficiently than I can, would it be socially responsible regarding us students to be left without any practice and protection from the home country?

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EUROPE: UNENDING REFUGEE CRISIS OR JOIN CHINA TO INDUSTRIALIZE AFRICA

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Abstract

Global media coverage of Africa and the Middle East (or, rather, Southwest Asia) typically focuses on war, terrorism, famine, epidemics, and mass immigration. Very seldom are these two regions associated with economic development, scientific breakthroughs, or cultural advancements.

Unfortunately, this image of the region has a substantial basis in reality. The situation does have domestic causes, but is also largely related to global geopolitical factors and the attempt by major global powers to secure spheres of influence, natural resources, markets, and strategic and political advantages against other global and regional adversaries.

Keywords: Europe, China West Asia, Africa, Belt and Road Initiative, Industrialization, Development

JEL: O1, Q01, R11

A New Global Paradigm

The good news is that a new paradigm in world politics has emerged, and is concretely changing the rules of the game of what can be called the old paradigm—the paradigm responsible for the above-mentioned problems in West Asia and Africa.

This new paradigm is not a plan to be undertaken in the future, nor is it a hypothetical, academic speculation. It is a reality taking hold in the world now. While this new paradigm has been in the making for many years, it has been given concrete expression over the past four years in two interrelated events:

1. The announcement of the One Belt, One Road Initiative (or Belt and Road Initiative — henceforth referred to as BRI) by Chinese President Xi Jinping in late 2013.

President Xi Jinping announced the creation of the “Economic Belt of the Silk Road” in a speech in the Nazarbayev University in Astana, Kazakhstan in September 2013. The Belt is a land-based economic corridor extending from

eastern China to western Europe and engaging 69 nations in its path. One month later he announced, from Jakarta, Indonesia, the intention to launch the 21st Century Maritime Silk Road together with other nations. This includes building numerous ports on the sea lanes of the Pacific and Indian Oceans and the through for the New Silk Road policy adopted by China since 1996. President Xi's initiative trans-formed the policy into a global strategy backed by the massive financial, technological and political power that China had developed in the previous 20 years of fast-track industrialization, hinging on the construction of infrastructure mega-projects whose scale had not been seen in the world since the U.S. New Deal before World War II, the post-World War II reconstruction of Germany, and the U.S. space program of the 1960s.

2. The July 2014 Fortaleza Declaration by the BRICS nations (Brazil, Russia, India, China and South Africa). This declaration cemented the economic and financial cooperation among these nations, envisaging the joint creation of new financial institutions, such as the New Development Bank, that are almost solely focused on development of infrastructure, trade, industry, scientific cooperation and research. What these nations, especially China, have proven, is that eliminating poverty, famine, and disease can only be achieved by full-scale industrialization and the utilization of state-of-the-art technologies to unleash the creative, productive powers of society, as the United States and Europe had done in previous centuries, and not by piecemeal small steps, as the United States and Europe have been proposing for Africa and Asia since at least the 1960s, or by "humanitarian," emergency aid, which has become the rule, rather than the exception in dealing with Africa, for example.

The BRICS nations, with China foremost among them, have even redefined what was called "sustainable development," using the phrase to mean industrialization, food security, and the eradication of poverty, rather than adjusting the living standards of people to immediately available resources and technology. Technological apartheid had for many years been a policy practiced by industrial nations, preventing developing nations from acquiring advanced technologies, under various excuses. Now, the BRICS nations, led by China, are breaking that "rule," making advanced technology available for nations in Asia and Africa.

These developments come as the western world has entered into the worst financial and physical economic crisis since the Great Depression, weakening its ability to resist and to undermine the rising economic power of the BRICS, a response that would be expected based on the geopolitical trends of the past. Although seen as a challenge by many in the crisis-ridden, formerly industrialized nations, or the OECD nations, living within what can be called "the old paradigm," the new paradigm is in reality an inclusive process, not an exclusive club of developing nations. The United States, the European Union (EU), and Japan are frequently invited by China, Russia, and India to join the process of development

that the latter nations are involved in both within their own territories and around the world.

The May 14–15, 2017 Beijing event, the Belt and Road Forum for International Cooperation (<http://beltandroadforum.org>, 2017) was the proof of success of the Chinese policy of transforming the New Silk Road policy into a global phenomenon and an international strategy for peaceful cooperation and growth. The summit was attended by 29 foreign heads of state, government officials from more than 130 countries, 70 international organizations, and over a thousand delegates. Included among the attendees were the Chairman of the Schiller Institute, Mrs. Helga Zepp-LaRouche, and other representatives of the Schiller Institute, in which the two authors of this report are members and researchers.

In his opening speech, President Xi made the method and objectives of the BRI crystal clear. Stressing the need for a new set of international relations to replace geopolitics, he said:

“First, we should build the Belt and Road into a road for peace. The ancient silk routes thrived in times of peace, but lost vigor in times of war. The pursuit of the Belt and Road Initiative requires a peaceful and stable environment. We should foster a new type of international relations featuring win-win cooperation; and we should forge partnerships of dialogue with no confrontation, and of friendship rather than alliance.”

He also noted the importance of the principle of sovereignty and independence of nations that has suffered much in the past few decades due to unjustified military interventions by major powers: “All countries should respect each other’s sovereignty, dignity and territorial integrity, each other’s development paths and social systems, and each other’s core interests and major concerns.”

Concerning the essence of the Chinese concept of “sustainable development,” Xi explained:

“Industries are the foundation of economy. We should deepen industrial cooperation so that industrial development plans of different countries will complement and reinforce each other. Focus should be put on launching major projects. We should strengthen international cooperation on production capacity and equipment manufacturing.... Infrastructure connectivity is the foundation of development through cooperation. We should promote land, maritime, air and cyberspace connectivity, concentrate our efforts on key passageways, cities and projects, and connect networks of highways, railways and seaports.”

The BRI is based on the solid foundation of China’s own economic miracle in the past few decades. It has evolved from a national Chinese project of economic development and industrialization into a massive intercontinental initiative for connectivity and economic cooperation, an initiative that more than 60 nations have joined so far, and that can potentially become the biggest economic undertaking in the history of mankind. West Asia and Africa, which enjoy massive geographical

advantages and human and natural resources, are poised to reap major benefits from this global initiative.

The fact that China is sharing its amazing experience of industrialization and development of the past three decades with the rest of the world is a key element of success. China lifted 600 million of its citizens out of poverty between 1981 and 2004 – as attested by such institutions as the World Bank (The World Bank, 2015) through investments in urban and rural infrastructure projects, and mega-projects in transportation, water and power. This is an unparalleled achievement that can be replicated in the Middle East and Africa. Within this period, China built more water management projects than the United States had done in a hundred years. Another amazing indication of this feat is that China used more cement in the three years 2011–2013, than did the United States during the entire 20th century (Ana Swanson, “How China Used More Cement in 3 Years Than the U.S. Did in the Entire 20th Century”).

The Chinese 11,000 km high-speed railway network (which is planned to reach 20,000 km in the next decade), has already surpassed the combined network of the Western European nations. China has 37 operating nuclear power plants (70% of which were built in the past decade alone), and a further 20 plants are under construction.

What is Win-Win Philosophy?

According to Chinese official media sources (<http://English.gov.cn.archive>), President Hu Jintao was the first Chinese leader to use this term in a speech on China’s cooperation with other Asian nations, which he delivered in the Boao Forum in 2004.¹³ President Hu used it again during his visit to Seattle, Washington, describing China’s position that, “as long as China and the United States view and handle bilateral relations from a strategic height and long-term perspective, seize their common strategic interests, and enhance exchanges and cooperation with mutual respect and on an equal footing, they will realize the reciprocal and win-win results.”

In April 2011, Foreign Minister of China Yang Jiechi delivered a speech titled “Win-Win Cooperation for Harmonious Development” at the opening ceremony of the Tenth “Spring of Diplomats” event in Beijing, in which he said: “China will unswervingly carry out the win-win strategy of opening up. China cannot develop in isolation of the world, and China’s development brings benefits to the world. China does not pursue its interests at the expense of other countries or seek to maximize its own interests. What we want is to expand the common interests with other countries and integrate our own interests with the common interests of the entire world with a view to achieving common development.”

President Xi presented the most detailed and eloquent description of this notion in his speech at the General Debate of the 70th Session of the UN General Assembly in September 2015. (The speech was titled “Working Together to Forge

a New Partnership of Win-win Cooperation and Create a Community of Shared Future for Mankind.”)

“We should renew our commitment to the purposes and principles of the UN Charter, build a new type of international relations featuring win-win cooperation, and create a community of shared future for mankind,” he said, stressing that to achieve this goal nations “should build partnerships in which countries treat each other as equals, engage in mutual consultation and show mutual understanding,” and that “the principle of sovereign equality underpins the UN Charter... The future of the world must be shaped by all countries. All countries are equals.” President Xi further explained: “We should be committed to multilateralism and reject unilateralism. We should adopt a new vision of seeking win-win outcomes for all, and reject the outdated mindset that one’s gain means the other’s loss or that the winner shall take all. Consultation is an important form of democracy, and it should also become an important means of exercising contemporary international governance.”

President Xi usually uses the description that programs of development proposed by China “will be open and inclusive, not exclusive. They will be a real chorus comprising all countries along the routes, not a solo for China itself.” (Speech at the Boao Forum for Asia Annual Conference in March 2015: <http://english.boaoforum.org/hynew/19353.jhtml>) The usual skepticism expressed in discussing China’s intentions behind the BRI strategy is partly motivated by a sense of rivalry and fear by those who harbor the typical geopolitical notions inherited from centuries of imperialist rivalries, colonialism, and slavery. Ironically, these notions are also shared by the victims of these evils, who view every major power as an egoistic force whose only concern is to take, and never to give or to collaborate. On the other hand, a great deal of this skepticism is based on ignorance of China’s culture and of its historical characteristics.

These two matters have been thoroughly addressed, not by a Chinese, but by a European personality with the most knowledge of, and personal involvement in this Chinese initiative in the Western world. That is Mrs. Helga Zepp-LaRouche, a German citizen, founder and chairwoman of the international Schiller Institute, and wife of American economist and statesman Lyndon LaRouche. Her 40-year involvement—in collaboration with her husband and associates in the Schiller Institute around the world—in defining the principles and propagating the importance of connecting all the continents of the globe through infrastructure and development corridors, has gained her the nick name “New Silk Road Lady” in Chinese media.

The Belt and Road Forum for International Cooperation held in Beijing in May 2017—with attendees from over 100 nations, including 28 heads of state—was the latest such event at which Mrs. LaRouche was invited to speak. Mrs. Zepp-LaRouche thoroughly described the ideological problems facing Europeans when exploring the BRI in a speech she delivered in the Swedish capital

Stockholm, in January 2017.¹⁶ She explained that “the problem with Europe, is that the European Union bureaucracy and some governments, are still in the old paradigm, the geopolitical paradigm of globalization, of neoliberal policies.” Zepp-LaRouche stressed that “most people, at least in Europe and in the United States, cannot imagine that governments are for the common good, because we have not experienced that for such a long time. The common idea of all the think-tanks, or most think-tanks, is ‘China must have ulterior motives’ or ‘China is just trying to replace Anglo-American imperialism, with a Chinese imperialism.’” Zepp-LaRouche stated that her extensive studies of China since her 1971 visit—as one of the first Western journalists to go to China in the middle of the Cultural Revolution—show that these claims are not true. “I have seen China as it was then; I travelled to Beijing, Tianjin, Qingdao, Shanghai, and to the countryside, and so I know what an enormous transformation China has made in this period,” she said.

The Age of Mega-projects Is Back

The negative paradigm shift that took off in the early 1970s in the United States and Europe, ushered in with the official takedown of the Franklin Roosevelt-era Bretton Woods system beginning under the Nixon Administration in August 1971, created a chain of financial and debt crises in the 1980s and 1990s around the globe. The focus shifted away from the state-financed industrial development policies that made possible the 1930s recovery from the Great Depression in the United States, and enabled Europe to recover from World War II. The new tendencies towards deregulation of financial and credit markets and towards globalization, made financial and monetary gains the primary criteria for investment. The creation of ever-greater financial bubbles and derivatives bubbles became the key element of financial practice, and public investment institutions and private resources moved gradually into the financial sector which promised ever greater profits on purely financial tools and products rather than physical economic development. These neo-liberal policies found a suitable ally in the environmentalist movement, which was opposed to large-scale, modern industrial development, and the two worked hand in hand to prevent governments from financing large-scale infrastructure, industrial expansion, or scientific projects. The focus shifted simply to maintaining what was previously built and to building ever smaller projects. Developing nations became unable to receive credit and technologies from the industrialized sector to pursue their development goals, becoming more and more addicted to emergency aid and economic assistance programs. Instead of building dams, and water and sanitation systems, African nations were offered mosquito nets to fight disease, and were offered contraceptives to reduce birth rates, rather than help to build a modern health care system.

The Chinese economic surge in the beginning of the new millennium, and the outbreak of the unprecedented financial and banking crisis in 2008, were a wake-up call. Although China’s direct exposure to the crash was minimal, dramatically

reduced trade with the declining economies of Europe and the United States affected China's economic growth. But unlike these trans-Atlantic nations, which resorted to more austerity measures and bank bail-out packages to the same financial institutions that created the crisis, China geared up its investments in infrastructure and industrial development as the way out of the crisis. The Chinese model became a source of inspiration for many other nations. However, while there is agreement on the importance of investment in large-scale infrastructure projects and growth in general to resolving the global financial and economic crisis, as was expressed by the G-20 Summit in Antalya, Turkey in November 2015, the G-20 definition of "mega-projects," the technological level applied to them, and, most importantly, the ways of financing such large-scale infrastructure projects, differ greatly from the Chinese model. Additionally, many think tanks and mass-media outlets continue to warn against investments in mega-projects—often defined by them as simply any project costing over \$1 billion—for the reason that such projects are unlikely to generate a short-term monetary return. Some of the most-circulated criticisms of mega-projects do not really make any sense, since the authors of such criticism seem to say: "Well, sometimes governments mismanage large projects.... Therefore, we should never have any of them, ever!" (report from the U.S. Cato Institute: <https://www.cato.org/policy-report/januaryfebruary-2017/megaprojects-over-budget-over-time-over-over>; article in the Canadian Globe and Mail <https://www.theglobeandmail.com/opinion/move-over-egaprojects-here-come-the-teraprojects/article27973165/>)

Investments in infrastructure create value far beyond any direct profit to the investors. These investments are meant to raise the productivity of the individual and society as a whole, wherein the real wealth creation process lies. Mega-projects are transformative in nature, creating a great chain of developments. And they are technology generators, forcing the expansion of technological capabilities beyond current boundaries, as they pose new types of problems for society to solve—as seen in the fantastic advances made in achieving the goals of the U.S. Apollo space program in the 1960s.

The mega-projects that survived the economic downturn of the industrialized sector are singularities, remarkable for the general infrastructure void in which they have been completed. Such projects, completed against great financial odds and environmentalist resistance, are usually driven by necessity, such as solving traffic problems between regions, rather than as part of a larger national and regional economic plan. Examples include the Vasco da Gama Bridge in Lisbon, Portugal (completed in 1998), the Øresund Bridge/Tunnel between Denmark and Sweden (completed in 1999), the "Big Dig" Central Artery Tunnel Project in Boston, USA (1991–2007), the Incheon Bridge in South Korea (completed 2009), Spain's national high-speed railway network (built 1992–2016), and the Gotthard Base Tunnel in the Swiss Alps (completed in 2016).

Otherwise, when it comes to the past two decades, China tops the list of such projects and is contributing to similar projects abroad. However, such overseas infrastructure projects invested in by China are part of a larger development process, not objects in and of themselves. This has to be taken in consideration when planning the development of West Asia and Africa.

Redefining ‘Sustainable Development’

The term “sustainable development” was formally codified by the United Nations through the 1987 Brundtland Report¹. It is usually associated with promoting the use of so-called “renewable” sources of energy, such as solar and wind power, and is generally concerned with alleged adverse impacts of human activity on the environment. The referenced report states that “sustainable development” is defined as sufficient development to cover the “basic needs” of poor societies, i.e., the bare minimum to ensure survival, while also arguing that all nations and peoples have the right to fulfill their aspirations for better living standards. However, it states that most people in modern societies “live beyond the world’s ecological means, for instance in our patterns of energy use,” leading to the conclusion that the world is doomed to poverty; technological progress and industrial development are not real solutions, because sustainable development implies “the idea of limitations imposed by the state of technology and social organization on the environment’s ability to meet present and future needs.”

The notion of limited natural resources and the so-called “carrying capacity” of the ecological system are not applicable to human society, since it is the level of scientific and technological progress which defines the range of “resources,” rather than an a priori “natural” limit. Therefore, adopting the “sustainable development” goals determined by such notions as in the Brundtland Report poses a great obstacle to eliminating poverty and providing higher living standards and quality of life for all individuals and nations. What is needed is a new definition of these notions, or completely different concepts.

China has proven that the way out of poverty and onto the path of progress is through fast-track “industrialization” and large-scale development projects and mega-projects, using the full range of resources, whether scientific, human, or natural. For example, all useful sources of energy, such as coal, oil and gas, hydropower and nuclear power must be used. While it is imperative that the sources of power with a greater energy-flux density, like nuclear fission and fusion, should replace the less dense sources, it is neither reasonable nor moral to ask poor nations to avoid the sources of power that enabled the United States, Europe, Japan and others to become modern industrial societies.

¹ In 1987 the former Norwegian Prime Minister Gro Harlem Brundtland headed the UN-appointed World Commission on Environment and Development, releasing the report “Our Common Future,” also known as the Brundtland Report, <http://www.un-documents.net/wced-ocf.htm>

China's economic miracle is based on implementing sound policies that seem to be the opposite of those demanded by such international institutions as the World Bank, the IMF, international environmental organizations, and financial consulting corporations and think tanks. China has followed a policy which was, ironically, the policy that made the U.S. the greatest economic power on earth by the end of the 1940s, and made a ruined Germany the second greatest industrial power in the post-World War II world.

China's is a dirigist policy of centralized, state-financed development of infrastructure and industry through national credits for long-term development, by using the latest technological and scientific innovations and developing new ones. Nowhere in China's policies do we find the internationally much-touted Public-Private Partnership (PPP), or wholesale privatization of state assets; the decentralization of economic policy making; or the mixing of commercial banking activities with speculative investment banking. Nonetheless, Western institutions keep insisting that the developing sector nations should commit to privatization, decentralization, the PPP mode of financing, and a reduction in the involvement of the state in economic planning and execution of policies. (Source referenced above: joint World Bank-IMF report "From Billions to Trillions: Transforming Development Finance" (<http://siteresources.worldbank.org/DEVCOMMINT/Documentation/23659446/DC2015-0002%28E%29FinancingforDevelopment.pdf>) and Antalya G-20 Summit Communiqué (<http://www.consilium.europa.eu/en/press/press-releases/2015/11/16-g20-summit-antalya-communication/>)

This discrepancy – between the proven successful methods of development, both current and historical (as in industrialization of the United States and Germany, for example) on the one hand, and what is being promoted by international institutions on the other—must be cleared out and eliminated. The new paradigm of development spearheaded by China and the BRICS nations is a key element in this process.

It is therefore necessary to state in clear terms here, in this context, that the definition of the term "sustainable development" should mean the ability to "maintain" a process of providing ever higher standards of living, both physically and culturally, to whole societies through scientific creativity and technological innovation. "Sustainable development" should not be used to mean the adaptation by society to an ever-shrinking base of fixed resources, because there is no such a thing as limited resources! What puts a limit to growth is the lack of cultural, scientific and technological progress.

A better term to describe this evolutionary process is "progress" or "progressive development."

'Helping' or Empowering Africa?

One the biggest obstacles in the way of establishing equitable partnerships between Africa on the one hand and Europe and the United States on the other,

is that, while in the colonial period Africa was considered a mere looting ground, in the post-colonial era, Africa continued to be considered as a source of raw materials, but was also increasingly regarded as a burden that could only be helped by “relief” and “foreign aid” rather than cooperation to build the means by which African nations could become self-reliant to meet their economic and social needs. Where Europe and the United States see only problems, China sees potentials and opportunities.

Such positive thinking is not limited to China. U.S. President Franklin Delano Roosevelt (FDR) had a similar view of Africa. FDR—who rescued the U.S. economy after the Great Depression hit, and helped rid the world of Fascism and Nazism during World War II through using U.S. industrial and logistical capabilities during his New Deal economic revival years in the 1930s—held very strong anti-colonial sentiments and views. His heated encounters with British Prime Minister Winston Churchill, documented by his son Elliott Roosevelt, a U.S. Air Force officer who at times accompanied his father to international conferences during the war,²³ attest to his vision of what should have happened after the war. Unfortunately, FDR died before the war ended, and his successors did not follow upon his progressive views and policies.

Two excerpts from exchanges between FDR and Churchill show the extent of the difference between their two perspectives:

Churchill shifted in his armchair. “The British Empire trade agreements” he began heavily, “are—” Father broke in. “Yes. Those Empire trade agreements are a case in point. It’s because of them that the people of India and Africa, of all the colonial Near East and Far East, are still as backward as they are.” Churchill’s neck reddened and he crouched forward. “Mr. President, England does not propose for a moment to lose its favored position among the British Dominions. The trade that has made England great shall continue, and under conditions prescribed by England’s ministers.” “You see,” said Father slowly, “it is along in here somewhere that there is likely to be some disagreement between you, Winston, and me. “I am firmly of the belief that if we are to arrive at a stable peace it must involve the development of backward countries. Backward peoples. How can this be done? It can’t be done, obviously, by eighteenth-century methods. Now—”

“Who’s talking eighteenth-century methods?” “Whichever of your ministers recommends a policy which takes wealth in raw materials out of a colonial country, but which returns nothing to the people of that country in consideration. Twentieth-century methods involve bringing industry to these colonies. Twentieth-century methods include increasing the wealth of a people by increasing their standard of living, by educating them, by bringing them sanitation—by making sure that they get a return for the raw wealth of their community.”

Elsewhere in the book, Roosevelt told Churchill:

“Wealth! Imperialists don’t realize what they can do, what they can create! They’ve robbed this continent of billions, and all because they were too short-

sighted to understand that their billions were pennies, compared to the possibilities! Possibilities that must include a better life for the people who inhabit this land..." (Elliott Roosevelt, *As He Saw It*, 1946. 24 Ibid.)

The African Union Aims High

A new vision of the future emerged in Africa most dramatically in 2014, after a crucial period of preparation. In January 2014, the Chairperson of the African Union Commission (AUC), Nkosazana Dlamini-Zuma, published what could be called the new, or second vision and manifesto for African industrialization and integration, her "Email from the Future."

There had been no such African document since Senegal's Cheikh Anta Diop, in 1960, published his passionate vision of creating "a powerful State industry, giving primacy to industrialization, development, and mechanization of agriculture," with nuclear power production and technical institutes in such fields as nuclear physics and chemistry, electronics, and aeronautics.

Dlamini-Zuma released her impassioned vision on the occasion of the January 2014 ministerial retreat of the African Union (AU) Executive Council. It takes the form of a personal letter from "Nkosazana" to a friend named "Kwame," written in 2063—the 100th anniversary of the founding of the AU's precursor, the Organization of African Unity.²⁵ In her wide-ranging letter, the building up and integration of African infrastructure are prominent. Looking back from 2063, she wrote, for example,

Economic integration, coupled with infrastructure development, saw intra-Africa trade mushrooming, from less than 12% in 2013 to almost 50% by 2045. This integration was further consolidated with the growth of commodity exchanges and continental commercial giants. Starting with the African pharmaceutical company, Pan African companies now not only dominate our domestic market of over two billion people, but they have overtaken multi-nationals from the rest of the world in their own markets.

Even more significant than this, was the growth of regional manufacturing hubs, around the beneficiation of our minerals and natural resources, such as in the Eastern Congo, North-Eastern Angola and Zambia's copper belt and at major Silicon valleys in Kigali, Alexandria, Brazzaville, Maseru, Lagos and Mombasa, to mention but a few such hubs. My friend, Africa has indeed transformed herself from an exporter of raw materials with a declining manufacturing sector in 2013, to become a major food exporter, a global manufacturing hub, a knowledge center, beneficiating our natural resources and agricultural products as drivers to industrialization. Pan African companies, from mining to finance, food and beverages, hospitality and tourism, pharmaceuticals, fashion, fisheries and ICT are driving integration, and are amongst the global leaders in their sectors.

We are now the third largest economy in the world. As the Foreign Ministers' retreat in Bahir Dar in January 2014 emphasized, we did this by finding the balance

between market forces and strong and accountable developmental states and Regional Economic Communities (RECS) to drive infrastructure, the provision of social services, industrialization and economic integration.

A flagship project of this vision, the African Express Rail, renamed the African Integrated High-Speed Railway Network (AIHSRN) project, was initiated six months later at the AU Summit by the AU Executive Council.

The context of this exciting development is to be found both in Africa and China. Dlamini-Zuma had become chairperson of the AUC in 2012 and, having been South Africa's foreign minister from 1999 to 2009, she already had strong ideas about what direction Africa should take. Xi Jinping had become President of China in 2012 and had already developed his concept for a New Silk Road. When Dlamini-Zuma and Xi met in Beijing in February 2013, it was a meeting of two minds.

In May 2013, the vision whose formulation she was leading, called Agenda 2063, was discussed by the AU Assembly of heads of state and government. Her "Email from the Future" followed in January 2014.

In May 2014, Li Keqiang, Premier of China, visited the AUC in Addis Ababa as part of a broader tour of Africa, and pledged "cooperation between Africa and China in high-speed railway, aviation, highways, and industrialization infrastructure," and included in that cooperation the project to connect all African capital cities with high-speed rail.

After the Agenda 2063 Framework Document was adopted in September 2015 by the AU heads of state and government, Dlamini-Zuma went to Beijing in November for a six-day visit, at the invitation of Foreign Minister Wang Yi, to take Africa-China cooperation forward. She rode on the Beijing-Tianjin high-speed train for the first time, accompanied by Ambassador Kuang Weiling, the head of the new, permanent mission of China to the AU, established at AU request. Her ride on a high-speed train was symbolic of one of the underlying principles of Agenda 2063, that Africa must proceed by leap-frogging to the most advanced solutions and the most advanced technologies.

Africa Must Leap Ahead, Not Crawl Forward!

Some in the west say that African development should be through "appropriate technologies," that an incremental approach to improvement should be taken, that foot-powered treadle pumps for water or solar panels on huts would be a useful upgrade. This outlook must be rejected.

Instead, Africa should have the best and latest technologies, and the greatest ambitions not only to pull its peoples out of poverty and under-development, but to move them to a completely new economic platform. The Congo River, for example, could support the production of an estimated 100 GW of hydroelectricity, enough for hundreds of millions of people, with 40 GW from the planned Grand Inga Dam alone. The Transaqua water transfer program—which would use a small

fraction of the water from the Congo and its tributaries to refill Lake Chad, provide a navigation means in Central Africa and generate great amounts of hydropower—would be larger by an order of magnitude than any other water project in the world. The expansion of rail lines in Africa is currently at a world-leading level. New transportation routes across Africa will connect the hinterlands to the cities and ports, allowing modern development. With access to efficient transportation, regions benefit from opportunities to bring in equipment and supplies, to export their products, and for residents to travel. With the availability of electricity, higher productive capabilities are unlocked, and the value of the land and the people increases.

Incredible potential for growth exists in Africa and West Asia!

However, before any proverbial shovels dig into the ground, a complete intellectual review is required to clear and overturn some dangerously false but generally accepted axioms and postulates regarding the human species' relationship to and its role in nature, what “resources” are, how societies develop, how development is financed, and the proper role for industrialized nations in West Asia and Africa. There are many such axioms and concepts that are treated almost as law or divine revelation, but they have been partially responsible for Africa's current state of poverty and lack of development, and they form a great obstacle to reversing these conditions.

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THE SUCCESS OF THE EMPLOYER BRAND – AN ALTERNATIVE FOR EFFECTIVE TALENT MANAGEMENT IN THE ORGANIZATION

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Abstract

This paper presented a study, which finds the talent management of a worrying matter. The major areas of weakness such as employee engagement, training and development, reward and recognition require continuously investigation and remedial action by companies' management. This paper provides an analysis and evaluation of the current situation of the digital transformation company in terms of challenges to attract the talents and failing to retain them which affects the organization in meeting its strategic goals and losing its competitive edge in the market. In the research process, a specific company (digital transformation company) is used, as a case study, providing information for analysis. Methods of analysis include surveys and questionnaires to measure employees' satisfaction, analyze management capabilities and detect the corporate environment. Results of data analyzed show that all scores are below average and the management is performing poorly in the areas of employee's motivation, empowering and delegation. The paper explains how to build an employer branding strategy which starts with the organizational culture and ends up with the proper marketing and not vice versa. Recommendations discussed include: improve both the public and the employees' perception about the organization; leadership development training; developing a reward system.

Keywords: Employer Branding; Case Study; Modern Problems; Business Context; Talent Management; Leadership Development Training

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Introduction

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organization in meeting its strategic goals and losing its competitive edge in the market.

In the research process, a specific company (digital transformation company) is used, as a case study, providing information for analysis. Methods of analysis include surveys and questionnaires to measure employees' satisfaction, analyze management capabilities and detect the corporate environment. Results of data analyzed show that all scores are below average and the management is performing poorly in the areas of employee's motivation, empowering and delegation.

The paper explains how to build an employer branding strategy which starts with the organizational culture and ends up with the proper marketing and not vice versa. Recommendations discussed include: improve both the public and the employees' perception about the organization; leadership development training; developing a reward system.

Theoretical aspects about Employer Branding

The practice of the Employer branding is built on the assumption that the human capital brings the biggest value to the organization through investments in highly skilled workforce which gives the company a competitive edge and guarantees a high performance in the market. In the current business environment of downsizing and outsourcing has changed the nature of the psychological contract from employers guarantying job security to employers guarantying marketable skills through personal growth, career development and training in exchange to the hard work and effort.

For the needs of the research we accept the definition of Sullivan (2004), who says "Employer branding is a long term strategy to manage the awareness and the perception of employees, potential job seekers and stakeholders with regards to a specific firm or an organization". In addition to this definition, we believe that an effective employer branding strategy will give its organization a competitive advantage, more engaged employees, high retention and the employees shares the same values of the organization.

The following theories were used as a framework for analysis in the research process: Brand Equity Theory, Brand Associations Theory, Social Identity Theory and Brand Loyalty Theory.

Brand Equity is how the brand name has an effect on the consumer as well as its effect on current and potential future employees. The Employer Brand Equity attracts potential candidates to apply and encourages the current employees to stay and stand behind the brand. The researchers found that the loyalty of the employees to the brand increase productivity. In a brief the Equity is the outcome desired from the Employer branding strategy.

Brand Associations are the thoughts and ideas come to the mind of the consumer when seeing the brand (Aaker, 2004). The Brand association has the same effect on the recruitment same as sales; as the potential applicants will be attracted to the

employers based on how they believe in their brand and their impression that it has all the attributes they are looking for in an Employer based on the strength of the brand. The job seekers also develop a brand association based on information they are gathering which are not controlled by the Employer. For that it could be positive or negative.

According to Social Identity Theory, the job seeker compares the employer brand image to his own needs, personalities and values (Byrne and Neumann, 1992). Hence when they join the employer they feel a sense of membership to this brand and build their self-esteem based on this membership. That's another proof on the effect of employer branding on the loyalty of the employee and sharing the same goals with the employer.

According to Brand Loyalty Theory, the Employer brand has a profound effect on the organizational culture and identity which inspire and build employee loyalty to the brand

After reviewing the above theories which represents the main pillars of the employer branding, and a comparative analysis of the situation in the studied organization, we identified the main key problems – in the organization lacks all of it as the employees don't feel that they are associated with this brand, they have no loyalty to the brand and they don't feel that there is an equity with it.

Modern problems in building an employer brand

The wrong perception in the market is that employer branding is Recruitment, Marketing or a social function but actually the Employer branding is a business strategy (Minchington, 2017). There is a huge confusion between the “Brand” and “Employer branding”. The misconception in the business is that employer branding is focusing on marketing a product and corporate brand while the Employer branding is more focused on the Human resource management.

Some companies start implementing an employer branding strategy focused on the talent acquisition activities or marketing development which is a very common mistake and solve the issues that they have temporarily and soon they find that they invested a lot of money in the wrong place while they should have focused on the opportunity to develop the employer brand leadership across the organization which will have a great impact on the employees' retention. There is no point of investing in hiring the best talent, if you cannot motivate and retain them (Minchington, 2017).

Implementing an employer brand strategy which will make the company gain a competitive advantage is complex process and should involve all the significant stakeholders in running the organization, often with competing interests.

Brief about the case study

A study has been done on an outsourcing company which is referred to in the modern business world as Business process outsourcer.

Business context

The big companies from USA, Canada or west Europe such as Google, Microsoft, AIG group, Coca Cola, HP, Skype...etc. move big part of their operations due to the lower labor cost to countries from Asia, Africa, Eastern Europe & Latin America to minimize the cost of the salaries and company benefits in order to increase their revenues. This kind of business model started in India in the nineties of the past century by moving the customer service jobs to India and in the twenties of this century, the business needs upgraded to the requirements for supporting different languages and this is where the business started to explore eastern Europe as countries with very diverse language capabilities, highly educated youth, very low salaries and cheap facilities in comparison to western Europe.

Case study

The researched organization following this new business model has started its business in the USA in 1989 and their first site in India was open at 2005 and then the Bulgarian site opened at 2008. The site in Bulgaria started very small with 100 employees and since then have grown to become 2000 employees located in three cities, Sofia, Burgas and Varna. The company supports different kind of businesses such as Hi-Tech, Travel & Leisure, Retail, Financial Services, Banking, Technology, Healthcare and insurance. It is in continuous expansion, hiring and training. In the case study company are approximately hiring 1000 employees annually and this kind of recruitment operations is supported by a big recruitment team of around 30 employees.

The high number of hires annually is attributed to the business expansion and the high attrition rate, the recruitment is the one of the organization biggest challenges and headache due to the below reasons: There a lot of competitors in the market which are hiring the same profile; The salaries are in the same ranges of the competitors or even less; the applicants' pipeline is always depleted and suffering from a huge shortage due constant hiring and also massive competition on the market as the outsourcing business is massively growing in Bulgaria; all the companies are competing on attracting the highly educated and qualified candidates and offering them more benefits; the client partners such as Microsoft, Google... etc are requesting the highest level of calibers in terms of language speakers, advanced communication skills and high computer skills up to High tech engineers.

The core of business in organization is direct communications between customer service representatives to end customers so the whole company is running on people serving other people meaning the only true source of competitive advantage is people, they are the key drivers of employer brand strength or its failure as

the organization is not selling a products and the happiness of the customer relies on the happiness of the employees.

Reasons for the High Attrition

Stressful work environment due to high job targets in terms of meeting the client satisfaction, sales...etc; Handling customer through phone, email or chat for whole 9 hours shift; Very strict policies in terms of information security; Very strict policies in terms of leaves, breaks and vacations; Limited chances for career path; Highly competitive environment focused on numbers and little value for the human connections and bonding; The company doesn't provide trainings for development and up skilling.

Reputation of the company on the labor market in this situation is:

- The company is currently suffering from bad reputation on the market due to the high level of stress, number oriented work environment, inherited bad management, wrong decisions and bad practices.

- The current and ex-employees are expressing their opinions on the social platforms which discourage the job seekers

- The organization is not tackling such issues internally or able to advertise it's the positive points in the market.

- The global foreign management is not implementing strategies that fit the local culture and mentality but are implementing some very generic strategies which are very superficial and not tackle the core issues and challenges

The organization has run a survey among the employees to measure how its ranking on the scale for favorite employers and only 60% of the employees said that they would recommend the organization as an employer to their friends.

Research methodology

The research hypothesis is that:

The organization needs a strong Employer Branding Strategy to: Increase the quality of hire; Reduce recruitment and turnover costs; Increase employee engagement; Increase employee referral rates; Own a strong employer image; Improve the public perception about the organization; Have enthusiastic employees who will contribute in the growth of the organization.

Limitations of the study

The study has faced challenges at the earlier stage due to the lack of cooperation of the middle management, fear of the employees to take the survey and unrealistic self-assessment which actually has served in the course of the report in demonstrating the disconnect between the management and the employees.

Due to the subject of the study, the organization that gave us the opportunity to study the internal organizational context asked not to disclose her name.

Research Methods

In the first stage of the study are applied the Qualitative research method – were are reviewed different literature and articles on the employer branding to try to understand what is the actual meaning and practices of the employer branding. But still there is a little academic background and still the theoretical foundation is being developed by the modern authors who are analyzing its effect on the business and trying to establish some guidelines for it.

Also there are complimentary theories of change management which will be applicable in the case of the employer branding as the management are trying to change the organization from its current state to an organization that is adopting an employer branding strategy. After reading about the different modern theories of change management such as the McKinsey's 7-S Model and Kotter's Eight Step Model then we had found that Lewin's theory to be the most suitable to the case of the studied organization.

Theoretical Model on the research

The Lewin's Three Phase Model concept explains that the change should be done in a cycle of three phases.

- First Phase *Unfreeze* – try to overcome resistance to change. In this stage we prepare the organization and the leadership to accept that change is mandatory and the process owners break down the existing situation or problem before building up a new way of work. In our case we will present to the top management the high cost of recruitment activities, the polls on the public perception about the organization and the employees' opinions.

- Second Phase *Change* – implementing the changes. After we have shacked the core believes of the leadership and employees in the current process, then in the 2nd phase the employees will begin to resolve their issues by looking for new ways to operate. Here will see a great support from the leadership and employees because they will start to believe and act in ways that support the change and the new process. Accordingly, we will have number of meetings with the different stakeholders of human resource management to prepare for the employer brand strategy, plan the execution, analyze the risks, plan the transition, prepare the training and prepare the message to all the organization.

- Third Stage *Refreeze* – finalize the changes and make a standard process. In this stage the change has already taken place and the employees have embraced the new process, hence now the organization is ready to refreeze on the new process. The signs that we are ready for refreeze are the stable are for example a talent management process in place, clear understanding of employee motivation plan... etc. In this stage we also have to make sure that the changes are going to be sustainable, incorporated into everyday business and not going to be forgotten soon. We have to ensure the stability of the change and that the employees are confident in the validity of the new process and comfortable with the new operating ways.

In the second stage of the research are used the Quantitative method since we have the feasibility to analyze the current situation of the organization in numbers through measuring the different aspects of employees' satisfaction and management capabilities

The Research instruments are the Questionnaires and Surveys. For the purposes of the study were developed: Employee Engagement Survey template which was distributed on the employees; Employee Engagement Survey worksheet with raw data prior analysis; Manager Self assessment survey template which was distributed on the managers and Management self assessment questionnaire worksheet with raw data prior analysis.

Target groups: The employees of the studied organization.

Sampling Strategy: used the Systematic Sampling in this research. The reason to choose the Systematic sampling because the population under test is similar to one another with minor differences working in different departments but they are all the employees of one company. So they are affected by the same issues that we have demonstrated above. We take a random sample of 5 employees from each department such as the Service Delivery, Finance, HR, IT, Operations and Administration, to ensure that we have covered all aspects of the organization.

We used the Sampling Method since the organization have 2000 employees in Bulgaria and it will be very challenging to enroll all the employees. From this sample we draw the right conclusion about the organizational habit of all the 2000 employees.

Research process

First, we conducted a survey throughout the selected sample to measure how the employees are engaged in terms of their association with the brand, how are they imbedded in the organizational values, understand the depth of the problem, areas of development, come up with the solutions and the designing the right employer branding strategy to tackle the core source of the organizational challenges.

What are measured in the organization through the questionnaire?

The first set of questions is to measure the employee satisfaction with the work environment and organization:

- How happy are you at work on a scale of 1 to 10?

Although its seems like a simple question but it's the most direct question that measure the satisfaction of the employees – who are happy or not, so it's a great measure for the morale in the organization

- Would you refer someone to work here?

In the human nature is to people care about their friends and families. One of this sign of caring that they wouldn't allow them to go through a negative experience. So this question shows if the employee thinks that this a good place that he can proudly refer to a friend, or a bad place which who could be ashamed to refer to a friend due to the negative experience will go through.

- Do you have a clear understanding of your career or promotion path?

One of the key motivators and factor for stability and retention is having a career path in the organization. The employees show a great motivation when they know that they have a chance to be promoted while the work performance declines when the employees feel that no matter how hard they work there are no development chances for them.

- How would you rate your work-life balance on a scale from 1 to 10?

One of the important factors for the millennial generation when they are choosing a company is the work-life balance factor, while it was not a key decision factor for the generation-X as they were focused on gaining experience and the baby boomers generation as they were facing a global economic depression post the wars. Nowadays it's a very valued factor in evaluating the organizations and management.

- If you were to quit tomorrow, what would your reason be?

By asking this direct question we could reveal the main problem in the organization or the set of problems that is leading to low morale, high attrition and low employee satisfaction.

The second set of questions is to rate the management and the employees' view of the management style:

- Do you feel valued at work?

Only a great leadership or well-trained manager will make the employees feel valued so this question will measure how the leadership in the organization shows the employees that they recognize their effort and care about their best interest.

- How frequently do you receive recognition from your manager?

In all kinds of analysis about work environment, the recognition is always on the top of the chart to be one of the main reasons for employee's satisfaction. Lack of recognition is a sign of bad management which leads to disengaged employees, low morale and weak performance.

- The last time you accomplished a big project, did you receive any recognition?

The human psychology states that the person behaves in every situation based on the accumulation of his first experiences since he was a child. Accordingly, if the first employee experience is that he won't get recognition when he worked hard, so we can imagine, how this person will react next time he is asked to work hard again.

The third set of questions is to analyze the retention rate and its reasons:

- Do you believe you'll be able to reach your full potential here?

Employees will choose to stay at a company that gives them a chance for development and provide them with support to reach their goals. Missing these factors will lead to continuous attrition. So by this question will measure the attrition risk in the organization as a sign of dissatisfaction.

- If you were given the chance, would you reapply to your current job?

If the employee is happy at his company but had to leave his company for whatever reason and were re-offered to return back to his old company, he will gladly do that. But if he was unhappy at this place then will never return back.

- Do you foresee yourself working here one year from now?

This is a direct and simple question that measure directly how long the employees would stay at the company before considering quitting and measure the probability of future retention.

- Do you believe the leadership team takes your feedback seriously?

Employees feel valued and important when they feel that the leadership are listening to them and taking actions on their demands and needs. Employees are not willing to stay in a place that they feel ignored and irrelevant to the leadership.

The fourth set of questions is to analyze the corporate culture.

- Do you feel like the management team here is transparent?

One of the most important factors of satisfaction but under rated to the management is the transparency, employees appreciates and respect the corporate which is transparent in its policy, decisions, salary structures...etc.

- Can you recite our organization's values with eyes closed?

Usually only a few percentages of the employees hardly remember the values of the organization which means that it could be too theoretical and has not relevance to the reality of the work environment while if a high percentage if the employees knows it well that means that they understand it and its being implemented.

- What three words would you use to describe our culture?

The first three words that comes to mind to describe anything are always the most honest and accurate so this question will show in high accuracy what the employees are thinking of the corporate culture

- How comfortable do you feel giving upwards feedback to your supervisor on a scale of 1 to 10?

This question measures how the employees are comfortable with sharing their feedback to their managers without fear of consequences, the lower the score the lower the confidence of the employees and greater the fear while positive corporate environment would score high cause it gives the freedom and confidence for the employees to express their opinions

- Do you feel like coworkers give each other respect here?

Employees are affected by all the integrated work relations and not only by their managers, so a positive work environment will endorse a respect among colleagues. In a negative work environment, we find ugly competition, gossip, in appropriate behavior...etc. which a repelling factor to the employees and in a fast way will lead to retention.

- Does our executive team contribute to a positive work culture?

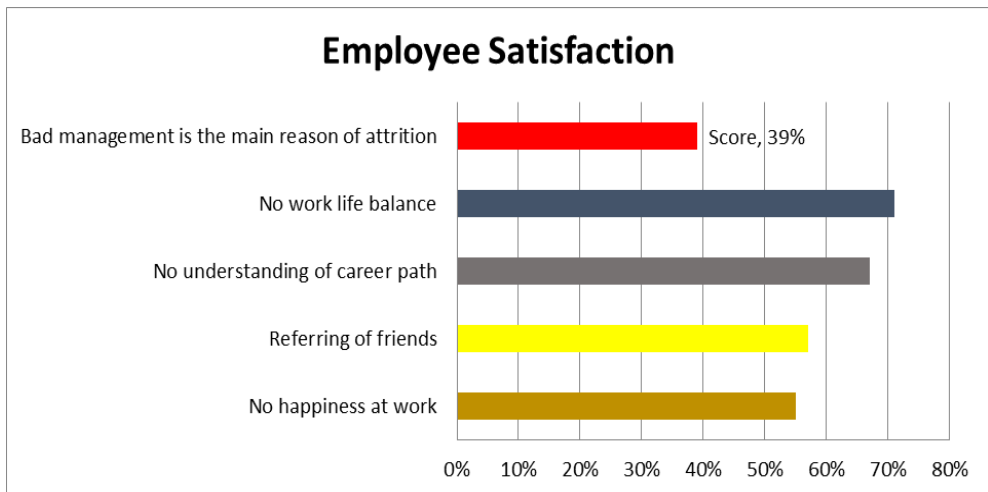
From this question we will be able to understand if the management fostering and endorsing a positive environment as it has the key role in the type of culture exist in any organization, its sole responsibility and should be one of its goals

- Do you have fun at work?

In any work environment there should be a balance between the job stress and having some engaging activities so that the work wouldn't be overwhelming with tasks, assignments...etc. it's a trend globally to have recreational areas and activities in the work place and it became one of the selling point for the employers in the competition.

Survey Results

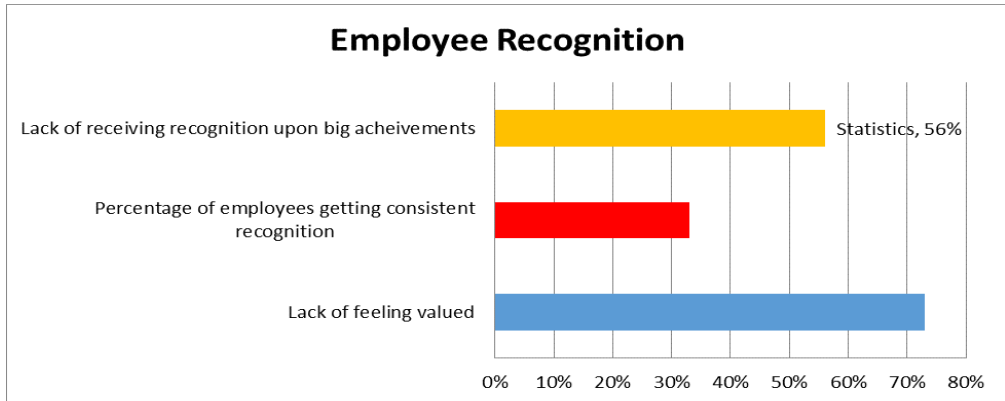
The scores of the first quadrant shows that the employees feel that the work is affecting their work/life balance with a great percentage. They have no clear understanding if they have a career path at the organization, they feel unhappy at work, the management are performing poorly and due to all these factors they wouldn't refer their friends to work at this place as well (see Diagram 1).



Source: the author

Diagram 1: Employee Satisfaction

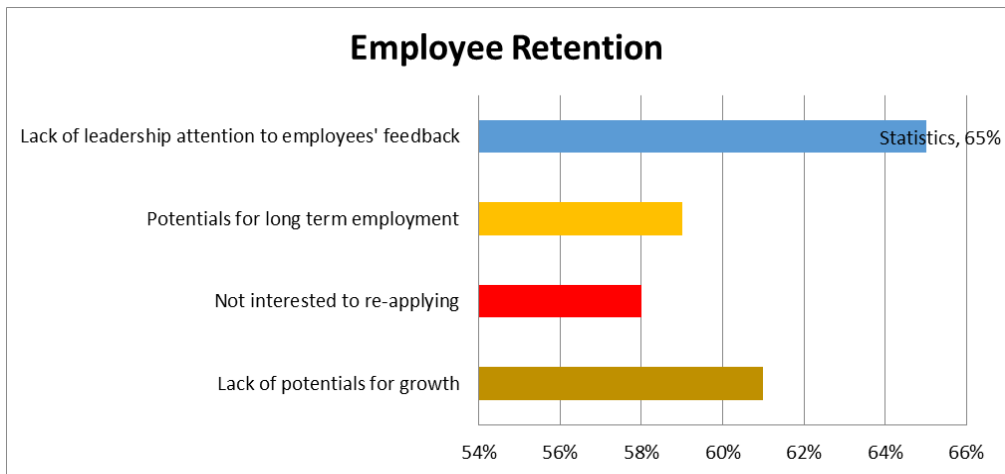
The scores of the second quadrant shows that more than 70% of employees feel undervalued and they hardly receive any recognition. Where less than 33% gets a consistent recognition when they do a good job which shows as well that the management is lacking in this area (see Diagram 2).



Source: the author

Diagram 2: Employee Recognition

Diagram 3 shows the scores of the third quadrant. We see, that the 65% of management ignores the employees' feedback. Employees feel that the management doesn't support their growth and they hardly have any chance to grow. More than 60% of the employees unlikely to stay more than one year and they would never apply for a job again at this organization.

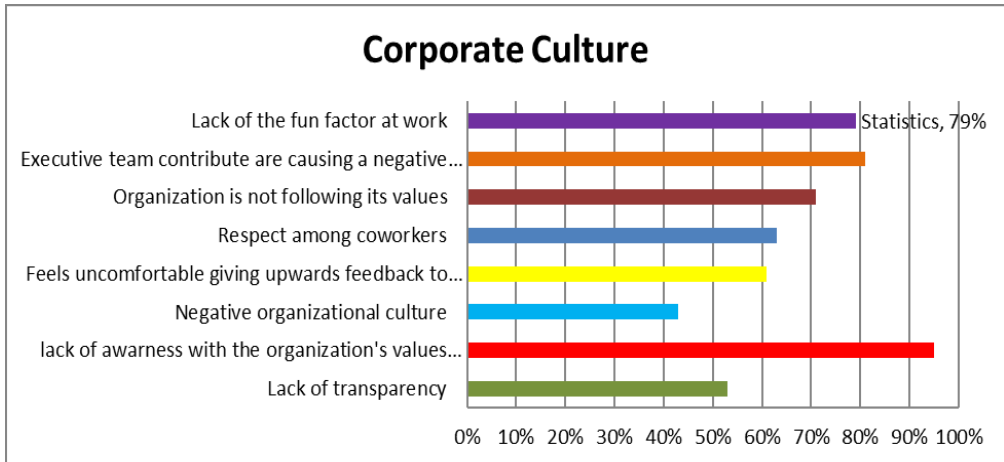


Source: the author

Diagram 3: Employee Retention

The Scores of the fourth quadrant shows more than 90% of the employees have no clue about the organizational values. The top management are causing additional stress and negative environment, there is no fun factor at work and employees feel

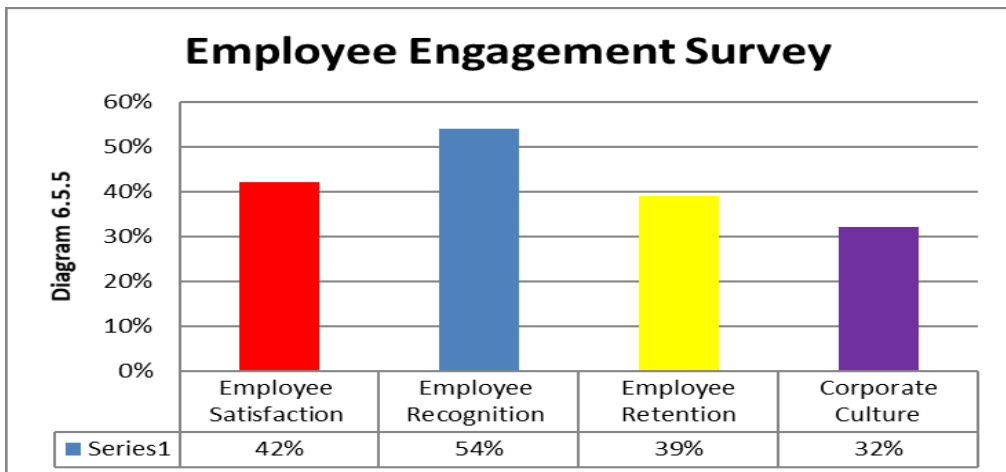
miserable. The organization is not following the values. Employees are afraid to give their feedback upwards and there is lack of transparency (see Diagram 4).



Source: the author

Diagram 4: Corporate Culture

The Integrated Statistics Analysis is shows in Diagram 5.



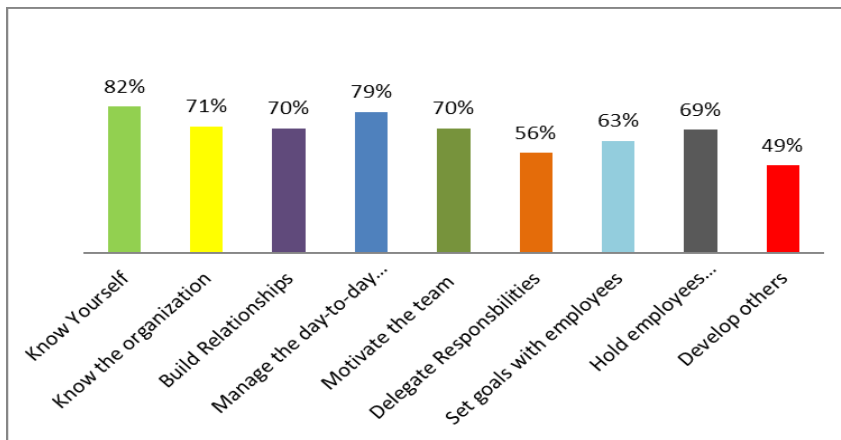
Source: the author

Diagram 5: The Integrated Statistics Analysis

After completed the employee engagement survey and received the results, we need to see if the managers are noticing the same issues, have the same perception of the corporate culture and challenges or they are delusional about the problems. In this survey the managers understand their strengths, if they are on the right

track and their needs for development to ensure effective leadership. At the end of the self-assessment, we identify the skills and competencies that the management needs to acquire in order to reach a positive and encouraging corporate culture and to understand the areas where they are exercising leadership effectively. In this part of survey, we see how the managers are seeing themselves in term of personality, attitude, behavior and the impact of this on the others. Hence this will help in designing the right plan for their development focusing on the areas that they see themselves acting in the right way while they are not.

The below diagram 6 demonstrates the integrated scores of all the managers and how they have rated themselves on the different aspects of the leadership style such as the motivation, delegation, development...etc.



Source: the author

Diagram 6: Integrated scores of all the managers

The summarized results were obtained after analysis of the questionnaires for self-assessment of managers (see Table 1).

The overall statistics analysis produced from the employee engagement survey shows that the corporate moral is very low with only 32%, the employee retention is very low with less than 40%, the employee satisfaction is on a very low level of less than 40% and the employees are not receiving adequate recognition.

After receiving the results of the management self-assessment and analyzing it; the scores were quite surprising as we see that the managers have over rated their performance as leaders and how they deal with their team day to day, developing them, motivating them...etc. which is very contradicting to how the employees feel towards the management and the corporate culture. In this means there is a gap between the management view about the organization and the employees.

Table 1: Self-assessment of managers

<ul style="list-style-type: none"> • Summary of answers to the questions concerning <i>Management Behavior</i> • I am comfortable with myself and accept who I am. • I know my strengths and my limitations. • I am aware of the impact that my behavior may have on others. • I say what I mean and mean what I say. • I am adaptable to new people, new situations, new information and new developments. • I am flexible about my role in my organization. 	<ul style="list-style-type: none"> • Summary of answers to the questions concerning <i>Management Perception</i> • I have an understanding of how things really get done at my organization • I can identify some aspects of the organizational culture that can help me implement change. • I can identify some aspects of the organizational culture that could present obstacles to my efforts to implement change. • I recognize that change is constant in my organization 	<ul style="list-style-type: none"> • Summary of answers to the questions concerning <i>Management –Employee Motivation</i> • I implement the team’s ideas and suggestions • I treat the team like professionals at all times • I recognize individuals for good work, both formally and informally • I share authority with others to encourage them to be independent
<ul style="list-style-type: none"> • Summary of answers to the questions concerning <i>Management-Employees Relation</i> • I am able to understand and accept people for who they are. • I respect the dignity of other people and value their uniqueness • I tend to think the best of others. • I try to reconcile differences among people by helping them see their common interests. • I present my ideas in ways that are open to someone else’s perspective. • During times of change, I establish new relationships with colleagues, team members, and management. • I am comfortable with changing times and able to champion change and growth in my own life. 	<ul style="list-style-type: none"> • Summary of answers to the questions concerning <i>Recognition</i> • I recognize employees’ strengths and match individual strengths with the needs of the job. • I recognize employees’ limitations and use job opportunities to develop them. • I give timely and specific feedback with the intent of improving performance. • I give reassurance after a setback. • I work with employees to build short and long-term development plans. 	<ul style="list-style-type: none"> • Summary of answers to the questions concerning <i>Management Style</i> • Build relationships and credibility with employees • I give clear and complete instructions to my team. • I let people know how they are doing. • I give credit when due. • I maintain an open door. • I listen carefully and attentively. • I treat all employees equally and fairly. • I involve team members in decision-making. • I listen to and respect others’ ideas for how to do things differently.

<ul style="list-style-type: none"> • Summary of answers to the questions concerning <i>Management Delegation</i> • I select responsibilities to be delegated based on project goals and parameters, employees' strengths, and employees' developmental needs. • I am willing to turn over an assignment. My way is not always the best way. • I allow for others' mistakes, recognizing that they are part of the learning curve. • I give timely and thoughtful feedback and follow-up. 	<ul style="list-style-type: none"> • Summary of answers to the questions concerning <i>Management Goals</i> • I link individual goals, departmental goals, and organizational goals. • I establish goals that clearly state what needs to be accomplished. • I establish goals that can be measured. • I write goal statements that have active verbs and are complete sentences. • I agree to reasonable time limits for accomplishing goals. 	<ul style="list-style-type: none"> • Summary of answers to the questions concerning <i>Performance Management</i> • I explain performance goals clearly and check that they are understood. • I identify and plan collaboratively with employees about how to overcome obstacles to performance. • I set performance standards at stretch levels. • I monitor performance against goals. • I anticipate performance shortfalls and take timely action.
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Source: the author

Accordingly, the organization need drastic changes in the strategic plan for the organizational culture which is the infrastructure of a strong employer brand. It needs to change the management style, corporate culture and incorporate the employees in the organizational goals by feeling tangibly the return of their effort, establish the brand association, loyalty and equity, needs to empower the employees, recognize and motivate them.

There have been numerous challenges with implementing the survey such as:

- Top management weren't supporting such as a survey especially that it was done mainly for a scholar purposes.
- Top management weren't convinced with the necessity of the employee engagement survey so they were discouraging the employees from taking it.
- Management were expressing that it's a waste of time for the employees and will distract them from concentrating on their work.
- The top management didn't understand the link between the attrition and the management capabilities.
- The middle management didn't cooperate in filling in the questionnaire.
- The middle management were scared that this could be taken as a personal evaluation that might be taken in consideration in the performance appraisal.
- Employees were afraid to express their true opinion might this will reach their direct supervisor and there will be acts of retaliation against them.
- A lot of the employees were passive and felt there is no point of this and nothing will change in the company.

Overcoming the challenges and risks on survey:

- In order to ensure the support of the top management in Bulgaria, were provided to them organization attrition number and related recruitment cost and how this survey will help them to tackle the weakness areas which is causing the high attrition hence saving a lot money on spent on the recruitment cost.

- Meetings with the middle management and explained for them that the attrition has a direct effect on their jobs negatively as they are wasting a lot of time training new employees constantly and instead of developing their subordinates to prepare a succession plan to have their turn to grow in their careers as leaders, they are only training new comers and there is no succession plan.

- Meetings with the employees selected in the random sample and assured them that their survey scores will be strictly confidential and that I will present abstract numbers at the end to the top management without names or specification of the employees of which department. Assuring them as well that the results are not going to pass through the middle management.

- We explained for the top management the direct effect of the management capabilities, style and management practices on the attrition rate.

- We explained to the middle management the importance of the questionnaire because we need to ensure that both the management and employees perception are meeting at one point and to understand what are the areas that we need to develop to build a strong bond with the employees and motivate them in order to enhance the attrition rate.

- We assured the managers participating in the questionnaire that their scores will be strictly confidential and I will present abstract numbers to the top management without names or mentioning which department.

Recommendations

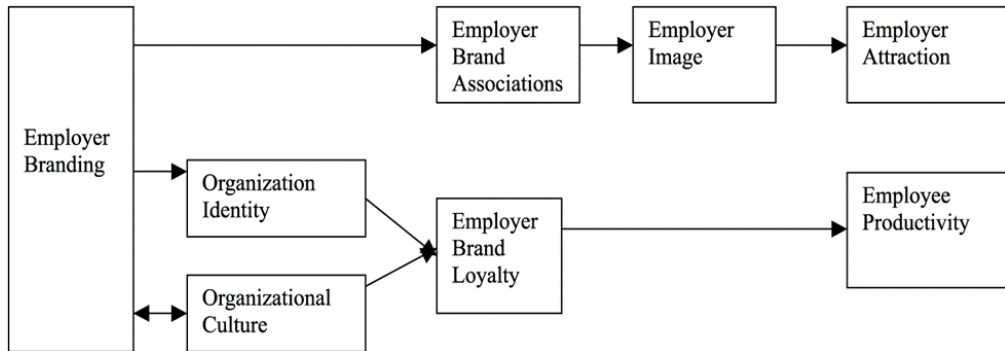
The majority of the current issues that the organization is facing which has led to negative corporate culture and repulsive employer image can be fixed primarily through a strong leadership development program and Employer Branding Strategy.

Successful Employer Branding Strategy should be:

1. Implemented on a strategic level in the organization not only design a front to job seekers.
2. Develop the leadership capabilities across the organization to produce a positive employee experience across the full employment lifecycle.
3. Make sure that the organization is following its values.
4. Develop an organizational culture that fosters continuous learning, empowerment, transparency and trust.

The Fig. 1 demonstrated the main pillars of building an employer brand and the link between them. It shows that the employer brand starts with an organizational culture which is the infrastructure for the pillars such as the brand loyalty and

brand association and if we are missing the infrastructure or one of the pillars then the employer branding will be incomplete and unsuccessful.



Source: the author

Figure 1: Employer Branding Framework

Leadership Development Training

By implementing this program, we are expecting to reach the below results:

- Training the leaders on how to bring out the best in their teams
- Training the leaders on how to effectively lead people and increase employee engagement
- Training the leaders on spreading positive and nurturing corporate culture
- Training the leaders to identify other emerging leaders to support them.

The preparations needed for the Leadership development training

- Create an Assessment to evaluate the managers' capabilities and weaknesses both internally and externally
- Prepare a Performance management method to monitor the development of the managers and make the necessary corrections in due course
- Prepare a career planning process to enable employees to understand their career path options and set development goals
- Develop a Succession plan to avoid future leadership gaps
- Implement a unified talent management technology platform
- Ensure the alignment of leadership development coarse with company strategy, values and goals
- Understand the type of leadership styles needed to execute that strategy.

Leadership Development Training guidelines

1. Set clear goals. In the beginning of the training we need to put goals for the participants to reach with the end of this training and a process to measure the success of this training with its effect on their performance.

2. Its preferable to make training classes small in size and focused groups not to exceed 12 attendees each, to ensure the training is effective and attracting the attention of each individual. Gives the chance to the instructor to be able to focus on all the trainees, give them time to work on their skills and enhanced communication between the group and the instructor.

3. Tenured instructors in management with practical and long experience in management will have a stronger effect on the trainees by sharing their experience other than theoretical background only. Employ instructors who used to be managers at successful organizations and have strong record/reputation as great leaders.

4. Use different methods of learning concepts. In order for the training not to get boring and since we are bringing a group of people together who have different learning styles and absorb the information in a different way so it's important to create a multi-media training program with different forms of learning such as written materials, conference participation, videos, case studies, simulations...etc. to ensure the training is fun and all the participants are excited about it.

5. Post Training follow up program. After the training program is completed, the participants should receive ongoing support and have follow up meetings with their small groups on a monthly basis to discuss how the training enhanced their management skills and what challenges they have faced in implementing the training and how did they overcome these challenges. Also find a way to add values to future classes from their practical experience.

Developing a Retention Program

- Compensation and rewards can be used to improve the retention of any employee
- The management have to come up with a reward plan that pays attention to high performers and future leaders.
- Direct Income as Salary and bonuses is still ranked as the top rewards for doing a good job
- For the new generation; the promotions and work/life balance is very important and they would leave a job that won't provide both
- One of the key motivators is linking part of pay to performance
- Link the bonus to the success of both the employee and the company.

Developing a program to attract and retain talent

Engage candidates, employees and customers through your employer brand communications. We have to ensure that the internal changes are reflecting on the external communication via social media and different platforms. Avoid conventional job advertisement. The direct job post approach is no longer attractive to the job seekers and their priority is to look for the organizational environment that suits them. Accordingly, we have to give them a window from inside to look

at the corporate environment. This is achieved nowadays through social media where the job seekers engage in conversations about the different employers on the market and seek to find information about the nature of the corporate environment at every employer. Accordingly, the company has to be very active on social media to address their questions or concerns by being proactive. We have to shift from bluntly advertising jobs to advertising the corporate environment such as:

- Showing the success stories for employees reached their potentials and grew within the organization.
- Demonstrating the opportunities for training and development.
- Showing how the organization is supporting work/life balance.
- Advertising the different flexible work styles that the organizations is presenting.
- Advertise the corporate social responsibilities activities.
- Showing the fun activities and team buildings sponsored by the organization.

We can also publish articles at the most viewed business newspapers to show the organizational experience in embracing a positive corporate culture and empowering employees, how this was achieved and the lesson learnt to appear as pioneers in the Bulgarian market.

Conclusions

Understanding Employer branding only as marketing, branding and advertising the job vacancies in a modern and appealing way, is superficial perception. The employer branding is actually a business strategy and more of a human resource management approach. Also, the branding and internal employee marketing starts from within the organization so the external marketing come as last step and more of a complimentary activity. This means, that there should be a methodology of change and not a random action. During the organization change, has the different challenges and resistance to any new idea or approach. From the top and middle management on conducting the surveys and questionnaires, there was a lot of skepticism on the true intention of these surveys. Also a lot of the employees were passive and felt there is no point of these surveys and nothing will change in the company. These challenges emphasize on the importance of communication at the initiation phase of any project such as the communication with the top management to ensure their support, communication with the middle management to ensure their cooperation and communication with the employees to ensure their understanding and believing in the results to be achieved.

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“PILLARS TO OVERCOME 3 FALSE MYTHS ABOUT EU AND ITS CSDP IN THE CONTEXT OF THE RUSSIA-UKRAINE WAR”

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Abstract

This publication aims to look at the 3 false myths about the European Union and its CSDP: 1) EU is a soft power and political dwarf; 2) EU should be post national and individual member states' veto on CSDP must end; 3) First European countries take NATO, then the EU. The analysis show how the Russia-Ukraine war provoked the EU's geopolitical awakening and what could be the key pillars that would make the EU a permanent global power. In the context of Russia-Ukraine war, is analysed the transformation of the EU into “smart” power with a great potential to become a “transformative” power for the Eastern partnership countries.

Key words: CSDP, Russia – Ukraine war, Youth, enlargement, Eastern partnership

This publication aims to look at the three false myths about the European Union (EU) and its Common security and defence policy (CSDP): 1) EU is a soft power and political dwarf; 2) EU should be post national and individual member states' veto on CSDP must end; 3) First European countries take NATO, then the EU. With no intention of being exhaustive, it provides an analysis how the Russia-Ukraine war provoked the EU's geopolitical awakening and what could be the key pillars that would make the EU a permanent global power. The pillars of the capabilities and the budget, the legal basis, the EU strategic culture and political will that would help the Union to overcome the myths in the future.

In the context of Russia – Ukraine war, it is analysed the transformation of the EU from “soft” to “smart” power with a great potential to become in the future a “transformative” power for the Eastern partnership countries (with focus on Ukraine, Moldova and Georgia).

The support of citizens and young people in particular, the innovative and proactive thinking of the European leaders, defining their national interests through the value it adds to the European defence capability potential, the resilience of our societies and economies to the future crises have an important role to play in the development of geopolitical future of Europe.

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Methods of analysis and synthesis of primary and secondary sources of information, generalization, induction and deduction and secondary data analysis were applied for the purpose of this publication.

1. The context of the Russia-Ukraine war

24 February 2022 has been a turning point for European security and defence in the XXIst century as it marked the return of war in Europe.

Russia's large-scale military offensive against an independent, sovereign Ukraine shows that what is taught in history and international relations theory textbooks does not remain within the framework of lessons learned, but becomes "d  ja vu" in the contemporary reality. Unfortunately, Fukuyama has declared too early "the end of history" in 1989.

A conventional war, initiated by a country thinking and acting in the paradigm of "balance of power" and "zero sum game", against a country from Europe, willing to have a Euro-Atlantic perspective, shows the presence of huge contrasts in the moral development and the lack of geopolitical empathy of the countries from the Old Continent.

In the famous words of Victor Hugo – "Peace is the virtue of civilization. War is its crime". Unfortunately, Cremlin does not perceive peace and multilateralism as a virtue, but as a weakness. The decision makers in Moscow could not consider the fact that the real power is in the ability to convince others and to collaborate with them striving for common goals. Contrary to that as if they try to build potential new walls, by forming buffer zones and going back to the inter-blocs rivalry. A nostalgia for the past creates unsound reality not only for Russia but also for its neighbours, Europe and the world as a whole. The Eastern flank and the Black Sea region will continue to be an area with a potential for conflict and Russia will continue to make efforts to preserve its strategic position in this region and further alter it to its advantage.

In the words of the famous Bulgarian writer, Georgi Gospodinov the need for a "time shelter" appears as a natural reaction when there is a deficit of the future and the present does not seem as a peaceful home. (Gospodinov, 2020) Russia's inability to create constructive future for its citizens, to inspire them, to give them hope, backs the aspirations of the decision makers in Moscow to the "time shelter" of the Soviet Union. The imperial mindset impedes them living in peace and freedom. It is good to visit temporarily the past in order to have memory and lessons learnt from the past, but not to stay permanently there, not being able to live in the present and to construct far-sighted viable future.

The unprecedented Covid-19 crisis and consequences of the war in Ukraine have a devastating effect on the perspectives of young people. In this regard, mental and cognitive health should not be underestimated, as they will be a key factor for security of and stability in the European societies. The sense of insecurity due to economic, social and political factors and the return of the 20th century feeling

of an ‘existential vacuum’ create the preconditions for sick societies and forthcoming democratic choices based on fear of the future.

On the one hand we are witnessing the Ukraine’s “existential challenge” to survive and on the other the phenomenon of “existential vacuum” in developed societies defined by Victor Frankl, Austrian neurologist, psychiatrist and Holocaust survivor, who devoted his life to studying, understanding and promoting “meaning”, not power or pleasure. (Frankl, 2021)

The crosscutting nature of security should be acknowledged and, in addition to the external security threats, the consequences of various crises on the resilience of the citizens and the most vulnerable ones – young people – should be also taken into account. After the economic and financial crisis, youth unemployment reached its highest levels. The pandemic crisis related to Covid-19 deprived adolescents and young people of access to a normal learning process and social environment, which will have a longstanding impact on their level of knowledge, social skills development and emotional literacy. Deficits that if not addressed in a timely manner will have a huge negative effect on our societies and economies.

The Covid-19 pandemic has generated a parallel pandemic of mental health problems (such as depression, alienation, anxiety), with greater vulnerability among young people and alarming implications for their emotional and social functioning. The feeling of being left behind in society may have made young people’s views and expectations about the future more pessimistic, affecting their perspective in a profound way. [3]

In addition, the green and digital large scale transformations, which will completely change the way we live, learn, work, consume, will be an extremely stressful challenge as well. Climate change leading to loss of key resources, future pandemics and climate refugees will also be a source of tensions and security imbalances.

In the European Year of Youth, the triad of mind, soul and body should be a strategic approach for developing among youth the “will to meaning” even in the most difficult of circumstances as well as the resilience in any future crises. Allocating financial resources without a clear strategic vision will have the effect of ‘feeding and clothing the child’ but depriving it of valuable care, encouragement, tenderness and real attention. According to Mother Teresa “if you want to bring peace to the whole world, go home and love your family”.

This generation of decision makers are indebted to the young people as their actions determine youth’s perspective, the environment and the future world (dis)order they will live in.

The Russia-Ukraine war is not only about a battle for territories, resources and power but about preserving the core values of peace, solidarity, justice and rule based international order.

It is a clash between a modern and postmodern country existing on the same continent. Robert Cooper distinguished three types of states as follows: pre-mod-

ern, characterized by chaos; modern, emerging with the Peace of Westphalia in 1648, purposefully pursuing their national interests and acting in the paradigm of the balance of power; as well as post-modern, functioning on the basis of openness, the rule of law and mutual security principles. (Cooper, 2004)

EU is an Union of nations that has overcome the horrors of war and authoritarian regimes, and therefore we have a moral duty to support those who strive for peace and human dignity. The unprecedented sanctions against Russia, the symbolic marches in support of the people of Ukraine, the Stand Up for Ukraine' Campaign are a real manifestation of the European solidarity. All the European countries and all the European citizens will pay a high price due to the consequences related to the economic burden, energy dependency and refugee flows. Nevertheless, peace and freedom have no price. The collective memory and historical consciousness should not allow “the return of the boomerang” as it could discourage people from being empathetic and supporting the EU restrictive measures against Russia.

2. 3 false Myths about EU and its CSDP

2022 marks paradoxically 10 years since the European union was awarded with the Nobel Prize and at the same time the return of war in Europe due to the unprovoked, illegal and unjustified Russian aggression in Ukraine.

In this regard, the Union has a key role to play for the future security and stability of the Old continent, by transforming itself from “soft” to a “smart power”, able to match the hard and the soft power resources into effective strategies that could be pursued in different situations. (Nye, 2013, p.16; p.41)

During the extraordinary plenary session on the Russian invasion of Ukraine on 1 March 2022, the High Representative of the European Union for Foreign Affairs and Security Policy Josep Borrells shared with the members of the Union's agora that “*this is the moment in which the geopolitical Europe is being born*”. [6]

He revealed that two taboos related to the EU ability to act have fallen – the one concerning the speed of decision-making and the other – that the European Union was not providing arms in a war. For a short period of time, the EU decided to impose a package of restrictive economic and individual sanctions to Russia as well as provided arms to Ukraine by activating the European Peace Facility mechanism. Thus in the context of the Russia-Ukraine war for the first time in the history of the EU we are witnessing unprecedented deterrent packages – both in terms of speed and scope, and multidimensional – financial, humanitarian, military.

Fist myth: EU is a soft power and political dwarf

In 1998 the former president of the European commission Jacques Santer made a speech in the Bologna Centre of the Johns Hopkins University, by asking the question: “the EU in the 21st century : political dwarf or world actor?”. On the basis of a practical analysis he gave the answer that the “*European Union is neither a political dwarf, nor yet a full world actor. The European Union does matter. But it can and it must do more.*” [7]

According to Jacques Santer the two childhood illnesses of the European foreign policy were as follows: *the policy is reduced to finding a consensus at the lowest cost as the existing mechanisms generally produce decisions that are no more than the minimum common ground; *temptation of some of Member States to act by themselves which created sometimes confusion, unclear signals, ineffectiveness and the impression of lack of speaking with one voice. In this regard he underlined the need of qualified majority voting, European military decision-making capability' building and the use of full potential of the existing legal and foreign policy instruments.

More than 20 years later, during her traditional speech about the State of the Union in 2021 the current president of the European commission Ursula von der Leyen called for European Defence Union, more political will, and development of an European defence ecosystem with improved interoperability, intelligence cooperation and situational awareness, EU entry forces as well as cyber defence tools.

Nevertheless, despite of the imperfections that are still existing in foreign and defence policy, in XXI century the EU of 27 is breathing with its West and East lungs, having full legal personality and common policies – CFSP and CSDP thanks to the Lisbon treaty. The EU Global strategy (EGS) from 2016, accompanied by the formally approved Strategic Compass in 2022, together with the provisions of the Treaty of Lisbon create the needed strategic and legal basis, which make possible a significant progress in the field. As a result the European External Action Service was created which has housed the CSDP structures. The following key initiatives towards a more integrated Common security and defence policy have been also launched – the Coordinated Annual Review on Defence (CARD), the Permanent Structured Cooperation (PESCO) and the European Defence Fund (EDF), the Civilian CSDP (Civilian CSDP Compact), the military planning and conduct capability (MPCC), military mobility and the European Peace Facility (EPF).

In addition to security and defence, the EU toolbox of External relations instruments gives the opportunity for the implementation of a comprehensive approach containing: development cooperation, trade, enlargement and neighbourly collaboration, humanitarian assistance, diplomacy, political dialogue, financial assistance, sanctions and conflict prevention measures.

24 years since its political launch in 1998, CSDP is now much more integrated and visible. Around 5000 EU military and civilian staff are currently deployed in CSDP missions and operations (7 military and 11 civilian ones) in three continents, working for a more stable world and contributing to a safer Europe. [8] The new European Peace Facility Mechanism of EUR 5.6 billion, finances the current 7 EU military operations (EUFOR ALTHEA (Bosnia Herzegovina); EUNAVFOR ATALANTA (Horn of Africa); EUTM Somalia; EUTM Mali; EUTM RCA; EUNAVFOR MED IRINI; EUTM Mozambique) and provides EUR 1 billion support package for the Ukrainian armed forces. It is an off-EU budget instrument, which

means that the EU member states pay their contributions directly every year based on a gross national income (GNI) distribution key.

For the first time in its history there is a separate budget line for security and defence in the Multiannual financial framework (2021-2027). The European Defence Fund, with a budget of EUR 8 billion for 7 years, is already a game-changer in scaling up the funding for collaborative defence and for supporting collaborative research in innovative defence in particular (EUR 2.7 billion for collaborative defence research and 5.3 billion for collaborative capability development projects complementing national contributions).

For the first time in its history due to the war in Ukraine, EU has used the European Peace Facility Mechanism – to finance military assistance to a third country and to deliver military, including lethal, equipment.

The European Peace Facility allows the EU to support the capabilities and resilience of the Ukrainian armed forces in order to: *defend the country's territorial integrity and sovereignty and *protect the civilian population against the ongoing military aggression. The agreed assistance measures finance the provision of equipment and supplies such as personal protective equipment, first aid kits and fuel, as well as military equipment and platforms designed to deliver lethal force for defensive purposes. [9]

At the beginning of the conflict in Ukraine we witnessed certain temptation of some of member states to act by themselves on bilateral basis. Shortly thereafter, the heads of state and government of France, Germany and Hungary have realised that only in the EU format and by acting all together with a united voice, is the right formula for zero tolerance to any act of aggression and violation of the international legal order. The first foreign leaders to visit Kiev since Russia invaded Ukraine were the prime ministers of Poland, Slovenia and Czech Republic, travelling by train. They did it explicitly on behalf of the European Union, not on their own and expressed the EU solidarity.

The unanimous prompt reaction to the Russian war on Ukraine and the combination of soft and hard power, of diplomatic and military means in effective strategies show the stage transformation of EU into “smart power” and the real birth of geopolitical Europe.

This approach should not be an isolated case limited to the current developments in Ukraine, but the new normal practice in the decision-making and operational functioning of the EU and its CSDP in particular.

- ***Second myth: EU should be post national and individual member states' veto on CSDP must end***

Many EU policy makers and analysts say that now is the time for a “European renaissance” and the deliberative democracy experiment called the Conference on the Future of Europe (CoFE) is a key instrument in this direction.

Through it, we are witnessing for the first time a transnational, pan-European approach to doing democracy at the European level, and its success will determine whether there will be a wider palette of opportunities for citizens' participation in the future, as well as a more developed European democracy.

According to the interim reports from the citizens' panel "EU in the world" and from the Multilingual Digital Platform of the Conference on the Future of Europe, the contributors call for a stronger presence of the EU in the global political arena and a bolder EU in its exercise of both soft and hard power both by increasing the EU budget for defence and by strengthening the European defence industry in order to achieve strategic autonomy. They emphasize on the need to rethink unanimity rule to absolute or qualified majority voting; to create European army and more specialized forces or defence institutions at EU level such as an Intelligence Service, European National Guard; to continue enlargement to the Western Balkans and to integrate Eastern Europe in the EU. [10]

The conference will be concluded on 9 May, during the French Presidency of the Council of the EU 2022, and if successful, the EU will have a real working instrument for transnational deliberative democracy.

Robert Menasse believes that European democracy should be post-national. Convinced of the sunset of the "Europe of nation states", he defends the thesis that national democracy blocks post-national development. Therefore, he argues that a historically perfect new project of democracy should be built. (Menasse, 2013). Some of the participants in the CoFE share similar visions, but the real sustainable change is about how to build on achievements, how to further develop the synergies between national and European levels.

The uniqueness of the EU lies precisely in its structure and decision-making. It is a sui generis organization as it is about a combination of the democratic legitimacy of nation states with that of European supranational institutions. This is the true art of European democracy and how the principle of "checks and balances" in the European institutional triangle works on the basis of national, transnational and supranational interaction.

The war in Ukraine showed us how quick and united could be the EU. It was a proof that when there is a political will, the unanimity rule is not a challenge. On the contrary, it gives much more democratic legitimacy and sense of ownership among member states in such a sensitive area of foreign policy, security and defence.

The fast decisions not based on unanimity in a predominantly intergovernmental policy could create unsustainability in a long term and erode the unity in the EU.

Probably thanks to the qualified or absolute majority the decision-making process could be quicker, but this would create a trust gap among member states, among citizens, among the national and supranational level of interaction.

The real dream should be to achieve an evolution of the European democratic process within the existing Treaties, without compromising the national integrity

and dignity of each country and while developing a broader sense of European belonging of citizens.

The EU shall guarantee a long-term sustainability of the decisions taken and it is possible only when we have the shared efforts and involvement of all stakeholders, all Member States and EU institutions.

The war in Ukraine will help EU to realize the member states' willingness to act as one while each country is sharing at the same time its European individual responsibility and solidarity for the unprecedented packages of multidimensional sanctions and support – financial, humanitarian, military.

• *Third myth: First European countries take NATO, then the EU*

Enlargement has been the EU's most successful foreign policy tool which makes the Union a “transformative power”. The perspective of membership kept Central and Eastern Europe on the path of peace and democracy. Without it, “historical demons” could easily have re-appeared.

Learning from the words of one of the EU founding fathers, Robert Shuman: “world peace cannot be safeguarded without the making of creative efforts proportionate to the dangers which threaten it”[11], it is time to rethink the sequence of the process of return to the family of European democracies. Until recently, due to military and economic considerations, the eastward NATO enlargement traditionally got ahead of the EU enlargement. In the context of this particular region however, it seems that the new geopolitical situation makes membership in the EU prior to potential membership in NATO, a more suitable option.

If the European Union would like to be a permanent global player, and to be a master of change, it has to think and act innovatively and far-sightedly.

Such an innovative approach could be the diverse combinations of strategies and tactics in the Western Balkans and Eastern neighbourhood, by reordering of the direction and sequence of Euro – Atlantic integration stages. That means that Black sea and post-Soviet republics could join the EU first. The Ukrainian crisis in 2014 and the recent aggression at the Ukraine border in 2022 add to the arguments in favor of the need for a clearer EU strategic vision and timely actions in the Eastern Partnership with the stress on Ukraine, Moldova, and Georgia.

Differing European perceptions of Russia, its policy of balancing power, and defensiveness against potential NATO eastern expansion, lend promise into the idea of reversing the integration stage sequence. Russian relations with NATO are military-political, while mutual economic dependence between the EU and Russia offer a good basis for dialogue and mutually acceptable solutions. EU will invest a lot to overcome its energy dependency from Cremlin, but it will take time. Moscow's efforts to retain influence in the post-Soviet economic and political area are not likely to subside, and it is more important for Europe's future to expand its economic and political area eastward. NATO expansion in parallel with the Euro-

pean Union can focus on the Western Balkans as a priority. The EU can intensify its Eastern Partnership following the enlargement procedures.

In this regard the “fast track” membership of Ukraine to the EU is not an option not only due to the Treaties’ provisions but also due to the fact that the European perspective is about reforms, about the capacity to effectively implement the *acquis communautaire*, rule of law and good governance principles as well as to participate in the political, economic and monetary union. The accession process is a two-way street and merit based. It is not only about Brussels and member states’ expectations but also about the candidate or potential candidate country itself to be able to smoothly and fully participate in the EU.

According to the Lisbon treaty, the maximum number of Members of the European parliaments has been set at 751 (with the President of the EP) with citizens’ representation being degressively proportional. Following Brexit the European Parliament currently counts 705 members. Having in mind that the number of population of Ukraine is at about 44 million it means that they would have 50+ seats, and respectively an amendment of the Treaty should be made.

In addition, each revision of the EU Treaties is a subject of national approval and each accession treaty should be ratified by all member states according to their constitutional procedures which takes time and efforts. The EU has also to further prepare itself for the next enlargements.

The doors of the EU are and should remain open for the Western Balkans and Eastern partnership countries, but without creating unrealistic expectations about fast pass due to the “force majeure” situations. Accession is not an act of just signing a treaty, it is a long-term process of integration in order each country to be fully operational and to enjoy stability and development.

The EU has the historical chance to help Ukraine and Ukrainian people in two stages:

1. by being a “smart power” through the “external relations toolbox” to help them recover after the devastating Russian invasion;
2. by being “transformative power” through the “enlargement process” to help them reform, which means efficient administration that delivers for the people, an education that increases competitiveness, an economy that supports growth and jobs, and a rule of law that works to ensure justice and good governance.

The key potential pillars that would make the EU a permanent global power and would help the Union to overcome the myths in the future are as follows: *providing budget and compatible capabilities; *using effectively the existing legal basis; *developing EU strategic culture and political will.

3. Key pillars that would make the EU a permanent global power

1) Providing Budget and Capabilities

Increasing the budget defence spending to at least 2% of GDP as well as building armed forces with compatible capabilities is a very important step in the development of a real European defence union. Not only the quantity but also the quality of the investments and joint planning and trainings have a significant added value to future CSDP development. The war in Ukraine showed how still incompatible and dependent from the old soviet technology are some of the countries from Eastern Europe, especially in terms of air forces capabilities.

“The EU does not have all the required military capabilities available in order to fulfil (its) level of ambition,” stated the annual Coordinated Annual Review on Defence (CARD), conducted by European Defence agency (EDA) during the first cycle (2019-2020). During the second cycle (2021-2022) through “six next-generation capabilities” of weaponry (Main Battle Tanks (MBT); Soldier Systems; Patrol Class Surface Ships; Counter Unmanned Aerial Systems (Counter-UAS); Defence applications in Space; Military Mobility) it is expected to be overcome the costly national duplication as well as to be seen a significant progress in the member states capabilities profile and in the overall EU comprehensive capability landscape. [12]

Concerning the budget, the two key sections in terms of CFSP/CSDP in the MFF 2021-2027 are section 5 “Security and defence” and section 6 “Neighbourhood and the world” – EUR 98.4 billion. They reveal the full range of instruments at the EU’s disposal that allow it to exercise soft power and build hard power in the future. The instruments through which the EU will continue to establish itself as the world’s largest donor of development, aid and humanitarian assistance, the largest trading partner and a foreign investor for almost every country in the world, including countries preparing to join the EU.

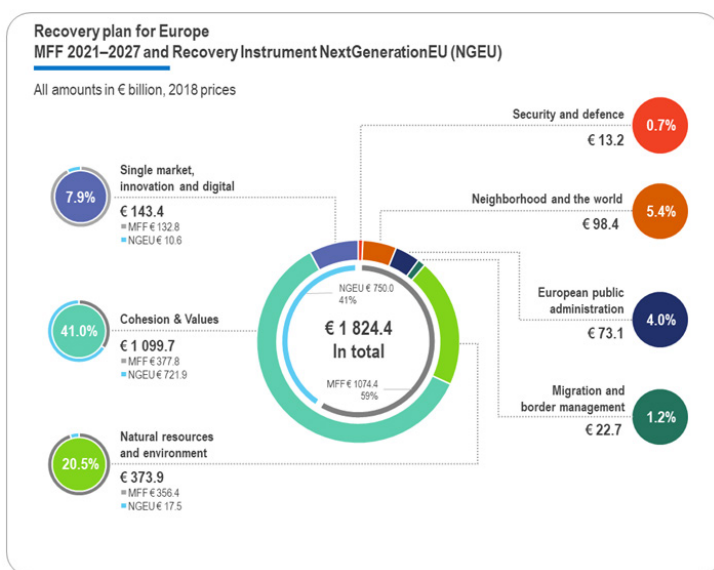
	2021	2022	2023	2024	2025	2026	2027	2021-2027
5. SECURITY AND DEFENCE	1,700	1,725	1,737	1,754	1,928	2,078	2,263	13,185
12. Security	508	551	579	588	615	623	607	4,070
Internal Security Fund	166	210	256	257	279	283	254	1,705
Nuclear Decommissioning (Lithuania)	68	66	71	74	73	68	69	490
Nuclear safety and decommissioning (incl. for Bulgaria and Slovakia)	85	86	64	68	74	83	95	555
Decentralised agencies	189	189	189	189	189	189	188	1,320
13. Defence	1,105	1,088	1,071	1,079	1,227	1,369	1,575	8,514
European Defence Fund	891	874	857	865	1,013	1,154	1,361	7,014
Military Mobility	214	214	214	214	214	214	214	1,500
MARGIN	87	87	87	87	86	87	81	601
6. NEIGHBOURHOOD AND THE WORLD	15,309	15,522	14,789	14,056	13,323	12,592	12,828	98,419
14. External Action	13,350	13,653	12,919	12,186	11,453	10,722	10,956	85,245
Neighbourhood, Development and International Cooperation Instrument	11,380	11,588	10,849	10,111	9,373	8,636	8,862	70,800
<i>In addition, indicative use of reflows from the European Development Fund</i>	142.9	142.9	142.9	142.9	142.9	142.9	142.6	1,000
Humanitarian Aid	1,393	1,477	1,477	1,478	1,478	1,478	1,478	10,260
Common Foreign and Security Policy (CFSP)	332	334	337	339	342	344	347	2,375
Overseas Countries and Territories (including Greenland)	63	63	63	63	63	63	63	444
Other	189	190	192	194	196	200	206	1,366
Decentralised agencies	-	-	-	-	-	-	-	-
15. Pre-accession assistance	1,794	1,795	1,795	1,795	1,795	1,796	1,796	12,565
Pre-Accession Assistance	1,794	1,795	1,795	1,795	1,795	1,796	1,796	12,565
MARGIN	158	75	76	75	75	75	76	609

Source: European Commission: Multiannual Financial Framework 2021-2027 (in commitments) – 2018 Prices – adapted by the author for the purposes of the publication

Section 5 of the MFF dedicated to this policy amounts to EUR 13 185 million. Although it is the smallest percentage of the total budget (0.7% of EUR 1 824.4 billion), this is a significant step in financially securing the EU’s ambitions for more integration in the field, for more autonomy and for building defence capabilities.

The budget in section 5 is divided into two parts – ‘security’ – EUR 4.1 billion and ‘defence’ – EUR 8.5 billion and 601 million margin (commitments in 2018 prices). As mentioned before, this is the first time that a defence heading has been formed in the European budget.

Through the European Defence Fund, the European Union is becoming a major investor in European defence, thereby aiming to achieve greater competitiveness and technological innovation of the European defence industry; economies of scale, overcoming existing fragmentation and duplication of capabilities and increasing their compatibility.



Source: Multiannual Financial Framework, Ministry of Finance, Republic of Bulgaria

In addition as noticed before, member states are establishing in 2021 a European Peace Facility Mechanism, which is not under the MFF (2021-2027) but is formed on the basis of contributions from Member States and amounts to EUR 5 billion.

According to the World Bank, using indicators from the Stockholm International Peace Research Institute, the amount of spending has been gradually increasing over the years, and the ratio to GDP is beginning to return to the levels of 2000-2010 (1.6-1.5%), after a long period of decline from 2011-2019 (1.4-1.3%).

In 2020, EU Member States’ consolidated government spending on defence amounts to USD 232.813 billion, representing 2.9% of total government spending and 1.6% of GDP.

Despite the existence of positive trends related to both the European budget and national budgets of the countries – still less than half of the (8 out of 27) EU Member States spend more than 2% of their GDP on military expenditure².

Providing the necessary budget and compatible capabilities in a timely and efficient manner is important pillar for overcoming the existing deficits and diverse technological readiness in the field and for guaranteeing the security of the European citizens. James W. Frick says: “Don’t tell me where your priorities are. Show me where you spend your money and I’ll tell you what they are.” Therefore, if the level of ambition of the EU is to be a long-standing global player, using soft and hard power, the member states shall continue investing in the development of common armed forces with compatible civilian and military capabilities.

2) Using effectively the existing legal basis

The Lisbon Treaty provides key provisions that, if implemented by Member States, can strengthen the sense of cohesion and security community. These are the so called:

- ‘mutual defence clause’ – Article 42(7) of the Treaty on European Union which provides that if an EU country is the victim of armed aggression on its territory, the other EU countries have an obligation to aid and assist it by all the means in their power, in accordance with Article 51 of the United Nations Charter. This obligation of mutual defence is binding on all EU countries. However, it does not affect the neutrality of certain EU countries and is consistent with the commitments of EU countries which are NATO members, and the
- ‘solidarity clause’ – Article 222 of the Treaty on the Functioning of the European Union which provides the option for the EU and EU countries to act jointly; to prevent the terrorist threat in the territory of an EU country; to provide assistance to another EU country which is the victim of a natural or man-made disaster. [13; 14]
- The war in Ukraine is a kind of wake-up call for the so called “neutral countries” – Austria, Finland, Sweden, Ireland, and Malta as well as for Denmark and its second opt-out which deals with common defence, and stipulates that Copenhagen does not participate in the discussion and implementation of decisions and actions that have defence implications.

The future development of CSDP should be related to a process of rethinking in terms of security and defence issues in these countries. On the one hand, their

² Military expenditure % GDP 2020: EU average: 1.6%; Austria -0.8%; Belgium-1.1%; Bulgaria-1.8%; Croatia – 1.8%; Cyprus – 1.8%; Czech Republic – 1.4%; Denmark – 1.4%; Estonia – 2.3%; Finland – 1.5%; France- 2.1%; Germany – 1.4%; Greece- 2.8%; Hungary-1.6%; Ireland – 0.3%; Italy – 1.6%; Latvia – 2.3%; Lithuania – 2.1%; Luxembourg – 0.8%; Malta – 0.6%; Netherlands – 1.4%; Poland -2.2%; Portugal – 2.1%; Romania -2.3%; Slovak Republic- 1.8%; Slovenia – 1.1%; Spain – 1.4%; Sweden – 1.2%. [available at: <https://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS?locations=EU>, accessed March 31, 2022]

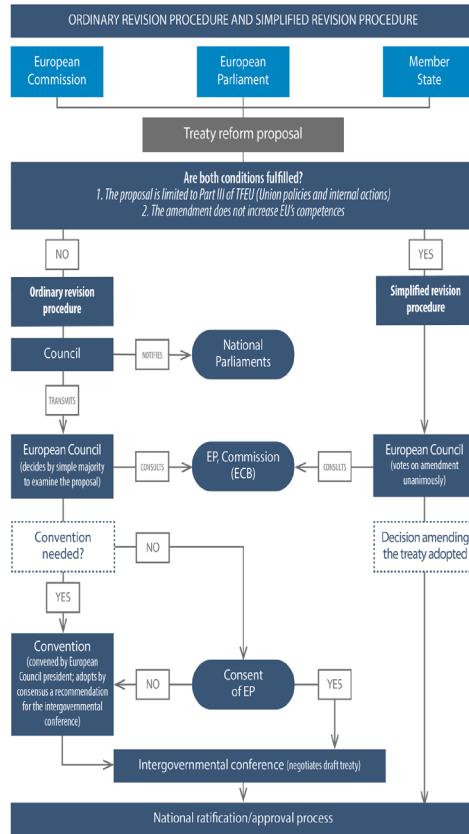
refrain from participation will make them vulnerable. On the other hand, the real integration of CSDP and creation of European defence union could not be possible in its entirety.

The Permanent Structured Cooperation (PESCO) is a good departure point as the participating member states there are 25 out of 27: Austria, Belgium, Bulgaria, Czech Republic, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Ireland, Latvia, Lithuania, Luxembourg, the Netherlands, Poland, Portugal, Romania, Slovenia, Slovakia, Spain and Sweden. The implementation (since December 2017) of the PESCO, called by the former President of the European Commission, Jean Claude Juncker, the “sleeping beauty” of the Lisbon Treaty, is already helping to strengthen Europe’s security and defence through 60 joint projects in areas such as training, capability development and operational readiness on land, at sea and in the air, as well as cyber defence.

There are many voices for the need of a new EU constitutional convention generated by the citizens’ aspirations throughout the unprecedented pan-European exercise in deliberative democracy called the “Conference on the Future of Europe”. One of the potential changes there would be regarding the unanimity voting. Especially the representatives of the European parliament and the European Commission consider that this procedure is making CFSP and CSDP – intergovernmental hostage of the European Council and limiting the function of other EU institutions. This reform proposal as others would necessitate revision of the EU Treaties.

The Lisbon Treaty introduced a distinction between ordinary (which requires intergovernmental conference – ‘common accord’ of the representatives of the governments of all Member States) and simplified (which requires only a unanimous decision of the European Council) revision procedures. Both of them are subject to national approval in each Member State in accordance with national constitutional requirements. In both cases, the initiative to amend the Treaties may come from the Commission, the Parliament or a Member State. [15]

As it has been already underlined that during the Russia-Ukraine war, EU has demonstrated its ability to speak and act with one voice by using the existing Treaties and instruments and by collaborating in a timely and efficient manner at national and European level. Therefore, it is a question of political decision how to deepen the integration in CSDP by using the existing legal instruments or by taking the long path to amend/reform the Treaties.



Source: Infographic How EU Treaties are changed, EPRS | European Parliamentary Research Service, September 2019

3) Developing common strategic culture and political will

One of the founding fathers Jean Monnet said: “people only accept change when it is necessary and they only see the necessity in the crisis”. Echoing his words, EU has been adapting and initiating strategic and political changes. The Global Strategy was initiated and proved in 2016 after the complicated situation in the Ukraine; the refugee influx and the ever-increasing challenges coming from Northern Africa and the Middle East; the new mandate of the European Commission and Parliament after 2014. The new Strategic Compass strives, for making a common assessment of the threats EU faces and a common approach to dealing with them as well as for better linking the EU strategic and operational needs with the Union capabilities. It was proved after the unprecedented Covid-19 pandemic and its global, economic, health and social impact as well as at the

moment of Russian invasion in Ukraine when we witness the return of war in Europe.

The events in international affairs and security environment are still the major catalyst for further integration and bold actions in EU. In this regard, today more entrepreneurial and innovative spirit are needed in EU in order to initiate constructive and positive change. According to the father of management thinking Peter Drucker – the most effective way to manage change is to create it as well as the greatest danger in times of turbulence is not the turbulence; it is to act with yesterday's logic. As another great European Denis de Rougemont said, "the decline comes when we stop asking "what can we do?" and we start asking "what will happen?"".

The first EU High representative Javier Solana referred to the European strategic culture in the European security strategy form 2003, emphasizing on the "need to develop a strategic culture that fosters early, rapid, and when necessary, robust intervention." [16] The different perceptions about threats and challenges, the different historical backgrounds and conflicting memories, the geographical position and different proximity to immediate threat as well as the different interpretation of the national sovereignty concept were making not an easy task the formation of common strategic culture.

It took time to be considered the fact that the mutual strategic culture could not be a sum up of the different national strategic cultures as well as that despite the 27 national strategic cultures it is possible to have a common one. 19 years later, we have the recently adopted Strategic Compass, which nurtures a common strategic culture, a shared sense of the threats EU faces.

As stated in the document, the Strategic Compass marks a high level of ambition for EU security and defence agenda by: 1. Providing a shared assessment of EU strategic environment, the threats and challenges we face and their implications for the EU; 2. Bringing greater coherence and a common sense of purpose to actions in the area of security and defence that are already underway; 3. Setting out new ways and means to improve EU collective ability to defend the security of European citizens and the Union; 4. Specifying clear targets and milestones to measure progress. Under the 4 interlinked clusters – Act (by reinforcing EU civilian and military CSDP missions and operations; developing an EU Rapid Deployment Capacity of 5,000 troops for different types of crises; strengthening the command and control structures, in particular the Military Planning and Conduct Capability); Secure (by boosting intelligence capacities, such as the EU Single Intelligence and Analysis Capacity (SIAC) framework; creating an EU Hybrid Toolbox; further developing the EU Cyber Defence Policy by expanding the Coordinated Maritime Presences to other areas, starting with the Indo-Pacific, and by developing an EU Space Strategy for security and defence); Invest more and better in capabilities and innovative technologies, fill strategic gaps and reduce technological and industrial dependencies; Partner (by reinforcing strategic partnerships with NATO and the

UN, the regional partners, including the OSCE, AU and ASEAN and bilateral partners such as United States, Norway, Canada, UK and Japan; developing tailored partnerships in the Western Balkans, EU eastern and southern neighbourhood, Africa, Asia and Latin America; creating an EU Security and Defence Partnership Forum, the EU foresees to strengthen its security and defence policy by 2030. [17]

All this requires courage, political will and shared vision. The European project creates a union of countries and peoples through the means of consent and broad support in full contrast with the main instrument of the past – wars. Therefore, by initiating constructive change, developing an European strategic culture and having the political will to use it, the EU can be more geopolitical.

In conclusion, throughout the years a range of myths has been created about the EU and its CSDP. The Russia-Ukraine war is an important moment for the EU's geopolitical awakening. The Union has demonstrated its ability to use effectively all the existing legal, financial, humanitarian, military instruments as well as to analyse objectively its defence capabilities' deficits and to compose a Strategic compass to overcome them.

Speaking with one voice on the world stage, using effectively the instruments of soft power to persuade through trade, diplomacy, aid and the spread of values as well as mobilizing and further developing the military capabilities create a kind of unique toolbox, which correlates with the sui generis nature of the EU.

In this regard, it is of crucial importance to keep pace with this transformation of EU into geopolitical smart and transformative power and to further develop the European defence union.

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GENERIC AND BIOSIMILAR MEDICINES INDUSTRY – OPPORTUNITIES AND CHALLENGES, OUTLOOK AND SUSTAINABILITY

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Introduction

It has been years and decades since the Generic industry, and the Biosimilar industry later on, has started paving its way to become a substantial factor for the healthcare systems around the globe. The main drives for this important role of the industry are found in the enhancement of the reach and access to high quality but less expensive cost-effective therapies. Thus, the industry is making a significant and global impact on the health outcomes – through economic effects of reduced and more affordable costs to extend and in some cases allow the reach and access to existing therapies, and also allow for the respective savings to be allocated towards newly developed innovative therapies.

The contributions to healthcare have grown the size of the generic drug industry to approximately \$390 billion, accounting for nearly one-third of the global pharmaceutical market of approximately \$1,2 trillion. (25)

It is worth noting, however, that the industry's growth trajectory has slowed and the industry appears to be at a crossroads. Sustained and substantial price erosion – often triggered by shifts in combined purchasing power and regulatory policy – has put enormous pressure on industry margins and sustainability in many markets. Industry competition is also intensifying, and the boundaries between various unprotected products and companies active in the field are increasingly fragmented. Global supply chains are under threat of disruption due to the pandemic and protective policies adopted in several regions.

At the same time, the continued pipeline of innovation opportunities, rising adoption of biosimilars, and digitally enabled access/product expansion suggest ample opportunities for the industry to continue to grow and drive global health and economic outcomes.

1. Contributions to healthcare – through cost savings and expenditure optimization, and enhanced access

Cost savings and expenditure optimization

The most visible side of the Generic and biosimilar is that they provide significant cost savings to patients and health systems around the world.

The growing government budget deficit and higher government debt burdens mean that there is a greater focus on reducing spending and hence limiting rising health care spending.

In an age of aging and rising health care costs, the development of generic medicines has allowed patients access to safe, effective, high-quality medicines, at 20% – 80% of the price of original (branded) medicines (11).

In this way, generic medicines have supported the sustainability of healthcare delivery and helped control pharmaceutical costs. Competition from generic medicines is encouraging pharmaceutical manufacturers of original medicines to develop new innovative therapies to address unmet medical needs as well as to reduce the prices of off-patent drugs. This creates additional savings for patients. The savings in the state pharmaceutical budget, in turn, have enabled governments to set aside funds for newer, more expensive life-saving drugs where there is no generic alternative.

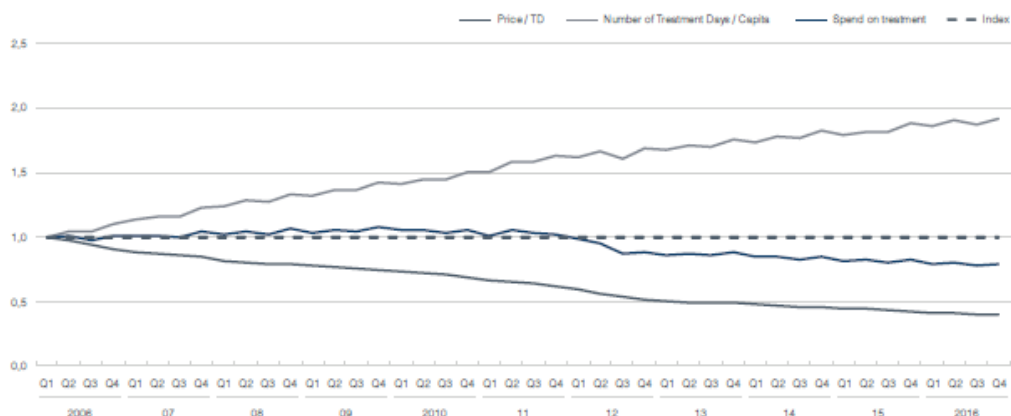
Examples of savings are ample. Industry competition has helped to drastically reduce the cost of treatment for several life-threatening diseases such as chronic myeloid leukemia and hepatitis C. (4, 6) Patients and the healthcare system in the United States saved approximately \$313 billion in 2019 through the use of generics and an additional \$2,2 billion in 2019 through the use of biosimilars. (15) Over the past decade, \$2,2 trillion and \$4,5 billion have been saved through the use of generics and biosimilars, respectively. The beneficial impact of biosimilar competition on health economic savings has been most widely witnessed in Europe to date. Here, biosimilars represent a EUR 8,4 billion market, or 8% of the total biologics market. (12)

Enhanced access to healthcare; reduced “Burden of disease”

Since their inception, the global generics and, more recently, biosimilar industries have made significant contributions to increasing access and thus improving global health outcomes. The industry have showed steady growth and reached significant penetration levels. Generics, nowadays, account for 60-80% of all pharmaceutical sales in major global markets, and penetration is even higher in many countries (e.g., over 90% in the US, over 80% in Australia, over 90% in India, and about 85% in Jordan). (20) Such a penetration level, coupled with the industry’s ability to maintain cost-effective prices, enables the industry to significantly expand the reach and accessibility of multiple therapies worldwide.

Examples are ample. Since 2010, universal generic medicines HIV therapy has helped to triple treatment coverage and reduce deaths by 44% in eastern and southern Africa. (16) Likewise, the number of people starting treatment increased by 50% within a year of the launch of a generic antiviral for hepatitis C. (32) From 2012 to 2020 (24), generic partners in the Medicines Patent Pool have distributed approximately 50 million patient-years of HIV and hepatitis C products worldwide. Over a decade (2006-2016), treatment volumes in seven European

therapeutic areas have doubled, while spending on these treatments has decreased significantly (Figure 1).



Source: Medicines for Europe, based on data from IMS MIDAS, MAT Dec 2016 and WorldBank (18)

Figure 1: Access expansion and healthcare expenditure optimization in Europe

Evolution of therapy volume, price of treatment and overall treatment cost in 7 therapy areas¹

¹ Rx retail market from Q1 2006-Q4 2016, Normalized to population growth. Netherlands data indexed from Q2 2011. Selected therapy areas: Angiotensin II antagonists, anti-depressants, anti-epileptics, anti-psychotics, anti-ulcerants, cholesterol regulators and oral anti-diabetics Rx, retail, oral molecules only, combinations excluded, 26 European countries.

The enhanced access to therapies contributes significantly to the global health outcomes. A straightforward way to assess the health status of a population is to focus on mortality – or concepts like child mortality or life expectancy, which are based on mortality estimates. A focus on mortality, however, does not take into account that the burden of diseases is not only that they kill people, but that they cause suffering to people who live with them. Assessing health outcomes by both mortality and morbidity (the prevalent diseases) provides a more encompassing view on health outcomes.

The sum of mortality and morbidity is referred to as the ‘burden of disease’ and can be measured by a metric called ‘Disability Adjusted Life Years’ (DALYs). DALYs are measuring lost health and are a standardized metric that allow for direct comparisons of disease burdens of different diseases across countries, between different populations, and over time. Conceptually, one DALY is the equivalent of losing one year in good health because of either premature death or disease or disability. One DALY represents one lost year of healthy life. (9)

Increasing access to affordable medicines has been one of the key factors in reducing the “burden of disease” in many countries. As an example – India’s per capita “disease burden”, measured in DALYs, fell by 36% between 1990 and 2016 after adjusting for changes in the age structure of the population. Likewise, in Africa, the disease burden, measured in DALYs, fell by 30% over the same period (9). From 2000 to 2019, global new HIV infections decreased by 39%, HIV-related deaths decreased by 51%, and antiretroviral therapy saved 15,3 million lives. (31)

2. Key opportunities

As with every aspect of business, the key opportunities are to be sought in the fundamentals that form the generic and biosimilar medicines industry. The major ones of these underlying fundamentals are the socio-economic factors and specifically the demand for healthcare in the light of budget frames.

Socio-economic factors

The global pharmaceutical industry is driven by broad demographics and moderated by cost-focused governments. Demand for healthcare will continue to grow sustainably fuelled with the sustainable growth in the population. This trend will be further intensified by the shift in the population mix in terms of both age and income profile (Figures 2 and 3). These intensifiers will not only increase the demand but also will support the availability of funds for healthcare.

In 2018, for the first time in human history, people aged 65 or over exceeded the number of children under the age of five worldwide (Figure 2). Between 2019 and 2050, the number of people aged 65 and over worldwide is expected to more than double, while the number of children under the age of five will remain relatively unchanged. Therefore, forecasts show that in 2050 there will be more than twice as many adults as children under five. In addition, in 2050, 1,5 billion people aged 65 and over are expected to outnumber adolescents and young people aged 15 to 24 (1,3 billion).

In all 201 countries or districts with at least 90,000 inhabitants in 2019, the share of people aged 65 or over is expected to increase between 2019 and 2050. Globally, in 2019, approximately nine percent of people are aged 65 or over (Table 1). The share of older people in the world is projected to reach nearly 12% in 2030, 16% in 2050 and could reach nearly 23% by 2100. Europe and North America have the oldest populations in 2019 with 18 per cent aged 65 or over, followed by Australia / New Zealand (16 per cent). Both regions continue to age. Estimates show that by 2050, one in four people in Europe and North America may be 65 years of age or older.

Table 1. Percentage of the population aged 65 and over for the world, SDG regions and selected groups of countries, 2019, 2030, 2050 and 2100, according to the average forecast

Region	2019	2030	2050	2100
World	9,1	11,7	15,9	22,6
Sub-Saharan Africa	3,0	3,3	4,8	13,0
Northern Africa and Western Asia	5,7	7,6	12,7	22,4
Central and Southern Asia	6,0	8,0	13,1	25,7
Eastern and South-Eastern Asia	11,2	15,8	23,7	30,4
Latin America and the Caribbean	8,7	12,0	19,0	31,3
Australia/New Zealand	15,9	19,5	22,9	28,6
Oceania*	4,2	5,3	7,7	15,4
Europe and Northern America	18,0	22,1	26,1	29,3
Least developed countries	3,6	4,2	6,4	15,3
Land-locked Developing Countries	3,7	4,5	6,4	16,8
Small Island Developing States	8,7	11,9	16,1	23,7

Source: United Nations (17, 33)

* excluding Australia and New Zealand

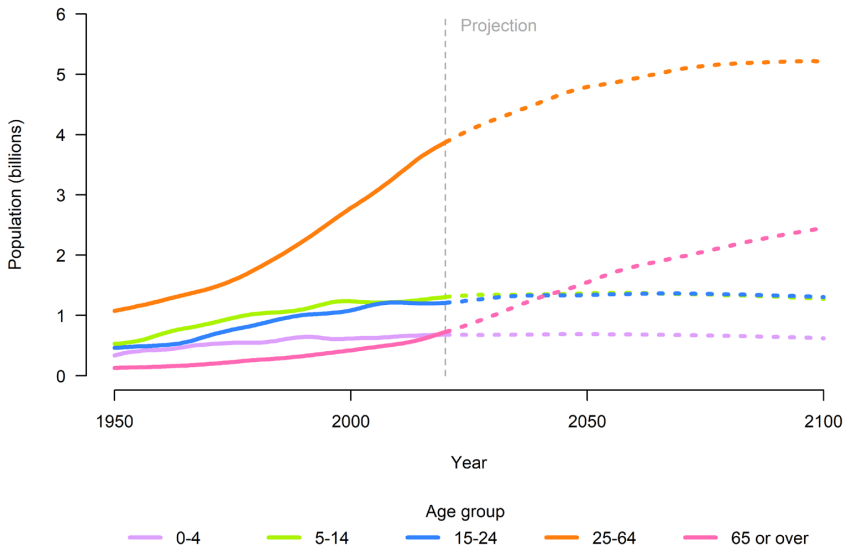
Populations in other regions are also projected to age significantly over the next few decades. For Latin America and the Caribbean, the share of the population aged 65 or over may increase from 9% in 2019 to 19% in 2050. Similarly, the share of people aged 65 or over in Eastern and South-Eastern Asia is expected to increase from 11% in 2019 to 24% in 2050. Sub-Saharan Africa, which has the youngest age distribution of the eight SDG (Sustainable Development Goals) regions, is also expected to experience aging of the population in the coming decades, but to a much lesser extent, with the percentage of the population aged 65 or over increasing from three percent in 2019 to about five percent in 2050.

The number of people over the age of 80 is growing even faster than that over the age of 65. In 1990, there were only 54 million people aged 80 or over in the world, which tripled to almost 143 million in 2019. Globally, the number of people over the age of 80 is expected to triple again to 426 million in 2050 and increase further to 881 million in 2100. In 2019, 38% of all people aged 80 or over reside in Europe and North America, a share that is expected to decline to 26% in 2050 and up to 17% in 2100 as the older population of other regions continues to grow.

The aging of the population will have a strong effect on the ratio of potential support, defined here as the number of people of working age (25 to 64) per person aged 65 or over. In 2019, there are 11,7 people aged 25 to 64 in Sub-Saharan Africa for every person aged 65 or over. This ratio is 10,2 for Oceania *, 8,3 for North Africa and West Asia, 8,0 for Central and South Asia, 5,8 for Latin America and

the Caribbean, 5,0 for East and Southeast Asia, 3,3 for Australia and New Zealand and 3,0 for Europe and North America. At 1,8, Japan in 2019 has the lowest potential support rate of any country or district with at least 90,000 inhabitants. An additional 29 other countries or areas, mostly in Europe and the Caribbean, have potential support ratios below three.

By 2050, 48 countries, mostly in Europe, North America, East Asia or Southeast Asia, are expected to have potential support ratios below two. These low values underscore the potential impact of an aging population on the labour market and economic performance, as well as the fiscal pressures that many countries are likely to face in the coming decades with regard to public health systems, pensions and social protection schemes for the elderly.



Source: United Nations (17, 33, 14)

Figure 2: Estimation and forecasting of the global population by a wide age group, 1950-2100, according to the average-variant projection

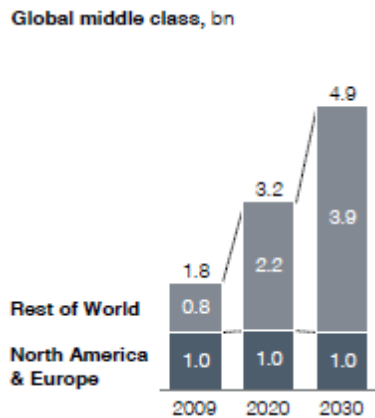
People over the age of 65 make up the fastest growing age group.

The aging of the population is accompanied by an increasing prevalence of chronic diseases. Also, the incidence of the disease increases with age. This upward trajectory drives further the demand for high quality and affordable medicines. The spread of chronic diseases is global:

- Cardiovascular disease (CVD): №1 cause of death / 30% of all deaths worldwide
- Cancer: # 2 cause of death / 13% of all global deaths
- 347 million people worldwide have diabetes

- Global obesity doubled almost in 1980, with 35% of all adults over the age of 20 being overweight in 2008 and 11% being obese;
- 70% – 80% of all deaths from chronic diseases occur in low- and middle-income countries (3, p. 3, according to the WHO).

Driven by continued population growth and the associated increasing prevalence of chronic diseases, the demand for healthcare will continue to grow at a sustained rate. This trend will be further intensified by the shift in the population mix in terms of not only age but also income profile (Figure 3). These intensifiers will not only increase the demand but also will support the availability of funds for healthcare.



Source: OECD, (18)

Figure 3: Global middle class, bn

* Based on daily consumption per capita ranging from \$10 to \$100 (in purchasing power parity terms)

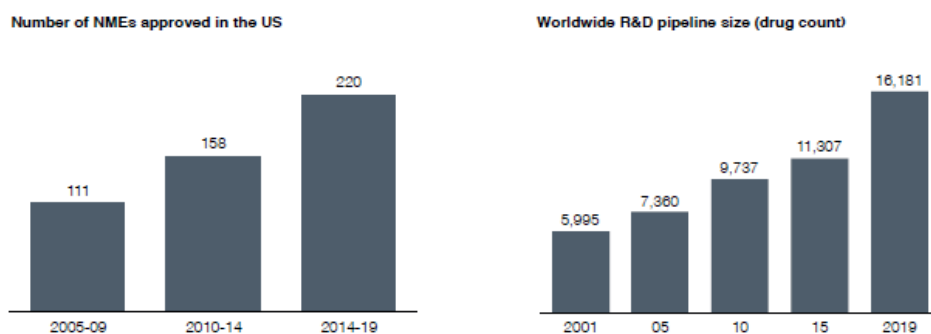
On the other hand, the growing government budget deficit and higher government debt burdens mean that there is a greater focus on reducing spending, and hence on limiting rising healthcare spending. Cost containment pressures in healthcare systems will sustain and will probably exacerbate. This pressure will also continue to drive the need for cost effective Generic and Biosimilar medicines across all indications.

In an age of aging populations and rising health care costs, the creation of generic medicines has allowed patients access to safe, effective, high-quality medicines, at 20% – 80% of the price of original (branded) medicines. (11)

Innovation pipeline rebound

Generic and biosimilar medicines have supported the sustainability of healthcare delivery and help control pharmaceutical costs. Competition from generic medicines encourages pharmaceutical manufacturers of original medicines to develop new innovative medicines as well as to reduce the prices of patent-exempt medicines. This creates additional savings for patients. The savings in the state pharmaceutical budget, in turn, have allowed governments to set aside funds for newer, more expensive life-saving drugs where there is no generic alternative.

And while the innovation pipeline was in a brief recession period around 2010, it sees a strong rebound since then as the launches of New Molecular Entities (NMEs) steadily increased in the leading U.S. market. This rebound got supported and expected to sustain by the number of assets in the pipeline (across phase 1-3) that almost doubled for a span of ten years.



Source: US FDA CDER database, PharmaProjects Pharma R&D Annual Review 2019, (18)

Figure 4: Rise in number of NME approvals and pipeline

Innovation pipeline and subsequent Loss of Exclusivity (LoEs) are a key driver for growth of the generic and biosimilar medicines industry. The NME launches are expected to translate into a cumulative LOE opportunity at similar magnitude over the next 5 years than seen in the past several years. While the LoE pipeline will see a sharp increase in new modalities (both biologics and beyond), small molecules continue to account for an estimated ~60% of the LoE pipeline and have similar relevance in the clinical pipeline for the originator industry. This will provide a sustained opportunity for the classic small-molecule generic medicines launches after LOE. (18, p.10)

Rise of the biosimilars

The biosimilars are more recent than the ordinary generic pharmaceuticals and thus less researched by economists. In this regard, some clarifications are helpful.

What are biosimilars?

Biosimilars are successors of previously patented biopharmaceuticals. The initial patented preparation as well as its successor(s) belong to the group of biologicals. These are pharmaceuticals manufactured using modern biotechnology. As opposed to the classic, chemically synthesised pharmaceuticals, biologicals are produced using living cells. An important distinguishing feature is therefore already contained in their name. Due to their biological origin, biosimilars are only ever highly similar to the initial patented biological – never identical. The molecules contained in biosimilars are bigger than those of chemically synthesised pharmaceuticals, such as generics, and much more complex in their composition. That is why they are often referred to as ‘high-molecular active substances’.

What is the difference between a biosimilar and a generic medicine?

As opposed to generics, which are manufactured via chemical synthesis and thus contain the identical active pharmaceutical ingredient(s) (API) as their previously patented original, biosimilars are produced using living organisms, mostly living cell cultures. For example, most of the biological active pharmaceutical ingredients currently available on the market originate from bacteria, yeast cells or mammal cells. Using biotechnological processes, they are genetically modified. For this reason and as opposed to generics, they are never absolutely identical, but always comparable and highly similar.

Where do biosimilars mostly come into use?

Biosimilars are used especially in new and advanced therapies of severe, chronic and life-threatening illnesses. Biosimilars authorised in the EU, including active pharmaceutical ingredients (APIs) such as adalimumab, filgrastim, infliximab and rituximab are mostly used in oncology for cancer treatments, to treat diabetes or rheumatism. Additionally, biosimilars are prescribed for chronic-inflammatory bowel diseases like Crohn’s disease, in dermatology to treat psoriasis for example, in the treatment of multiple sclerosis, in dialysis and for disturbances of growth. Biosimilars come in different pharmaceutical forms, most frequently as liquid solution in a syringe or infusion via intravenous drip. Analogous to their reference product, biosimilars are often authorised for use in the therapy of several illnesses. (29)

After a substantial challenge in the early years, the promise of biosimilars is finally starting to materialize as the industry has grown significantly in scale over the past 5 years. With the streamlining of regulatory guidelines and increasingly positive clinical experiences and perceptions by various healthcare stakeholders, the adoption curve has accelerated and market penetration has reached high levels, especially in Europe. For example, in key markets such as Germany, biosimilars penetration of adalimumab, bevacizumab, and rituximab reached 72%, 80%, and 85% of Defined Daily Dose (DDD), respectively. (27)

Over the last 10 years, the cumulative patient treatment days for EU approved biosimilar medicines have doubled every ~1,5 years. (28)

Further on, the expectation are that the market will continue to experience double-digit growth and the industry has the potential to expand significantly. The continued opening of the U.S. market, supported by favourable regulation and growing stakeholder acceptance, will be a key driver of this growth. In emerging markets where affordability has always been a challenge, the advent of affordable biosimilars will further help boost the growth of the market. The market is also likely to see a significant accumulation of the biosimilar product map with a strong LoE pipeline over the next decade, especially in areas such as oncology and autoimmune diseases.

At the same time, the intensity of competition in the biosimilars market has risen sharply, with only early entrants likely to recoup the substantial investment in product development. Thinking through a portfolio strategy (such as focusing on niche opportunities that are more prevalent in the upcoming pipeline.) with deep development and commercialization capabilities is determinant to success in this league.

A further boost in biosimilar industry is expected as the US administration of Biden has been lately expressing support for biosimilars. (8) The Advancing Education on Biosimilars Act aims to increase competition and decrease prescription drug prices by enhancing education concerning biosimilar drugs. The FDA did not approve the first biosimilar until 2015, however, and currently there are only 19 biosimilar drugs on the market in the United States. The Advancing Education on Biosimilars Act calls for the government to provide educational materials including infographics, continuing education programs, and webinars—to doctors and the public to increase awareness and knowledge about biosimilar drugs. Supporters of the bill, which received bipartisan support, hope that further education of healthcare providers and patients about these biosimilar products will increase confidence in the safety and clinical effectiveness of biosimilars and lead to an uptick in biosimilar prescribing, thus reducing overall drug costs.

The Ensuring Innovation Act and the Advancing Education on Biosimilars Act both seek to lower the cost of prescription drugs indirectly by promoting competition from generic and biosimilar drugs. These incremental steps come as legislative efforts to lower drug prices more directly, for example, by allowing Medicare to negotiate prices, may continue to remain on hold in the near term, as drug pricing was not included in the Biden Administration's \$1,9 trillion American Rescue Plan and is currently absent from the proposed \$2 trillion American Jobs Plan as well as the recently-announced \$1,8 trillion Americas Family Plan. (8)

Digitalization, Pharma 4.0

The potential of digital and analytical applications in the industry has been brought to the fore in the last few years due to the rapid advances in technology as

well as changes in the market landscape and stakeholder behaviour caused by the pandemic. Digital evolution can bring significant benefits to industries across the value chain.

At first glance, digital technology has already played a significant role in keeping industry, healthcare professionals and pharmacists connected in the face of limited physical interactions. This trend is likely to continue with traditional, direct, detail-based commercial approaches, which are increasingly complemented by digital engagement models. Not only will this create an opportunity for the industry to further deepen ties and thus increase generic intake, it will also offer a cost-effective option to rapidly expand coverage to territories that would otherwise remain undisclosed due to representative officers economic model constraints.

Likewise, on the back end, digital and analytics have the potential to significantly improve capabilities by increasing efficiency, quality results and creating a bias-free environment. Drug development and product transfer could be significantly accelerated in the future through the use of simulation and in silico batch modelling.

Pharma 4.0

The transition to the Third Industrial Revolution in the 1980s was determined by digital technologies, i.e. the increasing digitalization far beyond the realm of industry. Digital information and communication technologies, the Internet, computers, mobile phones, automation and robotics have found application in many areas of production and social activities. They also formed the basic conditions for the Industrial Revolution 4.0, which began in 2000. However, unlike previous revolutions, 4.0 is characterized by much more perfect, broader, deeper and more complex and systematic applications of the mentioned inventions together with the appearance of new breakthroughs. Their combination causes the disappearance of the differences between the physical, digital (cyber-physical systems) and the biological spheres, the effects of which are predicted by some in the perspective of the next 20 years. In the long run, however, these predictions are close to science fiction, such as the thesis of removing humans from super-intelligent robots. (10)

Industry 4.0 is a set of connected digital technology solutions that support the development of automation, integration and real-time data exchange in production processes. In essence, this reflects an industrial and technological transformation process that naturally follows the development of scientific and industrial practices. The fourth industrial transformation is a natural continuation of digitalization and automation of production and includes Internet connectivity and interaction of cyber-physical systems without human participation, processing and analysis of large information arrays and decision-making by artificial intelligence, robotics, digital cloud use, digital modelling and simulation of production processes through virtual reality, intelligent automation, mass production of individualized products, the emergence of new technologies, creating new business models.

Pharmaceutical companies have always relied on empirical data to identify models, test theories, and understand the efficacy of treatments. Data analysis is just another evolution of a trend that has been going on for hundreds of years: that of man having increasing access to information and data. The creation of human knowledge and data was accelerated by the invention of the mobile printing press in the 15th century. This innovation has allowed information to spread like never before – scientists can now easily share research results in a country with scientists around the world.

Big Data

Information technology has only accelerated this process, allowing more sources of information to be shared and used than would be possible for the lonely human mind to process. We have long been in an age where there is too much information to be analysed by a single person. What the computer software industry now calls Big Data — consisting of larger volumes, variety, and data speeds than ever before — is actually just more data.

The fact that there is now the ability to process and make sense of this data through analytical technology is a great opportunity for scientists and pharmaceutical companies. Whether by accelerating drug discovery or better understanding patient trends and behaviour, Big Data makes great promises for those companies that want to use its potential. McKinsey, a consulting firm, (13) estimates that effective Big Data strategies can generate up to \$ 100 billion a year in the U.S. healthcare system alone.

But in order to really get the benefits, a different way of looking at the data is needed. *Here are 6 ways pharmaceutical companies can use Data Analytics to generate business value and drive innovation.*

1) Accelerate the discovery and development of drugs

With the large number of patents for expired or near-expiration blockbusters and the cost of launching a new drug on the market approaching \$ 3 billion (3, p. 8), there are huge benefits to anything that can speed up the process of drug discovery and development. The ability to intelligently search extensive data sets for patents, scientific publications, and clinical trial data in theory should help accelerate the discovery of new drugs by allowing researchers to examine previous test results. Applying predictive analysis to search parameters should help them refine relevant information and also get an idea of which paths are likely to work best.

2) Optimizing and improving the efficacy of clinical trials

Clinical trials are expensive and time consuming, and pharmaceutical companies want to ensure that they have the right combination of patients for a study. Big data can help identify eligible patients to participate in a trial (through analysis of demographic and historical data), remotely monitor patients, review

previous clinical trial events, and even help identify potential side effects before they become a reality. Patient big data can also help pharmaceutical companies consider more factors, such as genetic information, to help companies identify niche patient populations to speed up and reduce trial costs.

3) Target patients more effectively

With genomic sequencing information, data from medical sensors (a device that can, for example, carry and track physical changes in a person during treatment) and electronic medical records more easily accessible than ever, pharmaceutical companies are able to study the main causes of specific pathologies and the realization that one size does not really suit everyone. With each disease or condition, different patients will respond differently to treatment – for many reasons. Combining data from these different sources can allow pharmaceutical companies to spot trends and patterns that will allow them to offer more targeted drugs to patients who share common features.

4) A better look at patient behaviour to improve drug delivery and effectiveness and health outcomes

Across markets and segments, regulators, companies and other stakeholders are collectively seeking to build integrated healthcare solutions that go beyond medicines. Patients are increasingly demanding value-added services, and payers are shifting to outcomes-based reimbursement models that require close monitoring and extensive data collection. Larger amounts of data that companies can use, including information from remote sensor devices, along with advanced analytical models, mean that pharmaceutical manufacturers can get a much better idea of existing patient behaviour. The company can then use this information to design services targeted to different demographics or patient risk groups to improve treatment efficacy.

For example, an ontology drug manufacturer found that many patients forgot to take their medication at the right time. The manufacturer has come up with a cloud-based mobile solution that will send messages directly to patients' mobile phones, reminding them to take their medications, thus improving compliance with drug protocols.

Meanwhile, Medtronic is working on designing a technology that can “interpret certain electrophysiological parameters and control data.” Medtronic's neuromodulation unit uses this technology to detect the patient's spinal posture, which can then help doctors determine the amount of stimulation the patient requires.

Digital therapeutics — often including companion diagnostics or stand-alone digital solutions — are beginning to emerge as part of the therapeutic area and are increasingly gaining regulatory approval. Some generic companies may well capitalize on this opportunity because of their deep understanding of focal therapy

and access to physicians and patients in the branded product market. However, question marks remain about generating sufficient clinical evidence for these solutions and defining an appropriate business model to support them.

5) Improving safety and risk management

Alerts from a number of sources, including social media, Google searches, etc., can act as an early warning to pharmaceutical companies about product safety issues, and pharmaceutical companies are considering how this type of unstructured data can be used more effectively.

You can do what is called “scraping” information from the Internet, where you download many different publications from the Internet and then analyse that data. You can listen to the chat in essence, the public mood, in the virtual environment. With these approaches, you can capture patient data of interest; but you can also capture additional data, which may include safety-related information that will need to be passed on to the safety team.

6) Get a better idea of marketing and sales

With increasing competition from generic drugs, Big Pharma is becoming increasingly intelligent in analysing and promoting effectiveness in its sales and marketing operations. New, niche and underserved markets can be identified through the analysis of information from social media, demographic data, electronic medical records and other data sources. Similarly, analysing the effectiveness of sales efforts and capturing the feedback received from the sales department during customer visits and using them effectively can help pharmaceutical companies gain a competitive advantage. (13)

What stimulates the transition to Pharma 4.0?

Beyond the continuing need for pharmaceutical manufacturers to remain competitive in a growing market with increasing complexity is the growing pressure from regulators to continuously monitor products. In the past, regulators have considered an annual product quality review to be adequate (though not necessarily ideal), but there is a growing expectation that manufacturers will perform such reviews much more frequently than annually. Pharma 4.0 technology allows continuous real-time monitoring of production processes, so that any deviation from the set parameters can be predicted and corrected before it becomes a deviation, avoiding the associated downtime and loss of the product.

The growing pressure on R&D departments to develop not only new products faster than in the past, but also more personalized therapies is another factor driving the move towards Pharma 4.0.

3. Key challenges

Price erosion / pressure on prices

Price erosion is a natural phenomenon in the generic drug industry and a driving force behind its enormous contribution to a healthy economy.

The below Table 2 illustrates the aggregate mean and median discounts for single source legend drugs and innovator multiple source legend drugs (both commonly known as brand legend drugs), as well as non-innovator multiple source legend drugs (commonly known as generic legend drugs) comparing the published National Average Drug Acquisition Cost (NADAC) values to that of the wholesale acquisition cost (WAC) and average wholesale price (AWP). The data in this table is limited to the most 5 recent quarters of available pricing data.

Table 2. Aggregate mean and median discounts for innovator and generic medicines

Quarter Ending	Brand Legend Drugs				Generic Legend Drugs			
	WAC Mean	WAC Median	AWP Mean	AWP Median	WAC Mean	WAC Median	AWP Mean	AWP Median
December 2020	-4.5%	-4.1%	-20.5%	-20.1%	-43.9%	-48.8%	-79.0%	-86.7%
March 2021	-4.6%	-4.1%	-20.6%	-20.1%	-44.1%	-49.1%	-79.5%	-87.3%
June 2021	-4.6%	-4.1%	-20.6%	-20.1%	-43.8%	-48.8%	-79.3%	-87.5%
September 2021	-4.8%	-4.1%	-20.7%	-20.1%	-43.9%	-48.7%	-79.6%	-87.7%
December 2021	-4.6%	-4.0%	-20.6%	-20.0%	-45.4%	-50.3%	-80.7%	-88.8%

Source: (22)

The below Table 3 illustrates the median discounts off of WAC and AWP for generic legend drugs by the number of active rebating labellers producing an active National Drug Code (NDC) within the drug rate group (drug, strength, dosage form and route of administration). The percentages provided reflect only the most recent calendar quarter of available pricing data. (22)

Likewise, reimbursement restrictions, rebate / claw back regulations and related measures in Europe and other countries around the world have also challenged pricing levels in these markets. For example, Japan is moving from every other year to annual revisions, with year-end revisions introduced in April 2021 for products with dispenser margins above 5%, affecting 8,200 generic drugs. (7)

Along with stronger and faster adoption, the launch of biosimilars has also seen an acceleration in the price erosion curve across the market. In recent anti-TNF launches, prices have dropped by an average of about 25% when the first biosimilars come in. Erosion can reach 70% relatively quickly in products with a large number of competitors (5 or more) and a market model that strongly uses bidding. (5)

Continued pricing pressure will require tight control of operating costs beyond the industry's minimum requirements to deliver high-quality products, especially given rising input costs. If not managed well, this can create adverse economic benefits and have a significant negative impact on the availability and access of critical products.

Table 3. Median discounts off of WAC and AWP for generic legend drugs by the number of active rebating labellers producing an active National Drug Code (NDC) within the drug rate group (drug, strength, dosage form and route of administration)

Generic Legend Drugs		
# of Labelers	Median	
	WAC	AWP
1	-14.7%	-35.7%
2	-29.8%	-55.1%
3	-41.8%	-68.6%
4	-49.7%	-80.3%
5	-52.3%	-87.8%
6	-54.4%	-88.1%
7	-56.0%	-90.6%
8	-56.7%	-91.5%
9	-57.5%	-93.1%
10	-57.1%	-92.0%
11 or more	-62.0%	-97.3%

Source: (22)

Medicine shortages

Pharmaceutical shortages have come to present an increasing problem to healthcare systems since the mid to late 2000s. The problem has been recognised by the World Health Organisation (WHO) from about 2009 onwards. Active measures to address this issue were taken by the WHO from 2015 onwards when the organization called a consultation meeting on global pharmaceutical shortages. Resultant WHO reports noted that medicines shortages were increasing, particularly for older, off-patent drugs and treatments that are difficult to formulate. Medicine shortages also included many commonly used medicines such as antibiotics, cancer and cardiovascular medicines, and anaesthetics. (30, p. 180)

Causes of shortages

The WHO summarized the primary causes of shortages as: difficulties in acquiring raw materials, manufacturing problems, competition issues, business decisions, impact of new technology, expensive medicines, and market fragmentation. (30, p. 181) There is now a substantial literature that examines the causes of drug shortages in developed countries. Shortages can be grouped into three broad categories:

- 1) *economic and regulatory reasons;*
- 2) *business reasons;*
- 3) *manufacturing and supply chain problems.*

1) Economic and regulatory causes of medicine shortages include: issues arising from austerity, restrictive fiscal policy and related government policy changes; increasing regulatory requirements; and shift in demand due to new therapeutic applications.

2) Business reasons contributing to medicine shortages include: increasing price volatility; reduced margins; increasing dominance by a limited number of producers; parallel sales; tendering systems which favour larger scale producers; and the impact of medico-legal considerations.

3) Lastly, some of the key manufacturing problems associated with drug shortages relate to problems in adapting to increasing governmental requirements; transfers of production due to mergers and acquisitions; long production lead times; increasing raw material bottlenecks (active substances, excipients); quality-related failure of production batches; and multi-authority approval requirements arising from outsourcing practices (2, p. 6)

The COVID-19 pandemic has revealed the sensitivity and vulnerability of global supply networks to disruption. The limited number of supply sources, especially for Active Pharmaceutical Ingredients / Key Starting Materials, has become a risk to the industry supply chain, a topic that has been brought into sharper focus by the pandemic given the shortage of supplies of COVID-related products prioritizing local demand. In response, many governments have stepped up their efforts to build local manufacturing capacity and onshore/nearshore supply of various medicines.

While these moves have the potential to accelerate localized production in multiple markets, these policies, coupled with policies already promoting local manufacturing in multiple markets, risk spilling over into protectionist trends that could have major implications for overall product access and the economy affect feasibility. Dispersing the production footprint of a product across multiple locations may not only result in a loss of economies of scale and thus increase costs for patients, but also lead to significant challenges in maintaining strong quality and compliance standards across locations. However, these remain high on the regulatory agenda and have been subject to escalating requirements over the years. As in the past, this has not only resulted in an increase in the cost base of the industry, but also supply disruptions due to unfavourable inspection results.

Commercial environment – tendering and substitution requirements

While many markets face pricing challenges, business models are gradually shifting. Branded product niches persist, and the acceptance of classic commercial levers for promotion and sales excellence cannot be ignored. However, there is an upward trend in tendering and substitution requirements, and the use of INN prescriptions and pharmacy substitutions is increasingly encouraged in what was formerly known as a purely physician-driven market. While these regulations may help drive further generic penetration and thus benefit economic access, it is important to keep the competitive balance intact and not to scrutinize price levels

to unsustainable levels. The introduction and subsequent cancellation of tendering processes in certain European markets and regions may be due to insufficient supply following these processes.

At the same time, the channel pattern has also undergone major changes. While channel consolidation of wholesale/retail companies is gradually increasing in Europe (including several CEE markets), the entry of non-traditional players looking to disrupt the channel and the wider healthcare ecosystem will further alter competition in this part of the value chain dynamic. These disruptions have already had a significant impact on markets such as China, where several ecosystems have emerged. Both developed and emerging markets are now seeing increasingly aggressive moves, such as the scaling up of incumbents into end-to-end ecosystems, and the entry of digital-first players and large conglomerates along the value chain.

Regulatory hindrance

Regulatory procedures for standard generic drugs are now widely established in regulated markets, and mechanisms such as the U.S. GDUFA (Generic Drug User Fee Act) have been introduced to expedite the delivery of safe and effective medicines to the public and increase the predictability of the review process. However, even in mature markets, there are still some hurdles, especially when it comes to complex generics. For example, evidence generation required for product areas such as the respiratory system and some long-acting injectables remains important, driving investment and influencing the wider availability of generic products in these areas. The requirement to use market-specific reference samples in key regions further increases the cost and risk profile of bringing these products to market. This has sometimes been accompanied by intellectual property challenges and lawsuits, whereby original creators have been granted extended terms of protection beyond the originally intended duration of the innovation provided, ultimately delaying generic access. (18)

Likewise, while the approval pathway for biosimilars has been clarified, clinical trial cost requirements remain high. This results in a high degree of risk for developers and manufacturers, although advances in regulatory science and characterization capabilities minimize the need for such requirements. (19)

Some emerging markets also continue to face challenges in establishing the right regulatory framework (e.g. complexity of the approval process, lack of clear approval timelines, lack of clarity in clinical study design, need for increased capacity, etc.) to ensure accelerated product development. While these impact the development of generics and biosimilars, their impact is more pronounced as players try to build more innovative pipelines. Further simplification of regulatory guidance is essential for rapid market entry while ensuring adequate quality and effectiveness. This includes regulatory convergence, harmonization and reliance, mutual recognition of compliance checks, and IP regulation in trade agreements. (21)

4. Sustain and develop – what to focus on

As we assess the outlook for the industry, there are several underlying tailwinds and emerging opportunities which have the potential to help the industry sustain its momentum and grow further. However, tapping these opportunities may not be easy and will require the industry to confront several challenges and discontinuities which have the potential to disrupt the growth and sustainability of the industry. (18, p.9)

Given the current opportunities and challenges facing the industry, stakeholders such as industry, regulators and governments are required to work together to help the industry achieve further development. Players across the industry should focus on strengthening core capabilities across the value chain and adopting new operating models to serve emerging areas of opportunity. At the same time, support from governments and regulators is essential to create regulatory and policy drivers that allow the industry to bring products to market with the right speed and cost structure.

What is needed!

1) Ensure impeccable quality

Quality requirements and regulatory rigor have increased over the past few years. While the industry has been striving to raise quality and compliance standards and performance has improved significantly, further enhancements to quality and compliance must continue to keep pace with changing regulatory requirements and strive for an impeccable compliance record.

2) Ensure agility in the supply chain while further strengthening the cost position

COVID-19 has highlighted vulnerabilities in supply chains. Landed cost may no longer be the only relevant metric as the focus shifts to the cost implications of location risk. Resilience may need to be built by adding dual/multi-source and geographic diversification. On the other hand, risk mitigation requirements call for greater transparency across the value chain. Suppliers, drug manufacturers and distributors should work together to create better inventory visibility and improve forecasting.

Strengthening quality standards and increasing supply chain agility can push up the industry cost curve. Therefore, it may be important for industry players to continuously innovate their practices to further improve the cost position.

3) Integrate digitization and analytics as core competencies across the value chain

While industry players have done a lot to harness the power of digital and analytics, companies need to continue to double down on this area as a core

competency to embed throughout the value chain. The increasing use of digital and analytical applications in various fields will gradually make the R&D of generic and biosimilar drugs more efficient and effective, thereby benefiting patients by shortening development cycles and reducing costs.

Businesses must also realize the full potential of data and analytics in manufacturing and supply operations. Advanced analytics and artificial intelligence can combine to improve demand and supply planning, resulting in improved forecast accuracy, reduced inventory and increased capacity.

And, of course, there is also enormous potential for digitization in the commercial sector through digital marketing content, targeted customer support, and building deeper doctor-patient relationships through more targeted engagement.

The generic and biosimilar companies will look beyond the core and expand their operations into selected adjacent market segments. And digital treatment and solutions is a main one. The industry can enable intelligent patient support in the form of companion diagnostics, better interaction of medications and medical devices for treatment and diagnosis, support for physicians and healthcare professionals, and overall patient care.

4) Drive systematic M&A and partnerships to support aspirations

In recent years, mergers and acquisitions and collaborations in the pharmaceutical industry have steadily increased. 2020 saw some setbacks due to the impact of the COVID-19 pandemic, but the second half of 2020 saw a 25% increase in M&A deal volume compared to the first half. (26)

Over the past years, several originators have carved out their Generics businesses, and continue to do so with a range of off-patent established products. Programmatic M&A can help industry players to scale their core activities with the additional scale and efficiency benefitting the industry as a whole. M&A can also enable players to rapidly access new capabilities and accelerate build-out of step-out opportunities highlighted earlier.

Beyond M&A, with the increasing complexity of Generics and Biosimilars development, manufacturing and commercialization, no single player will likely be able to serve all its customer needs in a fully organic evolution manner. The industry will increasingly rely on partnerships among its players to best leverage know-how and expertise of players across both traditional areas (e.g. Generics manufacturing) as well as emerging capabilities (e.g. Biosimilars). This will also get more pronounced as industry pushes to form end-to-end healthcare solutions and serve patients along their entire health journey.

Given the increasing risk-profile of pipeline and increasing focus on step-outs, industry players will also look at more diversified sources of funding and new models of partnerships to access capital. Private equity has become an important partner in funding expansion and may continue to do so with private equity dry powder at significant heights. Similarly, players will need to explore innovative

setups (e.g. carve-outs) to manage the increasing risk-profile in high-investment areas (e.g. Biosimilars, specialty/ innovation, ecosystem plays). (18)

5) Mitigate medicine shortages

Medicine shortages are a burden that has to be dealt with. And whereas managing the economic and regulatory reasons as well as the manufacturing and supply chain problems is hard to be accomplished, the business reasons for shortages can be mitigated. The last can be done by promoting such measures that will ensure the sustainable development of the market with sustainable supply and pricing. The reference pricing and tendering need to be fine-tuned to prevent rendering the prices economically unjustifiable to the business and thus unsustainable.

Moreover, specific regulatory measures can be implemented to ease the cost of the medicines and thus to mitigate imminent medicine shortages:

- Flexibility to accept different pack sizes at national level based on Marketing Authorization;
- Flexibility to accept multilingual packages (e.g. eLeaflet as a solution);
- Efficient Repeat Use Procedure;
- Incentives for medically essential low price products (e.g. lower variation fees/flat fee). (23, p.2)

In addition, generic and biosimilar companies need healthy incentives for innovation in the form of fair and sustainable pricing levels, regardless of the specific pricing mechanism that may vary from market to market. This award will spark continued technological advancement and enable the industry to help shape the healthcare ecosystem of the future.

6) Corporate governance

In view of the last pandemic year, long supply chains have also come to the fore. Governments are obliged to provide their societies with a basis for sustainable development, which is related to large corporations, their supplies and corporate governance. Large pharmaceutical companies are mostly multinational corporations. The twenty-first century puts business under pressure to address issues of environmental protection, respect for human rights and the provision of adequate working conditions. (1)

Conclusion

The main benefit of generic and biosimilar medicines for society is the provision of a quality, safe and effective, affordable alternative to the original product for humans. Society has the opportunity to benefit from the large number of drugs available on the market. This is good news for society, there is a benefit for the health budget and for the elderly in particular, who are the main mass of drug users.

The generic and biosimilar industry sees ample opportunities to maintain its current substantial role and position and expand further. In order to succeed it must also navigate through the aforementioned challenges.

While the benefits of digital evolution are enormous and largely undisputed, it is critical for industry players to address operational challenges during the evolution. Embedding Pharma 4.0 processes at scale requires organizations to make significant investments in their data infrastructure, technology foundation and digital skills of their employees.

Governments and industry should collectively work towards shaping the new horizon for the industry, considering the opportunities and challenges, aiming to provide their societies with a basis for sustainable development.

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SUPPORTING YOUTH WORK AT THE MUNICIPALITY LEVEL

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***Abstract:** The article highlights the importance and role of young people and youth work and participation. It follows and presents the ideas and implementation of national youth policies, reviews the regulatory and institutional framework governing issues related to youth participation. The main focus is the support of youth work at the municipality level and the building of strong community with engagement of youth as a decision-maker and change-keeper. In the first part it is provided an overview of youth policies at European and national level, then the initiative Europe goes local is discussed in detail. The article emphasis on the European Charter on Local Youth Work, whose goals are to contribute to the further development of local youth work and to increase awareness of local level responsibility. There are deliberated good practices and are proposed steps should be taken by all stakeholders to encourage youth participation in order to build a space to promote youth activities, to valorise the youth work and to involve the young people in community issues at municipality level.*

Key words: youth participation; social commitment; young people; youth work; municipality level.

The full-fledged development of young people, building their active citizenship and implementation, stimulating their active participation is the responsibility of all stakeholders. It is important to unite the efforts of both representatives of local and central authorities, as well as enterprises, youth and youth organizations themselves, the non-profit sector, representatives of schools and universities in order to plan and implement policies in the field of youth participation, development and realization of projects and programs on certain aspects and for various sectoral policies in the field of youth. From a scientific perspective, we know¹ that the youth are interested in political and community issues and are eager to shape their environment. However, young people need suitable spaces and formal institutions to express their ideas and to interact with politicians, the members of community or civil servants.

In Europe, there is no serious disappointment of young people on political issues and problems, but often they do not deal with these issues because they do not know how and where they can participate. Young people are, however, increasingly harder to reach. And there is “a clear and growing dissatisfaction among youth with the way politics is conducted and with ‘politicians’ in general”. (EACEA, 2010)

They are often very attached to their town, valley or mountain area, and care about it. They lack, however, spaces of encounter and expression in order to propose ideas to decision-makers. Rurality and the remoteness of many areas do not make the provision of youth services and youth participation easier. The local population is often ageing and so are the decision-makers. The brain drain of the young exacerbates this phenomenon. Because they lack personal and professional future perspectives in their home areas, young citizens leave, sometimes very early, for major towns and cities. Many regions, towns and rural communities cannot afford to waste the talent, energy and engagement of its youth.

Many regions, cities and rural communities cannot afford to lose the talent, energy and commitment of their youth, but at the same time local authorities do not make efforts to attract and retain young people and involve them as active participants in community life.

In order to facilitate change, the local municipalities can assist to youth in re-establishing trust among young people and reconnecting young citizens to their home areas. Some of the main policy recommendations are:

- To help young people to appreciate democracy, responsibility and community-belonging, which motivates them to remain, return and engage in their home areas;
- To convey democratic and social values, which will help young people to contribute to building up stable democratic and peaceful structures;
- To make a contribution to youth's active citizenship, providing administrations with young people's perspectives on policy issues which seem harder to grasp than others;
- To benefit from their experiences, which helps the whole community achieve political, economic and social progress;
- To support young people to become more enthusiastic and confident, so that they actively and effectively engage in local life and processes, for the common future.

1. Youth policy in European level

Through its policies, the European Union (EU) aims to give young people more equal opportunities in education and the job market, and to make sure they can participate fully in all areas of society. This is achieved through various means, notably by engaging in dialogue with young people and through the Erasmus+ programme.

The EU Youth Strategy is the framework for EU youth policy cooperation for 2019-2027, based on the Council Resolution of 26 November 2018. EU youth cooperation shall make the most of youth policy's potential. It fosters youth participation in democratic life; it also supports social and civic engagement and aims to ensure that all young people have the necessary resources to take part in society.

The EU Youth Strategy strives to:

- Enable young people to be architects of their own lives, support their personal development and growth to autonomy, build their resilience and equip them with life skills to cope with a changing world;
- Encourage and equip young people with the necessary resources to become active citizens, agents of solidarity and positive change inspired by EU values and a European identity;
- Improve policy decisions with regard to their impact on young people across all sectors, notably employment, education, health and social inclusion;
- Contribute to the eradication of youth poverty and all forms of discrimination and promote social inclusion of young people.

One of the guiding principles is **participation**: recognising that all young people are a resource to society, all policies and activities concerning young people should uphold young people's right to participate in the development, implementation and follow-up of policies affecting them by means of meaningful participation of young people and youth organisations. In this context,

policies should be built in recognition of the changes brought about by digital communication affecting democratic and civic participation.

The involvement of young people should become the milestone of future cooperation in the field of EU youth policy. It also means that young people should be able to express their opinions when designing, implementing and evaluating policies that affect them at all different levels – EU, national and local. In order to achieve the maximum possible degree of integration and adaptation to existing and upcoming challenges, it is important to study new and alternative

forms of participation. The role of young people is emphasized, especially with regard to taking into account their opinions and cross-sectoral cooperation should be reinforced at all levels of decision-making striving for synergies, complementarity between actions, and including greater youth involvement. Also, all EU members are invited to support the establishment and development of youth representations at local, regional and national level, recognising young people's right to participate and self-organise, the recognition of representative youth structures and their inclusion in the work of local, regional, national and European authorities.

The 1st European Youth Work Declaration¹ celebrated and gave direction to this diversity of opportunity, action and experience that may be positively attributed to youth work. Since then, however, the development of youth work in different parts of Europe has been varied. While youth work remains supported, politically and financially, in some countries, it has fallen victim to austerity measures and political indifference in others. Sometimes the claims made for youth work appear to be unconvincing. Youth work, as a result, continues to face challenges of funding, recognition and credibility.

¹ <https://pjp-eu.coe.int/documents/42128013/47262202/Declaration/2f264232-7324-41e4-8bb6-404c75ee5b62>

The objective of the 2nd Convention² was to identify the common ground on which all ‘youth work’ stands and its relation to wider agendas of concern to **public policy** and issues facing young people. In the context of „what brings us together is stronger than what divides us“, the expectation from the Convention was to give **a new impetus to the political and institutional debate around youth work in Europe**, in order to foster further development and stronger recognition.

2. Europe goes local

The National Agencies of the Erasmus+: Youth in Action programme and their partners decided to engage in long-term cooperation. This long-term cooperation project is called ‘EUROPE GOES LOCAL – Supporting Youth Work at the Municipal Level’ and it runs from July 2016 until May 2019. The core aim of the project is to raise the quality of local youth work in particular through enhanced cooperation **between various stakeholders that are active at the municipal level**. The partnership currently involves about 200 members who represent around 120 municipalities in the participating countries. The partnership also intends to have a multiplying effect by connecting to various activities of the partners and spreading project results to a wide range of stakeholders. This strategic partnership is a platform for multi-level initiatives. Large-scale events, mapping exercises and network-wide actions are coordinated at the European level while National Agencies develop national plans to respond to the needs of their partners and create different types of learning opportunities with a transnational dimension.

The specific objectives of the project are 1) to support the recognition, practice and quality development of youth work as part of municipal youth policy; 2) strengthen the European and international dimension of youth work at the municipal level; 3) develop strategies and measures for National Agencies of the Erasmus+ youth programme to support youth work; 4) contribute to the development of youth work as part of European cooperation in the youth field.

Europe Goes Local platform is to bring together partners who are involved in advocating, supporting, developing and implementing local youth work, both governmental and non-governmental nature. The platform aims to create dialogue and cooperation, providing concrete activities, learning and networking opportunities, tools and sources of knowledge in the programme countries and neighbouring partner countries of the EU.

All partners will be contributing actively to its activities in the field of sharing knowledge, creating tools, networking, advocacy and dissemination of the project outcomes. The diverse models, approaches, resources and aims require coordinated action with the involvement of all stakeholders while respecting differences and taking into account various needs. Considering the overall aims of the strategic partnership and in line with the recommendations of the 2nd Youth

² https://pjp-eu.coe.int/documents/42128013/47262187/The+2nd+European+Youth+Work+Declaration_FINAL.pdf/cc602b1d-6efc-46d9-80ec-5ca57c35eb85

Work Convention and the newly adopted Council of Europe recommendation on youth work, is created the European Charter on Local Youth Work through a series of actions and activities at the European, national and local levels.

3. European Charter on Local Youth Work

This charter, however, is not a political document, but it transforms many European documents into concrete guidelines regarding what is needed in order to establish and maintain quality in local youth work. The idea of a charter was first launched at the 2nd Youth Work Convention, held in Brussels 2015. In the declaration, it was stated that “The Convention is asking for more awareness **of this local level responsibility and to agree with the local and regional authorities** on a European Charter for youth work at local level.” The motivation was to create a common ground for youth work.

The European Charter on Local Youth Work was launched in June 2019.

The aim of the charter is to contribute to the further development of local youth work. It does this by stating which principles should guide it and how different aspects of it should be designed in order to meet these principles.

3.1. Principles: Youth work is value based and its core principles are that it needs to be based on voluntary participation, on and respond to the needs, interests, ideas and experiences of young people as perceived by themselves. Also, the youth work has to be created, organised, planned, prepared, carried out and evaluated together with or by young people and it has to contribute to the personal and social development of young people through non-formal and informal learning. Other core principle is linked to inclusion and to equal opportunities to all young people for a holistic perspective, in which they have self-determination, autonomy and access to rights and youth work has to promote critical thinking and creativity, as well as human rights, democratic values and active citizenship.

3.2. Youth policy: Youth work practice needs to be guided by a youth work policy that is developed in cooperation between all relevant stakeholders, including young people, having clear roles and mandates and being engaged in all stages of the process, on the basis of relevant and updated knowledge on young people’s needs, rights and interests. It is necessary to provide clear and measurable qualitative and quantitative indicators with which to monitor youth work in terms of participation, influence and training of young people. Youth policy at the local level should be clearly positioned and linked to the goals of national and European youth policy, for which it should be provided with funds and resources.

3.3. The organisation and practice of local youth work: It is important to be set up in dialogue between all relevant stakeholders and to transform aims and objectives into coherent strategies and plans. Another recommendation is to find

approaches to continuously exchange information about plans and activities with other local, national and European actors in the field of youth and actively engage in both cross- and intra-sectorial cooperation. The main task is to attract young people, to counsel and give them access to a wide range of adapted information regarding their rights as well as their possibilities to take part in different kinds of local, national and international activities, through which to stimulate and support young people (socialise, exchange experiences and ideas, organise, learn from each other and take action; active citizenship, participation in political decision-making; active engagement and cooperation at all levels). Also, to articulate, together with young people, learning objectives that they perceive as relevant for their personal and social development; to document and make visible young people's non-formal and informal learning outcomes, i.e. knowledge, skills, attitudes and values, achieved through youth work and to support the validation of achieved competences; to provide youth workers with information, education, training and support that is relevant and adapted to local needs and to stimulate and support continuous competence development.

3.4. Youth workers: All the prerequisites and needs of youth workers are included here, namely the will to support young people in their personal and social development, to create an enabling and trustful environment that is actively inclusive, empowering and socially engaging, creative and safe, fun and serious, playful and planned; to have the competences, necessary for carrying out youth work and to develop their competences. They have to see youth work as a process of mutual learning, to be aware of and able to articulate the role and mission of the youth workers, and to continuously and critically reflect on how their own actions, as well as local objectives, methods and ways of organising activities comply with the core principles.

3.5. The quality development of local youth work: The last part of the Charter draws attention to the quality, based on a clear and comprehensive system for documentation and follow up of outcomes, preconditions and work processes in relation to measurable indicators and aims. It is important to constantly update mappings of local realities and needs; to have clear procedures for continuous analysis of and reflection on outcomes in terms of how they relate to preconditions, work processes and activities, and the need for further development, updates on new national and international research, trends and methods in the field of youth and youth work. The main idea is for common efforts of all stakeholders to cooperate around quality development and adoption of innovations; continuous competence development of youth workers based on a clear competency framework in combination with an analysis of local outcomes, needs, strengths and weaknesses.

Hence, the charter constitutes a common European platform for the necessary dialogue on youth work. It is a free-to-use methodological tool, functioning as a check-list around which stakeholders can gather and discuss what measures that might be needed for the further development of youth work, making sure that no aspect or perspective is left out and that youth work provision is carried out in the best and most efficient way. The charter should therefore be considered as a whole and the different bullet points are not listed in order of priority but in order of logic.

4. Legal and institutional aspects of youth policy in Bulgaria

In line with international efforts, youth policy is a priority at the national level, and youth participation in public life is one of the main points on which it is working.

Bulgaria is one of the first European countries to adopt a national strategic document on youth policy in broad consultations with young people.

- The National Assembly takes a decision obliging the Council of Ministers to prepare and submit to Parliament an annual report on youth, dictated by the White Paper published by the European Commission - “A New Impetus for European Youth” (COM (2001) 681), and in connection with the World Youth Action Programme adopted by the UN General Assembly (Resolution A/RES/50 / 81),
- Based on the first annual report on Youth in 2002, Bulgaria adopted the Strategy of the National Youth Policy 2003-2007. The Council of Ministers approved youth activity programs for 2004-2005, 2006-2007, 2008-2010.
- The national program “Youth information and Consulting centres” 2007-2010, as well as for inclusion in the program “Youth” (2000-2006) and the program “Youth in Action” (2007-2013) is co-financed by the European Union.
- Since 2009 The Directorate “Youth Policy” helps the Minister of the Ministry of Education and Science in the implementation of National Youth Policy; develops, implements and coordinates state programs of youth activities and monitors their implementation; implements youth policy in the regions of the Ministry through its employees responsible for communication with local authorities, non-governmental organizations and other structures engaged in youth activities, etc.
- Amendments to the Law on Physical Education and Sports of 2005 laid the foundations of the legal framework of the National Youth Policy. A resolution was adopted on the **conditions and procedure for financial support of youth activities and projects at the national and regional levels.**
- In response to the declaration of the Third National Forum “BG Youth – 2007”, Bulgaria joins the European Convention on Transnational Long-term Voluntary Youth Service.

- Annual reports on youth for 2003, 2004, 2005, 2006 and 2007 are being compiled, which have become an effective tool for reviewing the state of youth, the results of the implementation of the 2003-2007 Strategy and to outline activities to achieve strategic goals in relation to the current needs of youth in Bulgaria at that time.
- In 2012, a special law on youth was adopted, according to which the state policy on youth is “a purposeful and consistent activity of the state, municipalities, youth organizations and society, which is aimed at creating favourable conditions for the full personal development of young people and their participation in public and economic life, as well as their inclusion in the management of the at the local, regional and national levels through activities that contribute to the development of youth in the country.” (Art. 2). It represents another step towards the perception of the need for a comprehensive youth policy in Bulgaria, which will have a long-term character, providing for the participation of young people in governance and public life at the local, regional and national levels. Important accents are interaction with young people and their inclusion in the processes of policy formulation and decision-making regarding youth, the principle of decentralization of youth policy, **the development of municipal youth plans at the local level**, the conditions for the functioning of youth councils.
- The National Youth Strategy (2010-2020) is focused on building and implementing a unified, consistent and sustainable youth policy in Bulgaria based on a multisectoral approach, intersectoral cooperation and joint management with youth at the national, regional, regional, municipal level. The first part of the strategy presents challenges for the development of youth in Bulgaria. The second part assumes strategic goals and objectives. The last third part of the strategy is devoted to the implementation of the strategy-principles, institutional environment, resource and information support and expected results. The National Youth Strategy (2010-2020) is aimed at young people aged 15 to 29 years in accordance with international and European standards of youth work.
- In connection with the National Strategy, there are also plans for the implementation of the National Strategy for 2016 and for 2020, as well as progress was summarized in the report on the Implementation Plan of the National Strategy for 2015.

5. Participation of young people at municipality level

The development of a permanent attitude to social processes in citizens is a long-term and consistent work. Participation of young people in diverse activities as participants and organizers, their inclusion in the activities of various youth and other non-governmental organizations develop organizational culture and management skills. Creating conditions in which a young person is a leading

figure in the decision-making process and achieving the final result builds self-confidence and responsibility to the community, strengthens personal experience and develops the desire for initiative.

The active participation of young people in decisions and actions at the local and regional levels is essential in the quest to build a more democratic, inclusive and prosperous society. Participation in the democratic life of any society is more than voting and candidacy for elections, although these are important elements. Participation and active citizenship is expressed in having the right, means, space and opportunity, and when support is needed, to participate and influence the decision-making process and engage in actions and activities to contribute to the creation of a better society.

Local and regional authorities, as the authorities closest to young people, play a very important role in encouraging youth participation. Thus, local and regional authorities can be sure that young people will not only hear and study democracy and citizenship, but will also practice them. For young people to participate fully, it is vital that they can influence and shape decisions and actions when they are young, and not just at a later stage of their lives.

The Charter on youth participation in the life of municipalities in 1992, as well as the revised Charter 2015 - argue that young people are citizens in the municipalities and regions in which they live, just like any other age group, and therefore should have access to all forms of participation in society. It is also important to affirm and promote the role of youth in the development of a democratic society, in particular local and regional public life. The Law on Youth was adopted in 2012. regulates the participation of young people at various levels. **At the local level, municipalities are invited to establish municipal advisory councils on youth issues, as well as to pursue their policies in close cooperation with youth organizations.** The pioneer in this area is the municipality of Varna (2005) and then other municipalities as Stara Zagora, Pernik, Smolyan, Dimitrovgrad, Kardzhali, etc. created their youth advisory councils. The National Youth Forum (NYF)³, a member of the European Youth Forum, can directly participate and influence youth policy at the European level. In this regard NYF, which includes representatives of different youth organizations and serves as a national umbrella organization, assists the mayor of the municipality in the implementation of municipal youth policy and it is recommended to establish a municipal advisory council on youth affairs by decision of the City Council.

The issue of creating a municipal advisory council was a great step, because they would represent young people in the municipality, express their desires and needs, and also help the management team of the municipal administration in the development of municipal youth policy.

Regarding the new youth policies and strategies and implementation of European Charter on Local Youth Work, unfortunately Bulgaria and our Human Resources

³ <https://nmf.bg/>

Development Center which performs the function of a Bulgaria's National Agency for the administration of the Erasmus+ program isn't among the 22 countries that accepted, translated, transferred and working according to the charter. This calls into question the application of the charter and leads to the fragmented use of some tools and opportunities, complex cooperation and weak collaboration between youth organizations and municipalities, as well as participation and decision-making on the creation of youth policy at the local level.

Conclusion

A democratic society needs the voices and active participation of young people. In order to fulfil this role, young people need a place where they can set their own agenda. A space where they, together with their peers, can explore, articulate and develop their interests and talents, as well as their ideas for the future. It is very important to find this space where they get stimulation and support to further develop the knowledge, skills, attitudes and values they need in order to reach their full potential as individuals and citizens. Youth work is this space, where young people with their different backgrounds, interests and ideas, and various needs are, and must always be, its primary stakeholders. Youth work is hence a process of learning, not only for young people, but also for society as such. It is a win-win investment, and for a society that strives for inclusion and social cohesion, youth work has an important role to play.

It all starts with a shift in understanding the role and participation of young people, trust in their ideas, their active involvement in political issues, their contribution to those decisions that are important for them and their future. Other important topics are the need to foster citizenship education as well as education on participatory democracy – not only among youth but also at the political, institutional and administrative level and by guaranteeing appropriate human and financial resources for youth participation. In addition, attention should be paid to the importance of building social capital, developing network and sharing best practices and the possibility of using tools and methodology to support and strengthen relations between young people and local authorities. Furthermore, the valorisation and promotion of youth work and youth organisations is crucial for the participation of young people, maintaining their interest. The facilitation of exchange and collaboration among young people, even outside their own municipalities or regions, is an important factor. Finally, there is also the issue of the institutionalisation of participation - in order to establish continuity and transparency, as well as to guarantee that youth participation will not remain an isolated activity. Youth participation should not be limited to youth only issues, young people should be involved in all kinds of topics from mobility to urban planning, or environmental issues and human rights. It could require many efforts, substantial time and perhaps it will be a long process. However, the municipalities are called upon to build formal pro-

cedures because they are among the crucial actors to make it happen. The success depends on will, motivation, and actions of all stakeholders on all levels.

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