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Aims and Scope

Economics, Entrepreneurship and Management Research (EEMR) is a scientific journal in the field of economics, entrepreneurship, and management. EEMR strives to follow the latest trends, analyzes, and research in these areas. EEMR will also support research in the field of economics, microeconomics, and macroeconomics, labor economics, finance, entrepreneurship theories, entrepreneurial behavior, entrepreneurial strategy, entrepreneurial ventures, family business, social entrepreneurship, international entrepreneurship, strategic management, operations management, financial management, human resources management, marketing, business communications, leadership, organizational culture, organizational behavior, and other related topics. EEMR will accept theoretical and systematic review papers, but, largely, original research papers.

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Original scientific article

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SMEs and Transition to Circular Economy

Abstract

The circular economy[3] is not an end in itself; it is a tool that contributes to overarching goals such as climate neutrality and resource preservation. The paper analyses the nexus between small and medium-sized enterprises [4] and circular economy. The subject of research can be presented in the form question what is the role of SMEs in the implementation of CE? The aim of this paper is to contribute to the development of the circular economy by SMEs, including innovation as a link between SMEs and the circular economy (CE). The paper explains how the link between SMEs and the circular economy (CE) has been established. The concept of CE is actually an economic model for systems of production and consumption in a closed cycle and an important tool in achieving climate neutrality. It can be concluded that SMEs, given that they constitute a significant part of the economy, are considered major employers, and possess the ability to quickly adapt to market changes, represent an important factor in the implementation of the circular economy (CE). In the implementation of innovative solutions, SMEs face

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[3] In the following text, we will use the acronym CE for the circular economy, as it is commonly used in the literature
[4] *Small and medium sized enterprises- SMEs.*

challenges such as required investments, the need for qualified personnel, and the time necessary for implementation. It is important to identify the factors that influence the ability and willingness of SMEs to integrate circular economy (CE) principles into their operations.

Keywords: *Circular economy, Small and medium enterprises.*

1. Introduction

The circular economy makes a significant contribution to achieving sustainable development goals, which highlights the inevitability of the transition from a linear to a circular economy. Given that the main goal of the European Green Deal is for Europe to become a climate-neutral continent, it is crucial to accelerate the transition to a circular economy in order to achieve climate neutrality by 2050.

The extension of the principles of the European Green Deal to the region in the form of the Green Agenda for the Western Balkans represents an adaptation to the priorities of the European Green Deal for the economies of the Western Balkans. One of the five pillars of the Green Agenda for the Western Balkans is the circular economy. By signing the Sofia Declaration on the Green Agenda for the Western Balkans on November 10, 2020, the Republic of Serbia, along with other economies, committed to adopting and implementing the concept of the Circular Economy.

By involving small and medium-sized enterprises (SMEs) a resilient, climate-neutral, resource-efficient and fair economy, as envisioned by the European Green Deal, can be achieved. In a changing world, in the era of globalization, the importance of micro, small and medium-sized enterprises and their contribution to the implementation of the circular economy is crystal clear. In other words, the application of circular economy practices at the level of SMEs is a significant step toward achieving sustainable development goals.

2. Literature review

A review of the relevant literature reveals numerous definitions of the concept of circular economy, as well as the connection between circular economy and SMEs. A large number of diverse studies in the fields of CE and SMEs highlight the importance of this topic. CE is at the center of attention of the academic community, policymakers and the business sector.

It has been established in the literature that the circular economy model is an inevitability and that the transition towards a circular economy cannot be achieved in a single step it is not a state but rather a process. Therefore, it is entirely understandable that, based on the available literature, the circular economy does not have a universally accepted definition.

A review of the literature has shown that the circular economy is crucial in the fight to achieve climate neutrality, that it represents a model where economic growth is decoupled from resource consumption and that (SMEs) play a key role in the economic development of countries, which highlights the importance of SMEs in the implementation of the circular economy.

Indeed, in a changing world, in the era of globalization, the importance of micro, small, and medium-sized enterprises and the circular economy is crystal clear. SMEs, which make up 90% of businesses, account for more than 70% of employment and 50% of GDP worldwide, remain the core of the economy for most societies. (UN, 2024). Moreover, the application of circular economy (CE) practices at the level of small and medium-sized enterprises (SMEs) is considered a faster path to achieving sustainable development goals, highlighting its potential for environmental and economic benefits (Massari & Giannoccaro, 2023).

In line with the fact and based on the reviewed literature, that the topics of circular economy and SMEs are interconnected. Special attention should also be given to the role of small and medium-sized enterprises (SMEs). They are drivers of the transition, crucial in many supply chains, and often significantly affected by changes in policies and the regulatory framework. Given their smaller size and resources, SMEs may require additional support to adapt their production processes to implement the Green Deal framework" (European Commission, 2024, p. 50-54).

"Small and Medium Enterprises (SMEs) play an essential role in the provision of employment, contribute to the growth of GDP, economic growth and development of many countries." (Pulka & Gawuna, 2022, p.1)

The circular economy is closely linked to innovation, as "Moreover, innovations of various types are a key driving force behind the concept of the circular economy" (Marković, Krstić & Radenović, 2020, p.6), while on the other hand, the innovative capacities of SMEs are recognized, as "SMEs are important for developing innovative solutions" (European Commission, 2024, p. 54).

Studies have shown that CE orientation in SMEs involves integrating circular economy principles into their operations, products, and services (Schmidt et al., 2021, 4171-4187), which further clarifies the connection between CE and SMEs.

3. Research method

The research method applied in this paper is a systematic analysis and synthesis of views from the selected literature on the topic of defining Circular economy and SMEs, the role of small and medium-sized enterprises in the development of the circular economy. Numerous topics were reviewed, data was analyzed, and data extraction and integration were performed in order to process the topic SMEs and transition to circular economy.

4. Hypotheses

Based on the analysis of the concept of CE and the concept of SMEs, the following hypotheses were set:

H1: There is a positive relationship between the Circular Economy and SMEs

H2: SMEs are essential in the shift towards CE

5. Analysis and proof of hypotheses

In the analysis of the first hypothesis H1: Between the Circular Economy and SMEs, there is a positive relationship, it is assumed that small and medium enterprises (SMEs) play a key role in the economic development of many countries, and that the circular economy is becoming crucial, due to its significant impact on resource efficiency and sustainability: "SMEs are often part of supply chains" (European Commission, p. 92), because SMEs often serve as suppliers, manufacturers, distributors, or service providers, supporting larger companies and industries, but it is important to stand out that "SMEs have significant innovative capabilities" (European Commission, p. 93) and according innovation capacity play a crucial role in the circular economy. In addition, Small and Medium Enterprises (SMEs) contribute significantly to the European GDP and play a pivotal role in the ecological transition from a linear to a circular economy (Gennari, 2022, p. 1423).

Circular economy, as an important and interesting line of research aimed at achieving climate neutrality, is becoming increasingly significant, and the contribution of SMEs is becoming more influential precisely because they are "flexible and can quickly adapt to market changes, generate employment, impact increasingly diverse economic activity, contribute to exports and trade, and are a fundamental factor in the development of a competitive economy" (RZS, 2023, p. 19).

The implementation of Circular Economy (CE) practices at the Small and Medium Enterprise (SME) level is indeed recognized, as a crucial step toward achieving sustainable development targets. "At the beginning of the 21st century, human societies face a world with limited natural resources, a growing population, and expanding production systems that heavily consume materials and energy while generating significant waste and pollution (Dell' Angelo, Rulli & D' Odorico, 2018, p. 276).

SMEs, as a key part of the economy, can significantly contribute to the transition to a circular model, and the EU's commitment to introducing CE as a solution to serious resource-related issues further confirms the positive connection between the circular economy and SMEs. In other words, it can be concluded that SMEs are the key link of the circular economy. CE has garnered significant attention and recognition for its potential to address pressing global challenges related to sustainability, resource efficiency, and economic growth (Ahmadov, Durst & Gerstlberger, 2023, p.3).

In the analysis of materials to prove our second hypothesis H2: SMEs are essential in the shift towards CE, it is necessary to consider the following: "According to numerous authors, in order to establish the transition to CE, it is necessary to achieve the transition to CE at all three levels (micro, meso, and macro levels), which implies involvement at all levels, including the state, cities, and individual enterprises. These three levels can be interpreted as the three levels of the circular economy system: micro, meso, and macro systems of the circular economy" (Kirchherr, Reike & Hekkert, 2017, p. 224).

Successful implementation of circular economy in a given region or country significantly depends on the implementation of this process by Small and Medium-Sized Enterprises (SMEs).

Consistently, industrial policy became increasingly linked with innovation and entrepreneurship policies (Benner, 2019, p. 2).

It is known that the circular economy is associated with innovative solutions, as SMEs are important for developing innovative solutions (European Commission, 2024, p. 54), this leads to the view that only the full mobilization of SMEs can achieve the resilient, climate neutral, resource efficient and fair economy that the European Green Deal seeks to realize. As the most important goal of the European Green Plan is for Europe to be a climate-neutral continent, it is crucial to speed up the transition to a circular economy, in order to achieve climate neutrality by 2050. This is also confirmed by the statements (Wilts, 2022) that the circular economy is not an end in itself, but rather an instrument that contributes to comprehensive goals such as climate neutrality and resource conservation. "It is well known that the circular economy is connected with innovative solutions, as well as that SMEs are key drivers in developing and implementing these innovations" (European Commission, 2024, p. 54).

On the other hand, the connection between the circular economy and SMEs is of exceptional importance, as SME’s constitute a large part of the economy, as concluded from the data provided by the European Commission: "99% of European businesses are SMEs. They provide jobs to more than 85 million European citizens. SMEs are at the heart of innovation and entrepreneurship" (European commission, 2024). As can be observed in the further context of the paper, the analysis of Structural Business Statistics by enterprise size (number of employees) can be presented as follows:

- **Micro enterprises** – Enterprises that employ fewer than 10 people.
- **Small enterprises** – Enterprises that employ between 10 and 50 people.
- **Medium enterprises** – Enterprises that employ between 50 and 250 people.
- **Large enterprises** – Enterprises that employ over 250 people (European Commission, 2003, p. 14).

Based on statistical data obtained from the European Commission documents, it can be concluded that in 2022, microenterprises in the EU employed more people than any other size category of enterprises, the data is presented at Table1: Economic structure of enterprises per size class, in EU-27 for 2022) and Table 2: Economic structure of enterprises per size class, in EU-27 for 2023.

Table 1. Economic structure of enterprises per size class, in EU-27 for 2022

	Number of enterprises		**Number of persons employed**	
Class size	**Number**	**Share**	**Number**	**Share**
Micro	22 744 173	93.5 %	38 790 351	29.4%
Small	1 332 200	5.5%	25 602 334	19.4%
Medium-sized	204 786	0.8 %	20 493 722	15.5%
SMEs	24 281 159	99.8%	84 886 407	64.4%
Large	43 112	0.2%	46 918 978	35.6%
Total	24 324 271	100.0%	131 805 385	100.0%

Source: European Commission, Annual Report on European SMES 2022/ 2023, Grow and Joint Research Centre, ISBN 978-92-68-06174-9, ISSN 1831-9424, doi:10.2760/028705, Luxembourg: Publications Office of the European Union, p.3

Table 2. Economic structure of enterprises per size class, in EU-27 for 2023

	Number of enterprises		**Number of persons employed**	
Class size	Number	**Share**	**Number**	**Share**
Micro	24 209 297	93.6 %	40 803 310	30%
Small	1 387 888	5.4%	26 770 763	19.7%
Medium-sized	210 551	0.8 %	21 156 339	15.5%
SMEs	25 807 736	99.8%	88 730 412	65.2%
Large	43 420	0.2%	47 355 823	34.8
Total	25 851 156	100.0%	136 086 235	100.0%

Source: European Commission , Annual Report on European SMES 2023/ 2024, Grow and Joint Research Centre, ISBN 978-92-9469-822-3, ISSN 2467-0162, doi:10.2826/355464, Luxembourg: Publications Office of the European Union, p.3

When analyzing the data presented in previous tables it can be concluded that SMEs in the European Union provided in 2022 some 64.4% number of persons employed. Similar values were also recorded in 2023. SMEs employ about 88 730 412 number of persons in 2023 and 84 886 407 persons in 2022. SMEs represent a significant share of the total number of companies in the EU, about 99%, and can be considered the largest employers in the market (Brodny & Tutak, 2022, p. 2)

SMEs have great potential to contribute to the implementation of CE as they are considered major employers and the most widespread type of business, but also due to their flexibility in adopting new technological models. The implementation of CE in SMEs enables them to not only economically advance but also make a positive contribution to the planet. Thus, SMEs are considered drivers of the economy, innovation, and employment, and represent a significant category for the transition to CE, which confirms our second hypothesis H2: SMEs are essential in the shift towards CE.

6. Conclusion

Circular economy (CE) attracts much attention from governments and companies. CE has attracted considerable attention and recognition for its potential to address pressing global challenges related to sustainability, resource efficiency and growth economics. SMEs, whose economic and social roles in the EU are very significant, are particularly important for achieving this goal. Transition to the circular economy includes implementation circular economy in SMEs, which constitute about 99 % of all European enterprises. When analyzing the data presented, it can be concluded that the SMEs has a major impact on implementation circular economy.

In the next phase of the research, it is necessary to analyze the representation of SMES/total enterprises for individual countries.

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Review article

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The Importance of Forensic Accounting in Detecting False of Financial Reporting

Abstract

This paper deals with the problems that arise in the detection of fraudulent financial reporting. Financial reporting is a legal obligation of all economic entities that operate in accordance with the law and good business practice. Analysis of financial statements should provide insight into a company's financial health, identify strengths and weaknesses, identify trends and predict future performance. The financial report as the subject of analysis provides key information about the financial state of the company. The aim of this paper is to point out the role and importance of forensic accounting in the detection of fraudulent actions and fraudulent financial reporting. The importance of the

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development of forensic audit as an important segment in the fight against fraudulent financial reporting was particularly pointed out.

Keywords: *Financial statements, forensic accounting, fraudulent financial reporting, forensic audit.*

1. Introduction

Financial fraud and false financial reporting are becoming a global problem today. Research related to these frauds may be different by region, but the schemes and fraud are very similar. The job of an auditor of financial statements today is challenging, especially when there are loopholes in legislation that allow the long-term presence of criminal activities that harm business. The efficiency of the competent state authorities can be crucial in detecting and suppressing these actions.

The subject of this paper is forensic accounting, which deals with a detailed and in-depth examination of the regularity of the company's operations in order to detect financial fraud. The work aims to investigate the need for the development of professional forensic accounting, both due to the increase in traditional and new crime, and due to the lack of special knowledge and experience of existing supervisory and executive bodies in the process of investigations, as well as giving opinions on illegal actions.

Independent audit reports are intended to reduce information risk and provide information security to external users. However, it is not rare that they are associated with managerial manipulations and accounting tricks. Such behavior damages the reputation of the accounting and auditing profession, which has built its credibility over decades. Loss of investor and creditor trust in the financial reporting system has long-term consequences, and restoring trust is extremely difficult.

The aim of this paper is to point out the importance and responsibility of all participants in the financial reporting process. Quality risk management, transparency and professional ethics are key factors for restoring trust in financial reporting and maintaining the integrity of financial information.

2. Financial reporting

Financial accounting is aimed at satisfying the interests of external users of accounting information, i.e. the preparation and presentation of general-purpose financial statements. These financial statements are strictly formal and, for certain legal entities, are subject to audit in accordance with the laws regulating the obligation to audit financial statements. These are regular annual and, in certain cases, extraordinary financial statements that are submitted to state authorities, financial market institutions, shareholders, investors and other external users.

Legal regulations and international professional accounting regulations (International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS)) are the basis for a true and fair presentation of the property, financial and profitability position of companies (Đorđević, 2020: 21).

A financial report is a document that provides information about the financial condition, performance and activities of a company. Financial statement analysis allows managers, investors, creditors and other interested parties to assess the financial health and efficiency of a company's operations. A financial statement consists of a balance sheet, an income statement, a statement of cash flows, and a statement of changes in equity. Each of these components provides specific information about the financial condition of the company in a certain period of time.

Financial reports and accounting documents represent a confirmation of the property and financial position as well as the business success of the business entity (Cvetković, 2018: 81). The analysis of the financial report includes the application of various methods and techniques to assess the financial performance of the company. Financial indicators are important because they provide information about the profitability, liquidity, indebtedness and efficiency of the company's operations.

According to our the Law on Accounting (Zakon o računovodstvu "Sl. glasnik RS", br. 73/2019 i 44/2021 - dr. zakon), legal entities and entrepreneurs have the obligation of financial reporting. Financial reporting includes several reporting obligations, such as the recognition and measurement of assets, liabilities, as well as income and expenses. The most important duties are certainly keeping business books, compiling, presenting and submitting financial reports. The complexity of business operations on the one hand and the impossibility of monitoring by developing accounting rules for recording every business situation that arise during the business year on the other hand, open room for maneuver for the appearance of fraud in financial statements (Gogić, 2022: 7).

If some manipulative techniques are applied during the creation of financial reports in order to show better business results, the quality of the report is impaired. A large number of financial frauds led to enormous distrust in the financial reporting system and the accounting and auditing profession (Budimir, 2023: 152).

3. Transparency and quality of financial reports

Financial reports that comply with international professional regulations have the character of quality reports, providing relevant and reliable information. Having this information about the efficiency of using the company's capital in the past, as well as about its business potential in the future, is of key importance for investors when making decisions about investing their funds.

The interests of investors are in conflict with the differences in the way of shaping accounting information, which is why they, seeing the numerous problems that arise on that occasion, become one of the key drivers of changes in the financial reporting system, demanding its standardization" (Leković, 2013: 92).

Standardized and high-quality financial reports play a key role in reducing information asymmetry and adverse selection, providing greater certainty to investors. Although meeting financial reporting standards is important, it does not in itself guarantee the accuracy and objectivity of financial reports that reflect the actual state of a company. One who considers and makes a decision takes into account several aspects of the problem he is solving: some reasons speak in favor of making a decision in one way, but other reasons say that such a decision is reviewed and often revised (Ristić, Miljković, & Milunović, 2021: 65).

That is why it is crucial to approach the process of compiling and presenting financial statements with a high degree of responsibility, conscientiousness and in accordance with good accounting practice. This further means the reliability of information provided through financial reports. "Obscuring and faking results is punishable by law, and decisions that investors can make based on inaccurate financial reports are not in the function of efficient capital allocation." True and honest financial reporting is a first-class public interest" (Stojiljković, 2005:110).

Professional and legal regulations represent the minimum standards of behavior of professional accountants and all those who participate in the preparation of financial reports, and ethics builds on them" (Malinić, 2011: 246). Users of financial reports expect relevant and reliable information about the financial position, success and company perspectives. Internal users, such as managers, rely on an internal accounting control system to provide them with security and peace of mind. On the other hand, external users seek trust through positive opinions of authorized public auditors. However, the problem arises when users are manipulated, not only by management and corporate accountants, but also by independent auditors.

A certified forensic accountant (according to the terminology from the Rulebook) is a person who applies his knowledge and skills in accounting, auditing and finance in the resolution of financial relationships, facts and transactions, but also in the determination of errors, corruption, theft, illegal business, forgery, etc. (Pušac, 2024: 146).

The principles of corporate governance state that: the corporate governance framework should ensure that all material facts related to the company are disclosed in a timely and accurate manner, including the financial situation, results, ownership and management of the company. In other words, the obligation to disclose and be transparent about information relevant to the company and corporate governance should encourage greater responsibility on the part of management to conduct management in accordance with the best practices of corporate governance. The financial reporting system and the accounting and auditing profession have often been accused of causing fraud and losing confidence in the reliability of financial information by numerous users and economic decision-makers (Krstić, 2009: 295). According to Spalević and Dimitrijević (2017), in order to be successful in combating fraud and restoring confidence in financial statements, the development of forensic accounting as a separate scientific discipline involves the examination and interpretation of evidence and facts, as well as the provision of a certain expert opinion.

The company is obliged to disclose corporate financial statements prepared in accordance with international financial reporting standards. In addition to the reports, companies also publish other information that is not contained in the official financial statements, but which is important for investors and which is in line with its business interest, for example, risk management policy, business ethics, etc. It has been empirically proven that the shareholder information regime and the transparency of relevant material facts have a direct impact on attracting new investments, the stability of existing investments and thus the impact on economic development and economic competitiveness.

4. False financial reporting

False financial reporting is most often manifested in the form of the following five interconnected forms: fictitious income, false time allocations, concealment of obligations and expenses, improper disclosures, and other techniques of false financial reporting" (Petković, 2010).

Fictitious income is a form of deception in financial reporting. This implies the recording of non-existent income from the sale of goods and services with the aim of deceiving users of financial statements. The main forms of fictitious income are the posting of non-existent income, false sales to existing customers and sales to non-existent customers. Posting non-existent income is one of the easiest ways to create fictitious income, often with the use of false supporting documents. False sales to existing customers is a more complex form of fictitious income that involves falsified documentation such as invoices, packing slips and shipping documents. When services are not provided or goods are not delivered, and fictitious invoices are issued, fraudulent sales to existing customers occur. Often, at the beginning of the next accounting period, the false sales are reversed to cover up the fraud, but this leads to a decrease in income in the new period and creates the need for new fictitious sales.

The principle of causation of income and expenditure is one of the basic accounting principles. This principle requires that income and expenses in one accounting period are properly attributed to that period. The perpetrators of criminal acts in the financial statements deliberately violate this principle by means of false time allocations, thus providing an inaccurate picture of the realized income of the legal entity. These procedures knowingly violate basic accounting principles, national laws and international accounting standards.

Concealment of obligations and costs is most often caused by omission of obligations and improper capitalization of costs. These are just some of the techniques used to hide liabilities and expenses. If management and employees properly report assets, users of financial statements can get an accurate insight into the financial position of a legal entity. When financial statements are accurate, they respect the principle of objectivity in accounting, providing information on the value of assets, liabilities, capital, income and expenses.

When compiling financial statements, it is important to record all categories in accounting (assets, liabilities, capital, income and expenses), in order to provide a complete picture of the situation and changes. Improper disclosure implies the omission of certain parts of accounting categories, thereby reducing the value and usefulness of accounting information. This opens the possibility for various frauds and abuses. By introducing the term manipulation in accounting, it is possible to conclude that manipulative actions, whether fraud or errors, aim at two different outcomes: 1. increasing profit and 2. decreasing loss (Anufrijev, 2024: 210).

Compilers of fraudulent financial statements use a variety of methods to mislead users. They exploit legal regulations, International Accounting Standards and improper accounting estimates to present an incorrect financial position of a legal entity. Professionals, such as auditors, must constantly monitor these criminal activities, which often change in their enforcement techniques. Forensic accounting should not only detect a criminal act, but also assess the level of damage to the company on that basis (Aleksić, 2015: 230).

Forensic accounting can be preventive and curative. The purpose of preventive work is to prevent the occurrence of illegal economic and financial actions. In curative work, there are already phenomena that indicate illegal actions. A forensic accountant should review and evaluate such actions, provide an independent and unbiased opinion, and provide evidence of the criminal action (Đorđević, 2020: 21).

5. Audit of financial statements

Auditors of financial statements focus on objectively presenting the financial situation, business results and cash flows of the entity being audited. Their role is to determine whether financial statements are accurately and completely presented, so that users of those statements can make informed decisions. The audit of financial statements includes the collection and evaluation of evidence in a systematic way, which creates a basis for validating financial statements and checking their compliance with international accounting standards and international financial reporting standards (Krunić, 2023: 2).

While auditors investigate errors or misstatements, forensic accountants focus on detecting fraud. Fraud is often more difficult to detect than error, so detecting fraud requires more detailed research and analysis, which usually goes beyond the scope of a standard financial statement audit (Đekić, 2016:74).

In order to overcome information asymmetry and reduce risk for investors, it is important that there is adequate regulation that requires transparency and accuracy of financial reports. It is also necessary to invest efforts in educating and empowering investors so that they are able to correctly interpret financial statements and identify potential risks. In addition, independent auditing of financial statements plays a key role in maintaining the integrity and confidence in companies' financial information. "Investing in unhealthy, high-risk and over-indebted companies due to lack of adequate information is known as adverse selection." It is clear that this is an unprofitable investment and an irrational capital allocation that has far-reaching negative consequences for the national economy" (Mrvaljević, 2014).

During the audit of financial statements, the auditor may encounter different categories and forms of criminal acts, which include numerous techniques or ways of execution. It is important to note that this typology is the basis for many other possible techniques, which are continuously changing and adapting to changes in the business environment. Some of these procedures may be unclear to the auditor, so it is desirable to have knowledge of the criminal laws of the country in which the financial statements are being audited.

6. Forensic audit

The term business forensics consists of forensic accounting, forensic auditing, money laundering and embezzlement. Forensic accounting and forensic auditing are two similar and closely related fields (Petrović, 2023: 343).

The increase in the number of corporate scandals around the world, caused by criminal acts in financial statements, has led to the fact that large global audit firms increasingly provide forensic audit services. This area is still not clearly regulated by professional regulations and standards. In this sense, audit practice offers services that are not yet defined and directed by standards, a challenge is posed for audit theory to correctly define forensic audit, recognize its goals, characteristics and correctly express results and findings.

Forensic accounting is a relatively new career field that has expanded rapidly since its inception (Mackenzie, 2018) Given that forensic auditing is a new discipline within auditing, there is still no comprehensive and universally accepted definition around the world. However, many theoreticians, national and international organizations and associations offered their answers regarding the importance and role of forensic audit in audit theory and practice, thus laying the foundation for its proper definition. Forensic auditing can be described as a type of auditing service that uses accounting and auditing procedures to detect criminal activity in financial statements and present them in a manner that is acceptable to court proceedings.

A forensic auditor must approach the verification of financial statements in a completely different way due to the peculiarities of this type of audit. Forensic audit procedures are more intuitive compared to the formal analytical methodology used in a traditional independent audit of financial statements. Sometimes it is necessary for the forensic auditor to think like a criminal, not just an auditor. While financial auditing examines events, transactions and the environment in their overt aspects, criminal auditors tend to look at them in terms of their hidden aspects. In order to be successful, the auditor must be curious, persistent, creative, open to all possibilities, scrutinize small details, but at the same time look at the bigger picture.

7. Conclusion

Forensic accounting plays a key role in the detection, investigation and prevention of financial reporting crimes. Forensic accounting uses special techniques and tools to analyze financial data, identify irregularities and gather evidence that can be used in legal proceedings.

In addition, auditing financial statements plays an important role in detecting criminal activity and ensuring the integrity of financial information. The audit is performed independently and objectively, with the aim of assessing the accuracy and reliability of financial statements. Through the audit process, auditors review financial transactions, internal controls and business processes to identify potential irregularities or signs of criminal activity.

In order to reduce the risk of criminal acts in financial reporting, it is necessary to establish effective control mechanisms, transparency and accountability in financial reporting. This includes strengthening internal controls, training employees on ethical business and financial integrity, as well as regular monitoring and auditing of financial reports by independent experts.

It is also important that investors, creditors and other users of financial statements are educated about the risks and signs of criminal acts so that they can make informed decisions and be more careful when investing or cooperating with certain companies.

Suppression of financial reporting crimes requires cooperation between regulatory bodies, legal institutions, auditors, companies and the general public. Only through joint efforts and strict application of laws and regulations can we create integrity and trust in financial reporting, thereby reducing the risk of future fraud and protecting the interests of all participants in the financial world.

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Key Negotiation Strategies for Sustaining Partnerships: Success Stories and Mutual Benefits

Abstract

This article examines negotiation within strategic management, outlining its critical stages: objective setting, strategy formulation, execution, and adaptation. It categorizes five negotiation styles—compete, accommodate, avoid, compromise, and collaborate—and discusses their applicability in partnership contexts. The piece highlights key strategies for maintaining long-term partnerships, such as collaborative problem-solving, consistent communication, flexibility, and mutual benefit orientation. These strategies, when effectively implemented, foster sustainable relationships and contribute to the overall success of strategic management endeavors, ensuring both parties achieve mutually advantageous outcomes.

Keywords: *Strategic management; negotiations; business strategies.*

Introduction

In today's technology-driven business environment, strategic negotiation has emerged as a vital tool for organizations navigating digital transformation. Negotiation, a cornerstone of

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strategic management, goes beyond the simple exchange of ideas; it is a structured process aimed at aligning diverse interests to achieve mutually beneficial outcomes. This process becomes particularly crucial as companies adopt digital strategies to gain a competitive edge, foster innovation, and optimize operations.

The rapid pace of technological advancements, coupled with evolving consumer demands, necessitates strategic alignment through negotiation to ensure seamless integration of digital solutions into organizational processes. This structured approach unfolds in four critical stages, serving as a foundation for addressing objectives such as enhancing customer experiences, streamlining operations, and achieving cost efficiencies. By merging negotiation tactics with digital strategies, organizations can effectively navigate the challenges and opportunities of a dynamic business landscape (Bhatnagar, 2024).

The negotiation process unfolds in four critical stages, each essential for aligning diverse interests and achieving successful outcomes. The first stage, **objective setting**, focuses on defining clear and strategic goals that guide the entire negotiation process. This involves identifying priorities, understanding potential trade-offs, and setting measurable outcomes that reflect the organization's broader strategic vision. Without well-defined objectives, the negotiation risks becoming unfocused and less effective.

The second stage, **strategy formulation**, is where plans and tactics are developed to ensure productive discussions. This involves analyzing the interests and positions of all stakeholders, assessing possible challenges, and preparing persuasive arguments. A robust strategy accounts for both short-term wins and long-term benefits, ensuring a comprehensive approach to negotiation.

In the third stage, **execution**, active communication and bargaining take center stage. This phase requires effective interpersonal skills, such as active listening, clear articulation of positions, and the ability to find common ground. Decision-making is pivotal here, as negotiators work to finalize agreements that satisfy all parties while staying aligned with the objectives and strategy established earlier.

The final stage, **adaptation**, emphasizes flexibility and responsiveness to changing dynamics. Negotiators must remain agile, adjusting their approaches as new information arises or unforeseen challenges emerge. This stage ensures that the negotiation process remains dynamic and maximizes outcomes, allowing for creative solutions that address the evolving interests of all parties involved.

Together, these stages form a cohesive framework that guides negotiators in navigating the complexities of aligning interests, building trust, and securing agreements that are both practical and strategically advantageous.

Firm A operates as a versatile entity with a broad range of roles, including service provision, distribution, and outsourcing. In contrast, Firm B specializes in delivering niche products or services, positioning itself as a valuable partner with unique expertise. The partnership between these two firms is built on leveraging their respective strengths to achieve shared objectives. Together, they aim to broaden their market presence, ensure the seamless delivery of goods and services, and foster innovation that drives mutual growth within their industries. This collaboration integrates Firm A's diverse operational capabilities with Firm B's specialized focus, creating a dynamic alliance well-suited for strategic partnerships with other market participants.

The five negotiation styles—compete, accommodate, avoid, compromise, and collaborate(Morris et al., 1998)—reflect varied strategic intentions. Competitive strategies prioritize dominance while accommodating strategies value relationships over self-interest. Avoidance reflects withdrawal in situations with limited perceived value, whereas compromise seeks a middle ground. Collaboration, in contrast, emphasizes innovative solutions that maximize mutual benefits. This multifaceted process underscores the importance of negotiation in sustaining relationships and driving long-term strategic success.

For instance, under a competitive strategy ("I win — you lose"), Firm A focuses on maximizing its benefits, often at the expense of Firm B, prioritizing its agenda and seeking an advantage in negotiations. Conversely, the *accommodate* strategy ("I lose — you win") sees Firm A taking a passive stance, making concessions to prioritize maintaining the relationship with Firm B over its own goals. In the *avoidance* strategy ("I lose — you lose"), Firm A opts to withdraw or avoid negotiations, either to prevent conflict or due to a perception of no beneficial outcomes. The *compromise* strategy ("I lose/win some — you lose/win some") involves both Firm A and Firm B making concessions to meet halfway, finding a middle ground that partially satisfies both parties. Finally, the *collaborative* strategy ("I win — you win") fosters open communication and cooperation, where both firms work together to explore creative solutions and achieve mutually beneficial outcomes while respecting each other's interests.

1. Initial Negotiation Stages

The initial stages of negotiation in strategic management establish a structured framework to formalize partnerships effectively. The process begins with the *introduction and exploration phase* (Geiger, 2017), where Firm A identifies Firm B as a potential partner based on complementary strengths in products or services. Early discussions focus on exploring mutual interests and assessing the compatibility of capabilities. Following this, the *goal-setting and alignment stage* allows both parties to define their objectives for the partnership, such as market expansion, product diversification, or cost efficiencies. Aligning these goals is crucial to ensure mutual benefits and lay a strong foundation for collaboration. The next step is *term negotiation*, where essential elements such as pricing structures, delivery schedules, quality standards, and exclusivity agreements are deliberated. This phase also involves establishing legal and contractual frameworks to protect both parties' interests. Upon reaching consensus, the *agreement and contract signing phase* formalizes commitments.

Contracts are drafted, reviewed, and signed, signifying the beginning of the formal partnership. Finally, partnerships often encounter *early challenges* such as logistical bottlenecks, technology integration issues, or mismatched expectations. These partnerships often face early challenges, including logistical hurdles, technology integration difficulties, and differing expectations between parties. A lack of clear reference points can compound these obstacles, as managers and staff navigate unfamiliar territory with varying assumptions, attitudes, and expectations about the alliance (Doz and Hamel, 1998). Additionally, cultural differences and communication barriers may further complicate the situation. Addressing these issues through ongoing negotiation and open communication is essential for building trust, maintaining alignment, and securing the long-term success of the partnership.

1. Typical Negotiation Processes

The typical negotiation process involves structured steps to establish effective collaborations. It begins with *setting objectives*, where Firms A and B define clear, mutually agreed-upon goals such as market expansion, cost efficiencies, product innovation, or service enhancement. Each party identifies its priorities and desired outcomes, aligning them with its overall strategic goals. Once objectives are established, the process moves to *exploring options*. Here, both firms evaluate potential avenues for collaboration through brainstorming sessions, feasibility studies, and market analyses, assessing strengths, weaknesses, resource allocation, risk management, and competitive positioning. Finally, negotiations advance to *reaching agreements*. Firm A and Firm B engage in discussions to reconcile differences and finalize terms on key aspects like pricing models, delivery schedules, quality standards, and performance metrics. Legal and contractual frameworks are then drafted and reviewed, formalizing the agreed-upon terms and ensuring clarity and accountability.

One key reason for prioritizing integrative negotiation is to avoid the negative consequences often associated with high-pressure tactics in distributive bargaining. When one party feels like a clear "loser," they may actively seek ways to escape the agreement, exploit contractual loopholes, or recover their perceived losses. This risk is heightened if they believe the outcome was influenced by unethical or fraudulent practices, potentially leading to legal actions to annul the contract or pursue other remedies. To prevent such outcomes, both parties must leave the negotiation feeling that the agreement represents the best possible outcome for both sides (Lewicki et al., 2014, Wagner and Druckman, 2012).

As negotiations progress toward finalizing agreements, parties work to resolve differences and solidify terms on critical factors such as pricing models, delivery timelines, quality standards, and performance benchmarks. These discussions culminated in the drafting and review of legal and contractual frameworks, ensuring clarity, accountability, and mutual understanding of the agreed terms (Tomlinson & Lewicki, 2015).

1. Key Negotiation Strategies

Key negotiation strategies to maintain a partnership, as outlined by Taylor (2006), emphasize collaboration, communication, adaptability, and a long-term vision. *Collaborative problem-solving* is a foundational approach where Firm A and Firm B focus on mutual understanding and cooperation to address challenges. Through joint problem-solving sessions, both parties actively contribute ideas and suggestions, fostering trust and showcasing a commitment to overcoming obstacles together. Equally important is *regular communication and feedback*, which involves maintaining open lines of dialogue to discuss progress, issues, and any changes in circumstances.

By scheduling regular meetings and check-ins, both firms can provide timely feedback, address concerns, and ensure alignment with their shared objectives. Transparent communication builds rapport and enables effective adjustments to strategies or expectations.

Another critical strategy is *flexibility and adaptability*, where both parties demonstrate a willingness to adjust to evolving market conditions, customer demands, or operational challenges. Responsiveness to each other's needs and preferences ensures the partnership remains relevant, resilient, and effective over time.

Additionally, a focus on *win-win solutions* allows both firms to seek equitable outcomes that benefit all parties. By prioritizing shared interests and maximizing mutual gains, they strengthen trust and collaboration, paving the way for a positive, enduring relationship. A clear and relevant vision gives the company a long-term focus, aligns it with its goals, motivates employees, and promotes synergy. It also plays a key role in building a resilient organizational culture that can endure crises.

Moreover, a long-term vision, paired with a focus on relationship-building, helps create lasting partnerships founded on common values and objectives, fostering trust and respect through investments in joint projects, social interactions, and professional development (Altıok, 2011). By adopting these strategies, Firm A and Firm B enhance their ability to navigate challenges and capitalize on opportunities, ensuring the sustainability and success of their partnership.

Examples of successful negotiation outcomes highlight the tangible mutual benefits that strategic partnerships can deliver. One such outcome is *market expansion and increased revenue*, where negotiations between Firm A and Firm B lead to a strategic alliance to enter new geographical markets. Firm A capitalizes on its robust distribution network and market expertise, while Firm B contributes innovative products, resulting in increased sales and market share for both firms in the new regions. This collaboration boosts revenue streams and enhances brand visibility for both parties.

Another key outcome is *operational efficiencies and cost savings*, achieved through negotiations focused on optimizing supply chain logistics and procurement processes. By streamlining inventory management, reducing lead times, and securing favorable pricing terms, both firms enjoy lower operational costs, improved inventory turnover, and enhanced profitability margins. Additionally, partnerships can drive *product innovation and competitive advantage*. When Firm A and Firm B collaborate to co-develop new products or improve existing offerings, their negotiations may include joint R&D investments, intellectual property agreements, and strategic market launches. The result is the introduction of innovative products that satisfy market demands, provide differentiation from competitors, and foster customer loyalty.

Effective negotiations are essential for managing risks and ensuring strategic alignment by defining clear contractual terms, including quality standards, delivery commitments, and dispute-resolution mechanisms. When risks are not effectively addressed, they can lead to budget overruns, project delays, resource inefficiencies, and even project failure. However, choosing the right risk mitigation measures has typically relied on subjective judgment and expert insights, which are often not transparent (Hsiao et al., 2013). These efforts enable both firms to assess and minimize risks related to market fluctuations, regulatory changes, and supply chain disruptions, enhancing operational stability and resilience. Lastly, negotiations that emphasize *long-term partnership and collaborative growth* build a sustainable foundation for continued success. Through joint marketing campaigns, employee training programs, and CSR initiatives, both firms strengthen their relationship, fostering mutual trust and creating a platform for future joint ventures or market expansions. Together, these examples underscore the value of well-executed negotiations in achieving mutual benefits and sustainable growth.

As the partnership between Firm A and Firm B reached a critical juncture, unanticipated challenges began to surface, testing the resilience and flexibility of their collaboration. Despite a history of mutual benefits, rising issues have compelled Firm B to reconsider the viability of the alliance, with financial pressures, strategic misalignments, and operational conflicts intensifying the strain on their partnership. Financially, Firm B faces rising costs that have eroded its profit margins, further exacerbated by cash flow problems that hinder its ability to meet obligations and invest in growth. The existing contractual terms, once advantageous, now contribute to these difficulties by locking Firm B into unfavorable conditions unsuited to the current economic environment. As financial strain mounts, Firm B's perception of the partnership's value diminishes, leading it to explore more favorable opportunities aligned with its operational goals.

Beyond financial concerns, strategic misalignment has also become apparent, as the divergent priorities of the two firms have exceeded their shared objectives. Firm B's interest in exploring new markets or customer segments that diverge from Firm A's strategic direction has created friction, highlighting a growing disparity in vision and market pursuits. Operationally, logistical inefficiencies, such as supply chain disruptions and quality control issues, have further strained the partnership, with escalated costs and delays undermining overall efficiency. Disputes over resource allocation and performance expectations underscore the need for improved collaboration and resolution.

Adding to these challenges is the strain in their relationship caused by communication breakdowns, with inadequate transparency fostering misunderstandings and mistrust. Cultural differences significantly challenge the cohesion of partnerships, underscoring the importance of alignment in maintaining a productive and harmonious collaboration. When these challenges escalate, they can bring the partnership to a critical juncture, requiring strategic negotiations to address underlying issues and secure its future. As Hall (1995) highlights, unresolved cultural disparities impose three key costs on alliances: *time costs*, which delay deal-making and synergy realization; *effort costs*, reflecting the emotional energy required for effective interactions; and *attention costs*, where senior management must allocate significant focus to managing relational and cultural issues. Addressing these factors is crucial to overcoming barriers and fostering sustainable collaboration.

2. Impact of Firm B’s Potential Departure on Firm A and the Alliance

Firm B's potential exit from the alliance could significantly impact Firm A and the broader partnership across financial, strategic, operational, relational, and alliance-wide dimensions. This underscores that the dissolution of an alliance is a dynamic process shaped by task-specific conditions, which dictate the minimum effort or energy needed to maintain the relationship and the resources the alliance builds over time (Shi, 1998).

Financially, Firm A faces a considerable challenge as the exit could lead to a substantial reduction in revenue streams previously generated through the collaboration. This financial hit may be compounded by increased operational costs as Firm A seeks alternative vendors or considers making internal investments to maintain efficiency. Additionally, the sudden need to restructure financial agreements and payment schedules might result in short-term cash flow disruptions, requiring Firm A to implement strategic financial planning to stabilize its operations during the transition (Fig. 1).

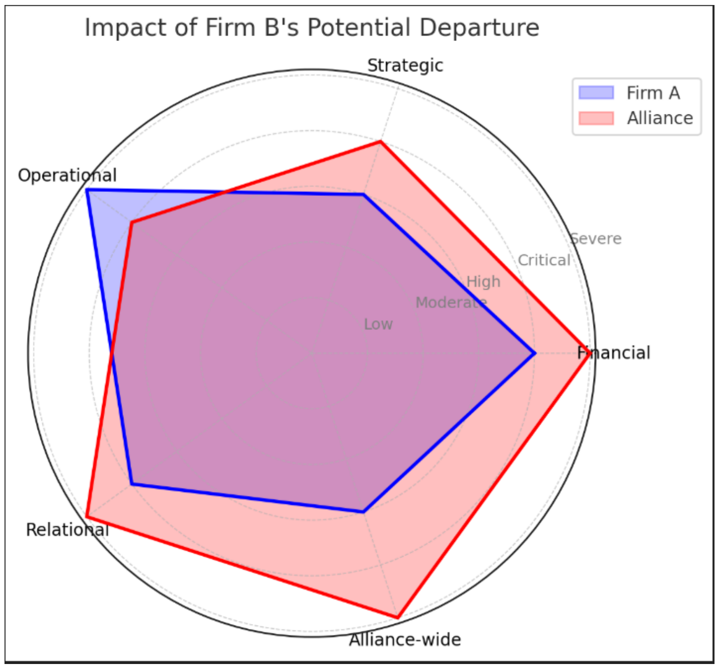

Figure 1. Impact of Firm B’s Potential Departure

Strategically, Firm A risks losing its competitive advantage in markets where Firm B’s contributions have been pivotal, potentially affecting its market position and slowing innovation efforts. The disruption of collaborative innovation initiatives could delay product launches and hinder Firm A’s ability to meet evolving market demands, necessitating a reassessment of strategic goals and priorities to adapt effectively to the absence of Firm B’s input. Operationally, the exit of Firm B could result in significant supply chain disruptions, causing delays and potential shortages that might impact customer satisfaction and overall business performance.

The pressure to quickly identify and onboard new vendors may compromise quality standards, further risking customer dissatisfaction and damaging the brand’s reputation.

Additionally, internal teams at Firm A may face increased workloads to address these gaps, potentially leading to employee burnout and reduced efficiency. Relationally, the termination of the partnership may have far-reaching implications, including customer dissatisfaction from the loss of integrated solutions provided by the alliance, potentially driving a loss of clientele. The dissolution could also tarnish Firm A's industry reputation, making it more challenging to establish future alliances and collaborations, while internally, employee morale might decline as staff deal with the uncertainty and pressures associated with the termination.

On an alliance-wide level, Firm B's departure could undermine trust among the remaining partners, raising concerns about the stability and reliability of their relationships with Firm A. Ongoing and future collaborative ventures may be jeopardized as the exit signals potential instability within the alliance, necessitating substantial restructuring to address the void left by Firm B and realign the objectives and contributions of the remaining partners. Effectively managing these transitions is essential to preserving trust, sustaining collaborative efforts, and ensuring the alliance's ongoing success in achieving its objectives.

Firm A utilizes several negotiation tactics to address Firm B's concerns and preserve the partnership. They start with open and transparent communication, engaging in direct, honest dialogue to understand and resolve Firm B's challenges. Regular updates and a structured communication schedule ensure that Firm B remains informed about developments, which fosters trust and encourages collaboration. To tackle specific concerns, Firm A crafts customized solutions, offering tailored proposals that address financial, strategic, and operational issues, while providing flexible terms and conditions to better suit Firm B's evolving needs. Financial incentives, such as revised pricing models, adjusted discount structures, flexible payment schedules, and extended credit terms, help alleviate financial pressures faced by Firm B.

In addition, both firms engage in strategic realignment by collaboratively setting new market strategies and innovation projects through joint planning sessions, ensuring a shared vision for the future. To navigate conflicts, mediators facilitate discussions between the firms, ensuring fair resolutions and reinforcing trust. Contract extensions are also proposed by Firm A, offering favorable terms to Firm B, which strengthens the long-term value of the partnership. Further, Firm A encourages new joint ventures, which not only enhance the partnership but also expand market reach and create additional value. Finally, Firm A emphasizes team integration by promoting a collaborative culture through joint training programs, team-building exercises, and cross-company events, laying the foundation for a strong and enduring relationship.

3. Conclusion

In conclusion, effective negotiation strategies are essential for building and sustaining long-term partnerships in today's dynamic business environment. This research emphasizes the importance of clear objective setting, strategic alignment, and adaptability throughout the negotiation process. Organizations can foster trust, mutual understanding, and innovation by leveraging diverse negotiation styles—such as collaboration and compromise. The case study of Firms A and B demonstrates how complementary strengths and transparent communication can create robust alliances that drive market expansion, operational efficiency, and competitive advantage. Ultimately, the research underscores that sustainable partnerships are not merely transactional but are grounded in shared goals, flexibility, and a long-term vision that benefits all stakeholders.

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    c) Marković, D. (2015). *Liberalni kapitalizam na izdisaju*. Novi Sad: Naučna knjiga. (monograph, book)
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