

EEJRS

Volume 10 / Issue 2 / December 2024

EASTERN EUROPEAN Journal of Regional Studies

ISSN: 1857-436X, ISSN: 2537-6179

CSEI | Center for Studies
in European Integration

 **ASEM**
Academy of Economic Studies of Moldova

Eastern European Journal of Regional Studies

Volume 10 / Issue 2 / December 2024

Centre for European Integration Studies
Academy of Economic Studies of Moldova

Eastern European Journal of Regional Studies

Eastern European Journal of Regional Studies (EEJRS) is dedicated to foster an effective interaction between innovation, education and research in the Eastern European Neighbourhood countries in order to better understand its transformations induced by the European integration process.
EEJRS is double-blind peer-reviewed scientific journal, published twice a year (June and December)

EDITOR-IN-CHIEF:

CRUDU Rodica, associate professor, Academy of Economic Studies of Moldova

EXECUTIVE EDITORS:

BUCOS Tatiana, associate professor, Academy of Economic Studies of Moldova

POPA Marina, associate professor, Academy of Economic Studies of Moldova

EDITORS:

AZZALI Stefano, University of Parma, Italy

BELOSTECINIC Grigore, Academy of Economic Studies of Moldova

CANTNER Uwe, Friedrich-Schiller-University Jena, Germany

DANGERFIELD Martin, University of Wolverhampton, United Kingdom

HURDUZEU Gheorghe, Bucharest University of Economic Studies, Romania

PASCARIU Gabriela Carmen, Alexandru Ioan Cuza University of Iasi, Romania

SIRBU Olesea, Academy of Economic Studies of Moldova

STANEK Piotr, Cracow University of Economics, Cracow, Poland

STRATAN Alexandru, Academy of Economic Studies of Moldova

TRUNK SIRCA Nada, International School for Social and Business Studies, Celje, Slovenia

INTERNATIONAL SCIENTIFIC COMMITTEE:

APĂVĂLOAEI Matei - Alexandru, Bucharest University of Economic Studies, Romania

BEVZIUC Victoria, Moldova State University

CASIAN Angela, Academy of Economic Studies of Moldova

CELKO Jan, University of Zilina, Slovakia

CHISTRUGA Boris, Academy of Economic Studies of Moldova

CICEO Georgiana, University Babes – Bolyai, Romania

CONSTANTIN Daniela L., Bucharest University of Economic Studies, Romania

COSCIUG Cristina, Agrarian State University of Moldova

DERMOL Valerij, International School for Social and Business Studies, Celje, Slovenia

DEVETAK Silvo, European Centre for Ethic, Regional and Social Studies, University of Maribor, Slovenia

DRAGAN Gabriela, Bucharest Academy of Economic Studies, European Institute of Romania

ECHEBERRIA Ana Landeta, Marconi International University, Spain

FESTEU Dorin, Buckinghamshire New University, United Kingdom

FRANK Peter, Grover City College, Grove City, Pennsylvania, USA

GAWLIK Remigiusz, Cracow University of Economics, Poland

GHENOVA Svetlana, Comrat State University, Moldova

GOLDMAN Geoff A., University of Johannesburg, South Africa

GRÓDEK-SZOSTAK Zofia, Cracow University of Economics, Poland

GROSU Veronica, Stefan cel Mare University of Suceava, Romania
GUSELETOVA Elena, National research University “Higher School of Economics”, Russia
IACOB Mihaela, Bucharest University of Economic Studies, Romania
JORA Octavian-Dragomir, Bucharest University of Economic Studies, Romania
KOSTOUPOULOU Stela, Aristotle University of Thessaloniki, Greece
KOTULEWICZ-WISIŃSKA Karolina, Cracow University of Economics, Poland
KOZIELSKI Robert, University of Lodz, Poland
LEVITSKAIA Alla, Comrat State University, Moldova
LIN Binshan, Business School, Louisiana State University, Shreveport, USA
LUNGU Viorelia, Technical University of Moldova
MIHAILA Svetlana, Academy of Economic Studies of Moldova
MOGOL Natalia, State Agency on Intellectual Property
MOLDOVAN – BATRINAC Viorelia, International Free University, Moldova
NASTASE Carmen, University Stefan cel Mare of Suceava, Romania
NEDELEA Alexandru-Mircea, Stefan cel Mare University of Suceava, Romania
PERCIUN Rodica, National Institute for Economic Research of Moldova
PISANIUC Maia, Academy of Economic Studies of Moldova
PLOTNIC Olesea, Academy of Economic Studies of Moldova
PRELIPCEAN Gabriela, University Stefan cel Mare of Suceava, Romania
PRITCAN Valentina, Alecu Russo State University from Balti, Moldova
ROSENTHAL Klaus, University of Paderborn, Germany
SCRIPNIC Elena, Agrarian State University, Moldova
SLAVA Svitlana, Uzhhorod National University, Ukraine
SLOKA Biruta, University of Riga, Latvia
SLONIMSKA Marina, Polotsk State University, Belarus
STIHI Liudmila, Academy of Economic Studies of Moldova
ȘARGU Lilia, University of European Studies of Moldova
TOFAN Mihaela, University Alexandru Ioan Cuza of Iasi, Romania
TROUILLE Jean Mark, Bradford University, United Kingdom
VELISCO Nadejda, Ministry of Education of the Republic of Moldova
ZHALEZKA Boris, Belarus State Economic University, Minsk, Belarus
IONESCU-FELEAGĂ Liliana, PhD., Bucharest University of Economic Studies, Romania
IONESCU Bogdan Ștefan, PhD., Bucharest University of Economic Studies, Romania

Publisher:

Academy of Economic Studies of Moldova (AESM), Center for Studies in European Integration
str. Banulescu - Bodoni 59, Building B, office 707, MD-2005 Chisinau, Moldova

Website: <https://csei.ase.md/journal/>

UDC Indexing and bibliographic editing: Silvia HABAȘESCU, Ala IAROVAIA, Svetlana STUDZINSCHI
Indexing of the journal in international databases: Ana GUDIMA, ASEM Scientific Library

ISSN: 1857-436X / ISSN: 2537-6179



C O N T E N T S

Volume 10 / Issue 2 / December 2024

ANALYSIS OF THE TRADE AND INVESTMENT CHANNELS AS WAYS TO EXPAND AND ENHANCE THE ECONOMIC COOPERATION OF THE REPUBLIC OF KOREA WITH THE EAEU COUNTRIES

Dok Hee OH, Kyung Sook GIL

6

THE IMPORTANCE OF MULTINATIONAL COMPANIES (MNCs) AND SMALL AND MEDIUM SIZED ENTERPRISES' (SMEs') INTERNATIONALIZATION AS BUSINESS DRIVERS IN GLOBALIZATION AND SLOWBALIZATION: MUTUAL SURVIVAL AND GROWTH FOR BUSINESS VALUES

Anis BENABED

19

LINGUISTIC, CULTURAL, AND EDUCATIONAL RIGHTS OF MINORITIES MEDIATING INTER-ETHNIC RECONCILIATION AND PROMOTING INCLUSIVENESS: THE CASE OF KOSOVO

Avdi SMAJLJAJ

34

OUTSOURCING OF ACCOUNTING SERVICES IN DIGITAL AGE

Adrian ISIP

43

INCREASING THE WELFARE OF THE "WORKING POOR" IN THE REPUBLIC OF MOLDOVA: CHALLENGES, CONSEQUENCES, SOLUTIONS

Dorin VACULOVSCHI

62

ESG REPORTING IN THE REPUBLIC OF MOLDOVA: CHALLENGES AND OPPORTUNITIES IN ALIGNING WITH EUROPEAN AND INTERNATIONAL STANDARDS

Roman BAHNARU

74

SHIFTING FOCUS: THE ROLE OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE FACTORS IN INVESTMENT POLICY DURING A PANDEMIC

Serghei PETIGHIN

85

"TO BE MACHO OR NOT TO BE MACHO, THAT IS THE QUESTION": HOW MACHISMO IS RELEVANT TO DISCRIMINATION IN THE ROMANIAN AND SERBIAN HEALTH SECTORS

Ekrem TUFAN

97

ANALYSIS OF THE TRADE AND INVESTMENT CHANNELS AS WAYS TO EXPAND AND ENHANCE THE ECONOMIC COOPERATION OF THE REPUBLIC OF KOREA WITH THE EAEU COUNTRIES

Dok Hee OH¹
Kyung Sook GIL²

Abstract: Expanding economic cooperation with the EAEU is of great importance to the Government of the Republic of Korea, which is focusing on providing new drivers of economic growth through expanded trade with various countries and groups of countries, including the Eurasian region. Economic cooperation between the Republic of Korea and the EAEU has the potential to promote mutually beneficial development in the long term as both regions are forming complementary industrial complexes. International competitiveness can be ensured through bilateral economic cooperation based on the advanced industrial technologies of the Republic of Korea, as well as energy and mineral resources, which are the main production factors of the EAEU countries. Moreover, in the current economic situation of the Republic of Korea, where it is necessary to reduce trade dependence on China, expanding cooperation with the EAEU is becoming a key aspect of its further economic development.

Keywords: South Korea, The Eurasian Economic Union, economic cooperation, investment, trade, competitiveness, market growth potential, market stability, international competitiveness.

UDC: [339.923:061.1EAEU]:[339.56+339.727](519.5)

JEL Code: E60, F02, F13

Introduction

The Eurasian Economic Union (EAEU), established in January 2015, has set itself the ambitious goal of creating a Eurasian Union similar to the European Union by 2025, based on a step-by-step development plan. The EAEU, which currently consists of five countries: Russia, Kazakhstan, Belarus, the Kyrgyz Republic, and Armenia - forms the largest economic union and market in the post-Soviet region.

The EAEU ensures the free movement of goods, services, capital and labour between member states. Since 2017, plans have been developed and promoted to integrate the pharmaceutical market and the electricity market of the EAEU countries and to form a single energy market (oil and natural gas) by 2025.

Therefore, the EAEU promotes the expansion of international economic cooperation and strengthening global competitiveness through comprehensive modernization of the national economy and strengthening economic cooperation between member countries. In particular, expanding economic cooperation with the EAEU is of great importance to the Government of the Republic of Korea. The EAEU holds significant potential for the Korean

¹ Dok Hee OH is candidate of Economic Sciences, Senior Researcher, State Scientific Establishment "Institute of Economics of the National Academy of Sciences of Belarus", E-mail: paulminsk@mail.ru, <https://orcid.org/0000-0002-4916-2217>

² Kyung Sook GIL is candidate of Economy, Associate Professor of the Department of Oriental Linguistic and Country Studies of the Faculty of International Relations, Belarusian State University, E-mail: hannahminsk@gmail.com, <https://orcid.org/0000-0002-9313-6796>

economy in terms of stable securing of energy and mineral resources. Faced with a stagnating economy, it is focusing on providing new engines of economic growth, including through expanded trade with Eurasian countries. In addition, expanding external economic cooperation with the EAEU is directly related to peace and stability on the Korean Peninsula.

Literature Review

The economic cooperation of the Republic of Korea and the EAEU is focused on Russia and Kazakhstan, and there is a need to gradually expand economic cooperation with the other EAEU member countries, namely Belarus, Kyrgyzstan and Armenia. Since 2015, trade and investment cooperation between the Republic of Korea and the EAEU has declined, with the main reasons for this being the decline in world oil prices and economic sanctions imposed by Europe and the United States against Russia.

However, in the long term, foreign economic cooperation between the Republic of Korea and the EAEU countries is very important for bilateral economic development. In this regard, South Korean economists are actively conducting research into ways to expand investment between the Republic of Korea and the EAEU.

In particular, Jeneg (2021) explored ways to expand investment in the Republic of Korea and the EAEU through a study of the investment and business environment in the EAEU countries. In addition, Jiyoung (2022) presented a study on the specific investment environment in the EAEU countries and the entry routes of South Korean companies into the EAEU countries. Hochal (2020) provides guidance for South Korean companies to enter the EAEU market by examining EAEU countries' plans to attract foreign investment. On the other hand, Zhiwoon (2020) presented a study on the role of the Government of the Republic of Korea in promoting the expansion of economic cooperation with the EAEU.

Measures to expand investment cooperation between the Republic of Korea and the EAEU countries are directly related to cooperation in expanding bilateral trade. Due to the current deterioration of the international situation, investment and trade between the Republic of Korea and the EAEU have temporarily declined.

However, it is expected that economic cooperation between the Republic of Korea and the EAEU will gradually expand through increased trade in the future. The main reason for this is the recent stabilization of international energy prices and the general economic development of the EAEU countries, such as Russia, Kazakhstan and Belarus. In particular, visible results are achieved in the policy of diversifying the industrial structure, as well as stimulating and developing import-substituting industries, especially in Russia, Kazakhstan and Belarus.

Moreover, in the main policies of the EAEU on expanding foreign trade, the share of countries of the Asia-Pacific region is significantly increasing. Considering the economic situation of these three main EAEU countries, there is sufficient potential to intensify economic cooperation through the expansion of trade between the Republic of Korea and the EAEU.

Methodology

In general, to understand the investment environment of a particular country or region³, it is primarily necessary to conduct an analysis of the market characteristics. Several criteria can be used to analyze the characteristics of the EAEU market. A comprehensive

³ This is a term that refers to the analysis of a country or market that a company specifically wants to tap into.

decision can be made after studying the characteristics of the EAEU market, which are largely focused on competitiveness, growth potential and stability.

First of all, **competitiveness of the market** refers to the purchasing power and trading volume of a particular country's market, as well as the presence or absence of existing resources. That is, competitiveness of the market can be assessed by looking at the current volume of the economy, income and population, natural resources and trade status related to the purchasing power of a particular market. A country with higher purchasing power and more natural resources is given a higher rating.

Market growth potential refers to the expectation and estimate of how quickly the purchasing power of a particular country's market will increase. Market growth potential is a very important indicator that directly influences the decision to attract foreign investment. If the rate of growth of purchasing power has been high in the past few years, then there is a high probability that purchasing power will grow rapidly in the future. Moreover, even when the foundation for a particular country's socio-economic growth is firmly established, the market potential is also highly valued. Therefore, the growth potential of a particular country's market is an important factor in attracting foreign investment in the long term.

Market stability means determining the stability of the economy and system of a particular market based on product prices, exchange rate fluctuations and the basis of the market mechanism. Environment associated with market stability provides foreign direct investors with a very useful basis for forecasting investment costs and returns in a particular market. In particular, assessing the stability of the EAEU market is an important and practical consideration for foreign investors. Table 1 below shows considerations in assessing the direct investment environment for a particular country (Jeneg, 2021).

Table 1. Considerations when assessing country-specific direct investment conditions

	Assessment elements
Competitiveness of the market	- Purchasing power: population, GDP, GDP per capita; - Trade potential: volume of exports and imports; - Natural resources: oil, natural gas, coal.
Market growth potential	- Rates of growth of purchasing power: rate of population growth, rate of GDP growth, rate of exports and imports growth; - The basis of socio-economic growth: domestic investment/GDP, FDI/GDP, human capital (human development index), logistics infrastructure (logistics efficiency index).
Market stability	- Economic stability: inflation rate, exchange rate fluctuations; - Social and institutional basis: business environment, economic freedom, level of corruption, political stability.

Source: Jeneg (2021, p.10).

Taking into account the investment environment of the EAEU, the market competitiveness of the EAEU looks as follows. As of 2017, the EAEU is a relatively large market with a population of 180 million people. GDP per capita in the EAEU varies greatly by country, but as of 2022, Armenia recorded USD 8,283, Belarus – USD 7,477, Kazakhstan – USD 12,968, Kyrgyzstan – USD 1,829, and Russia – USD 13,005. However, if we look at GDP per capita in terms of Purchasing Power Parity (PPP), Armenia recorded USD 18,140, Belarus – USD 21,710, Kazakhstan – USD 27,330, Kyrgyzstan – USD 5,670, and Russia – USD 35,540 (World Bank Databank, 2024). In other words, if we look at Purchasing Power Parity, the potential competitiveness of the EAEU may be very high.

However, over the past three years, the volume of trade between the Republic of Korea and the EAEU has declined significantly, mainly due to a decrease in trade with Russia. The biggest factor is considered to be the external factor, namely economic sanctions from Europe and the United States due to the military conflict between Russia and Ukraine. Among the EAEU countries, Russia, which has the largest economy, has the least trade openness, and Kazakhstan, the second largest economy, also has low trade openness. The main reason cited is the economic structure which is oriented towards energy exports. On the other hand, Belarus and Kyrgyzstan are countries with relatively high trade dependence. Over the past three years, the pace of economic growth in the EAEU has been slow. This is because the economies of Russia and Kazakhstan, which rely heavily on energy exports, have deteriorated as a result of low global oil prices. In particular, due to economic sanctions against Russia imposed by the United States and Europe, the economies of Russia, Kazakhstan and Belarus, which form the backbone of the EAEU economy, are expected to continue facing difficulties in the coming years.

However, the EAEU countries as a whole have excellent human capital and strive to grow their domestic industry by stimulating and developing import substitution industries, especially in Russia and Belarus. In addition, economic recovery is expected as the industrial diversification policy actively pursued by the Kazakh government is showing tangible results. In addition, Belarus and Kyrgyzstan are also seeking to restore their economies by expanding trade with Russia. Given the current economic situation, the growth potential of the EAEU is expected to increase in the medium and long term. When assessing the stability of the EAEU, the business environment is a very important factor for foreign investors. If we consider the business environment of the EAEU countries in 2019, among 190 countries, Kazakhstan ranked 25th, Belarus – 49th, Armenia – 47th, Russia – 28th and Kyrgyzstan – 80th (Table 2).

The specific business environment in Kazakhstan is assessed as protecting minority investors, ensuring relatively good contract compliance and simplifying property registration and obtaining construction permits. In other words, it can be appreciated that it is relatively easy for foreign investors to start their own business. In Belarus, property registration is not a legally difficult task, industrial infrastructure such as electricity and water is supplied without interruption, contracts are performed on time and construction permits are issued without problems. However, it is considered relatively difficult for foreign investors to obtain the loans needed to start a business. The business environment in Armenia is relatively easy for foreign investors wanting to register and obtain loans to start a business, but it is difficult to obtain construction permits related to real estate.

In Russia, registering property is not a difficult task for foreign investors, infrastructure supplies such as electricity and water are uninterrupted, contracts are well complied with, and starting a business is considered undemanding. However, legal protection for foreign minority investors is assessed as relatively insufficient. In Kyrgyzstan, legal registration of real estate for foreign investors is not demanding, but there are problems with electricity supply, complicated tax payments and unsatisfactory contract performance. In addition, difficulties in attracting foreign investment are expected due to weak protection of minority investors (Table 2).

As shown in Table 3, the Corruption Perceptions Index in the EAEU is assessed as relatively low. The Corruption Perceptions Index is an important factor in attracting foreign investment. As of 2022, among 180 countries subject to the corruption index assessment, Armenia ranked 113th, Belarus 91st, Kazakhstan 101st, Russia 137th, and Kyrgyzstan 140th (Table 3).

Table 2. The EAEU Market Stability Assessment Index – Corporate Environment Rating (190 Countries Study, May 2019)

	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia	R. Korea
General corporate environment	47	49	25	80	28	5
Start business	10	30	22	42	40	33
Building permit	62	48	37	90	26	12
Electricity supply	30	20	67	143	7	2
Legal registration of property	13	14	24	7	12	40
Credit security	48	104	25	15	25	67
Protection of minority investors	120	79	7	128	72	25
Pay taxes	52	99	64	117	58	21
Border trade	43	24	105	89	99	36
Contract execution	30	27	4	134	21	2
Solution to the bankruptcy problem	97	74	42	78	57	11

Source: World Bank Databank (2024).

In other words, although the EAEU countries enjoy political stability, their Corruption Perceptions Index is rated as relatively low, which becomes an important issue that needs to be addressed in the long term to attract foreign investment. If we consider investment environment in the EAEU countries in a comprehensive manner, it can be summarized using the following indicators (Table 4).

Table 3. The EAEU Stability Assessment Index – Comparison of Corruption Perception Indices (180 countries survey, 2022)

	Corruption perceptions index	Rating
Armenia	33	113
Belarus	39	91
Kazakhstan	36	101
Kyrgyzstan	27	140
Russia	28	137
Republic of Korea	63	31

Source: The EAEU Stability Assessment Index (2024).

(The range of scores is from 0 to 100 points, and the higher it is, the higher the Corruption Perceptions Index is, which can be interpreted as less corruption)

Looking at the above indicators of market competitiveness, market growth potential and market stability, the investment situation and environment in the EAEU countries can be summarized as follows (Jiyoung, 2022):

Firstly, the attractiveness as a direct investment market is manifested in the following order: Russia, Kazakhstan, Belarus, Kyrgyzstan and Armenia. In particular, Russia, Kazakhstan and Belarus are not only expanding trade openness, but are also actively pursuing a policy of developing import substitution production, creating good conditions for the Republic of Korea to expand economic cooperation with the EAEU. Currently, the US and European economic sanctions against Russia are becoming an obstacle to expanding economic cooperation with the Republic of Korea. However, in the long term, the Republic of Korea should develop economic cooperation in its relations with the EAEU, focusing on expanding direct investment rather than just expanding in the trade sector.

Table 4. Comprehensive indicators of foreign direct investment environment in the EAEU countries

	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia
Competitiveness of the market	<ul style="list-style-type: none"> - Low purchasing power; - Average level of trading activity; - Minor natural resources. 	<ul style="list-style-type: none"> - Average purchasing power; - Active trading activity; - Has small reserves of natural resources. 	<ul style="list-style-type: none"> - High purchasing power; - Low level of trading activity; - Rich natural resources. 	<ul style="list-style-type: none"> - Low purchasing power; - Active trading activity; - Has small reserves of natural resources. 	<ul style="list-style-type: none"> - High purchasing power; - Active trading activity; - Rich natural resources.
Market growth potential	<ul style="list-style-type: none"> - Low rates of growth in purchasing power and economic growth; - Unreliable basis for economic growth. 	<ul style="list-style-type: none"> - High growth rates of purchasing power; - Ensuring potential industrial economic indicators through the availability of high-quality IT human resources; - Serves as a springboard for expanding trade with Europe through improved logistics conditions. 	<ul style="list-style-type: none"> - High growth rates of purchasing power; - Creation of a material and resource base for economic growth; - Expanding competitiveness through diversification of the industrial structure. 	<ul style="list-style-type: none"> - Low rates of economic growth compared to high rates of growth in purchasing power; - Low human resources for economic growth. 	<ul style="list-style-type: none"> - High growth rates of purchasing power; - Possession of excellent human support and material resources which become the basis for economic growth; - Enhancing national competitiveness through the industrial diversification policy.
Market stability	<ul style="list-style-type: none"> - Institutionally stable economic base; - Unstable political base; - Risk of conflict with neighboring countries. 	<ul style="list-style-type: none"> - Low economic stability due to economic sanctions in the US and Europe; - The need for international economic cooperation through the expansion of an open economic system. 	<ul style="list-style-type: none"> - Economically stable; - The need to create an open economic structure for economic development; - The need to establish political stability and institutional framework. 	<ul style="list-style-type: none"> - Low economic stability; - The need to promote an economic development policy through an open economic policy. 	<ul style="list-style-type: none"> - Low economic stability due to economic sanctions in Europe and the US; - The need for active expansion of industrial stability in response to world oil prices fluctuations; - There is a need to increase the competitiveness of industry by expanding the open economic structure.

Source: Jiyoung (2022, p.24).

In particular, Russia, Kazakhstan and Belarus are not only expanding trade openness, but are also actively pursuing a policy of developing import substitution production, creating good conditions for the Republic of Korea to expand economic cooperation with the EAEU. Currently, US and European economic sanctions against Russia are becoming an obstacle to expanding economic cooperation with the Republic of Korea. However, in the long term, the Republic of Korea should develop economic cooperation in its relations with the EAEU, focusing on expanding direct investment rather than just expanding in the trade sector.

Secondly, in terms of market growth potential, direct investment environment is assessed in the following order: Kazakhstan, Russia, Belarus, Kyrgyzstan and Armenia. In particular, Kazakhstan has a relatively high population growth rate and is seeking to expand economic cooperation with the Republic of Korea through the industrial diversification policy. In addition, due to the relative stabilization of world oil prices in recent times, Kazakhstan's economy has stabilized and its growth prospects are high.

Thirdly, when considering the direct investment environment in accordance with the market stability, Armenia, Kazakhstan and Kyrgyzstan are assessed exactly in this order. However, from the point of view of South Korean companies, direct investment in the above-mentioned countries is indeed less attractive.

In the case of Armenia and Kyrgyzstan, the market is considered relatively stable from an economic point of view, but there are limitations to expanding investment due to minimal trade with the Republic of Korea. In general, political stability in the EAEU countries is high, but in order to expand foreign direct investment, it is necessary to stimulate the expansion of an open economic structure.

The most important way to intensify economic cooperation in entering the EAEU market and expanding bilateral investments is to conclude an FTA between the Republic of Korea and the EAEU. That is, specific plans for bilateral industrial cooperation can be realized through the conclusion of an FTA between the two parties. In this case, the advantage of South Korean companies is that they have relatively high competitiveness in advanced technologies and innovative industries such as IT. South Korean companies have a strong desire to actively develop markets and expand direct investments in companies in the EAEU countries. Moreover, the Republic of Korea has the advantage of being able to transfer its experience of successful industrialization in a short period of time through the expansion of practical economic cooperation. With these strengths, the Republic of Korea can promote economic cooperation for economic and industrial development in the EAEU countries. The Republic of Korea can seek to expand cooperation through the growth potential of its domestic market and the potential for the development of energy and mineral resources sector in the EAEU countries.

In the case of Armenia and Kyrgyzstan, the market is considered relatively stable from an economic point of view, but there are limitations to expanding investment due to minimal trade with the Republic of Korea. In general, political stability in the EAEU countries is high, but in order to expand foreign direct investment, it is necessary to stimulate the expansion of an open economic structure.

The most important way to intensify economic cooperation in entering the EAEU market and expanding bilateral investments is to conclude an FTA between the Republic of Korea and the EAEU. That is, specific plans for bilateral industrial cooperation can be realized through the conclusion of an FTA between the two parties. In this case, the advantage of South Korean companies is that they have relatively high competitiveness in advanced technologies and innovative industries such as IT. South Korean companies have a strong desire to actively develop markets and expand direct investments in companies in the

EAEU countries. Moreover, the Republic of Korea has the advantage of being able to transfer its experience of successful industrialization in a short period of time through the expansion of practical economic cooperation. With these strengths, the Republic of Korea can promote economic cooperation for economic and industrial development in the EAEU countries. The Republic of Korea can seek to expand cooperation through the growth potential of its domestic market and the potential for the development of energy and mineral resources sector in the EAEU countries.

In particular, Table 5 demonstrates an analysis of the opportunities for South Korean companies to enter the market and expand investments in the EAEU countries in the medium and long term.

Table 5. Analysis of the possibilities for South Korean companies to enter the EAEU market and expand investments in the medium and long term

Strengths	Weaknesses
<ul style="list-style-type: none"> - Relatively high competitiveness and professional human resources support in advanced technologies and innovative areas such as IT; - Diverse and active marketing opportunities; - Readiness to actively develop markets and cooperate with EAEU companies; - Price competitiveness compared to the quality of the main export goods; - Willingness to share experience of economic development with the EAEU countries. 	<ul style="list-style-type: none"> - Lack of general information about the EAEU countries; - Lack of investment capital compared to competing multinational companies, including China; - Insufficient understanding and opportunities for cultural exchange with the EAEU countries; - Insufficient medium- and long-term vision and strategy for entering the EAEU market; - South Korean companies, planning to enter the EAEU market, rely on foreign countries in terms of basic technologies.
Opportunity factor	Risk factor
<ul style="list-style-type: none"> - The governments of the EAEU countries are firmly committed to stimulating industry through economic development and attracting foreign direct investment; - Large domestic market and growth potential in the EAEU market; - Huge potential for development of resources such as energy, minerals, fishery and forestry; - Accessibility of the Republic of Korea market (geographical proximity, cultural proximity, etc.); - Growing demand for energy transportation and development of logistics infrastructure; - Potential as a basis for entering the CIS market. 	<ul style="list-style-type: none"> - Tariffs and administrative barriers due to bureaucracy; - Obstacles to foreign business activity due to complex and high tax rates; - Relative lack of industrial infrastructure (electricity, water, transport, etc.).

Source: Hochal (2020, p. 11).

Measures to stimulate direct investment between the Republic of Korea and the EAEU include reducing tariffs and eliminating non-tariff barriers through the conclusion of an FTA. The conclusion of an FTA between the Republic of Korea and the EAEU will ultimately promote economic and industrial cooperation through expanded trade and direct investment. The South Korean government's plan to expand investment in the EAEU is to identify promising industries for cooperation between the two sides, build industrial complexes, and promote investment support and revitalization with a focus on South Korean SMEs.

Using the Russian market as an example, as of 2017, the share of investments from large South Korean companies was 80%, while the share of SMEs was only 18%. This phenomenon of large Korean companies investing in Russia has not changed much. Small

and medium-sized enterprises with insufficient financial capacity experience great difficulties in entering the investment market of the EAEU, which requires large capital and a period of formation. However, in the long term, measures to enhance practical economic cooperation should be promoted through investment cooperation targeting SMEs rather than through investment in manufacturing concentrated in large corporations.

The main areas in which South Korean companies invest in the EAEU are agriculture and livestock farming in the raw materials industry, as well as food processing, electronics and automotive parts manufacturing in the processing industry. In addition, the service sector is dominated by logistics (distribution), and recently in the medical and health sector, investments in medical equipment and pharmaceuticals have been increasing. Thus, the expansion of investment cooperation in the service and high-tech sectors and pharmaceutical industry with a focus on South Korean SMEs will play an important role in strengthening economic cooperation between the Republic of Korea and the EAEU.

Plans to intensify and expand investment cooperation between the Republic of Korea and the EAEU countries are summarized as follows (Hochal, 2020):

Firstly, it is important to advance negotiations and complete the conclusion of an FTA between the Republic of Korea and the EAEU. Looking at the structure of international trade in the Republic of Korea, one can see a vulnerability that is very sensitive to changes in the international situation due to high trade dependence on the United States and China. For this reason, the South Korean government needs to actively diversify international economic cooperation to overcome the vulnerability of the trade structure. In this situation, expanding economic cooperation with the EAEU countries will become a practical solution to diversifying the trade structure of the Republic of Korea.

In particular, the EAEU is an emerging market for the South Korean economy and an important partner in providing new growth drivers. Moreover, the EAEU has already concluded an FTA with Vietnam in the Asia-Pacific region and is seeking to conclude FTAs with the Republic of Korea, as well as India, Mongolia and Singapore. Based on this situation, if an FTA is concluded between the Republic of Korea and the EAEU, it will be possible to form a new concept of strategic economic cooperation in creating a system of value chains with the Eurasian region. That is, the conclusion of an FTA between the Republic of Korea and the EAEU will open up opportunities for the South Korean economy to expand its market in the Eurasian region, and the EAEU countries will have the opportunity to expand their market in the Asia-Pacific region.

However, due to the negative international political environment, negotiations on an FTA between the two countries remain at a standstill. However, negotiations need to be resumed as soon as possible to expand bilateral economic cooperation in the long run.

Secondly, the Government of the Republic of Korea should prepare a comprehensive support package to ensure unimpeded direct investment of South Korean SMEs in the EAEU. Direct investment targeting South Korean SMEs in the EAEU is very important for strengthening economic complementarity and laying the foundation for expanding economic cooperation between the two. Bilateral cooperation on economic revitalization through SMEs is in line with the policy of production modernization of the EAEU countries and is a policy that improves the practical results of cooperation between the two countries. South Korean SMEs can contribute to job creation and enhance manufacturing competitiveness through cooperation in the processing industry with the EAEU countries. For this reason, the South Korean government should continue to promote investment and technology cooperation in the manufacturing sector with the EAEU countries through a policy of supporting the globalization of South Korean SMEs. As a result, through close economic cooperation

between the Republic of Korea and the EAEU, it is possible to achieve advancement into the markets of third countries – that is, entry into the CIS market.

Thirdly, to expand economic cooperation with the EAEU, the South Korean government urgently needs to invest in the systematic training of trade experts related to the EAEU countries. Recently, the political and economic importance of the Eurasian countries in the international community has been growing. Among them, the EAEU plays a truly central role. Of course, the main countries of the EAEU are under international pressure due to the Russian-Ukrainian conflict, but in the long term, the economic influence of the EAEU at the international level is expected to increase. However, the Republic of Korea is experiencing a shortage of professional personnel related to economic cooperation with the EAEU countries. Considering these realistic problems, the South Korean government needs to promote the training of professional personnel by establishing the Graduate School of Eurasian Economic Policy as a national research institute.

Fourthly, in order to expand investment between the Republic of Korea and the EAEU, the South Korean government should actively promote the establishment of industrial complexes for promising industries in each EAEU country and opening of promising cooperative production facilities between the two countries. In order for South Korean companies to advance into the EAEU countries through fully-fledged direct investment, it is necessary to actively promote the creation of industrial complexes through bilateral economic cooperation. To do this, it is necessary to study the conditions for identifying promising areas for the creation of industrial complexes in each EAEU country and to seek comprehensive measures of industrial cooperation, such as opening of specialized production facilities and transfer of related technologies. In addition, it is important to conclude relevant agreements at the government level to stimulate bilateral investment.

As shown in Table 6, there is a system of basic investment cooperation between the Republic of Korea and the EAEU. The Republic of Korea has signed bilateral investment agreements and double taxation treaties with Belarus, Kazakhstan, Kyrgyzstan and Russia. A bilateral investment agreement with Armenia was signed in October 2018, but a double taxation treaty has not yet been concluded.

Table 6. Investment protection system between the Republic of Korea and the EAEU

Bilateral Investment Agreement	Agreement on the Avoidance of Double Taxation
<ul style="list-style-type: none"> - Bilateral Investment Agreement between the Republic of Korea and Russia – entered into force in July 1991; - Bilateral Investment Agreement between the Republic of Korea and Kazakhstan – entered into force in December 1996; - Bilateral Investment Agreement between the Republic of Korea and Belarus – entered into force in August 1997; - Bilateral Investment Agreement between the Republic of Korea and Kyrgyzstan – entered into force in July 2008; - Bilateral Investment Agreement with Armenia – entered into force in October 2018 	<ul style="list-style-type: none"> - Bilateral Agreement between the Republic of Korea and Russia on Avoidance of Double Taxation – entered into force in August 1995; - Bilateral Agreement between the Republic of Korea and Kazakhstan on the Avoidance of Double Taxation – entered into force in April 1999; - Bilateral Agreement between the Republic of Korea and Belarus on Avoidance of Double Taxation – entered into force in June 2003; - Bilateral Agreement between the Republic of Korea and Kyrgyzstan on Avoidance of Double Taxation – comes into force in November 2013; - There is no Agreement on Avoidance of Double Taxation with the Republic of Korea and Armenia.

Source: *Investment Protection System between the Republic of Korea and the EAEU (2024)*

The South Korean government has set a clear direction for its foreign economic policy to expand the Eurasian trade network and enter new markets by expanding economic

cooperation between the Republic of Korea and the EAEU. From this point of view, foreign economic cooperation between the Republic of Korea and the EAEU can create the following strategic values:

Firstly, the EAEU can become a cooperation partner for the purpose of expanding the Republic of Korea's trade and market diversification. The volume of trade between the Republic of Korea and the EAEU increased from USD16.9 billion in 2015 to USD 27.2 billion in 2019. The Republic of Korea's share in total trade with the EAEU also increased from 1.8% in 2015 to 2.4% in 2019. However, there has been a temporary decline in trade turnover with the EAEU due to economic sanctions following COVID-19 and the military conflict between Russia and Ukraine. However, despite the short-term decline in trade volumes, the potential of the EAEU as a partner in foreign economic cooperation for expanding the trade of the Republic of Korea and diversifying its market will grow in the long term (Zhiwoon, 2020).

Secondly, the EAEU can become a cooperation partner supporting the creation of new drivers of economic growth in the Republic of Korea. Protectionism, which emerged as global economic growth slowed after the 2008 global financial crisis, is further fuelled by the trade conflict between the US and China. Due to the trade conflict between the US and China, the South Korean economy faces the practical problem of reducing its trade dependence on China and the US. In addition, the Government of the Republic of Korea faces the challenge of finding new economic cooperation partners to expand trade in response to growing uncertainty in the global economic situation. For this reason, since 2013, the Government of the Republic of Korea has paid attention to the potential of foreign economic cooperation with Eurasian countries. In order to expand economic cooperation with the EAEU, the government of the Republic of Korea has been promoting a 'policy of expanding foreign economic cooperation with Eurasian countries' since 2017. It is precisely the main members of the EAEU that play the key role in Eurasia.

Thirdly, the EAEU can become a partner for cooperation in expanding the niche export market of the Republic of Korea. Russia, the leader of the EAEU, is actively seeking to expand the size of the EAEU. Accordingly, the issue of Tajikistan's accession to the EAEU has been under consideration since 2016. In addition, the EAEU signed a free trade agreement with Vietnam in May 2015, which entered into force in October 2016. Following this, the EAEU aims to expand the FTA by including ASEAN. In addition, the EAEU is considering the possibility of concluding FTAs with China, India, Egypt, Iran, Mongolia, Syria, Pakistan, Jordan, Albania and Serbia. Thus, in the long term, the EAEU's influence in the area of international trade is expected to increase further. In addition, the scope of international cooperation of the EAEU is expected to expand beyond the Eurasian region to the Middle East and the Asia-Pacific region. Given the potential of the EAEU, in the long term, during economic cooperation between the Republic of Korea and the EAEU, the latter can serve as a good cooperation partner for South Korean companies when entering niche markets in Eastern Europe and the Middle East.

Conclusion

The main direction of expansion and intensification of economic cooperation between the Republic of Korea and the EAEU is the building of synergy by strengthening industrial

cooperation between the two countries. To achieve these key goals of economic cooperation between the Republic of Korea and the EAEU, the South Korean government needs the following promotion strategies.

Firstly, it is necessary not only to understand the main direction of industrial policy of the EAEU countries as a whole, but also to comprehensively understand the main directions of industrial policy of each EAEU member state in order to find practical ways of cooperation between the Republic of Korea and the EAEU. This is due to the fact that the industrial structure and level of economic development of the EAEU countries vary greatly.

Secondly, in order to determine the specific direction of industrial cooperation policy between the Republic of Korea and the EAEU, it is necessary to conduct a systematic analysis of promising industrial areas and cooperation plans between the two countries. The EAEU countries as a whole have weak international industrial competitiveness. For this reason, the South Korean government needs to prioritize industrial cooperation focused on IT and high-tech industries that really need technical support from the EAEU countries. In addition, in order to intensify economic cooperation between the Republic of Korea and the EAEU, it is desirable to develop industrial cooperation based on joint production of products and joint market development programs.

Thirdly, in order to promote effective industrial cooperation between the Republic of Korea and the EAEU, it is necessary to establish a specific operating system and operating institution between the two sides. To intensify industrial cooperation between the Republic of Korea and the EAEU, it is important to create an organic system of cooperation at the public and private levels. To achieve this, it is necessary to unify the official system of cooperation through the creation and regularization of the Republic of Korea-EAEU Industrial Cooperation Committee.

Fourthly, a system of financial support for the development of economic cooperation between the Republic of Korea and the EAEU should be created at the level of the South Korean government. Among the measures to intensify economic cooperation between the Republic of Korea and the EAEU, an important role is played by the promotion of industrial cooperation projects through ODA projects. In addition, the participation of South Korean SMEs is important for expanding economic cooperation between the Republic of Korea and the EAEU. For this, active financial support from the South Korean government is needed. First of all, it is important to establish a Korea-EAEU investment financing platform to provide companies with the opportunity to directly participate in Korea-EAEU industrial cooperation projects.

Looking at the industrial structure of the EAEU countries, one can find that it does not compete with the industrial structure of the Republic of Korea, but rather exhibits complementary characteristics. This is due to the fact that most EAEU countries have an industrial structure focused on raw materials and energy. That is, mutually complementary relations are formed between the Republic of Korea and the EAEU countries in most industries. Therefore, it is clear that the economic benefits that the Republic of Korea and the EAEU can obtain from expanding trade outweigh the losses. This fact demonstrates the need to achieve mutual economic benefits through expanded industrial cooperation between the two countries.

References

- Lee, Jeneg (2021). Analysis of the investment status and business environment between the Republic of Korea and the EAEU. *Journal of Korea Institute of Foreign Economic Policy*, 8, 10-14.
- Min, Jiyoung (2022). Investment environment of the Eurasian Economic Union and the entry strategy of the Republic of Korea. *Journal of Korea Institute of Economic Research*, 17, 21-23.
- Kim, Hochal (2020). Strategy for negotiations on the Free Trade Area between Korea and the EAEU and investment expansion plan. *Journal of Korea Institute of Foreign Economic Policy*, 10, 11-12.
- Pak, Zhiwoon (2020). Cooperation strategy of the Eurasian Economic Union (EAEU) and the Republic of Korea. *Journal of Korea International Institute of Economic Research* 04, 11-13.
- The Ministry of Foreign Affairs of the Republic of Korea (MOFA). *Investment Protection System between the Republic of Korea and the EAEU (02024)*. http://www.mofa.go.kr/trade/treatylaw/index.jsp?mofat=001&menu=m_30_50
- The Heritage Foundation. *The EAEU Stability Assessment Index – Comparison of Corruption Perception Indices (2024)*. <https://www.heritage.org/index/ranking>, https://img.seoul.co.kr/img/upload/2023/01/31/SSC_20230131164517.jpg
- The World Bank (2024a). *World Bank Databank, World Bank Doing Business*. https://data.worldbank.org/indicator/NY.GNP.PCAP.PP.CD?year_high_desc=true
- The World Bank (2024b). *World Bank Databank, World Bank Doing Business*. <https://archive.doingbusiness.org/en/rankings>

THE IMPORTANCE OF MULTINATIONAL COMPANIES (MNCs) AND SMALL AND MEDIUM SIZED ENTERPRISES' (SMEs') INTERNATIONALIZATION AS BUSINESS DRIVERS IN GLOBALIZATION AND SLOWBALIZATION: MUTUAL SURVIVAL AND GROWTH FOR BUSINESS VALUES

Anis BENABED*¹

Abstract: *This paper analyzes and describes the possibilities of business internationalization for both MNCs and SMEs to survive from competition, risks, restrictions and market tights for business values. The results and analysis demonstrated that Small and Medium Sized Enterprises (SMEs) may use some models to internationalize their product, operations or services. Multinational companies (MNCs) that wish to leave markets tights should take into consideration the importance of location for them once they are determined that they have a strong ownership to compete with in foreign markets. Multinational companies may purchase SMEs in their locations to transform them to some of their subsidiaries and help them survive or merge them to their system. SMEs may grow by going for the internationalization process choosing the chosen suitable entry mode such as FDI in case the three conditions of the OLI model Ownership, location and internalization by Dunning (1988) are fulfilled. SMEs may merge with MNCs in their locations but they should not compete with them to avoid major losses. SMEs may follow the UPPSALA model (1977) and its four stages for their internationalization process. Furthermore, SMEs may choose any of the four Bartlett and Ghoshal's strategies and typology for internationalization to become multinational, global, international or transnational if their internal and external budgets afford them for that. In conclusion, SMEs are considered driving companies for local economies in the EU and other economies with their rising numbers, they may remain domestic or grow through the process of export, import, outsourcing, licensing or franchising especially if they are innovative, they may follow the suitable internationalization entry mode in globalization. MNCs and SMEs are considered driving companies in globalization, according to this full paper and study both are drivers in globalization.*

Keywords: *Business internationalization, SMEs' internationalization, MNCs' internationalization, Globalization, Slowbalization, FDI, business value, process, merger, companies.*

UDC: [005.44:005.332.4]:[334.722+334.726]

JEL Code: F20, F21, F23, F60, F61, 62.

Introduction

Globalization and the increasing accelerated diffusion of its technological dimension have impacted the production system that has greatly improved, globalization has had a very great impact on companies that try always to adapt various organizational, commercial and structured systems and strategies to survive or rise. Many companies try to incorporate the process of internationalization that has been very important for their business values and the economic values of their countries. Globalization has gone through different phases since its official outward form in the 4th industrial revolution (Benabed, 2024b).

*¹ Anis BENABED, Bucharest University of Economic Studies, anis_anisse@yahoo.fr, <https://orcid.org/0000-0002-3606-0895>

Slowbalization that is the current state of the world and the actual phase of globalization refers to the Slowdown of globalization and its dimensions due to various factors and reasons such as geopolitical conflicts and tensions, the appearance and widespread of pandemics such as Covid-19, financial crises and the difficult process of negotiation between economies, migration and the division of the world between developed and developing or third economies.

Various companies including Multinational companies (MNCs) and Small and Medium Sized Enterprises (SMEs) try to figure out and follow compatible strategies in order to survive and take advantage of the opportunities offered by the foreign market. In fact, the majority of the production in many regions worldwide is made up by small and medium-sized enterprises (SMEs) that have achieved very great success in the economic sector, but due to the internal and local difficulties of the local markets, they cannot advance and survive for long or grow more to meet their financial needs and those of their workers, if the national demand grows very slowly or the national offer declines and slows down, it is a helpful sign for SMEs.

The competition and market leadership of large multinationals do not leave many options to SMEs and small companies to grow and survive in local markets. Furthermore, factors such as internal policies, rising taxes, production costs from both energy and labor sides, can be obstacles for many SMEs' growth. The same applies to multinational companies that want to leave the local market and expand abroad to increase their shareholder value. Besides, multinational companies can challenge SMEs in their local markets and SMEs can challenge multinational companies in their local markets or home countries if they are innovative or well sponsored and considered by their governments or if the products are similar in the multinational companies' foreign markets that are local markets for SMEs. As both SMEs and MNCs struggle to leave market tights, they should go on finding ways to grow and reach market leadership.

In fact, in globalization multinational companies (MNCs) had better grapple with the challenges of operational efficiency, risk management, and the need for global learning and innovation (Ghoshal, 1987). SMEs' internationalization refers to the process of firms that adapt strategies, structures and resources for their operations to the international environment (Calof and Beamish 1995).

This full paper aims at studying, analyzing and presenting possibilities for both MNCs and SMEs to survive from competition, risks, restrictions and the possibility for their internationalization and merger for business values. This paper is an original new research that appears supplementary for other prior research by this author and others in the doctoral area.

Literature review

1. Understanding Business companies' internationalization in globalization

Welch and Luostarinen (1988) consider internationalization as the process of increasing participation in international operations across boundaries' dividing lines. Therefore, Business internationalization is a major extent of the being performed strategy process of the greatest quantity of business firms (Welch and Luostarinen, 1988). Melin (1992) states that the strategy process of internationalization focuses on the change and development of companies in terms of breadth, action orientation and business ideas, the managerial nature of work, organizing propositions and main values. The internationalization extent is linked to all the previous facets and sides of the strategy process (Melin, 1992). According to Mitzberg (1987) strategy making is about making different perspectives, outlooks and positions (Mitzberg, 1987).

Internationalization enables and grants the companies to attain somewhat a competitive advantage to increase their market leadership in foreign markets. Consequently, it is important that the internationalization entry mode should be well considered for business values. Business internationalization help companies to present and launch their products, operations or services in other economies and abroad in foreign markets (Benabed, 2023b).

The process of internationalization through exports may face some restrictions such as customs' declaration or certification in order to be legal so that the products will not be detained by authorities (Benabed, 2023a).

2. The impact of Globalization and Slowbalization on economies and companies

The stability of companies depend on the degree of production, services, goods, market trends and customer confidence as main elements of economies' business. In other words, the stability of companies depend on the stability of economies (Benabed and Bulgaru, 2023). As economic fluctuation is a fact, various economic recessions could occur from time to time impacting the financial levels of business and profits. To keep away from economic downturn, stakeholders, leaders and managers of companies and business attempt to take action. Nevertheless, recessions evoke a crisis if they occur many times due to geopolitical stability or other risks (Benabed and Bulgaru, 2023).

Globalization involved and even imposed the integration of economies, cultures and societies with its economic, cultural, technological, political and social dimensions. Globalization came up with the process of digitalization and brought economies together through technology and digitalization. Benabed and Boeru (2023) in a prior research stated that globalization has been a facilitative phenomenon and process as it has made the access to digitalization and technology easier by disseminating them among economies emphasizing new opportunities for innovation and development within the line of industrialization towards the fifth industrial revolution (Benabed and Boeru, 2023).

According to Benabed and Moncea (2024) the end of Globalization seems kind of impossible since it came with digitalization that is considered one of its instruments together with the process of the internet after its appearance together with the computer, the end of globalization means the end of economies' connection together and digitalization (Benabed and Moncea, 2024). Slowbalization is being reshaped again with a possible movement towards new phases but has to focus more on sustainability processes so the new phase could be even sustainable globalization (Benabed and Moncea, 2024).

3. SMEs internationalization for business values and technology use

The use and application of digital technologies can be very helpful for SMEs that would like to go for the internationalization process to do well and expend in foreign markets (Hervé, Schmitt and Baldegger, 2020).

Many SMEs realize their internationalization movements and activities with regional markets since free trade policies are possible. Beside these there are others that still decline to develop and move beyond regional borders due to competitiveness (Benabed, Miksik, Baldissera and Gruenbichler, 2022). SMEs' internationalization refers to the process of firms that adapt strategies, structures and resources for their operations to the international environment (Calof and Beamish 1995).

4. SMEs with product, service and process innovations for business internationalization

SMEs introduce 3 types of innovations: product, service and process innovations. According to the Organization for Economic Co-operation and development (OECD, 1997)

Product innovation means the tangible product produced by a company or an SME that could be significantly enhanced or new. Whereas service innovation is about developing enhanced or new intangible offering (Storey, Cantakurtaran, Papastathopoulou and Hultnik, 2016, p 527).

Process innovation is the process of implementing a noteworthy or worthy of attention delivery method or improved production. (Organization for Economic Co-operation and development (OECD), 1997, p 49). Prior research and literature confirms that innovative SMEs have got a greater and better inclination or natural tendency to export in a particular way than non-innovative SMEs (Saridakis et al., 2019; Higon et Driffield 2011).

Higon and Driffield (2011) found out that exporting SMEs highly take part in innovation activities with a high involvement (Higon and Driffield, 2011).

5. Innovative SMEs and international trade

Exposito and Sanchis-llopis (2019) state that innovative SMEs participate more in international trade by exporting or importing (Exposito and Sanchis-llopis, 2019). Golovko and Valentini (2011) argue that innovative SMEs may grow and expand their growth by selling their products and operating overseas (Golovko and Valentini 2011). SMEs may reduce the costs related to export activities by getting more involved and productive in technology and innovation to be more profitable (Cassiman and Golovko, 2011).

SMEs innovation performs an important capacity and possibility to the export performance or activities (Oura, Zilbert and Lopes, 2016).

Innovators take the opportunity to grow and expand during the absence of expense of non-innovators to dominate and control the market until their position is no longer reachable because of the limitation or lack of innovation or presence of new products, operations or services (Love and Roper, 2011).

6. Multinational companies (MNCs) for markets

Alternatively, multinational companies (MNCs) had better grapple with the challenges of operational efficiency, risk management, and the need for global learning and innovation (Ghoshal, 1987). First, MNCs often look for new opportunities, both in terms of entering new markets and meeting procurement requirements. Second, they are spreading IT as part of their communications networks in coordinating widely dispersed subsidiaries, suppliers and customers worldwide. (Kogut, 2003).

Data, Methodology and research questions

The research method based on an analytical approach that started with relevant related scientific literature review by reviewing various relevant articles and excluding the irrelevant data after setting the main research questions and reachable goals for this full paper. Setting clear steps for the scientific literature structure helped well maintain that it would be effective for the body of the analysis section. After evaluating all the selected data and relevant information, the scientific literature review last step was synthesizing and redacting its structure with attention. The literature review has been a process of searching and critically analyzing the available related prior literature following the main purpose of this research. The details of the literature review are presented in section 2 of this paper starting by understanding and investigating Business companies' internationalization in globalization according to previous literature and theoretical background by other authors, focusing on the impact of Globalization and Slowbalization on economies and companies, Small and Medium Sized enterprises' (SMEs') internationalization for business values and technology use, the categories of SMEs with product, service and process innovations for business

internationalization, Innovative SMEs and international trade and multinational companies (MNCs) for markets

The full paper covers and uses as well some of its author's previous findings and results in other published previous full papers and research as it is a supplementary research, analysis and study in his doctoral research and area. After that the research methodology focused on a compatible related literature review, it was followed by a descriptive scientific analysis that based on studying the UPPSALA model for internationalization (See figures 4 and 5), the Bartlett and Ghoshal typology for internationalization (see figure 1) by Bartlett and Ghoshal (1989-2022) and by applying the OLI model (see figure 2) by Dunning (1988) on SMEs and MNCs for internationalization possibilities. Then, a Business internationalization process model through MNCs and SMEs internationalization was created to shape the link between MNCs and SMEs for internationalization following the research criteria to shape as well the possibilities for SMEs' internationalization and MNCs' internationalization linked business process with SMEs (see figure 3).

The research questions for this study and analysis are

- RQ1: Is globalization impacting local companies and why multinational companies (MNCs) are important?
- RQ2: What are the stages of SMEs' internationalization and is internationalization useful for them? And why?
- RQ3: Can MNCs find SMEs useful for them in their foreign locations in the host countries and vice versa?

The results and analysis section passed by analyzing some relevant data for this research on statistical analysis on the available number of SMEs in the non-financial business economy of European Union (EU) in 2024 and the number and of SMEs by sector in the European Union (EU) in 2023 (See figure 6 and 7). This full paper aims at studying, analyzing and presenting possibilities for both MNCs and SMEs to survive from competition, risks, restrictions and the possibility for their internationalization and merger for business values. This paper is an original new research that appears a supplementary chapter for other scientific prior research by this author and others. It is considered as a chapter in the doctoral research.

The Model and Findings

1. The four business internationalization strategies and typology

Bartlett and Ghoshal (1989-2002) classify four main strategies for business internationalization, companies including SMEs can grow by going International, multinational, global and transnational following the criteria of the Matrix in figure 1.

1.1. International strategy

It bases on exports and imports that is why it is very suitable for SMEs internationalization. It bases more on exporting products and services to foreign markets abroad that may be close far from the main company and its headquarters. The international strategy for SMEs has competitive objectives related to the internal markets, if many SMEs from the same country want to follow this strategy, it be hard for them to grow and survive, especially, if they offer the same products for foreign markets, here quality matters and that requests more investments for business revenues and values (See figure 1). The international strategy is characterized by a low level of local responsiveness and low level of global efficiency and integration (Bartlett and Ghoshal, 1989).

1.2. Multinational Strategy

The multinational strategy invests in setting the multinational company's representation as subsidiaries abroad in foreign markets. Companies that go multinational have to consider well the cultural aspects and commercial preferences of the foreign, so multinational companies have to adapt their products and services abroad while repositioning themselves for the foreign customers. The multinational strategy for MNCs and SMEs set a competitive advantage separately for every location or market and all its locations support each other in case of crises (See figure 1).

Bartlett and Ghoshal (1989) stated that the multinational strategy from the matrix in figure 1 is marked, characterized and based on a high level of local responsiveness and a low level of global efficiency that is why it is more suitable for SMEs' internationalization and MNCs' business growth through the internationalization process and chosen entry mode (See Figures 1 and 5).

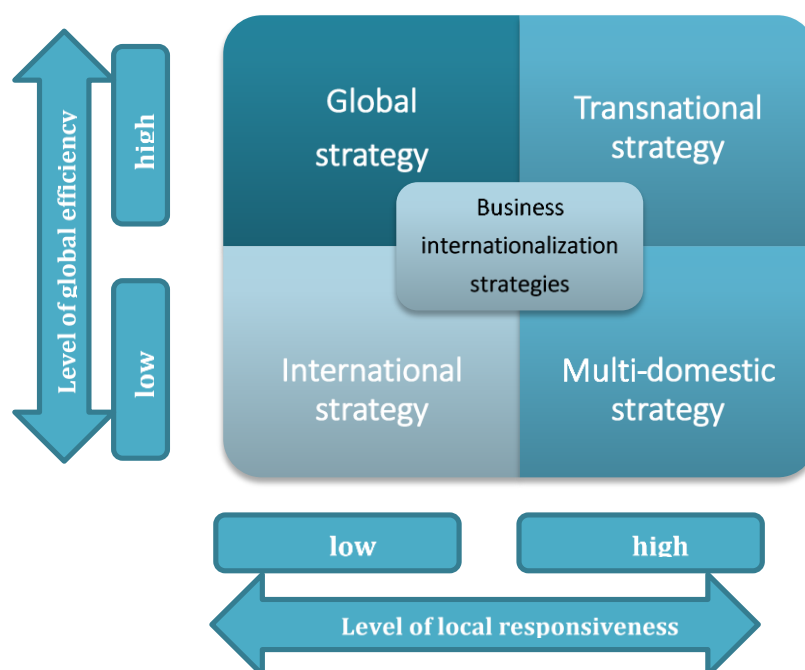


Figure 1. The four business internationalization strategies and typology by Bartlett and Ghoshal
Source: Author's design and contribution, 2024, Adapted from the Bartlett and Ghoshal typology (1989-2002)

1.3. Global strategy

Global companies are a bit similar to the international companies but they have units abroad with homogeneity of products to reduce the costs with the same design and brands everywhere. Small adaptations for services may be possible to enter foreign markets. The international strategy can maintain and keep its national policy and adapt it to international markets. While, the global company focuses on companies that treat foreign markets differently but with same products and Services of headquarters (See Figure 1).

Bartlett and Ghoshal (1989) stated that the global internationalization strategies of companies is marked by a high level of global efficiency and a low level of local responsiveness (see Figure 1).

1.4. Transnational strategy

It combines both multinational and global strategies. It allows companies to expand globally their business for global goals. It combines global integration with local

responsiveness. Through the transnational strategy companies adapt to local preferences while expanding globally. It allows companies to avoid high shipping costs with local costs in local markets (See Figure 1). Bartlett and Ghoshal (1989) stated that many companies attempt reach it since it is marked by a high level of efficiency and a high level of local responsiveness (See Figure 1).

2. Applying the OLI model by Dunning (1988) on SMEs for business internationalization

Small and Medium Sized Enterprises (SMEs) may use some models to internationalize their product, operations or services. Multinational companies (MNCs) that would like to leave markets tight should take into consideration the importance of location for them after they are determined that they have a strong ownership to compete with in foreign markets. Multinational companies that would like to internationalize through FDIs should have the third condition of internalization confirmed for FDI (See Figures 2 and 3).

Multinational companies may follow FDI brownfield through the acquisition of foreign SMEs and transforming them to some of their subsidiaries or by merging them as part of their internationalization process and some of their foreign subsidiaries.

Both SMEs and MNCs should focus on quality negotiations and contract quality terms with the stakeholders of the host country in case of expanding their business abroad through the chosen internationalization strategy and entry mode. SMEs that would like to internationalize may follow the UPPSALA model (See Figures 3, 4 and 5) by exporting the four stages of the model (See figure 5) or by trying to enlarge their business by choosing one of the internationalization strategies to go either global, multinational, international or transnational. Going multinational could be a bit easier for SMEs as an internationalization strategy if they fulfill the three conditions of the OLI model that are ownership, location and internalization (See Figure 2).

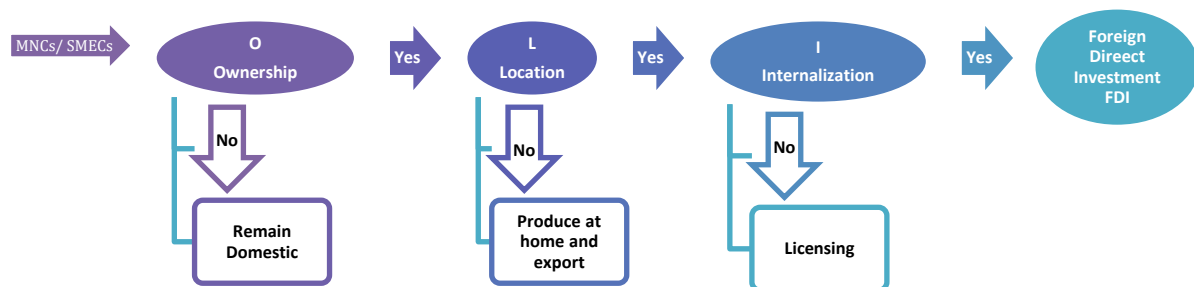


Figure 2. Business internationalization by MNCs and SMEs through FDI and other internationalization entry modes

Source: Author's design and contribution, 2023, Adapted from the Eclectic Paradigm by Dunning (1988)

If the SME has a strong ownership or brand to offer and compete with in foreign markets, it can go for the second step to fulfill the second condition of the location. If the level of its ownership is weak it remains domestic and exercise its business in location and regional markets, if the ownership is strong enough and suitable foreign location are found in compatibility with its main location business, it has to make an internal and external analysis to check if there are strong international and external budgets and abilities by fulfilling the third condition of the OLI model by Dunning (1988) that is internalization (See Figure 2).

Once the three conditions of the Dunning model (1988) are fulfilled, the SMEs may try to go for FDI as an entry mode in the internationalization process of what has to offer for its expansion abroad as offers, operations and services (see figure 2). If the SMEs is not able to provide its main headquarter with compatible locations abroad, it may exercise the activity of exports and imports by focusing on the stages of the UPPSALA model (See Figure 5).

If only the ownership and location are fulfilled as condition but the internalization degree is weak, the SME has the ability to go for licensing, franchising or outsourcing (See figures 2 and 3) by being merged in large or multinational companies after efficient negotiations. SMEs should not try to compete with multinational companies in the same market because they may lose financially and market leadership, it is better for them to grow their employees, use more technology and get innovative for business value for their future expansion abroad and the process of internationalization (See figure 3).

If SMEs decide to enlarge their business and expand abroad, they have to increase the number of their employees to more than 250 by uniting their business with other SMEs or large companies from abroad, they could be easily part of the internationalization process by seeking the sponsorship of multinational companies through the merger process (See Figure 3).

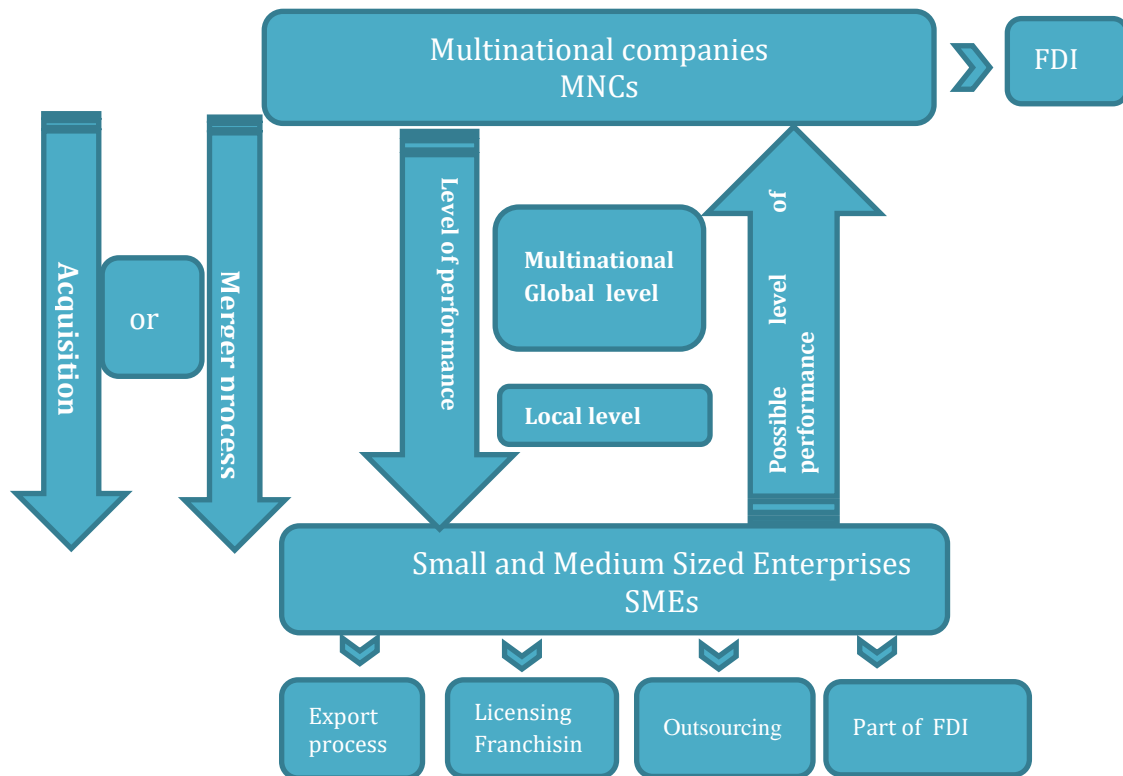


Figure 3. Business internationalization process model through MNCs and SMEs internationalization (The link between MNCs and SMEs)

Source: Author's design and research, 2024

3. The internationalization of SMEs and MNCs for business values

Both SMEs and multinational companies that would like to internationalize have to rely on experts before entering foreign markets and before negotiating with the stakeholders. SMEs may internationalize and for the internationalization process easily if they are innovative or they decide to export. If SMEs would like to go or become multinational, they have to grow by becoming main enterprises in the home country and open subsidiaries in the

host countries (See Figure 3). It is possible for SMEs to grow to large companies in order to manage and control the subsidiaries or merge with large multinational countries or it is possible for them to be bought my large multinational companies.

The process of internationalization needs financial support or sponsorship, so, seeking financial opportunities is highly important for SMEs internationalization because it is a process that requires a budget and the same thing for multinational companies. SMEs may seek financial support by uniting their business aspects with multinational companies (See Figure 1, 2, 3, 4 and 5).

However, during the internationalization process the SMEs may generate profit and business values by trying to get the money back through innovation, efficient negotiations and more production as well. Otherwise, it will be hard for them to survive (See Figure 3).

Multinational companies MNCs can internationalize with FDI Greenfield by setting new subsidiaries in the new locations abroad or through FDI Brownfield but purchasing other companies or merging other companies to their business and headquarters, those firms could be the SMEs because they are the best option for them (See Figure 3). SMEs are very compatible for MNCs since they hire and contain up to 250 employees so it will not be very expensive or difficult for MNCs to merge them or buy them but that process depends on every economy and its laws (See Figure 3).

In some economies, if foreign companies would like to invest in their area for security reasons and geopolitical stability, they do not allow them do invest through Greenfield or buy territories from their state, so, the merger process through FDI brownfield with local companies in the host economy and market could the best and the only option, in this case, selecting SMEs is optional but very suitable (See Figure 3).

If SMEs would like to grow buy following any of the four internationalization strategies (see figure 1), they have to seek sponsorships and look for investors from their locations, countries and even from abroad but here efficient contact negotiations for short and long terms are very important. Otherwise, they may choose to export, be part of the outsourcing, licensing or franchising processes by uniting and merging their capacities with large companies but they do not have to compete with them especially in terms of prices or production because they may lose since financially and globally they are still vulnerable (See Figure 3).

IT and AI help and makes sure as an innovation and one of the instruments of digitalization, globalization that business internationalization can be possible through communication and virtual communication. Today, companies and stakeholders may even communicate virtually and for the case of SMEs and multinational companies it is possible. Indeed, According to Porter (2001) AI makes sure that activities and transactions are also smooth and continuous without gaps between them across the MNC's value chain. If we take the inbound logistics and operations, the multinational company's entire value chain is connected with various suppliers via planning, shipping, warehouse management and integration scheduling. (Porter, 2001).

Once a domestic company is prepared to enter the international market to internationalize its business and for the internationalization process, it has to think about one of the four strategies of internationalization in order to go global, multinational, transnational or international (See Figure 1). Multinational companies represent well the process of internationalization according to the OLI model (See Figure 2), they represent globalization that pressure domestic companies to go for internationalization (Dunning, 1988) to avoid market tights and difficulties in the home country (Benabed, 2023a).

SMEs or multinational companies may face restrictions and risks through the internationalization process that is why a resilience plan is required before engaging in the

process so that it can be developed and adapted within the internationalization process (See Figure 3).

4. Analysing the UPPSALA model (1977) for SMEs and MNCs' internationalization possibilities and stages

4.1. The internationalization of companies according to the UPPSALA model

The internationalization of a company can be defined as a process in which the company seeks to develop part of its activities in countries or markets abroad other than its own. According to Johanson and Vahlne (1977), the company must create the necessary conditions to enter international markets so that it will be able to increase its success chances.

Johanson and Vahlne created in 1977 the model of state and change in the basic mechanism of business internationalization. (See Figure 4).

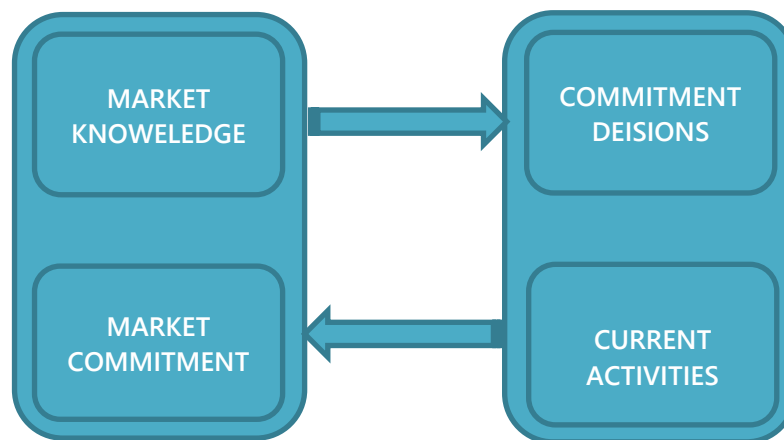


Figure 4. The UPPSALA model for the basic mechanism of business internationalization (State and change aspects) for SMEs and MNCs

Source: Author's redesign (2024) adapted from Johanson, J., & Vahlne, J. E. (1977) "The internationalization process of the firm-a model of knowledge development and increasing foreign market commitments. International business Studies 8, 23-32. <https://doi.org/10.1057/palgrave.jibs.8490676>"

The model tries to explain and guide the successive steps that a company must follow to enter an international market. Small and medium-sized companies are the best example to conduct studies or in which it can be applied, since the UPPSALA model was based on studies and research on them and was it was developed based on these results (See Figures 3 and 4).

4.2. The UPPSALA four main stages of business and companies' internationalization

The model considers four steps in the business internationalization process and with every single step the company that would like to internationalize gains greater and more knowledge so that it increases its commitment to the international market (See Figure 5).

According to the UPPSALA model (1977), if a company would like to enter the international market it has to go through four stages:

Stage 1- Non- regular export activities

At this stage, the company sells its products abroad in an unusual way; as it is unfamiliar with the new foreign market or with the international market, it decides to carry out a test or a trial export.

Stage 2- Exports through independent representatives

At this stage, the company decides to hire a representative in the host country who will be in charge of marketing its products (See Figure5) by trusting more the international market.

Stage 3- Setting a commercial branch or a subsidiary abroad

At this stage the company that would like to internationalize decides if it wants to set commercial brands or subsidiaries abroad for its own sales and operations abroad, the company at this stage may carry out this activity through licenses or franchises. To achieve this step, the company must carry out a comprehensive analysis of the costs and benefits of the target market (See Figure 5).

Stage 4- Starting production units in the host country or market

This involves the establishment of production units in the foreign country. This is the last stage where the company shows its greatest commitment to the internationalization process. In addition to having its own commercial presence, it also establishes its production in the foreign country. To do this, the company must analyze all the advantages offered by the international or foreign market (See Figure 5).

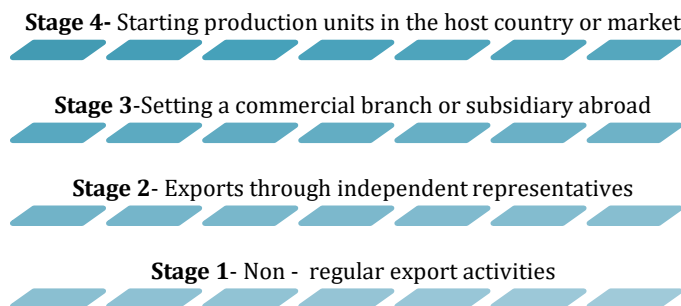


Figure 5. The four stages of the UPPSALA model for MNCs and SMEs

Source: Author's design and research (2024) according to the Uppsala model by Johanson, J. and Vahlne, J. E. (1977)

To sum up, the UPPSALA model (See Figure 4) is for companies seeking to internationalize but every stage matters and requires a greater commitment by the company to the foreign or international market. For this reason, this UPPSALA model is gradualist for companies. The UPPSALA model establishes patterns by which companies develop their internationalization process. Before going abroad, companies should always gain experience in the local market. Second, companies prefer should start operations in countries with which they have a great cultural and geographic affinity. Third, as companies gain experience, they may seek to expand to more distant and culturally different markets (See Figure 4).

5. SMEs' position and number in the European Union economy by state and sector

Figure 6 illustrates some available data from the mentioned sources in figure 7 about the number of SMEs in the non-financial business economy of European Union in 2024. If we take the example of the EU Small and Medium Sized Enterprises (SMEs) are not a big amount in 2024 in many European Union states (see figure 4) we observe that Italy is in the lead with a huge number of SMEs (3906272) followed by France with 3438355 and then Spain with 2974329 and then Germany with 2639534 followed by Poland in the 5th place with 2266665 of SMEs according to the available data (see Figure 6).

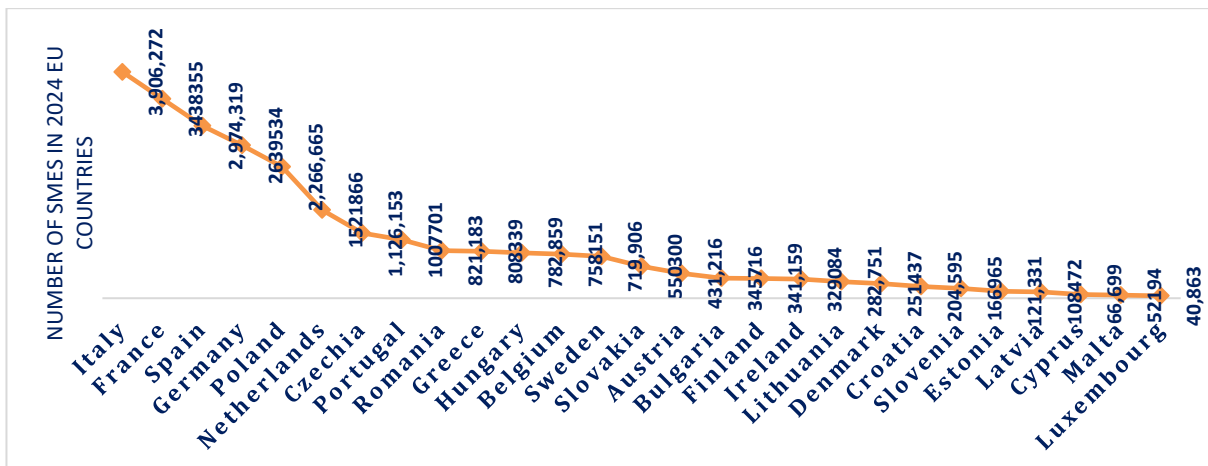


Figure 6. Number of SMEs in the non-financial business economy of EU in 2024

Source: European Commission; Eurostat; DIW Berlin, Statista 2024

Figure 6 shows a number in SMEs and some EU countries especially those with first prosper economy in the EU such as Italy, Spain, France, Germany, Poland and the Netherlands due to the fact that there are more investment, facilities and support from their governments and stakeholders. As these countries appear in the EU more innovative compared to the others. The reason they have many SMEs it is because they reply more on quality, education and innovation (See Figure 6).

Figure 7 illustrates some official data from 2023 about the number of Small and Medium Sized Enterprises (SMEs) by sector in the EU in 2023. SMEs that deal with distributive trades took the lead in 2023 economy in the European Union with 5,983,505 SMEs in EU followed by professional scientific and technical activities with 5,133,527 SMEs followed by construction SMEs with a number of 3,870,198 in the third place. However, in the fourth place we find accommodation and food services with 2,194,855 SMEs in the EU in 2023 (See Figure 7).

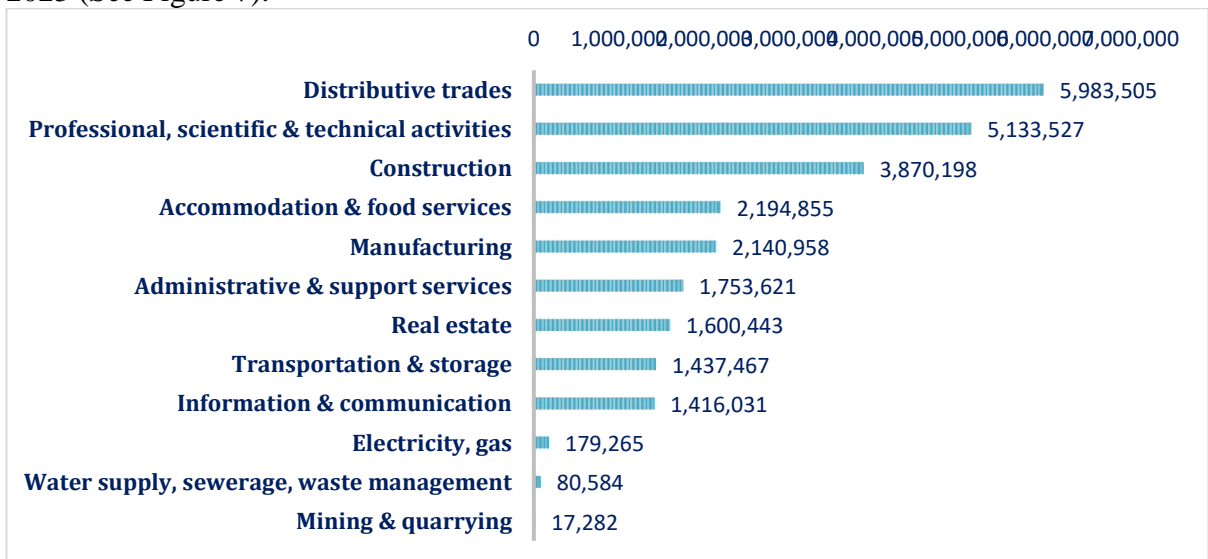


Figure 7. The number of Small and Medium Sized Enterprises (SMEs) by sector in the EU in 2023

Source: European Commission; Eurostat; DIW Berlin, Statista 2024

Other SMEs followed the fourth place with lower number compared to the first ones, these SMEs are for manufacturing, administrative and support services, real estate SMEs,

information and communication SMEs, electricity and gas SMEs, water supply and waste management SMEs. The least but acceptable number of SMEs in the EU is the of mining and quarrying SMEs with 17282 according to the available statistics and data from 2023-2024 (See Figure 7).

Conclusions

In conclusion, SMEs are considered driving companies for local economies in the EU and other economies worldwide with their rising numbers, they may remain domestic or grow through the process of export, import, outsourcing, licensing or franchising especially if they are innovative focusing on the best internationalization entry mode for them in globalization. However, MNCs are considered driving companies in globalization. In the European Union (EU) SMEs take the lead as economic and business driving units in many member states with high numbers due to the continuous support by their governments and stakeholders. As distributive trades SMEs take the lead in the EU in 2024 that means that as they deal with trade and they may go for internationalization either through innovation or by being merged with large companies such MNCs to grow and survive. SMEs should not compete with multinational companies (MNCs) to remain in the markets but they have to follow the model in figure 3 designed by the author of this paper for the internationalization perspectives. SMEs and MNCs may follow the Bartlett and Ghoshal's model (1989) to transform in business internationalization (See figure 1).

SMEs as well should follow the OLI model (see figure 2) by Dunning (1988) to engage with FDI in case the three condition of the model that are Ownership, Location and Internalization are fulfilled. MNCs may choose to engage with either Greenfield FDI by opening new original units in the host countries but it depends on the nation and its rules or constitutional aspects, some nations do not allow nations to invest buying or using some of their territories without engaging local firms and employers in their business activities and operation. Thus, it is useful for both large companies such as multinational companies (see Figure 1) since they have a high level of responsiveness and a low level of global efficiency (See Figure 1) to merge local SMEs from the local markets and economies in host countries.

SMEs remain the best example for economic prosperity since they drive the EU economy in many states in different fields with efficiency (See Figures 6 and 7). The process of internationalization needs financial support or sponsorship, so, seeking financial opportunities is highly important for SMEs internationalization because it is a process that requires a budget and the same thing for multinational companies. SMEs may seek financial support by uniting their business aspects with multinational companies.

However, during the internationalization process the SMEs may generate profit and business values by trying to get the money back through innovation, efficient negotiations and more production as well. Otherwise, it will be hard for them to survive (See Figure 3). Finally, multinational may avoid competition from SMEs in their foreign locations in the host countries by helping them financially, investing in them and merging them.

References

- Añón Higón, D., & Driffield, N. (2011). Exporting and innovation performance: Analysis of the annual Small Business Survey in the UK. *International Small Business Journal*, 29(1), 4-24.

- Bartlett, C. A., & Ghoshal, S. (2002). *Managing across borders: The transnational solution*. Harvard Business Press.
- Benabed, A. & Boeru, A.C. (2023). Globalization beyond Business Sustainability, Energy and the Economy of the Future. Proceedings of the International Conference on Business Excellence, 2023, The Bucharest University of Economic Studies, vol. 17 no. 1, pp. 1569-1583. <https://doi.org/10.2478/picbe-2023-0141>
- Benabed, A. & Bulgaru, A. (2023). Global Economic Recession as a Major Risk Beyond Business Insights and Economies. Proceedings of the International Conference on Business Excellence, 2023, The Bucharest University of Economic Studies, vol. 17 no. 1, pp. 221-225. <https://doi.org/10.2478/picbe-2023-0024>
- Benabed, A. & Moncea, M. (2024). Slowbalization: Rising Trends for the Global Economy and Business. Proceedings of the International Conference on Business Excellence, 2024, The Bucharest University of Economic Studies, vol. 18 no. 1, pp. 283-294. <https://doi.org/10.2478/picbe-2024-0024>
- Benabed, A. (2023a). Oil and Gas Production, Exports and Imports as Critical Business Internationalization Operations for companies in Globalization: An Analytical Approach. *Ovidius University Annals, Economic Sciences Series*, 23(2), 2-11.
- Benabed, A. (2023b). The Patterns of Internationalization and Business Process Outsourcing (Bpo) as Keys of Business Internationalization for Multinational Companies. *Gazdaság & Társadalom Economy & Society*, 47.
- Benabed, A. (2024a). Multinational Companies for Business Internationalization through Foreign Direct Investment (FDI) in Globalization: Trends for Values. *Eastern European Journal for Regional Studies (EEJRS)*, 10(1), 137-155.
- Benabed, A. (2024b). Globalization and the global trending dimensions of the labor market in a challenging context: Aspects and insights. Proceedings of the International Conference on Business Excellence, 2024, The Bucharest University of Economic Studies, vol. 18 no. 1, pp. 3645-3659. <https://doi.org/10.2478/picbe-2024-0296>
- Benabed, A., Miksik, O., Baldissera, A., & Gruenbichler, R. (2022). Small and medium-sized enterprises' status in the perspectives of internationalization, globalization and artificial intelligence. *IBIMA Business Review*, 2022, 1-15.
- Cassiman, B., & Golovko, E. (2011). Innovation and internationalization through exports. *Journal of international business studies*, 42, 56-75.
- Dunning, J. H. (1988). The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions. *Journal of International Business Studies*, 19(1), 1-31. <http://www.jstor.org/stable/154984>
- Exposito, A., & Sanchis-Llopis, J. A. (2020). The effects of innovation on the decisions of exporting and/or importing in SMEs: empirical evidence in the case of Spain. *Small Business Economics*, 55(3), 813-829.
- Ghoshal, S. (1987). Global strategy: An organizing framework. *Strategic management journal*, 8(5), 425-440.
- Golovko, E., & Valentini, G. (2011). Exploring the complementarity between innovation and export for SMEs' growth. *Journal of international business Studies*, 42, 362-380.
- Haddoud, M. Y., Onjewu, A. K. E., Nowiński, W., & Jones, P. (2021). The determinants of SMEs' export entry: A systematic review of the literature. *Journal of Business Research*, 125, 262-278.
- Hervé, A., Schmitt, C., & Baldegger, R. (2021). Internationalization and digitalization: Applying digital technologies to the internationalization process of small and medium-sized enterprises. *Technology Innovation Management Review*.

- Johanson, J., & Vahlne, J. E. (1977). The internationalization process of the firm—a model of knowledge development and increasing foreign market commitments. *International business Studies* 8, 23-32. <https://doi.org/10.1057/palgrave.jibs.8490676>
- Jones, M. V. (2001). First steps in internationalization: Concepts and evidence from a sample of small high-technology firms. *Journal of International Management*, 7(3), 191-210.
- Kogut, B. (2003). Introduction: the Internet has borders.
- Love, J. H., & Roper, S. (2015). SME innovation, exporting and growth: A review of existing evidence. *International small business journal*, 33(1), 28-48.
- Manual, O. (2005). The measurement of scientific and technological activities. *Proposed Guidelines for Collecting an Interpreting Technological Innovation Data*, 30(162), 385-395.
- Melin, L. (1992). Internationalization as a strategy process. *Strat. Mgmt. J.*, 13: 99-118. <https://doi.org/10.1002/smj.4250130908>.
- Mintzberg, H. (1987). The strategy concept I: Five Ps for strategy. *California management review*, 30(1), 11-24.
- Nguyen, H. T., & Le, V. (2019). Network ties and export propensity of Vietnamese small and medium enterprises. *Asia Pacific Business Review*, 25(1), 100-122.
- Oura, M. M., Zilber, S. N., & Lopes, E. L. (2016). Innovation capacity, international experience and export performance of SMEs in Brazil. *International Business Review*, 25(4), 921-932.
- Porter, M. E. (2001). Strategy and the Internet. *Harvard Business Review*.
- Saridakis, G., Idris, B., Hansen, J. M., & Dana, L. P. (2019). SMEs' internationalization: When does innovation matter?. *Journal of Business Research*, 96, 250-263
- Storey, C., Cankurtaran, P., Papastathopoulou, P., & Hultink, E. J. (2016). Success factors for service innovation: A meta-analysis. *Journal of Product Innovation Management*, 33(5), 527-548.
- Welch, L. S., & Luostarinen, R. (1988). Internationalization: Evolution of a concept. *Journal of general management*, 14(2), 34-55.

LINGUISTIC, CULTURAL, AND EDUCATIONAL RIGHTS OF MINORITIES MEDIATING INTER-ETHNIC RECONCILIATION AND PROMOTING INCLUSIVENESS: THE CASE OF KOSOVO

Avdi SMAJLJAJ*¹

Abstract: *Multiethnicity is one of the fundamental conditions of Kosovo's statehood. It constituted the backbone of Ahtisaari's final status settlement proposal, internalized within the constitution and institutional structure. Linguistic, cultural, educational, and political rights are granted by the constitution and laws referring to minorities. However, despite the legal and institutional foundations of minority rights, on the terrain, there seem to be still challenges in implementing and enjoying those rights by minorities. Thus, the paper aims to look at the extent to which linguistic, cultural, and educational rights are being implemented and enjoyed by minorities, from their establishment up to the present, through exploring a number of research questions. What are the challenges and obstacles to the implementation of those rights? How these challenges are reflected in inclusiveness and interethnic reconciliation? The paper is based on legal documents, statistical data, reports, and studies on minority rights in Kosovo.*

Keywords: *minority, minority rights, inclusiveness, interethnic relation, Kosovo*

UDC: 323.15:342.724(497.115]

JEL Code: N40

Introduction

Ethnicity is the main feature of the Balkan peninsula, including the western Balkans. Due to its context, throughout history, ethnicity in the western Balkans was the primary driver of politics. In this regard, at times the multiethnicity as a socio-political setting formula proved very successful in addressing and accommodating the co-existence of various ethnicities within the political systems. Different from former versions of multiethnicity, such as the previous one within the communist system, the current model of multiethnicity is structured along liberal democratic lines. A multiethnic setting within a liberal democratic system is supposed to have better chances to be effective. It provides a broader spectrum of support for such a setting from all the parties involved, respectively all ethnicities. Furthermore, a liberal democratic model of multiethnicity offers space and opportunity to all the ethnicities to actualize themselves, which is necessary for its bright prospects.

Kosovo, as the case study of this paper, has managed to establish a very multiethnic political system, guaranteed on very liberal democratic principles. Multiethnicity constitutes the backbone of Kosovo political system. It is institutionalized at the constitution, law, and institutional level, as foreseen by the Ahtisaari's proposal. This is one of the main features that make Kosovo state very much know as an Ahtisaarian state.

The Kosovo multiethnicity symbolically is manifested in the state symbols. Institutionally, it is well structured from the local government through decentralization, up to the central government through veto decision making power, reserved seats in the parliament, and reserved

*¹ Avdi Smajljaj, PhD in Political Sciences, Lecturer at the Department of Political Science and International Relations - Epoka University, asmajljaj@epoka.edu.al, ORCID: 0000-0003-0540-5149

positions at central government institutions. Furthermore, cultural, linguistic, and educational rights are explicitly regulated through constitutional settings, laws, and other sublegal acts.

However, there is still a gap between the institutionalized legal and political guarantees, on one side, and the implementation of those cultural, linguistic, and educational rights on terrain, at the level of citizens, on the other side. Moreover, the fruits of the multiethnic settings in terms of inclusiveness and inter-ethnic reconciliation are far from the initial idealized expectations.

After explaining the legal and institutional settings of cultural, linguistic and educational rights, the paper aims to evaluate of the up to date implementation, opportunities and obstacles associated with it, and their impact on the inclusiveness of ethnic minorities and inter-ethnic reconciliation.

The issue of linguistic, cultural, educational, and political rights of minorities, especially the difficulties accompanying the implementation, remains rather understudied. The legal dimension is considerably explored. Therefore, the paper aims to assess the failures of implementation of these rights and the consequences of the gap between the written and actual rights of minorities, in particular the way the failure of implementation impacts inclusiveness and inter ethnic reconciliation prospects.

The paper is based on the exploratory research methodology, to investigate the gap between the legal written rights of minorities, and the actual rights of minorities, which might be different. The paper is based mostly on secondary data, books, articles, data, statistics, and reports.

Multiethnic composition of Kosovo

By the constitution, Kosovo is set as a multiethnic state and society. The multiethnic composition of society during history is recently institutionalized as a multiethnic state, on liberal democratic principles, different from past experiences. As such, the ethnic composition of Kosovo is comprised of a number of ethnicities. The ethnic Albanians constitute the majority in terms of numbers. In the last census of 2011 (Agjencia e Statistikave të Kosovës, 2011 Census Results, Pristina 2012, including the explanation that the municipalities in the northern part did not participate), ethnic Albanians covered around 92% of the population, Bosniaks 1.6%, Turks 1.1%, Ashkali 0.9%, Egyptian 0.7%, Gorani 0.6% and Roma 0.5%. The rest include ethnic Serbs, estimated around 5%, but due to their decision that the Serbs of the northern municipalities, not to participate in the last census, it is impossible to speak with accuracy. In terms of ethnic features and differences, the Ashkali and Egyptian communities have cultural similarities to the Roma, but they differ in their origins, while in terms of religion, they are Muslims and speak Albanian language. The Roma, Ashkali, and Egyptian communities are often known as RAE community. However, aside from the above mentioned minority communities, later the amended Law on the Protection and Promotion of Minorities recognized two more communities, the Montenegrin and the Croatian minorities that constitute under 1% of the population (Law no. 04/1-020 on amending and supplementing of the law no.03/1-047 on the protection and promotion of the rights of communities and their members in Republic of Kosovo, 2011, Art. 1).

The Ahtisaari state

Kosovo state is also known as an Ahtisaari state. The comprehensive proposal provided by Mr. Marti Ahtisaari for the final status settlement, after a negotiation process, laid down the foundation of the multiethnic state and it is integrated within the constitution,

to the level of overruling it in case of an eventual contradiction between the constitution and the comprehensive proposal. The main concern of the proposal seems to have been to find a workable solution for the final status settlement that would accommodate minorities by providing safeguards to minority community rights. In a post conflict society these arrangements appear to have been necessary, at least for some time in transitory period, until mechanisms of inter ethnic trust development start to give the results. Since the comprehensive proposal became part of the state constitutions after the independence, it made Kosovo constitutionally a 'multi ethnic society consisting of Albanians and other communities' as the Constitution of the Republic of Kosovo specified (Art. 3.1).

The constitution has established the rights of minority communities in several directions. It is important to emphasize that the constitution itself tries to avoid the very phrase, the minority, thus referring to the minorities as communities. This reflects a sense of positive approach and spirit towards minorities. Among the main major rights provided to communities is the right to the native language. In this respect, Kosovo is also multilingual society at the municipality level, and bilingual at the national level. The constitution of the Republic of Kosovo (Art. 5) makes the Albanian and Serbian languages official languages at the national level, while Turkish, Bosnian, and Roma official languages at the municipality level. Furthermore, since the Kosovo constitution is an open constitution in terms of the applicability of international conventions, including those related to the rights of minorities, it constitutes an additional empowerment beyond the legal protection of minorities by the national constitution. Among others, the Convention on the Protection of National Minorities of the Council of Europe adds to the principles and settings related to safeguarding the rights of minorities (The Constitution of the Republic of Kosovo, Art. 22).

Moreover, considerable constitutional measures referring to the rights of communities are explicitly codified, such as: the rights for communities to foster and develop their identity; the state's responsibility to create the conditions for them to do so; specific rights of communities to maintain their own identity, religion, language, traditions, culture, education, alphabet, community, symbols, personal names, local names, media, and organizations; the establishment of a Consultative Council for Communities; the right of minorities to be employed in public service; and guarantees of minority representation in local government (The Constitution of the Republic of Kosovo, Arts. 57-62).

The rights of communities are also guaranteed through the space and power provided at the representation institutions. Communities have a guaranteed number of seats in the parliament (Art. 64). The Kosovo parliament is comprised of 120 seats. Aside from 100 seats elected directly, 20 seats are reserved for minorities, increasing and improving their representation chances. The presidency of the parliament should include one member from the Serb minority and another one other from other minorities. Moreover, the Parliamentary Committee on Rights and Interests of Communities should have members as follows, one third from the Serb community, one third from other minorities, and one third from majority community. Further than that, to ensure that constitutional rights to communities cannot be taken away, there have been set safeguards in terms of the requirements for constitutional changes. For the amendment of the constitution, it is required a double majority, a two-thirds majority of the majority community and two thirds majority from minority communities holding reserved seats. In this direction, also the legislation and amendment process of laws considered of vital interest needs a double majority (Arts. 65, 67, 77, 78, 81). At the executive level, there are institutional arrangements to ensure better participation of communities at the executive institutions. It requires at least one minister from the Serb community and one from other community minorities. These arrangements include provision

for at least one Serb and one other minority minister, and two Serb and two other minority deputy ministers (Art. 96). While at the judiciary branch there is regulated that at least 15% of judges should be from minority communities, places on the Judicial Council for minorities are reserved (Arts. 103, 108), and the deputy Ombudsperson and the vice chair of the Central Election Committee should be from minority communities (Arts. 122-133,139).

On the other side, the community rights arrangements are structured also at the level of local government (The Constitution of Kosovo, Chapter X) extending a high degree of self-government provisions for minority communities. At the local level, the rights of minority communities are ensured through a decentralization process, done on ethnic lines, resulting mostly in new municipalities based on which the Serbs are located (Robert D. Ebel & Gábor Péteri, 2007; Loew, 2019). In post conflict developments, the walls of the ethnic division took place in peaceful way, attained through a decentralization process, creating pure ethnic municipalities based on ethnic cleavages. The decentralization process so far has proved to have obstructed interethnic relations and reconciliation prospects, and ethnic integration incentives set at representation and executive institutions at the central government level. The decentralization in broad terms is defined by the comprehensive proposal (Annex 1, Art. 8), while specifications are laid down on the law on decentralization and the law on local government. The main principles of decentralization structure local government along ethnic lines, producing purely ethnic municipalities. The municipalities in Kosovo with Serbian minorities, excluding municipalities in northern part, have to some extent recognized the statehood in Kosovo, though they remain divided along ethnic lines. As such, the decentralization provided is not suitable for inter-ethnic reconciliation. Yet, in the problematic northern part of Kosovo, the Serbs are less integrated. They do not recognize fully the statehood of Kosovo and lack loyalty, which serves as a source of frozen inter ethnic conflict.

Cultural Rights

Cultural rights of communities were established initially by the Ahtisaari comprehensive proposal (Art. 3.1.a), as individuals and as community members to: “Express, maintain and develop their culture and preserve the essential elements of their identity, namely their religion, language, traditions and culture”. This disposition has become part of the Constitution (Art. 59. 1), since according to the constitution “The provisions of the Comprehensive Proposal for the Kosovo Status Settlement dated 26 March 2007 shall take precedence over all other legal provisions in Kosovo” (Art. 143.2). The comprehensive proposal explicitly obliges Kosovo to make sure the community rights are achieved and fulfilled, stating that “Kosovo shall promote the preservation of the cultural and religious heritage of all Communities as an integral part of the heritage of Kosovo” (Art.2, 2.5). The cultural and religious sites of the Serb Community are regulated by the comprehensive proposal (Annex V), establishing the protection and enjoyment of its rights, privileges, and immunities. Moreover, the comprehensive proposal lists the Law on Cultural Heritage, under the laws that need a double majority, including two thirds of minorities, for the legislation and amendment (Art.3.7.e), now also part of the constitution (Art. 81.1.5). In addition, the law on cultural heritage has been passed in this regard, along with other measures that Kosovo government has taken to fulfill those obligations related to preserving the cultural rights. However, many challenges remain. Recently, the government adopted the strategy for cultural heritage protection 2017 – 2027, to address the pertaining challenges, to protect the cultural heritage of all communities, and empower the legal and institutional framework,

including the promotion of the preservation of the cultural heritage through participation and education (The Strategy for cultural heritage protection, 2017-2017).

Moreover, in 2018 the Ministry of Culture, Youth and Sports established the Cultural Heritage Inspectorate, foreseen by the Law on Cultural Heritage that has already been passed. Yet, the insufficient number of inspectors currently deployed is challenging. However, the passing of laws on the Historic Center of Prizren and the Village of Hoçë e Madhe increase the prospects of the implementation of the Law on Cultural Heritage, though the latter was encountered with protests from the Albanian community.

Furthermore, the Implementation and Monitoring Council as an organ to settle issues between the Serbian Orthodox Church and Kosovo institutions, started to meet regularly in 2018 after some time of inactivity, to improve the process, especially to deal with issues related to the Special Protective Zones. In the recent contest between the municipality of Decan and Decani Monastery Special Protective Zone over a road building, the constitutional court ruled in favor of the Decani Monastery. Yet, the decision was not easy to implement (Saga juridike e Manastirit të Decanit). Recently, the government agreed to recognize the lands of Monastery (24 hektarët përreth Manastirit të Deçanit). In other municipalities, where the Serbian Orthodox Church was consulted on time the issues were settled more easily. As the OSCE report specifies (Community Rights Assessment Report 5th Edition, OSCE Mission in Kosovo, June 2021) municipal and government institutions should continue to effectively communicate with the Serbian Orthodox Church before undertaking any public work within the Special Protective Zones, and also institutions should do more on monitoring the sites and take measures for the deficiencies, including the judicial system to fulfill its duties. This would ensure better protection of cultural heritage.

Linguistic rights

The issue of the official languages, as stated earlier in this paper, has been set initially by the comprehensive proposal (Art. 1.6), then later internalized within the constitution: “1. The official languages in the Republic of Kosovo are Albanian and Serbian” (Art. 5.1). “2. Turkish, Bosnian and Roma languages have the status of official languages at the municipal level or will be in official use at all levels as provided by law” (Art. 5.2). The Law on the Use of Languages (Law No. 02/L-037) further regulates the issue of languages also at municipalities level. In this respect, in 2012 the office of the language commissioner to oversee the implementation of the law was established, with two supportive mechanisms, the language policy board and language policy network. Yet, no national strategy for the promotion and protection of language rights has been adopted. Such a strategy could have created better conditions and coordination to implement the law and ensure the language rights of the communities.

Nonetheless, the implementation of the law as well is not going as expected. At the institutional level, the legislative process often does not follow the obligation of bilingualism as required. There is no regular involvement of lawyers in the process of finalizing the two official language versions. The responsibilities of the government and the parliament to follow bilingualism need to be further clarified and implemented. Deficiencies at the government level include the lack of capacity, resources, and training of existing translators, and the inefficient distribution of those translators throughout the government as a major impediment to achieving correct translations (Office of the Language Commissioner, Annual Report on Language Compliance in Municipalities, March 2019). At the government level, it is found that often there are deficiencies in terms of respecting official languages. The

majority of ministries do not send out announcements in Serbian language (<https://kossev.info/law-on-the-use-of-languages-in-kosovo-is-a-dead-letter-on-paper/> , news of date 29 February 2020 01.03.2022).

In the judicial system also there are deficiencies in practical terms on following the duties regarding bilingualism. In September 2019, the Kosovo Judicial Council adopted the Regulation on the certification of court interpreters and translators (Rregullore NR.27/2019) thus ensuring that court translators and interpreters for official languages and other languages would be certified by the Kosovo Judicial Council. The trial cases also show deficiencies in the provision of competent and professional translation services in the prosecutorial and judicial systems. Parties from non-Albanian communities received notices, summonses, minutes of hearings, and judgments only in the Albanian language. Public notice boards and case calendars within courts were not always posted in all required languages, as well as improper recording of trial hearings is another language related concern. Likewise, at the Kosovo Police it is found that the law on the use of languages is still not fully implemented (OSCE Mission in Kosovo, Language Compliance in Kosovo Police, September 2018).

In terms of the usage of the language in public media, Radio Television of Kosovo, the public television, broadcasts community programs for the following communities: Kosovo Serbs, Kosovo Bosniaks, Kosovo Turks, Kosovo Roma, Kosovo Ashkali, Kosovo Egyptians and Kosovo Gorani. The Serbian, Bosnian, Romani, and Turkish language desk also broadcasts a daily 15-minute news cast. While RTK 2 is a whole day program in Serbian language. Regarding the official languages at the municipality level regulated by the constitution and the law on the use of languages, there are important steps been taken. However, in practical terms, there seem to be difficulties. Albanian and Serbian languages are set at all municipalities; Turkish in Prizren, Mamushë, Southern Mitrovicë, Prishtinë, Vushtrri and Gjilan; Bosnian in Prizren, Dragash, Pejë, Istog. Yet, Roma communities have traditionally spoken their language in the municipalities where they have been living. Most municipalities do not organize public discussions on language rights before or after the endorsement of municipal regulations to familiarize the population with the legal framework.

Educational rights

Educational rights for the communities are granted by the comprehensive proposal (Art. 3.1.b, 4.1.1, 7) and by the constitution (Art. 59, 81). Aside from the legal and institutional provisions on regulating the issue of education in Kosovo, including the education of minority communities, in practical terms, the education system in the Serbian language, especially among the Serbian community, resembles a parallel system of education. The curriculum of Kosovo schools in the Albanian, Bosnian, and Turkish languages is set by the Ministry of Education of Kosovo. The curriculum of schools in the Serbian language in Kosovo is adopted by Serbian Ministry of Education. There are about 130 schools in Serbian language in 24 municipalities in Kosovo (OSCE Mission in Kosovo, Communities' Access to Pre-University Education in Kosovo, December 2018). Yet, in practical terms, the majority of municipalities to some extent support the schools in the Serbian language, with logistics and technical support (Education in Serbian language and diploma verification in Kosovo, May 2018).

The issue of curricula in Serbian language which is not in line with the comprehensive proposal (Art. 7.1.1) that requires notification to the Ministry of Education in Kosovo, which is not actually happening, so far has not been part of the dialogue between Kosovo and Serbia. But also, the Ministry of Education in Kosovo has not taken steps to develop a curriculum on the Serbian language. Nonetheless, there are 14 schools hosting both Kosovo and Serbian

curricula under one roof in 9 municipalities. Even in those schools, interaction between students and staff is limited. Initiatives to bring them together have only been taken on extracurricular activities.

Moreover, the Albanian language is not taught in the schools of the Serbian community, and the Serbian language is not taught at Albanian schools as well. Most of the struggle to increase cooperation is done by international organizations, and that seems not sufficient, due to the lack of cooperation of domestic actors. The textbooks and courses include very much content against each other ethnicities.

Education in the languages of other communities in Kosovo is available among the Bosnian and Turkish communities, despite problems faced in terms of the availability of textbooks in the two languages, substituting them through imported textbooks from Bosnia and Herzegovina and Turkey. Though the Albanian language is taught at these schools, no textbooks on Albanian language as an official language have been provided so far. Higher education is not provided in minority communities languages, except at the University of Northern Mitrovica that is totally outside the regulation of the Kosovo authorities. The other communities have no organized schools in their languages. And their enrollment at schools remains very low (ROMACTED at a Glance in Kosovo, 2020). Romani language, culture, and history classes have been offered in schools in Prizren since 2011, with measures taken by the ministry to provide them to other municipalities, but it is not very successful due to a lack of funds.

Conclusion

The extension, implementation, and guaranteed cultural, linguistic, and educational rights provided by the comprehensive proposal, the constitution, laws, and regulations, do not appear to have sufficiently helped to improve interethnic reconciliation and inclusion of minority ethnicities into the institutions and society in Kosovo. The legal acts have passed quite easily, due to the influence of the international actors. Yet, when it comes to implementation the will of all sides is necessary. If we look at interethnic reconciliation as a process then it can be concluded that it is a very time consuming and much demanding process. If we look at it from the perspective of the achievements so far, there seems a stalemate. The Serbs at the municipalities below the Northern part of Kosovo, seem to have moved forward in terms of reconciliation, inclusion, and integration. While the municipalities in the North appear to have been frozen in terms of making progress. On the contrary, they give the impression of steps back. National authorities have limited access and govern very little in this part, and the issue appears that is waiting for the dialogue to move on, that no one know of its prospects.

The integration of the Serb community is the biggest challenge for Kosovo. Research carried out with the Serb community in northern Kosovo in 2011 found that Kosovo Serbs were concerned about protecting their language, cultural heritage, and identity (Fearon, 2012). The integration of the other communities is less politicized and therefore shows more progress, but challenges still pertain. It is more an issue of resources and the will of all sides that determines inclusiveness and ethnic reconciliation, rather than politics and the bitter near past during the war, that created unbridgeable ethnic cleavages. Compared to the very aftermath of the war, there is significant progress in implementation of the cultural, language, and educational rights. However, still more to go. Legally and institutionally, there is higher progress, but the terrain especially at the northern part is very challenging. As Lijphart said, it is not difficult to write constitutions of a consociational nature, but the most difficult part is to bring them into life (Lijphart, 1999).

The paper brings to light the legal and political dimensions of the rights of minorities in Kosovo. Yet, taking into account very dynamic developments in the Northern part of Kosovo, and the geopolitical implications of the war in Ukraine, the future state of affairs is very unpredictable. This constitutes the limitations of the study as well, decreasing the possibility of inferential conclusions and minimizing the accuracy of the recommendations.

References

- Annual Report on Language Compliance in Municipalities. Office of the Language Commissioner. (March 2019). Retrieved January 07, 2022, from http://www.komisioneri-ks.org/repository/docs/ENG-MT_Raport-Municipalities.pdf
- Loew. D. (2019). *Decentralization as a Model for Conflict Transformation: The Case of Kosovo*. Philipps-Universität: Marburg.
- Ebel, R. D. & Péteri, G. (2007). *The Kosovo Decentralization*. Open Society Institute: Budapest.
- Ecmikosovo. (May 2018). *Education in Serbian language and diploma verification in Kosovo European center for minority issues*. Retrieved June 05, 2022 from https://www.ecmikosovo.org/uploads/Brochure_Diploma_Verification_ENGs.pdf
- Fearon, K. (2012). *Guests in Our Own House. The Comprehensive Settlement Proposal and the Serb Community in Northern Kosovo Mitrovica*. ICO and FDFA.
- Lijphart, A. (1999). *Patterns of Democracy*. New Heaven and London: Yale University Press.
- OSCE Mission in Kosovo. (September 2018). *Language Compliance in Kosovo Police*. Retrieved January 10, 2022, from <https://www.osce.org/mission-in-kosovo/396821?download=true>
- OSCE Mission in Kosovo. (December 2018). *Communities' Access to Pre-University Education in Kosovo*. Retrieved January, 15, 2022, from <https://www.osce.org/mission-in-kosovo/406952?download=true>
- OSCE Mission in Kosovo. (June 2021). *Community Rights Assessment Report*. Retrieved February 05, 2022, from <https://www.osce.org/mission-in-kosovo/493675>
- ROMACTED at a Glance in Kosovo. Retrieved February 01, 2022, from <https://rm.coe.int/romacted-at-a-glance-kosovo-january-2020/16809991a9>
- Rregullore Nr.27/2019, per certifikimin dhe interpretimin e perkthyesve gjyqesor. Retrieved February 23, 2022, from https://www.gjyqesori-rks.org/wp-content/uploads/lgs/58686_Rregullore_Nr_07_2019_per_certifikimin_interpreteve_dhe_perkthyesve_gjyqesor_Kodi_i_etikes_SRB.pdf
- The Law on the Use of Languages, Law No. 02/L-037. Retrieved February 10, 2022, from <https://gzk.rks-gov.net/ActDetail.aspx?ActID=2440>
- Law no. 04/l-020 on amending and supplementing of the law no.03/l-047 on the protection and promotion of the rights of communities and their members in Republic of Kosovo, 2011, Art. 1. Retrieved February 11, 2022, from [Republic of Kosovo - Assembly - Laws by Name](#)
- Saga juridike e Manastirit te Decanit. Retrieved February 19, 2022, from <https://www.evropaelire.org/a/saga-e-manastirit-decanit/31541823.html>
- The Comprehensive Proposal for Kosovo Status Settlement. (2 February 2007). Retrieved January, 07, 2022, from <https://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/Kosovo%20S2007%20168.pdf>

- The Constitution of the Republic of Kosovo. https://mapl.rks-gov.net/wp-content/uploads/2017/10/1.CONSTITUTION_OF_THE_REPUBLIC_OF_KOSOVO.pdf
- The Strategy for cultural heritage protection 2017 – 2027. Retrieved February, 15, 2022, from https://mkrs-ks.org/repository/docs/eng_strategy_for_heritage.pdf
- 24 hektarët përreth Manastirit të Deçanit. Retrieved November 20, 2024, from <https://reporteri.net/lajme/24-hektaret-perreth-manastirit-te-decanit-kush-e-duartrokite-dhe-kush-e-kritikoi-vendimin-e-qeverise-se-kosoves/>

OUTSOURCING OF ACCOUNTING SERVICES IN DIGITAL AGE

Adrian ISIP*₁

Abstract: Accounting function deals with recording, reporting and advising activities. In general, larger companies do not outsource routine tasks, since they need accounting information for making decisions more often than smaller enterprises, that outsource accounting primarily to fulfil their legal obligations. Digitalization facilitates remote access to data, electronic data exchange, instant communication and automatic data processing. This paper investigates outsourcing of accounting services in digital age considering several collaboration arrangements. We mobilized transaction costs economics and resource-based view as theoretical framework, accounting services market from Romania as context and case study as research method involving 3 accounting firms. Our results indicated that clients' decisions to insource, outsource or co-source the accounting services depend on the availability of internal and external professionals, their costs, frequency of information need and technology readiness. Accounting process means to receive documents from clients, process data from documents based on the agreed terms, prepare and submit the reports to clients. Technologies like robotic process automation and artificial intelligence ensure faster data processing, accurate information and prompt reactions. Nowadays more large companies could outsource their accounting due to e-invoice system and cloud technology. Having in view the clients' demands, accounting firms can deliver on-site, hybrid or remote services. Our study has implications for accounting firms and their clients and we presented what opportunities they have in digital age for collaboration. Our contribution was to show that e-invoice system and digital technologies enhance the provision of remote services and accounting firms could also target larger companies as clients.

Keywords: external accountants, accounting activities, outsourcing reasons, digital communication, remote services, task automation, real-time reporting

UDC: [657:005.56]:004.77(498)

JEL Code: M41, M55, O33

Introduction

Within the business, accounting function is in charge with recording of transactions, reporting of results and advising the managers. Companies keep accounting records to obtain knowledge about their businesses and to comply with their legal obligation. Accounting services can be provided by internal accountants or accounting firms (Barrar et al., 2002).

Usually, enterprises outsource their accounting services for reasons that regard cost reduction, focus on the core business, access to external experts, flexibility and process improvements (Tomašević et al, 2023; Zandi et al., 2019). The reasons for not outsourcing the accounting services could relate to information confidentiality, data security, information availability, delivery delays, low control over the outsourced function and high dependence on accounting firms (Asatiani et al. 2019; Everaert et al., 2007; Höglund & Sundvik, 2016).

Larger companies embrace in most cases a partial outsourcing since they are primarily interested in having access to external experts, whereas smaller enterprises tend to outsource the entire accounting function and though outsourcing they seek to fulfil their legal obligations with lower costs (Everaert et al., 2007).

*₁ Adrian Isip, PhD Student, Bucharest University of Economic Studies, Doctoral School of Accounting, E-mail: isipadrian06@stud.ase.ro, ORCID: 0000-0002-4136-6549

Recent studies emphasized the importance of digital technologies in the development of companies (Coban, 2023). Accounting function is impacted as well in a large extent by digitalization. In digital age there is growing need for real-time data and digital technologies enable remote access to data, electronic data exchange, instant communication, automatic data processing, real-time reporting and assistance in decision-making (Agostino et al., 2021; Moll & Ygitbasioglu, 2019; Oesterreich et al., 2019).

Robotic process automatic (RPA) relieve the accountants of those repetitive activities related to data entry and data reconciliation and their use ensures faster data processing and fewer errors (Cooper et al, 2019; Harrast, 2020). Digital technologies come with critical changes to the roles of accountants, allow them to move away from bookkeeping activities and bring them more into the position of business advisors (Leitner-Hanetseder et al., 2021).

After we reviewed the literature, we observed that in spite of many previous studies on accounting outsourcing and digitalization, yet there is little research on how digital technologies influence the collaboration between accounting firms and their clients and this represents the problem statement. The purpose of this paper is to investigate outsourcing of accounting services in digital age considering the collaboration arrangements between accounting firms and their clients.

We mobilized transaction costs economics and resource-based view as theoretical framework, accounting services market from Romania as context and case study as research method involving 3 accounting firms. In our research we focused on the collaboration of accounting firms with their clients, analyzing the joining process of the new clients, digitalization of accounting services and the accounting process for existing clients.

Following our theoretical framework and considering the empirical evidence the results indicated that clients' decisions to insource, outsource or co-source the accounting services depend on the availability of internal and external professionals, their costs, frequency of information need and technology readiness.

Meetings and discussions with the clients are necessary to understand better their businesses, their requests and to establish the communication channels, the expectations on services, deadlines and deliverables. Accounting process means to receive documents from clients, process data from documents based on the agreed terms, prepare and submit the reports to clients.

Within accounting services industry, the speed of information generation is crucial. Digitalization of the accounting services is related to the use of virtual meeting applications, cloud computing, transfer of electronic data, the automation of tasks and the use of artificial intelligence. Technologies like robotic process automation and artificial intelligence ensure faster data processing, accurate information and prompt reactions. Nowadays more large companies could outsource their accounting due to e-invoice system and cloud technology. Having in view the available digital technologies and clients' demands, accounting firms can deliver on-site, hybrid or remote services.

Our study has implications for accounting firms, their clients and academia. Accounting firms and their clients could be more interested in the results of our research, since we presented the opportunities that accounting firms and their clients have in digital age for collaboration.

Our paper is structured in four parts. In the first section we reviewed the relevant literature and we developed our theoretical framework. The second part deals with the aim of this study, our research context, the research methods and the research questions. In third section we focused on the findings of this study and we discussed our results considering also

the previous articles. The final part includes the main conclusions, our contributions, the implications and the limitations of this study and directions for future research.

Literature review

Accounting function is expected to facilitate decision-making process by providing useful and timely information to managers (Lambert & Sponem, 2012). Authors like Collis and Jarvis (2002) emphasized that companies have the legal obligation to keep accounting records and provide financial information to internal and external users.

Entities can fulfil the legal requirement to keep accounting records either by hiring employees or by collaborating with accounting firms (Barrar et al., 2002). Smaller companies compared to larger corporations face more resources constraints and whereas larger companies can dedicate a team of employees to handle a specific business function in house, smaller enterprises do not possess these resources (Harland, et al., 2005).

Smaller enterprises tend to outsource the accounting and tax services due to the reasons which are related to their need to save money or their lack of internal competences (Juntunen et al., 2022). Moreover, Potryvaieva and Palieiev (2023) consider that outsourcing of accounting services is the best solution for small companies to meet their legal obligations with minimal costs.

Authors like Fomina and Kolomiiets (2022) mentioned that in order to ensure the accuracy of the accounting records and the protection against the potential fines, accounting firms and clients should stay tightly with the document flow schedule and exchange information in a timely manner.

There are studies investigating the relationship between the outsourcing of accounting services and the quality of accounting reports and the main conclusions were that outsourcing of accounting services ensures better compliance with the laws and regulations and improves the financial reporting quality (Höglund and Sundvik, 2016).

Companies choose to outsource their accounting and tax services for reasons that regard cost reduction, focus on the core business, access to external experts, flexibility and process improvements (Tomašević et al, 2023; Zandi et al., 2019).

The reasons for not outsourcing the accounting services could relate to information confidentiality, data security, communication difficulty, information availability, delivery delays, low control over the outsourced function, high dependence on accounting firms and loss of internal expertise (Asatiani et al. 2019; Everaert et al., 2007; Höglund & Sundvik, 2016).

There are papers on the subject of accounting outsourcing showing that outsourcing reasons depend on the size of the companies and further the size and the age of the companies can influence the outsourcing intensity. For instance, Everaert et al. (2007) found that, smaller enterprises are interested in reducing the costs and they often embrace a total outsourcing, while larger companies through partial outsourcing seek to acquire external expertise. Authors like Cassar and Ittner (2009) revealed that outsourcing intensity in case of younger enterprises is higher compared to older companies since these entities need more support from accounting firms in their early age.

Islomov (2022) emphasized that for carrying out the accounting function, larger companies can use internal accountants for daily transactions and frequent tasks and accounting firms for those activities that require a high level of expertise. In his opinion, sourcing of accounting services in this manner involves lower risks.

Considering the type of outsourced tasks, Kamyabi and Devi (2011a) indicated that accounting firms can provide statutory and non-statutory services to their clients. Statutory

services are related to the compliance with the laws and regulations, whereas non-statutory services regard the business advice and other demands from the clients.

On the same subject of accounting outsourcing, Everaert et al. (2010) and other researchers like Hafeez and Andersen (2014) pointed out that companies can outsource routine tasks (data entry, data reconciliation and bookkeeping), non-routine activities (compliance, reporting, analysis and advice) or the entire accounting function and the enterprises have to consider the frequency of information need and the fact that accounting tasks are interrelated when they engage in outsourcing agreements.

With reference to the importance of accounting information, there are authors who claimed that even though accountants are perceived by the companies as an important source of information and advice, most small enterprises keep accounting records primarily to comply with the legal requirements and for those companies the accounting information has a low importance in decision-making process (Burke & Jarratt, 2004; Carey & Tanewski, 2016).

There are studies revealing that in case of accounting outsourcing, the provision of advisory services on a regular basis can support the companies to achieve a higher financial performance by improving the allocation of their resources and helping them to make better decisions regarding the business operations (Cahyaningtyas et al. 2020; Kamyabi and Devi 2011b; Munjal et al. 2019).

In a dynamic business environment, companies face challenges related to keeping up with the changes in the legislation and the development of technologies and for smaller enterprises the outsourcing of accounting services could be an option of helping them to stay updated, compliant and run their activity without disruptions (Faituša et al., 2020).

Recent studies emphasized the importance of digital technologies in the development of companies (Coban, 2023). Other papers explored digital technologies such as cloud computing, robotic process automation and artificial intelligence and their impact on accounting services. In digital age there is a growing interest in the possession of data in real time and this objective can be achieved by using mobile devices and digital technologies to collect, process, analyze and share data (Oesterreich et al., 2019).

In respect to digitalization there are authors who claimed that the main cause of digitalization is the need for real-time data and the development of digital technologies enables remote access to data, instant communication, electronic data exchange, automation of tasks, continuous data processing, real-time reporting, data analysis and assistance in decision-making and considering all these features, the business processes are significantly transformed (Agostino et al., 2021; Moll & Ygitbasioglu, 2019).

Moreover, Leitner-Hanetseder et al. (2021) mentioned that digital technologies come with critical changes to the roles and the tasks of accountants emphasizing that the intensification of the collaboration between the humans and machines is meant to bring accountants more into the position of business advisors and allow them to move away from bookkeeping activities.

Cloud computing deals with the exchange of data, documents, the use of computer applications over the internet and the outstanding features of this technology are related to remote, shared and immediate access to data and because of that cloud technology creates opportunities for remote collaboration (Ma et al., 2021; Saad et al., 2022).

As regards the automation of tasks, there are papers investigating the use of robotic process automation (RPA) in connection with accounting services. In these papers it is mentioned that RPA technology is suitable for those rule-based tasks that rely on digital inputs and the authors emphasized that automatic solutions for data processing were developed to relieve the

accountants of those repetitive activities related to data entry and data reconciliation and their use is meant to ensure faster data processing and fewer errors (Cooper et al, 2019; Harrast, 2020).

Artificial intelligence is another emerging technology with a high impact on accounting profession, which on the one hand can assist the managers in decision-making process and on the other hand can support the accountants to perform a quick and in-depth data analysis in order to find patterns in data, observe trends, reveal areas of risk, interpret the results and make predictions (Kumar et al., 2023; Zhang et al., 2020). According to Hasan (2021), an important branch of artificial intelligence is represented by accounting and tax expert systems that store the knowledge of human experts in a database for subsequent use in solving complex business cases.

Theoretical framework

Having in view the information conveyed by accounting managers working within accounting firms and prior research on the outsourcing of accounting services, we mobilized transaction cost economics and resource-based view as explanatory theories in order to interpret the results of this study which deals with the outsourcing of accounting services in digital age.

Transaction cost economics was proposed by Williamson (1979) and he emphasized that the transaction costs influence the size of the company and determine which tasks are carried out in house and which activities are outsourced. In his opinion when the internal transaction costs are higher than the external transaction costs, then the company will have the inclination to outsource those activities and when the external transaction costs are higher than internal transaction costs, then the company will tend to internalize those tasks.

Resource-based view was developed by Barney (1991) who specified that companies have to make a suitable allocation and combination of their tangible resources (physical assets) and intangible resources (knowledge and skills of the employees) in order to achieve efficiency and effectiveness within the business they are running. In addition to that, he mentioned that those companies facing a lack of internal resources can acquire external resources to ensure the proper operation of their business.

Transaction cost economics and resource-based view theories were also used in prior research by many authors to explain the outsourcing decisions made by companies regarding the accounting services (Cahyaningtyas & Ningtyas, 2020; Hafeez & Andersen, 2014; Kamyabi & Devi, 2011a; Tomašević et al., 2023).

Data and Methodology

Research context

Romania is a developing country from Europe and in the beginning of the year 2023 according to National Institute of Statistics (2023) the resident population was 19.1 million inhabitants. For the same period, National Trade Register Office (2023) indicated a number of 1.2 million active companies and 20.1% of these legal entities were companies with foreign participation.

In the Figure 1. it is presented the structure of Romanian companies according to the number of the employees, considering Eurostat database and as it can be observed 99% of the companies have less than 50 employees. Since 80% of all companies have less than 10 employees these entities are good candidates for outsourcing of accounting services.

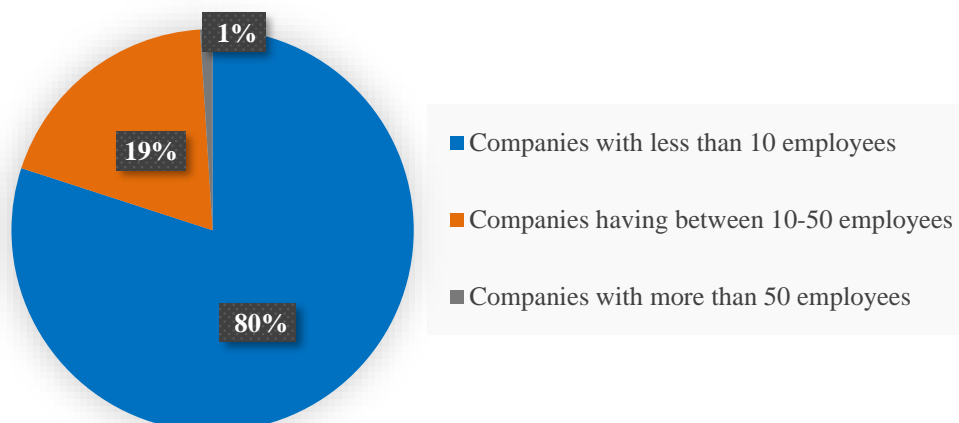


Figure 1. The structure of Romanian companies according to the number of the employees

Source: Own processed information based on Eurostat database (<https://ec.europa.eu/eurostat>)

In Romania, the companies interested in outsourcing of accounting services can contact the accounting firms, request a service offer, negotiate the service offer and sign the contract if they agree on the final service offer. Based on available data for the year 2023 on the website Top firms, it is presented an overview of accounting services industry in the table 1. and as it can be observed the industry is dominated by 63 accounting firms that achieved a market share of 36%. The first cluster of 17 accounting firms consists in large accounting firms and within this cluster are also found Big Four accounting firms.

Table 1. An overview of accounting services industry

Turnover range	No of accounting firms	No of employees	Average no of employees	Turnover (mil. euro)	Average turnover (mil. euro)	Market share
≥ 5 mil. euro	17	3,068	180.5	307	18.1	27%
≥ 1 mil. euro and < 5 mil. euro	46	1,340	29.1	102	2.2	9%
< 1 mil. euro	12,562	17,980	1.4	724	0.1	64%
Total	12,625	22,388	X	1,133	X	100%

Source: Own processed information based on website Top firms (<https://www.topfirme.com/caen/6920/>)

Research methods

The aim of the current paper is to investigate outsourcing of accounting services in digital age considering the collaboration arrangements between accounting firms and their clients. Since this study required empirical evidence, we decided to employ case study as research method. Case study as qualitative data collection method usually involves a limited number of participants and is recommended to be used when researcher need to investigate recent circumstances and real-world events in order to achieve a deep understanding (Rashid et al, 2019).

According to Bell et al. (2018) a qualitative approach is intended to discover and describe experiences, behaviors, feelings, opinions and motivations of participants since the researcher's attention is on the meaning of the investigated phenomenon and not on its frequency and researcher primarily uses words rather than numbers.

We also identified similar approaches that used case studies as data collection method in prior research related to outsourcing of accounting services (Aman et al., 2012; Ahmed, 2018; Maleah et al, 2010; Nicholson et al., 2006; Nielsen et al., 2015).

Considering the aim of this paper we seek to answer the following three research questions:

- RQ1. How is the joining process of the new accounting clients?
- RQ2. How is digitalization changing the accounting process?
- RQ3. How is the accounting process for existing clients?

Our research methodology had in view steps such as preparation, data collection, data processing and analysis and reporting the results. In our study we involved 3 accounting firms located in Bucharest. For data collection we used sources represented by discussions with 3 accounting managers, presentations made by 3 senior accountants and field observations with the support provided by 3 experienced accountants and 3 junior accountants.

Data collection process started in the beginning of June 2024 and ended in the middle of July 2024 and during this step a research notebook was used to write down the information conveyed by accounting managers, senior accountants and to record our observations.

In data processing and analysis steps, the notes written in the research notebook were read multiple times and were coded manually (data received labels) and because of that a list of main themes emerged and those labels were used to capture the essence of the investigated phenomenon.

We applied an inductive reasoning since we started with our specific observations, we discovered patterns in data, we established relations between data and then we formulated general conclusions (Woo et al., 2017). In table 2 we presented more details regarding the accounting firms involved in this study.

Table 2. The details regarding our case study accounting firms

Firm's code	Turnover range	Type of firm	Firm's age	Contact person (Position and Gender)	Data collection source	Period of data collection
A	≥ 5 mil. euro	local	20	Accounting manager (M)	Discussions	04.06.2024
				Senior accountant (F)	Presentations	10.06.2024
				Experienced accountant (M) & Junior accountant (F)	Observations	13.06.2024
B	≥ 1 mil. euro and < 5 mil. euro	local	28	Accounting manager (F)	Discussions	18.06.2024
				Senior accountant (F)	Presentations	26.06.2024
				Experienced accountant (F) & Junior accountant (F)	Observations	03.07.2024
C	< 1 mil. euro	local	23	Accounting manager (F)	Discussions	09.07.2024
				Senior accountant (M)	Presentations	11.07.2024
				Experienced accountant (F) & Junior accountant (M)	Observations	16.07.2024

Source: Own processed information

After reading the research notes multiple times, we observed that accounting managers repeatedly emphasized that most companies choose to outsource accounting services when they lack resources in terms of workforce or competences and when the costs of external accounting services are lower than the costs of organizing an internal accounting department. Considering those strong opinions, through data analysis we reached transaction cost economics and resource-based view theories and we employed them as theoretical framework for this study.

Findings and Discussions

Since this accounting research is qualitative in nature, we followed the recommendations made by Bell et al. (2018) for presenting the results of our empirical study. We considered the importance of empirical evidence, the role of theory and the link between these two pillars in reporting the findings.

We organized the results around our theoretical framework and the themes of our research questions. Our theoretical framework is represented by the transaction cost economics and resource-based view. The narratives were constructed having in view the main themes such as the joining process of the new clients, digitalization of accounting services and accounting process for existing clients.

Based on empirical data and our theoretical framework we created figure 1 which shows the sourcing decision (insourcing, outsourcing or co-sourcing) for accounting services by taking into account the main decision factors such as the availability of human resources and the costs related to the provision of the services.

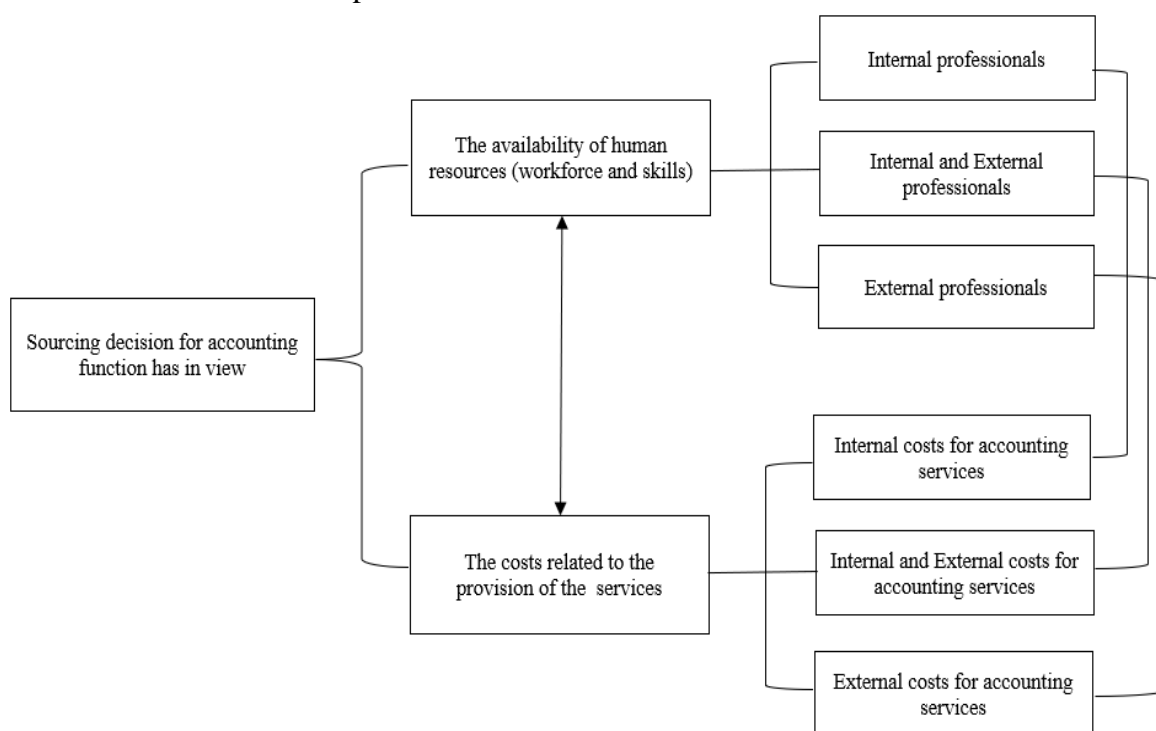


Figure 2. The sourcing decision for accounting function

Source: Own creation based on empirical data and theoretical framework.

The enterprises have to organize the accounting function and they have as main three options to hire internal professionals, use external professionals or rely on both internal and external professionals. The availability of human resources can influence the costs related to the provision of the services and vice versa.

Each of these three options involves certain costs and due to the high pressure on the budgets, the companies seek to optimize their costs having in view the advantages and the disadvantages associated with these three options for organizing the accounting function.

The collaboration between accounting firms and their clients has certain peculiarities depending on the choice of the companies to outsource the entire accounting function or co-source the provision of accounting services.

In the table 2 we presented the services provided by our case study accounting firms, their clients and other aspects regarding the collaboration between accounting firms and their clients such as the location of service provision and the information systems used for accounting records.

We can observe that larger accounting firms deliver a wider range of accounting services, they collaborate with larger clients and international clients and they can provide more flexibility to their clients regarding the location of service provision and the information systems used.

Table 2. The services provided by our case study accounting firms

Firm's code	Main services	Clients	Location of service provision	Information systems used
A	-Bookkeeping; -Payroll; -Preparation of tax returns; -Accounting and tax reviews; -Compilation of financial data; -Preparation of financial statements; -Non-financial or sustainability reporting; -Business advice; -Audit services;	-International companies no matter of their size; -Large local companies; -Larger local medium-sized enterprises; -International natural persons	Both at the clients' premises and at the office of accounting firm	Both the information system of accounting firm and the information systems of the clients
B	-Bookkeeping; -Payroll; -Preparation of tax returns; -Accounting and tax reviews; -Compilation of financial data; -Preparation of financial statements; -Business advice; -Audit services;	-Medium-sized international companies; -Medium-sized local companies; -International natural persons	Both at the clients' premises and at the office of accounting firm	Both the information system of accounting firm and the information systems of the clients
C	-Bookkeeping; -Payroll; -Preparation of tax returns; -Preparation of financial statements; -Business advice	-Small companies; -Smaller medium-sized local enterprises; -Local natural persons	Only at the office of accounting firm	Only the information system of the accounting firm

Source: Own processed information.

Further we presented and discussed in more details our results related to the outsourcing of accounting services in digital age considering also previous studies.

The joining process of the new clients

The joining process means to connect the clients with the accounting firms. Clients play a central role and their needs are thoroughly analyzed in order to establish the common ground for a good collaboration. In most cases the new clients are a result of the recommendations made by former and current clients, lawyers and auditors.

Accounting managers described the joining process of the new clients as one that follows the phase of successful completion of negotiations. In the negotiation phase, the clients and accounting firms agreed on main aspects such as: the scope of work and the list of activities, the location for service provision, the information systems used, the deadlines both

for providing the supporting documents and delivery of information and reports, the amount of time and the fees.

Accounting firms serve both local and international clients. Some of these clients are natural persons and other are legal entities. For legal entities, the joining process depends on the type of company such as new enterprises or existing companies. For existing companies that collaborated before with other accounting firms, the clients are requested to hand over a list of documents and reports.

Both for the new enterprises or existing companies, the accounting managers and senior accountants usually schedule two or three meetings with the clients in order to gain a deep knowledge on the business operations of the clients, design the client-based working procedure, and discuss with the clients about the importance of submitting all the documents in time. During the first meeting the main goal is to understand better the needs and requests of the clients in order to customize the services based on their specific demands.

Within the joining process, accounting managers and clients establish by mutual agreement the communication channels, they set clear expectations on services, deadlines and deliverables in order to avoid later misunderstandings. The joining process of the new clients also means on one hand for accounting firms to assign the clients to the managers and senior accountants who will be in charge with the outsourced process and on the other hand for clients to appoint the contact persons who will keep in touch with accounting firms.

When new clients are joining, a profile is created for them meaning that they fall into categories such as: clients with large or small number of documents and reports, clients with high or low tax risks, and clients with or without external audit. In the figure 3 we made a presentation of the main steps considered in the joining process of the new clients.

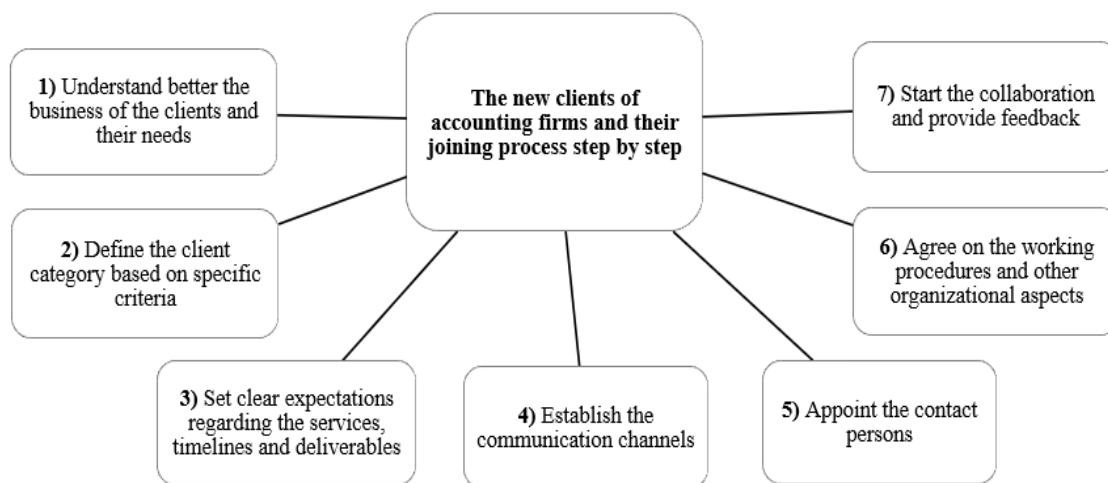


Figure 3. The main steps considered in the joining process of the new clients

Source: Own processed information

For the most clients, the office of accounting firms represents the location of service provision. Large clients can request the accounting firms to relocate a team of professionals to their premises. There are other companies that have a lower need for contact with external accountants and for those clients, the accounting firms can ensure the presence of professionals once, twice or three times a week considering the clients' demands.

Regarding the scope of work, clients can choose to collaborate with accounting firms for many reasons. Accounting managers indicated that small companies do not need a full-time accountant and because of that these entities resort to outsourcing of accounting services

to save money. According to them, small companies outsource the accounting and tax services out of the need to meet their statutory obligations to keep accounting and tax records.

In prior research on accounting outsourcing authors like Carey and Tanewski (2016), Everaert et al. (2010), Juntunen et al. (2022) and Potryvaieva and Palieiev (2023) specified also that smaller enterprises outsource accounting services mainly to comply with legal obligations with minimal costs and for these entities the accounting information is not of great importance in decision making process.

Other companies being larger in size are interested in the accuracy and the completeness of information and to reduce their tax risks and this is why they ask for review and tax compliance services on a regular basis, in case the accounting function is conducted in a shared service center or within an internal accounting department. In previous studies Islomov (2022) reached to similar findings, namely larger companies can choose to use internal accountants for daily activities and external accountants for those tasks that require a high expertise in order to mitigate the risks. However, he did not mention anything about shared service centers.

After the accounting firms start the collaboration with existing companies, they prepare a review report and present the findings to their clients. If accounting firms discover material reconciliation differences and other errors then with the consent of the clients the review can be extended in order to solve the issues found. If the clients do not agree with this in-depth review because of additional costs then accounting firms will prepare a disclaimer. This finding regarding the review of the accounting and tax records belonging to the new joined clients was not reported in prior research even though material reconciliation differences and other errors unsolved by former internal or external accountants can create real problems for the clients in case of subsequent tax inspections.

Digitalization of accounting services

For accounting firms, digitalization comes with many opportunities. First of all, the accounting firms have their own website and they present online their team of professionals, their certifications, the reviews from those clients that are well known on the market in order to promote their services. Within accounting services industry, the speed of information generation is crucial and there is an increasing need for real-time information.

Accounting managers agreed that digitalization has impact on various areas such as communication and connection, data collection and processing, data analysis and interpretation, information reporting, presentation and data visualization. These findings are similar with the results of the study conducted by Oesterreich et al. (2019) who claimed that the objective of real-time data can be achieved by using digital technologies to collect, process, analyze and share data.

Digitalization of the accounting services is related to the use of virtual meeting applications, cloud computing, transfer of electronic data, automation of tasks and the use of artificial intelligence. Accounting firms use digital technologies at the beginning of the collaboration with new clients for data migration in order to import the initial data into their information system and then as part of the regular accounting process for data collection and processing, data analysis and information reporting. In prior research the subject related to the use of digital technologies for data migration or data initialization for the new clients of accounting firms was ignored.

In the figure 4 we presented the transformation of accounting process having in view the impact of digitalization on collaboration between parties.

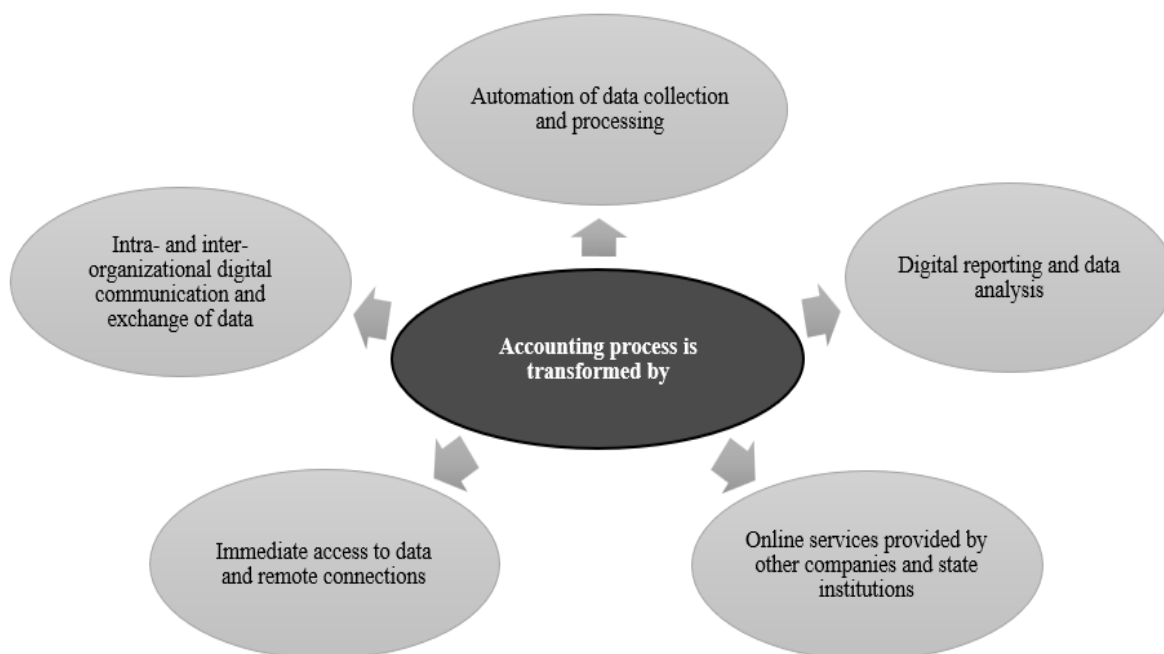


Figure 4. The main components of digitalization that transform the accounting process

Source: Own processed information.

Senior accountants explained the high importance of virtual meeting applications for their collaboration with the clients and their colleagues. External accountants and their clients can meet online anytime to discuss without having to travel and in this manner, they can reduce the costs and save time. In previous studies on accounting outsourcing, the importance of virtual meeting application for the provision of accounting services was not emphasized.

Accounting managers indicated that virtual meeting applications and cloud technology allowed them to engage in the provision of remote services, since they started the collaboration with clients located in different parts of the country and they even hired accountants from other cities as remote workers in order to overcome the shortage of professionals on the local labor market.

These findings related to the use cloud technology within accounting firms are consistent with the conclusions of the articles written by Ma et al. (2021) and Saad et al. (2022) meaning that cloud technology can facilitate the remote delivery of services since it provides shared and immediate access to data and possesses real-time collaboration functionality.

In respect to the exchange of digital data, we were told that the mandatory adoption of e-invoice system for all companies in Romania had a positive effect on the bookkeeping process and the outsourcing of accounting services. Experienced accountants mentioned that all incoming and outgoing invoices that were submitted to e-invoice platform are downloaded and confirmed with the clients using digital approval workflows prior to the bookkeeping process.

Since the enterprises exchange nowadays more and more digital data, according to accounting managers, the implementation of robotic process automatic (RPA) solutions is absolutely necessary to streamline the accounting activities and allow the accountants to be engaged more in non-routine tasks. Experienced accountants told us that RPA tools require minimal supervision, they can be easily integrated with the existing information systems in order to process the incoming and outgoing invoices, the bank statements and they ensure high data processing speed and accurate information.

Accounting managers believe that the use of RPA technology can help accounting firms to save time needed to provide services to new clients and to cope with the shortage of professionals on the local labor market in certain extent. In prior research authors like Cooper et al. (2019) and Harrast (2020), emphasized the use of RPA technology for repetitive and rule-based tasks in order to increase the accuracy of information and process data faster, but these researchers did not mention anything about the possibility to use RPA technology to cope with the shortage of professionals.

Accounting managers stated that artificial intelligence technology is used within accounting firms mainly for review and audit services and for those complex business cases accountants rely on expert systems to find the appropriate solutions. Our result regarding the use of artificial intelligence technology within accounting services industry primarily for in-depth data investigations and the exploration of alternative solutions for complex business cases is consistent with prior research conducted by Hasan (2021), Kumar et al. (2023) and Zhang et al. (2020).

The accounting process for existing clients

Accounting managers specified that accounting process means to provide the services needed by the clients and follow the working procedure that was agreed between the clients and accounting firms. The client-based working procedure contains details regarding the client category, the industry, the business activities, the relevant laws and other regulations applicable to those business activities, the main operations for each business activity, the description of the high-risk areas, the reports that should be prepared for managers alongside with their timelines, the tax and accounting legal obligations and their deadlines, the instructions regarding the bookkeeping of the main business operations, guidelines for preparing the management reports, the financial statements, the tax returns and other tasks.

Having in view the client category based on the workload and the frequency of information need, the accounting process for existing clients consists in tasks that can occur daily, weekly or monthly. For example, in case of large clients that requested the accounting firms to relocate a team of professionals to their premises, the accounting tasks occur daily because these entities are clients with a large number of documents.

There are clients that in spite of having internal accountants they request review services and other support from the accounting firms in respect to the month and year closing, the preparation of the financial statements and tax returns. For some large clients according to the agreed client-based working procedure, the accounting firms have to make also the payments and the clients have to approve them.

We were informed about some large clients that have the main location of the service provision at the office of the accounting firms and considering the agreements concluded with the clients, the external accountants have to book or process daily the documents into the information system of those clients since for decision making process, they frequently need accounting information.

Accounting managers emphasized that clients have their own role within the accounting process namely they should submit the supporting documents in time and respond promptly to their requests when clients are asked to provide additional information regarding the business transactions and events. The late submission of the supporting documents can cause further issues such as the late preparation of the internal and external reports including also the tax returns and in these circumstances the clients can receive fines in case the tax returns are submitted with delay.

In previous studies on accounting outsourcing researchers like Fomina and Kolomiets (2022) emphasized also the importance of keeping up with the document flow schedule to avoid inconveniences.

In the figure 5 we presented the main steps regarding the accounting process in case of outsourcing which starts with the receipt of the supporting documents from clients, then it continues with the preparation of internal and external reports and it ends with document archiving.

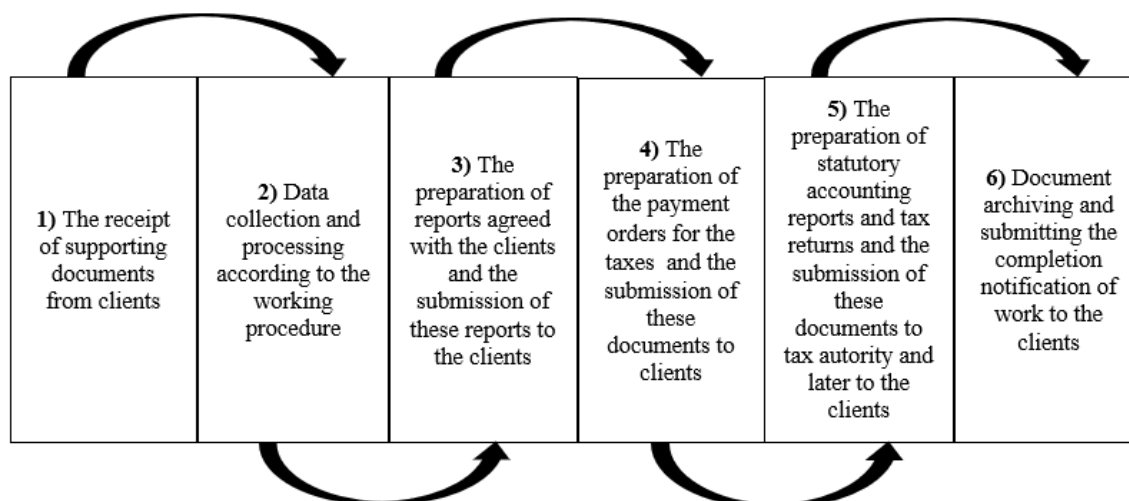


Figure 5. The main steps regarding the outsourced accounting process

Source: Own processed information.

As regards the distribution of accounting activities junior accountants are mainly in charge with data entry and data validation which can mean manual bookkeeping and the import of files and documents. Experienced accountants are responsible for the preparation of the standard reports agreed with the clients, various accounting and tax reports, tax returns and other information requested by other institutions.

Senior accountants provide the support to the junior and experienced accountants, they review their work in order to ensure the accuracy and the completeness of the accounting records. For small clients the accounting activities are usually assigned only to the experienced accountants since these clients have lower risks.

Senior accountants specified that for medium-sized enterprises and large companies the accounting firms have also to prepare regularly several statistical reports requested by National Institute of Statistics and National Bank of Romania and upload the statistical data into their online applications. The compilation and review services are mainly assigned to senior accountants since this type of services require a high expertise.

After reviewing the tax returns and the payment orders for the taxes, the senior accountants submit the tax returns to the tax authority, then these documents are sent to the clients with the request to pay the taxes according to the information provided in the payment orders.

When all accounting activities are completed, the senior accountants close the period into the information system and later an automatic email with a completion notification of accounting works is sent to the clients. We were told that for some clients, the working procedure does not mention any management reports that accounting firm have to prepare for them. Nevertheless, for those clients, the email with the completion notification of accounting works will contain in the attachment a file with general indicators regarding their business activity in order to provide the

clients an overview of their operations. The accounting process ends with the archiving of the supporting documents, accounting reports and tax returns.

Conclusions

The aim of this study was to investigate outsourcing of accounting services in digital age considering the collaboration arrangements between accounting firms and their clients. In order to achieve the purpose of this paper, we mobilized transaction costs economics and resource-based view as theoretical framework, accounting services market from Romania as context and case study as research method involving 3 accounting firms.

In our research we focused on the collaboration of accounting firms with their clients, analyzing the joining process of the new clients, digitalization of accounting services and the accounting process for existing clients.

Following our theoretical framework and considering the empirical evidence the results indicated that clients' decisions to insource, outsource or co-source the accounting services depend on the availability of internal and external professionals, their costs, frequency of information need and technology readiness.

Meetings and discussions with the clients are necessary to understand better their businesses, their requests and to establish the communication channels, the expectations on services, deadlines and deliverables. Accounting process means to receive documents from clients, process data from documents based on the agreed terms, prepare and submit the reports to clients.

Within accounting services industry, the speed of information generation is crucial. Digitalization of the accounting services is related to the use of virtual meeting applications, cloud computing, transfer of electronic data, the automation of tasks and the use of artificial intelligence. Technologies like robotic process automation and artificial intelligence ensure faster data processing, accurate information and prompt reactions.

Nowadays more large companies could outsource their accounting due to e-invoice system and cloud technology. Having in view the available digital technologies and clients' demands, accounting firms can deliver on-site, hybrid or remote services.

Our research complements the literature on outsourcing of accounting services by presenting those perspectives related to digitalization of accounting services. Our contribution was to show that e-invoice system and digital technologies facilitate the provision of remote services and accounting firms can also target larger companies as clients.

Our study has implications for accounting firms and their clients and we emphasized what opportunities they have in digital age for collaboration because of cloud technology and how they can benefit more from digitalization of economy which enables the transfer of electronic data between the parties.

Our recommendations for smaller accounting firms to keep updated their website, increase their visibility and promote their services on social media platforms, implement robotic process automation and cloud technology if they want to accommodate new clients, enhance remote delivery of services and provide advisory services in a higher extent.

We identified two potential limitations of our research. The first limitation regards our research context represented by accounting services market from Romania and thus the generalization of findings should be made with caution. Nevertheless, conducting future studies on the same subject in other countries having similar characteristics to Romania could lead to results comparable to our own findings.

The second limitation is related to the small number of participants which is specific to in-depth qualitative studies. In our research we involved 3 accounting firms and previous studies on outsourcing of accounting using also case study as research method involved either one enterprise (Maleah et al., 2010) or two companies (Ahmed, 2018; Nielsen et al., 2015). Furthermore, each accounting firm is organized quite the same and delivers similar services.

Even though in our study our attention was mostly directed to the outsourcing of accounting services and its relationship with digital age, yet we realized that we could have discussed in our paper also about the challenges of collaboration between artificial intelligence and human accountants and being outside the purpose of this paper we propose this subject as direction for future research.

References

- Agostino, D., Saliterer, I., & Steccolini, I. (2021). Digitalization, accounting and accountability: A literature review and reflections on future research in public services. *Financial Accountability and Management*, 38(2), 152-176. <https://doi.org/10.1111/faam.12301>
- Ahmed, M. N. (2018). Outsourcing relationship management: accounting in the decision mix. *Journal of Business Strategy*, 39(5), 41-49. <https://doi.org/10.1108/jbs-03-2018-0049>
- Aman, A., Hamzah, N., Amiruddin, R., & Maelah, R. (2012). Transaction costs in finance and accounting offshore outsourcing: a case of Malaysia. *Strategic Outsourcing an International Journal*, 5(1), 72-88. <https://doi.org/10.1108/17538291211221960>
- Asatiani, A., Penttinen, E., & Kumar, A. (2019). Uncovering the nature of the relationship between outsourcing motivations and the degree of outsourcing: An empirical study on Finnish small and medium-sized enterprises. *Journal of Information Technology*, 34(1), 39-58. <https://doi.org/10.1177/0268396218816255>
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99-120. <https://doi.org/10.1177/014920639101700108>
- Barrar, P., Wood, D., Jones, J., & Vedovato, M. (2002). The efficiency of accounting service provision. *Business Process Management Journal*, 8(3), 195-217. <https://doi.org/10.1108/14637150210428925>
- Bell, E., Bryman, A., & Harley, B. (2018). *Business Research Methods* (4th ed. pp. 353-555). Oxford University
- Burke, G. I., & Jarratt, D. G. (2004). The influence of information and advice on competitive strategy definition in small- and medium-sized enterprises. *Qualitative Market Research an International Journal*, 7(2), 126-138. <https://doi.org/10.1108/13522750410530039>
- Cahyaningtyas, F., & Ningtyas, M. N. (2020). The use of outsourced accounting service and its impact on SMEs performance. *Journal of Accounting and Business Education*, 4(2), 79-97. <https://doi.org/10.26675/jabe.v4i2.8641>
- Carey, P., & Tanewski, G. (2016). The provision of business advice to SMEs by external accountants. *Managerial Auditing Journal*, 31(3), 290-313. <https://doi.org/10.1108/maj-12-2014-1131>
- Cassar, G., & Ittner, C. D. (2009). Initial retention of external accountants in startup ventures. *European Accounting Review*, 18(2), 313-340. <https://doi.org/10.1080/09638180902731562>

- Coban, M. (2023). The role of digital technology in the development of enterprises in the European Union. *Eastern European Journal for Regional Studies*, 9(2), 142-155. <https://doi.org/10.53486/2537-6179.9-2.10>
- Collis, J., & Jarvis, R. (2002). Financial information and the management of small private companies. *Journal of Small Business and Enterprise Development*, 9(2), 100-110. <https://doi.org/10.1108/14626000210427357>
- Cooper, L. A., Holderness, D. K., Sorensen, T. L., & Wood, D. A. (2019). Robotic process automation in public accounting. *Accounting Horizons*, 33(4), 15-35. <https://doi.org/10.2308/acch-52466>
- Eurostat database (2022). *Enterprise statistics by size class on 31.12.2022*. Retrieved from https://ec.europa.eu/eurostat/databrowser/view/sbs_sc_ovw/default/table?lang=en&category=bsd.sbs.sbs_ovw
- Everaert, P., Sarens, G., & Rommel, J. (2007). Sourcing strategy of Belgian SMEs: empirical evidence for the accounting services. *Production Planning & Control*, 18(8), 716-725. <https://doi.org/10.1080/09537280701706195>
- Everaert, P., Sarens, G., & Rommel, J. (2010). Using Transaction Cost Economics to explain outsourcing of accounting. *Small Business Economics*, 35(1), 93-112. <https://doi.org/10.1007/s11187-008-9149-3>
- Faituša, I., Subačienė, R., & Mačerinskienė, A. 2020. Challenges of outsourcing accounting in Latvia and Lithuania, *Entrepreneurship and Sustainability Issues* 7(4): 2883-2896. [https://doi.org/10.9770/jesi.2020.7.4\(20\)](https://doi.org/10.9770/jesi.2020.7.4(20))
- Fomina, O., & Kolomiets, D. (2022). Accounting outsourcing as a tool for optimising the company's activities. *Economics Entrepreneurship Management*, 9(2). 30-43. <https://doi.org/10.56318/eem2022.02.030>
- Hafeez, A., & Andersen, O. (2014). Factors Influencing Accounting Outsourcing Practices among SMEs in Pakistan Context: Transaction Cost Economics (TCE) and Resource-Based Views (RBV) Prospective. *International Journal of Business and Management*, 9(7), 19-32. <https://doi.org/10.5539/ijbm.v9n7p19>
- Harland, C., Knight, L., Lamming, R., & Walker, H. (2005). Outsourcing: assessing the risks and benefits for organisations, sectors and nations. *International Journal of Operations & Production Management*, 25(9), 831-850. <https://doi.org/10.1108/01443570510613929>
- Harrast, S. A. (2020). Robotic process automation in accounting systems. *Journal of Corporate Accounting & Finance*, 31(4), 209-213. <https://doi.org/10.1002/jcaf.22457>
- Hasan, A. R. (2022). Artificial Intelligence (AI) in Accounting & Auditing: A Literature Review. *Open Journal of Business and Management*, 10(01), 440-465. <https://doi.org/10.4236/ojbm.2022.101026>
- Höglund, H., & Sundvik, D. (2016). Financial reporting quality and outsourcing of accounting tasks: Evidence from small private firms. *Advances in Accounting*, 35, 125-134. <https://doi.org/10.1016/j.adiac.2016.03.001>
- Islomov, A. (2022). Theoretical-methodological and legal basis of the development of accounting based on accounting outsourcing. *Society and innovations*, 3(10/S), 143-154. <https://doi.org/10.47689/2181-1415-vol3-iss10/s-pp143-154>
- Juntunen, J., Lepistö, S., & Juntunen, M. (2022). Latent classes of accounting outsourcing firms. *Journal of Global Operations and Strategic Sourcing*, 15(1), 115-141. <https://doi.org/10.1108/jgoss-02-2021-0019>
- Kamyabi, Y., & Devi, S. (2011a). An Empirical investigation of accounting outsourcing in Iranian SMEs: Transaction Cost Economics and Resource-Based Views. *International*

- Journal of Business and Management*, 6(3), 81-94.
<https://doi.org/10.5539/ijbm.v6n3p81>
- Kamyabi, Y., & Devi, S. (2011b). Accounting outsourcing and firm performance in Iranian SMEs. *International Journal of Economics and Finance*, 3(4), 181-192.
<https://doi.org/10.5539/ijef.v3n4p181>
- Kumar, S., Lim, W. M., Sivarajah, U., & Kaur, J. (2022). Artificial Intelligence and Blockchain Integration in Business: Trends from a Bibliometric-Content Analysis. *Information Systems Frontiers*, 25, 871-896.
<https://doi.org/10.1007/s10796-022-10279-0>
- Lambert, C., & Sponem, S. (2011). Roles, authority and involvement of the management Accounting Function: A multiple case-study perspective. *European Accounting Review*, 21(3), 1-25. <https://doi.org/10.1080/09638180.2011.629415>
- Leitner-Hanetseder, S., Lehner, O. M., Eisl, C., & Forstenlechner, C. (2021). A profession in transition: actors, tasks and roles in AI-based accounting. *Journal of Applied Accounting Research*, 22(3), 539-556. <https://doi.org/10.1108/jaar-10-2020-0201>
- Ma, D., Fisher, R., & Nesbit, T. (2021). Cloud-based client accounting and small and medium accounting practices: Adoption and impact. *International Journal of Accounting Information Systems*, 41, 100513.
<https://doi.org/10.1016/j.accinf.2021.100513>
- Maelah, R., Aman, A., Hamzah, N., Amiruddin, R., & Sofiah, N. (2010). Accounting outsourcing turnback: process and issues. *Strategic Outsourcing an International Journal*, 3(3), 226-245. <https://doi.org/10.1108/17538291011093811>
- Moll, J., & Yigitbasioglu, O. (2019). The role of internet-related technologies in shaping the work of accountants: New directions for accounting research. *The British Accounting Review*, 51(6), 100833. <https://doi.org/10.1016/j.bar.2019.04.002>
- Munjal, S., Requejo, I., & Kundu, S. K. (2019). Offshore outsourcing and firm performance: Moderating effects of size, growth and slack resources. *Journal of Business Research*, 103, 484-494. <https://doi.org/10.1016/j.jbusres.2018.01.014>
- National Institute of Statistics (2023). *Resident population in Romania on 01.01.2023*. Retrieved from https://insse.ro/cms/sites/default/files/com_presa/com_pdf/poprez_ian2023r.pdf
- National Trade Register Office (2022). *Statistics on businesses. Active businesses on 31.12.2022*. Retrieved from <https://www.onrc.ro/index.php/ro/statistici>
- Nicholson, B., Jones, J., & Espenlaub, S. (2006). Transaction costs and control of outsourced accounting: Case evidence from India. *Management Accounting Research*, 17(3), 238-258. <https://doi.org/10.1016/j.mar.2006.05.002>
- Nielsen, L. B., Mitchell, F., & Nørreklit, H. (2015). Management accounting and decision making: Two case studies of outsourcing. *Accounting Forum*, 39(1), 66-82.
<https://doi.org/10.1016/j.accfor.2014.10.005>
- Oesterreich, T. D., Teuteberg, F., Bensberg, F., & Buscher, G. (2019). The controlling profession in the digital age: Understanding the impact of digitisation on the controller's job roles, skills and competences. *International Journal of Accounting Information Systems*, 35, 100432. <https://doi.org/10.1016/j.accinf.2019.100432>
- Potryvaieva, N., & Palieiev, A. (2023). Accounting outsourcing as a modern effective tool of enterprise management. *Ukrainian Black Sea Region Agrarian Science*, 27(3), 18-30.
<https://doi.org/10.56407/bs.agrarian/3.2023.18>

- Rashid, Y., Rashid, A., Warraich, M. A., Sabir, S. S., & Waseem, A. (2019). Case study method: A Step-by-Step guide for business researchers. *International Journal of Qualitative Methods*, 18, 1-13. <https://doi.org/10.1177/1609406919862424>
- Saad, M., Lutfi, A., Almaiah, M., Alshira'h, A., Alshirah, M., Alqudah, H., Alkhassawneh, A., Alsyuf, A., Alrawad, M., & Abdelmaksoud, O. (2022). Assessing the Intention to Adopt Cloud Accounting during COVID-19. *Electronics*, 11(24), 40-92. <https://doi.org/10.3390/electronics11244092>
- Tomašević, I., Đurović, S., Abramović, N., Weis, L., & Koval, V. (2023). Factors influencing accounting outsourcing using the Transaction Cost Economics model. *International Journal of Financial Studies*, 11, 1-17. <https://doi.org/10.3390/ijfs11020061>
- Top firms (2023). *Statistics on accounting firms based on annual turnover for year 2023*. Retrieved from <https://www.topfirme.com/caen/6920/>
- Williamson, O. E. (1979). Transaction-Cost Economics: The Governance of Contractual Relations. *The Journal of Law & Economics*, 22(2), 233-261.
- Woo, S. E., O'Boyle, E. H., & Spector, P. E. (2017). Best practices in developing, conducting, and evaluating inductive research. *Human Resource Management Review*, 27(2), 255-264. <https://doi.org/10.1016/j.hrmr.2016.08.004>
- Zandi, G., Chuan, T. K., & Mansori, S. (2019). A study of Accounting Outsourcing Decision: The case of Malaysian SMEs. *International Journal of Financial Research*, 10(5), 153-160. <https://doi.org/10.5430/ijfr.v10n5p153>
- Zhang, Y., Xiong, F., Xie, Y., Fan, X., & Gu, H. (2020). The impact of artificial intelligence and blockchain on the accounting profession. *IEEE Access*, 8, 110461–110477. <https://doi.org/10.1109/access.2020.3000505>

INCREASING THE WELFARE OF THE "WORKING POOR" IN THE REPUBLIC OF MOLDOVA: CHALLENGES, CONSEQUENCES, SOLUTIONS

Dorin VACULOVSKI¹

Abstract: *The initiation of the transition to a market economy in the Republic of Moldova led to a drastic expansion of poverty. It should be emphasized that against the backdrop of hyperinflation at the beginning of the 90s and the privatization processes of the first years of the transition to the market economy, there was a strong decline in the real income of the population. In the category of people below the poverty line, could be included not only those from vulnerable groups, but also workers from the real and budgetary sector of the national economy, whose only source of income was their salary from employment. Thus, a fairly large economic social group was formed, namely the working poor which continues to exist to this day. On the other hand, the new economic realities led to the diversification of the population's forms of income, a phenomenon that was not characteristic of the socialist economy. This fact led to the spread of other forms of income and to the reduction of the role of the salary in the total income of the population. Against the backdrop of the economic transformations of the 1990s, there was a continuous decline in wages as the main source of income for the population. Consequently, the share of wages in the total disposable income of the population decreased to 37.8% by the year 2000. [13].*

The decrease in the role of the salary in the formation of the disposable income of the population in favor of other sources of income is a process of fire in the context the transition to the market economy. The population that managed to adapt to the new challenges of the time, successfully overcame the risk of poverty. Some managed to migrate; others started new businesses or engaged in other economic activities. Against this backdrop, social inequality among people intensifies. Unfortunately, the process of forming a class of prosperous business owners or "businesspeople" was only at the beginning, and they represented an extremely small number. Even to this day, a large expansion of the group of employers and businessmen in the Republic of Moldova is not noticeable. According to the Labor Force Survey, of the total employed population, only 3.9% were business owners (or employers) in 2023 [12], which indicates that there are problems in the chapter "entrepreneurial spirit", an indispensable condition for the development of the market economy.

When the share of wages in the total income of the population becomes extremely small, a shift may occur in the function of reproducing the labor force from wages to other forms of income that are not directly linked to productive activity, such as non-labor-related activities. There is a strong decrease in occupational indicators, and a degradation of the human potential in the Republic of Moldova, thus undermining the functioning mechanism of the national economy for a longer perspective. In the situation where the salary no longer fulfills its basic economic and social functions, i.e. reproduction, motivation, stimulation of economic growth, the population no longer ties the fulfillment of their needs to work and employment in the labor market of the Republic of Moldova, opting instead for labor markets in other countries where wage conditions and working conditions are more favorable. The compromising of the role of wages in the economic life of the Republic of Moldova has led to the intensification of international labor migration and the degradation of the situation on the labor market, which seriously affects the prospect of economic recovery and sustainable economic development in the coming years.

Keywords: *salary, poor workers, employees on the labor market, minimum wage, employment rate, fields of activity.*

UDC: 331.2:330.59(478)

JEL Code: J6

¹ Dorin VACULOVSKI is associate professor at Academy of Economic Studies form Moldova, Chisinau, Republic of Moldova, E-mail: dorinvaculovskyy@yahoo.com, ORCID ID: 0000-0002-1500-0113

Introduction

The economic transformations at the beginning of the transition to a market economy started the formation of new labor relations, respectively, the formation of the labor market in the Republic of Moldova, which led, in a way, to the liberation of labor. In contrast to the socialist economy, where the obligation to provide work services for any able-bodied person persisted, in the new economic conditions workers can make a free decision whether to provide work services for the employer or not, what volume of work to provide, what specialty or job to choose or, in general, to practice another activity as an alternative to the income-generating work. This fact led to the diversification of the economic activities of the economically active population, except for that of providing labor services.

On this background, the inflationary processes of the first years of the transition to the market economy, the mass privatization processes led to the drastic reduction of the activity of several enterprises and, therefore, to the mass dismissal of workers, to the expansion of various forms of disguised unemployment. This fact also led to the drastic erosion of the real income of the population, to the spread of poverty, including among workers whose salaries could not ensure a decent living for themselves or their families. The official statistical data show that the average wage in the economy during that period (1995) was 143.2 lei, which constituted only 46.1% of the *minimum consumption budget*¹, the value of which was 310,6 lei [17].

A rather large specific social group has been created - that of *working poor* who, in the long run, can cause more problems for the social and economic balance and thus quite insecure. These people obtained a profession or a specialty in the socialist economy, and not being quite adaptable and competitive in the new economic conditions. They did not develop the necessary skills to find a more attractive and well paid job (which in reality were extremely few) and were dependent on the wage conditions offered by the enterprise or company in which they worked. For these workers the challenges of the transition to the market economy were a severe blow to their well-being and quality of life.

In the new economic conditions, the wages for this category of workers can no longer fulfill its basic economic and social functions, namely, *reproduction, motivation, stimulation of economic growth*. And the population of the Republic of Moldova stopped tying their work and employment needs to the labor market in the Republic of Moldova, which is in the process of formation, thus choosing the labor markets of other countries, where the salary conditions and job guarantee, in general, income opportunities are more favorable.

The welfare of the working poor was further affected by the economic crisis in the Russian Federation in 1998-1999, which generated major consequences for the national economy of the Republic of Moldova. These consequences were manifested both by inflationary processes and the increase in unemployment, and by the devaluation of the national currency, as well as by long delays in the payment of salaries, a phenomenon that practically persisted in most companies and institutions in the real and budgetary sector of the economy of the Republic of Moldova. Thus, in 2001 the average salary in the economy amounted to 543.7 lei, compared to the subsistence minimum of 468.7 lei. The lowest salaries were recorded in agriculture - 315.1 lei; in education - 336.9 lei in health 314.6 lei [17]. All this has generated an intensification of international labor migration.

¹ *The minimum consumption budget* was an indicator inherited from the socialist economy that was used as a benchmark in income and wage policy. In the 2000s, a new minimum subsistence indicator was introduced, which was used as a benchmark in income and salary policies, being calculated according to a new calculation method.

Public authorities since the beginning of the transition to the market economy, in order to ensure social protection and motivate workers, have intervened with a new Law on wages, namely no. 1306 of February 25, 1993, through which several changes characteristic of the market economy were made. Thus, the removal of salary caps, the implementation of the minimum salary as a form of social protection for workers, in the amount of 3 lei (3000 coupons), as well as the approval of a salary network for various economic fields had to, in a way, ensure a level of social justice in the wage policy at that time and a minimum level of well-being for workers. But the minimum salary of 3 lei (after indexation it became 18 lei and stopped at this value for a longer period of time) could not even remotely cover the minimum necessary of living, for workers, thus, it could in no way fulfill its social protection functions.

A strong process of poverty expansion took place in the Republic of Moldova, including among workers actively engaged in the labor market. The situation was even worse for the rural population and the budget sector workers, whose salaries, already low, were paid with a delay of 6 months.

In 2002, a new "Law on wages" was approved in the Republic of Moldova. 847 - XV, of February 14, 2002 [2], which was closer to the principles of the market economy, which had to ensure social justice in the salary policy of the Republic of Moldova and social protection for poor workers in the Republic of Moldova. However, the implementation of this law did not solve the problem of expanding poverty among workers. However, the minimum wage for many years was still below the subsistence minimum.

The object of this article is the analysis of the evolution of salaries in the Republic of Moldova in correlation with the evolution of the standard of living, during the period of transition to the market economy. The article focuses on the analysis of the main factors that led to the emergence of this social group, as "poor workers", which may be the economic and social consequences for the Republic of Moldova, if this group of "poor workers" will not be eradicated, as well as finding conclusive solutions to combat the poverty of workers who provide labor services. However, under the conditions of the market economy, the presence of this group is practically inadmissible. In the context of an economic recovery in the Republic of Moldova, the presence of the group of poor workers could, in fact, lead to the degradation of human capital, compromise sustainable economic development and competitiveness, as well as expand the deficit of skilled labor, which is critically needed for the ambitious projects currently set by the public authorities.

For a more in-depth analysis of the situation of poor workers, was used a vast literature in the field, studies, monographs, articles, informative notes, official statistical data of government institutions concerned with the issue of wages in the Republic of Moldova. Statistical data from the National Bureau of Statistics, the National Bank, as well as some data taken from various national and international studies conducted in recent years were used.

Salary – defining element of the labor market

The first years of transition to the market economy strongly affected the real incomes of the population of the Republic of Moldova, which has generated an uncontrolled increase of the poverty. Mass privatization of enterprises, reforms in the agricultural sector, excessive economic dependence on the markets of the Russian Federation has led to phenomena such as rampant inflation, the halting of business activities, disguised unemployment, and the intensification of labor migration. Obviously, these challenges also affected the evolution of workers' wages, so that they could no longer fulfill their social, reproductive, motivating, economic growth-stimulating functions.

Table 1, which reflects the evolution of wages from 1995-2001, i.e. in the first years of economic transformations in the Republic of Moldova, shows that the size of the average wages in the economy did not even cover the level of *the minimum consumption budget* of the workers (the minimum standard of living used in those times) (Table 1). Thus, the average nominal wage in the economy in 1995 constituted only 46.1% of the minimum necessary for a decent living, while in 2001 this ratio constituted 51.6%. This period was the most difficult for the workers of the Republic of Moldova, and it was during this time that the relatively large social group of "poor workers" emerged.

Table 1. Evolution of the average monthly salary and the minimum consumption budget (per inhabitant per month), lei, 1995-2001

	1995	1996	1997	1998	1999	2000	2001
Average monthly nominal salary of a worker in the economy, lei	143,2	187,1	219,8	250,4	304,6	407,9	543,7
The minimum consumption budget (per inhabitant, per month), lei	310,6	387,8	439,5	473,0	661,8	994,5	1053,0

Source: *Statistical yearbook of the Republic of Moldova, 2002*

It was only starting with the 2000s that market economic relations began to consolidate, and the economic situation started to stabilize. In this situation, wages also began to register a spectacular growth trend. Thus, from 2000 to 2023, salaries increased from 407.9 lei to 12209.2 lei, i.e. about 30 times (Figure 1).

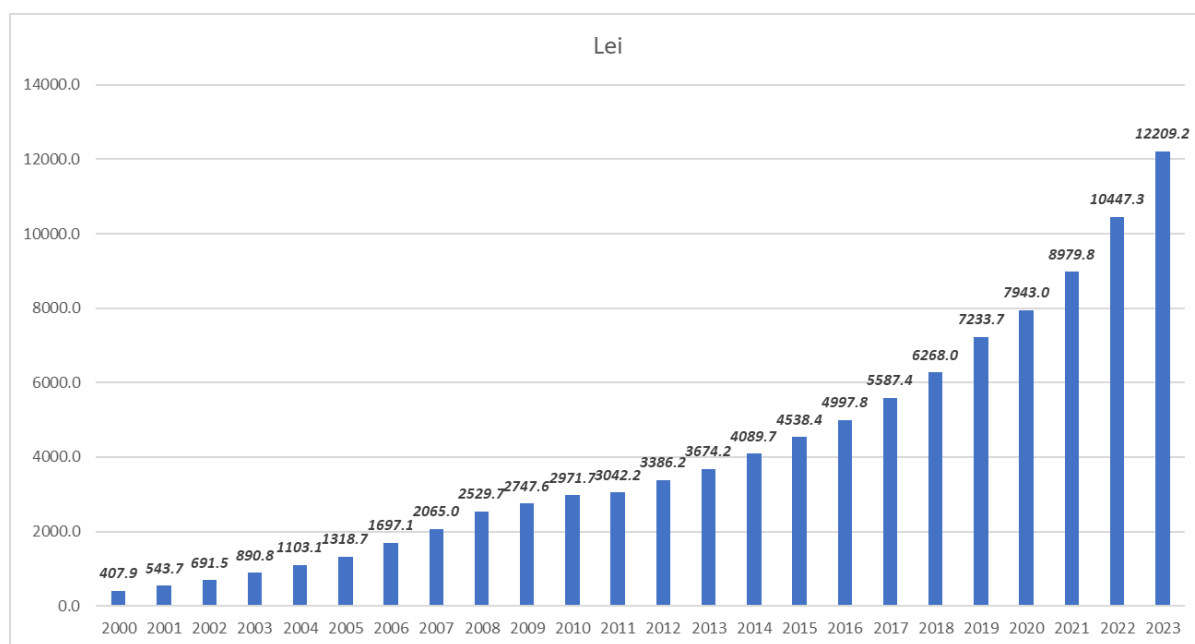


Figure 1. Average monthly salary in the Republic of Moldova, 2000-2023, lei

Source: *National Bureau of Statistics*

However, the same cannot be said regarding the evolution of the standard of living and the quality of life of employees in the Republic of Moldova. The well-being of the population has not progress at the same pace as the evolution of wages. In order to mitigate the existing discrepancies between the evolution of wages and the standard of living expressed by the minimum consumption budget, a new benchmark was developed to measure

the well-being of the population, i.e. the minimum of decent standard of living of the population, namely *the minimum of existence*, which should to be more "realistic" for the existing economic conditions in the Republic of Moldova, than that of the minimum consumption budget.

It should be noted that the value of the subsistence minimum cannot cover all the needs of the population to ensure a decent standard of living. Its use as a benchmark in setting the minimum wage per country led to the fact that about one fifth of the *employed population* fell into poverty [6].

Against the backdrop of the increase in average wage levels, the cost of living of citizens, expressed at that time through this minimum of existence, also increased. From table 2 it can be observed that the average wage in the economy has exceeded the subsistence minimum only since 2002, constituting 691.5 lei compared to 538.4 lei, and the minimum wage in both the real and budgetary sectors of the economy, as a benchmark of social protection of workers was much lower than the subsistence minimum, exceeding it, respectively, only in 2014 in the real sector and in 2021 in the budget sector (table 2, 3).

In a way, the level of salaries in that period reflected the degree of development of the economy of the Republic of Moldova and the level of labor productivity in that period. Wages were low because the level of labor productivity was also extremely low. It should be mentioned that the wages of the workers in the Republic of Moldova, for the most part, were anyway very close in size to the minimum wage, and they could not in any way ensure a decent living for the population. Only through the gradual increase of the minimum wage, as a result of the tripartite negotiations between trade unions, employers and the state, the welfare of workers could increase (Table 2, 3).

Table 2. Evolution of the average wage in the economy, the minimum wage and the minimum wage, 2001-2012, lei

Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
The existence minimum	468.7	538.4	628.1	679.9	766.1	935.1	1099.4	1368.1	1187.8	1373.4	1503	1507.5
The average wage in the economy	543.7	691.5	890.8	1103.1	1318.7	1697.1	2065.0	2529.7	2747.6	2971.7	3042.2	3386.2
The minimum wage in the real sector, lei	550	700	700	700	700	700	900	900	900	1100	1100	1300
The minimum wage in the budget sector, lei	100	100	100	100	100	200	400	400	400	600	600	600

Source: National Bureau of Statistics

However, according to the table 3, it can be seen that the share of the minimum wage in the total monthly average wage in the economy ranged between 15.9% in 2013 and 32.7% in 2023. Therefore, there were categories of employees who had wages well above the minimum wage, which generated social inequalities between different groups of people based on their place of residence, specialization or profession, or the form of ownership of the companies in which these individuals worked.

Table 3. The existence minimum, the minimum wage in the budget sector and the real sector of the economy, 2013-2023, lei

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
The existence minimum	1612.3	1627.1	1734.1	1799.2	1862.4	1891.0	2031.2	2088.4	2154.0	2628.4	2877.1
The minimum wage in the real sector, lei	1400	1650	1900	2100	2380	2610	2775	2775	2935	3500	4000
The minimum wage in the budget sector, lei	200	400	400	1000	1000	1100	2000	2000	2200	3500	4000
The average monthly salary in the economy	3674.2	4089.7	4538.4	4997.8	5587.4	6268.0	7233.7	7943.0	8979.8	10447.3	12209.2
Share of the minimum wage in the average monthly wage %	15,9	24,0	21,7	19,7	17,5	15,5	37,7	34,2	32,2	33,5	32,7

Source: National Bureau of Statistics

It should be noted that the situation in the budgetary sector was even more critical than in the real sector of the economy. The minimum wage was much lower in the budget sector compared to that in the real sector of the economy, which determined both a lower standard of living for budget workers and an enormous fluctuation of them. They were leaving the public sector either for a job in the real economy sector or to work abroad. This has generated an enormous shortage of workers in some areas of the budget sector (Table 3). All this also led to the fact that a large part of active workers in the national economy lived in poverty. This fact is reflected in the multiple studies on poverty from Republic of Moldova [7].

It should be mentioned that together with the development of the methodology for calculating the the minimum subsistence level, in the context of the implementation of the Strategy for Economic Growth and Poverty Reduction 2004-2006 [6], the official methodology for measuring the level of poverty in the Republic of Moldova was also developed. According to this methodology, a person is considered poor if the sum of his monthly consumption expenses is lower than the absolute poverty threshold. According to table 4, it can be seen that the absolute poverty threshold from 2006 to 2014 evolved from 747.4 lei in 2006 to 1257.0 lei in 2014, the value of which is not as low as the subsistence minimum in those years (935.1 lei in 2006 compared to 1650 in 2014) (table 4, 3). The poverty rate, calculated according to the official poverty thresholds of those years, decreased significantly, from 30.2% in 2006 to 11.4% in 2014. This evolution of poverty did not even remotely reflect the real situation of poverty in the Republic of Moldova in those years.

Table 4. Poverty indicators 2006-2014

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Absolute poverty threshold (lei)	747,4	839,3	945,9	945,9	1015,9	1093,1	1143,4	1196,0	1257,0
Absolute poverty rate (%)	30,2	25,8	26,4	26,3	21,9	17,5	16,6	12,7	11,4
Depth of absolute poverty (%)	7,9	5,9	6,4	5,9	4,5	3,2	2,9	2,0	1,5
Severity of absolute poverty (%)	3,0	2,1	2,3	2,0	1,4	1,0	0,8	0,5	0,3
Extreme poverty threshold (lei)	404,2	453,9	511,5	511,5	549,4	591,2	618,4	646,8	679,8
Extreme poverty rate (%)	4,5	2,8	3,2	2,1	1,4	0,9	0,6	0,3	0,1
Depth of extreme poverty (%)	1,0	0,5	0,5	0,4	0,3	0,1	0,1	0,0	0,0
Severity of extreme poverty (%)	0,4	0,2	0,1	0,1	0,1	0,0	0,0	0,0	0,0

Source: Information note *POVERTY IN THE REPUBLIC OF MOLDOVA 2015*, nota informativa saracia 2015.docx

It should be noted that against the background of the rather high poverty rate (21.9% in 2010), there were also quite a large number of active workers employed in the labor field below the poverty line. In 2010, around 44.9% of employees in the agricultural sector, 10.1% of employees in the non-agricultural sector, and 36.5% of self-employed workers in the agricultural sector were below the poverty line. Against the backdrop of the decrease in the poverty rate, these workers were, anyway, quite numerous: in 2014, around 27.1.9% of employees in the agricultural sector were below the poverty line, 4.7% of employees in the non-agricultural sector, 21.2% of workers on own account in the agricultural sector (Table 5). This table shows how urgent it is to solve the problem of the "working poor" and how numerous they are. Indeed, most of the *working poor* are active in the agricultural sector. However, failure to resolve the issue in a timely manner will lead to an increase in the shortage of agricultural workers. According to the statistical data [9] from that period, it is noted that about 70% of all labor migrants are from the countryside and practice agricultural work.

Table 5 Poverty rate according to the socio-economic status of the household

	2010	2011	2012	2013	2014	2014
Employees in the agricultural sector	44,9	32,4	37,1	31,3	25,5	27,1
Employees in the non-agricultural sector	10,1	7,6	6,9	5,9	6,8	4,7
Self-employed workers in the agricultural sector	36,5	33,6	27,8	21,7	19,8	21,2
Retirees	28,1	22,3	22,6	14,7	14,6	10,1

Sursa: *Information note POVERTY IN THE REPUBLIC OF MOLDOVA 2015, nota informativa saracia 2015.docx*

Considering that the methodology used to measure poverty did not reflect the realities of those years, there was a need to revise the methodology for estimating the poverty threshold in the context of the socio-economic evolution in the country over the last 10 years. The structure of the population's incomes and expenses has changed, but also the culture and consumption pattern of the population. These premises were the basis of the recalculation of the poverty threshold established in 2006, given that it did not reflect the real situation in the country. In the developing of the methodology, the changes that were made in the *Household Budget Research* (CBGC), the basic instrument for measuring both the level of poverty and the subsistence minimum, were taken into account.

Table 6. Evolution of the poverty threshold in the Republic of Moldova, 2014-2022, lei

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Absolute poverty threshold (lei)	1558,6	1709,8	1819,2	1939,3	1998,4	2095,1	2174,1	2285,2	2942,0	3 336,8
The existence minimum	1627.1	1734.1	1799.2	1862.4	1891.0	2031.2	2088.4	2154.0	2628.4	2 877,1
Absolute poverty rate (%)										
Total per country	29,5	25,4	26,4	27,7	23,0	25,2	26,8	24,5	31,1	31,6
Urban	15,6	11,2	11,6	11,8	10,6	11,2	14,0	11,9	17,1	17,7
Rural	39,5	35,6	37,1	38,8	31,6	34,5	35,3	32,8	40,3	42,0

Source: *National Bureau of Statistics.*

According to the new methodology for calculating the poverty threshold, although it has become very close in size to the subsistence minimum (1558.6 lei compared to 1627.1 lei in 2014), the poverty level has increased significantly. This adjustment of the poverty line led to an increase in the poverty rate in 2014 from 11.4% to 29.5% in 2019. This indicates how vulnerable the economy of the Republic of Moldova is and that a large part of the population lives on one income very close to the poverty line, and a simple, insignificant increase in the

poverty threshold resulted in such a significant rise in the poverty rate, by two and a half times. Table 6 shows that the poverty rate calculated according to the new methodology in the period 2014-2023 fluctuated between the values of 29.1% and 31.6%. It is noted that in the rural areas, the poverty situation is even more critical – the poverty rate in the reference period 2014-2023 has evolved from 39.5% to 42.0% (Table 6).

Using the new methodology for calculating the poverty line, the number of *working poor* became even higher. According to Figure 2, which reflects the poverty rate by the main source of income of the head of the household, in 2019, the year when the new poverty measurement methodology was implemented, a significant increase in poor workers is observed: Employees in the agricultural sector - 43.2%; Employees in the non-agricultural sector – 11.9%; Self-employed in the agricultural sector – 22.0%; Self-employed in the non-agricultural sector – 22.0% (see Figure 2).

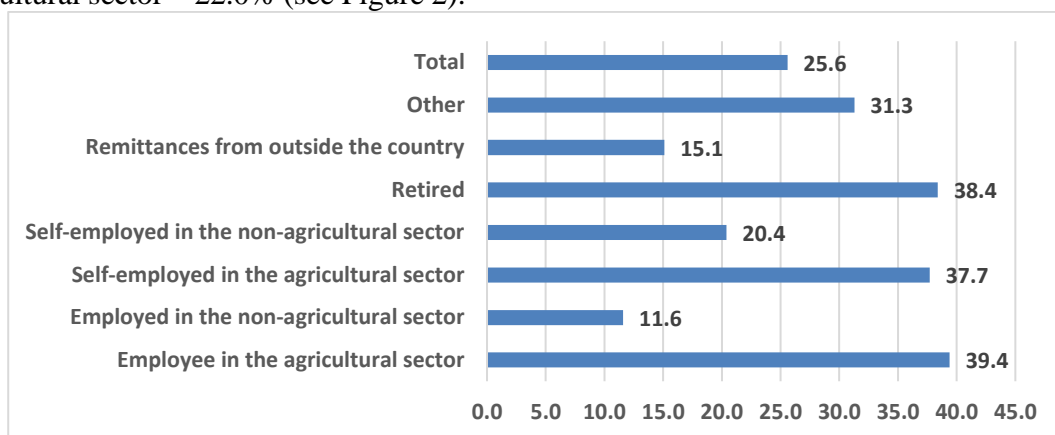


Figure 2. Poverty rate according to the main source of income of the head of the household

Source: National Bureau of Statistics.

The expansion of the number of working poor, especially in the agricultural sector, actually explains the degradation of the occupational indicators in the Republic of Moldova, which during the last years, regardless of the efforts made by the public authorities to improve the situation on the labor market, do not register any growth. The evolution of the situation of poor workers in the reference period 2014-2023, shows that big changes in increasing their well-being have not happened.

Table 7. Absolute poverty rate by the main source of income of the head of the household, 2014-2023, %

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
The wage in the agricultural sector	51.5	50.1	51.9	42.7	39.9	43.2	37.9	35.1	39.2	41.3
The wage in the non-agricultural sector	19.5	14.9	14.6	14.9	12.0	11.9	14.5	12.9	19.1	19.2
Individual agricultural activity	46.5	44.1	46.1	54.0	42.2	38.4	35.4	36.5	42.5	50.9
Individual nonm-agricultural activity	22.0	19.1	19.2	21.0	17.9	22.0	25.1	17.1	30.4	26.8
Retirees	37.7	29.8	32.7	34.6	28.9	38.3	39.5	38.2	45.8	46.1
Transfers from outside the country	21.7	21.2	18.9	21.9	19.7	16.1	25.3	18.2	20.8	21.1
Others	46.0	40.0	43.6	48.4	51.8	46.2	48.8	46.3	58.5	57.8

Source: National Bureau of Statistics.

Such a situation is unacceptable. A plausible solution for increasing the wages of the working poor would be a gradual increase in the minimum wage. Or, in addition to the fact that the value of the minimum wage, being close to the poverty threshold, leads to the spread

of the risk of poverty among the employed population. This situation would also lead to a strong reduction of occupational indicators, respectively, to a worsening of the situation related to social security, to an even greater intensification of international labor migration with all the consequences related to it (worsening of the demographic situation, accelerated aging of the population, etc.), as well as compromising the functionality of the national economy and slowing down the pace of development.

Therefore, raising the minimum wage would lead to an increase in the standard of living of the working poor, reduce wage inequalities, increase worker motivation, reduce poverty and state spending on social protection, and reduce social exclusion and informal employment.

On the other hand, an unjustified increase in the minimum wage, and consequently in wages, that does not correlate with the level of labor productivity or with the budgetary possibilities of the state, can lead to unpredictable situations regarding the economic situation in the country: inflationary increases, higher costs in creating new jobs, unemployment, especially among young people, etc.

However, at the country level, the situation regarding the distribution of employees according to the amount of salaries is not so critical. In 2014, the number of people who received a salary below the poverty threshold (1558.6 lei) is about 12% (Figure 3). At the same time, the question arises as to how relevant this appreciation is and to what extent it correlates with the size of the cost of living.

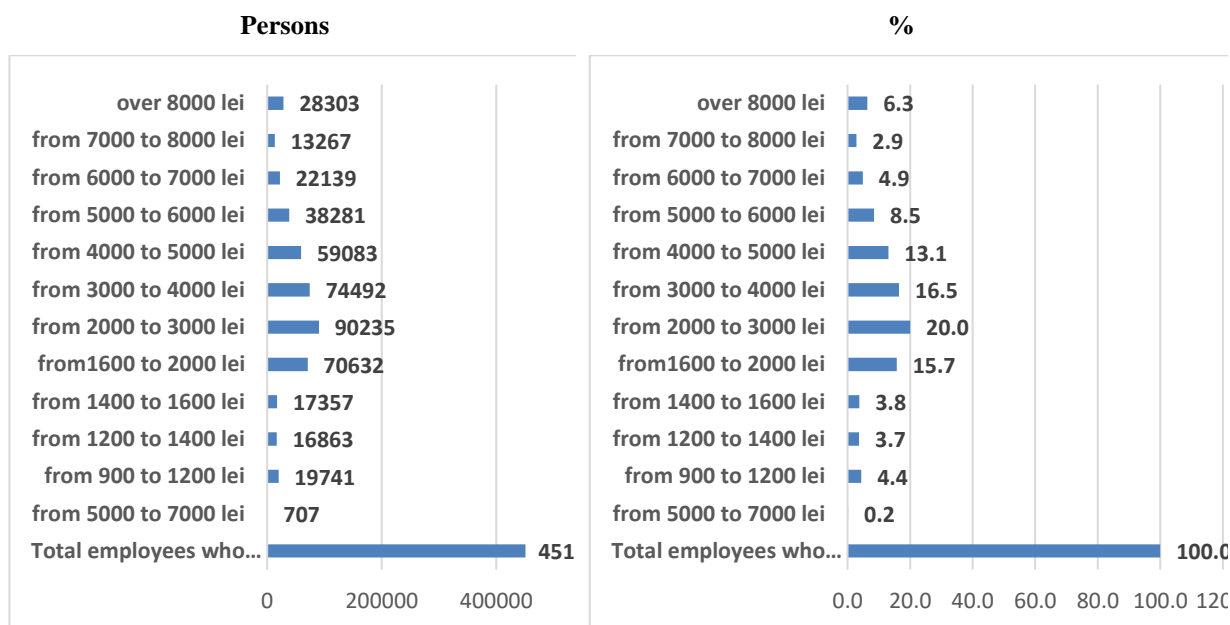


Figure 3. Distribution of employees according to the size of the salary calculated for the month of September 2014

Source: National Bureau of Statistics.

In the Republic of Moldova, there are no other practices for estimating the cost of living than calculating the subsistence minimum. However, various international centers focused on estimating the cost of living (Expstat, Numbeo, US State Department), including in the Republic of Moldova show that it is much higher depending on the existing prices. Thus, according to Numbeo data [21], in 2023 the cost of living for a family in the Republic of Moldova composed of four people (two adults and two children) is estimated at 35,223.2 lei without rent. The estimated monthly costs for a single person are 10,666.4 lei without rent. The cost of living in the Republic of Moldova is, on average, 52.6% lower than in the United States.

Rent in the Republic of Moldova is, on average, 79.1% lower than in the United States [22]. This data is quite useful in comparative analyzes of the cost of living in different countries and can represent a strong argument in tripartite minimum wage negotiations.

During the next 9 years, the situation of employees in the Republic of Moldova improved significantly. Wages have risen above the subsistence level and the poverty rate. Thus, according to figure 4, only 3.6% of employees had salaries of up to 4000 lei and 4000 lei (Figure 4).

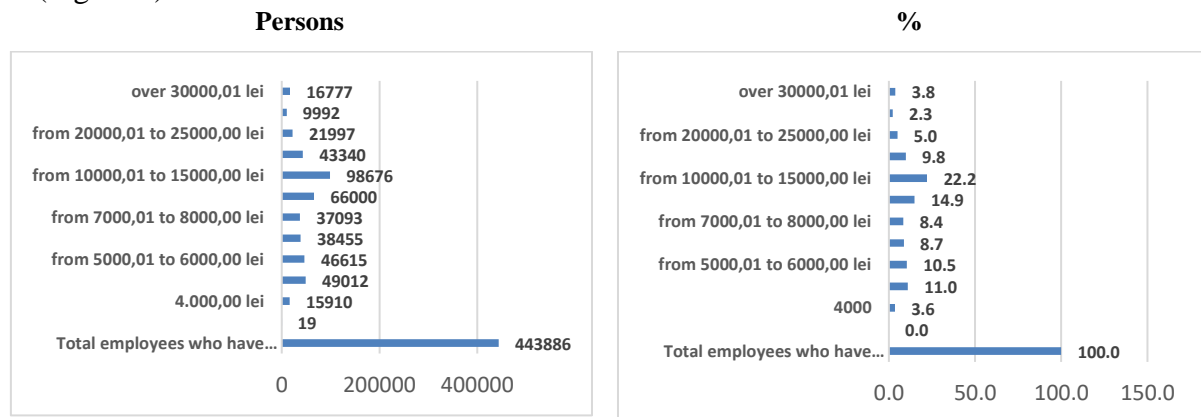


Figure 4. Distribution of employees according to the size of the salary calculated for the month of September 2023

Source: National Bureau of Statistics.

However, it cannot be said that the wage level meets welfare standards comparable to those in European countries. The Republic of Moldova continues to be classified as the poorest country in Europe, respectively, with the lowest level of wages. Table 8, reflects the salary situation in European countries.

Table 8. Average hourly wages in European countries

Country	Average hourly wages	Country	Average hourly wages
Norway	41.7	Malta	14.0
Sweden	26.3	Denmark	42.0
Finland	30.5	Poland	11.9
Luxemburg	47.2	Austria	30.0
Ireland	39.5	Estonia	11.4
Portugal	13.7	Lithuania	14.0
Spain	18.2	Latvia	10.7
France	28.7	Greece	22.6
Italy	21.5	Bulgaria	8.1
Iseland	21.5	Romania	10.4
Germany	31.6	Hungary	11.0
Belgium	36.3	Czech Republic	13.6
Netherland	33.0	Croatia	12.7
Slovacia	12.5	Slovenia	21.9

Source: https://bani.md/harta-salariilor-in-europa-moldova-e-la-coada-clasamentului/?feed_id=36379&unique_id=661a6d9416207

Analyzing the levels of average wages in European countries with those in the Republic of Moldova, for a large part of poor workers there is the temptation to go on the labor migration to these countries. Moreover, the intensification of international labor

migration will inevitably lead to the degradation of the human potential of the Republic of Moldova, which will be very difficult to recover.

In general, the wage is formed as a result of the confrontation between the demand and the supply of labor on the labor market. In the case of a clear surplus of supply over the demand for labor, the amount of the salary tends to decrease, and for employees on the lower levels this amount can fall below the limit of ensuring a decent standard of living. In such situations, the need for state intervention has arisen in order to ensure social protection of the most exposed categories of employees. By negotiating the minimum wage between the social actors on the labor market, its alignment with a certain minimum level of decent living is ensured.

Conclusions

Currently, the Republic of Moldova is characterized by an extremely low level of wages that generates a wage labor crisis and is manifested by the emergence and expansion of the working poor class, who are tempted to migrate for work in other countries.. This fact also leads to the degradation of the situation on the labor market;

Due to low wages, some economic sectors face an acute shortage of qualified personnel, and staff turnover and difficulties in hiring employees lead to an increase in work intensity, without this being accompanied by a commensurate increase in employee incomes;

Against the background of low wages, employers are willing to pay part of the of the compensation "under the table," leading to the expansion of the informal sector of the economy. Under these conditions, companies that practice legal remuneration are at a competitive disadvantage (bearing higher costs);

The low level of wages, which, respectively, also determines a low level of population consumption, It presents a significant obstacle to the growth of industrial production and aggregate demand;

Setting a minimum wage level that correlates with strong arguments related, on one hand, to the cost of living and, on the other hand, to the possibilities of the national economy, would lead to an increase in the standard of living of the population, including the working poor, and to the assurance of social justice. This would contribute to the increased functionality of the labor market and the national economy as a whole.

As a solution in combat the phenomenon of of the working poor would also attract the foreign investments necessary for the creation of new productive and well-paid jobs. The creation of these new jobs must be accompanied by an increase in spending on professional training for future candidates to fill these new productive and well-paid jobs. This process would lead to the reduction of international labor migration and the stimulation of return migration of those who have already left.

Acknowledgement

This paper was developed within the framework of Subprogram 030101 „Strengthening the resilience, competitiveness and sustainability of the economy of Republic of Moldova in the resilience, competitiveness, and sustainability of the Republic of Moldova in the context of the accession process to European Union, institutional funding.

References

The law on wages nr. 1306 din 25 februarie 1993, [HP1306/1993](#)

The law on wages, nr. 847 - XV , din 14 februarie 2002, [Legea Salarizării în Republica Moldova №847 din 14.02.2002 cu schimbări 2022](#)

- LAW No. 270 of 23.11.2018 regarding the unitary salary system in the budget sector.
<lex.justice.md/md/378184/>
- National Employment Program 2022-2026 particip.gov.md/ro/download_attachment/17245
- National development strategy "European Moldova 2030" intr40_12_0.pdf (gov.md)
- Economic growth and poverty reduction strategy, 2004-2006, [SCERS_ro.doc](#)
- Empirical evaluation of the minimum wage for an evidence-based social dialogue in the Republic of Moldova, Chisinau, ILO, 2023
- Aspects regarding the standard of living of the population of the Republic of Moldova (results of household budget research), Chişinău, 2023
- The workforce in the Republic of Moldova. Employment and Unemployment, 2009 Edition, NBS, [Forţa de muncă în Republica Moldova. Ocupare şi şomaj, ediţiile 2008-2024](#)
- Alic Bîrcă , " Paying staff " , Chişinău , 2001.
- Iurie Morcoţilo, The minimum wage: between economic efficiency and social equity. Economic analysis and forecast document, Chishnau, Expert-grup, 2015. 1334_6c7d03559ddf4949b348f75d95fd1555 (expert-grup.org)
- Marcel Spatari, Ştefan Guga, *The situation of employees in the Republic of Moldova: a structural crisis*, Syndex, 2019, p.48, [Syndex_- Situatia Salariatilor din Republica Moldova O Criza Structurala 1 .pdf](#) (fes.de)
- [Minimum wage - Wikipedia](#), [Минимальный размер оплаты труда — Википедия](#) (wikipedia.org)
- The workforce in the Republic of Moldova. Employment and unemployment, 2022. Labor Force Surve, BNS, [FM editia 2022.pdf](#) (gov.md)
- Statistical yearbook of the Republic of Moldova 2002, [Anuarul Statistic al Republicii Moldova, ediţiile 2002-2023](#)
- Statistical yearbook of the Republic of Moldova 2021, [Anuar statistic editia 2021.pdf](#) (gov.md)
- BNS, Labor Force Survey, 2023, [Populatia ocupata pe Statut profesional, Grupe de virsta, Nivel de instruire, Ani, Sexe şi Medii. PxWeb](#)
- Evlampie DONOS, Minimum Wage - Trends and Realities Intellectus, 2/2022, CZU: 331.23 <https://doi.org/10.56329/1810-7087.22.2.13>
- [Cost of Living in Moldova. Prices in Moldova. Updated Nov 2023](#) (numbeo.com)

ESG REPORTING IN THE REPUBLIC OF MOLDOVA: CHALLENGES AND OPPORTUNITIES IN ALIGNING WITH EUROPEAN AND INTERNATIONAL STANDARDS

Roman BAHNARU¹

Abstract: *The article examines the level and challenges of ESG (Environmental, Social, Governance) reporting in the Republic of Moldova, in the context of alignment with European regulations and global sustainability trends. Non-financial and non-standard reporting is mandatory in the Republic of Moldova for public entities with more than 500 employees, while for all other companies the reporting is voluntary. Thus, more and more companies have started to adopt international ESG standards voluntarily, influenced by market trends and the need to remain competitive on international market. The article proposes to analyze companies in the Republic of Moldova in terms of compliance with ESG standards, identifying challenges and opportunities for aligning with existing regulations. The article highlights the benefits of adopting ESG practices for the business environment. The analysis refers to international reporting tools and standards, such as GRI and ESRS, and how they can help increase transparency and strengthen investor confidence. In the context of the article, it provides a unique perspective on the adaptation of ESG by the companies in the context of the circular economy and existing ESG reporting standards. To improve ESG adoption in the Republic of Moldova, the article recommends integrating reporting into business strategies, investing in education and aligning with international standards, which would facilitate access to new opportunities and contribute to the sustainable development of the local economy to be competitive at international level.*

Keywords: *impact, governance, circularity, ESG, challenges, indicators*

UDC: [005.35:504.03]:005.218(478)

JEL Code: M40, F64, F68, Q50

Introduction

In recent years, there has been more and more discussion about ESG reporting at all levels, by global and regional organizations, or country governments. Even though it appeared in the world of finance about 50 years ago, with the aim of managing asset risks, ESG reporting has recently been standardized in the European Union with the adoption of the CSRD directive (The European Parliament and of the Council, 2022) and the standards ESRS (European Commission, 2023). In the Republic of Moldova, in order to increase the country's competitiveness, especially for the EU markets, in the last 2 years various local events (conferences, workshops) have been organized that highlight the need to comply with ESG reporting, important legislative acts have been approved: National Program for Promoting Entrepreneurship and Increasing Competitiveness (PACC 2023-2027) (The Government of the Republic of Moldova, 2023) and the National Economic Development Strategy 2030 (The Government of the Republic of Moldova, 2024) which stipulates that "the Republic of Moldova adopts the approximation to the EU quality standards, the implementation of corporate governance, ESG. etc."

¹ PhD student ASEM, bahmaru@ase.md, ORCID:0009-0004-0215-0077

ESG refers to a wide range of environmental, social and governance factors that can be used to assess how companies manage their performance and sustainability impact. These factors can be assessed either from the inside out (how the company's operations affect certain aspects of ESG) or from the outside in (how certain ESG aspects affect society) (Bucharest Stock Exchange, 2022).




 Environment	 Social	 Governance
<ul style="list-style-type: none"> - Use and protection of water resources - Waste management - Biodiversity and ecosystem - Deforestation of forests - Reduction of carbon emissions 	<ul style="list-style-type: none"> - Working conditions - Health and safety - Employee training - Human rights - Community relations - Diversity and inclusion (D&I) - Anti-smoking policy 	<ul style="list-style-type: none"> - Corporate Governance - Business ethics - Tax responsible - Anti corruption - Privacy and data protection - Contractor Code of Conduct

Figure 1. Examples of environmental, social and governance (ESG) factors

Source: prepared by the author on the basis of (Bucharest Stock Exchange, 2022).

ESG and sustainability are used interchangeably, as they mostly refer to similar concepts. Today, they are part of corporate language more than Corporate Social Responsibility (CSR). Sustainability professionals are increasingly starting to agree that CSR has a somewhat different meaning than sustainability and ESG. First of all, CSR are focused to social aspects, while ESG also covers environmental and governance aspects.

The concept of **ESG** (Environmental, Social, Governance) is a set of standards used by companies and investors to assess the performance and level of compliance with sustainable development policies regarding the environment and society:

(E) Environment – the impact of the company's activity on the environment (pollution, waste management, conservation of natural resources and climate change mitigation);

(S) Social – the company's relationship with stakeholders (e.g. employees, customers, community). This can cover labour relations, diversity and inclusion, employee health and safety, community involvement and respect for human rights;

(G) Governance – the extent to which the company complies with governance requirements, e.g. leadership, compliance and compliance with legal provisions, shareholders' rights, etc. It focuses on the management structures and control mechanisms of the organization. This includes issues such as business ethics and integrity, transparency, compliance with laws and regulations, evaluation and internal audit.

Non-financial reporting for most companies in the country is not mandatory at the moment for entities in the Republic of Moldova (except for public entities that have a number of employees 500+), but many companies that are part of multinational groups do so voluntarily, as well as in accordance with Group policies.

The benefits for the business environment with ESG reporting are huge:

- Ensuring compliance with the regulations in force (especially environmental);
- Strengthening relationships with stakeholders (business partners, government institutions, customers, etc.);

- Developing sustainable strategic partnerships;
- New business opportunities;
- Reduction of operational risks;
- Easier access to finance (many banks have specialized credit lines for such companies);
- Increasing the company's reputation;
- Increased employee confidence;
- Attracting ethical and responsible investors (towards employees and the environment).

This research aims to fill the existing gaps in the specialized literature on the application of ESG reporting in economies undergoing transitional or developmental transformations, as in the case of the Republic of Moldova. By focusing on Moldova, this study seeks to provide deeper insights into the challenges, opportunities, and specific contextual factors influencing the adoption and implementation of ESG reporting frameworks in such economies. Additionally, it explores the role of regulatory frameworks, market readiness, and stakeholder engagement in shaping ESG practices, contributing valuable knowledge to the broader discourse on sustainable development in emerging markets.

ESG reporting and the circular economy are closely linked through their shared focus on sustainability and resource efficiency. ESG reporting tracks environmental, social and governance impacts, while the circular economy promotes waste reduction, resource reuse, and recycling. Integrating circular economy principles into ESG strategies enhances sustainability metrics, reduce environmental impact, and creates long-term value for business and stakeholders.

Data and Methodology

For the preparation of this article, a systematic review of the national and international literature on ESG reporting and the relationship with the circular economy was carried out. Qualitative and quantitative tools, reporting methodologies, EU and national legislation were used.

A questionnaire was prepared and sent to companies directly or through the Entrepreneurship Development Organization (ODA) to fill in. The questionnaire included general questions related to the size or sector of activity of the company, as well as questions related to the adoption of ESG framework within the company.

The literature review included in this research focusee on papers published between the years 2023 and 2024. This time frame was selected to ensure the analysis reflects the most recent developments, trends and discussions surrounding ESG reporting, particularly in the context of emerging eoomies such as the Republic of Moldova.

The Findings

International ESG reporting

ESG reporting is a complex topic, many acronyms and different metrics are used. From Figure 2, we can see that the GRI standard was launched in 1997, becoming in the meantime one of the most used and recognized globally – more than 10 thousand companies use it for ESG reporting (GRI Global Standards Fund, 2021). In addition, we can see that in 2016 the Sustainable Development Agenda came into force through the adoption of 17 SDGs, this agenda being popularized globally by most international institutions (UN, OECD, WEF, etc.) as well as at national level by governments and branch institutions – because through legislative acts it is necessary to achieve the National Agenda in order to achieve the global targets.

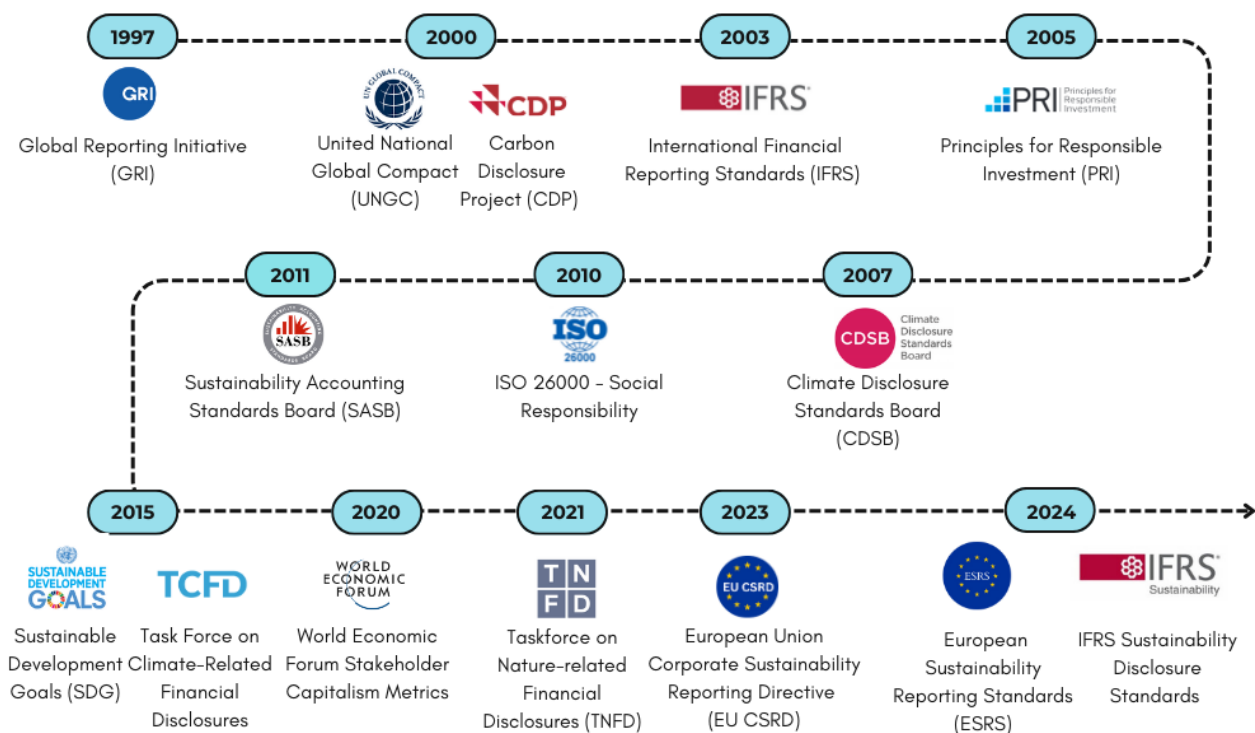


Figure 2. ESG standards and initiatives

Source: prepared by the author based on (IFC, 2024).

GRI provides a set of standards that help companies transparently and comparably report performance on issues such as carbon emissions, resource use, employee relations, human rights, and more.

The standards are structured in:

- **Universal standards** - general definition and guidelines for reporting.
- **Sectoral standards** – these address specific issues across different sectors. About 40 sectoral standards are planned to be approved.
- **Topic-specific standards** – these address specific issues such as economic, environmental and social standards.

GRI Standards						
Universal Standards	Sector Standards	Topic Standards				
<p>GRI 1. Foundation - introduces the purpose and system of the GRI standards</p> <p>GRI 2. General Disclosures - disclosures about organisation structure, values, governance, reporting systems, etc.</p> <p>GRI 3. Material topics - disclosures about material topics for sustainability reporting</p> <p style="text-align: right;">Approved</p>	<p>GRI 11. Oil and Gas sector 2021 GRI 12. Coal sector 2022 GRI 13. Agriculture, Aquaculture and Fishing Sectors 2022 GRI 14. Mining Sector 2024</p> <p style="text-align: right;">Approved</p> <table border="1" style="width: 100%;"> <tr> <td style="background-color: #e0f2f7;"> <p>Basic Material and needs:</p> <ul style="list-style-type: none"> • Food and beverages • Textiles and apparel • Banking • Insurance • Capital markets • Utilities • Renewable energy • Forestry • Metal processing </td> <td style="background-color: #e0f2f7;"> <p>Industrial:</p> <ul style="list-style-type: none"> • Construction and materials • Aerospace and defense • Automotive • Construction • Chemicals • Machinery and equipment • Pharmaceuticals • Electronics </td> </tr> <tr> <td style="background-color: #e0f2f7;"> <p>Transport, infrastructure and tourism</p> <ul style="list-style-type: none"> • Media and communication • Software • Real estate • Transportation infrastructure • Shipping • Trucking • Airlines • Trading, distribution, and logistics • Packaging • Hotels </td> <td style="background-color: #e0f2f7;"> <p>Other services and light manufacturing</p> <ul style="list-style-type: none"> • Educational services • Household durables • Managed health care • Medical equipment and services • Retail • Security services and correctional facilities • Restaurants • Commercial services • Non-profit organisation </td> </tr> </table> <p style="text-align: center;">Planned</p>	<p>Basic Material and needs:</p> <ul style="list-style-type: none"> • Food and beverages • Textiles and apparel • Banking • Insurance • Capital markets • Utilities • Renewable energy • Forestry • Metal processing 	<p>Industrial:</p> <ul style="list-style-type: none"> • Construction and materials • Aerospace and defense • Automotive • Construction • Chemicals • Machinery and equipment • Pharmaceuticals • Electronics 	<p>Transport, infrastructure and tourism</p> <ul style="list-style-type: none"> • Media and communication • Software • Real estate • Transportation infrastructure • Shipping • Trucking • Airlines • Trading, distribution, and logistics • Packaging • Hotels 	<p>Other services and light manufacturing</p> <ul style="list-style-type: none"> • Educational services • Household durables • Managed health care • Medical equipment and services • Retail • Security services and correctional facilities • Restaurants • Commercial services • Non-profit organisation 	<p>GRI 101: Biodiversity GRI 201: Economic Performance GRI 202: Market Presence GRI 203: Indirect Economic Impacts GRI 204: Procurement Practices GRI 205: Anti-corruption GRI 206: Anti-competitive Behavior GRI 207: Tax GRI 301: Materials GRI 302: Energy GRI 303: Water and Effluents GRI 304: Biodiversity GRI 305: Emissions GRI 306: Effluents and Waste GRI 306: Waste GRI 308: Supplier Environmental Assessment GRI 401: Employment GRI 402: Labor/Management Relations GRI 403: Occupational Health and Safety GRI 404: Training and Education GRI 405: Diversity and Equal Opportunity GRI 406: Non-discrimination GRI 407: Freedom of Association and Collective Bargaining GRI 408: Child Labor GRI 409: Forced or Compulsory Labor GRI 410: Security Practices GRI 411: Rights of Indigenous Peoples GRI 413: Local Communities GRI 414: Supplier Social Assessment GRI 415: Public Policy GRI 416: Customer Health and Safety GRI 417: Marketing and Labeling GRI 418: Customer Privacy</p> <p style="text-align: right;">Approved</p>
<p>Basic Material and needs:</p> <ul style="list-style-type: none"> • Food and beverages • Textiles and apparel • Banking • Insurance • Capital markets • Utilities • Renewable energy • Forestry • Metal processing 	<p>Industrial:</p> <ul style="list-style-type: none"> • Construction and materials • Aerospace and defense • Automotive • Construction • Chemicals • Machinery and equipment • Pharmaceuticals • Electronics 					
<p>Transport, infrastructure and tourism</p> <ul style="list-style-type: none"> • Media and communication • Software • Real estate • Transportation infrastructure • Shipping • Trucking • Airlines • Trading, distribution, and logistics • Packaging • Hotels 	<p>Other services and light manufacturing</p> <ul style="list-style-type: none"> • Educational services • Household durables • Managed health care • Medical equipment and services • Retail • Security services and correctional facilities • Restaurants • Commercial services • Non-profit organisation 					
Apply to all organisations	Reporting on sector-specific impact	Disclose relevant particular topic				

Figure 3. GRI modularity

Source: Prepared by the author based on (Global Sustainability Standards Board (GSSB), 2024).

With more than 600 regulatory frameworks and ESG standards globally (CDP, GRI, IIRC, SASB, TCFD, and WDI, and these are just a few), the current reporting landscape is both fragmented and oversaturated, leaving the business community confused and frustrated with the current system. The lack of standardized ESG data affects investors' ability to make sound and informed decisions about companies' ESG performance. While ESG reporting remains largely voluntary, increasing pressure from investors and other stakeholders has pushed disclosures from being "voluntary" to "mandatory." Internationally, during the 2021 United Nations Climate Change Conference (COP26), the trustees of the International Financial Reporting Standards (IFRS) Foundation announced the creation of the ISSB as part of an effort to create global ESG reporting standards (Sibylline, 2023).

The ISSB is committed to incorporating the current approach of the Sustainability Accounting Standards Board (SASB) into the development of its standards. This comes alongside ISSB's collaboration with the Global Reporting Initiative (GRI), another leading and long-standing ESG framework. The International Organization of the Securities and Exchange Commission (IOSCO) is also working closely with IFRS to approve the standards once they are finalized.

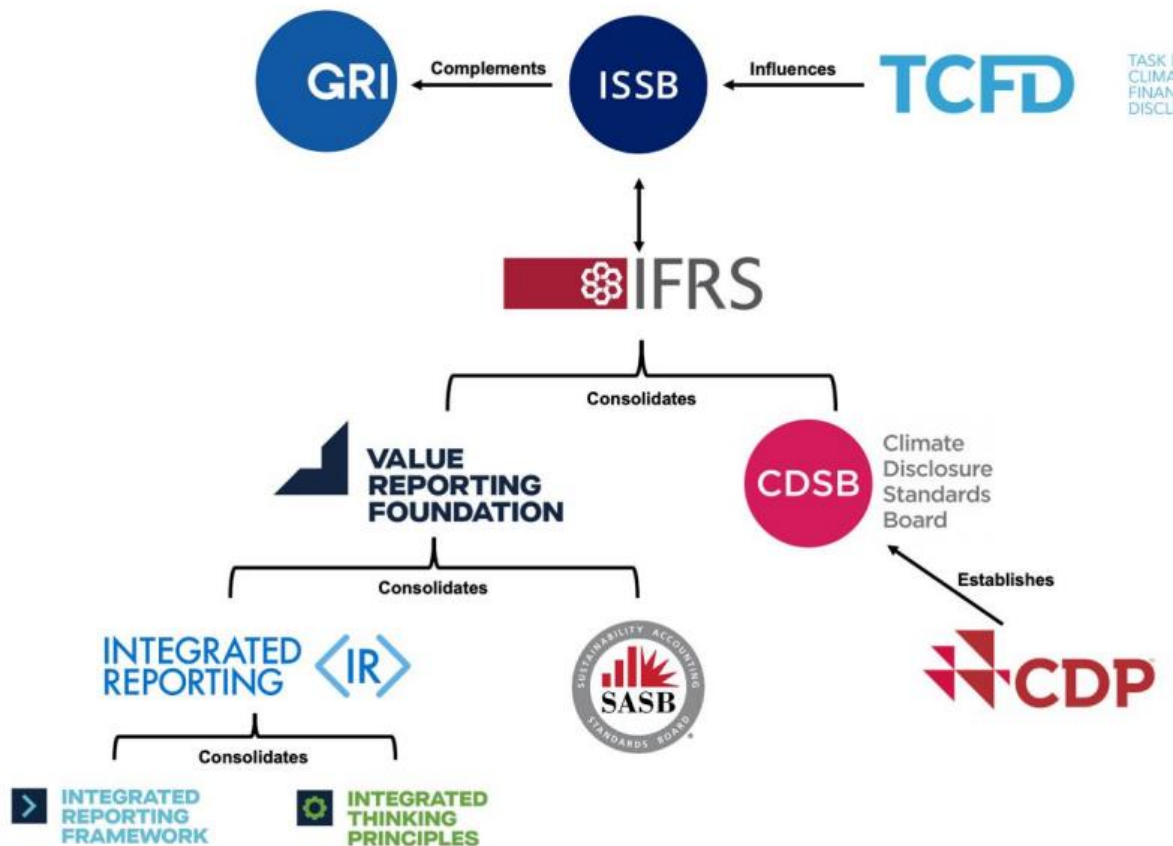


Figure 4. Strengthening regulatory frameworks for ESG reporting

Source: prepared by the author on the basis of (Sibylline, 2023).

At the regional (European) level, the Corporate Sustainability Reporting Directive (CSRD) entered into force in January 2023 in the European Union and regulates non-financial accounting (The European Parliament and of the Council, 2022), and subsequently they were approved by standards ESRS (European Sustainability Reporting Standards) (European Commission, 2023). Thus, the aim was to regulate and standardize non-financial reporting, which put an end to individual reporting based on different methodologies, and which did not always include relevant data reported.

ESG reporting and circularity

The **GRI 306.Waste standard** addresses the issue of resource circularity (Global Sustainability Standards Board (GSSB), 2022). A stronger relationship between materials and waste is being built by providing a comprehensive understanding of how the procurement and use of materials affects the quantity and quality of waste. With this standard, concepts of circularity and waste prevention are introduced to change the perception of waste from an "unwanted burden" to a source of materials and to encourage organizations to rethink the way they create products and services. This puts the focus on the waste generated in the value chain, leading organizations to recognize responsibility for the end of life of their products, which is usually neglected as not having a significant impact. Third-party control of waste management is highlighted to facilitate greater transparency on how waste leaving the enterprise is actually managed.

On 31 July 2023, the European Commission adopted the set of standards ESRS (European Sustainability Reporting Standards) (European Commission, 2023). ESRS and CSRD herald a new era of transparency and corporate responsibility. ESRS standards are an integral part of the CSRD, this means that ESRS reporting standards are mandatory. The Commission's adoption of the first set of 12 standards is seen as an important step in promoting sustainable practices and transparency in companies and contributing to their comparability. This is because the new reporting requirements herald major changes in sustainability reporting, and these will impact around 50,000 EU-based companies. However, subsidiaries, foreign branches and companies that carry out a large part of their business activities in the EU area may also be indirectly affected, which is why the scope of impact may be significantly wider.

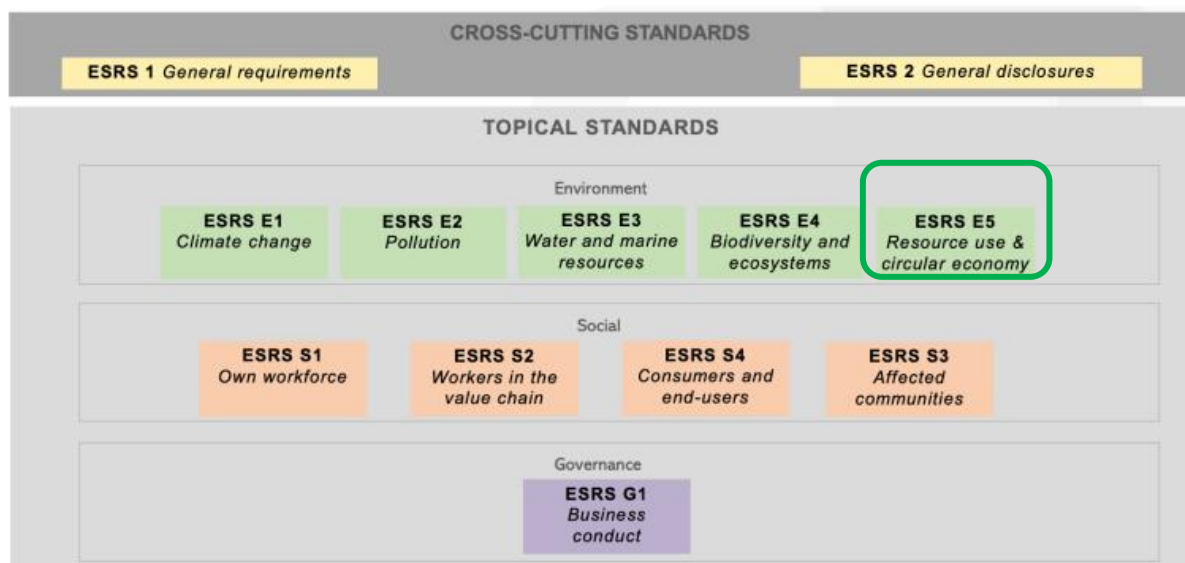


Figure 5. ESRS Standards

Source: (European Commission, 2023).

We can see that "ESRS 5 – Resource use and circular economy" (EFRAG, 2022) focuses on reporting on the circular economy and resource efficiency within the sustainability standards imposed by the European Union. This standard addresses how companies manage resources to minimize waste and maximize the reuse and recycling of materials.

The main aspects covered by ESRS 5 include:

- Waste reduction – guides companies to adopt strategies to reduce the amount of waste generated and to increase the recycling rate.
- Design for circularity – promotes the design of products so that they are durable, reusable and recyclable.
- Resource efficiency – companies are encouraged to optimize the use of raw materials and implement circular economy practices in supply chains.
- Material and product management – reporting includes data on materials used, recycling and refurbishment processes, as well as recovered products.

The aim of ESRS 5 is to help companies integrate circular economy principles into their operations and improve transparency on environmental impact and resource sustainability.

ESG reporting at national level

At the national level, there are several dozen documents that directly and indirectly regulate ESG reporting, and the implementation of ESG at the national level is strictly linked to European regulations. The most relevant of them are:

- National Program for Promoting Entrepreneurship and Increasing Competitiveness (PACC 2023-2027) HG 653/2023;
- National Economic Development Strategy 2030 HG 393/2024;
- Accounting Law 287/2017;
- Programme for the promotion of the green and circular economy 2024-2028.

Thus, we can see that for 5 years now large companies (public interest entities) have been required to report environmental, social and governance indicators. According to the Accounting Law 287/2017 (entered into force in 2019), art. 23, paragraphs 5-7 stipulate the following:

(5) A public-interest entity which meets the criteria laid down for large entities and whose average number of employees during the management period is more than 500 shall be obliged to include a non-financial statement in the management report.





(6) **The non-financial statement shall include information on environmental, social and personnel aspects, respect for human rights and the fight against corruption and shall include:**

- a) a brief description of the entity's business model;
- b) the description of the policies adopted and the procedures applied, as well as the results obtained by the entity;
- c) the main risks and how they are managed.

(7) If the entity does not apply policies on environmental, social and personnel aspects, respect for human rights and the fight against corruption, the non-financial statement shall provide a clear and reasoned explanation in this regard." Based on the above regulation, official information was requested from the NBS, thus 66 companies in the Republic of Moldova are obliged to comply with the regulation of the Accounting Law (data for 2023).

At the moment, in the Republic of Moldova - detailed ESG reporting, according to its own standards, is carried out by several companies: Moldcell, TransOil, Maib, Kaufland, etc.

Table 1. Examples of ESG reporting in the Republic of Moldova

Company	Reporting description	Source of the report
	Reporting according to the GRI standard, GSMA Index. Includes Circularity and SDG reporting. Scope 1, Scope 2, Scope 3 Reporting	(Moldcell, 2023)
	Reporting according to the GRI standard. Includes SDG reporting. ESG Rating. Scope 1, Scope 2, Scope 3 Reporting	(MAIB, 2024)
	Reporting according to the GRI standard. It includes SDG and circularity reporting. Scope 1, Scope 2, Scope 3 Reporting	(Trans-Oil, 2023)
	Reporting according to the GRI standard. Includes SDG reporting. Scope 1, Scope 2, Scope 3 Reporting	(Kaufland Moldova, 2021)

Source: prepared by the author.

It is worth mentioning that there are multinational companies, which at national level report in detail on sustainability, as is the case of Kaufland Moldova, or another category - sustainability and reporting practices are aggregated in the reports of parent companies - for example: Endava, Orange Moldova, Eves Vitanta Moldova, Victoria Bank.

There are also companies that report only non-financial statements, according to the obligation of the Accounting Law, e.g. Purcari, Orange, Premier Energy, Moldtelecom. But the information is often of a general, declarative nature – without indicating any figures.

It is necessary to mention that within the SDG it is indicator **12.6.1. - Number of companies that publish sustainability reports**. But it is not clear why in the "Progress Report on the implementation of the 2030 Agenda for Sustainable Development in the Republic of Moldova 2023" (The Government of the Republic of Moldova, 2023) it is indicated "No data are available for this indicator.", this is despite the fact that sustainability reports were published by at least 2 companies in the country: TransOil and Kaufland Moldova.

In 2024, in a study conducted at national level, in which international and national experts were involved (with the participation of the author of the article) (FTA, 2024), on a sample of 29 companies, micro, small, medium and large companies, from different sectors of the national economy, it was found that 72% of companies have heard of ESG criteria.

According to the responses received from national companies, the most used ESG reporting guides and standards are ISO 26000 (9 companies), GRI (5 companies), ESRS (4 companies), CDP (2 companies) and TCFD (1 company).

According to the study, the main reasons for companies in Moldova to report ESG are alignment with industry best practices (15 responses), shareholder requirements, and regulatory alignment from authorities (13 responses). Other reasons are recommendations from financial partners, the need for international compliance, and competition with other companies.

ESG reporting within SMEs was promoted during 2023-2024 by ODA during the trainings organized as part of the Business Greening Program (ODA, 2024). 10 groups were organized, with a total of over 200 SMEs from all over the country participating, from different sectors of the national economy. The entrepreneurs were trained on the fundamentals of ESG, ESG and SDG reporting, national and international legislation, the benefits that companies can have if they report ESG.

Also, in 2024, during the event Impact Days 2024 (Ecovisio, 2024), a special focus was dedicated to ESG principles for business. The participants were able to find out what are the national trends in ESG reporting, and what are the challenges for ESG reporting.

Conclusions

ESG reporting in the Republic of Moldova is starting to gain ground, influenced by European regulations and global sustainability trends. However, in order to accelerate implementation and maximize benefits, companies should focus on improving transparency and performance on environmental, social and governance issues.

Recommendations for the business environment:

1. **Aligning with International Standards** by Adopting recognized ESG standards, such as GRI and ESRS, can facilitate access to international markets and attract investors (eg. companies presented in the Table 1).
2. **Investing in Education and Training** – employees and management should be trained on ESG reporting and its impact on sustainability and competitiveness (This can be seen from the results of the research).
3. **Integrating ESG into Business Strategy and aligning with the SDGs** – ESG should be a central component of business strategy to support long-term sustainability and contribute to achieving the Sustainable Development Goals (SDGs) (eg. the case of Moldcell).

Through these actions, the business environment in the Republic of Moldova can capitalize on the advantages of competitiveness on European markets and can contribute significantly to the transition to a sustainable and circular economy.

References

- Bucharest Stock Exchange. (2022). Guidance on ESG reporting.
- Ecovisio. (2024). Impact Days 2024. Retrieved from <https://impactdays.md/>
- EFRAG. (2022). *ESRS 5. Resource use and circular economy*. Retrieved from www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets/ED_ESRS_E5.pdf
- European Commission. (2023). Regulation 2772 as regards sustainability reporting standards. Retrieved from https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:L_202302772
- FTA. (2024). *Report on Preparatory Assessment of ESG Reporting for Businesses in the Republic of Moldova. (Document realizat cu participarea autorului)*.
- Global Sustainability Standards Board (GSSB). (2022). *GRI 306: Waste 2020*. Retrieved from www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/
- Global Sustainability Standards Board (GSSB). (2024). *GRI Standards*. Retrieved from <https://www.globalreporting.org/standards/>
- GRI Global Standards Fund. (2021). *Partner with the Global Standards Fund to help businesses take responsibility for their impacts*. Amsterdam. Retrieved from www.globalreporting.org/media/11jdwuu/brochure-global-standards-fund-2021.pdf
- IFC. (2024). *Pathway to Sustainability Disclosure Going Mainstream*. Retrieved from <https://www.ifcbeyondthebalancesheet.org/understanding-global-reporting-frameworks>
- Kaufland Moldova. (2021). *Sustainability Report*. Retrieved from <https://despre.kaufland.md/ro/responsabilitate/sustenabilitate.html>
- MAIB. (2024). *Sustainability report*. Retrieved from <https://ir.maib.md/ro/news/maib-publishes-its-sustainability-report>
- Moldcell. (2023). *Moldcell Management Report 2023*. Retrieved from <https://moldcell.md/files/Policies/Raportul%20conducerii%20%20C8%99i%20de%20sustenabilitate%20Moldcell%20Grup%20pentru%202023--.pdf>
- ODA. (2024). *Greening SMEs*. Retrieved from <https://www.oda.md/ro/instruiri-eco/detalii-instruiri-eco>
- Sibyline. (2023). *ESG Reporting*. Retrieved 2024, from <https://www.sibyline.co.uk/wp-content/uploads/2023/04/postSibyline-Situation-Update-Brief-Standardisation-of-ESG-Reporting-Final.pdf>
- The European Parliament and of the Council. (2022). Directive 2464/2022 as regards corporate sustainability reporting (CSRD). Retrieved from <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32022L2464>
- The Government of the Republic of Moldova. (2023). Government Decision No. 653 of 06-09-2023 on the approval of the National Program for the Promotion of Entrepreneurship and Increasing Competitiveness in the Years 2023-2027. Retrieved from https://www.legis.md/cautare/getResults?doc_id=139409&lang=ro
- The Government of the Republic of Moldova. (2023). *Progress Report on the implementation of the 2030 Agenda for Sustainable Development in the Republic of*

Moldova 2023. Retrieved from <https://moldova.un.org/en/246492-progress-report-implementation-2030-agenda-sustainable-development-republic-moldova-2023>
The Government of the Republic of Moldova. (2024). Government Decision No. 393 of 05-06-2024 on the approval of the National Economic Development Strategy 2030. Retrieved from https://www.legis.md/cautare/getResults?doc_id=143524&lang=ro
Trans-Oil. (2023). *Sustainability Report*. Retrieved from <https://transoilcorp.com/en/sustainability-sust/>

SHIFTING FOCUS: THE ROLE OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE FACTORS IN INVESTMENT POLICY DURING A PANDEMIC

Serghei PETIGHIN*₁

Abstract: *This paper investigates the importance of Environmental, Social, and Governance (ESG) factors in investment policy during the COVID-19 pandemic and their contribution to long-term resilience and sustainability. By conducting a comprehensive literature review based on peer-reviewed articles, financial institution reports, and government policies, this study examines the financial resilience of ESG-oriented investments during the pandemic, the integration of ESG factors in investment policy, and post-pandemic trends in ESG investing. The paper also explores the role of ESG factors in fostering long-term resilience and sustainability and discusses challenges and opportunities for ESG investing during and after the pandemic. The findings suggest that ESG-oriented investments demonstrated financial resilience during the pandemic, and incorporating ESG factors in investment policy allowed investors to manage portfolio risk better. The growing interest in ESG investing will likely continue in the post-pandemic era, driven by the development of ESG-focused investment products, regulatory support, and greater collaboration between investors and companies. However, data quality, consistency, and greenwashing challenges must be addressed to ensure the integrity and effectiveness of ESG investing in the future. Further research is recommended to deepen our understanding of ESG investing and its potential to contribute to a more resilient and sustainable global economy.*

Keywords: *ESG investing, pandemic resilience, investment policy.*

UDC: [005.21:330.322+504.03]:614.4

JEL Code: G11, G23, Q56

Introduction

Environmental, Social, and Governance (ESG) factors have gained increasing attention in the investment landscape as investors and asset managers recognize the potential long-term benefits of considering these non-financial factors in investment decision-making. ESG factors encompass a range of issues that may influence a company's financial performance, risk profile, and overall value, such as climate change, labor practices, and corporate governance (Busch, Bauer, & Orlitzky, 2020). Integrating ESG factors into investment policy can contribute to the identification of opportunities and risks that traditional financial analysis might overlook (Eccles, Ioannou, & Serafeim, 2014).

The concept of ESG investing has its roots in the socially responsible investing (SRI) movement, which emerged in the 1960s as a way for investors to align their financial interests with their ethical values (Sparkes & Cowton, 2004). Over time, the focus of SRI has shifted from merely avoiding investments in companies with controversial practices to actively seeking opportunities in companies that demonstrate strong ESG performance (Riedl & Smeets, 2017). This shift has been partly driven by a growing body of evidence suggesting that companies with strong ESG performance tend to have better financial outcomes and lower risks (Khan, Serafeim, & Yoon, 2016).

*₁ *Serghei Petighin, Ph.D. student, Academy of Economic Studies of Moldova, ORCID: 0009-0004-8681-3770*

In recent years, the importance of ESG factors in investment policy has been reinforced by regulatory developments and investor demand. International initiatives such as the United Nations-supported Principles for Responsible Investment (PRI) have encouraged the integration of ESG factors into investment practices. At the same time, regulatory bodies in several countries have introduced mandatory or voluntary ESG reporting requirements for listed companies (UNPRI, 2021). Additionally, surveys indicate that most institutional investors now consider ESG factors in their investment decision-making process (Kotsantonis, Pinney, & Serafeim, 2016).

The COVID-19 pandemic has profoundly affected the global economy, resulting in significant supply chain disruptions, economic activity declines, and widespread job losses (Baldwin & Di Mauro, 2020). In addition, the pandemic has led to unprecedented levels of government intervention and monetary stimulus measures to support affected businesses and households and mitigate the economic fallout (Gopinath, 2020).

Financial markets experienced high volatility levels during the pandemic's initial stages, with sharp declines in stock prices across various sectors (Baker et al., 2020). However, the impact of the pandemic on different industries and companies has been uneven, with some sectors, such as technology and e-commerce, benefitting from accelerated digitalization and changes in consumer behavior, while others, such as travel and hospitality, have faced severe challenges (Donthu & Gustafsson, 2020).

The pandemic has also prompted a reassessment of investment strategies, with investors increasingly focusing on the resilience and adaptability of companies in the face of crisis (Ding, Levine, Lin, & Xie, 2021). This has led to a surge of interest in ESG investing. The pandemic has highlighted the importance of environmental, social, and governance factors in determining a company's ability to navigate crises and maintain long-term value (Lins, Servaes, & Tamayo, 2020).

The COVID-19 pandemic has underscored the importance of ESG factors in investment decisions, as companies that demonstrate firm environmental, social, and governance performance have generally proven more resilient during the crisis (Zerbib, 2019). For instance, companies with sound environmental practices were better prepared to adapt to disruptions in supply chains and fluctuations in energy prices (Piechocka-Kałużna, Tłuczak, & Łopatka, 2021). Similarly, companies with strong social performance, including positive labor practices and robust supply chain management, were better equipped to manage their employees' and customers' health and safety and maintain operational continuity during the pandemic (Albuquerque, Koskinen, & Zhang, 2019).

Furthermore, companies with strong governance structures exhibited better crisis management and decision-making during the pandemic, which enhanced investor confidence and financial performance (Cavaco, Challe, Crifo, Rebérioux, & Roudaut, 2016). As a result, the pandemic has heightened investor awareness of the relevance of ESG factors in assessing corporate resilience, risk management, and long-term value creation.

A comparative analysis of ESG policies across regions highlights how regulatory maturity influences investment strategies. The EU's Green Taxonomy and Sustainable Finance Disclosure Regulation (SFDR) provide robust frameworks, while the U.S. and Asian markets focus on voluntary ESG disclosures, fostering varied levels of adoption. These differences set the stage for understanding the role of ESG factors during and after the pandemic.

This study aims to investigate the importance of ESG factors in investment policy during the pandemic and to examine how their integration into investment strategies contributes to long-term resilience and sustainability. By reviewing the existing literature on

ESG investing and corporate performance during the pandemic, this study aims to provide insights into the role of ESG factors in shaping investment decisions and their potential to drive sustainable growth and value creation in the post-pandemic era.

Methodology

The A literature review systematically surveys and synthesizes existing knowledge on a particular topic (Jesson, Matheson, & Lacey, 2011). This study will employ a literature review methodology to investigate the importance of ESG factors in investment policy during the pandemic and their contribution to long-term resilience and sustainability. The literature review will involve the following steps:

- Defining the research questions: The primary research question for this study is: "What is the role of ESG factors in investment policy during the pandemic, and how do they contribute to long-term resilience and sustainability?"
- Identifying relevant literature: A comprehensive search of academic databases, such as JSTOR, Scopus, and Web of Science, will be conducted to identify peer-reviewed articles related to ESG investing, corporate performance, and the impact of the pandemic on financial markets. In addition, reports from financial institutions, ESG rating agencies, and government documents will be included to provide a broader perspective.
- Screening and selecting literature: Inclusion and exclusion criteria will be established to ensure the selected literature is relevant and rigorous. For instance, studies will be included if they provide empirical evidence or theoretical insights on the role of ESG factors in investment policy during the pandemic. In contrast, studies that do not address the pandemic context will be excluded.
- Analyzing and synthesizing the literature: The selected literature will be analyzed to identify key themes, trends, and patterns related to the role of ESG factors during the pandemic. This analysis will involve a thematic synthesis approach, which involves coding the literature based on emerging themes and organizing these themes into a coherent narrative (Thomas & Harden, 2008).
- Drawing conclusions and identifying gaps: Based on the analysis and synthesis of the literature, conclusions will be drawn regarding the role of ESG factors in investment policy during the pandemic and their contribution to long-term resilience and sustainability. Additionally, gaps in the existing knowledge will be identified to inform future research on this topic.

Data sources:

- Peer-reviewed articles: Peer-reviewed articles published in academic journals represent a primary source of rigorous and reliable information on the role of ESG factors in investment policy during the pandemic. These articles often present empirical evidence, theoretical insights, and critical analyses of ESG investing and corporate performance in the context of the pandemic (Eccles et al., 2014; Friede, Busch, & Bassen, 2015; Khan et al., 2016). To identify relevant peer-reviewed articles, comprehensive searches of academic databases such as JSTOR, Scopus, and Web of Science will use keywords related to ESG investing, the pandemic, and financial performance.

- Reports from financial institutions and ESG rating agencies: Reports published by financial institutions, ESG rating agencies, and other organizations involved in ESG investing can provide valuable insights into the practical implementation of ESG factors in investment policy, as well as the performance of ESG-oriented investments during the pandemic (Kotsantonis et al., 2016). Such reports may include data on ESG-related investment flows, trends in ESG integration, and the impact of ESG factors on portfolio performance. To identify relevant reports, searches will be conducted on the websites of organizations such as the Principles for Responsible Investment (PRI), MSCI, Sustainalytics, and the Global Reporting Initiative (GRI).
- Government policies and regulations: Government policies and regulations related to ESG investing and corporate sustainability play a crucial role in shaping the investment landscape during the pandemic (Cavaco et al., 2016). These documents may include guidelines on ESG reporting and disclosure and policies aimed at promoting sustainable finance and responsible investment. To identify relevant government policies and regulations, searches will be conducted on official government websites and databases, such as the European Commission's Sustainable Finance Platform and the US Securities and Exchange Commission's (SEC) ESG reporting guidance.

To ensure the relevance and rigor of the literature included in this study, the following inclusion and exclusion criteria will be applied:

Inclusion criteria:

- Studies that focus on the role of ESG factors in investment policy during the COVID-19 pandemic.
- Studies that provide empirical evidence or theoretical insights on the relationship between ESG factors, investment performance, and corporate resilience during the pandemic.
- Studies published in peer-reviewed academic journals, or reports from reputable financial institutions, ESG rating agencies, or government bodies.
- Studies published in English.

Exclusion criteria:

- Studies that do not specifically address the role of ESG factors in investment policy during the pandemic.
- Studies that lack rigorous empirical or theoretical analysis.
- Studies published in non-peer-reviewed sources, such as blog posts or opinion articles, without proper citations or evidence.
- Studies are published in languages other than English unless an English translation or summary is available.

An analysis framework will be employed to review and synthesize the selected literature systematically. This framework will involve a thematic synthesis approach, which involves coding the literature based on emerging themes and organizing these themes into a coherent narrative (Thomas & Harden, 2008). The analysis framework will comprise the following steps:

- Familiarization with the literature: A thorough reading of the selected literature will be conducted to understand the key concepts, findings, and arguments presented in the studies.

- Coding the literature: The selected literature will be coded using a combination of deductive and inductive approaches. Deductive coding will be based on predefined themes, such as ESG factors, investment performance, and corporate resilience. In contrast, inductive coding will involve identifying new themes emerging from the literature (Fereday & Muir-Cochrane, 2006).
- Identifying themes: The coded data will be analyzed to identify recurring themes and patterns in the literature. These themes may relate to the role of ESG factors in investment policy during the pandemic, the contribution of ESG factors to corporate resilience and sustainability, and the implications of ESG investing for future financial market trends.
- Synthesizing the findings: The identified themes will be synthesized into a coherent narrative that addresses the research questions and objectives of the study. This narrative will provide insights into the role of ESG factors in investment policy during the pandemic and their contribution to long-term resilience and sustainability.

Results

1. ESG Performance During the Pandemic

The literature highlights that ESG-oriented investments demonstrated relative financial resilience during the COVID-19 pandemic. For example, several studies found that companies with strong ESG performance experienced smaller declines in stock prices and better overall financial performance than their lower-ESG counterparts (Albuquerque et al., 2019; Ding et al., 2021). Additionally, ESG-focused funds outperformed non-ESG peers during the pandemic. This suggests that investors who integrated ESG factors into their investment strategies may have been better positioned to withstand market volatility (B. Chen & Zhang, 2021)

These findings indicate that ESG factors played a significant role in determining the financial resilience of investments during the pandemic, as companies with strong ESG practices were better equipped to navigate the challenges posed by the crisis and maintain their long-term value.

Table 1 highlights key ESG-related policies across regions, showcasing distinct approaches in implementation and outcomes. These differences reflect the evolving landscape of ESG investing globally.

The literature also suggests that integrating ESG factors into investment policy contributed to better portfolio risk management during the pandemic. For example, companies with strong ESG performance exhibited lower levels of financial and operational risk and higher levels of transparency and stakeholder engagement (Feng & Wu, 2021). As a result, these companies were more likely to successfully navigate the disruptions caused by the pandemic, such as supply chain disruptions, workforce challenges, and regulatory shifts (Cavaco et al., 2016).

Investors who incorporated ESG factors into their portfolio construction and risk management strategies were thus better equipped to identify companies with lower risk profiles and higher resilience during the pandemic. This, in turn, contributed to their investment portfolios' overall stability and long-term value (Zerbib, 2019).

Table 1. Detailed Comparison of ESG Policies Across Regions

Region	Key ESG Policy/Initiative	Focus Area(s)	Implementation Stage	Key Outcomes (2020–2023)
EU	Green Taxonomy	Standardizing ESG definitions	Fully implemented	\$4 trillion in sustainable investments by 2023 (EU Report)
	Sustainable Finance Disclosure Regulation (SFDR)	Transparency in ESG reporting	Fully implemented	ESG fund classification improved transparency by 65%.
USA	SEC’s ESG Disclosure Proposal	Voluntary ESG reporting	Proposed	80% of Fortune 500 companies report ESG metrics voluntarily.
	Climate-related Risk Disclosure	Governance, environmental risks	Partially implemented	Limited uptake; 45% of companies report climate risks.
China	Green Bond Standards	Environmental finance	Fully implemented	\$240 billion in green bonds issued in 2022 (ICMA Report).
	ESG Disclosure Guidelines	Voluntary ESG reporting	Partially implemented	50% of listed companies report ESG metrics by 2023.
Japan	Stewardship Code	Corporate governance	Fully implemented	Adoption by 80% of asset managers; \$3 trillion in assets under ESG management.
	TCFD (Task Force on Climate-Related Financial Disclosures)	Climate risk and transparency	Fully implemented	70% of companies listed on the Tokyo Stock Exchange comply.

Source: elaborated by the author.

2. ESG Integration in Investment Policy During the Pandemic

During the pandemic, the importance of environmental factors in investment policy became more prominent. Investors increasingly recognized the long-term risks associated with climate change, biodiversity loss, and resource scarcity, leading to a greater focus on the environmental performance of companies in their investment decisions (Busch et al., 2020). Companies that proactively addressed environmental issues, such as reducing greenhouse gas emissions, implementing sustainable resource management practices, and investing in clean technologies, were more attractive to investors and demonstrated higher financial resilience during the pandemic (Svartzman, Bolton, Despres, Pereira Da Silva, & Samama, 2021).

The pandemic also highlighted the critical role of social factors in investment policy. As the crisis exposed and exacerbated social inequalities and vulnerabilities, investors began to emphasize the social performance of companies, including their labor practices, supply chain management, and community engagement (Y.-C. Chen, Hung, & Wang, 2021). Companies that prioritized the well-being of their employees maintained strong relationships with suppliers and actively contributed to the communities in which they operated, were more resilient to the challenges posed by the pandemic, and experienced better financial performance (Cavaco et al., 2016; Y.-C. Chen et al., 2021).

Governance factors also played a crucial role in investment policy during the pandemic. Investors increasingly recognized the importance of effective corporate governance in navigating the crisis. Companies with solid governance structures and practices were better equipped to adapt to the rapidly changing business environment (Binsted et al., 2020). Key governance factors that influenced investor decision-making during the pandemic included board diversity, executive compensation, transparency in financial reporting, and ESG disclosures (Svartzman et al., 2021). In addition, companies with solid governance performance were likelier to maintain investor confidence and achieve long-term financial resilience during the pandemic (Binsted et al., 2020).

To evaluate the financial resilience of ESG investments during the pandemic, a detailed comparison of key performance metrics between ESG and non-ESG funds is presented in Table 2. The results illustrate how ESG-oriented investments demonstrated superior returns and lower volatility compared to traditional funds, showcasing their resilience during market disruptions.

Table 2. Comparative Financial Performance of ESG vs. Non-ESG Funds (2020–2021)

Metric	ESG Funds (2020–2021)	Non-ESG Funds (2020–2021)	Difference (%)
Average Annual Return (%)	14.8	8.3	+78.3%
Volatility (Standard Deviation)	10.2	15.6	-34.6%
Capital Inflows (USD)	\$1.5 Trillion	\$0.9 Trillion	+66.7%
Sharpe Ratio	1.25	0.87	+43.7%
Assets Under Management (AUM, USD)	\$8.9 Trillion	\$6.2 Trillion	+43.5%

Source: Data from (Morningstar, 2022) and (MSCI, 2022)

These findings underline the importance of incorporating ESG factors into investment policies, as evidenced by a 78.3% higher average return for ESG funds and a 34.6% reduction in volatility compared to non-ESG investments during 2020–2021.

3. Post-pandemic Trends in ESG Investing

The COVID-19 pandemic has accelerated the adoption of ESG investing, leading to several notable trends that are likely to continue in the post-pandemic era:

- **Increased investor demand:** The pandemic has heightened investor awareness of the importance of ESG factors in portfolio construction and risk management. As a result, there has been a surge in demand for ESG-focused investment products and strategies (Morrow Sodali, 2021). This increased interest is expected to continue as investors increasingly recognize the potential long-term benefits of ESG investing for financial performance and risk mitigation (Svartzman et al., 2021).
- **Regulatory developments:** In response to the growing importance of ESG factors in the investment landscape, governments and regulatory bodies worldwide have introduced new regulations and guidelines to promote sustainable finance and responsible investment. These developments include mandatory ESG reporting and disclosure requirements, as well as integrating ESG factors into the fiduciary duties of institutional investors (Cavaco et al., 2016; UNPRI, 2021). These regulatory changes are expected to strengthen further the integration of ESG factors into investment policy in the post-pandemic period.
- **Evolving ESG metrics and reporting standards:** As ESG investing gains traction, there is a growing need for standardized and reliable ESG metrics and reporting frameworks to enable investors to make informed decisions (Kotsantonis et al., 2016). Several initiatives, such as the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB), are working to develop standardized reporting guidelines and frameworks. The continued evolution and adoption of these standards will likely lead to greater transparency and comparability in ESG performance data, further facilitating the integration of ESG factors into investment policy (SASB, n.d.; TCFD).
- **Growing focus on impact investing:** The pandemic has underscored the need for investments that generate positive social and environmental outcomes alongside financial returns. As a result, impact investing, which seeks to allocate capital to investments that address specific social or environmental challenges, is expected to

gain prominence in the post-pandemic era (GIIN, 2021). Investors will likely continue to seek investment opportunities that contribute to achieving the United Nations' Sustainable Development Goals (SDGs) and support a just and sustainable recovery from the pandemic (UNDP, n.d.).

The pandemic catalyzed significant growth in ESG investing, with global assets under management (AUM) and ESG bond issuance increasing substantially in the post-pandemic period. Table 3 provides a detailed summary of key ESG investment trends from 2022 to 2023.

Table 3: Post-Pandemic Trends in ESG Investing (2022–2023)

Trend	2022 Data	2023 Data	Growth (%)
Global ESG AUM (USD)	\$40 Trillion	\$45 Trillion	+12.5%
ESG Bond Issuance (USD)	\$650 Billion	\$750 Billion	+15.4%
Adoption of TCFD Standards	65% of listed companies globally	75% of listed companies globally	+15.4%
Corporate ESG Disclosure (%)	70%	78%	+11.4%

Source: (Global Sustainable Investment Alliance, 2022).

The consistent growth in ESG AUM (+12.5%) and ESG bond issuance (+15.4%) reflects investor confidence in sustainable finance and heightened demand for transparency in ESG reporting, as evidenced by the rise in corporate adoption of TCFD standards.

Discussion

1. The Role of ESG Factors in Fostering Long-Term Resilience and Sustainability

Environmental resilience refers to the ability of companies and economies to withstand and adapt to environmental shocks and stresses, such as climate change, natural disasters, and resource scarcity. Companies that prioritize environmental factors in their business strategies are more likely to develop innovative solutions to environmental challenges and reduce their exposure to long-term risks (Svartzman et al., 2021). Furthermore, by incorporating environmental factors into investment policy, investors can identify companies that are better prepared to manage environmental risks, thereby contributing to their portfolios' overall resilience and sustainability (Busch et al., 2020).

Social resilience refers to the capacity of companies to maintain and strengthen their relationships with stakeholders, such as employees, customers, and local communities, in the face of social challenges and disruptions. Companies prioritizing social factors in their business strategies are likelier to create shared value for stakeholders and maintain their social license to operate (Y.-C. Chen et al., 2021). By incorporating social factors into investment policy, investors can identify companies better equipped to navigate social challenges and contribute to the long-term stability and well-being of the communities in which they operate (Cavaco et al., 2016).

Governance resilience refers to the ability of companies to maintain effective decision-making, risk management, and oversight structures in the face of internal and external challenges. Companies with solid governance practices are likelier to demonstrate transparency, accountability, and adaptability, enabling them to navigate better complex and rapidly changing business environments (Busch et al., 2020). By incorporating governance factors into investment policy, investors can identify companies with robust governance structures that are more likely to maintain their long-term value and contribute to their portfolios' overall resilience and sustainability (Svartzman et al., 2021).

2. Challenges and opportunities for ESG investing during and after the pandemic

Challenges:

- *Data quality and consistency:* Despite the growing interest in ESG investing, there still needs to be standardized and comparable ESG data, making it difficult for investors to evaluate and compare the ESG performance of companies (Kotsantonis et al., 2016). This challenge is exacerbated by multiple ESG rating methodologies and a need for universally accepted reporting frameworks.
- *Greenwashing:* As ESG investing gains popularity, there is a risk of "greenwashing," where companies and investment products overstate or misrepresent their ESG credentials to attract investment (Morrow Sodali, 2021). This makes it essential for investors to conduct thorough due diligence and rely on objective data when evaluating ESG performance.

Opportunities:

- *Growth of ESG-focused investment products:* The increased interest in ESG investing during the pandemic has led to the development and growth of ESG-focused investment products, such as exchange-traded funds (ETFs), mutual funds, and impact investment funds. These products provide investors with diverse options to align their portfolios with ESG objectives (Svartzman et al., 2021).
- *Collaboration between investors and companies:* The growing focus on ESG factors presents an opportunity for increased collaboration between investors and companies to address ESG risks and opportunities. Engagements between investors and companies can foster best practices, encourage innovation, and drive positive change in corporate behavior (Busch et al., 2020).

The regional differences in ESG policy implementation present both challenges and opportunities. For instance, the EU's standardized Green Taxonomy offers clarity, significantly enhancing investor confidence, while the U.S. faces challenges with inconsistent adoption of voluntary ESG disclosure proposals. Meanwhile, Asia's focus on environmental finance through initiatives like China's Green Bond Standards fosters rapid growth but leaves governance frameworks underdeveloped.

3. Implications for Policymakers, Investors, and Companies

Policymakers play a crucial role in creating an enabling environment for ESG investing. Therefore, they should focus on developing regulations and guidelines that promote transparency, standardization, and consistency in ESG reporting and disclosure, as well as incorporating ESG considerations into the fiduciary duties of institutional investors (Cavaco et al., 2016; UNPRI, 2021).

Investors should continue integrating ESG factors into their investment policies and decision-making processes, focusing on long-term value creation and risk mitigation. This includes improving their understanding of ESG factors, engaging with companies on ESG issues, and advocating for greater standardization and transparency in ESG reporting (Svartzman et al., 2021).

Companies should recognize the growing importance of ESG factors to their long-term success and take proactive steps to improve their ESG performance. This includes adopting best practices in environmental management, social responsibility, and corporate

governance and enhancing transparency and communication with investors on ESG-related risks and opportunities (Y.-C. Chen et al., 2021).

Conclusions

This study explored the role of ESG factors in investment policy during the pandemic and their contribution to long-term resilience and sustainability. Key findings include:

- ESG-oriented investments demonstrated financial resilience during the pandemic, often outperforming traditional investments.
- Incorporating ESG factors into investment policy allowed investors to manage portfolio risk during the pandemic better.
- The pandemic highlighted the importance of environmental, social, and governance factors in investment policy and drove an increased focus on ESG investing.
- ESG factors are critical in fostering long-term resilience and sustainability, particularly environmental, social, and governance resilience.

The growing interest in ESG investing during the pandemic is likely to continue in the post-pandemic era as investors increasingly recognize the importance of ESG factors in mitigating risks and creating long-term value. The development of ESG-focused investment products, regulatory support, and greater collaboration between investors and companies are expected to drive further growth and innovation in ESG investing. However, data quality, consistency, and greenwashing challenges must be addressed to ensure the integrity and effectiveness of ESG investing in the future.

The comparative analysis of ESG policies and fund performance highlights the financial and strategic advantages of integrating ESG factors into investment policies. As demonstrated, ESG funds not only outperformed traditional funds during the pandemic but also showed significant growth post-pandemic. However, challenges such as data quality and regional disparities in ESG frameworks must be addressed to fully realize the potential of sustainable investing globally.

While this study provides valuable insights into the role of ESG factors in investment policy during the pandemic, there are several areas where further research could contribute to a deeper understanding of ESG investing:

- Longitudinal studies that examine the long-term performance and risk profiles of ESG-oriented investments compared to traditional investments.
- Cross-sectoral and cross-regional analyses that explore the variations in ESG integration and performance across different industries and geographies.
- Investigations into the effectiveness of different ESG rating methodologies and the potential for developing a unified ESG reporting framework.
- Studies that examine the relationship between ESG performance and other non-financial outcomes, such as innovation, employee satisfaction, and customer loyalty.

By addressing these research gaps, future studies can further refine our understanding of the role of ESG factors in investment policy and their potential to contribute to a more resilient and sustainable global economy.

References

- Albuquerque, R., Koskinen, Y., & Zhang, C. (2019). Corporate social responsibility and firm risk: Theory and empirical evidence. *Management Science*, 65(10), 4451-4469.

- Baker, S. R., Bloom, N., Davis, S. J., Kost, K. J., Sammon, M. C., & Viratyosin, T. (2020). *The unprecedented stock market impact of COVID-19*. Retrieved from
- Baldwin, R., & Di Mauro, B. W. (2020). Economics in the time of COVID-19: A new eBook. *VOX CEPR Policy Portal*, 2(3).
- Binsted, M., Iyer, G., Edmonds, J., Vogt-Schilb, A., Arguello, R., Cadena, A., . . . McJeon, H. (2020). Stranded asset implications of the Paris Agreement in Latin America and the Caribbean. *Environmental research letters*, 15(4), 044026.
- Busch, T., Bauer, R., & Orlitzky, M. (2020). Sustainable development and financial markets: Old paths and new avenues. *Business & Society*, 55(3), 303-329.
- Cavaco, S., Challe, E., Crifo, P., Rebérioux, A., & Roudaut, G. (2016). Board independence and operating performance: analysis on (French) company and individual data. *Applied Economics*, 48(52), 5093-5105.
- Chen, B., & Zhang, A. (2021). How does corporate social responsibility affect the cost of equity capital through operating risk? *Borsa Istanbul Review*, 21, S38-S45.
- Chen, Y.-C., Hung, M., & Wang, Y. (2021). The effect of mandatory CSR disclosure on firm profitability and social externalities: Evidence from China. *Journal of accounting and economics*, 65(1), 169-190.
- Ding, W., Levine, R., Lin, C., & Xie, W. (2021). Corporate immunity to the COVID-19 pandemic. *Journal of Financial Economics*, 141(2), 802-830.
- Donthu, N., & Gustafsson, A. (2020). Effects of COVID-19 on business and research. In (Vol. 117, pp. 284-289): Elsevier.
- Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The impact of corporate sustainability on organizational processes and performance. *Management Science*, 60(11), 2835-2857.
- Feng, Z., & Wu, Z. (2021). ESG disclosure, REIT debt financing and firm value. *The Journal of Real Estate Finance and Economics*, 1-35.
- Fereday, J., & Muir-Cochrane, E. (2006). Demonstrating rigor using thematic analysis: A hybrid approach of inductive and deductive coding and theme development. *International journal of qualitative methods*, 5(1), 80-92.
- Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: aggregated evidence from more than 2000 empirical studies. *Journal of sustainable finance & investment*, 5(4), 210-233.
- GIIN. (2021). Annual Impact Investor Survey 2021. Retrieved from <https://thegiin.org/research/publication/annualsurvey2021>
- Global Sustainable Investment Alliance. (2022). Global Sustainable Investment Review 2022. Retrieved from <https://www.gsi-alliance.org/members-resources/gsir2022/>
- Gopinath, G. (2020). The Great Lockdown: Worst economic downturn since the Great Depression. Retrieved from <https://www.imf.org/en/Blogs/Articles/2020/04/14/blog-weo-the-great-lockdown-worst-economic-downturn-since-the-great-depression>
- Jesson, J., Matheson, L., & Lacey, F. M. (2011). Doing your literature review: Traditional and systematic techniques.
- Khan, M., Serafeim, G., & Yoon, A. (2016). Corporate sustainability: First evidence on materiality. *The accounting review*, 91(6), 1697-1724.
- Kotsantonis, S., Pinney, C., & Serafeim, G. (2016). ESG integration in investment management: Myths and realities. *Journal of Applied Corporate Finance*, 28(2), 10-16.

- Lins, K. V., Servaes, H., & Tamayo, A. (2020). Social capital, trust, and firm performance: The value of corporate social responsibility during the financial crisis. *the Journal of Finance*, 72(4), 1785-1824.
- Morningstar. (2022). Global Sustainable Fund Flows Report. Retrieved from <https://www.morningstar.com/company/esg-resource-hub>
- Morrow Sodali. (2021). Institutional Investor Survey 2021. Retrieved from <https://www.morrowsodali.com/news-and-insights/press-releases/2021/morrow-sodali-institutional-investor-survey-2021>
- MSCI. (2022). ESG Trends to Watch in 2022. Retrieved from <https://www.msci.com/research-and-insights?topic=sustainability>
- Piechocka-Kałużna, A., Tłuczak, A., & Łopatka, P. (2021). The impact of CSR/ESG on the cost of capital: A case study of us companies. *European Research Studies Journal*, 24(3 special).
- Riedl, A., & Smeets, P. (2017). Why do investors hold socially responsible mutual funds? *the Journal of Finance*, 72(6), 2505-2550.
- SASB. (n.d.). About Us. Retrieved from <https://www.sasb.org/about/>
- Sparkes, R., & Cowton, C. J. (2004). The maturing of socially responsible investment: A review of the developing link with corporate social responsibility. *Journal of business ethics*, 52, 45-57.
- Svartzman, R., Bolton, P., Despres, M., Pereira Da Silva, L. A., & Samama, F. (2021). Central banks, financial stability and policy coordination in the age of climate uncertainty: A three-layered analytical and operational framework. *Climate Policy*, 21(4), 563-580.
- TCFD. Case Studies. Retrieved from <https://www.tcfddhub.org/case-study/>
- Thomas, J., & Harden, A. (2008). Methods for the thematic synthesis of qualitative research in systematic reviews. *BMC medical research methodology*, 8(1), 1-10.
- UNDP. (n.d.). SDGs in Action. Retrieved from <https://www.undp.org/sustainable-development-goals>
- UNPRI. (2021). About the PRI. Retrieved from <https://www.unpri.org/pri/about-the-pri>
- Zerbib, O. D. (2019). The effect of pro-environmental preferences on bond prices: Evidence from green bonds. *Journal of Banking & Finance*, 98, 39-60.

“TO BE MACHO OR NOT TO BE MACHO, THAT IS THE QUESTION”: HOW MACHISMO IS RELEVANT TO DISCRIMINATION IN THE ROMANIAN AND SERBIAN HEALTH SECTORS

Ekrem TUFAN*₁

Abstract: Health sector workers continuously provide services globally, regardless of their professional challenges. Such as the struggle against discrimination and racism. In this study, the existence of discrimination/racism against healthcare professionals was examined using the examples of Romania and Serbia. In the study, the MetaHuman Artificial Intelligence Program was used. As a result, it has been observed that there is no racism, however discrimination against atheist doctors in every country exists regarding religious beliefs. A further discovery is that survey participants from all countries favored the macho or the most beautiful doctor. Countries' decision-makers in education should ensure that extra information on this subject is added to education programs to prevent discrimination and/or racism. This research will extend to search discrimination view differences in the health sector between the Turkish minority in Germany and Turks living in Türkiye.

Keywords: Health sector, Discrimination, Romania, Serbia, Artificial Intelligence, MetaHuman

UDC: [331.101.24+342.724]:614.253(497.11+498)

JEL Code: I10, I12, I14

Introduction

It is known that people have bounded rationality and do not always make rational decisions as mentioned in traditional economic theory (Kahneman, 2003), (Kong et al., 2018), (Kahneman, 2002). **Bounded rationality** is a human decision-making process in which we attempt to satisfice, rather than optimize. As a result, people engage in smoking, alcohol consumption, and driving at speeds that exceed legal limits. The majority of decisions made daily are driven by emotions which leads us to non-rational decisions or bounded rationality. Prejudices are very frequently used in everyday life. When first meeting a doctor or other healthcare professionals, both discrimination and prejudice happen because of the physical appearance, particularly the face. The morphology of the human face can cause various reactions in many parts of life. For example, in terms of male political candidates, those with baby faces are less favored (NbcNews, 2005), whereas those who look macho are preferred. However, individuals with macho appearance may encounter resistance in some professional areas such as banking and tourism (Tufan Ekrem et al., 2017) or similar discriminatory behavior can happen in the hiring process (Stone & Wright, 2013).

Historically, physiognomy, the study of analyzing characters based on facial morphology, originated in ancient China and was later noticed in ancient Rome. Simply put, throughout history humans have always been deeply engaged with reading faces (Gramigna & Leone, 2023). To such an extent that a European priest and writer Johann Caspar Lavater was considered one of the most famous people of his time at the time of his death in 1801. His book "Essays on Physiognomy," was widely used by people in Europe and America when

*₁ Ekrem Tufan, Prof. Dr. Department of Health Management, Health Economics Program, Çanakkale Faculty of Applied Sciences, Çanakkale Onsekiz Mart University, Türkiye, etufan@comu.edu.tr, (orcid.org/0000-0002-1966-0709)

hiring household servants (John Graham, 1961). Today, people still believe in the possibility of character analysis through physiognomy. For example, a study conducted in Israel found this belief to be at 75% (Ran Hassin, 2000).

Studies utilizing facial morphology in the literature predominantly focus on gender and race discrimination. Facial morphology research spans a wide range of fields, particularly in psychology and psychiatry (Leppänen et al., 2004), (Fenske et al., 2015), (De Bruin, 2017), (Chan et al., 2020), (Joormann & Gotlib, 2007), (Lazarov et al., 2018), extending to bias research (Gopal et al., 2021). These studies often employ methods such as virtual reality (VR) goggles and functional magnetic resonance imaging (fMRI) (Telzer et al., 2008), (Lui et al., 2020) present the use of virtual reality goggles as an innovative method to uncover the harms of discrimination and racism on public health. However, the same work notes that despite the existence of virtual reality goggles for the past decade, they have not been systematically used to examine the health issues resulting from racism and discrimination.

In Turkish literature, studies on racism and discrimination against healthcare workers or patients have primarily employed literature reviews, surveys, and in-depth interviews (Öztürk & Sondaş, 2020), while virtual reality has been mainly discussed in terms of its therapeutic (Magbül Ahmet Çoban, 2023), (Doğan Yılmaz & Ünlüsoy Dinçer, 2022), (Uçan Gülfem Özlü, Burak Kerem Apaydın, 2022) and educational applications (Demiryürek & Sabri, 2022), (Demirci et al., 2018), (Yüksekdağ Boz, 2021), (Aslan & Erdoğan, 2017).

In this study, discrimination and/or racism against healthcare workers in Serbia and Romania was investigated. The research was designed as follows: The first section provided examples of the importance of the topic and previous research. The subsequent section discussed the data and methodology employed. Finally, scientific findings were presented and discussed.

Data and Methodology

The data was collected by online questionnaire for Romania and Serbia between 24th April 2024 and 15th June 2024 (Questionnaire: <https://forms.gle/NjMLMboUmoVzYNvt9>). For Romania, we got 69 responses while Serbia 68. 47,1% of Serbian respondents are women while 52,9% are men. 26,5% of them have undergraduate, 23,5 have master's diplomas, 19% are university students, and last but not least 17,6% of the Serbian respondents have PhD diplomas. Regarding Romanian respondents: 47,8% of them are women while 52,2% of them are men respondents. 26,4% of them have university diplomas (undergraduate) while 17,6% have PhD diplomas, 19,11% of them are university students.

It has been searched answers of these questions which are given below:

1. Which country's respondents choose who is the macho?
2. Which country's respondents choose who is the most beautiful?
3. Is there any correlation between the most macho and the most beautiful chosen photos and doctor preparation?
4. For both countries is there any discrimination and/or racism against health workers regarding the country?
5. For both countries is there any discrimination and/or racism against health workers regarding religiosity?

To search for discrimination and/or racism against health workers we have needed portraits of health workers (medical doctors). This was very difficult so decided to apply an artificial intelligence program, namely MetaHuman.

Unreal Engine's MetaHuman (*MetaHuman Documentation*, 2024)

“...Unreal Engine's MetaHuman Creator is a cutting-edge tool developed by Epic Games that allows users to create highly realistic digital human characters with unprecedented ease and speed. It leverages the power of Unreal Engine, one of the leading game engines, to produce photorealistic characters that can be used in various applications, including video games, virtual production, and film.

Key Features of MetaHuman Creator

Photorealism: Utilizes high-fidelity textures, shaders, and animations to achieve lifelike visual quality.

Ease of Use: Provides an intuitive interface that simplifies the complex process of character creation.

Customization: Offers extensive customization options for facial features, hair, clothing, and more.

Animation Ready: Characters are rigged and ready for animation, compatible with Unreal Engine's animation system.

Cloud-Based Processing: Utilizes cloud computing to handle the intensive processing required for generating high-quality assets.

Human Character Creation Process Using MetaHuman Creator within the scope of the project;

Step 1: Initial Setup

Access the MetaHuman Creator: The tool is accessed via a web browser, requiring an Epic Games account and connection to the internet.

Step 2: Creating the Base Character

Template Selection: Start by selecting a base template from a library of pre-built MetaHumans. These templates provide a foundation for different ethnicities, genders, and ages.

Customization Interface: Use the customization interface to modify the base template. The interface allows adjustments to various parameters:

Facial Features: Modify attributes like the shape of the eyes, nose, mouth, jawline, and more.

Skin and Hair: Choose skin tone, and texture, and add details such as freckles, scars, and blemishes. Select and customize hairstyles and facial hair.

Body Type: Adjust the body proportions, including height, weight, and muscle tone.

Step 3: Detailing

Microdetails: Add fine details to enhance realism. This includes wrinkles, pores, and subtle imperfections that contribute to the character's lifelike appearance.

Clothing and Accessories: Select from a range of clothing and accessories. These assets can be further customized for color, texture, and fit.

Step 4: Rigging and Animation

Automatic Rigging: MetaHuman Creator automatically rigs the character, providing a skeleton and control rig compatible with Unreal Engine's animation system.

Facial Animation Setup: The character includes a facial rig with blend shapes and controls for detailed facial expressions, enabling realistic lip-sync and emotional expression.

After the processes mentioned above, the shoulder plan photos of the male and female MetaHumans designed in the MetaHuman Creator were created...”
(<https://dev.epicgames.com/documentation/en-us/unreal-engine/unreal-engine-5-5-documentation>)

The Model and Findings

In the questionnaire, we have applied Likert-type answers. Regarding machoism, question 1 represents the most macho man while 5 is the less. We have summed up only 1 and 2 numbers of the answers. We have shown 19 different-faced men photos who are bold-curly hair, dark hair, brown hair, fairy hair, mustache beard, and no, blue-hazel eyes combinations. Regarding this for Romanian respondents who are age 18+ is:



Photo 1. The Most Macho Man for Romanian Respondents

The same question was also asked 68 Serbians and they also determined the most macho man as:



Photo 2. The Most Macho Man for Serbian Respondents

There are only two differences between the two photos which are moustache and beard.

On the other hand, we have asked also the same question for women's photos who is the most beautiful one? Except for the mustache and beard, all features were the same and created the same combinations and we have got 11 different women's faces. The photos that were accepted as the most beautiful women are given below:



Photo 3: The Most Beautiful Woman for Romanian Respondents
and,



Photo 4: The Most Beautiful Woman for Serbian Respondents

As can be seen in photos 3 and 4, there is no difference between two countries preferences.

Next phase of the experiment we showed 19 men and 11 women photos one after another and asked which doctor mostly be chosen when the respondent needed a doctor for serious surgery. For Romanians the most preferred doctor is given below:



Photo 5. The Most Preferred Doctor(s) by Romanian Respondents



Photo 6. The Most Preferred Doctor(s) by Romanian Respondents



Photo 7. The Most Preferred Doctor(s) by Romanian Respondents



Photo 8. The Most Preferred Doctor(s) by Romanian Respondents

On the other hand, Serbian respondents voted for:



Photo 9. The Most Preferred Doctor(s) by Serbian Respondents

Romanian and Serbian respondents have chosen a very similar man as the ideal macho. The macho-faced photo chosen by Serbian respondents has a mustache; otherwise, all other features are the same as those chosen by Romanian respondents. Interestingly, the preferences for the most beautiful women between the two countries are almost the same; Serbian respondents also chose women with blue eyes.

The next research question is whether Romanian and Serbian respondents choose the same macho and beautiful faces. Romanian respondents have chosen four doctors two of them are women while Serbian respondents have chosen one woman doctor. Interestingly, Romanian respondents were chosen from the same two people out of four which determined macho and beautiful. On the other hand, Serbian respondents directly have chosen a woman doctor whoever they have chosen as the most beautiful. Even though there is no correlation between doctors' macho and/or beauty features with their medical knowledge, majority of the both countries' respondents seem to be correlated. Next phase, we wonder if there is discrimination and/or racism against doctors. To search this we ask more questions about one related country's origin and other religions. To determine certainty of the discrimination we add medical diploma information to all questions and re-asked.

Q1: Because the doctor that you chose is a Syrian immigrant doctor would you like to change your preference?

Table 1. Romanian Respondents Country Bias

			No	Yes	Total
Please indicate your gender.	Female	Count	25	8	33
		% of Total	36,2%	11,6%	47,8%
	Male	Count	32	4	36
		% of Total	46,4%	5,8%	52,2%
Total		Count	57	12	69
		% of Total	82,6%	17,4%	100,0%

P.S.: The figures in the table are left as decimal numbers. Small digits on the right side of the numbers have been disregarded. Therefore, minor differences may appear in the figures.

As can be seen in Table 1., 17,4% of Romanian respondents would like to change their doctor preference even if they will get serious surgery when they get new information that the doctor is a Syrian migrant. Romanian female respondents are more affected by this information than male respondents.

Q2: Because the doctor that you chose is a Syrian immigrant but has a German medicine diploma would you like to change your preference?

Table 2. Romanian Respondents Country Bias (with Diploma)

			No	Yes	Total
Please indicate your gender.	Female	Count	31	2	33
		% of Total	44,9%	2,9%	47,8%
	Male	Count	33	3	36
		% of Total	47,8%	4,3%	52,2%
Total		Count	64	5	69
		% of Total	92,8%	7,2%	100,0%

P.S.: The figures in the table are left as decimal numbers. Small digits on the right side of the numbers have been disregarded. Therefore, minor differences may appear in the figures.

Even the Romanian respondents know that the doctor has a medical faculty diploma from Germany and would like to change their doctor preference. This result indicates discrimination and/or racism (7,2%).

Q3: Because the doctor that you chose is a Syrian immigrant doctor would you like to change your preference?

Table 3. Serbian Respondents Country Bias

			No	Yes	Total
Please indicate your gender.	Woman	Count	36	12	48
		% of Total	52,9%	17,6%	70,6%
	Man	Count	16	4	20
		% of Total	23,5%	5,9%	29,4%
Total		Count	52	16	68
		% of Total	76,5%	23,5%	100,0%

P.S.: The figures in the table are left as decimal numbers. Small digits on the right side of the numbers have been disregarded. Therefore, minor differences may appear in the figures.

23,5% of the Serbian respondents intend to change the doctor that they have chosen as a serious surgery doctor. This is 6.1% higher than Romanian respondents' preferences. What about if a Syrian doctor got her/his medical faculty diploma from Germany?

Q4: Because the doctor that you chose is a Syrian immigrant but has a German medicine diploma would you like to change your preference?

Table 4. Serbian Respondents Country Bias (with Diploma)

			No	Yes	Total
Please indicate your gender.	Woman	Count	46	2	48
		% of Total	67,6%	2,9%	70,6%
	Man	Count	20	0	20
		% of Total	29,4%	0,0%	29,4%
Total		Count	66	2	68
		% of Total	97,1%	2,9%	100,0%

P.S.: The figures in the table are left as decimal numbers. Small digits on the right side of the numbers have been disregarded. Therefore, minor differences may appear in the figures.

When we shared the doctors who got a diploma from Germany information with Serbian respondents, they changed their preferences and changed their minds reducing from 23,5% to 2,9. This result indicates less discrimination than Romanian respondents.

After searching country bias we have also searched if there is religion bias too. Here you can find the results:

Q5: Because the doctor that you chose is a Muslim (Jewish, Atheist, Christian) doctor would you like to change your preference?

Table 5. Serbian Respondents Religion Biases

If the chosen doctor is a Muslim...			No	Yes	Total
Please indicate your gender.	Woman	Count	46	2	48
		% of Total	67,6%	2,9%	70,6%
	Man	Count	20	0	20
		% of Total	29,4%	0,0%	29,4%
Total		Count	66	2	68
		% of Total	97,1%	2,9%	100,0%
If the chosen doctor is a Jewish...			No	Yes	Total
Please indicate your gender.	Woman	Count	46	2	48
		% of Total	67,6%	2,9%	70,6%
	Man	Count	20	0	20
		% of Total	29,4%	0,0%	29,4%
Total		Count	66	2	68
		% of Total	97,1%	2,9%	100,0%
If the chosen doctor is an Atheist...			No	Yes	Total
Please indicate your gender.	Woman	Count	43	5	48
		% of Total	63,2%	7,4%	70,6%
	Man	Count	14	6	20
		% of Total	20,6%	8,8%	29,4%
Total		Count	57	11	68
		% of Total	83,8%	16,2%	100,0%
If the chosen doctor is a Christian...			No	Yes	Total
Please indicate your gender.	Woman	Count	47	1	48
		% of Total	69,1%	1,5%	70,6%
	Man	Count	20	0	20
		% of Total	29,4%	0,0%	29,4%
Total		Count	67	1	68
		% of Total	98,5%	1,5%	100,0%

P.S.: The figures in the table are left as decimal numbers. Small digits on the right side of the numbers have been disregarded. Therefore, minor differences may appear in the figures.

Except for the atheist doctor situation (16,2%) Serbian respondents almost do not care about the doctor's religious belief. Even if they respect other religions, they have a bias against atheist people.

Regarding religion-related questions what do Romanian respondents think?

Q6: Because the doctor that you chose is a Muslim (Jewish, Atheist, Christian) or would you like to change your preference?

Romanian respondents also do not like atheist doctors and would like to change their preferences (14,5%) if they are informed about it. Unlikely Serbian respondents, Romanian respondents change their preferences when the doctor is a Muslim (7,2%) and Jewish (8,7%) respectively.

Table 6. Romanian Respondents Religion Biases

If the chosen doctor is a Muslim...			No	Yes	Total
Please indicate your gender.	Female	Count	31	2	33
		% of Total	44,9%	2,9%	47,8%
	Male	Count	33	3	36
		% of Total	47,8%	4,3%	52,2%
Total		Count	64	5	69
		% of Total	92,8%	7,2%	100,0%
If the chosen doctor is a Jewish...			No	Yes	Total
Please indicate your gender.	Female	Count	30	3	33
		% of Total	43,5%	4,3%	47,8%
	Male	Count	33	3	36
		% of Total	47,8%	4,3%	52,2%
Total		Count	63	6	69
		% of Total	91,3%	8,7%	100,0%
If the chosen doctor is an Atheist...			No	Yes	Total
Please indicate your gender.	Female	Count	29	4	33
		% of Total	42,0%	5,8%	47,8%
	Male	Count	30	6	36
		% of Total	43,5%	8,7%	52,2%
Total		Count	59	10	69
		% of Total	85,5%	14,5%	100,0%
If the chosen doctor is a Christian...			No	Yes	Total
Please indicate your gender.	Female	Count	33	0	33
		% of Total	47,8%	0,0%	47,8%
	Male	Count	33	3	36
		% of Total	47,8%	4,3%	52,2%
Total		Count	66	3	69
		% of Total	95,7%	4,3%	100,0%

P.S.: The figures in the table are left as decimal numbers. Small digits on the right side of the numbers have been disregarded. Therefore, minor differences may appear in the figures.

Conclusions

The rapidly increasing racism worldwide is particularly directed towards wealthier countries from poorer nations affected by war and climate change. Due to the impact of wars and other events such as the COVID-19 pandemic that affect economies, the labor markets in migrant-receiving countries are disrupted, leading to a rise in xenophobia. This can be observed in the vote shares of racist parties that have come to power or increased their influence in European Union (EU) member states. One area where racism or discrimination should be minimal, if not nonexistent, is perhaps the healthcare sector. This study investigates the presence of potential discrimination and/or racism.

The first impression is important in human relations and according to (*De Waal, 2009*), the face is the 'emotion highway'. The face of a human can give clues about his/her origin and consequently can create serotypes.

Romanian and Serbian respondents who have similar cultures do not discriminate against health workers if they get their medicine faculty diploma from one of the developed countries such as Germany. On the other hand, majority of the both countries' respondents

preferred macho and/or beautiful doctor(s) that they determined at first stage questions. However, there is no correlation between the beauty or macho nature of the doctor(s) who is expected to perform a serious surgery and their medical knowledge and skills. We can call it a face bias. Machoism and beauty are very important biases and there is evidence in politics (NbcNews, 2005) but now in the health sector too.

On the other hand, it is seen that participants from both countries respect different religions but are reactive to atheists. The results are very similar for both countries which have similar historical, cultural, and religious backgrounds. This may be because young people have become more distant from religion in recent years than ever before.

Machoism or muscularity symbolizes power so, respondents could think important surgery needs it. Zebrowitz, L. A. (2017) describes faces as:

Baby-face people: Impressions of childlike and sincere traits, containing high warmth, low power, and low competence, are revealed by faces that look more babyish than average, and these effects take place regardless of face age, gender, or race.

- Familiar-face: People not only prefer faces they have seen before, but they also tend to prefer novel faces that are similar to previously seen ones, a generalized mere-exposure effect.
- Unattractive face: Even people who are in normal health, if they have unfit-face people tend to think that they have lower warmth, power, and competence than people with attractive faces have and especially this effect at any rate partly accounts for more positive impressions of more attractive individuals, as the halo effect.
- Emotional face: As defined by human ratters, much more dominance and lower warmth are understood not only in angry faces, it can be also in neutral-expression faces that show more similarity to angry expressions.

Beauty and muscularity (machoism) have an effect on almost all areas of our life from politics to work. This article gives other evidence from the health sector. The reason could come from the evolution of humans. Decision-makers in education should ensure that additional information on this subject is included in educational programs to prevent discrimination and/or racism. Some cultures create more discrimination or racism than others, as people may not recognize their racist behaviors and accept them as normal. The World Health Organization (WHO) should recommend that governments include topics on discrimination and/or racism in education systems at all levels.

References

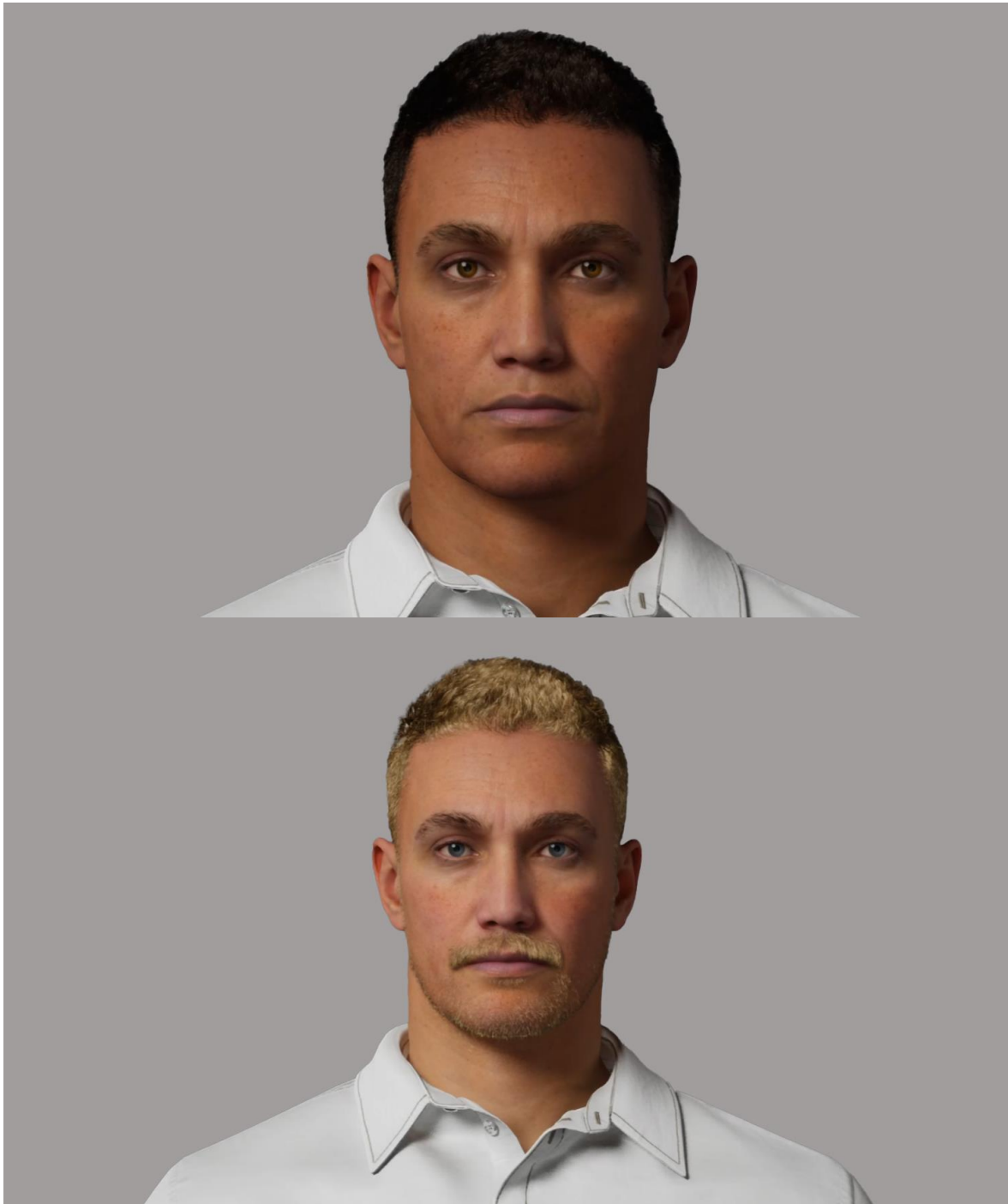
- [de_Waal_Frans]_The_Age_of_Empathy_Nature's_Lesso(Book4You). (n.d.).
- Aslan, R., & Erdoğan, S. (2017). Medical Education in the 21st Century: Virtual Reality, Augmented Reality and Hologram. *Kocatepe Veteriner Dergisi*, 10(3), 204–212. <https://doi.org/10.5578/kvj.57308>
- Chan, F. H. F., Suen, H., Hsiao, J. H., Chan, A. B., & Barry, T. J. (2020). Interpretation biases and visual attention in the processing of ambiguous information in chronic pain. *European Journal of Pain (United Kingdom)*, 24(7), 1242–1256. <https://doi.org/10.1002/ejp.1565>
- De Bruin, W. B. (2017). Aging and economic decision-making. *Economic Psychology*, June 2017, 371–386. <https://doi.org/10.1002/9781118926352.ch23>
- Demirci, Ş., Üniversitesi, H., Sağlık, İ., & Bölümü, Y. (2018). Sağlık Hizmetlerinde Sanal Gerçeklik Teknolojileri. In *İnönü Üniversitesi Sağlık Hizmetleri Meslek Yüksekokulu Dergisi* (Vol. 6, Issue 1, pp. 35–46).
- Demiryürek, S. Ç., & Sabri, O. (2022). *Klinik Hemşirelerin Beceri Uygu lamalarında Sanal*

- Gerçeklik Eğitiminin Avantajları : Literatür Taraması / Advantages of Virtual Reality Training in Clinical Nurses ' Skills Practice : Literature Review.*
- de Waal F. /2009), *The Age of Empathy, Harmony Books, NewYork, ISBN 978-0-307-40776-4, First Edition.*
- Doğan Yılmaz, E., & Ünlüsoy Dinçer, N. (2022). Prosedürel Ağrı Yönetiminde Sanal Gerçeklik Kullanımı. *Hacettepe Üniversitesi Hemşirelik Fakültesi Dergisi*, 9(1), 109–114. <https://doi.org/10.31125/hunhemsire.1102099>
- Fenske, S., Lis, S., Liebke, L., Niedtfeld, I., Kirsch, P., & Mier, D. (2015). Emotion recognition in borderline personality disorder: Effects of emotional information on negative bias. *Borderline Personality Disorder and Emotion Dysregulation*, 2(1), 1–12. <https://doi.org/10.1186/s40479-015-0031-z>
- Gopal, D. P., Chetty, U., O'Donnell, P., Gajria, C., & Blackadder-Weinstein, J. (2021). Implicit bias in healthcare: clinical practice, research, and decision making. *Future Healthcare Journal*, 8(1), 40–48. <https://doi.org/10.7861/fhj.2020-0233>
- Gramigna, R., & Leone, M. (2023). Introduction to “the visage as text.” *Chinese Semiotic Studies*, 19(3), 377–386. <https://doi.org/10.1515/css-2023-2010>
- John Grahm. (1961). Lavater's Physiognomy England. *Journal of the History of Ideas*, 22(4), 561–572. <https://www.jstor.org/stable/2708032>
- Joormann, J., & Gotlib, I. H. (2007). Selective attention to emotional faces following recovery from depression. *Journal of Abnormal Psychology*, 116(1), 80–85. <https://doi.org/10.1037/0021-843X.116.1.80>
- Kahneman, D. (2002). Maps of Bounded Rationality: A Perspective on Intuitive Judgment and Choice (Prize Lecture, December 8, 2002). *Les Prix Nobel: The Nobel Prizes 2002, December*, 449–489.
- Kahneman, D. (2003). A Perspective on Judgment and Choice: Mapping Bounded Rationality. *American Psychologist*, 58(9), 697–720. <https://doi.org/10.1037/0003-066X.58.9.697>
- Kong, G., Rajagopalan, S., & Tong, C. (2018). Pricing Diagnosis-Based Services When Customers Exhibit Sunk Cost Bias. *Production and Operations Management*, 27(7), 1303–1319. <https://doi.org/10.1111/poms.12870>
- Lazarov, A., Ben-Zion, Z., Shamaï, D., Pine, D. S., & Bar-Haim, Y. (2018). Free viewing of sad and happy faces in depression: A potential target for attention bias modification. *Journal of Affective Disorders*, 238(May), 94–100. <https://doi.org/10.1016/j.jad.2018.05.047>
- Leppänen, J. M., Milders, M., Bell, J. S., Terriere, E., & Hietanen, J. K. (2004). Depression biases the recognition of emotionally neutral faces. *Psychiatry Research*, 128(2), 123–133. <https://doi.org/10.1016/j.psychres.2004.05.020>
- Lui, P. P., Stringer, E., Jouriles, E. N., & Lui, P. (2020). *INNOVATIVE METHODS: VIRTUAL REALITY IN DISCRIMINATION SCIENCE I Advancing Knowledge on the Health Consequences of Discrimination: The Potential of Virtual Reality.*
- Magbül Ahmet Çoban. (2023). *YETİŞKİNLERDE KAN ALMA SIRASINDA SANAL GERÇEKLIK GÖZLÜĞÜ KULLANIMININ AĞRI VE KAYGI ÜZERİNE ETKİSİ.* KTO Karatay Üniversitesi.
- MetaHuman Documentation.* (2024). <https://dev.epicgames.com/documentation/en-us/metahuman/metahuman-documentation>
- NbcNews. (2005). Babyface: Kiss of death for a politician. *Nbcnews*, March, 25–27. <https://www.nbcnews.com/id/wbna8160433>

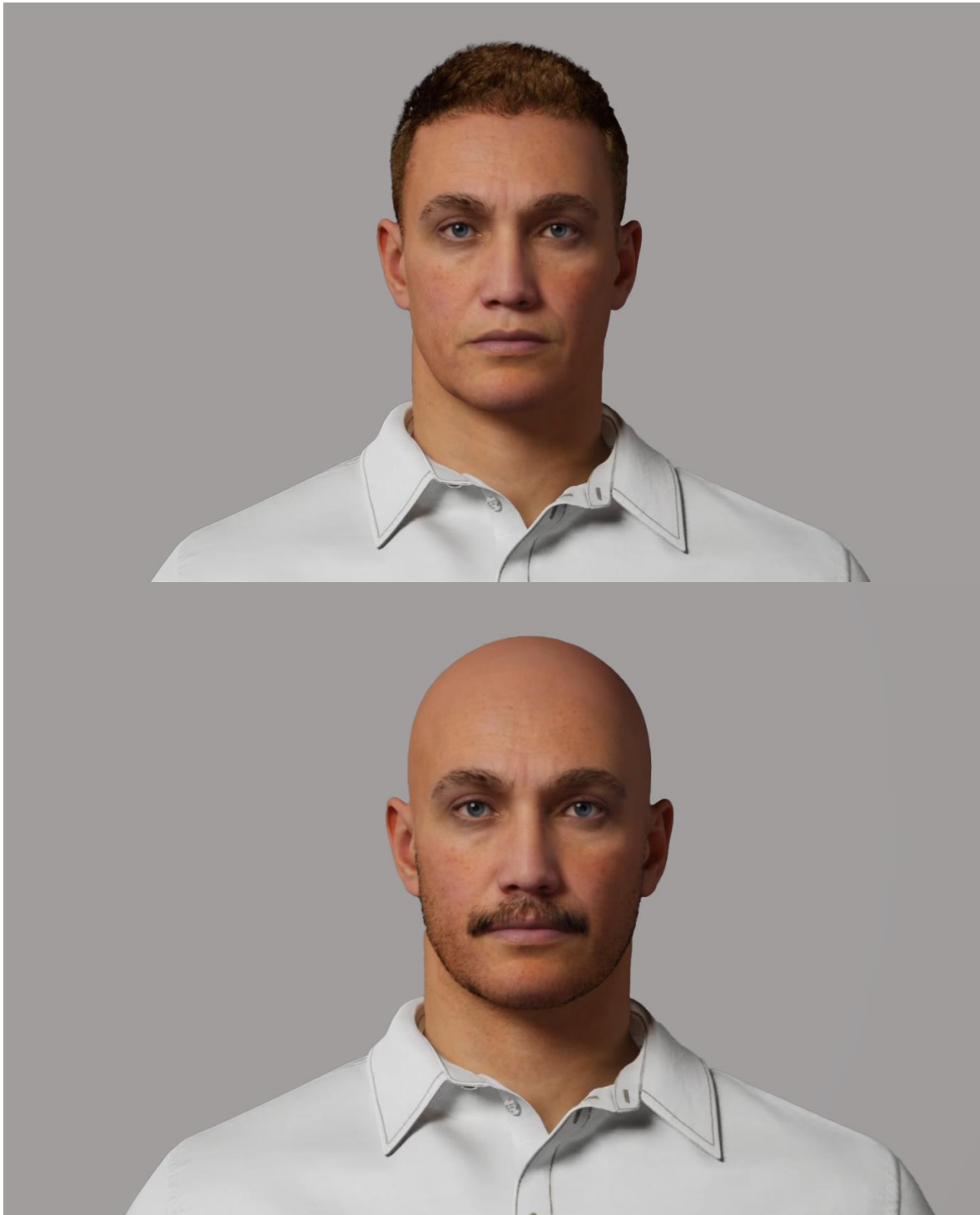
- Öztürk, E., & Sondaş, A. (2020). Sanal Sağlık: Sağlıkta Sanal Gerçekliğe Genel Bakış
Virtual Health: General Overview of Virtual Reality in Health. *Kocaeli Üniversitesi
Fen Bilimleri Dergisi*, 3(2), 164–169. <http://dergipark.gov.tr/koufbd>
- Ran Hassin, Y. T. (2000). Facing faces Studies on the cognitive aspects of physiognomy.
Journal of Personality and Social Psychology, 78(5), 837–852.
<http://www.scopus.com/inward/record.url?eid=2-s2.0-0034183469&partnerID=40&md5=9ff093dc39ca1af4242e4a531ed28b0d>
- Stone, A., & Wright, T. (2013). When your face doesn't fit: Employment discrimination
against people with facial disfigurements. *Journal of Applied Social Psychology*,
43(3), 515–526. <https://doi.org/10.1111/j.1559-1816.2013.01032.x>
- Telzer, E. H., Mogg, K., Bradley, B. P., Mai, X., Ernst, M., Pine, D. S., & Monk, C. S. (2008).
Relationship between trait anxiety, prefrontal cortex, and attention bias to angry faces
in children and adolescents. *Biological Psychology*, 79(2), 216–222.
<https://doi.org/10.1016/j.biopsycho.2008.05.004>
- Tufan Ekrem and et al. (2017). *International Conference on Economics and Administration*
(R. Ianole-Calin (Ed.)). FILODIRITTO.
- Uçan Gülfem Özlü, Burak Kerem Apaydın, B. U. (2022). *Diş Hekimiği Eğitiminde Yenilikçi
Bir Yöntem Olarak Genişletilmiş Gerçeklik*. 6(1), 125–130.
- Why are we satisfied by "good men."* (n.d.). <https://thedeclarationlab.com/biases/bounded-rationality>
- Yüksekdağ Boz, B. (2021). Sağlık Profesyonellerinin Eğitiminde Artırılmış Gerçeklik
Uygulamaları. *Açıköğretim Uygulamaları ve Araştırmaları Dergisi*, 148(2), 130–148.
<https://dergipark.org.tr/en/pub/auad/issue/62130/887267>
- Zebrowitz, L. A. (2017). First impressions from faces. *Current directions in psychological
science*, 26(3), 237-242

Annexes:

Men photos that created by MetaHUMAN AI Program

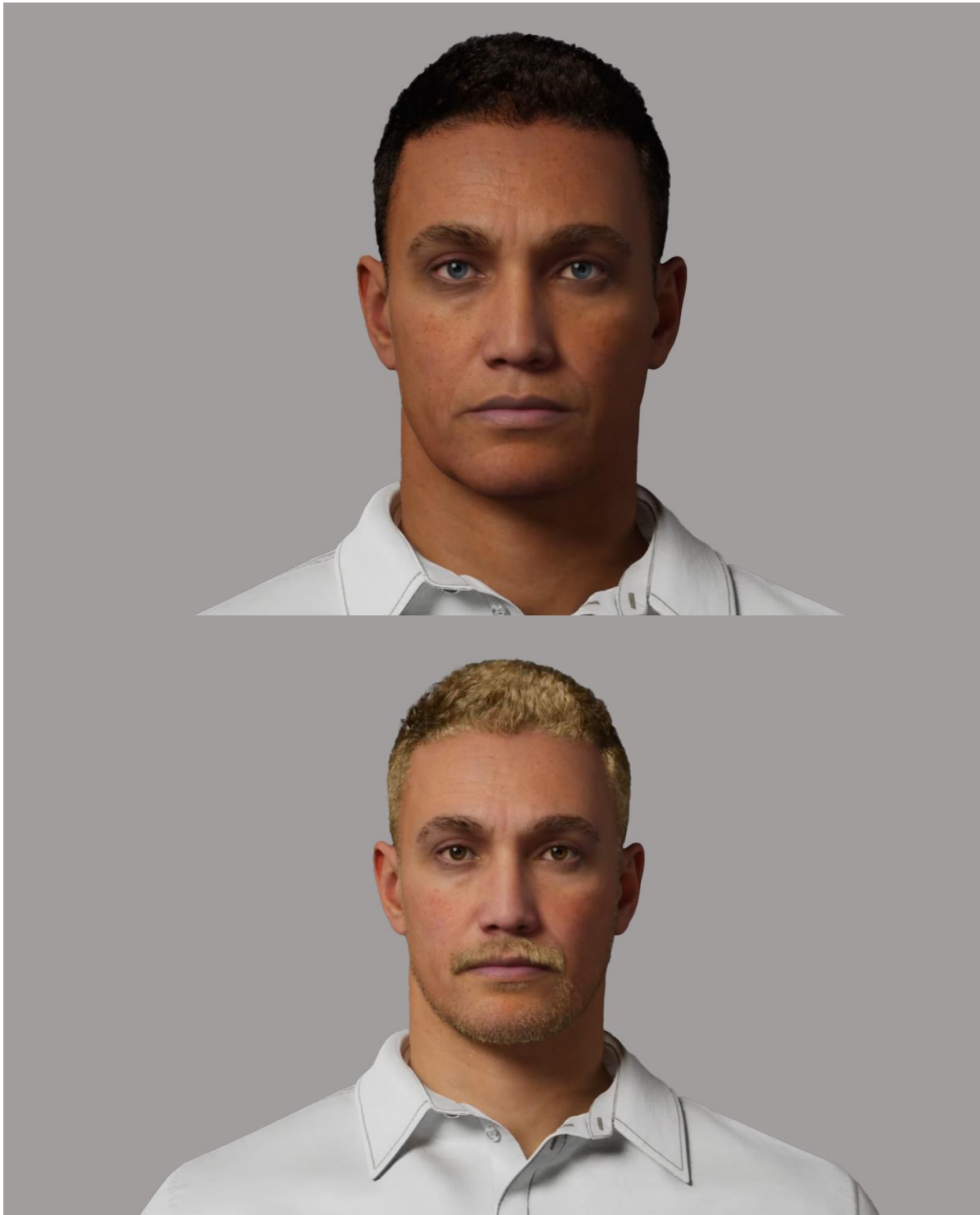




















Women photos that created by Metahuman AI Program:











