EDITOR’S NOTE

You hold serial VI-th volume (number 2 – June 2013) of scientific journal “KSI Transactions on Knowledge Society”. Sixth year in a row this scientific magazine is published by the Knowledge Society Institute with support to the Scientific-technical union of Mechanical Engineering, Sofia, Bulgaria.
During this period, Editorial Board has tried to offer its readers valuable scientific researchers from scientists from around the world. This is the reason that from the very first edition all scientific papers are put under independent review from two persons with academic rank. They select most valued scientific papers. Currently, reviewers of the magazine are professors and associate professors from 10 countries and 15 universities.
The magazine is delivered in the university libraries in around the world in order to expand its readers. In this regards, from this year the magazine offers papers only in English language. The articles can be used by scientists from the world as well as from the web-site of the magazine – www.tksi.org.
In the same time we offer of all of you not only to read published papers. You could send to our journal results of your investigations, idea and papers on the issues of Knowledge Society.
Another change from the end of the last year is new possibility for submission articles for review. The process is totally automated and the papers are submitted on-line through The Open Journal System. We encourage our readers to become reviewers of the magazine.
In this issue of the KSI Transactions on Knowledge Society we published 10 scientific papers from scientific sections: Management, Finance and Interantional relation.
Editorial Board expresses his gratitude to the reviewers for their qualitative and thorough work.

Editorial Board
## CONTENTS

**EDITOR’S NOTE**

<table>
<thead>
<tr>
<th>Authors</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irena Mačerinskienė, Valdas Grigonis</td>
<td>The Scale and Risks of Financial Innovation: The Case of Derivatives, ETFs and Securitization</td>
<td>5</td>
</tr>
<tr>
<td>Sandra Zirgutiene, Vytautas Zirgutis</td>
<td>Financial Cooperatives as Drivers for Knowledge Economy</td>
<td>13</td>
</tr>
<tr>
<td>Kiril Anguelov</td>
<td>Structural and Cohesion funds management – parallel between practice in Latvia and Bulgaria</td>
<td>19</td>
</tr>
<tr>
<td>Kiril Anguelov, Ivaylo Stoyanov</td>
<td>Aspects of Managerial Decision Making in Organizational Environments</td>
<td>25</td>
</tr>
<tr>
<td>Matilda Alexandrova</td>
<td>Work-family balance: gender differences and social support</td>
<td>29</td>
</tr>
<tr>
<td>Ivan Dimitrov, Petko Yangyozov</td>
<td>MethodS of processes improvement</td>
<td>36</td>
</tr>
<tr>
<td>Ivan Dimitrov, Petko Yangyozov</td>
<td>Optimization Methods INFLUENCE SCHEME on the Dimensions of the Sub-processes</td>
<td>42</td>
</tr>
<tr>
<td>Ivaylo Stoyanov, Daniela Stoyanova</td>
<td>Team Building as a Method for Overcoming Destructive Team Problems</td>
<td>47</td>
</tr>
<tr>
<td>Maria Bakalova</td>
<td>Minority rights: political principles and legal codification (development of EUROPEAN minority protection SYSTEM in THE 90s)</td>
<td>51</td>
</tr>
<tr>
<td>Gabriela Tabakova</td>
<td>Modern Iran and the challenges it poses in front of the international security</td>
<td>59</td>
</tr>
</tbody>
</table>
The Scale and Risks of Financial Innovation: The Case of Derivatives, ETFs and Securitization

Irena Mačerinskienė¹
Valdas Grigonis²

Abstract This study examines the risks and amount of three financial innovations: derivatives, ETFs and securitization. Collected data shows that most of these innovations are used for speculation purposes and not for risk management. This in turn reshapes financial markets and makes them more vulnerable to financial crises.

Keywords – Financial innovation, Financial innovation risks, Derivatives, ETFs, Securitization.

I. INTRODUCTION

Innovations always were one of the most important factors, impacting economic growth. New technologies gave opportunities to increase productivity of employees, to reduce incurred costs, to expand services or to propose new products for the society. The creation of innovation became important factor for the companies, which seek to revive the company and make it profitable. From a macroeconomic perspective innovations help to increase competitiveness of country.

In the finance sector, innovations play a very important role due to importance of this sector not only regionally, but also globally. The finance system helps to distribute limited resources in time, make the conditions to implement financial decisions and satisfy people consumption needs. In this system financial institutions participate facilitating the allocation of financial resources, payment for the goods, services, manufacturing resources and reduce various risks. Therefore financial institutions should be monitored and controlled by regulatory organizations, in order to ensure stability, transparency and reliability of financial markets.

Currently, researchers and economists pay more attention to financial innovations especially due to global finance crisis, which has become debt crisis in some countries. Researches are made regarding the benefit and risks of financial innovations. However, it can be noticed, that most researches are related to the benefits of financial innovation and less emphasis is put on their risks.

Even considering risks of financial innovation in the scientific literature, a lot of attention is given to the market value of financial instruments, without paying too much attention to the nominal value and its meaning. This situation is especially obvious in derivatives.

That is why the problem arises – what are the risks of financial innovation? The object of this paper is the risks of financial innovation. The aim of this paper is to analyse the risks of derivatives, ETFs and securitization.

The objectives of the article are as follows:
1. to present general risks of financial innovation;
2. to reveal theoretical and practical aspects of the topic about derivatives, ETFs and securitization;
3. to investigate the nominal amount of derivatives, ETFs and securitization;
4. to establish the meaning of nominal value number and what it tells us about stability of financial system.

The method of research:
1. analysis of scientific literature;
2. analysis of statistics data.

II. RISKS OF FINANCIAL INNOVATION

Financial innovations have never avoided uncertainty and risk, that they will be harmful to economy. By creating financial innovations society is trying to better manage various risks, diversify those risks, reduce losses, increase income, profit and so on. However, financial innovations often do have negative aspects, which become noticeable only in distressed environment.

As Oliver Wyman notices (2012) [13], innovations can add uncertainty that can provide negative results. These kinds of results cannot be perfectly predicted, because it is not known how innovations will react in stressful situations. Mingyou Wang (2009) [12] says that risk is secondary product of innovations. Prasanna Gai and others (2006) [14] observes that financial innovations as well as higher stability of macroeconomic environment could have lowered the possibility of financial crises in developed countries, but the outcome of these crises is much more severe. Prasanna Gai and others (2006) [14], Harald A. Benink (1998) [3] notice, that innovations can increase debt level (because of too easy access to loans), fluctuation of assets prices. This in turn may make financial system more unstable and more vulnerable. Some of financial innovations, for example securitization, gave possibility for financial mediators to lower capital requirements demanded by regulatory agencies, while the level of the
risk they face almost didn’t change. Because of this financial mediators could have taken too much risk (Dai Junxun, 2007) [6].

Karl-Erik Sveiby (2012) [11] states, that financial innovation became riskier both theoretically and practically. A lot of financial innovations became more complex, less transparent and less clear, and users of these innovations couldn’t estimate the risks of these innovations due to the lack of information about them.

However, as it is noted by economists Oliver Wyman (2012) [13] and Ben S. Bernanke (2009) [2], financial innovations are important and needed for economy, because thanks to it, it is possible to achieve benefits in these sectors: improve financing and growth of private economics; improve effectiveness and markets accessibility, education of users; to distribute risks across various economic sectors. Financial innovations increase funds accessibility, facilitate trading, decrease transactions costs, increase liquidity. This situation allows the economy to develop faster, the prices become more competitive. Because of this financial innovations shouldn’t be forbidden or fully controlled, though society must understand its risks and the need to control these risks. Oliver Wyman (2012) [13] and Ben S. Bernanke (2009) [2] offer many solutions how to control risks of financial innovations. The most important recommendations are the necessity to increase financial innovations transparency, encourage communication with financial mediators so their needs and endeavours controlling innovations risks are understood.

II. DERIVATIVES

A typical derivative transaction does not require any payment of the principal financial instrument at maturity. Precisely for this reason, derivative financial instruments are under consideration for managing financial risk, risk taking. As J. Gregg Whittaker (1987) [10] writes, derivative financial instruments create obligations that are not reflected in the company’s balance sheet (Francesca Taylor, 2007) [7]. Therefore investors, regulatory authorities and the company’s management face difficulties assessing the risks taken.

For derivatives early cash flows are not typical between the parties. This means that two different parties, which have concluded such a transaction, agree on the transaction amount (principal amount), but during the conclusion of the transaction they do not need to exchange that amount. Principal amount is relevant to the calculation of the actual market value of the transaction, which subsequently is exchanged later between parties. However, this derivatives feature means that this instrument has a relatively high leverage, in other words, derivatives provide a loan, which makes it possible to increase the rate of return (or loss) from the underlying asset. Derivatives leverage means that sudden and large fluctuations, such as the global financial crisis can quickly bring significant losses for the counterparty, and thus increase the counterparty's risk. Acquisition of derivative contract is subject to very low commissions. This in turn provides them with an excellent risk management and speculative characteristics. On the other hand, whereas no cash flows were exchanged at the beginning of conclusion of the contract, it becomes more difficult to assess possible risk of loss. For this reason, derivative financial instruments must be carefully monitored and managed.

Derivatives work just like the money multiplier. When a central bank prints money, commercial banks and other financial institutions lend that money to their customers many times, and thus artificially increase the amount of money in the country. Derivatives also artificially increase the amount of money, because the person, who purchases such a product, actually gets a loan, called a lever. However, there is a difference between money multiplier and derivatives: many of these financial instruments are settled in cash rather than delivering the same underlying asset. Additionally, it is common practice to exchange net cash flows. Therefore, the actual derivatives multiplier effect for money supply is not so high.

Derivatives are characterized by a number of risks:
1. Price risk;
2. Basis risk;
3. Liquidity risk;
4. Counterparty’s risk;
5. Other risks.

Price risk arises when the prices of underlying assets change. If the changes are unfavourable, the derivative may become unprofitable. Price volatility is higher for those instruments that have leverage, longer term or options features. Therefore, for derivatives such risk is very high, because most of these tools have a lever, reaching 10 or more.

Basis risk is the risk that the correlation between the prices of two instruments, which are used to manage the risk of each other, may change. For example, if a bank uses interest rate swaps, priced according to LIBOR curve, which is used to hedge the base interest rate of the loan portfolio, the change in the base rate and LIBOR will not always be the same. The same risks apply to derivative financial instruments: the price of futures, forwards and other contracts is impacted on two main factors – the changes in underlying security prices and the difference between the interest rates of two countries. For example, if the U.S. company has an open position in British pounds, it can buy future contract to manage the risks. The price of such future contract will fluctuate due to the USD/GBP exchange rate and due to the changes in U.S. and UK interest rates.

In general, the basis risk represents a very small risk of derivatives and its risk exposure is direct: if derivative's maturity is shorter, basis risk is also lower.

Liquidity risk is the risk that the value of the derivative financial instruments will be lower due to a lack of liquidity. Liquidity risk is influenced by the depth of the market and the speed of the transaction execution. The deeper the market, the more opportunities exist to sell a
derivatives only when they have underlying asset, i.e. they economic conditions, market participants would use adverse changes in the markets. So under normal market value of derivatives contracts is more important would seek to manage the risks involved. If market risk management, i.e. in pursuance to prevent against situation is also a speculation.

Counterparty risk is the risk that the counterparty may default on its obligations. Due to derivatives leverage sudden and large fluctuations can sharply increase the counterparty’s risk. For example, if the underlying asset price changes by 1%, while the derivative’s leverage is 10, so a loss for one of the party’s in the transaction may increase by 10% per day. However, in the fourth quarter of 2008 the U.S. S&P 500 index fluctuated more than one percent. One day it fell 9% and the next day it rose about 12%. Because of such fluctuations and high leverage in derivatives, it’s possible to experience 100%, or even higher loss during the day and lose all invested funds. In this case, the counterparty may be incapable to fulfil their commitments and to refuse to carry out the transaction.

Many economists quite often try to emphasize, that market value of derivatives contracts is more important than nominal value. However, precisely the nominal value of derivatives reflects what amount of underlying assets is traded in those transactions.

In assessing the amount of derivatives it would be appropriate to define certain theoretical limits. Considering derivatives nature, they should be used for risk management, i.e. in pursuance to prevent against adverse changes in the markets. So under normal economic conditions, market participants would use derivatives only when they have underlying asset, i.e. they would seek to manage the risks involved. If market participant has derivative contract without the basic underlying asset, such situation already is speculation, which is defined as risk taking. Similarly, if market participant has underlying asset, but he buys derivative in order to increase its exposure to that asset further, such situation is also a speculation.

If derivatives’ users would seek to hedge the risk of underlying asset, then theoretically the derivatives nominal value should not be more than double that of all the major financial instruments (shares, commodities, foreign exchange, etc.) value. For example, the analysis of simple commodity future transaction can be seen that if some counterparty sells a raw material for the other party in the contract, it will have an interest to hedge against the fall in raw material prices. The opposite situation will be for the buyer of raw material. Therefore, if a party A sells 800 thousand U.S. dollars worth of raw materials to party B and both hedge against negative price changes in raw materials, then they both conclude future contract worth of 800 thousand U.S. dollar. Thus two future transactions occur in the market of 800 thousand U.S. dollars of raw material with a total nominal value of 1.6 million U.S. dollars, i.e., double that of the value of raw materials. This is the maximum theoretically possible value of derivative instruments. However, it should be noted that in practice it’s hard to achieve derivatives value twice the size of underlying assets due to three reasons:

1. First of all, not all markets participants manage risk and not all markets participants, that are managing risks, are using derivatives for hedging purpose;
2. Not all major assets may have two opposing counterparties (excluding derivatives sellers – dealers). For example, the counterparty A, having certain sovereign bonds, may seek to hedge against adverse changes in interest rates or the credit risk of government bonds. In this respect, there is no counterparty B (except dealers).
3. Not all derivatives contracts are concluded by dealer. Usually the dealer has two separate derivatives contracts with A and B counterparties. However, if a broker helps to conclude a transaction, then he brings counterparty A with a counterparty B, helps them to conclude a derivative contract takes a small commission fee.

Therefore, after the definition of the theoretical derivatives limit, it is possible to examine the actual derivatives situation. Derivatives nominal value can be compared with the world's gross domestic product, because the gross domestic product shows the value of all created goods and services. GDP is one of the most popular comparable indicators, besides it’s very difficult to accurately calculate the value of money and capital market, i.e. underlying financial instruments (raw materials, stock, bond, currency, and so on.).

Fig. 1 demonstrates collected data from International Monetary Fund [9] and the Bank of International Settlements [1] about world GDP and derivatives volume. Bank of International Settlements publishes statistics of OTC derivatives since 1998. Until 2012 it was collected from 11 countries, that presented such information (Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom and United States), and the largest global companies trading with such financial products. Since 2012 two additional countries, Australia and Spain, were included into the statistics.

According to the Bank of International Settlements [1], total nominal value of OTC derivatives in 2012 June totalled 639 trillion, and decreased by 1% compared to previous year during the same period. According to this institution, such decline was influenced by the increase in U.S. dollar's value relative to other major foreign currencies. Considering derivatives market value, it decreased to 25 trillion dollars. It can be seen that in 2008 derivatives market value composed 57.63% of the world GDP, and in the first half of 2012 this ratio fell to 35.62%. These are very large numbers and may indicate about negative derivatives impact on the global markets.
Since 1980 the world's GDP grew by more than 6 times, but the derivatives nominal value grew much faster. As soon as derivatives were created, their nominal value exceeded 600 trillion dollars in just a few decades. Comparing 2011 with 1998, world GDP grew by more than 2 times during this period, while the derivatives volume – more than 8 times. There is a tendency that OTC derivatives share among all derivatives steadily increases, although this trend slowed down since 2010. Comparing derivatives volume with global GDP, it is easy to notice that in 1998 derivatives nominal value exceeded global GDP only by 2.66 times, while in 2011 – 9.27 times. Moreover, most economists admit that the real nominal value of derivatives may be much higher, as they are off-balance and little controlled instruments. Indeed, currently there are only a small number of world countries that report derivatives statistics to the Bank of International Settlements, so it is very likely that the actual amount of derivatives is much higher in the global financial market. It is believed that derivatives nominal value may be over 1 quadrillion (1,000 trillion) globally. If that is true, then the derivatives volume would exceeded world GDP more than 14 times.

Going back to the theoretical limits, that were described in earlier, of derivatives, it can be seen, that if they were used only for risks hedging, then derivatives should not exceed the nominal value of 139.80 trillion U.S. dollars in 2011 (twice as large as the volume of GDP). According to this criterion, if all such amount would be dedicated for risk management, then 78.42% of derivatives would be used for speculative purposes. Considering only such theoretical calculations, estimated speculative derivatives part is already significant.

It should be noted that the estimated amounts of speculative derivatives is only theoretical maximum of their values. It was mentioned in the beginning that it’s hard to achieve that maximum number, which in turn means that real speculative derivatives part among all the derivatives should be higher. In practice it’s hard to estimate the purpose of derivatives use because it is difficult to know if companies have the underlying asset and if they use derivatives to reduce the risk or to increase the risk.

From the presented data it can be seen that derivatives now can be more accurately described as speculative instruments although they were created to manage the risks. Financial innovations like derivatives, exchange traded funds, algorithmic trading only increases speculation. Obviously, the existing high amount of speculative derivatives distorts financial markets. It shouldn’t be possible to conclude contracts in a properly functioning system for a larger nominal amount than there are underlying assets in reality. From that perspective, derivatives volume is far too large and poses a serious systemic risk. If suddenly due to unforeseen circumstances derivatives market would collapse, it would seriously hurt global financial system, society’s confidence. Existing derivatives leverage would also decrease and thus would greatly reduce liquidity; most countries would face declining economic growth or even in a recession. That is why derivatives market should be regulated.

III. EXCHANGE TRADED FUNDS

ETFs are one of the most rapidly growing sectors among funds management companies. It is predicted that in 2015 its assets under management will reach 5 trillion U.S. dollars. ETFs are useful for market participants because they are liquid and allow for the possibility to diversify investment portfolio with lower costs. It is possible to have active trades for all the time in exchange. According to Morningstar trades in these financial instruments compose one third of all USA stock exchange market.

At the end of the first half in 2011 [4] there were about 2825 ETFs, which had about 1442.7 billions of U.S dollars of assets under management. Estimating all ETFs, there were 4748 ETPs in total (3297 of them were ETFs) globally in the end of third quarter 2012 [5]. The total ETPs assets under management were about 1845.4 billions of U.S dollars (about 1644.1 billions USD was from ETFs). About 70.5% of assets under management ETFs were quoted in USA stock exchange. For the past 18 years the number of ETFs has risen more than 1200% and their assets under management have risen by about 2100%.
ETFs would be unprofitable for investors. Similar situation can be noticed among leveraged ETFs. Considering double leveraged ETF and situation in the above example, the investor would lose 20% during the first day and would earn 22.22% during the second day. The fund’s final value would be 9.78. Consequently, if the market does not have clear trend and fluctuates around the same level, then leveraged ETFs would continue to decrease in value and return replication error risk would be higher. This means that inverse and leveraged ETFs are speculative, have high risk and are appropriate only for short term investing.

S&P 500 index increased only approximately 18%, DJIA – approximately 12% during the last 2 years. However, during the last 5 years, S&P index decreased approximately 5%, DJIA – approximately 4%. These numbers aren’t very high in equities markets, especially if they are compared to historical equities return. Therefore, leveraged and inverse ETFs earn less return than passive investment in the index in these markets.

ETFs are created in two main ways: using physical replication and synthetic. In the first case, financial institution buys a basket of equities in proportion of their composition in the index. The company holds that basket and receives identical return. Such replication of index return is very convenient for liquid assets. However, it is expensive, because fees are higher when assets are bought directly in the market. Partial physical replication can be often seen among less liquid assets (for example bonds). In this way financial institution buys not all assets that are included in index composition. Usually it buys more liquid assets with different maturities, so that the total portfolio composition in the index. The company holds that basket and receives identical return. Such replication of index return is very convenient for liquid assets. However, it is expensive, because fees are higher when assets are bought directly in the market. Partial physical replication can be often seen among less liquid assets (for example bonds).

Synthetic replication is more popular in illiquid or restricted markets. This method uses derivatives to get exposure to the asset. Synthetic replication is the most common in Europe and Asia, where less strict requirements are applied, compared to USA.

Synthetic copying is more risky because counterparty risk is generally higher. ETF that is using this method can easily lose its invested finances and suffer a huge loss. In order to avoid this risk it is better to pledge all or the highest possible portion of assets, thus guaranteeing the counterparty’s ability to settle up. In practice, however, quality of pledged assets is often lower, and the pledge of assets usually isn’t used in commodities and bonds markets. Thus losses could be very high.

In case of physical replication, counterparty’s risk becomes significant when ETF lends its underlying assets to market participants. It is thought that due to increasing competition in the ETFs market, ETFs could try to reduce their costs by increasing actions of securities lending. In this way physical replication ETFs could be exposed to higher counterparty’s risk.

The currency risk for ETFs exists in two ways: a) when market participants buy this financial instrument in different currency compared to their national currency; b) when ETF is quoted in local currency, but its underlying assets are from foreign country. In the second case currency risk isn’t so obvious, but it still exists. The value
of ETF, which replicates foreign asset, depends on the value of foreign assets and on the value of foreign currency. Therefore, if the price of foreign asset increases, but the exchange rate of foreign currency decreases, then the value of ETF in local currency may decrease. Mutual funds and ETFs try to hedge their currency risk, however, it’s quite common that only the currency risk of nominal position is hedged, and the change in assets value due to change in exchange rate is often left unhedged. To be more specific, simple formula may disclose this explanation better: return of ETF in the local currency (RV) = return of foreign asset in foreign currency (RU) + the percentage change of foreign currency ($\Delta FX$) + return of foreign asset due to the change in foreign currency rate ($RU \times \Delta FX$). RU is the nominal amount of foreign asset and this amount is usually hedged. ($RU \times \Delta FX$) is the additional value of foreign asset and is usually unhedged due to difficulties controlling such additional value. Even if this amount would be hedged and currency risk controlled, the fund would experience higher costs due to risk management thus would reduce overall return for investors.

In general, ETFs increase the vulnerability of the market. The research shows that, currently, trade in ETFs reaches around one third of all trades. ETF’s transactions are usually carried out by trading in bundle of securities or buying and selling huge quantity of different securities at the same time. Therefore the prices of securities in the basket in the index tend to move in similar pace during the full trading day. This situation increases correlation which isn’t very useful for diversification purposes. Thus the efficiency of the markets decreases and the systemic risk increases.

IV. SECURITIZATION

Securitization and structural credits market has become very important for the development of countries and for the overall capital market. Securitization – it is financial innovation which started to develop in the eight decade in the last century. During securitization process, the company groups various credits according to specific characteristics, for example, mortgage, account receivable, consumer credit and so on. Those grouped credits are distributed into specific “portfolios” according to different maturities, amounts or other features. After that securities (bonds) are issued and backed by those specific “portfolios”. In this case the company may attract capital for its business and ensure that it will have enough resources to finance its daily operations or even long term projects. This process helps to reduce the risk and its concentration in banking industry, expands the sources of funds, and investors can diversify their investment portfolio better, because they can choose from more products according to their risk profile. Securitization helps to free up company’s capital which then can be profitably invested into other business fields, for example, provide more loans for society. Securitization market reduces lending interest rates, so it’s a great benefit for society. Economists admit that in case of badly functioning securitization market, consumers, banks, issuers and investors face with less effective financial system, therefore activity of economy decreases, the number of unemployed increases.

According to SIMFA organization data [15], securitization market value amounted to 4.8 trillion U.S dollars in 2000. Its value reached 14 trillion U.S dollars in 2008. The value was 13.6 trillion U.S dollars in 2010, which means that this market grew approximately 2.8 times during 10 years.

According to SIMFA organization data [15], securitization market slowly decreases since 2007. In general, there are few reasons which impacted the decline of the market:

1. Inappropriate risk assessment – difficult calculation securitization methods;
2. Lack of transparency (the market is unregulated);
3. Market participants’ loss of confidence.

International Organization of Securities Commissions emphasized these problems in the market of securitization: [17]

1. Over-reliance on credit ratings;
2. Lack of market participants’ attention;
3. Inadequate risk pricing;
4. Inadequate analysis of securitized assets by regulatory institutions and other market participants; this situation caused excessive leverage in financial system.

During world financial crisis it was noticed, that many securitized financial instruments were priced incorrectly, because their risk was underestimated. In other words, these products were much riskier in reality than it was thought. Market participants trusted too much to independent international credit ratings agencies in 2007, and underestimated liquidity risk. When the price of real estate started to fall in the USA, many people, who had mortgage loans, were not able to pay back those loans and meet their liabilities. Thus, investors, who had financial instruments securitized by those mortgages, didn’t receive their invested capital too, incurred losses. Confidence in
financial markets was dramatically shaken, thus liquidity decreased and market participants faced difficulties borrowing money by securitization method.

Securitization process has its own drawbacks. As mentioned before, securitization helps banking industry to attract capital and then use it to finance loans. Also, the risk is transferred to other market participants. Due to this reason securitization reduces the need for financial institutions to analyze and supervise customers, who receive the loan [8]. Thus systemic risk of financial market increases.

Furthermore, the method of securitization functions like financial leverage. For instance, if commercial banks are required to hold 10% of depositors contributed capital in Central bank, then the amount of money in the economy increases by 10 times due to multiplier effect. In other words, if 100 EUR deposit is paid in, the quantity of money is increased to 1000 EUR in this hypothetical economy. Capital requirements are not applied on securities, issued during securitization method, so it is good for banks to borrow money from customers in this way. If 50% of deposits would be replaced by securitized bonds in the same hypothetical economy, then the initial amount of money would be the same: 50 EUR in deposits and 50 EUR in securitized bonds – the total amount is still 100 EUR. However, capital requirements are calculated only on deposits, therefore the amount of money is increased 20 times – up to 2000 EUR in this economy. Therefore, securitization artificially increases the amount of money and inflation in the economy.

The growing securitization market causes concern for the regulatory institutions and there is reason to be worried. It is known, that systemic risk increases when the bank becomes somewhat dependent on specific financial source. If customers suddenly stopped buying securitized bonds as it happened in 2008, it may become difficult to attract enough funds to the company and to maintain its liquidity. Securitized bonds are more risky and investors avoid risky securities when markets are falling. It is thought, that financial institutions securitized approximately 46% of all credits, which were given during 2005 – 2007 years, in USA [16]. In Europe, between 14%-55% of customers mortgages, which were given during 2000 – 2006 years, were financed by Residential Mortgage-Backed Securities [16]. These numbers indicate quite high dependency on securitization market.

Dependency on securitization market evolved due to constantly developing financial innovations, which provided a possibility to securitize more and more assets and liabilities. Finance specialists found this market attractive, because of possibility to earn high return from these financial instruments. Competition normally should have lowered profits from these transactions, but due to constant changes of these products and price-insensitive agents, who make decisions for investors, high profitability remained. It is thought, that increasing economy of scale, which was impacted by information accessibility and rising competence in financial markets, formed foundation for oligopolistic competition. These features are old dysfunctions of financial markets. Investors’ vigilance could help to eliminate these dysfunctions: the owners of assets should require higher return, which should be better corresponding to their assets risk; they should require agents to firmly comply with fiduciary rights. So it is important to control this market more carefully.

V. CONCLUSION

The financial innovations have quite a lot of impact to financial system by changing its structure and its systemic risk. Newer and more advanced financial products are created, this in turn creates complexity and society isn’t capable of properly evaluating their benefits and risks. Financial innovations are developing so fast that market participants aren’t able to chase those technologies. Newer and more complex products will not necessarily be better and more beneficial to society and financial system.

After reviewing theoretical and practical aspects about derivatives, ETFs and securitization, it can be noticed, that these instruments have many risks. Some of them are very small and have low impact, for instance, basis risk, return replication error, but some of them are much higher and noticeable only in stressed situations. The more important risks that should be paid more attention are high leverage, counterparty’s risk and price risk.

Many scientists investigate risks of financial innovation, however, they usually analyze market value of financial innovations, ignoring nominal value and its meaning. Reviewing the nominal amount of derivatives, ETFs and securitization, very high amount of their nominal value was noticed. Derivatives amounted to more than 700 trillion USD, ETFs to 1.5 trillion USD and securitization to more than 10 trillions USD in 2011. These numbers combined would exceed world GDP by more than 9 times.

Such high nominal amount of derivatives, ETFs and securitization indicates that most of these financial innovations are used for speculation purpose and much more rarely for risk management. This in turn has negative impact, because it causes larger prices fluctuation of underlying assets, promotes to form price bubbles, distorts financial markets and makes financial system more fragile. Despite the risks involved in using these financial instruments, their use for speculation is constantly growing.

So it is important that financial market participants would properly estimate their actions and implement financial innovations more carefully. Regulatory institutions should also try to participate in the development of financial innovations, communicate with financial intermediaries and try to manage financial innovation risks in advance.
REFERENCES


Financial Cooperatives as Drivers for Knowledge Economy
Sandra Zirgutiene¹  
Vytautas Zirgutis²

Abstract Knowledge economy has its stakeholders and drivers; some of them are more important than the others. Financial cooperatives do not seem a substantial stakeholder of knowledge economy, but only at first sight. This paper deals with the evaluation of financial cooperatives as drivers for knowledge economy, and positive correlation between the level of prevalence of credit unions in different countries and the level of development of the knowledge economy is demonstrated.

Keywords – financial cooperatives, credit unions, credit union classification, community empowerment, stakeholders, knowledge economy.

I. INTRODUCTION

The ongoing debate about the significance and the necessity of knowledge society in creating welfare economics and ensuring sustainable development provide assumptions to analyze at a glance indirect factors influencing the development of the knowledge economy. One of the most common proposals is related to the development and application of various support and grant mechanisms that would possibly foster and encourage the development of knowledge society. Such mechanisms include various forms starting from the non-refundable grants to the financial engineering instruments.

The authors of this paper have made the assumption that, particularly in the community level, one of the most effective economic mechanisms for fostering the development of knowledge societies could be a traditional cooperative financial institution, which represents not the interests of shareholders (e.g. a commercial bank), but the interest of stakeholders and communities (e.g. cooperatives – cooperative banks and credit unions).

Cooperative banks have already proved their significance in financial crisis management of 2007-2009, and have attracted substantial attention from the economists and researches, trying to calculate various correlations and discussing the peculiarities of corporate management implementation by cooperatives.

However the smaller scale financial market players like credit unions are still somewhere outside the official researches, thou they (their members) are actually the nearest and direct community agents and stakeholders. Credit unions enable the interests of communities, and such empowerment potentially may be employed for the development of knowledge economy.

That is why the problem arises – how to evaluate the influence of financial cooperatives for community empowerment in knowledge economy? Acknowledgment of financial cooperatives as drivers for knowledge economy would enable to use more methods and ways of knowledge economy development.

The object of this paper is the influence of financial cooperatives for knowledge economy. The aim of this paper is to analyse the impact of financial cooperatives for knowledge economy development. The objectives of this paper are as follows:

1) to analyse community empowerment through financial cooperatives;
2) to discuss the role of financial cooperative institutions depending on their maturity level;
3) to calculate and evaluate correlations between knowledge economy indexes and certain statistical activity rindicators and level of prevalence of financial cooperatives.

Methods of research: comparative analysis of scientific literature, statistical analysis.

II. KNOWLEDGE FOR DEVELOPMENT

Depending on their achieved economic development, all national economies systematically manage the relevant factors of the knowledge economy to ensure that their economies are based increasingly on knowledge, in order to achieve higher rates of economic growth and sustainable development. There is no one universal model of transition to knowledge economy, and the transformations that a particular country should make depend primarily on its achieved current level of economic development [1]

However, the transition to the knowledge economy includes four pillars, which are set by the World Bank [2]

• educated and skilled workers;

¹ Sandra Zirgutiene is with FVSC, A. Vivulskio st. 7, Vilnius LT-03221, Lithuania, www.fvsc.lt
² Vytautas Zirgutis is with the Faculty of Management and Economics, Vytautas Magnus University, Daukanto st. 28, LT-44246 Kaunas, Lithuania
• an effective innovation system of firms, research centers, universities, consultants and other organizations;
• a modern and adequate information infrastructure,
• an economic incentive and institutional regime.

The World Bank [3] is calculating several knowledge economy indexes as an indication of overall potential of knowledge development in a given country

• The Knowledge Economy Index (KEI) takes into account whether the environment is conducive for knowledge to be used effectively for economic development. The KEI is calculated based on the average of the normalized performance scores of a country or region on all 4 pillars related to the knowledge economy - economic incentive and institutional regime, education, innovation and ICT.
• The Knowledge Index (KI) measures a country's ability to generate, adopt and diffuse knowledge. The KI is the simple average of the normalized scores of a country or region on the key variables in three Knowledge Economy pillars – education, innovation and ICT.
• The Economic Incentive Regime (EIR) is the simple average of the normalized scores on three key variables: tariff and nontariff barriers, regulatory quality, and rule of law.
• Information and Communication Technology (ICT) is the simple average of the normalized scores on three key variables: telephone, computer, internet penetration.
• The Innovation System (Innovation) is the simple average of the normalized scores on three key variables: total royalty payments and receipts, patent applications, scientific and technical journal articles.
• Education and Human Resources (Education) is the simple average of the normalized scores on three key variables: adult literacy rate, secondary enrollment, tertiary enrollment.

The authors of this paper will analyze the correlation of those indexes with the certain statistical activity rates of financial cooperatives.

The environment is directly related with the economic and institutional regime, that provides economic policies and institutions, incentives for the efficient use of existing and new knowledge, entrepreneurship, stimulate creativity and ensure sustainable development in all levels.

Traditionally, there are four levels of sustainable development: global, regional (national), corporate and individual, each of them differ depending on their actors, mode of operation, and applied measures. The relations between different levels of sustainable development are managed in several ways: formal legislation, empowerment, individual initiatives.

The significance of the corporate level for sustainable development is based on formation of knowledge society and networking. Knowledge society sometimes is referred to as organizations’ society, as the goal and purpose of any organization is integration of various specific knowledge and competencies for the achieving of common goals. The recent studies [4] on management and community research indicate for the increased weight of stakeholder management and related community empowerment mechanisms.

III. COMMUNITY EMPOWERMENT

Empowerment is a construct that links individual strengths and competencies, natural helping systems, and proactive behaviors to social policy and social change. Empowerment theory, research, and intervention link individual well-being with the larger social and political environment [5]. Empowerment theory provides principles and a framework for organizing one’s knowledge. A theory of empowerment suggests ways to measure the construct in different contexts, to study empowering processes [6].

Community empowerment networks and organizations use various methods to help and assist communities to satisfy their needs and promote and develop various initiatives. It should be noted that the best known and usually world-wide networks and initiatives are mostly related to the primary issues of sustainable development, i.e. social and discrimination issues, life quality, environmental protection, democracy.

However, there is plenty of other, smaller scale and local community empowerment cases around us. The most important thing about such local community empowerment cases is that they enable more people to play active role in the decisions that affect their communities [7].

An empowered community has 5 community empowerment dimensions [8]:

• confident – working in a way which increases peoples skills, knowledge and confidence – and instills a belief that they can make a difference;
• inclusive – working in a way which recognizes that discrimination exists, promotes equality of opportunity and good relations between groups and challenges inequality and exclusion;
• organized – working in a way which brings people together around common issues and concerns in organizations and groups that are open, democratic and accountable;
• co-operative – working a way which builds positive relationships across groups, identifies common messages, develops and maintains links to national bodies and promotes partnership working;
• influential – working in a way which encourages and equips communities to take part and influence decisions, services and activities.
Based on their previous researches [9, 10, 11, 12, 13], the authors of this paper consider the financial institutions as strong and substantial stakeholders in sustainable development and knowledge economy development processes.

Additionally, the recent researches show that the diversity of ownership types and business models in banking is particularly important for a sound and reliable financial system. A financial system that presents a diversified institutional structure, including institutional types, will be more efficient in promoting economic growth and reducing poverty [14]. The crisis of 2007-2009 has shown the added value of the cooperative banking model. Cooperative banks are stakeholder-value institutions, when the traditional commercial institutions are referred to as shareholder-value ones. Cooperative banks are still banks – most often large, vertical and slow organizations, and their communication with communities is often of a “presenting the annual social accountability report” manner. However, it should be noted that the contribution of cooperative banks to banking market structures is only noticeable if the cooperative banking model enjoys a critical mass.

IV. COOPERATIVE INSTITUTIONS

Cooperatives exist to serve their members, whether they are the customers, employees or the local community. These members are the owners, with an equal say in what the cooperative does. As well as getting the products and services they need, members help shape the decisions their cooperative makes. 100 million people around the world are employed by cooperatives, 800 million are members. Cooperative enterprises also fit with the EU2020 strategy that aims for “a sustainable economy, putting people and responsibility first with a sustained fight against exclusion and a transition to a green economy” [15].

Certain major principles define cooperatives and their specific corporate governance features. The International Cooperative Alliance has prepared a list of principles upon which cooperatives rely worldwide in order to conduct their operations. While certain specific regional principles are found throughout the world, seven major principles are predominant.

More specifically, cooperatives are marked by the following [16]:

- open and voluntary membership,
- democratic management by members,
- economic involvement of members,
- autonomy and independence vis-à-vis any external power,
- training and information duties,
- tendency to cooperate with other cooperatives and involvement in community life.

The existence of members is one of the major differences between cooperatives and any other type of enterprises. Members of cooperatives are their stakeholders at different levels. The most specific attribute of cooperatives is their corporate governance. Corporate governance that is based on participation of stakeholders of different social groups and competencies, and on meeting the interest of such different stakeholders, needs to be analyzed in the context of modern management theories.

Different studies show that due to their “one member – one vote” corporate management system, cooperative banks may develop a more sustainable lending models, have the ability to develop more socially oriented business, their legal statutory mandate, their ethical codes and the stakeholder oriented governance produce positive effect on economic development, economic growth, reducing financial exclusion, improving the value of entrepreneurial human capital with long run banking relationships and horizons, cooperative Banks become active part of economic change. Moreover cooperative banks produce financial sustainability, and the ability of cooperative banks to produce financial stability is showed both theoretically and empirically. [17]

Despite their stakeholder oriented governance, cooperative banks are still banks – most often large, vertical and slow organizations, and their communication with communities is often of a “presenting the annual social accountability report” manner. However, the active role of members in the decision making processes, their direct influence at the local level, and immediate social or/and economic affect to the local community makes the issue specific.

The authors of this paper have indicated the credit unions – small cooperative financial institutions – as possible change actors for the direct empowerment of local communities.

V. CREDIT UNIONS

Credit unions are self-help cooperative financial organizations geared to attaining the economic and social goals of members and wider local communities. Each credit union is governed by its members. Credit unions cannot do business with the general public due to charter limitations based on serving a membership that is characterized by a common bond. The common bond is based on a pre-existing social connection (such as belonging to a particular community, industrial or geographic group) [18]. In the past, this helped in the absence of more formal control and management systems of credit unions. However, the recent tendencies in credit union movement show that the common bond also limits commercial diversification, and in many
jurisdictions has become less important as the movement has matured.

In 2012, there were 55,952 credit unions operating in 101 countries. These credit unions had a membership of over 200 million, which equates to a population penetration of 7.72% and had total assets under their control of approximately $1.694 billion, savings of USD 1.293 billion, loans of USD 1.083 billion and reserves of USD 162 billion [19]. The aforementioned indicators will be analyzed by the authors of this paper in order to establish possible correlations between the knowledge economy development indexes and the credit union development stage.

An organizational life-cycle theory assumes that credit unions pass the following stages of development: nascent, transition and mature. This typology contains an assumption concerning “economic determinism” in so far as the asset size of credit unions is seen as a major determinant of credit union behavior [20]. Though with a certain limitations, the typology provides a sufficient framework to assess the credit union movement within each country (Table 1).

**TABLE I**

<table>
<thead>
<tr>
<th>Stage of Industry</th>
<th>Attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nascent Industry</td>
<td>Small Asset Size</td>
</tr>
<tr>
<td></td>
<td>Highly Regulated</td>
</tr>
<tr>
<td></td>
<td>Tight Common Bond</td>
</tr>
<tr>
<td></td>
<td>Strong Emphasis on Voluntarism</td>
</tr>
<tr>
<td></td>
<td>Serve Weak Sections of Society</td>
</tr>
<tr>
<td></td>
<td>Single Savings and Loans Product</td>
</tr>
<tr>
<td></td>
<td>Requires Sponsorship from wider Credit Union Movement to take root</td>
</tr>
<tr>
<td></td>
<td>High Commitment to Traditional Self-Help Ideals</td>
</tr>
<tr>
<td>Transition Industry</td>
<td>Large Asset Size</td>
</tr>
<tr>
<td></td>
<td>Shifts in Regulatory Framework</td>
</tr>
<tr>
<td></td>
<td>Adjustments to Common Bond</td>
</tr>
<tr>
<td></td>
<td>Shifts towards greater Product Diversification</td>
</tr>
<tr>
<td></td>
<td>Emphasis on Growth and Efficiency</td>
</tr>
<tr>
<td></td>
<td>Weakening of Reliance on Voluntarism</td>
</tr>
<tr>
<td></td>
<td>Recognition of need for Greater Effectiveness and Professionalism of Trade Bodies</td>
</tr>
<tr>
<td></td>
<td>Development of Central Services</td>
</tr>
<tr>
<td>Mature Industry</td>
<td>Large Asset Size</td>
</tr>
<tr>
<td></td>
<td>Deregulation</td>
</tr>
<tr>
<td></td>
<td>Loose Common Bond</td>
</tr>
<tr>
<td></td>
<td>Competitive Environment</td>
</tr>
<tr>
<td></td>
<td>Electronic Technology Environment</td>
</tr>
<tr>
<td></td>
<td>Well Organized, Progressive Trade Organizations</td>
</tr>
<tr>
<td></td>
<td>Professionalization of Management</td>
</tr>
<tr>
<td></td>
<td>Well Developed Central Services</td>
</tr>
<tr>
<td></td>
<td>Diversification of Products and Services</td>
</tr>
<tr>
<td></td>
<td>Products and Services Based on Market Rate Structures</td>
</tr>
<tr>
<td></td>
<td>Emphasis upon Economic Viability and Long Term Sustainability of a Credit Union</td>
</tr>
<tr>
<td></td>
<td>Rigorous Financial Management of Operations</td>
</tr>
<tr>
<td></td>
<td>Deposit Insurance Mechanism Established</td>
</tr>
</tbody>
</table>

Nascent industries can be found primarily in the developing countries where they are often seen as vehicles for reducing poverty within more general microfinance programs. Most credit unions are somewhere in the transition stage, and few industries can be ascribed to the mature phase (i.e. USA, Canada, Australia, France, Korea). In 2002, the typology was updated to include a post-mature phase [20]. The post-mature phase is supposed to be the final stage in the life cycle development of a credit union. At this stage the credit union and the industry supporting the credit union is of sufficient standard to allow the credit union to convert (to transform) into commercial financial institution (mostly – a commercial bank). The identification of this phase was mainly determined by a specific case in Canada, where one particular credit union was successfully reorganized to a commercial bank.

Credit unions exist to attain the economic and social goals of their members, and not maximizing profit and shareholder wealth. This enables credit unions to empower communities to pursue specific interests of the communities.

**VI. CORRELATIONS**

The authors of this paper have made a preliminary analysis of statistical data in order to establish whether there is a correlation between the level of prevalence of credit unions in different countries and the level of development of the knowledge economy.

The data of unions (number of credit unions, amount of savings, loans, assets and level of penetration) all over the world has been grouped [19] and maturity levels of credit unions in every country have been determined according to Ferguson Ch. and McKillop D.G [20].

The data of KEI, KI, EIR, Innovation, Education and ICT has been grouped [3].

The research scope has included 78 countries.

Main findings are represented in tables (II – VII) below.

**TABLE II**

<table>
<thead>
<tr>
<th>KEI</th>
<th>-0,214</th>
<th>-0,224</th>
<th>0,135</th>
</tr>
</thead>
<tbody>
<tr>
<td>KI</td>
<td>-0,234</td>
<td>-0,218</td>
<td>0,247</td>
</tr>
<tr>
<td>EIR</td>
<td>-0,095</td>
<td>-0,184</td>
<td>0,088</td>
</tr>
<tr>
<td>Innovation</td>
<td>-0,240</td>
<td>-0,072</td>
<td>0,716</td>
</tr>
<tr>
<td>Education</td>
<td>-0,181</td>
<td>-0,298</td>
<td>-0,515</td>
</tr>
<tr>
<td>ICT</td>
<td>-0,259</td>
<td>-0,218</td>
<td>0,750</td>
</tr>
</tbody>
</table>

Correlation of credit union number with KEI, KI and EIR is not established in any maturity level.

Strong direct correlation between the number of the 3rd maturity level credit unions and Innovations and IT C is established.

The inverse correlation between the 3rd maturity level and Education is established.
TABLE III
CORRELATIONS WITH NUMBER OF CREDIT UNIONS MEMBERS

<table>
<thead>
<tr>
<th></th>
<th>1-st maturity level</th>
<th>2-nd maturity level</th>
<th>3-rd maturity level</th>
</tr>
</thead>
<tbody>
<tr>
<td>KEI</td>
<td>-0.073</td>
<td>-0.200</td>
<td>0.221</td>
</tr>
<tr>
<td>KI</td>
<td>-0.097</td>
<td>-0.167</td>
<td>0.322</td>
</tr>
<tr>
<td>EIR</td>
<td>-0.128</td>
<td>-0.216</td>
<td>0.165</td>
</tr>
<tr>
<td>Innovation</td>
<td>0.027</td>
<td>-0.026</td>
<td>0.746</td>
</tr>
<tr>
<td>Education</td>
<td>-0.128</td>
<td>-0.174</td>
<td>-0.486</td>
</tr>
<tr>
<td>ICT</td>
<td>-0.151</td>
<td>-0.208</td>
<td>0.808</td>
</tr>
</tbody>
</table>

There is no significant correlation of number of credit union members neither with KEI, KI, EIR nor Education in any maturity level.

The significant correlation is established between the number of credit union members of the 3rd maturity level and Innovation and ICT.

TABLE IV
CORRELATIONS WITH SAVINGS

<table>
<thead>
<tr>
<th></th>
<th>1-st maturity level</th>
<th>2-nd maturity level</th>
<th>3-rd maturity level</th>
</tr>
</thead>
<tbody>
<tr>
<td>KEI</td>
<td>-0.029</td>
<td>-0.063</td>
<td>0.271</td>
</tr>
<tr>
<td>KI</td>
<td>-0.043</td>
<td>-0.025</td>
<td>0.354</td>
</tr>
<tr>
<td>EIR</td>
<td>0.019</td>
<td>-0.120</td>
<td>0.214</td>
</tr>
<tr>
<td>Innovation</td>
<td>0.077</td>
<td>0.058</td>
<td>0.769</td>
</tr>
<tr>
<td>Education</td>
<td>-0.080</td>
<td>-0.067</td>
<td>-0.481</td>
</tr>
<tr>
<td>ICT</td>
<td>-0.094</td>
<td>-0.024</td>
<td>0.835</td>
</tr>
</tbody>
</table>

There is no significant correlation of savings neither with KEI, KI, EIR nor Education in any maturity level.

The significant correlation is established between the savings in credit unions of the 3rd maturity level and Innovation and ICT.

TABLE V
CORRELATIONS WITH LOANS

<table>
<thead>
<tr>
<th></th>
<th>1-st maturity level</th>
<th>2-nd maturity level</th>
<th>3-rd maturity level</th>
</tr>
</thead>
<tbody>
<tr>
<td>KEI</td>
<td>-0.033</td>
<td>-0.041</td>
<td>0.414</td>
</tr>
<tr>
<td>KI</td>
<td>-0.046</td>
<td>-0.016</td>
<td>0.296</td>
</tr>
<tr>
<td>EIR</td>
<td>0.015</td>
<td>-0.070</td>
<td>0.399</td>
</tr>
<tr>
<td>Innovation</td>
<td>0.075</td>
<td>0.079</td>
<td>0.902</td>
</tr>
<tr>
<td>Education</td>
<td>-0.080</td>
<td>-0.062</td>
<td>-0.618</td>
</tr>
<tr>
<td>ICT</td>
<td>-0.099</td>
<td>-0.026</td>
<td>0.839</td>
</tr>
</tbody>
</table>

There is no significant correlation of granted loans neither with KEI, KI nor EIR in any maturity level.

The significant correlation is established between the granted loans by the credit unions of the 3rd maturity level and Innovation and ICT.

The inverse correlation between the granted loans by the 3rd maturity level and Education is established.

TABLE VI
CORRELATIONS WITH ASSETS

<table>
<thead>
<tr>
<th></th>
<th>1-st maturity level</th>
<th>2-nd maturity level</th>
<th>3-rd maturity level</th>
</tr>
</thead>
<tbody>
<tr>
<td>KEI</td>
<td>-0.068</td>
<td>0.026</td>
<td>0.345</td>
</tr>
<tr>
<td>KI</td>
<td>-0.088</td>
<td>0.048</td>
<td>0.311</td>
</tr>
<tr>
<td>EIR</td>
<td>0.003</td>
<td>-0.006</td>
<td>0.314</td>
</tr>
<tr>
<td>Innovation</td>
<td>0.048</td>
<td>0.139</td>
<td>0.850</td>
</tr>
<tr>
<td>Education</td>
<td>-0.129</td>
<td>0.011</td>
<td>-0.572</td>
</tr>
<tr>
<td>ICT</td>
<td>-0.141</td>
<td>0.022</td>
<td>0.836</td>
</tr>
</tbody>
</table>

There is no significant correlation of assets neither with KEI, KI nor EIR in any maturity level.

The significant direct correlation between the assets of the 3rd maturity level and Innovation and ICT is established.

The inverse correlation between the assets of the 3rd maturity level unions and Innovations and Education is established.

TABLE VII
CORRELATIONS WITH PENETRATION LEVEL

<table>
<thead>
<tr>
<th></th>
<th>1-st maturity level</th>
<th>2-nd maturity level</th>
<th>3-rd maturity level</th>
</tr>
</thead>
<tbody>
<tr>
<td>KEI</td>
<td>-0.190</td>
<td>0.183</td>
<td>0.852</td>
</tr>
<tr>
<td>KI</td>
<td>-0.260</td>
<td>0.244</td>
<td>0.338</td>
</tr>
<tr>
<td>EIR</td>
<td>0.062</td>
<td>0.029</td>
<td>0.897</td>
</tr>
<tr>
<td>Innovation</td>
<td>-0.192</td>
<td>0.225</td>
<td>0.937</td>
</tr>
<tr>
<td>Education</td>
<td>-0.310</td>
<td>0.228</td>
<td>-0.556</td>
</tr>
<tr>
<td>ICT</td>
<td>-0.230</td>
<td>0.274</td>
<td>0.735</td>
</tr>
</tbody>
</table>

One of the key indicators of the impact of credit unions on social trends - participation in credit union activities (penetration) rate, which is measured by calculating the percentage of the working-age population having membership with the credit union - in other words, what part of the community, whose interests may be empowered by the credit union, is involved in the credit union activities.

There is no correlation established between the penetration of the 1st and the 2nd maturity level unions with any of the six analyzed KE indicators.

There is no correlation established between the KI and penetration in any maturity levels.

However, the strong direct correlation is established between the penetration of the 3rd maturity level unions and KEI, EIR, innovation and ICT, and inverse correlation with Education.

VII. CONCLUSIONS

Depending on their achieved economic development, all national economies manage the relevant factors of the knowledge economy to ensure that their economies are based increasingly on knowledge, in order to achieve higher rates of economic growth and sustainable development.
The recent studies on management and community research indicate for the increased weight of stakeholder management and related community empowerment mechanisms. Community empowerment networks and organizations use various methods to help and assist communities to satisfy their needs and promote and develop various initiatives. The most important thing about local community empowerment cases is that they enable more people to play active stakeholder role in the decisions that affect their communities.

Financial institutions are strong and substantial stakeholders in sustainable development and knowledge economy development processes. The recent researches show that the diversity of ownership types and business models in banking is particularly important for a sound and reliable financial system.

Cooperative banks are stakeholder-value institutions, when the traditional commercial institutions are referred to as shareholder-value ones. The existence of members is one of the major differences between cooperatives and any other type of enterprises. Members of cooperatives are their stakeholders at different levels. Small financial cooperatives, like credit unions, exist to attain the economic and social goals of their members, and not maximizing profit and shareholder wealth. This enables credit unions to empower communities to pursue specific interests of their local communities.

Credit unions of the 1st and the 2nd maturity level are not KE drivers, there are no reliable correlations with KEI, KI, EIR, Innovation, Education and ICT. It may be assumed that unions of the first maturity levels do not empower communities for the development of knowledge society and knowledge economy.

Credit unions of the 3rd maturity level become an evident drivers for knowledge economy, as the direct correlation between the different characteristics of the credit unions of the 3rd maturity level with Innovation and ICT are established. The most significant is the correlation between the penetration level and KEI.

The nonexistence of correlation between the 3rd maturity level and KI justifies the analysis, as the difference between the KEI and KI is mainly the institutional aspect and indicators, i.e. the economic incentive and economical regime, which is the indicative description of the activity of the financial cooperatives.

The analysis indicates for an increasing positive correlation depending on credit union industry development stage. The future challenge for the researches is to develop a comprehensive model for the successful empowerment communities of credit unions in creating and developing knowledge economy.

REFERENCES

[7] International Association for Community Development. That is community empowerment. http://www.iacdglobal.org
[16] Boned, O. Members of cooperatives in corporate governance: How should European cooperative banks cooperate? ICBA Europe
[17] Leogranda, A. Cooperative banks vs financial crisis: an application of the STV vs. SHV debate. 2010
Structural and Cohesion funds management – parallel between practice in Latvia and Bulgaria

Kiril Anguelov

Annotation: This paper focuses on the administrative practice in European Structural and Cohesion funds management in two different Member States – Bulgaria and Latvia. This programming period is the first for Republic of Bulgaria (till its accession in EU in 2007) and the second for Latvia (Latvia has become a Member State in 2004). The Author gives an interesting analysis based on similarities and differences in EU Structural and Cohesion funds Management in these two countries.

I. INTRODUCTION

At the end of 2013 one of the most important challenges that Bulgarian public administration is facing are connected to:

- overcome the difficulties in the implementation process of the operational programmes, financed by EU European funds;
- programming of the operational programmes for the next programming period.

The overcoming of this both challenges should go through the analysis of the achievements, lessons learnt and best practices as well as imperfections in the management and control processes of the EU funds in Bulgaria. In this regard is necessary to make an analysis on best practices in other member states that have more experience and better absorption level. This paper present an analysis of the architecture of the national institutional systems in management of the EU funds in Bulgaria and Latvia. On this bases are defined the advantages and gaps of each of this national systems in this countries.

II. COMPARATIVE ANALYSIS BETWEEN RESULTS IN THE NATIONAL INSTITUTIONAL SYSTEMS IN THE EU FUNDS MANAGEMENT IN BULGARIA AND LATVIA

In 2013 Bulgaria is on its preparation to the effective programming of the New Programming Period 2017-2020. The efforts of the Bulgarian Administration have to be based on the lessons learned from the present period as well as on the good practice in the other Member States.

In this programming period (2007-2014) Bulgaria receive from European Structural and Cohesion funds 8 019 197 651 Euro (including national co-funding). This budget covers different socio and economic sphere in country through seven operational programmes as follows:

1. Operational Programme Transport – Managing Authority in the Ministry of Transport, Informational Technology and Communications
2. Operational Programme Environment – Managing Authority in the Ministry of Environment and Water
3. Operational Programme Regional Development – Managing Authority in the Ministry of Regional Development and Public Works;
4. Operational Programme Development of the Competitiveness of the Bulgarian Economy – Managing Authority in the Ministry of Economy, Energy and Tourism;
6. Operational Programme Administrative Capacity – Managing Authority in the Ministry of Finance
7. Operational Programme Technical Assistance – Managing Authority in the Council of Ministers.

The EU budget as well as national co-financing of each programme is presented in the Table 1.

These all seven programmes have different Managing Authorities in separate structures in the Bulgarian Administration. According to the Regulation 1828/2006 the Managing Authority may act with the help of one or more Intermediate Body. Intermediate Bodies are therefore specific decision of the Managing Authority, which has the final responsibility of the programme implementation. Several programmes in Bulgaria have Intermediate Body:
- OP Environment – one Directorate in the Ministry of the Environment and Water act as an Intermediate Body;
- OP Human Resource Development – this programme has three Intermediate Bodies:
  - Ministry of Education, science and youth
  - Agency for social assistance;
  - National Employment Agency

There is also another body with significant functions in the process of management – this is the Central
Coordination Unit within the Council of Ministers Administration.

Table 1: Budget of the Operational Programmes in Bulgaria [10]

<table>
<thead>
<tr>
<th>OPERATIONAL PROGRAMME</th>
<th>Programme budget</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>OP Transport</td>
<td>2 003 481 168 €</td>
<td>1 624 479 623 €</td>
</tr>
<tr>
<td>OP Environment</td>
<td>1 900 748 065 €</td>
<td>1 466 425 481 €</td>
</tr>
<tr>
<td>OP Regional Development</td>
<td>1 601 274 759 €</td>
<td>1 361 083 545 €</td>
</tr>
<tr>
<td>OP Competitiveness</td>
<td>1 162 215 552 €</td>
<td>987 883 219 €</td>
</tr>
<tr>
<td>OP Technical Assistance</td>
<td>56 819 427 €</td>
<td>48 296 513 €</td>
</tr>
<tr>
<td>OP Human Resource Development</td>
<td>1 213 869 869 €</td>
<td>1 031 789 130 €</td>
</tr>
<tr>
<td>OP Administrative Capacity</td>
<td>180 789 087 €</td>
<td>153 670 724 €</td>
</tr>
</tbody>
</table>

The Minister of EU funds Management in Bulgaria is the political figure, responsible for the whole process. All Managing Authority are functionally subordinate to the Minister. The Central Coordination Office (which includes three directorates in the Council of Ministers) is managed directly by the Minister.

On the Figure 1 is shown the Bulgarian Management System of EU funds management. There were different opinions about its effectiveness and also plans for change. The Minister for EU funds Management in Bulgaria Tomislav Donchev has repeatedly said that he stands behind the idea to create for the next programming period a National Agency, which includes all managing authorities. However, this idea didn’t met support of the Ministries with the operational programmes.

The present intention of the Bulgarian Administration is to keep the same management structure (with Central Coordination Unit, Managing Authorities and Intermediate Body) during the next programming period.

The picture in Latvia is totally different. The budget for this Member State for the present programming period is 4 530 447 629 Euro. There is only one Managing Authority within the Ministry of Finance, responsible for the all three operational programmes.

The SCF programmes in Latvia are:
- Operational Programme Human Resource and Employment;
- Operational Programme Entrepreneurship and Innovation;
- Operational Programme Infrastructure and Services.

The institutional framework of EU funds Management in Latvia in this programming period is presented of the Figure 2.

In fact there are no dramatic differences between the management systems in Bulgaria and Latvia. Despite of the varied names of the administrations, the main operative work in Latvia is done again in the eight so called “line ministries”. They are responsible for the implementation and first-step control of verification in the concrete filed of the operational programmes. The real role of co-operation institutions is as an Intermediate Bodies.

The main big difference between Bulgarian and Latvian systems is the fact of an only one Managing Authority – in this case this is the Ministry of Finance in Latvia.

![Figure 2, The institutional framework of EU funds Management in Latvia in this programming period](image-url)
Figure 1. Institutional Framework of EU funds Management in Bulgaria in the period 2007-2013

European Commission

Council for Coordination in Management of EU funds within Council of Ministers

Central Coordination Unit
Council of Ministers

Certifying Authority
Ministry of Finance

NSRF
Monitoring Committee

EUROPEAN COMMISSION

Managing Authority

“Regional Development”
MRD

“Development of Competitiveness of the Bulgarian Economy”
MEE

“Human Resource Development”
MLSP

“Environment”
MEW

“Transport”
MTITC

“Administrative Capacity”
MF

Managing Authority “Technical Assistance”
Administrations of Council of ministers

Intermediate Body

Certifying Authority

MINISTRY OF FINANCE

Monitoring Committee

Beneficiaries

Administrations of Council of ministers

Certifying Authority

Monitoring Committee

Intermediate Body

Intermediate Body

Intermediate Body

Figure 1. Institutional Framework of EU funds Management in Bulgaria in the period 2007-2013

21
Figure 3. Institutional Framework of EU funds Management in Latvia in the period 2007-2013
There are different methods in analysis which management system is more effective and efficient. The key factors of such an analysis is the answer of the simple question what the Member State wants to do and of course – what is appropriate for its development – more centralized or decentralized system; several or many operational programmes…

The Latvian EU management gives more centralized model which has its advantages:
- Only one administration, responsible for the implementation of the operational programmes;
- Only one administration which has responsibilities to the European Commission;
- No miscommunication in decision-making processes (because the Top Management is the Minister of Finance);
- All information about the management process (percentages for absorption for instance) are collected in one place;
- Clear responsibilities of all organizations and institutions of the systems, based on the administrative hierarchy.

When we analyze the Latvian EU Management system, we have to mention that this system is effective in concrete circumstances such as:
- Latvia is smaller than Bulgaria country in size and population;
- Latvia receive smaller budget from European Union than Bulgaria;
- Latvia has only 3 Operational programmes.

So, this centralized administrative model of EU funds management is appropriate for small countries, where regional disparities are not so big.

On the other side, Bulgarian EU Management System has also its advantages:
- The Minister of EU funds Management in Bulgaria is the link between Bulgarian Administration and the European Commission on a strategic level;
- Each Managing Authority has more flexibility in the decision-making process in the programme implementation.

The System in Bulgaria should be changed not so much in terms of institutional framework, as to the implemented processes. For instance:
- To strengthen the coordination role of the National Coordination Unit (for programming and implementing programmes);
- To enhance understanding in the administration about the hierarchy in the system (the role of Managing Authority and the role of Intermediate Body);

The real effectiveness of one or other EU management system can be evaluated through the results in absorption of EU funds. The parallel between the Bulgaria and Latvia is shown on the table 2.

The results are undeniable that the Bulgarian Administration is more ineffective and inefficient. The reasons for this are various:
- First programming period for the Bulgaria as a Member State;
- Low administrative capacity;
- Ineffective management system.

In terms of the seven Managing Authorities is really necessary to improve coordination function of the Central Coordination Unit. The Coordination body is the only mechanism on the national level through which is possible to avoid many mistakes in the absorption process. Moreover, in case of low effectiveness of the operational programme, this Coordination Unit should have the obligation to intervene to correct imperfections, including by proposals to the Monitoring Committee for financial allocation between priority axes of the programme. Regarding this information, the logical hierarchical administration for the Central Coordination Unit is the Council of Ministers. In the practice of the absorption of the Structural and Cohesion Funds, best results were received in strong national coordination under the Deputy Prime Minister.

In conclusion, to receive good results in the next programming period, the Bulgarian Managing system of EU funds should be more flexible and to reflect the real advantages of the country. They were many projects about the strengthening administrative capacity of the Managing Authorities and beneficiaries in this present period. The dramatic change in this managing system will be no recommended, until you can be able to analyze the final results in 2015.

**CONCLUSION**

Based on the analysis of the institutional systems for European co-financing in Bulgaria and Latvia as well as the absorption level of the European funds in this two countries, the author give proposals for improvements in the processes of management and control of the European funds in Bulgaria.

**REFERENCES**

### Table 2. Absorption data for Latvia and Bulgaria, January 2013

<table>
<thead>
<tr>
<th>Member States</th>
<th>Operational Programme</th>
<th>EU Funding (EUR)</th>
<th>Contracted EU funding</th>
<th>Payments to final beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>EUR %</td>
<td>EUR %</td>
<td></td>
</tr>
<tr>
<td>Latvia</td>
<td>Human Resource and Employment</td>
<td>583 103 713</td>
<td>603 366 297</td>
<td>103.5</td>
</tr>
<tr>
<td>Latvia</td>
<td>Entrepreneurship and innovation</td>
<td>736 730 949</td>
<td>676 761 395</td>
<td>91.9</td>
</tr>
<tr>
<td>Latvia</td>
<td>Infrastructure and services</td>
<td>3 210 612 967</td>
<td>2 998 711 191</td>
<td>93.4</td>
</tr>
<tr>
<td>Latvia</td>
<td></td>
<td><strong>Total in Latvia</strong></td>
<td><strong>4 530 447 629</strong></td>
<td><strong>4 278 838 883</strong></td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Transport</td>
<td>2 003 481 166</td>
<td>1 958 748 130</td>
<td>97.77</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Environment</td>
<td>1 800 748 085</td>
<td>2 612 358 947</td>
<td>145.07</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Regional Development</td>
<td>1 601 274 759</td>
<td>1 434 616 249</td>
<td>89.59</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Competitiveness</td>
<td>1 162 215 552</td>
<td>969 649 804</td>
<td>83.43</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Technical Assistance</td>
<td>56 819 427</td>
<td>47 601 977</td>
<td>83.78</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Human Resource Development</td>
<td>1 213 869 575</td>
<td>1 058 789 771</td>
<td>87.22</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Administrative Capacity</td>
<td>180 789 087</td>
<td>137 341 351</td>
<td>75.97</td>
</tr>
<tr>
<td>Bulgaria</td>
<td></td>
<td><strong>Total in Bulgaria</strong></td>
<td><strong>8 019 197 651</strong></td>
<td><strong>8 219 106 229</strong></td>
</tr>
</tbody>
</table>

[2]. Кирил Ангелов, Съсредоточен анализ между управлението на средствата от Структурните и Кохезионния фондове на ЕС в Латвия и България през програмния период 2007-2013, KSI Transactions on Knowledge society, Vol.6, Num.2, June 2013

[3]. Ангелова М., Ефективни модели за организация и управление на комуникацията при европейски фондове и програми за укрепване на сигурността, Д., 2011 г.

[4]. Тодоров Н., Оптимизация на административна капацитет с цел постигане на максимална сигурност при усвояване на структурните фондове на европейския съюз, В.А., 2009

[5]. Закон за обществените поръчки, Обн. ДВ. бр.28 от 6 Април 2004г., в сила от 1.10 2004 г.

[6]. Постановление на Министерски съвет 55 от 2007 г. За условията и реда за определяне на изпълнител от страна на кандидати за безвъзмездна финансова помощ и бенефициенти на договорена безвъзмездна финансова помощ от Структурните фондове и Кохезионния фонд на Европейския съюз, Съвместната оперативна програма „Черноморски басейн 2007-2013 г.”, Финансов механизъм на Европейското икономическо пространство и Норвежкия финансов механизъм

[7]. Постановление на Министерски съвет 69 от 11.03.2013 г. За условията и реда за определяне на изпълнител от страна на кандидати за безвъзмездна финансова помощ и бенефициенти на договорена безвъзмездна финансова помощ от Структурните фондове и Кохезионния фонд на Европейския съюз, Съвместната оперативна програма „Черноморски басейн 2007-2013 г.”, Финансов механизъм на Европейското икономическо пространство и Норвежкия финансов механизъм

[8]. Постановление на Министерски съвет 121 от 31.05.2007 г. За определяне на реда за предоставяне на безвъзмездна финансова помощ по оперативните програми, съфинансиране от Структурните фондове и Кохезионния фонд на Европейския съюз

[9]. http://umispublic.minfin.bg/

[10]. www.eufunds.bg
Abstract: Managerial decisions are one of the most important aspects of managers’ work because through them concrete situations are concluded. Because organizations’ activities are dynamic in their nature, managers must make decisions constantly. The purpose of the publication is to outline some aspects of this process and discuss these conditions that influence the decision making process in organizational environments.

Key words: manager, managerial decision, organizational environment.

I. INTRODUCTION

The dynamics of nowadays business requires from managers to make situation - adequate managerial decisions. This is a complex process which depends not only on the personal qualities of managers but also on the specific characteristics of problems, available resources, etc. In order for undertakings to have success, managers should be entirely aware of the aspects of managerial decision making and take into account the types of situations as well. Thus they could assess the approaches, aspects and points of view that refer to every type of decision on one hand and the effect of their implementation on the other hand.

II. APPROACHES AND ASPECTS OF THE DECISION MAKING PROCESS IN ORGANIZATIONAL ENVIRONMENT

Making managerial decisions is an activity which depends on the approach that is to be taken in a particular situation. Some situations require a certain type of decisions that to not coincide with choices made in other situations. Therefore the approaches are important in determining the choices of rational decisions and the subsequent actions managers would take in specific situations. There are main approaches to managerial decision making [4,6,9]:

- functional;
- adaptive;
- behavioral.

The functional approach is static in reference to situations. It is known as an artificially designed mechanism and the taken decisions are complex. Situations are secondary and are a consequence of these decisions which are formed by the contents and structure of the managerial cycle (or part of them). The managers’ efforts are focused on the ultimate results which are dominated by the organization’s goals. Their intermediate coordination is limited because the decisions taken resolve the problem situations partially.

The adaptive approach is dynamic with reference to situations. It requires the development of scenario s for the analysis of existing problems. Managers prepare different versions of managerial decisions which can be used to react to a problem situation. After that they determine the mechanism which regulate the decisions (according to problem areas). Thus the situation is primary and the managers’ efforts are focused on the results of the activity. Every problem is divided into smaller (but related elements). An appropriate decision is made for each comprising element of the problem. The intermediate results of the decisions are used to find an overall, ultimate effect of the problem situation. The adaptive approach is a sequence of discrete solutions and instruments for resolving problems. It introduces structure in the work of employees and provides clear vision of intermediary goals. The approach also facilitates the timely identification of system errors and regulates the organization’s priorities.

The behavioral approach takes into consideration people’s attitudes to making managerial decisions. These beliefs influence the professional activities of employees and require interdisciplinary expertise. Therefore it is important that the decisions in the social management are based on knowledge about the object of management. However, this is not enough to make rational decisions. Managers’ decisions should be based on facts and a reliable analysis of the situations. They should also be able to think logically and react promptly and adequately to problems.

The difference in the three approaches (functional, adaptive and behavioral) lies in the fact that the first one implies a complex decision for solving the problems. The second approach separates the decision making process into its composite elements (smaller partial processes) and the decision is made for each specific case. The third approach is focused on the human factor in the organization and the manager’s attitude to participation in the managerial decision making process.
Managerial decisions can be studied as a process and a phenomenon with the following aspects [2,5,8]:
- organizational;
- economic;
- psychological;
- logical;
- technological;
- social;
- legal.

From an organizational point of view managerial decisions are a cyclic process through which the subject of management should reach the goals set to the object of management. As of the subject there is a differentiation in the decision – making power. The managers at the different hierarchical levels are entitled to this while the rest of the managerial staff participates in the auxiliary operations in the preparation and realization of the decisions.

The economic aspect of managerial decisions refers to the effect of business activities of organizations. Often they have value indicators (for example, decisions about costs) because they reflect the end results, namely profits. For this reason these decisions are taken by managers who have knowledge and qualification. Each decision consumes resources and this leads to results. When organizations have limited resources their managers should apply the multi-criteria decision analysis approach because it guarantees a better realization of objectives and improves the performance indicators of organizations.

The psychological aspect of managerial decisions involves the emotional and behavioral attitudes of employees. Managers should consider the activities that affect their choices because they are related not only to their professional responsibilities but also to their personal problems. Therefore, it is also necessary for them to develop various social programs that relieve stress on the workplace [10].

The logical aspect of managerial decisions reveals their dependence on the managers’ logic and interpretation of problem situations, namely whether it can be considered either as a problem or an opportunity. Logical reasoning is not only an element of the personal qualities of these who make managerial decisions but also a factor of logical interpretation of events. It is very likely that managers react adequately to problems if they think logically rather than react on impulse or risky.

The technological aspect of managerial decisions has to do with the technology and information managers need to make decisions. Information is processed by the subject according to its purpose. Decisions referring to the technological facilities of organizations are of key importance for their development. The information and communication of information in organizations is greatly optimized by the use of the Internet and various software applications.

The social aspect of managerial decisions reflects the manner in which the society perceives the organization, on one hand, and what subordinates think of their managers’ actions, on the other hand, as a result of the taken decisions. These decisions are the basis of social responsibility and ethical standards because they do not have only economic dimensions. Organizations should also contribute to the welfare of the nation (on the macro - level). On the microeconomic level managers make decisions which benefit people, support the social climate, motivate staff and eliminate conflict situations.

The legal aspect of managerial decisions is focused on the legislative system of the country and the legal consequences of the organization’s activities. These requirements bring order in the system because they are regulated by the respective legal and organizational regulations. Every decision is legally justified (rights, obligations, responsibilities, etc.). Therefore, the managerial body is bound with the decisions made and takes responsibility for their execution.

III. THEORETICAL PERSPECTIVES ON MANAGERIAL DECISION MAKING IN ORGANIZATIONAL ENVIRONMENT

In the management science there are different perspectives on the decision-making process. Depending on the managers’ attitudes to problem situations and the possible consequences of made decisions, it distinguishes four general theoretical perspectives [3,11-16]:

1. Classic perspective. It views the decision – making process as perfect (ideal). Managers rely on their rationality to choose an alternative and it should be based on the economic interests of the organization without putting it on risk. This is a normative perspective according to which the manager’s decision depends on the following conditions:
   - the manager collects and analyses as much as possible reliable information;
   - the managers evaluates the different options for a specific situation;
   - the manager rejects the irrational information;
   - the manager synthesizes the facts;
   - the manager chooses the best possible alternative.

   The classic perspective on decision making is abstract rather than realistic one in the practice of managers. Under the conditions of a dynamic environment, such as the present day business context, its application is the sphere of mathematical modeling and engineering.

2. Administrative perspective. Managers make decisions under conditions of limited rationality. Choices are restricted by the environment which is unpredictable and risky. In this situation managers cannot make the ideal decision since the pressure of this
context is rather strong and their resources are often insufficient. For this reason they have to be satisfied with the alternative that is appropriate for the particular situation (from all possible choices).

In certain cases the administrative approach requires the use of subjective rationality in decision making. This means that managers could accept the first option that corresponds to the effectiveness criteria. This option might not be the ideal one and managers could feel that there are other, better options but, however, their choice would be limited by the one that would solve the problem. This concept is underlined by the understanding that choice depends on the complexity of the situation. In order for managers to make “the optimal decision”, they would need time and resources that are not always available. Therefore, they focus on “the possible decision” – the one that is acceptable for the particular situation and environment.

According to the administrative approach decision making depends on the following provisions:

- the environment reality requires from managers to use their judgment about problem situations which might be subjective;
- the environment reality requires from managers to choose among several alternatives leading to an appropriate solution;
- according to the environment reality, managers are satisfied with insufficient information under conditions of limited resources.

The administrative perspective on managerial decision making entirely corresponds to practice. This is explained by the fact that organizations are complex structures that interact with the environment they function in. Managers face various difficulties that hamper the process of making rational decisions. The difficulties arise from the complexity of the management process and the uncertain problem situations. Unlike the classic perspective, which reveals the theoretical aspects of the decision making process, the administrative perspective puts an emphasis on the circumstances which practically determine the made decisions.

3. Social perspective. It reinforces Freud’s ideas by analyzing people as a combination of emotions, feelings and instincts. Decision making depends on the subconscious perceptions of people and the influence of the work and social environment – it is difficult for people to make rational decisions because of factors that influence and limit their choices.

According to the social perspective, the decision – making process depends on the following factors:

- managers do not make structured decisions because their choices are determined by subjective perceptions;
- managers make subjective decisions without taking into account the actual consequences of problem situations;
- managers often make managerial decisions based on compromise that might have negative effects.

The social perspective on managerial decision making reflects the emotional state of mind of people on their workplace. Managers have to make decisions based on feelings, emotions or instincts. Often this approach is not beneficial both to managers and organizations since it is characterized by the idea that to be useful for others does not mean that you are good to yourself or the people you work for. The social perspective, which managers take when making decisions, should be within acceptable boundaries and based on facts and logic.

4. Pluralistic perspective. The decisions are made in situations of uncertainty by considering various points of view which reflect the attitudes (interests) of managers and other interested parties. The decisions are implemented with difficulties in the organizations because there are many personal opinions and ideas that are expressed. Everybody states what they think and conflicts may arise. According to this theoretical perspective, decision making depends on some factors:

- managers have to make decisions when they have different problems and limited information;
- managers make decisions by taking into account the opinions of the other participants in the management process;
- the alternative solutions of the problem are developed by the organization’s manager and the other interested parties in collaboration.

The pluralistic approach to decision making is a complex mechanism of intentions that combines personal with organizational goals. Its application could follow two important scenarios. The first one is favorable in nature because the decisions are made with consensus. To a great extent this reduces the tension between the interested parties and the made decisions satisfy their interests. The second one implies conflicts among managers because their objectives do not coincide and they have to look for an agreement.

IV. Conclusion

Making decisions in organizational environments depends on many factors that have to be taken into account by managers. The approaches to decision making reveal the actions they undertake in particular situations. The aspects of the process determine the requirements to the decisions that are to be taken and ways managers would interfere in the process. The beliefs form the attitudes of managers and influence the manner into which they make decisions in specific situations. With reference to this it can be concluded that the publication:

- has outlined the approaches to and aspects of the decision-making process in organization environments;
has discussed the theoretical perspectives on the decision-making process in organization environments.

REFERENCES

Work-family balance: Gender differences and Social support
Matilda Alexandrova

Abstract The suggested paper considers the gender differences and the role of social support in encouraging the female economic activity. The main interest here is focused on the question how social support could counteract the exclusion pressure and affects the achievement of a balance in a framework of work-family conflict /WFC/. The paper also argues that a low degree (or even a loss) of social support from the family – narrow or extended – may have a negative effect on female economic involvement, which strongly relates to the individualistic character of most Balkan societies. The paper suggests some empirical evidence for the main findings based on secondary analysis of data from a questionnaire survey conducted in Bulgaria among 286 individuals of which 99 women. Gender differences with respect to the relationship between social support, WFC and the risk of economic exclusion are examined as well.

Keywords: social support, work-family conflict, exclusion risk, Bulgaria.

I. INTRODUCTION

In the last 30 years considerable interest has emerged regarding the impediments of the execution of the family and work roles of the individuals, which has been explored in the framework of the so called “work-family conflict” /WFC/. A range of theoretical viewpoints regarding WFC developed as a result of numerous studies carried out predominantly in the developed and some newly industrialized countries (Frone et al., 1997; Hammer et al., 2005). The fundamental ideas focus on the main sources of WFC according to which the duration of employment time and the overload at workplace are considered as important assumptions for and factors of WFC. This conflict emerges when the simultaneous participation in a family role and in a socio-economic role is considerably hindered (even reaching a point of impossibility). As a result, the execution of one of the roles is obstructed (or even blocked) by the commitment to the other role.

Some theoretical views treat WFC as a single construct whereas other distinguish between “work interfered by family” /WIF/ and “family interfered by work” /FIW/. Other direction of the theories development relates to the so called “component approach” differentiating the “time-based” and “strain-based” types of WFC (e.g. Greenhaus & Beutell, 1985; Voydanoff, 2004, 2005). For example, WFC of the type “time-based WIF conflict” treats the time as a scarce resource postulating that “more time devoted to work leaves less time for the family”. A lot of evidence is found in support of the statement that work overload is acting for the formation or escalation of WFC (Voydanoff, 2004, 2005; Spector et al., 2004).

Generally, the sources and consequences of WFC are presented in fig.1.

The differences by gender related to the professional realization and family responsibilities appear as one of the key topic of the research in WFC. The main hypothesis in this respect is that women are involved in WFC in much greater extent than men due to their typically stronger sense of commitment to family duties, and thus putting more emphasis on their family role (Lewis & Cooper, 1999). Such connections have been revealed in studies conducted in North American Anglo countries as well as in Northern Europe; besides, other comparative studies have tried to find whether similar relationships in a WIF conflict framework develop in culturally dissimilar environments elsewhere (e.g. Spector et al., 2004).

In this respect, one theory suggests that the work demands influence on WFC varies by culture proposing that the value of “individualism-collectivism” cultural dimension determines partially how individuals perceive the extent of WFC, especially in the individualistic environments in the world (Yang et al., 2000). Some latest empirical research has tested various theoretical stances in respect of WFC origins and effects in a twenty-country study conducted in 4 sets of countries (Anglo, Asia, East Europe, and Latin America) assuming to represent culturally homogeneous clusters (Spector et al., 2007). In this study, a competing hypothesis is tested whether cluster differences can be identified by the availability of family and paid domestic help.

Hammel et al. (2011) provide empirical results about the effect of training and family-to-work conflict on employee job satisfaction, turnover intentions, and physical health. Positive training effects were observed for employees with high family-to-work conflict, and vice versa. These effects were mediated by the
interactive influence of training and family-to-work conflict on employee perceptions of family-supportive supervisor behaviors.

It is agreed that working long hours per day can leave insufficient time and energy for the family role of the woman, thereby producing an intra-family conflict with lower chances for the woman to counteract the pressure. In this respect, previous studies have examined the impact of the social support as a cultural institution that has a substantial role in assisting women, especially those with low-age children, to intensify their social inclusion. Discussions centered at the question of how social support (including the within-family, community, corporate, and public aspects) can reduce the risk of persisting social exclusion and thus, indirectly, can affect positively WFC through facilitating the participation of women in social and economic activities (e.g. Greenhaus & Beutell, 1985; Cousins & Tang, 2004; Hill et al., 2004; Hammer et al., 2005; Poelmans et al., 2005; Tang & Cousins, 2005).

Figure 1. Conceptual framework of WFC

In the European context, the Lisbon European Employment Strategy targeted 60% rate of female participation in the labor market till 2010, in line with which the National Plans for employment and social inclusion of EU member countries emphasized on encouraging the female employment through proactive social and economic inclusion policies. Thus, gender-related policies have been integrated with labor market, local development, and inclusion policies of EU. The focus was put on the approaches for reconciliation of family care, paid work, career advancement, and leisure regarding both men and women. This however necessitates a development of a time allocation pattern that is not entirely determined by market mechanisms and/or policy measures, but also by cultural trajectories, moral values, intrinsic motivations and rules (Folbre and Nelson, 2002; Garofalo and Marra, 2007).

Having in mind this EU strategy it is important to consider the factors that could increase the risk for social isolation and potential socio-economic exclusion of those women that are exposed to WFC of type FIW. Assuming that gender combined with the specific cultural inheritance in a country are decisive factors of the individual’s life style, the policies have been oriented to the empowerment of the social support system, mainly the enhancement of welfare services (e.g. day-care institutions) and parental leave rights. It is widely recognized that numerous factors of the social environment have a substantial impact on the risk for social exclusion, e.g. family, ethnicity and the traditions for social networking along with the level of human capital and employment opportunities. Special attention in various studies is paid on some adverse cultural traditions in respect of gender equality that suppress the access of women to the labor market and power centers more often than men. Thus, the obstruction of work-family reconciliation has been linked to various forms of social exclusion caused by educational disadvantages, long-term unemployment, low paid (irregular) working positions, marital instability, etc. (Garofalo and Marra, 2007).

A recent meta-analytical study (drawing on 115 samples from 85 studies comprising 72,507 employees) shows that work-family specific constructs of supervisor support and organization support are more strongly related to work-family conflict than general supervisor support and organization support (Kossek et al., 2011). The authors test a mediation model which evaluates the effects of all measures simultaneously. It shows that the positive perceptions of work-family specific supervisor indirectly relate to work-family conflict through organizational work-family support. These results demonstrate that work-family specific support plays a central role in individuals’ work-family conflict experiences.
II. WFC AND THE ISSUES OF FEMALE SOCIAL INCLUSION IN BULGARIA

In the process of transformation of Bulgarian society during the last 20 years a significant restructuring of the time use of the citizens has taken place unbalancing the devotion to work and family. This imbalance is fueled by the increasing share of employment in the time budget of economically active population leaving less time for the family and/or the personal life. In this respect, the WFC emerged as a “social roles” conflict having a clear gender dimension and directly related to the issues of social integration, work satisfaction, infrastructures for support of family roles, etc.

As special cases, the transitions from single to dual earner family or from economic inactivity to employment of a single parent invoke a necessity of substantial changes in the family roles. The emergence or expansion of labor involvement of the individual requires restructuring of the duties at home accompanied by a search of “extended family” and/or societal support. These transformations stimulated the social and academic interest in the interrelation between family commitment and the socio-economic inclusion of Bulgarian women in the post-transition society. Recent research in Bulgaria found that WFC is identified in much larger extent for the women than men because of the double burden they face every work day (Vladimirova, 2003; ASA et al., 2003). In conditions of intensifying workload, relatively lower wage level, increasing risk of loosing the job, and limited options for absence of working mothers the risk for social isolation of women in families with unfavorable economic status substantially increases. The paper henceforth considers this aspect as one of the many dimensions of the social exclusion considered generally as a process of social disintegration, in the sense of a deterioration of the relationship between the individual and society occurring because of long-term unemployment, the inability of young people to enter the labor market, greater family instability, isolation of single-member households, obstruction of the single parents (mainly women) to normally incorporate in the labor market, etc. (Rodgers et al., 1995).

The results presented hereafter are based on the Bulgarian section of the international comparative study of stress at the workplace (CISMS) considering a variety of issues, e.g. intercultural aspects of WFC, its potential sources and consequences in different regions in the world (Spector et al., 2007). Respondents were sampled in 25 countries (covering most parts of the world) among which Bulgaria where the survey was conducted in the period March-July 2005. A quota sample of 286 working individuals, of which 99 women, has been drawn and respondents were interviewed face-to-face. The distribution of respondents by gender, age and family status is presented in table 1.

Over one third of respondents are female and, purposively, relatively younger women (over 80% of age up to 40) have been interviewed assuming that this segment is more involved in WFC. It can be noted that the share of single (or divorced) women is higher than the same share within men which is one indication for the assertion that women are exposed in greater extent to the pressure of WFC.

The identification of WFC of the two types (WIF and WIW) has been approached through the following direct questions:

(a) Do you agree with the following statement: “the time which I have to devote to my job duties do not allow me to accomplish my family duties”?

(b) Do you agree with the following statement: “the time which I have to devote to my family duties do not allow me to spend the necessary time for my job duties, to develop my career, etc.”?

A more significant disparity of the answers of men and women was found in respect of the first question (related to WIF) as compared with the second one. For the majority of men the work takes most of their time and thus obstructing their equal participation in household work and other family duties (it is commonly hypothesized that this statement is used as an excuse by the men for their limited engagement at home). As a tradition, the Bulgarian women have used to make efforts (during their economically active life) for simultaneously executing the two kinds of duties which is confirmed by their responses to the first question – almost 2/3 of the female respondents express a disagreement with statement (a). However, still over 20% could be characterized as exposed to WFC-WIF of some extent which provides a condition for exposure to some risk of socio-economic exclusion.

In respect of the second type of WFC (FIW) some discrepancies are observed between male and female respondents (fig.3). Almost twice higher is the share of women (42%) that confirm the existence of a hindrance effect of the household and family obligations on their

<table>
<thead>
<tr>
<th>Age</th>
<th>Men (Up to 30)</th>
<th>Men (31-40)</th>
<th>Men (41-50)</th>
<th>Men (Over 50)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marital status</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single / cohabitating</td>
<td>94.1</td>
<td>77.8</td>
<td>88.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Married / includ.</td>
<td>5.9</td>
<td>22.2</td>
<td>11.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Divorced</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

TABLE 1. DEMOGRAPHIC PROFILE OF RESPONDENTS

31
professional development. This disparity provides additional indication about the asymmetrical perceptions of the conditions for equal participation in social and/or economic activities. In this respect, it is important to note that quite a low share of female respondents (26%) agree that their managers fully recognize the necessity of female employees to commit in adequate extent to their potential family obligations – in the same time, about 1/3 explicitly state that they face the opposite attitude of superiors. In the contrary, about 80% of the male respondents do not meet any problematic attitudes from the managerial staff in the organizations where they are employed.

Figure 2. Distribution of responses to the question: Do you agree with the following statement: “the time which I have to devote to my job duties do not allow me to accomplish my family duties”?

Figure 3. Distribution of responses to the question: Do you agree with the following statement: “the time which I have to devote to my family duties do not allow me to spend the necessary time for my job duties, to develop my career, etc.”?
A particular factor stimulating WFC appears to be the rare (and in many cases missing) institutional/organizational support for working family members with an inevitable burden of family duties. At the moment of the survey (and we believe the situation has not changed much since then) their organizations in general do not provide opportunities for any flexible forms of employment (e.g. flexible start/end of workday, virtual job places, etc.). There is a lack of modern “on-site child care” centers or other practices of social support subsidized by the organization (e.g. services facilitating the bringing-up of children, care for elderly) along with a lack of adequate information about any accessible social services.

The only existing forms (as known by the respondents) are the options for part-time employment (e.g. 4 hours per workday) or paid maternity leave for some period after the birth of a child. About 2/3 of the female respondents have used their rights for such a regulated maternity leave and about 10% have utilized the opportunity for a part-time labor contract. As another positive fact reflecting a definite anti-exclusion effect is that over half of the organizations-employers of female respondents provide the opportunity for a part-time employment, although the interviewees did not take advantage of it. However, the option exists and provides a buffer in case of any adverse intensification of WFC.

The situation of a permanent exposure to such a risk exists for a large share of the women interviewed having in mind the large amount of time necessary to spend for household work and child care at home (table 3).

### Table 2.
**Does the organization provides the following benefits?**

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Men</th>
<th>Women</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flexible start and end of the workday</td>
<td>94.1%</td>
<td>66.7%</td>
<td>70.1%</td>
</tr>
<tr>
<td>Virtual workplace</td>
<td>88.2%</td>
<td>66.7%</td>
<td>72.4%</td>
</tr>
<tr>
<td>Part-time employment</td>
<td>94.1%</td>
<td>55.6%</td>
<td>63.9%</td>
</tr>
<tr>
<td>Paid maternity leave</td>
<td>94.1%</td>
<td>66.7%</td>
<td>73.0%</td>
</tr>
</tbody>
</table>

The answers to the questions about the time budget show that female respondents are in much higher extent engaged in their family duties. Within those who have children, only one fifth (12% among 60%) spend less than 20 hours during the workweek for childcare and about half of these women spend more that 30 hours for this purpose. A considerable disparity between the distributions of men and women by their involvement in family duties is observed not only in respect of the time for childcare but also regarding the time for household work (about 3/4 of male respondents declare that they spend up to 10 hours for household work during the workweek; in the same time, an equivalent share of the women spend more than 10 hours for this purpose). As expected, the divergence of the distributions of respondents in respect of the time devoted to work
duties is in favor of men, however, in a smaller extent (table 3.a).

TABLE 4.
DISTRIBUTION OF RESPONDENTS BY THE ANSWERS TO THE QUESTIONS:

(a) “Do the grandparents help your family in: Childcare?”

<table>
<thead>
<tr>
<th></th>
<th>Men</th>
<th>Women</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never</td>
<td>5.9</td>
<td>–</td>
<td>3.8</td>
</tr>
<tr>
<td>Few times per year</td>
<td>16.0</td>
<td>–</td>
<td>10.5</td>
</tr>
<tr>
<td>At least once per month</td>
<td>40.1</td>
<td>20.2</td>
<td>33.2</td>
</tr>
<tr>
<td>Almost every day</td>
<td>30.5</td>
<td>39.4</td>
<td>33.6</td>
</tr>
<tr>
<td>N/A</td>
<td>7.5</td>
<td>40.4</td>
<td>18.9</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

(b) “Do the grandparents help your family in: Housekeeping?”

<table>
<thead>
<tr>
<th></th>
<th>Men</th>
<th>Women</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never</td>
<td>55.1</td>
<td>34.3</td>
<td>47.9</td>
</tr>
<tr>
<td>Few times per year</td>
<td>9.1</td>
<td>17.2</td>
<td>11.9</td>
</tr>
<tr>
<td>At least once per month</td>
<td>8.6</td>
<td>11.1</td>
<td>9.4</td>
</tr>
<tr>
<td>At least once per week</td>
<td>16.0</td>
<td>14.1</td>
<td>15.4</td>
</tr>
<tr>
<td>Almost every day</td>
<td>11.2</td>
<td>23.2</td>
<td>15.4</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

As stated above, the changes in the family roles that have occurred during the hard times of market transition in Bulgaria invoked the needs for societal and/or family support especially to working parents. The hard budget constraints did not (and still do not) allow any considerable public support, so the cultural traditions played a significant role in this respect. Assuming the stagnating level of income and employment risks for almost 15 years of transition, the options for providing paid services for childcare and housekeeping were not affordable even for the middle class families. In order to allow any stable labor involvement, particularly for the women, the help of the “extended” family members appeared to be of main source of support in light of the established customs and norms of Bulgarian family. It’s not surprising that the grandparents’ help has been identified quite more noticeable by the female than male respondents (table 4). For two thirds of the working women with children the daily assistance by the grandparents definitely has a substantial effect on reducing the risks from the intensification of WFC-FIW. Considerable support is received also in respect of the housekeeping duties by about 37% of the working women. This source of support is also enlightened by the men where 70% of respondents declare that grandparents take part in the care for children.

IV. CONCLUSION

There is no doubt that after the first 15 years of transition the socio-economic environment in Bulgaria is characterized by conditions of escalating workload of employed persons imposed by the labor market competition. The everyday risk of loosing the job and other risks for isolation of women are persistently high, which is especially valid for individuals from families with unfavorable socio-economic status.

Any of the narrow range of sources for social and public support in this respect is potentially offsetting the risks of social exclusion and could boost up the overall well-being. The refinement of the social inclusion policies can have a substantial role in this process through the informed selection and utilization of effective instruments. Such instruments could be implemented in the framework of the labor market policies (e.g. flexible contracting and/or work time arrangements; employment subsidies; options for job sharing; welfare-to-work stimuli; work-at-distance options; life-long education and professional training; etc.) or social inclusion policies (e.g. provision of child care facilities; special support – housing and/or services – for dependents (children, elderly, disabled) or other kind of work-life reconciliation support; etc.). Thus, the access to unpaid domestic help, corporate concern, and family-friendly public policy could have strong neutralizing effect in terms of WFC achieving an optimal work-family balance with low exclusion risk.

REFERENCES


Methods of processes improvement

Ivan Dimitrov¹, Petko Yangyozov²

Abstract. Present article presents a set of methods, through which the inefficient processes within the business process frames could be reorganized. This way, it can be done improvement as the partial efficiency of each process unit, as well as the business process as a whole. Each method’s essence of functioning and application is explained, as well as their graphic image. The advantages and the shortages of the application of each one of them are derived.

Keywords: business process, sub-process, optimization, improvement tools, process dimensions

I. INTRODUCTION

All business organizations function through carrying out transformation of raw materials into a product/service designated to satisfy the external customer needs (Angelov, 2008). The very transformation of the inputs is done through the running of various business processes (Harmon, 2007), processes (Deckler, 2003; Harmon, 2007; Haist, 2001; Harrington, 1991; Ould, 2006; Lowenthal, 2003; Süssenguth, 1992) and activities (McDonald, 2010; Portougal, 2006). As a result of the running of all these activities, processes and business processes united in production cycles, value is added (Harrington, 1991). The activities on maintaining high level of competitiveness and market position improvement (Gaitanides, 2004) are in fact a function of the striving of the companies to continuously design, redesign and optimize their business processes. The optimization is performed mainly in four aspects: improvement of the process logic; spatial improvement; quantitative and time improvement (Buchholz, 1994; Krüger, 1993; Lohoff, 1993; Schmidt, 2001). Besides, it is necessary to take into account the factors of the external environment (Eversheim, 1990) and the internal environment, such as changes in the labour legislation; changes in license and tax rates; increase of the ecological requirements, etc. This is exactly what predetermines the existence of the early warning system (Benedik, 2012; Bickhoff, 2004). In order to deal with the challenges ensuing from the changed external and internal conditions of the environment, the organizations most often resort to modifications of its production and management structure (Grigori, 2011).

This brings forth the necessity of taking measures to reorganize and improve the processes running in the business organizations. It is necessary the optimization itself to be carried out under methods in conformity with the company structure, as well as with the chosen strategy.

In order to perform the optimization of the critical business processes in the organization, it is necessary the necessity and the priority of improvement of the sub-processes, which build them, to be identified. One of the options is to define them by presenting the processes as vectors – real and target ones. Their building can be reviewed as a preparatory stage of the business processes optimization. The real vector represents an aggregate of all activities and sub-processes building the business process (Brüggemann, 1998). Each activity, sub-process or process is presented as a partial vector with the relevant coordinates. The coordinates describe the real (target) values of the parameters characterizing the various aspects of the process effectiveness (Papula, 2001). By summing up the vectors, the common (resultant) vector is obtained. The target vector has been built by marking the coordinates of the target on the coordinate system. The values of the dimensions are determined by the parameters monitored by the early warning system. If the juxtaposition of the real process vector and the target process vector is showing deviations in favour of the target vector, then it is necessary to carry out a profound analysis and improvement of the relevant process. In the opposite case the conclusion is that the parameters of the existing company process are better than the target set forth and, therefore, improvement is not needed. The comparison between the two vectors does possibility to determination the necessity of improvement of each business process, as well as to identification the need and the priority of improvement of each sub-process building the business process. Finally, the actual reorganization of the existing sub-processes or activities using the tools of improvement is done. In order to achieve overall and sustainable improvements, it is necessary the business processes optimization to pass in succession the following steps:

- identification of the general necessity of improvement;
- identification of the necessity of sub-processes improvement;
- identification of the priority of sub-processes improvement;
- application of the improvement tools;

¹Ivan Dimitrov is with the University “Prof. As. Zlatarov”, Burgas, Bulgaria
²Petko Yangyozov is with the University “Prof. As. Zlatarov”, Burgas, Bulgaria
The goal of the present article is to present a toolbox of processes optimization.

II. DESCRIPTION OF THE METHODS OF PROCESSES OPTIMIZATION

The methods through which the activities of improvement and reorganization of the business processes are performed, are apply after the identification of the necessity of business processes improvement, as well as the necessity and the priority of optimization of the subprocesses and activities within the business process.

Proceeding from the vector presentation of the processes, the optimization tools which deriving are based on the following principles:

- translocation of vectors;
- change of vectors’ lengths/sizes;
- addition of a vector;
- elimination of a vector.

On the grounds of those principles, ten methods have been elaborated for the performance of improvements in the business processes. Each tool is based on one or a combination of the aforementioned four principles.

The acceleration method consists of shortening the duration of one or several sub-processes (Figure 1.). This is done by reducing the numerical value of one or all dimensions of the process. Through using this tool the efficiency of the process chain is increased, but at the same time the use of resources is also increased. Practically, it should be looking for balance between the efficiency and the necessity of additional resource, through which it could be achieved.

![Figure 1. Acceleration of sub-processes](image1)

![Figure 2. Delay of sub-processes](image2)
Delay method is contrary to the acceleration (Figure 2.). Its essence is expressed through increasing of one or several dimensions of the examined business process. That way, sub-processes running faster than the others are prolonged. The goal is synchronization of the individual element with the overall time rhythm of the process chain to be achieved. The final result is directed towards improvement of the business process logic and efficiency.

The parallelizing method can be presented as an isolated case of the acceleration. The critical sub-process is divided and the newly formed two sub-processes are performed simultaneously. The running time of the newly derived sub-processes is equal to the duration of the bigger of them. In the idealized case, the critical sub-process is divided in half and the value of the dimensions of the newly formed sub-processes is reduced by half. Thus, the overall efficiency of the process chain is increased.

The automation method can also be described as a derivative of the acceleration. It is used with processes, the examined characteristics of which should be reduced as a result of the improvement. Thus, the business process is stabilized and becomes withstanding the external impacts. This leads to increase of its efficiency. On the other hand it reduces the organization’s flexibility. This way, upon the occurrence of any change in the environment, the measures that should be applied to handle the changed conditions would be expensive and complicated for application (Biermann, 1997).

By the tool of unification, integration of two or more existing sub-processes in a new one is performed (Figure 3.). Thus, the links between the individual processes are reduced. Besides, upon the unification of two or more separate sub-processes the benefits of the newly formed sub-process are increased more than the mathematical sum of the dimensions of those sub-processes. Therefore, increase of the synergetic potential and efficiency of the business process is observed. The unification of sub-processes is applicable upon the availability of technological and logic succession between the individual stages of the process. It should be accompanied by additional qualification of the workers. It is necessary to mention that with high technological productions of great complexity during the running of the processes, the application of this tool would not achieve the desired rate of efficiency (Caldorf, 1994).

The method of changing the succession of the processes is applied for the purpose of smoother running of the process chain (Figure 4.). The tool is used in the cases, where the existing order of performance of each sub-process hinders or delays the running of the business process. As a result of its application, synergetic potential is released. The necessity of change of the sub-processes succession ensues also from the pursuit of continuous improvement of the production technology and structure by the application of re-engineering analyses.

![Figure 3. Unification of sub-processes](image-url)

$$SP_2^2 = SP_{12} + SP_n$$
Through the tool of adding a process, a new sub-process or activity is integrated in the existing process structure (Figure 5.). Its application depends on the selected depth of production in the organization. The more activities and sub-processes which build up the business process and the product as a result are performed within the company, the bigger is the depth of production. It can be determined also as a coefficient of the costs of production against the gross value of the products. The adding a new sub-process or activity to the process chain practically increases the depth, the internal productivity and the competitiveness of the organization.

The insourcing method is actually a variety of the adding of a sub-process or activity. The difference is that upon “adding”, a new and not existing by that moment sub-process is added to the product value chain. With insourcing, an activity which was performed outside the company by that moment passes for performance within the company borders. That way, the potential dependency on a supplier and the expenses of purchasing the result of the relevant unit of the process chain is reduced.

Through the method “Elimination” one or several sub-processes are eliminated from the entire business process (Figure 6.). That way, the numeric values of the dimensions of the process chain are actually reduced. The elimination can be revocable or irrevocable. The revocable elimination of steps of the business process is most often expressed in outsourcing of sub-processes. With the irrevocable elimination one or several inefficient sub-processes are eliminated as a whole. That way, the organization can be relieved from extrinsic sub-processes or activities and the assets necessary for their maintenance.
Through the outsourcing method, revocable elimination of sub-processes or “outsourcing of processes” is carried out. The criteria the sub-processes should meet in order to be revocable eliminated are: the external contractor should not be a direct competitor; undertaking measures of preventing dependencies; standardization of the external production; the newly selected contractor should be better than or as good as the company (Hinterhuber, 2004). This tool is easily applicable in the practice, since the achievement of the set forth goal is performed with minimum effort. On the other hand, the revocable elimination may lead to dependency on the relevant external contractors of the eliminated sub-process.

III. CONCLUSION

Ten methods are presented in this article, through which the transformation of the critical business process in the organization to the desired process is performed. Depending on the specifics and the function it performs, each tool uses one or a combination of the principles: rearrangement of vectors; change of vectors’ lengths/sizes; addition of a vector; elimination of a vector.

The main advantage of the listed methods is the presence of integrity, flexibility and the strategic scope of the achieved improvements. Through their application, resource is released that could be directed to other critical units in the organization. An opportunity is secured for the use of the synergic potential of the sub-processes interaction. Another positive aspect upon the application of the improvement methods is that through them as the efficiency of the sub-processes (activities), as well as the entire business process are increased. The main disadvantage is related to the necessity of financial and human resources for the performance of various analyses (“Make or Buy Analysis”) or the possibility of reducing the flexibility in handling the occurring changes in the environment of the organization. On the other hand it is necessary to mention that each method may be applied on one or several sub-processes within the business process, as well as that one or several methods of optimization can be applied on one sub-process. This way, the number of possible variants of performing the business process reorganization by the mentioned methods is increased time and again. The number of simulations of process chain running also grows and all that leads to increase of the expenses for the organization. In the conditions of limitedness of resources, in which the companies are functioning, striving exists for continuous reduction of such kind of expenses. For this purpose it should be developed a scheme of influence of the improvement methods on the dimensions of the processes and evaluated their influence.

The application of the tools of improvement of the business processes represents the fourth, conclusive stage of the optimization process. The achievement of optimal business processes implies the improvement process to pass also through performance of simulations for ascertaining the improvement rate. The realization of the specified stages of the optimization process could lead to achievement of efficient and stable improvements of the processes in the organization.

REFERENCES


Optimization Methods Influence Scheme on the Dimensions of the Sub-processes

Ivan Dimitrov¹, Petko Yangyozov²

Abstract: This research presents a schematic diagram which shows the influence of the processes optimization methods towards the four most often used dimensions of the processes through the aspects of optimization of the business processes. For this purpose the four most often used in practice dimensions of the processes and the four aspects of business processes optimization must be described. As the result the scheme of influence of the improvement methods on the dimensions of the sub-processes is developed.

Keywords: business process, sub-process optimization, improvement tools, analysis of influence

I. INTRODUCTION

Each organization is striving to enhance its competitiveness and to increase its revenues (Gaitanides, 2004). On the other hand it functions through carrying out transformation of raw materials into a product/service. The very transformation of the inputs is done through the running of various business processes (Harmon, 2007), processes (Deckler, 2003; Harmon, 2007; Haist, 2001; Harrington, 1991; Ould, 2006; Lowenthal, 2003; Süßenguth, 1992) and activities (McDonald, 2010; Portougal, 2006). As a result of the running of all these activities, processes and business processes united in production cycles, value is added (Harrington, 1991). It is a continuous process, which most often leads to modification not only of the production, but also in the management structure. The optimization should be in compliance with the selected strategy and the company structure. Further, the business processes improvement should take into consideration the following aspects: “flexibility” – showing the possibility of the managing bodies to take decisions related to the strategic reorientation or revision of the goals in accordance with the changes in the environment; “wholeness” – the existing and potential relations and interactions among all activities, processes and business processes in the organization to be used in order to achieve the specified common goal; and, “strategic range” – all events related to the business process optimization have to be in conformity with the company strategy.

¹Ivan Dimitrov is with the University “Prof. As. Zlatarov”, Burgas, Bulgaria
²Petko Yangyozov is with the University “Prof. As. Zlatarov”, Burgas, Bulgaria

In order to perform the optimization of the critical business processes in the organization, it is necessary the overall need of optimization of the entire business process and the necessity and priority of improvement of the sub-processes, which build them, to be identified. One of the options is to identify them by presenting the processes as vectors – real and target ones. Their building can be reviewed as a preparatory stage of the business processes optimization. The real vector represents an aggregate of all activities and sub-processes building the business process (Brüggemann, 1998). Each activity, sub-process or process is presented as a partial vector with the relevant coordinates. The coordinates describe the real (target) values of the parameters characterizing the various aspects of the process effectiveness (Papula, 2001). By summing up the vectors, the common (resultant) vector is obtained. The target vector has been built by marking the coordinates of the target on the coordinate system, which dimensions are determined by the parameters monitored by the early warning system (Bedenik, 2012). From the zero point of the coordinate system to the point marking the desired improvement the target vector was constructed. Then it proceeds with performing a comparison between the coordinates of the two vectors. This allows for determination the necessity of improvement of each business process and establishing the need and the priority of improvement of each sub-process building the business process. Finally, the actual reorganization of the existing sub-processes or activities is done. Proceeding from the vector presentation of the processes, the deriving of the optimization methods is based on the following principles: translocation of vectors; change of vectors’ lengths/sizes; addition of a vector; elimination of a vector. On the grounds of those principles, ten methods have been elaborated for the performance of improvements in the business processes. Each tool is based on one or a combination of the aforementioned four principles.

- Acceleration – shortening the duration of one or several sub-processes;
- Delay – the running time of a sub-process is prolonged;
- Parallelizing – the critical sub-process is divided and the newly formed sub-processes are performed in parallel;
- Automation – isolated case of the acceleration method;
The goal of the present research is to analyze and present the scheme of influence of the optimization methods impact on the processes.

II. ANALYSIS OF THE INFLUENCE OF THE METHODS FOR IMPROVEMENT ON THE SUB-PROCESSES DIMENSIONS

In order to analyze the influence of the improvement methods on the dimensions of the sub-processes, it is necessary a scheme of the influence to be elaborate. To that end it is necessary firstly the dimensions of the processes and the aspects of business processes optimization to be described.

Dimensions of sub-processes

Various characteristics are used as dimensions for the performance of analysis and optimization of the processes (sub-processes) building the business process. They are determined in accordance with the information generated by the early warning system. The characteristics are divided into maximizing and minimizing at the preparatory stage of the optimization. Maximizing are the ones, the values of which should be increased as a result of the improvement, and minimizing are the ones, the values of which should be reduced. In general, the dimensions needed to achieve results from the running of the process can be divided into four categories: “quantity”, “quality” (maximizing dimensions), and “costs”, “time” (minimizing dimensions). The differentiation of the parameters should be in conformity with the strategic goals of the organization. Because of that reason, the characteristics describing each process can be different for the individual business units.

The quantity of manufactured products is one of the most often used characteristics of the processes. The main reason thereof is the fact that the quantity of articles produced in fact reveals the result of the running of the process and, hence, its efficiency.

Quality is a specific characteristic as of the processes, as well as of the products resulting from their performance. There is no universal measuring unit for quality. Widely accepted is the quality to be measured through features and characteristics, which satisfy the customers’ needs. In the modern practice various concepts of quality management and improvement are applied. The most famous and widely applied are “the systems of total quality management (TQM)”, the “Six-Sigma Approach”, as well as quality standards (ISO 9000).

The costs are one of the basic measuring units in the contemporary business environment. Due to that fact, they are also used as characteristics of the processes. Through them it is determined actually the extent of efficiency of the operation of the process chain in general and, in particular, of the individual sub-processes or activities.

Another important measuring unit for the efficiency of the sub-processes is the time of their running and manufacturing of the product/service ordered by the customer. The shorter the duration of the process, the sooner the customer’s need shall be satisfied. That way one wins the loyalty of the buyers and the result is increase of the company’s revenues.

In order to determine the extent of the influence of the proposed tools on the dimensions of the processes, it is necessary the aspects of business processes improvement to be used. Through them the identification of the exact logical and quantitative interrelations between the methods and the dimensions of the processes is facilitated.

Aspects of business processes improvement

The business processes optimization is most often performed in four main directions – spatial, quantitative, logical and time optimization. They can be presented as summarized categories of criteria, through which one can assess the influence of the methods of optimization over the business processes.

The spatial optimization is directed towards improvement of the spatial dislocation of the separate process elements. The increase of the number of units, in which the factual performance of the separate elements of the processes, sub-processes and activities is carried out, leads to artificial increase of the unwanted relationships. They, on their part, increase the potential of occurrence of problems related to extension of the time, increase of costs, even decrease of the product’s quality.

A basic feature of the quantitative optimization of the business processes is the elimination of their inefficient components. It is expressed as in the physical elimination of sub-processes or activities from the business process structure, as well as spatial configuration of a process outside the company borders – “outsourcing of processes”. This is done for the purpose of elimination of repeating or non-adding value components. “Outsourcing of processes” is applied upon the availability of a more efficient external
supplier of the product or service produced in the organization by this moment.

The logical optimization is related to the change of the succession of the sub-processes and the activities within the business process. Modification of the arrangement of its separate elements is done according to the order of their performance (Angelov, 2008). As a consequence of that modification, the time of performance of the process chain is shortened, the productivity is increased and the synergic potential is used.

The essence of the time optimization of the business processes is the shortening or the extension of the running time of one or several sub-processes. The underlying concept of this improvement aspect is that the speed of each business process depends on the speed of the most slowly running component, which builds it. It is necessary to mention also that there exist causal relationships between the various aspects. They are presented on Figure 1. For instance, the change of the number of factual locations of sub-processes performance, as well as the elimination of one or more of them, leads to improvement of the logical structure of the business process. On the other hand, the logical optimization can change the spatial dislocation of the sub-processes and to shorten the running time of the business process. In turn, the time optimization affects: the logical succession of running of the sub-processes and activities; the number of the process elements existing within the organization, as well as their spatial dislocation. The application of the quantitative optimization shortens the running time of the business process and at the same time leads to decrease of the unwanted relationships between the processes.

![Figure 1. Causal relationship between the aspects of business process improvement](image)

III. DEVELOP A SCHEME OF INFLUENCE OF THE OPTIMIZATION METHODS ON THE DIMENSIONS OF THE SUB-PROCESSES

First of all it is necessary to mention that each method may be applied on one or several sub-processes within the business process, as well as that one or several methods of optimization can be applied on one sub-process. This way, the number of possible variants of performing the business process reorganization by the mentioned methods is increased time and again. The number of simulations of process chain running also grows and all that leads to increase of the expenses for the organization. In the conditions of limitedness of resources, in which the companies are functioning, striving exists for continuous reduction of such kind of expenses. This could be achieved through assessment of the existing relationships between the optimization methods and the categories of assessment criteria for the business processes and also between the categories of assessment criteria and the dimensions of the separate sub-processes. Besides, in some cases, mentioned most often used in the practice dimensions are dependent from one another. The degree, with which they compensate among them, is specified in a previous stage of the optimization process. The improvement of one may not be achieved by worsening the indexes of the other dimensions. A balance must be sought between all parameters describing the processes. On the other hand, between the categories of criteria for business processes assessment and the exemplary...
features describing the processes and the sub-processes certain quantitative dependencies also exist. In addition, the proposed methods of optimization in turn affect the achievement of optimum conditions in the four main directions of performing the optimization of the business processes (Figure 2). The influence of each of the specified methods of optimization on the mentioned dimensions of processes is ascertained and assessed through an expert’s assessment.

<table>
<thead>
<tr>
<th>categories of criteria for assessment of BP dimensions of processes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantitative criteria</td>
</tr>
<tr>
<td>„quantity”</td>
</tr>
<tr>
<td>Spatial criteria</td>
</tr>
<tr>
<td>„quality”</td>
</tr>
<tr>
<td>Logical criteria</td>
</tr>
<tr>
<td>„costs”</td>
</tr>
<tr>
<td>Time criteria</td>
</tr>
<tr>
<td>„time”</td>
</tr>
</tbody>
</table>

Figure 2. Schematic diagram of the methods influence on the dimensions of processes

IV. CONCLUSION

In this study a scheme, through which it can determine the influence of each of the ten optimization methods on the four main dimensions of the sub-processes is presented.

The development of a scheme of the influence of the improvement methods on the dimensions of the processes helps to reduce the number of simulations and the costs related thereto. Thus, on the one hand, the achievement of optimal business processes is guaranteed, and on the other hand, upon availability of data on the exact size of the deviation of each business process dimension from the target, the choice of the kind and number of methods and the number of sub-processes to be applied thereto shall be facilitated. Another positive effect of the presented methodology is related to the simplification of the simulation method.
itself, the reduction of the simulation procedures number, reducing that way also the alternatives. In such manner, it can gain savings and support to the decision making process at strategic and operating levels.

REFERENCES

Abstract: Team work is an interaction process of people with professional attitudes and mentality with the purpose of achieving high goals. Harmony and understanding are required for optimal results in the team but they are, however, difficult to combine. The cases when conflicts arise are not rare and then an adequate interference and sound judgment of situations are needed. The purpose of the publication is to outline the importance of team building as a method for overcoming destructive problems within teams.

Keywords: team, team building, problem situations, management.

I. INTRODUCTION

One of the key aspects of management is to achieve high results through coordinating the mutual efforts of people. Obviously this is a difficult process which requires skills for working with people, appropriate resources and time to complete the set goal. Sometimes teams or organizations lack these factors but regardless of this they have to achieve optimal results in their activities. What is more, team work often implies conflict situations because it involves the ideas of people with different personality traits. In similar situations team building could be used to solve problems that affect team work negatively.

II. REQUIREMENTS FOR WELL-FUNCTIONING TEAMS

Well working teams could be an efficient method for achieving high results and job satisfaction of team members. This, however, needs not only team efforts and attitudes towards work but also events that are organized by the management so that they can structure the requirements for optimal results. Some of the most important requirements are as follows:

1. Communication and feedback

The good interaction among team members and the management is a factor for achieving high results. Thus an appropriate environment is necessary where people can communicate freely, express their emotions openly and expect understanding and support from colleagues on these grounds. Therefore, in a well-functioning team its members should pursue [2,3,5,6]:

- social support when they need help or feel frustrated by professional or personal problems;
- positive interaction and mutual respect;
- constructive criticism from colleagues and moral support.

2. Delegating authority on behalf of management

A team cannot unfold their professional potential unless the company’s management has an already developed approach to working with people. This approach should be based on ethical values and humane treatment of team members. It should also be an underlying principle of organizational culture and in cases it is missing it will be difficult for companies to achieve whatever optimal results. People should be given greater freedom in their work. Thus, in a good-working team its members should try to achieve the following [2,3,5,6]:

- responsibility and professional attitude towards goals and tasks;
- focus on team interests not on individual ones;
- implementing creative ideas;
- courage and mutual support in all undertakings.

3. Adequate approaches to problem situations

Team work gives rise to problems which affect the general aspects of work or result from conflicts among team members. Managers have to react adequately to problems by taking decisions that best correspond to particular problem situations. With reference to this team building is one of the possible solutions and its use is characterized by a number of aspects that have to be taken into account when team problems are to be solved.

1 Ivaylo Stoyanov, is with the Faculty of Management, D. A. Tsenov of Economics – Svishtov, Bulgaria
2 Daniela Stoyanova, is with the Faculty of Management, D. A. Tsenov of Economics – Svishtov, Bulgaria
III. TEAM BUILDING – PREVENTION OF DESTRUCTIVE PROBLEM IN TEAMS

In order to achieve great success in work team members should work in collaboration and have not only professional habits and but also a strategy for applying the synergic method. This is a difficult process which unfolds in time and is a responsibility of senior management or human resources manager. In all cases team building is a concept which has its characteristics and methods of application. This is not a situational approach which is used to provide temporary training to staff or to teach them how to behave with each other. Team building is a cyclic process defined by continuous improvement of team members’ competences, adoption of new work models, changes in organizational culture and permanent training to achieve high results.

Team building is a method used by managers with the purpose of increasing effectiveness of team work (through directing employees’ attitudes). This process cannot be realized unless there is active management (motivation, training, counseling, etc.). Therefore, team building is a method used to overcome teamwork problems or increase the effectiveness of team members’ work in their efforts to achieve positive results. This can be done by pointing out the main weakness of teamwork, working out development programs and optimizing the ineffective processes such as communication, decision making, etc.

From the above it becomes obvious that team building is a managerial instrument which is applied for solving dysfunctional problems or is aimed at increasing the constructiveness of teamwork. However, each team has its own characteristic work habits and members’ behaviors. Therefore, the orientation of the team building and the return of the expected investments should be defined in advance. Usually there are four approaches to designing team building activities and the most appropriate ones are selected for particular teams. These approaches are as follows [4]:

1. Personally oriented team building

Team members are given questionnaires whose purpose is to determine their personality profiles. After the results are analyzed, the next steps for the further development of the team are undertaken. They include various events such as discussions or new experiments. The underlying idea of this approach is to enable team members to get to know each other and as a result optimize their communication and professional relations.

2. Team building through role play challenges and fun activities

Usually this is the team building that is done outside companies and carries an emotional load for the team members (rope pulling, mountain hiking, rock climbing, white water rafting, role plays, etc.). Extreme sports can be used as well if there are high levels of aggression or exhaustion in the team. Generally, these are activities whose purpose is to unite the team so that its members can work effectively together. The majority of the tasks are focused on specific team needs such as building mutual trust, team problem solving, taking responsibility, etc. The concept of this approach is that facing challenges in a friendly atmosphere will have a positive effect on team members in their work environment and this will therefore increase the team effectiveness.

3. Team building through specialized workshops

The objective of this type of team building is to optimize team performance by organizing trainings where team members acquire job-specific competences and behaviors (ethical perceptions, overcoming conflict situations, reaching consensus on controversial issues, approaches to constructive criticism, etc.) Team members are influenced during sessions with different terms and duration. The objective of these training sessions is to give participants knowledge of methods for improving team work and opportunities for practicing immediate reactions to arising difficulties.

4. Team building for overcoming team contradictions (conflicts)

The main idea of this team building is to train participants how to ignore obstacles that have negative effects on team work. These difficulties are intra-team contradictions with various levels of conflict. They affect negatively team members by reducing their productivity. In order for them to work effectively and in collaboration it is possible to apply various strategies for ignoring problems. Often the services of an outside team member (an arbiter) are used. They act as intermediaries between disputing parties. The objective of this approach is to eliminate contradictions within teams and improve their performance.

It is necessary to point out that these are categories that characterize team building and are not universal and strictly applied to specific approaches. It is possible to have situations that require the use of elements belonging to the four approaches or, for example, the integration of certain elements from only two or three approaches. This would depend not only on the specific situation but also on the tactics managers would like to apply in the particular case.

In order to overcome destructive relations among team members, however, the main emphasis should be placed on the fourth approach. It is specific with respect to the psychology knowledge implied in team development. Each participant possesses unique personality traits which determine their attitudes towards work and as a result influence relations with colleagues. In addition, there are often discrepancies between these attitudes, the work conditions and communication with other team members. This leads to
dysfunctional problems in the team that have to be solved promptly.

To eliminate destructive relations in teams, managers should plan the process carefully by taking measures to identify the problems and select initiatives to optimize the team work. The stages of the process should be executed in the following sequence [1,2,5,6]:
- identification of problem relations in the team;
- initiatives for solving the problem;
- development of the team.

• Identifying problem relations in the team

In order to solve a problem we should be properly diagnose it first. This is the first and most important prerequisite for optimizing team performance. In many case the attempts to eliminate dysfunctional problems fail because managers do not think critically about problem situations. Identifying problems is not an easy task because it is necessary to analyze a number of aspects that influence team work. With respect to the human factor (the catalyst of conflicts) there are two perspectives that have to be considered. The first one determines the people’s profile in a team (their level of aggression and tendency of conflicts). The second one refers to the attitude (actions) of other team members towards their behavior.

The different reasons people have to behave destructively in teams require the respective instruments for diagnosing problem situations. What these instruments have in common is the fact that they are used to study team members’ behavior through a personal dialogue to identify the reasons for their destructive conduct. At this stage managers can use techniques whose aim is to determine employees’ attitude towards professional obligations and ways of perceiving coworkers. Two elements emerge here as well. They are of key importance to effective work and thus an essential reason of conflicts in teams. The first one is the lack of understanding of the organization’s priorities (goals and tasks) while the second one refers to the antipathy to certain types of people (attitudes and types of behaviors).

In the first case confrontation among team members can appear because they lack clear understanding of their responsibilities and the ways they have to be performed. This happens when managers have not established good connection with their team members or do not have the necessary preparation to carry out an effective training. Regardless of the reason, performed diagnosis reveals problems in the professional realization of people and explains their conflict behavior.

In the second case the diagnostic activities focus on people’s behavior and attitudes and how they perceive their coworkers. This is a major problem because there are often discrepancies in the personal evaluations of team members and this leads to false impressions about their actions or could be a reason for idleness. Not always people realize that through their actions they can influence others in ways that are very different from the expected ones.

This is a complex process of communication and a personal interpretation of events. Sometimes people think that their counterpart partners understand what they do or mean but at the same time the other party cannot rationalize their behavior. For this reason diagnostic work is done to help team members overcome the discrepancies in their ideas and understand each other’s attitudes. Usually the analysis is aimed at determining the reasons for destructive relations in the team and at creating positive dialogue, trust and understanding. This will stimulate people to cooperate, show support and be motivated in their work.

• Initiatives for solving the problem

After managers analyze the problem leading to destructive relations in the team, they have to take the appropriate measures for solving it. There are certain factors that have to be considered in this process. These factors refer to the team members’ roles and the changed approaches to work. In order to solve team problems in the best possible manner, it is recommended to take the following initiatives [2,6]:
- every team member should be aware of the nature of the existing problems and cooperate in resolving it;
- every team member has to use their skills and competences in the process of problem solving;
- every team member has to encourage their coworkers to participate and try solve the problem;
- team members must help each other by exchanging information and ideas about solving the problem;
- team members should make compromises when they have different views about solving the problem.

These are only some of the possible initiatives which require the direct involvement of team members in the process of problem solving. These measures will also determine a change in the attitude towards work which will eventually lead to better results from the mutual work of team members. This process is carried out by the guidance of human resources managers but often companies hire external experts (consultants or intermediaries who help resolve arising problems in a constructive manner).

• Development of the team

When problems are resolved successfully the process should not stop on the level reached by teams. Team work is always characterized by problems which must be solved not only by external interference but also by team members. Therefore the purpose of team building is to train staff so that they can solve team problems in a routine manner without hindering their relations. Various training programs are developed to optimize team work and prepare employees to cope with problems efficiently.
IV. CONCLUSION

When destructive problems arise it is necessary to react adequately to the situation which creates tension in the team and the relations of its members. Team building has a positive effect on team work because it brings people together, defines the nature of the problem and is the basis for determining creative guidelines for its solution. As a result of the publication the following has been achieved:

- the specific aspects of using team building in team work have been outlined;
- the role of team building as an effective method for solving destructive problems in teams has been revealed.

REFERENCES

Abstract: The end of the Cold war came along with resurgent (ethno)national and minority controversies within and among the states of CEE. The increasing focus on the issues of rights reflects the upward tendency towards their legal codification. The criticism against the minority protection system includes the following points: documents concerning minority protection have only political but no legal force, legal state obligations are too vaguely formulated, the group dimension is not sufficiently recognized. The legally entrenched norms and rights are but a part of a whole system, which covers also political principle, enforcement, and monitoring principles and political practices.

Keywords: post-Cold war development, discrimination, minority rights and protection, legal codification, political dimensions

I. INTRODUCTION

With the end of the Cold war, the (sense of) security within the Eastern bloc provided by the carefully preserved power equilibrium within the bipolar system was abruptly swapped by uncertainty and insecurity of various character and magnitude. In the sphere of geopolitics and international relations, the core of this new precariousness embodied national and minority issues in their multitude appearances. Post-Cold war political landscape of Europe has been marked by a strong rise of nationalist movements and tensions between groups of different cultural, national, ethnic, and/or religious affiliation.

The demise of the old system came along with resurgent (ethno)national and minority controversies within and among the states of CEE, both old and newly emerging ones. Most of the newly sovereign states born by the dissolution of Yugoslavia, the Soviet Union, and Czechoslovakia, carried the birthmark of ethnic/national heterogeneity, emblematic and endemic for the whole region; thus, newly emerging minorities were added to traditional ones.

In many places, grim historical inheritance and lack of democratic traditions joined transition hardships to produce strong nationalizing and state-consolidating policies directed against minorities inside the country and/or towards neighboring countries harboring co-nationals. Minority claims have been put forward, sometimes in the language of force. Newly emerging minorities unhappy with their new status evoked the principle of self-determination; existing minorities claimed compensation for past injustices and protection from present ones and called for minority rights or for more minority rights.

Thus, post-Cold war developments have topicalized minority issues inside the separate countries as well as in bilateral relations and at the regional and continental level. Forced to respond to the dynamics of transition processes, the international community in the face of a number of European and World organizations set to tackle - at political, as well as at legal level - the pending minority-related problems. It would be misleading, though, to conclude that it was only the transition exigencies, which brought the issues of minority rights and minority protection into the focus of international attention and endeavors.

In the post-WWII United Nation system the issue of minorities and minority rights were consciously avoided. Towards the end of the bipolar system, however, this generally agreed upon and imposed neglect had started to wither away. Starting from the Helsinki process on, minority issues have begun founding increasingly conspicuous place in the agenda of international forums. In this sense, transition developments can be said in a way to only intensify and reinforce processes and tendencies already under way.

Still, the interaction between the development of legal and political dimensions of minority protection and the post-Cold war processes in Central and Eastern Europe remains of primary importance. The impact of the latter on the former has brought in a new way the question of minority rights into the political, public and legislative focus on the domestic and international plane. Several important implications marked the return of the “new-old” minority issues in the agenda of international forums. No longer overshadowed by the question of human rights, the issue of minority rights has been increas-
ingly emancipated and minority issues – tackled on their own. In contrast, while effectively releasing itself from the normative umbrella of human rights, the relationship between minority rights issue and some other pertinent to the field concepts (self-determination, autonomy) has become rather complicated both normatively and in terms of political practices.

The last decade of 20th century witnessed continuous attempts at building a congruous and yet working international system of addressing issues and responding to problems related to minorities. These processes have developed at three interrelated levels: normative standard-setting of political principles, legal codification of norms and setting up working mechanisms for their practical implementation. All three levels are indispensable for the establishment and sustaining of an adequate system of minority protection. Due to the intrinsic characteristics of the subject matter in question, the legal codification of minority rights is bound to never be able to fully conform the political standard-setting. Despite of this, however, the system of minority protection is often conceived in the predominantly legalistic terms of rights. The increasing focus on the issues of rights in the field (more rights or less rights, individual rights or group rights, etc.) reflects the upward tendency towards legal codification of minority rights. At the same time most of the criticisms against the current state of minority protection system are put forward in the language of rights, especially in terms of legally codified collective rights.

This is where the argument of the present paper stems from. Following the development of the relationship between legal norms and political principles in the sphere of minority protection throughout 90s, I argue that an adequate and working concept of minority protection (which is to be in the core of an effective minority protection system) should not be confined to a strictly legalistic understanding. In the ongoing debate around the fate of minorities and what should be done with them or for them, the emphasis quite often goes to the legal aspects of the issue. This legalistic focus makes the codification of minority rights to be seen as the aim of any minority protection endeavor, while it often forgotten that rights are a means towards another bigger and more important aim - successful accommodation of minorities within the countries and preservation of distinct identities if so wished. The concept of minority rights, the claim goes on, has to be conceived as an embodiment of a set of political principles, which are not necessarily codified in strictly legal norms and rights.

The structure of the paper follows the logic of the argument. The first part briefly presents the ‘state-of-affairs’ in the field towards and shortly after the end of the Cold war system, the attempt being to demonstrate the already increasing attention towards minority issues before the post Cold-war developments and the general direction of this attention. The second part touches upon the influence of the attempts to provide solutions to the Yugoslav crises on the issues of minority protection and the results of the increased entanglement of the issue of minority rights to that of a particular understanding of self-determination. The third part seeks to outline what is understood now under minority protection system in terms of codified legal norms and political principles that these norms build upon. Within this framework, I seek to justify the claim about the legal codification of minority rights.

II. MINORITY ISSUES AROUND THE END OF THE BIPOLAR SYSTEM: MOVING BACK INTO FOCUS

In the international legal and political system, established after the WWII, minorities were largely neglected. On the one hand, the international actors, considering the experience of minority protection under the League of Nations rather discouraging, were reluctant to make any commitments and provisions concerning minorities. On the other hand, there was an optimistic belief that the then established system of general human rights and in particular the principle of non-discrimination would adequately guarantee the protection of minorities (Lapidoth, 1997: 11; Thornberry cited in Miall, 1994: 14).

Consequently, the issues of minorities and their treatment and rights were largely left out from the UN human rights treaties and declarations. A notable exception to this general trend constitutes, though not within the UN framework Art. 14 of the European Convention of Human Rights and Fundamental Freedoms of the Council of Europe (Thornberry in Miall, 1994). Within the UN, until the end of the Cold war the main burden of minority rights in terms of general international legal codification was carried by the much-cited Art. 27 of the 1966 International Covenant on Civil and Political Rights (ICCPR), which addresses minority rights in a rather limited and negative way and provides for non-discrimination and equal treatment but not for positive state obligations.

A Sub-Commission on Prevention of Discrimination and Protection of Minorities was established within the UN Commission on Human Rights, but its initiatives for more attention and normative emphasis on minority issues remained largely low-profiled. The same goes

1 Thus, there is even no reference to minorities in the UN Charter or in the Universal declaration of Human Rights. The term ‘minority’ was not included in the lists of prohibited grounds of discrimination.
2 Understood as rights of non-discrimination and equality granted to “the persons belonging” to minorities.
3 Provisions pertinent to minority issues appeared in some other human rights treaties, like International Convention on the Elimination of all forms of Racial Discrimination, Convention for the Prevention and Elimination of the Crime of Genocide (1960); Convention against Discrimination in Education
for the way the question of minorities was treated in the UN in general. It was not before the political climate began changing that the issues of minorities had slowly begun to revisit the official international agenda.

Since its launching in early 70s, the Conference for Security and Cooperation (from 1995 the Organization for Security and Cooperation and hereinafter OSCE) has been increasingly involved in addressing minority issues. The protection of persons belonging to minorities appeared in already in the Helsinki Accords (Principle VII, § 4), though again in predominantly non-discrimination terms, under the umbrella of individual rights and still “obscured by the ideological and great power divide” (Zaagman, 1997: 248).

Following the momentous changes in the Eastern bloc, the organization succeeded in quickly transforming itself into a forum for comprehensive security discussions, conflict prevention and crisis management. Though proceeding from “security concerns,” however, the approach of the organization to minority issues has lead to standard-setting and elaborating political principles in the field. The organization has been able to tackle minority issues not least because of the politically, but not legally binding character of its documents and the ensuing commitments for the countries. Because of this, it was exactly OSCE where the introduction of the collective perspective towards minority rights and minority protection was possible.

Already before the fall of the Berlin Wall, the Concluding Document of Vienna Meeting of January 15, 1989⁴ added the collective protection and promotion of distinct identity of minorities to the individual rights of persons belonging to such minorities (Principle 19). Following the geopolitical changes, the emphasis on the collective protection and promotion was reaffirmed and further elaborated at a number of meetings of OSCE Human Dimension Conference. Among these the most significant one is the Concluding Document of the Copenhagen Meeting on the Human Dimension of 29 June 1990 (Art. 33)⁵.

Two more OSCE documents should be mentioned here as exemplifying the upward trend – both in attention and in substance – of treating minority issues. The Paris Charter for a New Europe of November 16, 1990, reaffirmed the departure from the purely negative non-discriminatory approach and the shift towards the need for affirmative action. Acknowledging the need for a more comprehensive and in-depth consideration of issues of minorities, the Paris charter provided for convening a special meeting of minority experts. The meeting took place several months later and is known as the OCSE Geneva Meeting of Experts on National Minorities (July 19, 1991). A number of provisions in Chapter IV of the Geneva Report point at affirmative state action and special measures to ensure the members of minority full equality with other citizens.

The developments within the framework of OSCE prior to the Yugoslav crisis have received divergent interpretation. On the one hand, they are considered as continuation and extension of the principles of the 1975 Helsinki Declaration. Since the group rights dimension is not sufficiently covered, the OSCE activities at Vienna, Copenhagen, Paris, and Geneva are interpreted as showing an “intention not to go too far in the recognition of minority rights” (Lerner in Brolmann et al, 1993: 97). On the other hand, however, OSCE activities in the period under consideration are considered as trend-setting. The commitments under OSCE exemplify a crucial step forward in acknowledging the collective dimension of minority identity and in going beyond the negative and non-discrimination understanding of minority issues and introducing the ideas of affirmative state action and special treatment (Henrard, 2000).

Though the OSCE documents lack legal binding force and are no more than political declaration of intent, they are considered to have a high de facto authority (Henrard, 2000: 206). Commitments under OSCE had arguably highly effective influence as a “source of inspiration for the UN Declaration of Minorities” (Ibid.). ‘Lagging behind,’ it was only in 1992 when UN General Assembly finally adopted the Declarations on the Rights of Persons belonging to National or Ethnic, Religious and Linguistic Minorities, “the end product of 14 years of diligent work by the Special Working Group, established by the Sub-Commission on Human Rights” (Ibid.: 185). The Declaration interprets and elaborates the principles of Art. 27 of ICCPR.⁶

In the same period, a trend of increasing attention towards minority issues is observable also within EU. One can mention here the draft Charter of Rights for Ethnic Groups of 1988 prepared for the Committee of Legal Affairs and Citizens’ Rights and the Austrian proposal for an Additional Protocol to the European Convention on human Rights of 1991, which aims at “securing the Protection of Ethnic Groups” (Nowak in Brolmann et all, 1993: 109).⁷ While these two exemplify the ‘internal’ attention to minority issues within EU, the Union mainly confines its action regarding minorities and minority protection to the external level as revealed by the EU’s Guidelines for the Recognition of New States in Eastern Europe and the Soviet Union formulated by the Council of Ministers of the EU, December 1991 and the

---


⁴ OSCE (then still CSCE) Vienna Conference too place between 1986 and 1989.

⁵ Article 33 of the Copenhagen document provides an explicit recognition of positive state obligations to protect and promote minority identity.

⁶ Since both Art. 27 of ICCPR and the 1992 UN Declaration on Minorities are important elements in the current system of minority protection, they will be addressed in more details in the third part of the paper.

⁷ The Charter remained a draft. It contained far-reaching proposals for the collective protection of minority rights and because of this had little chances to be adopted by the EC.
establishment of the Arbitration Commission for Yugoslavia.

III. PERCEPTION OF MINORITY RIGHTS AND THE RIGHT OF SELF-DETERMINATION: THE YUGOSLAV CRISIS

The account so far has attempted to show that the growing attention towards minority issues and minority protection accompanied the whole process of 80s and beginning of 90s geopolitical transformations. In the post-Cold war period “The rise of nationalism has brought the issue of minority rights to the top of the European agenda” (Miall, 1994: 11), but the issue had been already significantly sensitized. As Rady puts it, “The reawakening of ethnic tensions in Eastern Europe precipitated a change in the approach of the international community towards minority rights” (Rady, 1993: 720). Rady apparently has in mind the shift in the international approach towards collective rights of minorities. However, in the context of the current paper at least two more implications of the Yugoslav crisis on the concepts of minority protection and minority should be mentioned.

The attempts to tackle the Yugoslav crisis demonstrated (in the weak version) or lead (in the stronger version) to a widening of the gap between norms and practice (Kovacs, 2000: 3). The distinction between ad hoc reactions and general implications was obfuscated. During the break-up of Yugoslavia, the international community acted out of need to manage a rapidly escalating crisis when it lowered the criteria for secession of separatist republics. However, at the same time, the international community was also offering its decisions as if they were based on more general norms with a possibility of wider application outside the Yugoslav context (Ibid.: 7).

The gap between norms and practice bears on and is exemplified by the unintelligibly blurred relationship between the concepts of self-determination and that of minority rights. It is true that, as Musgrave observes (1997: 126-127) there is a close link between self-determination and minorities in the sense that “when

self-determination takes place it usually affects minorities in one sense or another.” In this sense, protection of minority appears as a logical corollary of self-determination. In the post-Cold war period, as in the post-WWI period, the principles of self-determination and international minority protection were implemented in conjuncture. However, while under the League of nations’ scheme minority rights were meant to be compensations for the denial of self-determination to certain national groups, “In the international environment of the 1990s, this is obviously no longer the case, but what really is the case is not quite clear” (Kovacs, 2000: 6).

This led to a vicious circle. On the one hand, advanced in a situation of intensifying ethnic conflict, minority rights concept acquired strongly protective function under the assumption of highly intolerant, ill-intentioned, and aggressive towards minorities state. Accordingly, the concept of territorial autonomy, granting minorities strong legislative and executive powers, began being seen as the highest form of protection (Ibid.: 5). Thus in some cases (for some groups) self-determination, was reduced in content to minority rights, equated now with the concept of autonomy. On the other hand, granting so great autonomies as the highest degree of minority rights and as a “limited right of self-determination” (Hannum, 1993: 85) raised apprehensions that these territorial autonomies may serve as a “springboard for further demands of self-determination, including the rights to secession” (Kovacs 2000: 5). In this way, minority rights became intractably entangled with self-determination with secessionist implications.

There was a paradox in the way in which the concept of minority rights correlated with that of self-determination. One the one hand, allowing a unit the right of self-determination entailed minority protection and full package of minority rights including autonomy for the smaller unit (group). On the other hand, the chain of claims for self-determination was not closed; minority rights understood as right to autonomy were perceived as leading to claims for self-determination. As a consequence, “the response of the international community to the disintegration if Yugoslavia and to the issue of collective rights are likely both to embolden minorities and to make the governments of Eastern Europe even more anxious to maintain the traditional unitary character of their states” (Rady, 1993: 728).

8 It is true that both Copenhagen Conference and Geneva expert meeting were facing concrete problems emerging from the post-Cold war realities. Still, these gatherings and the appearance of minority issue on their agenda should be seen also as a continuation of a trend established towards the end of the bipolar system. It is also true that in general the ‘swung of the pendulum’ towards group and minority rights “has much to do with the increasing recognition - and guilt about - the destruction of traditional and indigenous cultured by Western societies and values. (...) It was certainly well under way before the collapse of the Soviet empire forced the issue of minority rights back into the forefront of the international political and human rights agenda” (Hadden in Miall, 1994: 24).

9 For some authors minority rights exist in a continuum at the end of which is the right to self-determination, and in its ultimate expression, the right to secession. A strong opinion in this direction is expressed by Hennard, for whom “Minority rights are not only in themselves a form of internal self-determination but certain demands of minority rights would furthermore be enhanced by an appeal to a right of self-determination” (Hennard, 2000: 184-185). Still, the opinions on this point (both theoretically and in practice) vary significantly (see Hannum in Brolmann et al, 1993: 334-335).

10 Particularly for Serbs in new successor states (Decision Nationalism 2 of the Badinter Commission).
In general, the overall impact of Yugoslav crisis on the issues of minority protection and minority rights was two-fold. On the one hand, there was an increasing international normative over-committments leading to progressive difficulties in upholding its implications (Kovacs, 2000: 7-8). The language of collective rights of minorities and their entitlement to territorial autonomy became firmly rooted in political discourse at both a local and international level (Rady, 1993: 728). On the other hand, the implications of the normative and political answers to the Yugoslav crisis seriously influenced in a negative way the anyway-not-so-big chances for reaching agreement at international and European level for normative codification of a wider set of minority rights into a normative system of minority protection.

The attempts to solve the Yugoslav crisis has undoubtedly influenced the subsequent efforts at codifying minority rights and showed the limitations of its feasibility in an international system of minority protection.

### IV. The Post-Cold War System of Minority Protection: Legal and Political Dimensions

The preceding sections briefly presented the developments and processes since the end of the Cold War system which had led to the appearance of the current system of minority protection with all its perceived and real deficiencies and flaws. This will briefly outline what is included in the current system of minority protection in terms of principles and rights. The issues of mechanisms for implementation are also briefly touched upon. Against this background, it will be seen why minority protection should not be confined to a strictly legalistic understanding and equated with minority rights. The normative aspect of the minority protection system understood in terms of “rights” cannot be and should not be put forward as the sole criteria for evaluating the system.\(^{11}\)

The post-Cold war system of minority protection in Europe incorporates a number of legal and political norms, as well as mechanisms of implementation and monitoring. The elements of minority protection are developed within several international and regional organizations, which at many instances work in conjunction: United Nations, the Council of Europe, The OSCE and the EU. In terms of legally binding norms, Art 27 ICCPR remains the most universal norm related to minority treatment.\(^{12}\) It is interesting to notice the evolution, which the interpretation of Art. 27 has undergone because it is indicative for a general trend in the normative development in the field of minority issues. In itself, art. 27 is a fairly modest provision of minority protection (Nowak in Bromlman et al, 1993: 104), phrased with a typically negative formulation. It was conceived for a long time as a strictly non-discriminatory clause, without any implications for affirmative state action or special treatment of minorities.\(^{13}\) Still, there has been an increasing tendency to recognize more strongly the existence of positive state obligations and gradual acceptance of the notion of special guarantees for minorities (Musgrave, 146). The need for further elaboration of the principles of Article 27 gave birth to long-prepared 1992 UN Declaration on Minorities, which should be considered as an “interpretive explanation of article 27” (Henrard, 2000: 185) and reflects an evolution in the UN since 1966.

The Declaration contains provisions going beyond article 27 and although it does not have a legally binding force, it “can be regarded as a new ‘international minimum standard’ for minority rights” (Thornbery quoted in Miall, 1994: 16).\(^{14}\) One of the most laudable features of the Declaration is that it acknowledges that the state obligations regarding minority protection go beyond mere non-interference and that, unlike art. 27 it explicitly recognizes the right to identity of minorities (Henrard, 2000: 187-188).\(^{15}\) Still, it is also reproached for being vague and containing a number of specific restrictions, which weakens the obligations of states and leaves them a wide margin of discretion (Ibid.; see also Nowak in Bromlman et al, 1993).

The post-Cold war system minority protection system is further elaborated in a number of European instruments, which compared to the international ones are more minority specific. The standard-setting and trend-setting role of OSCE in the first post-Cold war years has been already mentioned. The OSCE documents listed above contain explicit recognition of positive state obligations to protect and promote minority identity and to take various special measures so that to bring members of minorities in a substantially equal position to the rest of the population. Moreover, the Organizations works actively in building monitoring and evaluative mechanisms with conflict preventive and conflict resolution purposes. At the 1992 OSCE follow-up meeting in Helsinki, the High Commissioner on National Minorities was established. Further on, the Pact on Stability in

\(^{11}\) See for example Henrard, the main thesis of whose otherwise worthy study is that an adequate minority protection system can be achieved by the combination of individual rights, minority rights and the right of internal self-determination.

\(^{12}\) For Europe until 1998, when the CE Framework Convention for Protection of National Minorities entered into force.

\(^{13}\) However, already in 80s, despite the individualistic formulation, the practice of the UN Human Rights Committee showed that the protection afforded by the Article 27 is not as week as often assumed (Nowak in Bromlann et al, 1993: 104).

\(^{14}\) See also Henrard, who argues that “Although the Declaration is merely a soft law, it can nevertheless be argued to concern a universal standard” (Henrard, 2000: 186).

\(^{15}\) In offering a broader interpretation of art. 27, the Declaration allows also for the collective element in the language of the provision (Nowak in Bromlann et al, 1993: 106). Combining both “national” and “ethnic,” it aims the widest possible field of application (Henrard, 2000: 184).
Europe (launched by OSCE in 1995) provided, among other things, a mechanism for monitoring within the countries and mediation of bilateral problems where minority treatment is involved.

At the same time, OSCE contribution to the minority protection system is subjected to the same type of criticism as that against the 1992 UN Declaration. Many authors point out that the OSCE documents, though not legally binding are still formulated in such a cautious almost vague way and contain so many escape clauses that their effectiveness seem dubious (Henrard, 2000; Nowak, Lerner in Bromlann et al, 1993; Thornberry in Miall, 1994).

Though the standards set by the OSCE remain in their large part political, the progressive stance of the OSCE regarding minority protection “regularly serves as a source of inspiration for the development of standards within the framework of other international and European organizations (Henrard, 2000: 206), notably the Council of Europe. Thus, the aim of the Council of Europe Framework Convention for Protection of National Minorities was to translate the standards set by the OSCE into legal norms. The Convention “represents the first international treaty with a multilateral general protection regime for minorities” (Ibid.: 210). Among its advantages is that it implements the principle of positive state obligations. Under the Convention the contracting states accept a positive duty to ensure equality in fact as well as in law for the members of national minorities compared to the rest of the population (art. 4, ## 1 &2). That means, that the Convention allows for the adoption of special measures regarding minorities. Another important feature in this direction is that the Convention enshrines the obligation to protect the existence and identity of national minorities.

Still, the Convention is subjected to the main type of criticism as other documents in the field, namely, that the member states are given a wide measure of discretion; there are several escape clauses and as a whole the Convention is consider to consists of vague program declarations (cf. Henrard, 2000: 210-211; Nowak in Bromlann et al, 1993). Still, Henrard concedes that “program declarations, although providing only certain broad guidelines, are admittedly not per se negative because they allow the specific circumstances to be fully taken into account” (Ibid.: 211). Similar criticism is directed against the Council of Europe European Charter for Regional and Minority Languages (1992).

The control mechanisms of the two conventions are “purely political” (Henrard, 2000: 277).

V. CONCLUDING REMARKS

The analysis hitherto begs a number of conclusions. First, the post-Cold war system of minority protection builds on two main principles - non-discriminatory and substantial equality. There is a noticeable evolution from the former traditionally established and upheld principle to the latter. The latter principle relates preservation and promotion of the own, separate identity of minorities to an optimal extent entails special treatment and positive obligations on the part of the states, which is the second important point.16 Thus, departing from article 27 of ICCPR as initially interpreted, it is increasingly accepted that genuine non-discrimination might entail positive discrimination and affirmative action.

Second, the concept of individual rights remains the cornerstone of the system. The standards of minority rights within the system presuppose and build extensively on relevant individual human rights, while tailoring them to the specific situation and needs of minorities. Even when the issues concerns are not explicitly addressed in general individual human rights (like those concerning language, for example) and/or have a marked collective dimension, the rights concerning minorities remain individual rights, i.e. they are rights of the members, not of the collectivities. As Thornberry writes (in Miall, 1994: 21) “Progress on the rights of minorities has been achieved more through the elaboration of a collective dimension to individual rights than through the growth of collective rights.” The dominant approach of minority protection still focuses on the individual, as a member of a minority, and has in this respect a number of certain collective dimensions.

Third, the system exhibits a marked discrepancy between the development of concrete political principles and standards and their respective legal codification. The most elaborated so far standards of minority protection are politically binding. The attempts to translate them into legal obligations resulted in documents, which are weak in legal terms. As mentioned above, this discrepancy is among the major source of criticism to the contemporary system of minority protection.

In summary, the criticism against the minority protection system includes the following points. First, documents concerning minority protection have either only political but no legal force at all or they are of weak legal force and/or enforceability. The system has strong (or relatively strong) political principles and standards, which do not have adequate legal codification. Second, as a result of the above, legal state obligations regarding (the members) of minorities are too vaguely formulated, and accompanied by too many escape clauses, thus leaving too broad a discretion to the states. Third, the group dimension is not sufficiently, not “only grudgingly” (Henrard, 2000: 277) recognized. Among these criticisms, the first two have a direct bearing on the arguments of the present paper, while the relevance of the

---

16 See also Thornberry (in Miall, 1994: 20) who argues that the “core of the rights of minorities in international law is their right to existence and identity. Special measures to favor the flourishing of this identity are not to be regarded as discriminatory.”
third one is not immediate. The present argument is made partly in answer to those criticisms.

There is a widely shared view that the efficiency of the minority protection system “flow mainly from state fears concerning minorities” (Henrard, 2000: 278; see also Nowak, Lerner in Bromlann, 1999; Thornberry in Miall, 1994). This view is not unjustified as long as minority protection system is “produced” within international organizations by representatives of states. In this respect, the system is a product of negotiations among states and evolution in the state perspective towards minority protection. Given the developments in the Yugoslav crisis and the central role minority issue played in them, the apprehensive approach of state should be of no surprise. Yet, even though apprehensive, one cannot deny the visible trend towards acknowledging the rights of minorities to exist and to be different (Thornberry in Miall, 1994: 20-21).

Still, not only states’ fears or unwillingness can account for the impossibility for full legal codification and strong legal documents within the system of minority protection. As Henrard acknowledges (2000: 13) the fact that the minority phenomenon has very different dimensions and proportions from state to state, which entails the need for tailoring as much as possible the precise combination of measures and techniques used to the concrete circumstances of the case. Consequently, the existence of escape clauses, vague formulation and conditional limitations in international documents on minority protection (mostly in the legal ones, but also in the politically binding) is also related to the need of flexibility of any general regulation of minority protection so that it can always be adapted to the specific circumstances (Hannum in Bromlann, 1993; Henrard, 2000).

The need for flexibility requires relinquishing the strictly legalistic approach to the concept of minority protection and opting for a more pragmatic one. The best proof for the mounting influence of that view offers the abandoning of attempts to elaborate a rigid legal definition of minorities and taking a pragmatic approach allowing for flexibility. Thus, what Hannum (in Bromlann et al, 1993: 334) calls “functional approach” to minority rights becomes increasingly adopted. The diversity of minority situations from one state to another means also that the most significant protection of minorities (in terms of efficiency and completeness) can be developed at the national level. In this sense, international mechanisms can only supplement national institutions and should be generally available only when domestic remedies have failed (ibid.: 338). Efforts and work, therefore, should be concentrated at that level. Given the fact that the national implementation of international standards is crucial, and that national standards should be fully tailored to specific circumstances, the sensitization of states should be an important goal of any work on minority protection (Henrard, 2000: 241).

Two more points on why the emphasis on legal codification and legally binding documents enforcing positive state obligations and minority rights might be misleading. First, minority issues are not always a straight question of a need for protection from discrimination or persecution (Jennings in Bromlann, 1993: 342). In that sense, legal codification of minority rights designed to safeguard the minority from persecution and overt discrimination are not the same as rights related preservation and reproduction of distinct identity characteristics. The former would be too much for the latter, the latter would be not enough for the former. In cases of ethnic or nationalist conflicts purely legalistic approaches have little chances to succeed. As Nowak (in Bromlann et al, 1993: 118) aptly points “The conflict between Serbs, Muslims and Croats in Bosnia-Herzegovina, for example, cannot be solved by advocating increased protection of group rights but only by downplaying the nationality question, advocating mutual respect and understanding and, if necessary, by international humanitarian intervention and deployment of peace-keeping forces.” In such cases the question is not about the validity of the system, but rather about the adequacy to contemporary events of some of the answers the system yields (Jennings in Bromlann et al, 1993: 341).

This leads to the second important point. Problems with the post-Cold war system of minority protection are not so much related to the insufficient legal codification of minority rights in international documents. The problem is not in further codification and forcing the adoption of legally binding documents but in narrowing the gap between norms and principles (existing, adopted) and political practices, while at the same time remaining aware about the importance of the distinction between legal and political decision and action. Jennings emphasizes that “Legal decisions and actions (...) ought not to be taken without some regard to its political results, for a solution that appears to be a scientifically elegant one can turn out to be a political folly”

17 There is a huge debate around the topic of individual vs. group or collective rights regarding minority protection. In the present context it suffices to mention that the problem is not so much that the rights are not recognized as group rights than “with the lack of explicit obligation of affirmative state action and above all, a lack of efficient prevention and enforcement measures” (Nowak in Bromlann et al, 1993: 103). Nowak made the point already in early 90s, i.e. before the two legally binding documents of CE. Yet, to a large extend the essence of his argument is still valid - whether rights are formally recognized as group rights or not is not so important if the respective state undertakes and accomplish an obligation regarding affirmative action and if there are monitoring and controlling mechanisms.

18 The activities and documentation of the working group on Minorities of the UN Sub-Commission (active since 1995) evidence this. Furthermore, the same pragmatism marked the elaboration of the CE Framework Convention (see point 12 of the explanatory report), as well as the OSCE activities, where the mandate of the High Commissioner on National Minorities lacks definition of minorities (see Henrard, 2000: 24, 28-30).

19 President of the International Court of Justice, the Hague.
The emphasis on the inefficient legal codification and legal force of minority protection system has probably much to do with the fact that most of the analysis of the system are done by lawyers, who are naturally inclined to pay more attention to the legal aspects. Yet, this is not so simple and there is a deeper problem. As Jennings, himself a high-ranked international lawyer writes “there is always a great temptation to international lawyers to try to work legal principle, rather as a potter works clay, in order to produce a desired political result in the guise of s requirement of the law [thus] expecting from the law what it is sometimes not able satisfactory or properly to deliver” (Jennings in Brolmann et al, 1993: 343).

This last point aptly and concisely presents the core of the present argument - legal codification and the elaboration and adoption of legally binding international documents is not a panacea for addressing minority situations. The legally entrenched norms and rights are but a part (besides far the most important one) of a whole system, which covers also political principle, enforcement, and monitoring principles and political practices. In many places putting forward minority rights and minority protection schemes without working at a deeper level for strengthening of the democratic framework and confidence building measures would be in effective or even counterproductive. In order to be successful and efficient a minority protection system should be build in legal terms on what Jennings (Ibid.: 344) describes as “the now respectable notion of ‘soft law.’” This notion erodes the sharp edges, which used to exist between law and proposal and allows for flexibility. Given the nature of minority issues and the character of the international system, the universal international commitments are bound to remain of predominantly political character.

REFERENCES

Modern Iran and the challenges it poses in front of the International security

Gabriela Tabakova

Abstract: The analysis of a country’s policy and the understanding of the reasons for its actions require a deep historical knowledge about its ruling elite and about the events and tendencies caused by it. This fact is very relevant in Iran, whose political course is mainly conducted by the Supreme Leader. The basic principles which set the goals and the means for their achievement are the resentment to USA, the extreme religious beliefs, the western influence’s hostility and the desire for regional domination. Today, Iran poses many threats, driven mostly by the nuclear program’s development. The Western countries are facing a political, economic and military challenge. Iran is important trade and economic partner as well as it is dangerous for its relentless political character.

POLITICAL STRUCTURE

Iran is Islamic democratic republic. Its religion is Shiite islam and its regime – theocratic. The jurisprudence and the political life are based on the religion’s canons. According to its constitution Iran’s Supreme Leader represents the supreme political and religious power, defines the political course, he is commander-in-chief, he controls the intelligence and the country’s secret operations. He is responsible for the home and foreign policy. The political figure of the president takes second place. He observes the constitution’s norms and is head of the executive power. He is being elected by majority. He is responsible for the economic policy, he sees to the execution of laws, passed by the parliament, manages the state budget and he has circles of vice presidents and ministers who are his advisors. The National Security’s Supreme Council is responsible for the so called Islamic awakening, the territorial integrity and national sovereignty. It is appointed by the president with the parliament’s approval. The parliament, as a part of the legislative power ratifies international treaties and agreements and its members are being approved by the Guardians’Council.

The Council, on its way, consists of jurists, half of them selected among the clerical circles and the other half are approved by the parliament. It interprets the constitution and takes care of the Iranian jurisprudence’s accordance with the Islamic canons. It approves presidential and parliamentary nominations. The Advisability Council exercises advisory functions toward the Supreme Leader and is also a mediator in the disputes’ settlement between the other institutions.

The Islamic Revolutionary Guardian Corps is established after the Revolution and is the biggest component of the Iranian military body. Its functions are to sustain the Iranian religious spirit and nature. Many of the current political figures have left the Corps after developing a military career. It maintains its own institutions and apparatus. The Iranian military force is being complemented by voluntary, civilian and paramilitary structures. Again after the Revolution, as a feature of the post-revolutionary Iran the Ministry of Intelligence and Security is established. It is an heir of the Intelligence service at Shah’s time. Its task is to oppress the inner dissident movements. It operates under surveillance of the Supreme Leader. The Ministry accumulates database for enemy governments and institutions, including USA.

HISTORY OF AMERICAN–IRANIAN RELATIONS

Centuries ago Iran has been important from a strategic point of view and a sphere of competition between countries like Great Britain and Russia. The first aims at defending its trade ways towards India and the second – at extending its territories in Northern Iran and at a sea outlet. Iran finds its ally in the person of USA which would help him overcome the negative effects of English and Russian economic invasion. In the 50s the Anglo-Persian oil company grabs 85% of oil revenues leaving to Iran the rest 15%. The Iranian Prime Minister Mohammed Mousaduk decides to nationalize the company because Iranian lands and natural resources have been exploited and the revenues of this activity

1 Gabriela Tabakova, is with the Dept.”International relations, University of National and World Economy, Sofia, Bulgaria

1 http://www.guardian.co.uk/world/2009/jan/28/iran-united-states-relations-explained
flow out. Dissatisfied with the premier’s Great Britain and USA decide to depose him through coup d'état and then enthrone shah Raza Pahlavi. He takes the road of modernization and pro-western policy, maintains Iran’s traditionally friendly relations with USA because he shares their anti-communist view. USA are interested in Iran because of its hard border with USSR and because it is the biggest and richest country in petrol in the bail. During the petrol crisis in the 70s Iran’s population reaches the highest level of poverty, until the king’s family accumulates billions of dollars from the oil revenues. The Shah tolerates the pre-islamic elements in the country and enhances the clergy’s pursuit to occupy with politics. Under Jimmy Carter USA flatly rebuke Iran in infringing upon human rights. In February, 1979, the lowest society’s circles lead the Iranian Revolution. The Shah is dethroned and ayatollahs’ regime comes into power. On the 30th and 31st of March referendum is held for the creation of Islamic Republic and 99.3% of the population votes positively. At this time the Shah is in USA to treat his cancer but Iranians want to him to be judged. In November, 1979, young islamists assault the American Embassy in Tehran and kidnap 52 American hostages. The well-known hostages crisis ends with the Algerian Embassy in Tehran and kidnap 52 American hostages. The agreement’s signing on 19.01.1981. After the Shah being dethroned Abdoulhasan Banishadr becomes the first Iranian president. Shortly afterwards he is also dethroned through impeachment and convicted of adverse actions against the clergy in the power. Mohammed Ali Radja, who replaces Banishadr, dies after successful assault, organized by young islamist. The ideological leader of the Revolution, Ayatollah Homeini, holds the post of the Supreme Leader from 1979 to 1989, when he dies. Ayatollah Ali Hamenei becomes the third Iranian president and rules from 1981 to 1989, when he becomes the second Supreme Leader of Iran. His successor, Hashemi Rafsanjani, doesn’t succeed to manage the necessary intern stability. His plans for privatization and his support for the feminist movements sow discontent among Iranian people. USA accuses the country of supporting the international terrorism and the developing of nuclear weapon, which Rafsanjani denies. Iran, on its hand, criticizes USA in interfering with the Persian Gulf’s war and with the peace negotiations between Israel and Palestine. Mohamed hatami steps into power in 1997 and enjoys big approval. He improves the relations with USA. The then American president, Bill Clinton, takes off the embargo on Iran and tries to bring together both countries. But the Supreme Leader rejects this opportunity and threatens all the actors who maintain close relations with USA. In 2005 the extreme conservator Ahmadinedjad wins the elections and today he is still the Iranian president. After ayatollahs’ coming on power Iran’s aggression towards USA accelerates and in direct proportion to it the threats to international security.

In 2003 the USA-Iran relations are getting more aggravated when it becomes clear that Iran is trying to create nuclear program. Both USA and Iran are parties to the Non-proliferation treaty. USA insists on strong measures against Iran and the issue is put on the agenda of the UN Security Council. USA organizes military interventions in Iran, uses sanctions upon Iranian banks, suspected in financing terrorist organizations, support paramilitary organizations 2 in order to destabilize Iranian power 3. As an example of the policy where the end justifies the means it can be pointed at the selling of American weapons to Iran the profits with which USA finances the anti-communist contras in Nicaragua.

THOUGHTS
Politics are made by people with ideals, convictions and value system which they transfer there and thus provoking crushes of goals and interests – and this weakens the pillars of the international order. According to the political realism people are evil by their nature and transfer their personal interests and qualities in the politics. So countries also persuade their interests with all the possible resources. And although Brian-Kelog Pact forbids the war as a mean for conflict resolution it continues to be possible outcome in certain cases. Although Iranian regime is democratic the convictions of some political figures lead the Iranian state policy. Or, as Pascal de Suter puts it – billions of people in the world depend on few world leaders. 4

When making security politics Taleb’s Black swan must be considered 5 – the unforeseen and unexpected events which can change the historic course. For the West the Black swan can be unexpected actions on behalf of Iran. The scenario we watch nowadays is Iran’s promotion of imperialistic ideas and attempts to unify the Arab world and work it up against Israel and USA. The developments of this situation can be several – the usage of nuclear weapon, the civilians’ suffering, damages in regional scale and radiation waves.

---

3 http://en.wikipedia.org/wiki/Iran%E2%80%93United_States_relations#cite_note-kucinich-83
4 Вж. Сюгер, П. „Лудите, които ни управляват“, 2009г.
5 Вж. Талеб, Н. „Черният лебед“, 2007г.
spreading all over Europe and maybe other continents nearby, irreversible pollution of the environment, possible evoking hostilities with conventional and maybe nuclear weapon. Many politicians are warning of these risks and they do not reject possible military conflict. The other outcome of the current situation is Iran to follow the UN sanctions, to adopt more realistic policy opened to negotiations, collaboration and mutual concessions. The consequences of every conflict should be examined from all sides, the possibility for them to happen must be estimated in order to be identified the reasons for the damage and the measures that would prevent or mitigate it. It is short-sighted explicit directions to be prescribed for coping with the Iranian crisis. The alerts have theoretical and material basis – respectively the religious fundamentalism and the development of nuclear weapon. According to Iranian politicians the usage of nuclear weapon is not compatible with the Muslim values but they consider it their right to obtain it for peaceful purposes.

Many are the possibilities of setting free the Iranian aggression but despite the threats and the determination of Iran there is uncertainty as to what extend it is prepared to implement them. Verbal offensive strategy should be supported by real action, so President Barack Obama expressed doubt that Iran has the capacity to attack U.S. 6

Iran threatens all the regimes that support Israel: "All who recognize Israel will burn in the fire of the anger of Muslim nations." 7 He thus indirectly interferes with the internal politics of these countries and repeats U.S.’s actions during the Cold War, when Americans declared enemy anyone who joins the socialist bloc and adopt its ideology. The reasons for the conflict relations are the nuclear weapons on the side, blocked oil supplies to Europe, religious fundamentalism, the insolvable dispute between Israel and Palestine and inconclusive talks between them and the international community.

It is vital that international organizations are unanimous in taking measures to act against any aggression by Iran or failure of UN sanctions. It is however difficult for Member States to harmonize their positions on issues affecting their sovereign interests. Disagreement is the factor that would spoil the united policy while conducting negotiations and military actions.

There are different strategies and tactics of warfare, preventive diplomacy, using a soft or hard power, balancing on the brink of war, causing the enemy to declare it first. Is Iran’s behavioral strategy predictable enough for democracies to decide which is the right approach towards it? This is the key question they are facing with. Looking back at the history of Iran will follow the trends that have led to its present behavior of the political scene. It is not necessary to make inferences from past actions of the state for its future actions. An important factor in the course of Iranian politics is the distribution of power in regional and global scale. Therefore we will briefly discuss the relationship of Iran with its allies and potential adversaries.

**SOURCES OF THREATS FOR THE INTERNATIONAL SECURITY 8**

The reasons for today’s Iran policy, which emits a number of threats to international security must be sought in history. After the removal of Raza Shah Pahlavi, the mullahs, who have always been in opposition against Iran’s pro-Western policy, came to power. Conservative and extremely religious, they are against foreign interference in domestic politics of Iran, against the Western democratic model which, they argue, has nothing to do with Islam - their "basic law". They pursue policy of anti-Semitism and hostility to Israel, the United States and Zionism. Due to the interests, the ideology and the characteristics of the ruling top in Iran, gradually the sphere of security weakens and poses threats.

**Ayatollah Khomeini.** He participated in the revolution to overthrow the Shah. He establishes the regime in Iran we see today and is responsible for the trends in foreign and domestic policy. He conducts anti-Western foreign policy breaking with the norms of the western liberal democracy reflected in the founding pacts, treaties and statutes of the overnational organizations.

"*Those who know nothing about islam claim he preaches against war.*"

**Ayatollah Ali Khamenei.** He is the current clerical leader of Iran. Under his presidency Iran enlarges its sphere of influence over the shia society. He participates in rebellions against the Iranian opposition, secular dissidents and Kurdish minorities. At this time Iran becomes Hamas’ patron in Palestine and

---

6 [http://www.dnevnik.bg/sviat/2012/02/06/1760321_obama_riskovano_e_da_napadnem_iran_triabva/](http://www.dnevnik.bg/sviat/2012/02/06/1760321_obama_riskovano_e_da_napadnem_iran_triabva/)

7 Вж. Yonah Alexander, Y., Hoenig, M., “*The new Iranian leadership, Ahmadinejad, Terrorism, Nuclear Ambition, and the Middle East*”, 2007

simultaneously sponsors Hizbullah which converts into organized political movement in Lebanon.

“Israel must be wiped out of the world map.”

“The sufferings of Iraqi, Palestinians and even Americans are result of the liberal democracy and this must point a moral to the rest of the world.”

“USA doesn’t have the competence to lead the global movement against terrorism.”

“If they recognize our right of possession nuclear power we are ready to negotiate control, supervision and international security.” “We consider the usage of nuclear weapon against Islamic laws.” “Those countries which threaten us with sanctions must know they will not influence on us and they will not frighten us but they will encourage the Iranian youth to improve its scientific capacity.”

“Our government is in good relations with the European countries. They can be even better in the future when oil will have more important role as an energy resource. They need our oil.” “In order to frighten Iran you (Americans) say you can ensure oil supplies in the region. You are wrong …. If you make the smallest mistake towards Iran the flow of energy in the region will be seriously endangered.”

Khamenei calls for Islamic alliance and taking into account West European and American plots and conspiracies that are trying to control the region. According to the leader the West tries to maintain its influence after the revolutions in Africa and for that purpose it may try to provoke intrastate conflicts - between tribes, ethnic groups, parties and countries in the region. Preservation of the Islamic principles and of the achievements of the revolution must be pursued, the revolutionary path must be followed. The aim is to be created a unified Islamic nation and a new Islamic civilization based on morality, religion and science. Iran must provide the Arab states a successful revolutionary model to protect them from returning to reactionary policy, imperialism and tyranny.

Mahmoud Ahmadinejad. He is the current Iranian leader, former mayor of Tehran and extremely conservative. By that time he conducts the most steady course of policy of all its predecessors. Among his many occupied positions as a mayor, a counsellor in the Ministry of Culture and Higher Education, Governor General of Ardabil province, he has a Ph.D. in engineering and transport planning by Iranian University of Science and Technology. His policy is focused on extending the system of welfare, the redistribution of national wealth to the poorer working class, supporting the Islamic character of the country. He supports the development of the nuclear program, denies Israel's right to exist, advocates for the Shiite minority in the Middle East and particularly in Iraq and Lebanon. He is criticized both within the country and in the international community for non-compliance with international rules, non-observance of the Non-Proliferation treaty and for denying the Holocaust.

“Destroy Israel before it is too late and save yourself from the wrath of the peoples of the region.”

“Cooperation between Iran and Syria will be effective for the region and the Muslim world…”

“God willing, with his support, we will soon see the world without the United States and Zionism.”

“They ask us why we have started nuclear researches. Our answer is that there are no restrictions for this. There are no restrictions neighter in the Non-Proliferation Treaty nor in its Additional Protocol. The people of Iran will not renounce its right to develop nuclear technology for peaceful purposes. Iran is ready to transmit the technique and methods of production of nuclear technology to Islamic countries according to their needs."

The main pillars of the threats Iran poses are four - development of nuclear weapons, energy security, development of terrorism and religious contradictions.

Religion which divides

The renowned Professor of History of the Middle East, Vladimir Chukov, speaks about the history of Islamic fundamentalism. It’s most important feature is anti-Americanism. He highlights the following reasons for its appearance: Washington’s support for Israel, the military interventions and sanctions against the Middle East regimes, while supporting undemocratic Muslim regimes with established U.S. bases and the politics at Washington's own Muslim citizens after 11.09. alleged in supporting terrorism. Anti-Americanism obtains its complete version with the development of Jihadist philosophy bringing the idea of educated Muslim leaders against "Western influence and its heartlessness". Education is an essential part of fundamentalism as its main themes are religion and patriotism. 9 Islamic Jihad as a network of radical Islamist movements emerged in Iran after the Revolution, when it began to export radical revolutionary ideas. Coordinating Center for the extremist groups is the Islamic Revolutionary Council. Religious fundamentalism in Iran obtains different

9 Вж. Чуков, В. „Ислямският фундаментализъм”, гл. 2, стр. 133
characters because of the religious uniqueness Iran wants to possess in order to preserve its national identity. Chukov indicates that the expansion of the Islamic revolution is defined in the Constitution of 1979 which states that "its task is not only security and protection of the borders, but the burden of religious mission - Jihad in the name of God and the fight to spread God's law in the world." 10 Adopting shiite Iran is in constant war with the Sunnis. Shiite clergy plays an important role in the political life of Iran. There is a belief that the "hidden imam" is the only legitimate leader of society and his character is projected on the Iran’s ruler. In foreign policy Shiite fundamentalism indicates his greatest enemy, namely Israel and the USA (Zionism). On religious grounds are Iran’s relations with Kurdish minorities and the countries in which they reside, the tribe Baluchis (living on the borders with Afghanistan and Pakistan). So Iran combines democracy and Islam, which in order to unite all Shiites in the Islamic world becomes a catalyst of political tension.

CONTRIBUTIONS TO TERRORISM 11

"The systematic, carefully organized terrorism that we see in the Middle East, is a new type of warfare. Terrorism ... is part of a strategy with well-defined political and military objectives."

For U.S. terrorism raises the most serious challenges to their policies when it affects regions in their area of interests. Iran definitely belongs to them after ayatollahs came to power. For them terrorist activities are a way to combat U.S. influence in the region. Iran is bitter to the U.S., its allies and Zionism who share common western liberal principles. This is an adequate response to the entry of undesirable pro-Western tendencies in country’s public life. In Iran different nationalist movements set up and want to preserve its appearance and independence from the initial raids on Britain and Russia in the past and from American expansionist ideals today. Isn’t it this reaction justified, as in the medieval Europe wages wars against Islamic wave from the east and doesn’t allow it to settle on its land? Iran is a sovereign country with its own rules and laws that do not belong to European civilization and therefore has its right to defend its cultural and political independence, just as no country wants someone else to impose her its
cultural and political frameworks. Therefore, arguing that it violates human rights, we must clarify that we operate with the Western empirical interpretation of the term "human rights".

Terrorism is a channel which Iran uses to become a regional leader and to fight against Western influence there. It founds, directs and maintains internal and external terrorist groups, cooperates with Al Qaeda and other jihadist fractions and hinders the Israeli-Arab peace process. In particular, Iran provides financial, organizational and operational assistance to Hezbollah and Hamas.

Hezbollah emerges in response to the Israeli invasion of Lebanon during the Lebanese civil war in 1982. Shi’a’s community comes to unification. Iran sends troops from the Islamic Revolutionary Guards Corps to help and participate in creating an organization to represent Shiite interests. Iran hopes to expand its influence among the Shiite population and to be recognized as an unofficial spokesman of the international Shiite community. Sunni communities which are on good terms with US react immediately. Iran makes attempts to overthrow the government in Bahrain, and in Kuwait Shiite organizations throw bombs at Western countries’ embassies. The greatest danger is nuclear weapons falling into the hands of terrorist organizations with extreme xenophobic sentiments.

Nuclear Weapons 12

Iran's nuclear program began in the 50s, supported by the U.S. and the West as part of the Atoms for Peace. After the revolution Iran secretly continues its development. The concern that he is trying to acquire nuclear weapons is increasing. International Atomic Energy Agency (IAEA) can not confirm the veracity of the of Iranian peaceful objectives allegations. There are concerns about a parallel military nuclear program for obtaining nuclear weapon under the direction of Iran's Revolutionary Guards. Iran doesn’t announces its nuclear program until 2003 when it breaches its obligations under the Treaty on the Non-Proliferation, of which is a Member State. Shortly thereafter, Iran acknowledged that this is for social and industrial purposes and that it failed to inform the IAEA. Iran began its secret uranium enrichment in 1985 during the war with Iraq.

The latest IAEA report says that Iran neither stopped developing reactors and other facilities with hard water, nor has ceased procedures for uranium enrichment. Iran

10 Вж. Чуков, В. „Исламский фундаментализм”, гл. 4, стр. 402, Конституция на Исламска република Иран, Прембюл
11 Вж. Alexander Y., Hoenig, M. “The new Iranian leadership”, Chapter 4, p. 48
does not allow scientists and experts from the West near the reactor for enrichment. He informed the Agency about initiating projects on research and development of uranium enrichment, initially to 5%, then to 20%. Resolution 1929 of 2010 recalls the obligations of Iran to cooperate with the Agency, particularly on the possible military application of nuclear weapons and to provide the experts access to equipment, documents, work areas and personnel. IAEA report says it is based on reliable sources - some Member States, the efforts of the agency and information submitted directly from Iran.

The report says Iran is trying to gain a nuclear equipment for different reasons and materials of military parties and communities, to develop methods for undeclared production of nuclear material, gains information and documents to develop nuclear weapons from secret, clandestine supply networks and carries out experiments with nuclear components available. There are also indications of development nuclear explosive device, computer simulations to develop a bomb detonator. Experts suppose the assumptions and hypotheses that should be taken into account In order to be ready for every possible turn of events and prepare a strategy for action. The Agency has serious concerns regarding possible military dimensions to Iran's nuclear programme. 13

"The good bad West"

The West takes a commanding model of action which in the near future can play a practical joke and turns out to be counterproductive. 14

First. Iran belongs to a world with different culture, worldview, lifestyle. For Western Europe and the United States it is poorly understood area of manners and mores for them. We supported by quotations the idea that Iran doesn’t want western democratic values to be spread on its soil.

Second. Western countries must accept that they can not be eternal messiah and can not export democratic, economic, market, liberal values. We might otherwise begin to outline the trend of "Democrat", "liberal," "ideological" colonization.

Third. A cautious approach to Iran and unanimity among the EU member states, NATO and the UN are needed. Otherwise they would be vulnerable, and Iran will take advantage of this. The more Western democracies teach Iran dictate his behavior patterns, the more the Islamic Republic will respond with animosity and relations will be strained.

Fourth. If Western countries put themselves in Iran’s position they will understand how they would react. They never allowed Islam to sweep over their lands. So Iran threatens to prevent Western democratic liberal values from erasing Islamic identity of such a regional power as it is.

ENERGY SECURITY

According to data from 2010 Iran has 138 billion barrels of oil reserves, he is fourth among the oil exporters in the world and second with the largest reserves after Russia. Compared to the OPEC Iran exports more than its quota. Iran, however, is dependent on imported oil, which could be used by his opponents as a weak point. The oil industry has 85% share of the revenues of Iran. Partners in export are France, Holland, Turkey, China, Japan and Italy. Some, like France and the Netherlands support the policy of sanctions against Iran, but others such as China, oppose such moves. Russia is the main rival of Iran in this field because she wants to be first exporter of gas for Europe. In Iran, however, domestic demand grows more than in other countries in the region, therefore the amount of oil intended for export decreases. The country also has one of the lowest productivity levels of electricity, produced mainly by technology, powered by gas. In winter, however, it is used oil, because gas is needed for heating and the amount of its exports decreased. This puts Iran in an energy dependence. 15

On the 23th of January 2012, EU countries unanimously adopted a decision prohibiting the import of Iranian oil, although they recognize the negative consequences for the crisis in Europe and the countries dependent on Iranian oil, such as Greece, Italy, Spain. It is believed that Iran uses oil to produce nuclear weapons, so EU sanctions are issued in order to coerce the Iranian authorities to halt illicit nuclear program and to comply with UN resolutions. But Iran says that sanctions will have no deterrent effect on his right to possess nuclear material and even threatened to be the first to terminate its oil supplies to the continent. Israel supports the embargo on Iranian oil. European Parliament rejects military solution of the conflict and Barack Obama has declared a diplomatic solution to the dispute, given the enormous risks of military conflict. The latest sanctions against Iran are double-edged sword, because Iran will continue to export oil.


but several European countries will be affected and there will be no guarantees that the desired effect of stopping the nuclear program will be achieved.

**Why and for whom is Iran a threat?**

"The most alarming dangers posed by Iran, are related to security, welfare and rights of ordinary people in the Middle East, system’s stability in the region, the movement towards democracy and the survival of civilization." 16

From the above facts we can deduce the reasons for the present crisis in relations between Iran and the West, most important of which is uranium enrichment, which Iran claims it makes for peaceful purposes, while the West suspects of developing nuclear weapons. Iran poses a threat primarily to U.S. security and their respective allies who share a common value system. Joining in supranational organizations (NATO, UN) Member states created a system of international rules and regulations, adopted their own laws and principles - civil rights and freedoms, market economy, independent media, liberal values. They shared ideas on regional and global level. At the regional level, this is the future enlargement of the European Union successful fulfillment of NATO missions in areas of commitment, proper functioning of UN’s body, smoothing the contradictions between the Member States, effective results form UN sanctions. At the global level objectives are an application of UN, NATO, EU and other supranational structures’ values and practices - to preserve peace, resolve disputes by peaceful means, common defense, security protection, crisis management, environmental protection, non-proliferation of nuclear weapons, drug trafficking and crime, tackle the global crisis, etc. 17 The regime in Iran is a democracy with free elections held. Among the differences between "two types of democracy" are the following - in Iran, there are unique structures, which were described previously, with the greatest impact and importance of which is the Revolutionary Guards Corps. Although there is difference between the authorities, relations between them are in different hierarchical subordination of what we know in Western countries. Iran aims to be regional leader and center of the Shiite community. He has his allies, but his neighbors are not reluctant to allow him to become a regional leader, and to intrude in their internal politics. Each party to the conflict tries to spread and impose its own ideology - democratic and theocratic.

The fact that we talk about threats to international security means that on the line of interaction between these countries contradictions and conflicts of interests occur. The dangers come when Iran's policy objectives are to the detriment of another actor’s interests, where scopes of both overlap. USA were the first to enter the radius of Iranian sovereignty. Iran considers its right to develop nuclear weapons with social objectives, which runs counter to accepted Western norms of nuclear non-proliferation. In Western countries opinion Iran violates basic human rights. There are contradictions of principles, of cultural and moral character - Iran is not part of Western supranational organizations and their treaties, so it is not obliged to live according to their dogmas. West, however, impose its principles as universal and fight against violence and injustice. Here we can ask where was he when in Rwanda Hutu and Tutsi were killing each other? The principles of democracy are transparent and behind them can be seen eastern national interests. Islamic fundamentalism is also a direction in which Iran is seen as a threat because of the many illegal immigrants, religious extremists and terrorist attacks, organized in London and Madrid in recent years.

**The balance of power: potential allies and opponents**

Kissinger asks "How can we achieve stability in the Persian Gulf against its two most powerful forces (Iran and Iraq) with no permanent military bases and the support of wavering allies?" 18

**Turkey**

In the 19th and 20th centuries, relations between Iran and Turkey have been strained by the emergence of pan-turkism whose ideologists use ethno-linguistic diversity in Iran in order to undermine its territorial integrity. Turkic and Arab invasions change the ethnic and linguistic character of Iran and its national identity erodes. Turkey fears of ethnic disintegration in Iran, formation of a Kurdish state and rise of Kurdish minorities, given their serious percentage of the population in Turkey. Iran has pragmatic relations with Turkey - its strategic trade and economic partner. Until the revolution in Iran, both countries share common secular views. Some groups in Turkey, however, consider Iran ideological threat. In the 80s, under the Turkish Prime Minister Tyurgyut Ozal relations remain peaceful because neither Turkey considers Iran an ideological threat, nor Iran considers it a target for export of Islamic revolution.

16 Вж. Мейер, М. „Петролът в Близкия Изток“, 2010г.


The bone of contention in the relationship between both is the reversal of the Turkish-Syrian dialogue where Turkey opposes the regime of Assad and warns Iran not to patronize it. The motive of Iran is that Turkey appeals to ideological "revolution" in the Arab world, which is the instrument of carrying out pro-American policy aimed at interference in the internal affairs of Arab Gulf states, especially Iran. After the fall of communism, Turkey sees the door open to the possibility of becoming a leading country in the post-Soviet Muslim countries and to realize the pan-Turkic ideal. Another factor in the discord between Turkey and Iran is Azerbaijan, where Shiite predominate. Turkey supports anti-Iranian sentiments, undermining Iran's attempts to mediate between Azerbaijan and Armenia on the issue of Nagorno-Karabakh and supporting separatist elements in the Iranian province of Azerbaijan. Factor of disagreement are the gas mains. Turkey aims to be a major export center, however, but Iran has big export terminals in the Gulf. The problem is geopolitical - if Iran becomes a main export, energy security will depends on the mood in the unstable Persian Gulf, but also the influence and role of Iran will rise at a time when the West is trying to "curb" its policy. The most important reason, however, problematic for the Turkish-Iranian relations is Israel. Turkey first recognizes its existence and considers it strategically beneficial to be on good terms with its new state. The reason is the powerful Israeli lobby in the U.S., which works for Turkish interests. Thus, Turkey becomes the preferred partner of U.S., and through NATO, it intervenes in Afghanistan, Syria and Pakistan, while Iran remains aloof.

Occasions for cooperation between the two countries are the containment of the Kurdish communities, mutual interests in economic cooperation and relations with Israel. Relations between both depend on who has the power. Iran's nuclear program and the risk of military confrontation between the West and impede Iranian-Turkish relations. Turkey is uncertain about the extent of its pro-Western policies and its pressure on Iran. Breaking out of armed conflict in the region is not in its interests. In 2009 Erdogan rightly reproved U.S. that Israel's nuclear weapons are never taken into account, unlike that of Iran. Recently, Turkish Foreign Minister Ahmet Davutoglu said that Turkey will not participate in foreign intervention in Iran. Turkey considers Israel a threat to the region and seeks Iran's help to deal with Kurdish rebels in the country.

Iran criticizes Turkey for its decision to deploy antimissile radar on its territory as part of a NATO missile defense program by concluding a treaty with the U.S. It causes anxiety in Iran. Iranian media warns Turkey to care for the consequences of its decision. Accusations come from the head of the Committee of Foreign Policy and National Security, namely that Turkey serves the interests of its Western allies by its policy in Syria and its efforts to strengthen the Sunnis in Iraq and prevent the growing influence of Iran. Turkey is placed in a position to choose between the West (EU accession) and its relations with the Middle East.

**Israel and Palestine**

The main outstanding issues between Israel and Iran are Iran’s support of Hezbollah and its nuclear weapons. Israel intends to deter Iran's nuclear program through pre-emptive strike and so it extends the scope of its nuclear weapons. Accordingly, Iran held the position of defender of Palestine, which should not fall into the hands of Zionists. Fearing that Iran goes too far with the development of nuclear weapons, Israel insists on more extreme sanctions. In October, 2011 Ayatollah Ali Khamenei again spoke in support of Palestine’s territorial integrity and said all Palestinian territory from the Mediterranean to the Dead Sea must be free. He continued with the threats against Israel and made accusations against countries, including Egypt and Jordan supporting the United States. Iran declares itself major supporter of the Palestinian liberation, saying the early warning of attacks from countries like Iran will be ineffective. In December, 2010 Israel forced the U.S. and its allies to put military threat against Iran, but also hinted that it would take unilateral measures to prevent Iran from obtaining nuclear weapons.

**Iraq**

Iranian-Iraqi war has cooled relations between Iran and the Arab world because of Arab countries’ support to Iraq. According to Kissinger, Iran and Iraq are the...
two largest countries in the region and balancing them will be difficult task because they have large military potential, ethnic strifes and ambition for power. First, disadvantages to Iran bring the close relationships between Iraq and the U.S. Iranian security is questionable and while the U.S. maintain their fleet in the Persian Gulf and Iraq. Today point of conflict is the Shiite population in Iraq, divided into pro and anti-Iranian groups and the fueled Sunni hostility towards Iran. The future of the Iranian-Iraqi relations depends on the orientation of the countries’ governments. In recent years, Ahmadinejad and Iraqi Prime Minister Nuri al-Maliki have exchange visits, during which Iraq reassured there will be no strategic alliance with the U.S. or possible use by Americans of Iraqi territory as a base for attacking Iran. Unresolved issues remain demarcated boundaries, reparations to Iraq, Shatt al-Arab - the river that for centuries has been the occasion for disputes between the parties and their unsettled borders, passing on it.

However, trade between Iran and Iraq is growing every year. In 2011, Iraq, Iran and Syria signed a contract to the value of $ 10 billion for building a pipeline.

Iran and the Arab world

On the nature of these relations influence have ethnic minorities, different economic interests, but mainly ideological, religious principles and power and the desire for regional influence. Between Sunni Saudi Arabia and Shiite Iran there are disputes over ethnic Sunni minorities (Baluchis tribe) in Pakistan and Afghanistan and over Saudi Arabia’s desire to remain faithful U.S. ally. President Ahmadinejad is seeking to strengthen relations with his neighbors, offering a security system in the Persian Gulf and the Economic Development Council. Iranian president visits Saudi Arabia in 2007. He has a twofold purpose - to remove the fears of Gulf countries of Iran's nuclear program, to persuade them not to cooperate with the U.S. in case of conflict and to clarify Iran's intentions in Iraq. Regarding nuclear weapons, Saudi Arabia takes very hard position. “If Iran develops a nuclear weapon, that will be unacceptable to us and we will have to follow suit.” - Turki al Faisal’s words clearly show the response of Saudi Arabia to possible changes in the status quo in the Middle East. Moreover Turki called for a nuclear-free zone which includes Iran and Israel. According to Saudi Arabia, which is the main enemy of Iran in the region, sanctions will not subdue the Islamic Republic and more extreme measures will be required. Saudi Arabia recognizes that security largely depends on good relations with the increasingly powerful Iran. Both are competing for leadership in the Islamic world. Worst fears of Saudi Arabia are the spread of Iran's control and influence across the Persian Gulf and the development of nuclear weapons. Iran in its turn claim itself against monarchical regimes in Islam. Energy sources are also a reason for the gap in relations between the countries - while Saudi Arabia (with fewer people and more oil reserves) may look long-term global oil market and strive for an average price level, Iran (with more population and less stocks) seeks short-term higher prices.

Iran signed a security agreement with Qatar in 2010 including terrorism, drugs, money laundering. In the 80s, Iran attacked Kuwait because of his support for Iraq during the Iranian-Iraqi war and in Bahrain was trying to overthrow the Sunni government and grumbles at the presence of U.S. Navy there. Today, Iran's relations with both sides largely rely on economic relations. Relations with Tunisia and Algeria are calm. The visits between the presidents of Iran and Algeria led to the signing of agreements in economic, legal, financial sector and air transport. Algeria and Tunisia supported Iran's right of peaceful nuclear program. Egypt does not approve of the fact that Iran is too much lobbying among Arab countries in favor of Palestine, which aspires it to become a regional leader. However, it opposes a military method of solving the problem of Iranian nuclear weapons. Egypt made it clear that it would not neglect its relations with the Gulf because of those with Iran and seeks to balance good relations with both Arab countries and Western Europe. Close are the relations with Iran, Lebanon and Syria. Both countries support Iran's nuclear program for peaceful purposes. They are unanimous in their non recognition of Israel and on the right of Palestinians to return home. Iran supports and finances the terrorist groups Hezbollah and Palestinian Hamas in their anti-Israeli policies. In April, 2011 Lebanon criticizes Iran's apparent interference in the internal affairs of Bahrain and Kuwait. Syria supports Iran in its war against Iraq, helps the arms smuggling to Hezbollah and signs an agreement for military cooperation against the common enemies - Israel and the U.S. Both sides share

27 http://www.irantracker.org/foreign-relations/iraq-iran-foreign-relations
28 http://www.guardian.co.uk/world/2011/jun/29/saudi-build-nuclear-weapons-iran
29 http://english.alarabiya.net/articles/2011/07/04/155952.html
30 http://www.irantracker.org/foreign-relations/lebanon-iran-foreign-relations#_edn32
Iran. military forces to prevent the growing threat from Cooperation (GCC) approves further consolidation of its influence among them by peaceful means. Iran needs a more pragmatic strategy. The Council for Gulf Nations Security Council (UNSC), it refuses to cooperate with experts from the IAEA and is suspected of cooperation with Iran. As to the uprisings in Syria, Iran says that despite the friendship between the parties it criticizes the methods of coping with them. Assad must respect the demands of his people, and opposition and government must try to resolve problems causing unrest in the country.

Arab countries see Iran as a threat to their sovereignty while it delivers revolutionary ideas and tries to extend its influence among them by peaceful means. Iran needs a more pragmatic strategy. The Council for Gulf Cooperation (GCC) approves further consolidation of its military forces to prevent the growing threat from Iran. On the 21st meeting of EU and GCC countries urge Iran to suspend its political course, to observe the sanctions of the UNSC and to cooperate with the IAEA’s experts.

Russia

Russian-Iranian cooperation is based on interests in certain areas than on the general worldview. After the collapse of the USSR Iran loses a staunch ally against the United States, therefore, it tries to keep the Russian-Iranian relations. They develop in the light of competition, cooperation and conflict of interests. Both parties endeavor to maintain the territorial status quo in the region because of their minorities, to limit American influence and Turkish ambitions. Russia has the ambition to become the most important gas supplier to Europe with most pipelines passing through its territory, but Iran has huge oil reserves that it needs to sell in order to provide income. On the other hand Russian energy companies Lukoil and Gazprom participate in the development of oil projects in Iran. Both countries have excellent trade relations (guns, tanks, military equipment, vehicles), but each is fighting for regional influence. So on the one hand Russia is cautious in its relations with its southern neighbor, while retaining the ability to play its trump card in any conflict with the West - making it dependent on its ability to force Iran to abandon uranium enrichment and leaving Iran dependent on her help in the design of reactors.

In 2007 Russia promises to sell to Iran system of protection on air as an expression of enhanced cooperation in defense between the two countries. Today, they trade with weapons, and Russia supports Iran’s right to nuclear program for peaceful purposes. Under U.S. pressure, however, due to financial difficulties, it slows down the building of the nuclear power plant in Bashahr which builds as a partner of Iran. The plant is considered the first civilian nuclear power plant. Russia is playing a double game - being economically dependent on the West, she agrees with Obama’s ideas to reduce nuclear weapons while cooperating with Iran and does not support any sanctions imposed by the UNSC. In 2009. Iran and Russia sign agreement on trade with natural gas, agreeing an year earlier to exploit some of the Iranian oil fields. The greatest diplomatic achievements of Iran in the region is its accession to the Shanghai Cooperation Organization in 2006.

Iranian National Security Strategy

National Security Strategy defines the priorities of Iran – its security, the threats it perceives, the achievement of the objectives and risk controlling. It is based on six main points:
- Acceptance and recognition of the Islamic Revolution and the Islamic regime
- Guarantees of territorial integrity and security
- Getting the Iranian natural resources and turning them into economic benefits
- Regional hegemony in terms of influence and veto power on events and incidents in the immediate surroundings of Iran and in the heart of the Middle East (Syria, Lebanon, Israel, Palestine)
- Recognition of the leading international status of the state
- Leader in the Islamic camp

Iranian policy is expansionary, and the means by which it is pursued directly threaten regional and international security. And precisely therein consists the paradox and the mismatch of means and goals. If Iran wants to progress in technology and economics it should

32 http://news.antiwar.com/2012/03/08/iran-arab-countries-sending-mercenaries-to-syria/
34 http://www.gcc-sg.org/eng/index5ec6.html?action=Sec-Show&ID=322
35 http://www.mideastmonitor.org/issues/0907/0907_5.htm
36 http://www.irantracker.org/foreign-relations/russia-iran-foreign-relations#_ftn10
37 http://reut-institute.org/Publication.aspx?PublicationId=1769
make this with civilized approach, rather than becoming a nuclear dictator. If it wishes to be integrated in the international community and to earn its status as a regional power - the way is through cooperation. Iran rejects the norms of international order, which now rests on the western liberal democratic and market values. Here are the means which the Islamic republic uses:

- Resistance network - the first source of risks to security. Initiated and supported militarily and politically by Iran, this network consists of countries and organizations which commit terrorist acts against Israeli, American and Western interests, and undermine the regimes in the region, imposing Islamism and Iranian interests.
- Shi'ite crescent - religion as a threat. Iran builds Shiite political alliance in neighboring countries, mainly in Lebanon and Iraq.
- Global Islamic network led by Iran.
- The nuclear program is the fundamental pillar of the national security of Iran. Nuclear capability would serve Iran's aspirations to provide security, economic, regional and cultural leadership.
- Iran cooperates in economic, political and military aspect with countries like Russia, China and India to try to sabotage the U.S. sanctions in the UN.

NATO 38/39

Iranian Intelligence Center is concerned about NATO's new strategy and its implications on the security of the Islamic Republic. Six aspects of the strategy and their impact on Iran are highlighted.

1. Measures related with the wide range of missiles and nuclear weapons. The deployment of missile shield in Turkey near the Iranian border is considered a threat to security. Tehran faces the challenge coming from cooperation between NATO, the Gulf states and Russia and the monitoring of its nuclear program.

2. Embarrassing is NATO’s presence in Afghanistan and Iraq, where its influence is growing, tightening the circle around Iran's borders. Iran must take diplomatic steps to strengthen its cooperation with Afghanistan and Iraq.

3. NATO increases its influence in the pro-Western Arab countries and Iran’s neighbor countries where measures must be taken also.

4. U.S. passed its energy strategy and its interests in the extraction of fuels through the deployment of NATO forces in the Gulf and Middle East.

5. The cooperation between NATO and the Gulf in technology, intelligence and military training increases.

6. Cyber activity of NATO increases. Iran must also take measures of protection against cyber attacks.

EU

Although Iran is the sixth largest importer of oil to the EU and trade between them is amounted to billions of euros, the EU countries prohibit the imports of Iranian oil. 40 Iran responds by stopping sales of British and French companies. The main points of contention in the diplomatic relations between the EU and Iran are the nuclear program and Iran's violations of human rights. The sanctions, which the UNSC uses, force Iran to develop its nuclear program. Blockade of oil exports to Europe increases fuel costs and affects the economic crisis. 41 This clearly confirms some of the assumptions above - we can not be sure neither of Iran’s intentions, nor in its potential to fulfill them. It’s obvious that pressing Iranian leaders does not bear the desired results and that the different positions of the European countries on key issues can make them look like unsure of their strategy actors. We pointed out the danger of the "security dilemma", when we could observe an armament race with offensive and defensive weapon (in which would include Saudi Arabia, Israel, Russia).

Threats to the Bulgarian National Security

Referring again to the great authority on the sphere Vladimir Chukov, we must point out that the greatest danger for Bulgaria is immigration. With rising living standards in our country because of our membership in the EU, Bulgaria will feel the current problems in France, Germany and other countries where Muslims immigrate from the Middle East. He points at the demographic collapse in our country and the illegal immigration issues as essential to the security of Bulgaria. According to Chukov "future potential immigrants will be the generator of ideas of Islamic fundamentalism. They will pose a serious threat to the Bulgarian national security only when their number grows to such an extent that in electoral terms can affect the Bulgarian political decision. " 42

http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/iran/
http://www.dnevnik.bg/sviat/2012/01/29/1755220-
iran_moje_da_naloji_do_15_godini_petrolno_embargo_na/
Вж. Чухов, В. „Исламизация и лаичности”, стр. 412

40 http://www.dnevnik.bg/sviat/2012/01/29/1755220-
iran_moje_da_naloji_do_15_godini_petrolno_embargo_na/
41 Вж. Чухов, В. „Исламизация и лаичности”, стр. 412