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## **Understanding of Creativity - Creative Teaching Factors**

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### ***Abstract***

*Students' possession of a variety of entrepreneurial skills, regardless of their field of study, is undisputedly the most valuable accomplishment for their future. Entrepreneurial educators are the ones who promote these skills in their students. This paper explores creativity in teaching because creativity is regarded as one of the constituents of the entrepreneurial mindset. The paper aims to assess educators' self-perception of the importance of creative teaching factors (CTF), show their understanding of creative people and provide suggestions to promote the culture of creativity and innovation within classrooms. In order to rate the importance of CTF, an online survey was conducted. There were 149 educators from various European countries who participated in the survey and they gave the highest importance to the willingness to improve, commitment to teaching and acquiring new skills and knowledge. When describing a creative person, most educators mentioned the possession of the skill of problem solving as well as out of the box thinking. As to suggestions of promoting the culture of creativity and innovation in the classroom, a majority acknowledged the use of technology, e-learning, experiential learning, and most importantly continuous professional development of educators. Hart and Sriprakash (2017) mentioned that students' merit is ascribed through ranking of institutions, programs of study or graduate employment outcomes and it engenders a tendency to pursue excellence which in turn dampens innovation and creativity. Our research has proven that precisely aspects such as the curriculum, lack of materials and insufficient teacher training inhibit creativity and innovation. The findings hope to raise the awareness of various ways of promoting creativity and innovation within classrooms, and thus boost the entrepreneurial potential in students.*

**Keywords:** Creative Teaching Factors, Education, Innovation, Students, Teachers

**JEL Classification:** A20

## **Introduction**

Educators have always been the crucial factor in student's education and their main role of preparing students for their future employment and career has not changed. Additionally, creativity in education is becoming ever more relevant since it enhances the dynamics of both teaching and learning. Possession of creative skills distinguishes educators amongst themselves and sets a new path for modelling future generation's knowledge.

If educators themselves appreciate and practice creativity, they will transfer the enthusiasm to their students, which is utterly important in the 21<sup>st</sup> century, when the creativity and innovation are valued highly. Nevertheless, expectations from graduates are different to what they used to be, and what was needed from them ten years ago is not what is needed now. Entrepreneurial skills have gained reputation as important qualities valued both in business and in personal life. When hiring students, companies need diversity of opinion, flexibility and skills such as thinking out of the box. For example, IBM (2010) CEOs consider creativity as the most important leadership quality. That is the reason why education policy makers should put emphasis both on the students' acquisition of entrepreneurial skills as well as on employing educators who possess a variety of entrepreneurial skills such as flexibility, openness to change, willingness to experiment. Research regarding the necessity of creativity as an entrepreneurial skill in graduates exists, yet there is still limited research on the educators' perception of creative teaching factors and their understanding of creative people. By understanding educators' perception of importance of creative teaching factors, we can comprehend how to further develop various entrepreneurial skills in students. Furthermore, a gap exists in practice between the skills which companies expect from graduates in the 21<sup>st</sup> century and the skills that graduates acquire during their education, which might be due to the lack of diversity in educational context. Yet, even though at times the move from traditional towards creative teaching is a fraught process for both willing and unwilling educators (Pollard, V. Hains-Wesson, R. and Young, K, 2018), they have to be the ones who take matters into their own hands and work on themselves and their competences in order to be able to master entrepreneurial skills in their students.

Since creativity and innovation are prerequisites to promoting economic and social progress and employment (European Commission, 2009), in this paper we will concentrate on the educators' perception of importance of factors that influence creative teaching as well as any significant difference between surveyed educators. By analysing and comparing educators we hope to gain insight into the differences of opinion of the importance of creative teaching. Further, we hope to raise educators' awareness of the need for creative teaching and to provide suggestions of various ways of promoting creativity and innovation within classrooms, thus boosting the entrepreneurial potential in students. In addition, we will explore educators' portrayal of creative people, their suggestions of various ways of promoting the culture of creativity and innovation in classrooms as well as the factors which they believe inhibit creativity.

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The research is conducted with the following hypotheses:

- H1: Educators want to promote the culture of creativity and innovativeness in their classrooms
- H2: Male and female educators assess the importance of creative teaching factors (CTF) differently
- H3: Foreign language educators assess the importance of creative teaching factors (CTF) differently than educators who teach other subjects
- H4: Educators believe that the curriculum inhibits creativity

This paper consists of an introduction with four research hypotheses, literature review on creative teaching factors, methodology used for the research accompanied with data analysis, and finally results and discussion. Limitations, in addition to further study, are mentioned in the conclusion.

## **Literature Review**

### *Creative Teaching Factors*

Fostering creative talent is valuable not only to one's personal development but also to the society. Today's business and knowledge economy is unceasingly changing therefore businesses, corporations and enterprises are trying to stay relevant and place emphasis on the production of innovative products and services with the ultimate goal of gaining competitive advantage (Wu, H.-Y., Hung-Shu, W., I-Shuo, C. and Hui-Chun C., 2013). Creativity is treated as one of the main competitive advantages of organizations due to the fact that competence of creative employees results in successful performance of creative organizations (Girdauskiene, 2013). Accordingly, creativity is portrayed as one of the fifteen key competences developed by the Entrepreneurship Competence Framework and thereby considered as one of the main entrepreneurial skills that can be developed and refined over time (Livingston, 2010). Nevertheless, since creativity is not easily assessed, a lot of work was explored on the topic of measuring creativity. In the words of Batey (2012), creativity can be measured based on the 4Ps approach elaborated by Rhodes (1961) which incorporates an assessment of Product, the characteristics of the Person, the Press and the Processes required for creativity. Cottrell (2015) designed a self-evaluation survey of creative thinking skills consisting of 25 sentences (and 5-point Likert scale as answers) which gives an insight into one's own creativity and suggestions on how creative thinking skills could be further developed. In addition, Girdauskiene (2013) identified key factors for individual and organizational creativity implementation such as motivation, openness to change, problem solving, decision making, experimentation, recognition and flexibility. Also, personality, intelligence, knowledge, thinking style, motivation, environment, age, gender, education, and emotional intelligence were suggested in the work by Costa, S.D., Paez, D., Sanchez, F., Garaigordobil, M. and Gondim, S. (2015) as factors that influence creativity.

Since education plays an important role in reinforcing creativity in students, educators must develop their own knowledge and belief in the context of the instruction of creativity if they want

to enhance the creativity of their students (Yeh, Y. C., Huang, L.Y. and Yeh, Y.-L., 2011). In the last decade, plenty of research has been conducted on the topic of creativity and factors that influence creativity in teaching (Zhou, J., Shen, J., Wang, X., Neber, H. and Johji, I. 2013, Wu et al. 2014, Costa et al, 2015, Franco, M., Haase, H. and Correia, S., 2015, Said-Metwaly, S., Kyndt, E. and Den Noortgate, W. V., 2017, Rubenstein, 2018). The eight creative teaching factors (CTF) identified as factors which possess good internal consistency, reliability and influence creative teaching are creative motivation, personal effort, learning attitude, teaching belief, school environment, teaching commitment, personal quality and growing-up experience (Hong, J-C. Horng, J.-S., Lin, L.-J., Chang, S.-H., Chu, H.-C. and Lin, C.-L. 2003). Moreover, when educators' conceptualization of creativity was explored cultural differences arose (Zhou et al. 2013). In addition to exploring factors which influence creative teaching, the perception of creativity of educators is an extremely important issue as well as uncovering factors which inhibit creativity and providing suggestions for promoting the culture of creativity in teaching. Rubenstein (2018) examined educators' perceptions of creativity using personal, behavioural and environmental factors of Social Cognitive Theory and revealed the dichotomy between educators' perceptions of personal and behavioural factors that promote and macro-environment factors that inhibit creativity. Furthermore, educators rely on the ex-cathedra approach while teaching (Hong et al., 2003). As to suggestions of promoting the culture of creativity in teaching, Al-Balushi and Al-Abdali (2014) mention teamwork as an approach to professional development that focuses on creativity in teaching, while Yeh et al. (2011) designed a teacher training program that integrates knowledge management (KM) and blended learning which results in improving educators' professional knowledge and personal teaching efficacy in their creative teaching. In addition, blended learning, guided practice, observational learning, group discussion, peer evaluation, and feedback were mentioned as factors important for the success of creative teaching (Yeh et al., 2011).

Furthermore, age, gender and experience differences among educators are a vital part of the research on creativity (Simpkins, R. and Eisenman, R. 1968, Klassen, R.M. and Chiu, M.M. 2010, Baoguo S., Xi, L., Chen, Q., and Qiu, J., 2017) as well the topic on the subjects that the educators teach (Cimermanova, 2014). The differences should be explored further in order to understand all the aspects influencing creative teaching.

## **Methodology and Data Analysis**

The aim of this empirical research was to examine whether educators value CTFs, and which ones they consider the most important in order to understand which aspects influence creative teaching. Also, authors wanted to comprehend whether there are differences between educators with the aim of grasping why some educators are considered more and some less creative. This research was conducted in order to raise the awareness among educators at all levels, regarding the understanding what CTFs are and how they contribute to a more creative teaching environment.

The ten factors used in our survey which influence creative teaching are willingness to improve, teaching beliefs and attitudes, acquiring new skills and knowledge, commitment to teaching, desire to be creative, personality, intelligence quotient, growing up experience, school environment and attractive appearance. The CTFs used in this survey were modelled by a



previously conducted survey in Taiwan: The Questionnaire Construction of Creative Teaching Factors (Hong et al., 2003) which identified the influential factors of creative teaching.

The questionnaire for our research entailed open and closed questions and five-point Likert scales as answers, one being not important and five being extremely important. In order to analyse the quantitative and qualitative data, both descriptive and statistical analysis were used. In SPSS the independent sample t-test tested the quantitative variables, namely the differences between educators' gender and the subject that they teach. In total, 149 educators from eleven European countries participated (Albania, Bosnia and Herzegovina, Croatia, France, Germany, Ireland, Portugal, Serbia, Slovenia, Spain, UK). Table 1 provides the overview of the demographic data of the educators (N=149) who participated in the survey.

Table 1: Demographic Data

| Country                   |  | n (%)            | Age                 |  | n (%)            |
|---------------------------|--|------------------|---------------------|--|------------------|
| Croatia                   |  | 107 (71,8)       | 20-30               |  | 29 (19,5)        |
| Other                     |  | 42 (28,2)        | 31-40               |  | 52 (34,9)        |
| <u>Total</u>              |  | <u>149 (100)</u> | 41-50               |  | 41 (27,5)        |
| Gender                    |  |                  | 51-60               |  | 22 (14,8)        |
| Female                    |  | 99 (66,4)        | 60+                 |  | 5 (3,4)          |
| Male                      |  | 50 (33,6)        | <u>Total</u>        |  | <u>149 (100)</u> |
| <u>Total</u>              |  | <u>149 (100)</u> | Years of Experience |  | n (%)            |
| Institution               |  | n (%)            | 5 or less           |  | 30 (20,1)        |
| Early Childhood Education |  | 3 (2,0)          | 6 to 10 years       |  | 33 (22,1)        |
| Primary Education         |  | 8 (5,4)          | 11 to 20 years      |  | 51 (34,2)        |
| Secondary Education       |  | 23 (15,4)        | More than 20 years  |  | 35 (23,5)        |
| Higher Education          |  | 115 (77,2)       | <u>Total</u>        |  | <u>149 (100)</u> |
| <u>Total</u>              |  | <u>149 (100)</u> |                     |  |                  |
| Subject                   |  |                  |                     |  |                  |
| Foreign language          |  | 52 (34,9)        |                     |  |                  |
| Other                     |  | 97 (65,1)        |                     |  |                  |
| <u>Total</u>              |  | <u>149 (100)</u> |                     |  |                  |

Source: Authors' own work

## Results and Discussion

For the purpose of this research, educators (N=149) rated their perception of the importance of creative teaching factors. Even though the questions entailed five-point Likert scales as answers, answers were categorized in three groups (not important, somewhat important and extremely important). As can be seen from the descriptive analysis in Table 2, all CTFs scored high with Willingness to Improve, Commitment to Teaching and Acquiring New Skills and Knowledge being rated as the most important factors. This signals that educators are well aware of CTFs and their importance. Meanwhile, as expected, attractive appearance is for half of educators (N=74)

not considered as important (Mean=2,42). Since the participation in the survey was voluntary it could be that the educators willing to take part are more proactive in the first place and therefore have an inclination towards creativity.

Table 2: Educators' Importance of Creative Teaching Factors

| CTF                                | Not Important | Somewhat Important | Extremely Important | Mean | <u>Total</u> |
|------------------------------------|---------------|--------------------|---------------------|------|--------------|
| Willingness to Improve             | 3             | 6                  | 140                 | 4,67 | <u>149</u>   |
| Commitment to Teaching             | 2             | 9                  | 138                 | 4,54 | <u>149</u>   |
| Acquiring New Skills and Knowledge | 2             | 12                 | 135                 | 4,47 | <u>149</u>   |
| Personality                        | 2             | 13                 | 134                 | 4,36 | <u>149</u>   |
| Desire to be Creative              | 1             | 17                 | 131                 | 4,30 | <u>149</u>   |
| Teaching Beliefs and Attitudes     | 9             | 24                 | 116                 | 4,10 | <u>149</u>   |
| School Environment                 | 5             | 32                 | 112                 | 3,98 | <u>149</u>   |
| Growing-Up Experience              | 11            | 29                 | 109                 | 3,91 | <u>149</u>   |
| Intelligence Quotient (IQ)         | 3             | 40                 | 106                 | 3,84 | <u>149</u>   |
| Attractive Appearance              | 74            | 49                 | 26                  | 2,42 | <u>149</u>   |

Source: Authors' own work

Authors also aimed at exploring whether gender and the subject that the educators teach play a part in educator's perception of the importance of creative teaching factors. Therefore, Table 3 provides statistically significant differences in gender of the educators. According to the results of the t-test, statistically significant difference in gender of the educators exists only for two CTFs. Women consider IQ ( $t = 2.912$ ,  $df = 75.530$ ,  $p = 0.005^*$ ), more important in teaching ( $\bar{x}=3,98$ ) than do men ( $\bar{x}=3,56$ ). Also, another statistically significant difference in gender of the educators is apparent ( $p = 0,004$ ,  $df=74,437$ ,  $t=2,930$ ) since women consider commitment to teaching more important ( $\bar{x}=4,67$ ) than do men ( $\bar{x}=4,28$ ). These results partly confirm our second hypothesis that female and male educators assess the importance of CTFs somewhat differently. Authors expected there to be bigger differences between male and female educators but the data do not support to this assumption. The reason for this could be the uneven distribution between male and female educators (66% of the surveyed educators were women).

Table 3: Gender Difference Between Educators

|                               | Gender | $\bar{x}$ | Std.<br>Deviation | t-test                                   |
|-------------------------------|--------|-----------|-------------------|--|
| Intelligence Quotient<br>(IQ) | Female | 3.98      | .654              | t = 2.912,<br>df = 75.530,<br>p = 0.005* |
|                               | Male   | 3.56      | .907              |  |
| Commitment to<br>Teaching     | Female | 4.67      | .589              | t = 2.930,<br>df = 74.437,<br>p = 0.004* |
|                               | Male   | 4.28      | .834              |  |

\*p-value is given for T-test on a significance level of 0.05

Regarding the subject that educators teach, statistically significant differences were noticed in four CTFs. It can be concluded that our third hypothesis, which states that foreign language educators assess the importance of CTFs differently than educators who teach other subjects, was also proven. Namely, according to the t-test, there is a statistically significant difference between educators who teach a foreign language and those who teach other subjects ( $p = 0,040$ ,  $df=147$ ,  $t=2,075$ ) since educators who teach a foreign language consider the desire to be creative an extremely important factor in teaching ( $\bar{x}=4,46$ ) in contrast to educators who teach other subjects ( $\bar{x}=4,22$ ).

According to the results of the conducted t-test, a statistically significant difference exists between educators who teach foreign languages and those who teach other subjects regarding three following CTFs, teaching beliefs and attitudes, commitment to teaching and acquiring new skills and knowledge as can be seen in Table 4. The factor teaching beliefs and attitudes ( $p = 0,000$ ,  $df=147$ ,  $t=3,710$ ) was rated by educators who teach foreign languages higher ( $\bar{x}=4,46$ ) than by educators who teach other subjects ( $\bar{x}=3,91$ ) similarly to commitment to teaching ( $p = 0,033$ ,  $df=128,782$ ,  $t=2,157$ ) since educators who teach foreign languages rated commitment to teaching higher ( $\bar{x}=4,69$ ) than do educators who teach other subjects ( $\bar{x}=4,45$ ) and acquiring new skills and knowledge ( $p = 0.049^*$ ,  $df = 124.823$ ,  $t = 1.992$ ) where educators who teach foreign languages rated acquiring new skills and knowledge higher ( $\bar{x}=4,62$ ) than educators who teach other subjects ( $\bar{x}=4,39$ ). The differences in opinion might arise due to the fact that during their education foreign language educators gain more experience in making intercultural contact, travelling abroad and learning about other countries business and education and are therefore more open-minded, flexible and committed to acquiring new skills.

Table 4: Subject Difference Between Educators

|                                    | Which subject do you teach? | $\bar{x}$ | Std. Deviation | t-test                                    |
|------------------------------------|-----------------------------|-----------|----------------|---|
| Desire to be Creative              | Foreign language            | 4.46      | .609           | t = 2.075,<br>df = 147,<br>p = 0.040*     |
|                                    | Other subjects              | 4.22      | .725           |   |
| Teaching Beliefs and Attitudes     | Foreign language            | 4.46      | .699           | t = 3.710,<br>df = 147,<br>p = 0.000*     |
|                                    | Other subjects              | 3.91      | .947           |   |
| Acquiring New Skills and Knowledge | Foreign language            | 4.62      | .599           | t = 1.992,<br>df = 124.823,<br>p = 0.049* |
|                                    | Other subjects              | 4.39      | .744           |   |
| Commitment to Teaching             | Foreign language            | 4.69      | .579           | t = 2.157,<br>df = 128.782,<br>p = 0.033* |
|                                    | Other subjects              | 4.45      | .750           |   |

\*p-value is given for T-test on a significance level of 0.05

Furthermore, in three open-ended questions, educators were asked to give their opinion of creative people, to elaborate on ways of promoting the culture of creativity and innovation in their classrooms and to identify factors which inhibit creativity. The most recurring and significant answers were put into categories. From our descriptive analysis it is apparent that educators believe creative people are open-minded, problem-solving, resourceful, flexible, spontaneous and not afraid to try out new things. There is also a common understanding between educators that creative people are unorthodox, thinking out of the box, proactive, quite inquisitive and curious yet compassionate and conscientious. Also, values such as being able to adapt, being intelligent, enthusiastic, self-confident, risk taking and productive were emphasized. Additionally, it is a worthy remark that some of the mentioned skills and attributes are characteristic for entrepreneurial people. When asked what they do or could do to promote the culture of creativity and innovativeness in their classrooms, in the open-ended question section of the survey, educators stated that they use or would use the following activities: continual professional development, mind mapping, brainstorming, project work, use of technology (mobile phones, laptops, internet), critical thinking, assigning projects that require convergent and divergent thinking, inter-curricular approach, associative thinking development, substituting traditional exams with research projects or papers, experiential classroom, design-thinking, mindfulness, real-life case studies, and merging education with culture or real-life. This proves our first hypothesis that educators want to promote the culture of creativity and innovativeness in their classrooms. From our data it seems that educators are not only aware of different ways of promoting creativity but are also willing to undertake activities for promoting creativity. Even though educators believe creativity can be promoted within the classroom, there are still factors which they believe inhibit creativity. The ex-cathedra approach while teaching is merely one of the obstacles found in our research that prevents educators from implementing creative teaching. Some of the mentioned were: the constraints of the curriculum, the lack of support for proactive educators as well as intrapersonal factors such as insufficient thinking out of the box, reluctance to change, and humiliation. By that, our fourth hypothesis that educators believe that the curriculum inhibits creativity has also been proven. This is a clear signal for the ministry of

education and other bodies of government regarding the significant and fundamental changes needed in education.

## Conclusion

The aim of this research was to show how educators assess creative teaching factors and whether differences in opinion among educators exist. The importance of creative teaching for students' acquisition of knowledge and entrepreneurial skills must not be underestimated. In this research, we have given more emphasis to educators' self-assessment due to the fact that educators are the ones who educate students. Educators self-reflection and opinion is crucial when considering the validity, authenticity and outcomes of their teaching in order to boost the entrepreneurial potential in students. Furthermore, we wanted the educators to give their opinion on the characteristics that creative people possess, to provide strategies for improving the culture of creativity in their classrooms and also to recognize obstacles that might inhibit creativity within the classroom for the purpose of raising awareness of all educators at different levels of education regarding the necessity and importance of creative teaching.

Despite the fact that the sample of educators in the survey was rather large, our research still has a number of limitations. Firstly, the survey conducted was a self-assessment and educators who participated in the survey were not equally distributed considering the country they came from. Secondly, there was not an equal distribution of the subjects that the educators teach. Also, there was a lack of male educators who should have been included in the survey for an equal distribution of male and female educators. Finally, most of the educators were employed in higher education.

Since the sample of educators was not representative, in further research we suggest to include a larger and equal number of educators from all European countries in order to get a more statistically valuable findings, to make a comparison between the equal number of foreign language educators and educators of other subjects, and to include an equal number of educators from different levels of education in the survey with the purpose of a more valuable understanding of European educators' creative teaching implementation on students' knowledge and entrepreneurial skills' acquisition.

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## **Branded Cities Alba Iulia, a Romanian Example**

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**Abstract:** *Alba Iulia, the 33th city (from 320 cities) of Romania if considered its demography, has become in 2014 the first Romanian branded city. The most important heritage of the city is the citadel – a military architectural monument that is unique in the Eastern part of Europe. The citadel is a heptagonal construction from the 18th century with more than 1 km in diameter. As it is mentioned in the Brand Manual of the city, the shape of the citadel became the source of inspiration for designing the city logo and all the visual identity of the Alba Iulia city.*

*The aim of the present paper is to emphasize the impact that the city branding had on the touristic development of Alba Iulia. The research is achieved through analyzing secondary data regarding the economic development of the city in the last years (before and after the city branding), especially the touristic indicators. The main sources of information are represented by the Romania's Statistical Yearbooks, the data gathered from accommodation facilities, touristic agencies and other internal documents from the local authorities that managed the branding project.*

*After analyzing the data we observed that there are several economic indicators that increased after the year 2014, the year of branding the city. These indicators are directly related to tourism. For example, the existent tourist accommodation capacity increased from 3858 bed seats in 2014, to 4585 bed seats in 2015, which means nearly 18% in only one year.*

**Keywords:** *brand, tourism indicators, tourism development*

**JEL Codes:** *Z32, M31, M37*



## Introduction

The way a city is perceived can change the future of that city in terms of business and tourism efforts, and also its relations with other cities or nations. A good perception can increase the foreign direct investments or the tourist affluence, all of these having a positive effect on the citizens welfare.

### *Defining “brand”*

As Kotler and Armstrong (2014) argue, a brand is any name, design, style, words or symbols used singularly or in combination that distinguish one product from another in the eyes of the customer.

A brand is, in fact, a promise to customers that they can expect long-term security, a competitive frame of reference and consistent delivery of functional as well as emotional benefits.

Also, it can be regarded as a set of marketing and communication methods that help to distinguish a company from competitors and create a lasting impression in the minds of customers. The key components that form a brand's toolbox include a brand's identity, brand communication (such as by logos and trademarks), brand awareness, brand loyalty, and various branding (brand management) strategies.

### *Defining “city branding”*

Although the concept of branding has its roots back in the 1940s, “the first journals that have tackled tourism destination branding did not flourish until 1998, with the study of Pritchard and Morgan from 1998, in which the concepts of branding and destination image were integrated together. The recent appearance of the destination branding articles in the academic arena gives us strong reasons to suspect that this concept is in its infancy” (Kasapi and Cela, 2017).

City branding started by being considered as the process by which the relation between people and the image of their city is built (Nickerson and Moisey, 1999), and that has the role to provide a consistent and focused communication strategy (Hall, 1999). Or, establishing a positive image in order to gain recognition and to create differentiation within a city as a destination, considering factors as: names, terms, signs, logos, design, symbol, slogan, the name being the most important one (Cai, 2002). In the end, it can be considered a method meant to increase the attraction of a city by creating city recognition (Rainisto, 2003). City branding is understood as the means both for achieving competitive advantage in order to increase inward investment and tourism, and also for achieving community development, reinforcing local identity and identification of the citizens with their city and activating all social forces to avoid social exclusion and unrest (Kavaratzis, 2004).

As we know, cities have always been brands. Usually people think about cities in terms of qualities or attributes, a promise or a story. For example: Paris is romance, Milan is style, New York is energy, Washington is power, Tokyo is modernity, Barcelona is culture, Rio is fun. These are the brands of cities, and they are inextricably tied to the histories and destinies of all these places (Anholt, 2006).

Brands play an integrative role when related to places because at the core of the brand is culture and the people who create it. Beyond promoting destinations, experiences and products, place brands enhance identity and culture (Gnoth, 2007).

One of the most complex definition is that of Zenker and Braun (2010). They argue that city branding represents all associations which are visually, verbally and behaviorally formed in the minds of consumers and shaped by general design of the city through the aims, communications, values and culture of its stakeholders. In the same time, they mention that it can be defined as the process employed by public administrations to intend to create place brands, networks of associations in the target groups' minds based on the visual, verbal, and behavioral expression of a place, which is embodied through the aims, communication, values, and the general culture of the place's stakeholders and the overall place design.

It aims to affect the perceptions of a place and position in the minds of the target groups. Place branding can even be considered as a "governance strategy for projecting images and managing perceptions about places" (Braun et al., 2014)

Cities own a diversity of features, such as culture, art, heritage, or natural resources that create complex identities that exist in the minds of consumers. These features work together towards creating a differentiated image in the minds of consumers (Kasapi and Cela, 2017).

### *Introducing Alba Iulia*

Alba Iulia tells the story of a town with a millennial history, which has been a capital even since the Romans, and is also nowadays considered the Other Capital of Romania. The strength of its cultural profile is also given by its exceptional cultural heritage, which is to be rediscovered and reprinted by the local people, but also by the Romanian and foreign tourists.

Alba Iulia tells the story of its European old age, starting with the Roman civilization that had a place and a significant role here. The Romans founded here two cities named Apulum (the Latin name of Alba Iulia). Each of them occupied a large area in the southern and eastern areas of the current city. The Apulum civil settlements, organized around the 13th Legion of Gemina, formed the most important urban center of Dacia Roman. The elements discovered by archaeologists are capitalized on the Route of the three fortifications, on the main thoroughfare of the Citadel, Mihai Viteazul Street, and in the Citadel Square. Of the two cities founded here by the Romans, there is only one left, Alba Iulia.

The urban flowering period of Apulum lasted less than 200 years, being shrouded by the raids of the migratory peoples. There were another 600 years of decay. Re-entering the history scene has been done slowly, with small steps.

Abandoned in the third century, the ruins of the Apulum Castles and the edifices on the premises will be given new destinations only at the beginning of the Middle Ages. On the ruins of the Roman fortress were built the walls of another fortification - the medieval fortress. Nowadays, the bastions built up in the 17th century on the southern side of are still visible. The Saxon Bastion, for example, is considered as part of the Three Fortifications Route. The Sassian

Bastion was the successful part of a larger project of medieval fortress with four bastions of defense, to which the prince of Transylvania and the three political nations, the Saxons, the nobles and the Szeklers had to contribute. Only the prince and the Saxons succeeded in building the bastions on the south side of the fortress, both integrated today in the Alba Carolina Fortress.

In the south-western corner of the former legion camp, two early churches were built: a rotunda and a basilica of the Eastern type. It is the place where the foundations of the future episcopal center were built, and around which an intense urban life developed over time. Until the 14th century, the Roman Catholic Cathedral in Alba Iulia was the largest religious building in Transylvania. Nowadays, it is the oldest cathedral in Transylvania that continues to function, being the oldest building in Alba Iulia and Alba County, built at the beginning of the 13th century. At the same time, it is the longest in Romania, having 93 meters in the axle, being the tallest building in Alba Iulia and Alba county through the tower measuring 56.7 meters.

Almost for a millennium now, Alba Iulia has been the religious capital of Transylvania, for one or more confessions. In the moral and physical structure of the Alba Iulia Fortress, the role of religion is quite visible. At the center of the fortification built by the Austrians 300 years ago, there are now two architectural jewels - the Roman Catholic Cathedral and the Cathedral of Coronation. The first embraces all styles used between the 10th and the 18th centuries, the Romanesque style being the most used one. The second, in the Brâncovenian style, was raised in record time to host the coronation of the kings of Romania, Ferdinand and Maria, as sovereigns of Great Romania, on October 15, 1922. Even though their history and destination are opposite, symbolism reinforces the "cradle of cultures" reputation of the city (the Romanians and Hungarians have been living together here for about a millennium now).

Alba Iulia was for about one hundred and fifty years now, the political capital of the Principality of Transylvania (the period when Transylvania was quasi-independent), with its epicenter in the Princely Palace. The edifice lived its glory in the Transylvanian Principality, when the fate of the region was conducted from Alba Iulia. It goes without saying that the residence of the princes constituted during the epoch the center and the most important scene of the political life in Transylvania. For this stage of the greatest historic importance of the Palace, we have to consider the whole complex with three courtyards, including the area of today's Episcopal Palace. Today's palace represents about two-thirds of what was in the premodern era when he hosted the "Transylvanian Clay". Currently, it is in conservation, and specialists are investigating on the ground the hidden traces of grandeur of the past. Here the first museum dedicated to the Principated Transylvania will be established.

The third fortification of the city, Alba Carolina Fortress, is the largest fortress in Romania, perfectly preserved for over 300 years. One of the unique aspects of the White Carolina Fortress is the succession of the six gates on the east-west axis, on the southern flank of the fortification.

The years 1600 and 1918 are two major moments in which Alba Iulia intersected with great history. The first had Mihai Viteazul in the forefront and is appreciated by the historians as an ephemeral union, and somewhat on short term. From Alba Iulia, from the Palace of Principles, the voivode led the destinies of Transylvania, but also of Moldavia and Wallachia.

After three consecutive centuries, Alba Iulia received the honor of being the city that gave Romania its identity. Here, in 1918, the document that confirmed the union of Transylvania with Romania was signed. This is the reason why, the place has been regarded, for a century, as the symbolic capital of Romania, or the Romanians' Soul Capital. In this context, the "Other Capital" slogan was designed.

The excellent organization of the National Guard was one of the strongest arguments for which Alba Iulia was elected, in 1918, as the Great National Assembly venue that decided the Union of Transylvania with Romania.

Nowadays, the Union from 1918 is also redeemed by the modern method of reenactment. One of the troops is precisely the National Guard, reconstituted by a project of the Union National Museum, consisting of ten soldiers and several other volunteers.

Another ten reenactors embody all the personalities involved in the organization of the Great National Assembly, but also in other events preceding the National Union.

There are two other reenactment troops in the city: the Fortress Guard and Apulum Guard. The first one has an artillery body, one for infantry and another for cavalry, and the second features the atmosphere of the ancient world, with Roman legionaries, Dacian warriors, gladiators and dancers.

After 2010 when the restoration of the Citadel began, Alba Iulia is slowly becoming a tourist destination of excellence.

Alba Carolina Citadel is the largest open-air cultural scene in Romania, where festivals, films, exhibitions, theater performances, historical reconstruction shows are organized.

### **Restoring Alba Carolina Citadel**

It took years of work, 150 million euros invested, studying of the original plans of the fortress and purchasing construction materials that are similar to those used for building the fortification hundreds of years ago.

In this way, Alba Iulia became for the whole of Romania an example of good practice in using European Funds for restoring a huge historical monument. With a lot of efforts, this city of no more than 60,000 people has managed to turn an area of over 100 hectares into an open-air museum. In other cities with much larger budgets, historic buildings are still in the cradle.

As we mentioned before, the story of the city begins long ago, two thousand years ago, when the legion XIII Gemina came to those lands. The Romans built a castra, then built a town, Apulum. On the walls of that town Balgrad was built in the Middle Ages. In 1714, Alba Iulia as it is now turned into something unique for the southeast Europe: a Vauban, a seven-corners-star-shaped fortification with three lines of defense. It was named Alba Carolina.

The wonderful citadel was then buried in the darkness of the days that followed. The seven high bastions of 12 meters, buildings of rare beauty, 6 triumphal gates and nearly 6 kilometers of walls were more than 90 years old covered with earth and forgotten.

Practically, the sculptural decorations present on the third gate are actually a living book of history, the most important statue on the third gate is that of Emperor Charles VI, during which the fortress Alba Carolina was built, he is depicted on his horse in a position of victor, around it are statues of Turkish prisoners and the prey of war.

Now the gate again has its own guard. The fortress guard also preserves the most important buildings, the paved alleys, the squares or dozens of bronze statues.

With the guard of the fortress, was given life to this historic building, the soldiers of the guard work at the gates of the fortress, and even besides some important objectives.

In this way, Alba Iulia became an old-new city, everything is old, but it is freshly renovated which gives life and notoriety, and the little statues showing epoch people are even more beautiful. Fortunately for the city, the local administration understood what treasure they live in, they understood that historical tourism is one of the most important forms of tourism in Romania and that if the money is invested rationally, it worth doing it.

So, after many years the restoration was done, and it was done with good taste. The investment was worth the effort.

### **Branding Alba Iulia**

Alba Iulia managed to break the ice, being the first Romanian city to adopt a professional touristic brand. In 2010, once with the first works that transformed the city, the city administration chose an original way of affirming its identity, calling out its citizens to answer questions such as: who are we, what best describes us, what is worth promoting?

In the following years, the tourist logo has been used wherever it has been invited: conferences, events, national or international fairs, concerts, promotional materials, gathering a remarkable number of presence that has ensured its expansion and notoriety. Unfortunately, in many cases, few graphic or aesthetic aspects were considered.

The branding professional that had this difficult mission has rigorously documented a tourist branding manual, a consistent way of assistance for anyone who chooses to use the tourist logo based on “The Other Capital” slogan.

The city's handbook is important from two points of view: one practical, another symbolic. The practice is related to the city's marketing objectives: the restoration of the fortress will be completed, and the promotion of the fortress will just begin. The public administration considered that it would be impossible to consistently create and promote a city brand without using a brand manual.

For that reason, the Brand Manual has been created in 2014. In over 200 pages, the manual covers, in addition to logo and slogan, typographic, chromatic, secondary visual elements, visual identity recommendations, practical applications, and especially a consistent strategic part. What does this mean for the city? It means that any promotional activity starting from that moment on will be more efficient because the brand manual guarantees the coherence and consistency of the city promotional efforts. From a symbolic point of view, the manual is a premiere: Alba Iulia is the first city in Romania with a brand manual made following the international standards, as well as the marketing strategy created by the marketing agency engaged by the local administration for the job.

The city has been admitted in the "City Logo" city's marketing program of the European Union, alongside cities such as Oslo, Warsaw or Genoa. With this occasion, we were proud to see that although we were the only city in Southeastern Europe that has been accepted and we are the smallest city in the program, we are looking not just as simple participants but as leaders in marketing strategy.

Beyond the clear intention of representing a professional work tool in promoting the city, the manual explains and guides how to use the identity elements. Thus, local businesses or organizations of any kind who want to improve their image and promote their belonging to one of the most solid and recognized communities in Romania, have the opportunity to download and use free of charge the city's branding manual from the City Hall website. The only requirement is to follow the instructions in order to unalterably respect the purpose for which the document was created.

The Brand Manual consists of a set of rules, recommendations and examples of using the city brand, aiming to maintain a strategic and visual brand consistency across a 2 to 5 years' time period. Its role is to define both the brand's visual identity and its way of usage and the brand's strategic foundation and the direction of development.

The Alba Iulia Brand Manual has two sections. In the Brand Identity section, the manual addresses: symbolism; logo and slogan; chromatic elements; typographic elements; secondary visual elements; rules of identity usage; recommendations. The Brand Strategy section addresses: brand positioning; brand archetype; touristic positioning; brand development strategy

In their struggle to create a strong city brand (the first in Romania), the authorities understood that when tourists think of the cities to visit, they usually think of climate, level of pollution, roads/ transport, the cost of living / prices, the offers for leisure time, events, cultural and urban life.

In this sense, following the model for analyzing cities designed by Anholt (2006), the administration involuntarily, but systematically took care of the six components of the model.

First, they made sure that "*place*" component is fulfilled by taking care of the outdoors and transport infrastructure; after that, asking the citizens about their needs through regular polls they fulfilled the "*prerequisites*" component by making sure that the people living in the city have

everything they need, and assuring their basic necessities and public amenities; the “*people*” component was the easiest one because people in this region have the culture of being friendly and opened to cultural diversity. Practically, people living in the city accepted easily the foreign tourists, the employees from shops, restaurants all speak a little bit of English and everybody understood how important that is. Being a small city, a transit one, of course it needed some “*pulse*” and for that, during the summer season, in the city are organized interesting events and activities that are meant to satisfy different kinds of public. Because Alba Iulia has huge touristic “potential”, the administration used European Funds in order to offer economic and educational opportunities for the ones interested in it. And of course, an important amount of money was spent in order to create “*presence*” for Alba Iulia at national and international level by using a strong promotional strategy based on social media and participation in international tourism fairs.

### **Research Methodology**

The aim of the paper is to emphasize the impact that the Alba Iulia city branding had on the regional development indicators – tourism indicators, in our case.

The objectives of the paper are to define city branding and determine the impact that this marketing strategy had on different tourism indicators, namely: the number of tourists; the number of nights spent by tourists in the city of Alba Iulia; the number of accommodation units; the number of bed seats.

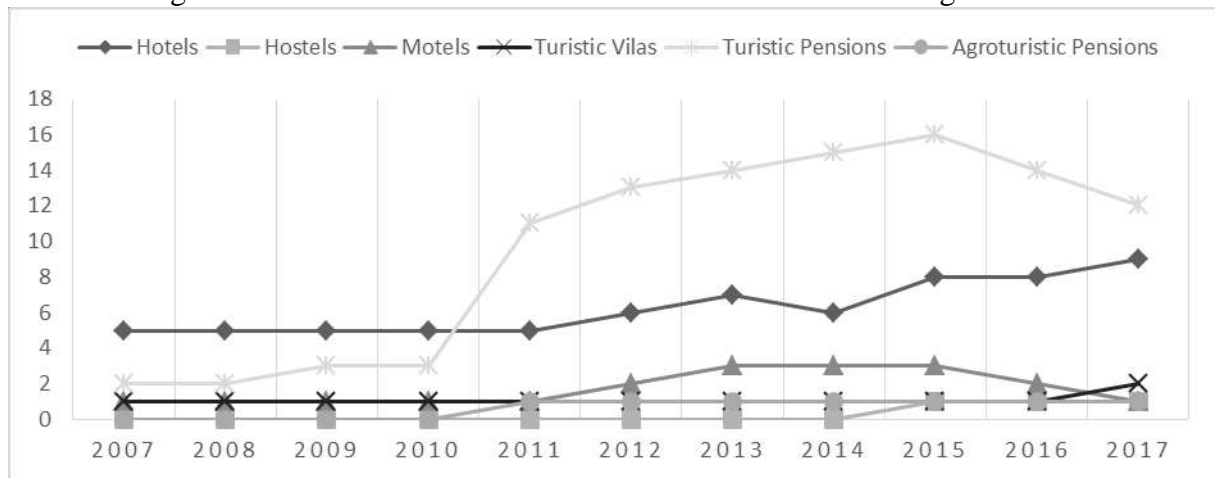
In order to achieve these objectives, a secondary databased research was conducted using the data obtained from the Romanian National Institute of Statistics.

### **Research Results**

After extracting the data from the Romanian National Institute of Statistics, Excel program was used in order to create the following graphics that show us very easily how important is for a place to have an open minded local administration that understands the importance of a good marketing strategy; that understands that having a such important historical monument in your city can bring a lot of wealth in the tourism sector.

The following graphics show how the tourism indicators evolved in the last 10 years. It is worth mentioning again that not only city branding influenced them, but also the steps done before that moment.

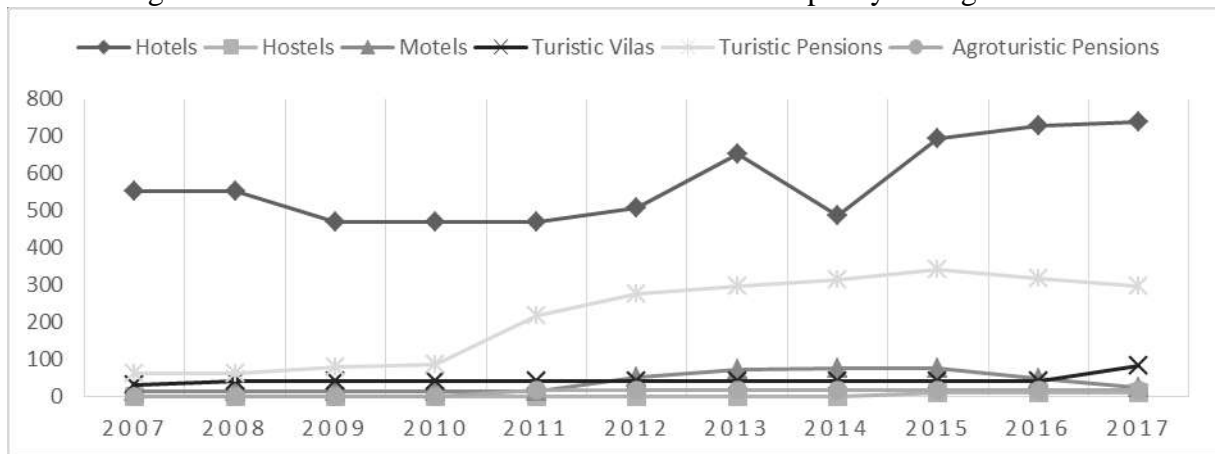
Figure br. 1 - The evolution of the accommodation units during 2007 - 2017



Source: Authors' own work

From the graphic above (figure nr. 1) we can observe the evolution of the accommodation units in Alba Iulia during 2007 – 2017 period. Although at the beginning of the analyzed period we can observe that till 2010 there are no major evolutions. But, starting with the beginning of the reconstruction period we can see that the number of the accommodation units increased, and we can observe also in 2014 another important increasing point. If in 2007 in Alba Iulia were 5 hotels, in 2012 were 6 and in 2017 there were 9, the number of the hotels almost doubled.

Figure br. 2 - The evolution of the accommodation capacity during 2007 - 2017



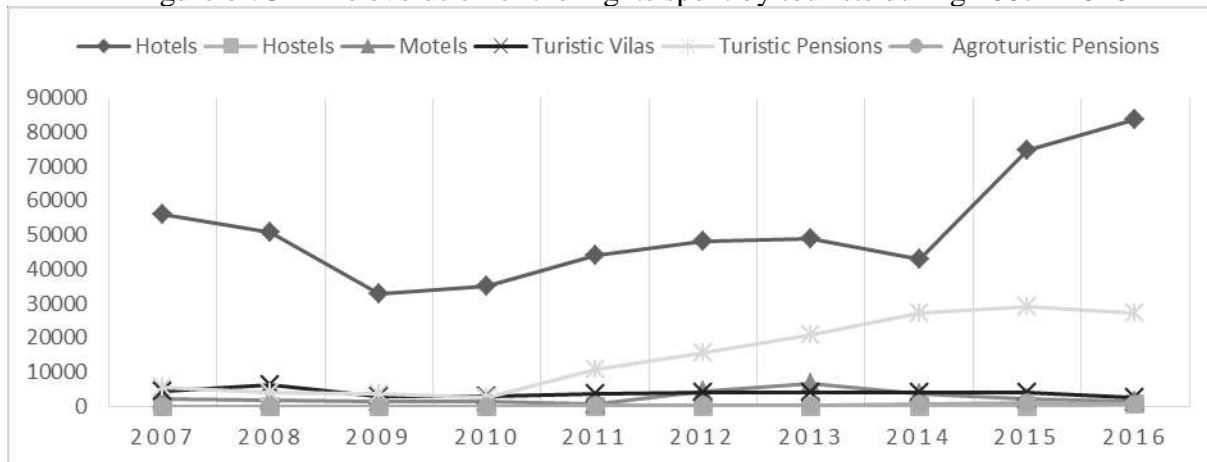
Source: Authors' own work

In the case of touristic pensions, the evolution is even more important. If in 2010 there were 3 pensions, in 2011 there were 11 touristic pensions, in 2015 their number increased to 16, but it slowly decreased to 14 in 2017.

Similar evolutions can be seen (figure nr. 2) also, in the accommodation capacity for the same period. The graphic shows even better how accommodation capacity has two important points of increase: the first one is in 2010 and the other in 2014, more emphasized in the case of hotels.



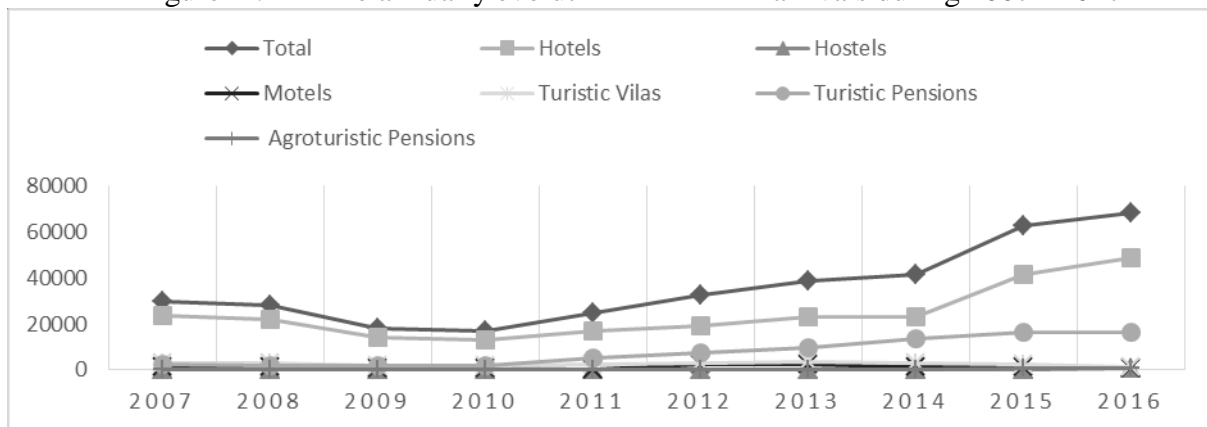
Figure br. 3 - The evolution of the nights spent by tourists during 2007 - 2016



Source: Authors' own work

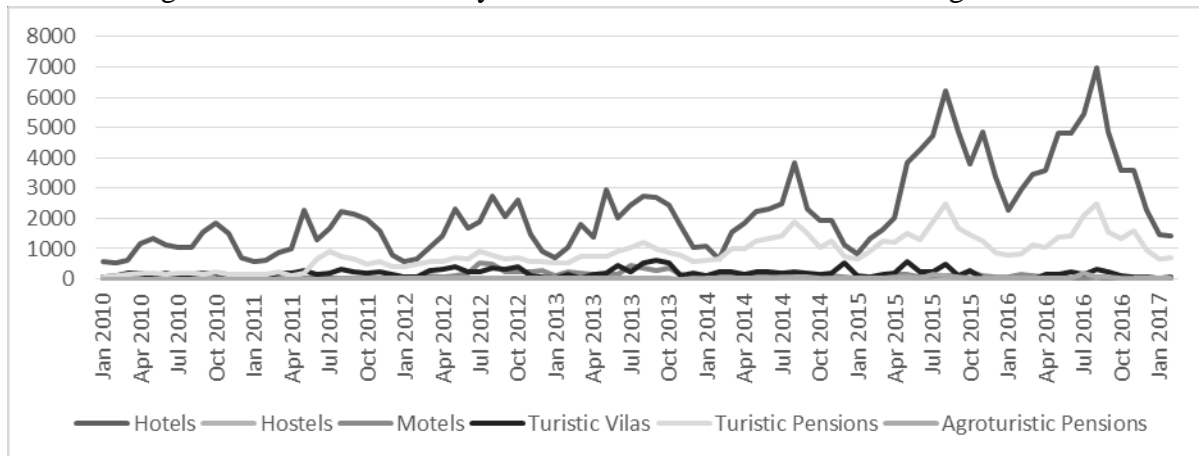
Although Alba Iulia is considered a small city for Romania and people used to say that it is just a transit city, tourists spending in average only one night here because there was nothing to see, nowadays, the average of the nights spent increased to almost 3. This happened because the local administration understood how important it is for the tourist to find here a story, places to visit, events to take part in, to have a real reason to come here and to remain more than one day. The figure nr. 3 shows even more obvious the impact that restoring the fortress and branding the city had on the touristic indicators.

Figure nr. 4 – The annually evolution of tourists' arrivals during 2007 - 2017



Source: Authors' own work

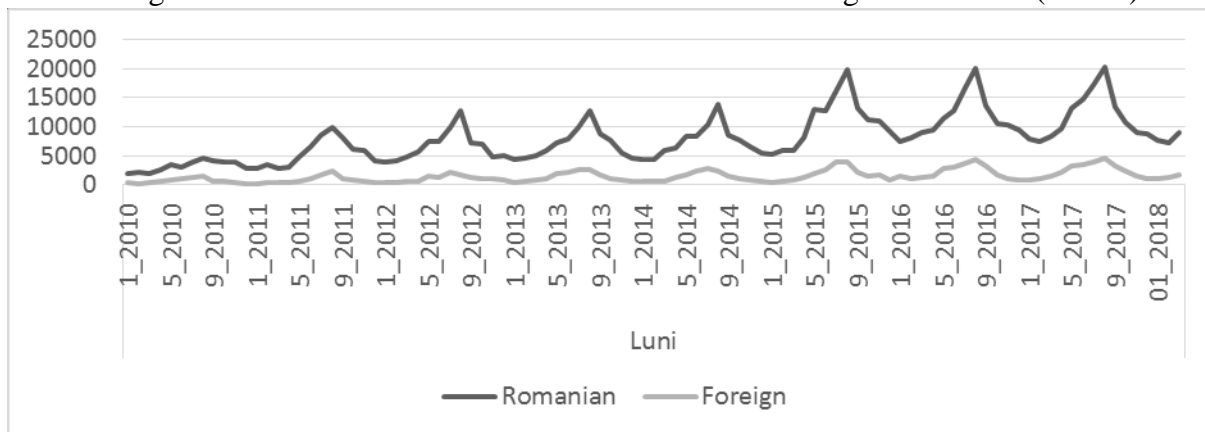
Figure br. 5 – The monthly evolution of tourists' arrivals during 2010 - 2017



Source: Authors' own work

Following same ascending curve, figures number 4 and 5 show how the number of tourists that arrived at Alba Iulia accommodation units during 2010 – 2017 increased. We can see from the statistical data that also Alba Iulia has seasonal tourism and that in the mead season the number of the tourist increased from less than 2000 in 2010, to 7000 in 2017.

Figure br. 6 - Evolution of total number of tourists during 2010 – 2018 (March)



Source: Authors' own work

From the graphic above, we can see that the total number of tourists that come to Alba Iulia increased. Although the number of the foreign tourists is not so high yet, we can observe a slight increased though. The number of the Romanian tourists is much higher also because Alba Iulia represents one of the most important historical objectives from Romania and for Romanians.

According to data obtained from the hotels in Alba Iulia and Alba Iulia National Museum and some other previous researches done on the Alba Iulia tourism, mainly, the foreign tourists that choose to visit Alba Iulia come from countries like: Poland, Republic of Moldavia, Italy, Germany, Hungary and other near European countries, but also from farther countries like Finland, Sweden or even Australia.

## Conclusions

Analyzing the tourism statistical indicators, we can conclude that the local administration from Alba Iulia successfully succeeded in creating a place brand, networks of associations in the tourists' minds "based on the visual, verbal, and behavioral expression of Alba Iulia.

For sure, this success wouldn't have been possible if the local administration wouldn't have worked according to CBI six key dimensions: presence (international status and standing); place (outdoors and transport); prerequisites (basic necessities, public amenities); people (friendliness, cultural diversity); pulse (interesting events and activities); potential (economic and educational opportunities).

City brand can have a huge impact on the tourism indicators if it is done right.

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## **The quality of educational outcomes and the cost - benefit ratio**

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**Abstract:** *Educational effects as external (social) educational goals are realized changes in the environment that are the product of behavior which is learned through education. These educational effects can be identified, in particular, at the level of higher education during the problem solving which leads to the alignment of the curriculum content of higher education institutions and the needs of the society (environment). Numerous universities have focused their curricula on unprofessional undergraduate vocational skills and competences with which they achieve the highest employability through external goals of education, i.e. earn the most.*

*But the greatest obstacle for all higher education institutions is finding the paths towards the educational outcomes that will make educational production (the graduates of these higher education institutions) acceptable in the educational environment. These educational outcomes of educational production are in direct relation with all elements of the curriculum system in their interrelation. If we want to improve education or achieve a higher quality of educational production, it is necessary to harmonize the changes of certain elements of the curriculum system. If we achieve the harmonization of the integral (and not partial) changes we can expect positive effects and the reduction of the cost-benefit ratio. This is the path of an internal reform of educational activity, the basis of which is the systemic analysis aimed at identifying the combination of changes in each of the elements of the curriculum system. Surely, we must keep an eye on certain limitations (internal and external) which will ultimately, with the quality analysis, show if it is possible to carry out a project of changes with verification of its cost-effectiveness.*

**Keywords:** *educational effects, educational production, changes*

## **Introduction**

The quality of educational outcomes, and the cost-benefit ratio with which higher education institutions are increasingly struggling to and the desire and efforts to enhance the current relations with which neither educational inputs in higher education institutions, so investors or educational production (graduates of these institutions of higher education) or, educational outcomes as well as educational and learning environment as external objectives of education are not satisfied at all.

Educational outcomes of educational productions are directly related to all elements of curriculum system that consists of a special interrelationship. If we want to improve education, or to achieve a higher quality of educational production it is necessary to harmonize changes in certain elements of the curriculum system. If we manage to harmonize the changes there can be expected positive effects and a reduction of the cost / benefit ratio.

The educational effects, considered by Pastuović (1999), does not depend only on the quality of educational outputs, but also about the extent to which they become enters the elements of external learning goals (subsystem).

Furthermore, the same author says that the elements of external goals of education are mutually connected and therefore the economic profitability of investment in education depends not only on economic condition, but also on the function of other elements of the external objectives of education (educational environments) and the relationship between them, because equal educational productions do not produce the same economic effects (Burton, J. K. & Merrill, P. F. , 1977).

There are two elements in regulating the use of the human capital in the economy that are especially important: the dominant cultural patterns and the political structure of the State (entity).

## **The return on investment in education**

Cost-benefit approach is directly related to the theory of human capital that its essence is based on the setting that the flows are, deciding how much some investment to invest in human and physical capital, opposite. Therefore, the profitability of both of these capitals (human and physical) is determined identically. The same is composed in the calculation of the cost of education that is predicted and their direct relationship with the potential benefits that will be achieved by increasing the education (Boyd, W. L., 1988).

The candidate approach is on the trail of the cost-effectiveness easier comparisons of multiplied investments and finally the recognition of economic and most effective investment. This opens up the possibility of calculating and comparing rate of return of all invested in human and physical capital, that is, the justification of investment in health and education, that is, the

justification of investment in education at all levels both in formal, and various forms of non-formal education.

This return on investment in education (estimates of return on investment in education) based on the theory of human capital, in the world started to explore in the mid of the last century and with one side, thus exploring the economic profit after investment, and with the other side, the results of which are based on time and estimates based on new economic techniques, confirmed the importance of the theory of human capital whose underlying hypotheses are based in the assumption that individuals and collectives invest in health and education because in this way increase, with one side, annual and life earnings of individuals, and on the other, increases economic growth, institutions or society.

Therefore, there is imperative impose of need for clarification of the economic effects of the education and the factors that condition them in the economic part of the external objectives of education (economic environment). There are numerous factors which condition the utilization of education, which forces and Croatian author Pastuović (1999):

1. „compatibility of educational productions (for professions and degrees of education) with the needs of the economy and society,
2. compatibility of the content of education and the requirements of work,
3. the quality of education (educational outputs),
4. regional, sectoral and organizational arrangement of employees personnel,
5. application of the results of educational staff in the organization and society“ (Pastuović, 1999, p. 392).

This cost-benefit analysis can be carried out at multiple levels to decide how much to invest in education. These levels are:

1. individual level
2. institution level
3. national level (entity, cantonal).

What is particularly interesting for our considerations are these two last levels, this second and third level, the level of the institution, ie the access to costs-benefits at the university level and the cost-benefit ratio at the national (entity, cantonal) level.

### **Cost-benefit at level of the educational institution**

Cost-benefit at institution level (university level) can be viewed through, on the one hand, direct costs and the value of lost time (organizational costs of education of employees), and on the other hand, with the overall benefit of such education as a general good.

If we draw the parallel between the benefits of investing in educational content and various forms of physical capital, as a product we can get rational investment decision-making.

Unlike an individual's level, economic cost-effectiveness of education can be more easily assessed at the institution level (University level) and is the most important investment decision maker.

This investment decision as a basis for its adoption takes the preinvestment study, which is based on the conceptual solutions. Preinvestment study approaches to analysis of all variants that make an investment decision from an economic position. There is no significant difference between investment and pre-investment studies.

### **Cost-benefit at national (entity, cantonal) level**

This third, national level, ie access to cost-benefit (at national level) is particularly interesting because it is common knowledge that public authorities finance public education systems to accelerate the economic development of the country by estimating.

At this level of national (entity, cantonal) level, this approach estimates the profitability of different investments in physical capital and different forms of investment in human capital, ie the viability of investing in different degrees and types of education. It is one of the elements for developing a development policy on a macroplane plan and microplane educational policy. Through the cost-benefit approaches during the seventies and eighties many national researches on the versatility of different types of education have been conducted. They are presented in review studies, which have been repeatedly updated by Psacharopoulos, G. (1981). Pastuović (1999) used data collected on a sample of 44 countries. Based on these data he reveals several regularities:

1. „The most profitable ones are individual and social investments in elementary education.
2. The greater benefit of investing in education, especially in higher education, is the educated individual rather than the society.
3. All rates of return to education are significantly above 10%.
4. The profitability of educational investments in the underdeveloped countries is higher than in developed countries“ (Pastuović, 1999, p. 363).

When deciding on investing in education at the national (entity, cantonal) level, important data are gained in the cost-benefit approach (though not the only one) because the state and entities through investment in education expect not only economic gain but also the one in the sphere of politics , culture, ecology, or have a wider social context. This cost-benefit approach is used with other reports from other ministries of the state (entities, cantons) to form annual budgets so that budget allocations (for public spending) to all government ministries are correct and to the satisfaction of all ministries. According to the World Bank report, at the end of the last century, it started to maintain a restrictive financial policy towards education at all levels of public education institutions whose previous investments were above the optimum. Budgetary funds at the national level (entity, cantonal) that were previously planned for public education are geared towards the needs of health care or economic infrastructure (World Bank, 1987). This redistribution of budget resources is the result of weak economic effects of education and



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visually dissatisfied governments (financial, cantonal) which the funds have decided to redirect to more cost-effective investments.

## **Conclusion**

Within the theory of human capital, the underlying hypothesis is set against contradictions in the decision-making process of investing in physical and human capital, so the profitability of investing in physical and human capital is determined simultaneously. The economic viability of investing in education is not only conditioned by the economic situation but also by other elements of the external educational goals (educational environment) and their interaction, because the same economic effects are not the result of equitable educational production. The results of many studies have shown that the most profitable investments in elementary education (individual and social), then that individuals have a greater benefit than societies if they invest in higher education and that all rates of return on investment in education are higher than 10% particularly concerning investment in education in underdeveloped countries.

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**Online shopping: A cross - cultural comparison**

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**Abstract:** *There has been a significant increase in the number of Internet users worldwide. For businesses, it is an unparalleled opportunity to sell products and services through this virtual channel. Therefore, it is crucial to understand how consumers perceive online purchases. The aim of this study is to compare two different countries, Portugal and Bosnia and Herzegovina, regarding their online purchasing behaviour. Data was collected through an online survey distributed in November of 2017. A total of 180 valid responses was obtained. The percentage of Portuguese respondents who had never bought online (12%) was much lower than Bosnian respondents (35.6%). However, considering those who had already purchase online (134 respondents), there were no significant differences in the frequency of online purchases between Bosnian and Portuguese respondents. Moreover, in both Portugal and Bosnia and Herzegovina, age and level of education do not have a significant effect on the frequency of online shopping. There were no significant differences between both countries regarding perceived risk, perceived usefulness, enjoyment and trust in online shopping. However, people from Portugal recognize that there are more benefits from shopping online than Bosnian people do. In both countries, the most purchased items are clothing and travel.*

*The opinions and experiences of friends are significantly more important to the Portuguese regarding online purchase decisions. Other factors that are significantly more important to the Portuguese than for Bosnian are the website appearance, ease of navigation, product variety, special offers/discounts,*

*Detailed product information, terms and conditions of website and privacy protection.*

*The findings of this study provide useful insights for online stores selling to the Portuguese and Bosnia and Herzegovina markets. Indeed, understanding their online consumer behaviour can help them to increase online shopping in these countries.*

**Keywords:** *Online shopping, consumer behaviour*

## **Introduction**

The world has changed since the invention of the Internet. The Internet not only changed the way businesses are conducted but also the traditional way of people shopping. For instance, now e – commerce is one of the alternatives available to the consumers(Adnan, 2014). According to Techopedia, *E – commerce* is the buying and selling of goods and services, or the transmitting of funds or data, over an electronic network, primarily the internet. These business transactions occur either as business – to – business, business – to – consumer, consumer – to – consumer or consumer – to – business. Internet is being used by consumer for different reasons and purposes such as for searching products and services, new features, prices and comparison of prices, reviews, selection of products or services through Internet placing the order, making payments or another of the required products through the Internet. (Moshrefjavadi, Dolatabadi, Nourbakhsh, Poursaeedi, & Asadollahi, 2012). Nowadays, online shopping is being more and more presented and used due to its ease of use, comfort, convenience, cost saving and time saving(Adnan, 2014). Moreover, increase in online shopping activities forced companies to offer their products and services online to gain competitive advantage over other companies in the marketplace. In the past, people were bound to opening times or specific locations. However, nowadays time is not limited and consumers can purchase products and services virtually at any time and place. Internet has become present in our everyday life as a medium for communication and information(Adnan, 2014). According to Statista(n.d.), the leading statistics company on the Internet, the retail e – commerce sales worldwide have been growing yearly, and the projections shows a growth to 4.48 trillion US dollars by 2021. The highest online shopping penetration rate is in China. From November 2016, the most popular online shopping category is fashion. The statistics on e –commerce share of total global retail sales from 2015(7.4%) to 2017(10.1%), and is expected to reach 15.5% in 2021. Online shopping is one of the most popular online activities worldwide (Statista, n.d.).

## **Literature Review**

### **Factors influencing consumer buyer behaviour in this study**

Consumer buying behaviour is the outcome of the needs and wants of the consumer and they purchase to satisfy these needs and wants (Dudovskiy, 2015). The factors that will be discussed in the following section have been chosen after reading the relevant literature in the field of consumer's behaviour in online shopping.

## **Perceived risk**

Perceived risk has a great effect on online consumer behaviour and their intention to purchase. Indeed, if consumer perceived risk is high, their consumer intention to purchase product or service online will be low. On contrary, when they perceived the risk is low, their intention to purchase online is going to be high. The risk is real and as long it is real, it will affect consumer's behaviour online. Researchers define perceived risk with respect to improbability and consequence. Moreover, perceived risk may be in some cases over exaggerated due to the limitation of the physical access to product/services and sales personnel (Forsythe, Liu, Shannon, & Gardner, 2006). A study done by Kumar and Dange (2014) analysed different dimensions of perceived risk such as financial risk, time risk, product risk, delivery risk and trust risk that influenced online shopping behaviour. Moreover, the study mentioned that there are two components of perceived risk such as: uncertainty and the significance of the consequences of particular purchases. The uncertainty stands for the possible outcomes which could have positive or negative behaviours and results of this consequences. When we discuss the uncertainty, we can also say that it is linked to possible loss of money due to making financial transactions. Financial transactions on Internet can lead to various risk factors.

## **Product risk**

Product risk is the product itself. The risk is allied with the consumers belief whether the product would function according to their expectations. A study done by Yeniçeri & Akin (2013) argued that product risk was related to poor performance, especially when the product did not meet the consumers expectations. The major problem was inability to assess the good quality of product or brand in online stores. Moreover, the non-availability of physical inspection resulted in increase of the product performance risk. Ji et al. (2012) studied the consumer attitude towards the online shopping and focused on impact of different perceived risks. The study found that there was a negative effect of product performance when it came to products like clothing, while there was a positive effect when the consumer shopped products like cell phones. Shahzad (2015) argued that majority of online consumers were confident in getting the same product that they purchased online, and consumer did not have fear of receiving a poor performance product through a malfunctioning merchandiser over the Internet.

## **Delivery risk**

The fail of delivery might occur by the goods lost, goods damaged or the goods were sent to a wrong place after the confirmation of online order. Delivery risk is one of consumer's major concerns regarding the purchase of products online. Therefore, customers try to approach trustworthy online sellers so they can reduce the product delivery risk. Furthermore, when consumers purchase from reliable online merchants, they feel safe and secure. For these reasons, online merchants should provide insurance coverage to online buyers if an item is not delivered to the consumer (Ariff, Sylvester, Zakuan, Ismail, & Ali, 2014).

Mosoud (2013) research showed that non – delivery of order will have negative influence on the attitude toward shopping online. People do not tend to shop online because they are not sure whether the ordered merchandise will be delivered or not and lack of seriousness and efforts toward building trust by the retailers make it a significant reason.

Moshrefjavadi et al. (2012) research also showed that fear of non-delivery of order will have negative influence on attitude toward online shopping. That is, higher the risk of losing money and probability of disclosing credit card information, the lower attitude toward online shopping.

Hong (2015) suggested that delivery risk had a positive effect if consumers ordered the product from a reliable online merchant. During purchasing from reliable online merchant, the consumer felt safe and secure from undesired product delivery problems,

Shahzad (2015) research showed that delivery risk has no significant impact on consumers' online shopping behaviour, and that the consumers get their products through reliable and trustworthy suppliers.

## **Psychological factor**

### **Trust**

Trust is a type of psychological factor and is related to the protection and safety of consumers. It provides protection on the websites and it keeps the personal information safe (Ariff et al., 2014). Moreover, in the research done by Ariff et al. (2014) it was mentioned that security and trust had a positive effect on consumer's attitude in online shopping.

Yoruk et al. (2011) research was based on the Turkish and Romanian consumers, and it was shown that trust and security were the major obstacles when it came to not shopping online. Similarly, in different research, Monsuwe et al (2004) research showed that if the trust of the consumers was violated in any way, it led to the negative attitude toward the online shopping. On the other hand, keeping personal information safe and secure led to the positive attitude toward online shopping.

## **Perceived relative advantage**

### **Perceived usefulness**

A study done by Ramayah and Ignatius (2005) argued that perceived usefulness was not a significant factor in determining the intention to shop online. The study believes that this surprising result is contingent upon variables such as type of products. Therefore, online purchases are believed to be more common in familiar products (e.g. books, CD's), while shoppers still prefer conventional means for apparels and household items. According to the Renny et al. (2013), perceived usefulness influenced attitude toward online airlines ticketing usability, positively.

## **Perceived enjoyment**

Consumers associate shopping with the enjoyment meaning it is a fun activity regardless of whether it is an online or offline shopping. According to Venkatesh (2000), he considered the perceived enjoyment as “the extent to which the activity of using a specific system is perceived to be enjoyable in its own right, aside from any performance consequences resulting from the system use”. A study done by Ramayah and Ignatius (2005) found that perceived enjoyment had a positive influence on the online shopping intention. The study further contends that individuals would only purchase through the Internet if they find it to be “enjoyable”.

## **Portugal and Bosnia & Herzegovina**

Portugal and Bosnia & Herzegovina were chosen for different reasons. Firstly, it was easier to collect the data from these two countries. Secondly, we wanted to see the differences between these countries when it came to the online shopping. Moreover, we will start with the brief fact of Internet usage in Bosnia & Herzegovina and Portugal and then proceed to the statistics about the online shopping in the above-mentioned countries.

A brief fact about the internet usage in Portugal and Bosnia and Herzegovina:

|                       | <b>Bosnia and Herzegovina</b> | <b>Portugal</b> |
|-----------------------|-------------------------------|-----------------|
| <b>Population</b>     | 3, 802, 134                   | 10,304,734      |
| <b>Internet Users</b> | 2,343,255                     | 6,930,752       |
| <b>Penetration</b>    | 61.6%                         | 55.6%           |

*Table 1 Internet Usage in Bosnia and Herzegovina and Portugal (Stats, 2016)*

## **Portugal**

There are currently 5.5 million e – commerce users in Portugal with projection of 1.67 million new users to be shopping online by 2021. 7.2 million of e – commerce users will represent 81.1% of the total population. Furthermore, the average user spends 440 euros online, and it is estimated to grow up to 520 euros by 2021.(Portugal e-commerce will grow up to 7.2 Million Online Shoppers by 2021, 2017)

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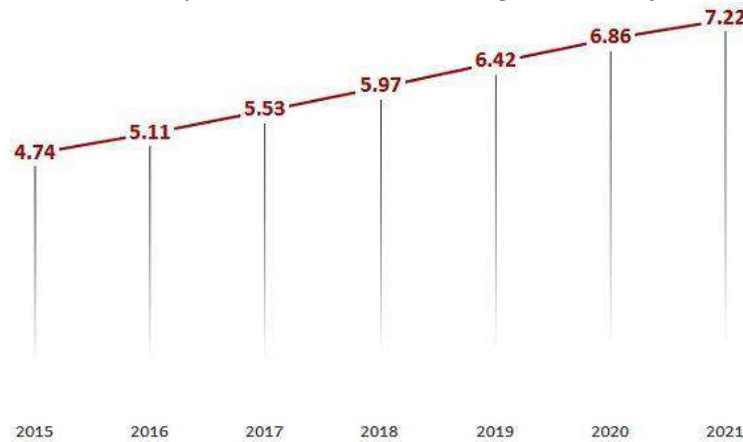


Figure 1 Number of users shopping online (in millions)

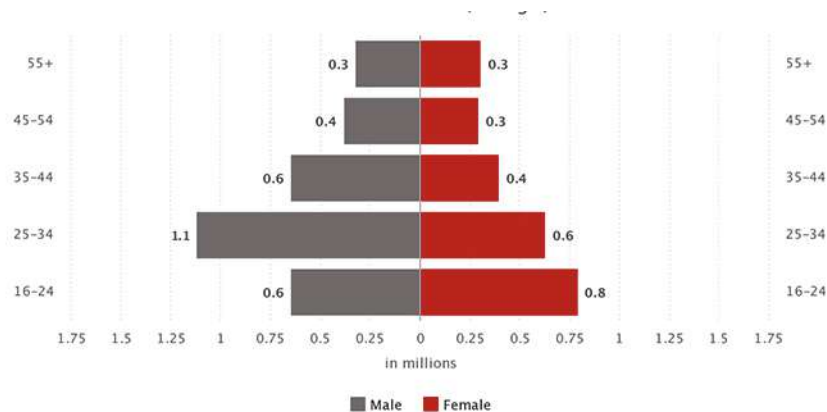


Figure 2 User by Age Group and Gender in the e-commerce market (in millions)

As you can see from the figure above, males between the age group of 25 – 34 accounts for the biggest market share, representing 1.1million online shoppers. The females aged between 16 – 24, accounts for 800,000 online shoppers. It is projected that the ration of male to female shoppers will remain the same across most of age groups.(Portugal e-commerce will grow up to 7.2 Million Online Shoppers by 2021, 2017)

Total e-commerce revenue across all product categories is 2,97 billion USD and it is expected to reach 4.6 billion USD by 2021. The leading product category that accounts for 808 million USD market share are Toys, Hobby & DIY. The second one is fashion, accounting for 801 million USD. It is projected by 2021, that fashion will lead the charge, valued at 1.3 billion USD. Moreover, Toys, Hobby & DIY will also grow, reaching 1.2 billion USD.(Portugal e-commerce will grow up to 7.2 Million Online Shoppers by 2021,2017)



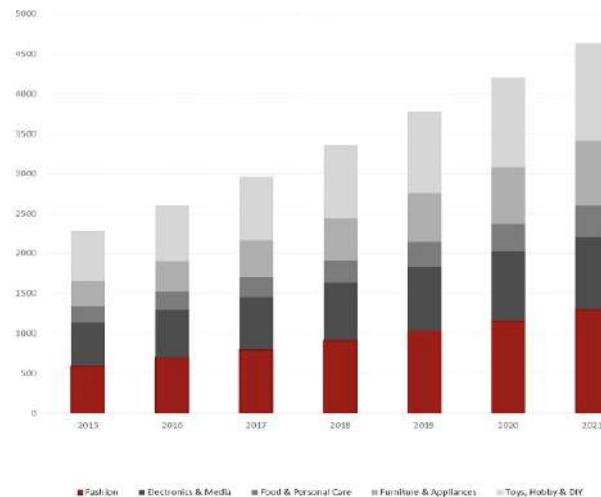


Figure 3 Projected e - commerce Revenue Per Year by Market Segment (in millions)

When it comes to the preferred online payments, 48% of online shoppers used Prepaid Cards, 40% used Bank Transfer, 9% used Credit Cards and 2% selected eWallets.

It is important to mention that 90% of online sales in Portugal were made via the computer. 4% of purchases were made via tablet and 4% via smartphone. (Portugal e-commerce will grow up to 7.2 Million Online Shoppers by 2021, 2017)

## Bosnia and Herzegovina

Small number of Internet users in Bosnia and Herzegovina practice to shop online. The major reasons of not shopping online are distrust, concern for money and product safety. Moreover, we can say that e – commerce arrived in Bosnia and Herzegovina with the online services such as E – kupon.ba, CityDeal.ba, Jupi.ba, etc. Online services have affected more and more users to start shopping online, due to its attractive offers. (Selimovic & Pestek, 2014)

When it comes to Bosnia and Herzegovina, there are no statistical data on e – commerce yet. According to the research done by Ozlen et al. (2012), out of 350 people who participated in the survey, only 110 said they have bought online at least once. Furthermore, it was found out what items were bought the most online. The results differed when it came to female and male. Females shopped online for clothes while males shopped more for software, books and travel.

Also, age played an important role. People in earlier years (19 – 23) were the biggest portion of those who said they bought at least once. Those who had 24 years or more were less likely to be online customers. The research found that discounts were the highest on the list of the things people liked when it came to online shopping. PayPal is used mostly by the ones who shop online.

## Methodology

There were two data used for this research: primary and secondary data. The primary data was collected through an online survey that consisted of 49 questions that measured:

| <i>INSTRUMENT</i>                  | <i>CREATOR AND YEAR</i>                     | <i>NUMBER<br/>OF<br/>ITEMS</i> |
|------------------------------------|---|--------------------------------|
| <i>Perceived risk</i>              | (Shahzad, 2015), Masoud (2013)              | 8                              |
| <i>Usefulness</i>                  | Cheema et al. (2013), Amaro & Duarte (2014) | 3                              |
| <i>Enjoyment</i>                   | Cheema et al. (2013), Amaro & Duarte (2014) | 3                              |
| <i>Psychological Factor(trust)</i> | Amaro & Duarte (2014), (Shahzad, 2015)      | 3                              |
| <i>Perceived benefit</i>           | Cheema et al. (2013), Amaro & Duarte (2014) | 3                              |

The online survey was distributed to people in both Portugal and Bosnia & Herzegovina. After the samples were collected they were passed to an Excel file in order to create a SPSS which we used for analysing all the data.

Statistical tests that were used:

1. Independent t-test: used to see whether there is a difference between two different populations. The population mean is unknown.
2. Chi – Square: involves the use of parameters to test statistical significance of the observations under study
3. Mann – Whitney U test: is a nonparametric test of the null hypothesis used to compare differences between two independent groups when the dependent variable is either ordinal or continuous, but not normally distributed.
4. Interquartile range (IQR) – also called the midspread or middle 50%, is a measure of statistical dispersion, being equal to the difference between 75<sup>th</sup> and 25<sup>th</sup> percentiles, or between upper and lower quartiles.

The secondary data was collected throughout the Internet searches, books and articles. The literature on the Internet was carefully reviewed in order for a better understanding of the research study topic. Moreover, my mentors provided me with the right sources and directed me to move to the right direction.

## Results

### Frequency of online shopping versus nationality

There were 104 respondents from Bosnia & Herzegovina, while from Portugal there were 76 making it total of 180 respondents. Of the Portuguese, 67 shop online, so 9 (12%) never shopped on-line. Of the respondents from Bosnia & Herzegovina, 67 shops online so 37 (35.58%) have never shopped online.

$p=0.536$  (Fisher exact test)

|                 |                        |               | Live     |                        | Total |
|-----------------|------------------------|---------------|----------|------------------------|-------|
|                 |                        |               | Portugal | Bosnia and Herzegovina |       |
| Shopping Online | More than once a week  | Count         | 2        | 3                      | 5     |
|                 |                        | % within Live | 3,0%     | 4,5%                   | 3,7%  |
|                 | Once a week            | Count         | 3        | 4                      | 7     |
|                 |                        | % within Live | 4,5%     | 6,0%                   | 5,2%  |
|                 | 2-3 times a month      | Count         | 12       | 11                     | 23    |
|                 |                        | % within Live | 17,9%    | 16,4%                  | 17,2% |
|                 | Once a month           | Count         | 16       | 13                     | 29    |
|                 |                        | % within Live | 23,9%    | 19,4%                  | 21,6% |
|                 | Less than once a month | Count         | 24       | 16                     | 40    |
|                 |                        | % within Live | 35,8%    | 23,9%                  | 29,9% |
|                 | As little as possible  | Count         | 10       | 20                     | 30    |
|                 |                        | % within Live | 14,9%    | 29,9%                  | 22,4% |
| Total           | Count                  | 67            | 67       | 134                    |       |
|                 | % within Live          | 100,0%        | 100,0%   | 100,0%                 |       |

Among the Portuguese, the percentage of respondents who had never bought online was lower than that of Bosnian respondents (12% and 35.6%, respectively). However, for the others, there were no significant differences in the frequency of online purchases between Bosnian and Portuguese respondents.”

### Frequency of online shopping versus educational level and age (in each nationality)

Fisher exact test:  $p=0.548$  Portugal ;  $p=0.81$  Bosnia & Herzegovina

| Shopping Online * Education Level Crosstabulation |                        |                 |                   |                 |       |      |        |
|---|------------------------|-----------------|-------------------|-----------------|-------|------|--------|
| Live  |                        | Education Level |                   |                 |       |      | Total  |
|   |                        | High school     | Bachelor's degree | Master's degree | PhD   |      |        |
| Portuguese shopping online                        | More than once a week  | Count           | 2                 | 0               | 0     | 0    | 2      |
|   |                        | % within Live   | 0.0%              | 0.0%            | 0.0%  | 0.0% | 0.0%   |
|   | Once a week            | Count           | 0                 | 0               | 0     | 0    | 0      |
|   |                        | % within Live   | 0.0%              | 0.0%            | 0.0%  | 0.0% | 0.0%   |
|   | 2-3 times a month      | Count           | 1                 | 0               | 0     | 0    | 1      |
|   |                        | % within Live   | 0.0%              | 0.0%            | 0.0%  | 0.0% | 0.0%   |
|   | Once a month           | Count           | 0                 | 0               | 0     | 0    | 0      |
|   |                        | % within Live   | 0.0%              | 0.0%            | 0.0%  | 0.0% | 0.0%   |
|   | Less than once a month | Count           | 1                 | 0               | 0     | 0    | 1      |
|   |                        | % within Live   | 0.0%              | 0.0%            | 0.0%  | 0.0% | 0.0%   |
| Total   |                        | Count           | 3                 | 0               | 0     | 0    | 3      |
|   |                        | % within Live   | 100.0%            | 0.0%            | 0.0%  | 0.0% | 100.0% |
|   | More than once a week  | Count           | 0                 | 1               | 2     | 0    | 3      |
|   |                        | % within Live   | 0.0%              | 8.3%            | 16.7% | 0.0% | 8.3%   |
|   | Once a week            | Count           | 1                 | 0               | 0     | 0    | 1      |
|   |                        | % within Live   | 33.3%             | 0.0%            | 0.0%  | 0.0% | 33.3%  |
|   | 2-3 times a month      | Count           | 1                 | 0               | 0     | 0    | 1      |
|   |                        | % within Live   | 33.3%             | 0.0%            | 0.0%  | 0.0% | 33.3%  |
|   | Once a month           | Count           | 0                 | 0               | 0     | 0    | 0      |
|   |                        | % within Live   | 0.0%              | 0.0%            | 0.0%  | 0.0% | 0.0%   |
| Bosnian and Herzegovina shopping online           | More than once a week  | Count           | 0                 | 0               | 0     | 0    | 0      |
|   |                        | % within Live   | 0.0%              | 0.0%            | 0.0%  | 0.0% | 0.0%   |
|   | Once a week            | Count           | 0                 | 0               | 0     | 0    | 0      |
|   |                        | % within Live   | 0.0%              | 0.0%            | 0.0%  | 0.0% | 0.0%   |
|   | 2-3 times a month      | Count           | 0                 | 0               | 0     | 0    | 0      |
|   |                        | % within Live   | 0.0%              | 0.0%            | 0.0%  | 0.0% | 0.0%   |
|   | Once a month           | Count           | 0                 | 0               | 0     | 0    | 0      |
|   |                        | % within Live   | 0.0%              | 0.0%            | 0.0%  | 0.0% | 0.0%   |
|   | Less than once a month | Count           | 0                 | 0               | 0     | 0    | 0      |
|   |                        | % within Live   | 0.0%              | 0.0%            | 0.0%  | 0.0% | 0.0%   |
| Total   |                        | Count           | 0                 | 0               | 0     | 0    | 0      |
|   |                        | % within Live   | 0.0%              | 0.0%            | 0.0%  | 0.0% | 0.0%   |

Correlations -Spearman

| Spearman's rho         | Live            | Shopping Online         | Correlation Coefficient | Sig. (2-tailed) | Sig. (1-tailed) |
|------------------------|-----------------|-------------------------|-------------------------|-----------------|-----------------|
|                        |                 |                         |                         |                 |                 |
| Portugal               | Shopping Online | Correlation Coefficient | 0.000                   | 1.000           | 0.500           |
|                        |                 | Sig. (2-tailed)         | 1.000                   | 0.500           | 0.500           |
| Bosnia and Herzegovina | Shopping Online | Correlation Coefficient | 0.000                   | 1.000           | 0.500           |
|                        |                 | Sig. (2-tailed)         | 1.000                   | 0.500           | 0.500           |

Correlations

| Spearman's rho         | Live            | Shopping Online         | Correlation Coefficient | Sig. (2-tailed) | Sig. (1-tailed) |
|------------------------|-----------------|-------------------------|-------------------------|-----------------|-----------------|
|                        |                 |                         |                         |                 |                 |
| Portugal               | Shopping Online | Correlation Coefficient | 0.000                   | 1.000           | 0.500           |
|                        |                 | Sig. (2-tailed)         | 1.000                   | 0.500           | 0.500           |
| Bosnia and Herzegovina | Shopping Online | Correlation Coefficient | 0.000                   | 1.000           | 0.500           |
|                        |                 | Sig. (2-tailed)         | 1.000                   | 0.500           | 0.500           |

In both Portugal and Bosnia and Herzegovina, age and level of education do not have a significant effect on frequency of shopping online.

## Factors versus nationality

Each factor was assessed by the mean value of the corresponding items for each respondent.

|                       | Portugal |                    | Bosnia and Herzegovina |                    | P (Mann-Whitney test) |
|-----------------------|----------|--------------------|------------------------|--------------------|-----------------------|
|                       | Mean     | Standard Deviation | Mean                   | Standard Deviation |                       |
| Perceived Risk (mean) | 2,61     | ,83                | 2,37                   | ,98                | 0,74                  |
| Trust (mean)          | 3,41     | ,70                | 3,28                   | ,83                | 0,395                 |
| Usefulness (mean)     | 4,11     | ,82                | 3,97                   | ,98                | 0,412                 |
| Enjoyment (mean)      | 3,11     | ,81                | 3,27                   | ,95                | 0,427                 |
| Benefit (mean)        | 3,61     | ,76                | 3,22                   | ,98                | 0,004                 |

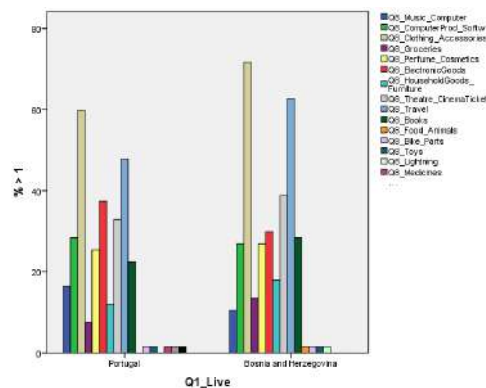
|                       |                             | Levene's Test for Equality of Variances |      | t-test for Equality of Means |         |                 |                 |                       |   |  |
|-----------------------|-----------------------------|---|------|------------------------------|---------|-----------------|-----------------|-----------------------|---|--|
|                       |                             | F                                       | Sig. | t                            | df      | Sig. (2-tailed) | Mean Difference | Std. Error Difference | 95% Confidence Interval of the Difference |  |
| Perceived Risk (mean) | Equal variances assumed     | ,262                                    | ,608 | -,152                        | 132     | ,880            | -,32765         | ,16818                | [-,32765, 27344]                          |  |
|                       | Equal variances not assumed |   |      | -,152                        | 131,155 | ,880            | -,32765         | ,16818                | [-,32765, 27344]                          |  |
| Trust (mean)          | Equal variances assumed     | 1,017                                   | ,315 | 1,091                        | 132     | ,277            | ,14428          | ,13225                | [-,12733, 40588]                          |  |
|                       | Equal variances not assumed |   |      | 1,091                        | 129,380 | ,277            | ,14428          | ,13225                | [-,12740, 40596]                          |  |
| Usefulness (mean)     | Equal variances assumed     | 11,308                                  | ,001 | 1,690                        | 132     | ,093            | ,23880          | ,14131                | [-,04672, 51833]                          |  |
|                       | Equal variances not assumed |   |      | 1,690                        | 111,058 | ,094            | ,23880          | ,14131                | [-,04130, 51880]                          |  |
| Enjoyment (mean)      | Equal variances assumed     | 2,042                                   | ,155 | -,742                        | 132     | ,455            | -,11940         | ,16393                | [-,42181, 18700]                          |  |
|                       | Equal variances not assumed |   |      | -,742                        | 129,809 | ,455            | -,11940         | ,16393                | [-,42138, 18257]                          |  |
| Benefit (mean)        | Equal variances assumed     | 3,781                                   | ,054 | 2,845                        | 132     | ,005            | -,42284         | ,16219                | [-,13136, 73371]                          |  |
|                       | Equal variances not assumed |   |      | 2,845                        | 128,520 | ,005            | -,42284         | ,16219                | [-,13179, 73398]                          |  |

| Hypothesis Test Summary   |   |      |                             |
|---|---|------|-----------------------------|
| H01 Hypothesis  | Test                                    | Sig. | Decision                    |
| 1 The distribution of Perceived Risk (mean) is the same across categories of Q1_Live. | Independent-Samples Mann-Whitney U Test | ,740 | Retain the null hypothesis. |
| 2 The distribution of Trust (mean) is the same across categories of Q1_Live.          | Independent-Samples Mann-Whitney U Test | ,395 | Retain the null hypothesis. |
| 3 The distribution of Usefulness (mean) is the same across categories of Q1_Live.     | Independent-Samples Mann-Whitney U Test | ,412 | Retain the null hypothesis. |
| 4 The distribution of Enjoyment (mean) is the same across categories of Q1_Live.      | Independent-Samples Mann-Whitney U Test | ,427 | Retain the null hypothesis. |
| 5 The distribution of Benefit (mean) is the same across categories of Q1_Live.        | Independent-Samples Mann-Whitney U Test | ,004 | Reject the null hypothesis. |

Asymptotic significance is displayed. The significance level is .05.

There were no significant differences between both countries regarding perceived risk, perceived usefulness, enjoyment and trust in online shopping. However, people from Portugal recognize that there are more benefits from shopping online than Bosnian people do.

## Most purchased items (in each nationality)



In both countries, most purchased items are clothing and travel.

## Influence of family, friends and online forums versus nationality

|   | Portugal | Bosnia & Herzegovina | P-value (Mann-Whitney test) |
|---|----------|----------------------|-----------------------------|
| Opinions and experience of family                 | 3 (2–4)  | 3 (2–4)              | 0.778                       |
| Opinions and experience of friends                | 4 (3–4)  | 3 (2–4)              | 0.007                       |
| Opinion and experience discussed on online forums | 3 (2–4)  | 3 (2–4)              | 0.730                       |

| Hypothesis Test Summary  |   |      |                             |
|--|---|------|-----------------------------|
| Null Hypothesis  | Test                                    | Sig. | Decision                    |
| 1 The distribution of Q10_ Opinions_Exp_Family is the same across categories of Q1_Live  | Independent-Samples Mann-Whitney U Test | .778 | Retain the null hypothesis. |
| 2 The distribution of Q10_ Opinions_Exp_Friends is the same across categories of Q1_Live | Independent-Samples Mann-Whitney U Test | .007 | Reject the null hypothesis. |
| 3 The distribution of Q10_ Opinions_Exp_Friends is the same across categories of Q1_Live | Independent-Samples Mann-Whitney U Test | .730 | Retain the null hypothesis. |

Asymptotic significances are displayed. The significance level is .05.

The opinions and experiences of friends are significantly more important to the Portuguese ( $p=0.007$ ) for the online purchase decision ( $p=0.007$ ).

## Importance of some factors versus nationality

| Hypothesis Test Summary  |   |      |                             |
|--|---|------|-----------------------------|
| Null Hypothesis  | Test                                    | Sig. | Decision                    |
| 1 The distribution of Q12_Mark_Appearence is the same across categories of Q1_Live                 | Independent-Samples Mann-Whitney U Test | .007 | Reject the null hypothesis. |
| 2 The distribution of Q12_Easy_Navigation_Through_Website is the same across categories of Q1_Live | Independent-Samples Mann-Whitney U Test | .001 | Reject the null hypothesis. |
| 3 The distribution of Q12_Variety_of_Products is the same across categories of Q1_Live             | Independent-Samples Mann-Whitney U Test | .003 | Reject the null hypothesis. |
| 4 The distribution of Q12_Spec_Time_Discount is the same across categories of Q1_Live              | Independent-Samples Mann-Whitney U Test | .011 | Reject the null hypothesis. |
| 5 The distribution of Q12_Data_Protect_Product_Info is the same across categories of Q1_Live       | Independent-Samples Mann-Whitney U Test | .001 | Reject the null hypothesis. |
| 6 The distribution of Q12_Terms_Conditions is the same across categories of Q1_Live                | Independent-Samples Mann-Whitney U Test | .011 | Reject the null hypothesis. |
| 7 The distribution of Q12_Free_Shipping is the same across categories of Q1_Live                   | Independent-Samples Mann-Whitney U Test | .100 | Retain the null hypothesis. |
| 8 The distribution of Q12_Legal_Certification is the same across categories of Q1_Live             | Independent-Samples Mann-Whitney U Test | .209 | Retain the null hypothesis. |
| 9 The distribution of Q12_Protection_of_Privacy into the same across categories of Q1_Live         | Independent-Samples Mann-Whitney U Test | .021 | Reject the null hypothesis. |

Asymptotic significances are displayed. The significance level is .05.

Other factors that are significantly more important to the Portuguese than for Bosnian are the website appearance, ease to navigation, variety of products, special offers/discounts, detailed product information, terms and conditions of website and privacy protection.

## Conclusion

Online shopping is becoming more and more presented in our daily lives. Internet development led to whole world of business opportunities aiming at redefining business success. Internet has created a significant impact on attitudes of buyers all across the globe. It has provided new opportunities to consumers to purchase goods and services virtually, anytime, anywhere. There is an increase in number of internet users worldwide, and for marketers it is an opportunity to offer their products and services through this virtual channel. Many factors may affect the decision of buyers to shop online. This research

study was undertaken with the basic objective of exploring main external online factors that affect consumer buyer behaviour. The study revealed five main external online factors such as perceived risk, usefulness, perceived benefit, trust and enjoyment. For the purpose of this work, 180 individual respondents from Portugal and Bosnia & Herzegovina were considered and primary data was drawn using five – point Likert type scale. On the one hand, results from the research study revealed that there was no significant difference between countries and perceived risk, usefulness and trust. On the other hand, there was a difference between the nationality and perceived benefits. Portuguese people assume that there are more benefits when buying online than Bosnian people do. Furthermore, there was a difference between the nationality and enjoyment. People from Bosnia and Herzegovina seem to enjoy more than people in Portugal when it comes to shopping online.

The demographic finding revealed that Portuguese people are shopping online more frequently than Bosnian people do. Majority of Portuguese people shop online less than once a month, while Bosnian people shop online as little as possible. Moreover, when it comes to Portugal, females tend to shop online more from companies based in the country they live in, while males tend to shop online more from companies based in European Union.

When it comes to comparison of countries and opinions/experiences of family, friends and online forums, Portuguese people are more following opinions and experiences of friends than Bosnian people do. There is no significant difference in opinions and experiences of family and online forums. Moreover, Portuguese people are more following importance of website appearance, easy to navigate through web, variety of products, special offers/discounts, detailed product information, terms and conditions of website and protection of privacy than Bosnian people do. There is no significant difference when it comes to free shipping and legal certification. Furthermore, Portuguese people are more following the improvements of more secured website, customer service and return exchange policy than Bosnians do. There is no significant difference when it comes to delivery on time, displayed hidden costs, website interface and product tracking process.

To conclude, continuous efforts have to be devoted to studying consumer online shopping behaviour in a dynamic way. The present study has brought new dimensions and ideas to understand online consumer behaviour and increase the market potential of online shopping in Portugal and Bosnia & Herzegovina. Future studies can extend the results of this study for investigating the online consumer buying behaviour.

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## **Quantitative Models in the Function of Programming an Optimal Investment Model of Tourism Projects under the Conditions of Uncertainty**

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**Abstract:** *The development policy of socio-economic systems is inevitably linked, if not identical, to certain investments, whose scope, dynamics, timeliness and structure intensively correspond with the financial potential of the investor. The investment system is an open dynamic system, whose efficient functioning allows the current investments to be productive, so that the future financial inflow will enable a permanent increase in invested funds.*

*The global development of the socio-economic community represents the synergetic effect of individual contributions at the microeconomic level, whereby the investment policy requires an adequate global infrastructure both in terms of support and in a corrective context. The choice of subjects and the dynamics of investment is a key issue of macroeconomic development.*

*Economic practice encompasses a wide range of investment models in terms of volume and investment dynamics, while we consider the optimal model as the one(s) that provides such business result that contributes to the business goals and long-term stability of business systems. The choice of investment model is an essential problem of every business system, and therefore of the wider community.*

*Investment processes have an uncertain, irreversible character, they are related to the current consumption with the business expectation of the corresponding benefits in the future period. Conventional models for evaluating the cost-effectiveness of investment investments are based on the selection of the proposed investment projects. Launching the potentials of scientifically intuitive decision-making, such as game models against nature, not only allows the choice of the optimal model, but also the modeling of candidate investment alternatives.*

*The potential of tourism activity provides significant investment potential of the Eastern Balkans, whereby the decision-maker in terms of model ranking of the proposed tourist projects enables significant improvement of the mentioned business sector. Models of game theory provide a development-investment "domino effect", which triggers a successive increase of tourism projects and return of invested funds through reinvestment into projects of lower model rank, whereby the selection of projects does not imply rejection, but only the delay of investments.*

**Key words:** *investment, development politics, scientific-intuitive decision making, games against nature, optimal investment model*



## 1. INTRODUCTORY CONSIDERATIONS

The necessity of the development of a socio-economic whole requires investment, direction and recruitment of limited resources to unlimited needs, while favoring activities that optimally contribute to the global system. The irreversibility of investment processes requires continuous, cross and comprehensive consideration of all aspects of the structure and concept of the functioning of the proposed business systems.

Business decisions have the potency of subtle balance between business goals and realities if they are based on long-term direction and control of the behavior of the business system based on the cause-effect matrix of future business outcomes in an uncertain real environment.

The concept of functioning of business systems is determined by the system's management model, whereby the set of management procedures subordinates the realization of the desired business outcomes with the inevitable respect for the system environment of the specific systems. The management challenge corresponds to the systemic approach, whereby the management process respects the system environment, so that the environmental objectives are involved in the decision-making process.

Moving the boundaries of coincidence according to legality, predictability, and calculation is made possible by the construction of the decision model, which transforms the system reality into an adequate quantitative model as the backbone of the management rationality of the controlling process.

The process of investment, in traditional approach, treats the proposed business system in terms of static and/or dynamic indicators of the business future, isolated from the system environment, and thus competitive projects, which, unjustifiably, leads to ignoring the aspects of the competitiveness of projects.

The abandonment of the traditional approach to investment decision-making is based on the model ranking of the implementation priorities, starting from a matrix view of a large number of static, dynamic, as well as a number of qualitative and quantitative indicators of the business future of investment projects in the context of their competitiveness.

Rationally based investment decisions, as derivatives of management options, concern not only the specific system, but also the wider community. The key problem of establishing and/or improving business efficiency closely corresponds to the methods and techniques used in the process of their choice, and is measured by the compatibility of the model and the rationality that we approximate with it.

Mathematical analysis of conflict situations in business decision-making refers to the modeling of the priorities for the justification of investment ideas in the context of the proposed tourism projects. With the above approach, uncertain business outcomes, instead of irrational business stigma, become a rational business expectation. This also goes beyond controlling the isolation of competitive projects and adopting the concept of successive realization of a series of projects in line with the inevitable growth of investment potential.

## 2. INVESTMENT-DEVELOPMENT POTENTIAL OF TOURIST ACTIVITY IN B&H

Investment potential is a key factor in the development and improvement of a particular economic activity, which includes private and corporate capital vendors, both locally and globally. The owners of

capital base the business decision on (non)investment on a comprehensive, well-founded and thoroughly analyzed decision. Investment decisions include the analysis of a large number of external and internal, qualitative and quantitative factors.

Important external factors are related to development tendencies within the chosen field of activity, as well as to the general characteristics of the business context of the geographical and political environment of operations. The management consequences of tourism projects from the perspective of investors are emphasized, while considering the contribution to the socio-economic community.

The incentive factors that determine Bosnia and Herzegovina as a site for investment in tourism relate to the following facts. The tourism sector recorded positive business trends, such as increased arrivals by 6.4% and number of overnight stays by 7.3% in 2017 compared to 2016 (RS, 2018). Monetary "consequences" can be expressed with a corresponding figure of 799.7 million convertible marks in 2017, representing 2.6% of total gross domestic product, with a prediction of growth by 5.1% for 2018. (Halimić, 2018)

Important affirmation factors of investments in tourism activity in the observed geographical territory refer to:

- exceptional natural ecological potential, primarily in terms of mountain/river-adventurous, spa, rural-agricultural tourism, hunting and fishing tourism;
- geographical position, in terms of the transit position that connects Central and Southern Europe;
- market opportunities, in terms of low competitiveness, openness and lack of research, availability of skilled labor, with the presence of low labor costs, organic, ecological crop production;
- the potential of non-functioning facilities related to non-privatized state-owned property for tourism purposes;
- rich cultural and historical heritage, numerous preserved cultural and historical monuments distributed throughout the territory.

An additional quantitative-qualitative analysis refers to the individual effects of the proposed investment projects in terms of their benefits to direct investors, while respecting the socio-economic interests of the local and or global socio-political community, as a basis for the potential alliance of investors and local and/or global social structures.

The analysis of the cost-effectiveness of investments is a complex process involving a large number of activities and participants, requiring the coordination of legal, material, organizational and financial resources, and is reduced to the composition of sources of financing with the minimum cost of capital sources on the one hand, and the maximum business result on the other hand.

The additional complexity of the investment project analysis refers to the uncertainty of business outcomes, irreversibility of the realized investments and significance of the monetary consequences of withdrawal from the investment at certain stages of realization, while acknowledging the fact that there is a high rate of direct correlation between the phase of realization of the investment project and the costs of its cancellation.

### 3. MATRIX ASPECTS OF THE INVESTMENT PROJECT MODEL RANGING

The backbone of management commitment in the context of selecting a particular investment alternative is reflected in the values of the static and/or dynamic indicators of the investment business future, which relates to the repayment period, unit cost price, productivity, cost-effectiveness and profitability of the

investment, technical equipment coefficient, net present value and unit net present value, internal rate of return and annuity criterion. (Landika, 2015)

The stated criteria with different approach foresee the business future of the investment project, while the management decision usually refers to the choice of investing or not, only in relation to a specific investment project. Such approach to making investment decisions makes it possible to assess the future business justifiability of an investment alternative, without comparing it to competitive investment alternatives.

The commercial justification of an investment alternative, enriched by comparative analysis in terms of modeling the ranking of investment alternatives, makes it possible to choose the optimal among a number of competitive investment alternatives.

An additional incentive for investment preference refers to modeled disposal, not the rejection of investment alternatives, whereby the funds derived from investing are directed to additional investments with respect to the modeled order.

### 3.1. Model aspects of matrix correction of business alternatives

Business decision makers show a special ingenuity in respecting the decision-making conditions and adequate modeling of real circumstances in the function of achieving a high level of isomorphism in the process of model approximation of the management situation. The selection and quantification of internal and external factors in the process of forming a decision model is particularly required under the conditions of uncertainty, such as in the case of business future of investment projects.

The decisive factor in the context of choosing a decision model refers to the decision-making conditions, which relate to models of games against nature in the conditions of uncertainty. This class of model represents the backbone of mathematical analysis of conflict situations. A conflict situation refers to the management situation in which the interests of a large number of participants are confronted, with the differences between the rational and the irrational opponents. (Pavličić, 2004)

The fundamental difference between the mentioned management situations refers to the interest of the opponent to take the position that is/is not the most unfavorable to the opponent. Specifically analyzed problems relate to games against nature, that is, an irrational opponent.

### 3.2. Principles of mathematical formulation of the optimality of investment alternatives

The payment matrix (M) is an instrument of mathematical analysis of conflict situations, and its formulation encompasses the formulation of man's strategies on the one hand and the state of nature on the other hand. Man's strategies ( $A_i$ ) are related to the payment matrix orders, and columns are related to the state of nature ( $S_j$ ). This can be shown by the following mathematical expression:

$$M = A_i [a_{ij}]_{m \times n}^{S_j}$$

**Equation 1.** General form of payment matrix (Sikavica, Bebek, Skoko, & Tipurić, 1999)

Payment matrix elements refer to ranking business-investment alternatives from the aspect of certain criteria. The mathematical formulation includes:

- Formulation of investment alternatives;
- Calculating the value of all or selected static and dynamic indicators of the financial viability of an investment alternative;
- Adding social indicators of investment alternatives as decision criteria, relating to the benefits of the socio-political community, such as contribution to the local budget, employment rate, pollution, use of existing capacities, etc.;
- Ranking of investment alternatives in relation to the formulated indicators on which investment decision-making is based;
- Formulation of matrix payment elements ( $a_{ij}$ ), refers to the rank of the  $A_i$  strategy in relation to the indicators of the return on investment  $S_j$ ;
- Choosing an optimal man's strategy using: Hurwitz, Wald, Laplace and Savage criteria, as well as Bayes criteria, if the conditions are fulfilled;
- Realization of investment projects according to the model established order. (Landika, Jakupović, & Šupuković, Analysis and Research, 2018)

### 3.3. Testing the stability and alternative investment optimum

Model correction of the implementation of investment alternatives allows comparative selection of a large number of investment alternatives with a comprehensive analysis of factors and indicators of their business future. Correction of business alternatives from the perspective of uncertain future outcomes, seen from the aspect of a large number of indicators of investment benefits, as well as a number of decision criteria, provides greater reliability in the expected business and financial outcome.

Model optimization of the investment order enables the investment decision-maker to inspect the investment order with respect to all offered investment alternatives. Further enrichment of the presented approach of the model ranking of investment alternatives relates to the model preference of investment alternatives and/or indicators of their profitability, and is achieved by adding weight to certain strategies and/or indicators.

The model investment order enables the establishment of an optimal order of tourist investment projects, thus achieving the time delay of certain projects without their *a priori* rejection.<sup>1</sup>

## 4. FINAL CONSIDERATIONS

The key issue of improving the efficiency of the selection process and the implementation of investment projects relates to the adequate application of models and techniques of decision-making models. Decisions, as derivatives of management alternatives, determine the business future of business systems, thereby affecting the business system itself, including many related systems, often even a wider community.

Abandoning the traditional approach in the process of preparing and making investment decisions is based on the symbiosis of the future business system and its natural-social-business environment, while achieving a synergetic effect in the socio-economic sense. Comprehensiveness of the selection criteria

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<sup>1</sup> If some projects prove unprofitable or unacceptable, they can be rejected, depending on the decision-maker's decision, decision criteria defined, results of certain criteria, etc. However, this is not the basic idea of this approach.

and methods of estimation of investment alternatives, matrix linking of causality and consequential connectivity, as well as integral approach and modeling of the investment order, all ensure optimum business results.

Analysis of the disputed area presented by a set of research questions relates to the conversion of the traditional decision-making model, which increases the potency of the decision-maker, and thus significantly contributes to the quality of the business result. An adequate theoretical model, designed for the needs of an integrated approach to the selection of tourist investment alternatives, enables model selection and optimal timetable.

The selected mathematical model as an approximation of the contested part of the realities as a subject of research, contributes to the increase in the investment capacity of tourism projects. Balancing limited resources in the context of increasing the quality of functioning and control of the analyzed business-tourist system, as a systemic component of the global system which it is part of, increases the capacity and potency of the global socio-economic system.

This approach converts individually understood and analyzed investment processes into sequential, whereby knowledge is added to the process of investment decision making in the function of increased business efficiency. The monetary effects of the application of the proposed methodology significantly outweigh the costs related to the consultant service of the expert in the process of preparing the business decision and possible corrections in the realization process.

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## **The Impact of Internal Marketing on Internal Service Quality in the Hospitality Industry**

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**Abstract:** *Purpose – One of the utmost goals of any business is to provide desired service/product quality and to achieve customer satisfaction. Satisfied employees lead to satisfied customers. They are likely to assist customers with a more pleasant demeanour and a higher level of customer service. Conversely, low employee satisfaction and overall low employee morale can negatively affect company's operations greatly, causing dissatisfied customers and hurting profitability. The marketing approach, which is primarily focused on internal customers (employees) to create a working climate of psychological support, mutual trust and respect, improves guests' satisfaction and brings long-term success. Such approach is called internal marketing (IM). To date, the majority of researchers have been defining internal marketing differently, depending on their specialization. A link between internal marketing activities (internal market orientation – IMO) and internal service quality (ISQ) in the hospitality industry is missing. Therefore, the purpose of this study is to define dimensions of IMO, which enhance ISO, and empirically confirm the positive correlation between them in the hospitality industry.*

*Methodology – To achieve the research objectives, the first part of this study lists a literature review, which defines dimensions of internal market orientation that influence internal service quality. To obtain the information from the employees in the hotel industry, a questionnaire was designed. An adapted SERVQUAL instrument was used to measure the internal service quality while internal market orientation was implemented from the already conducted study in the hospitality industry in Spain (Ruizalba, Bermudez Gonzalez, Rodriguez Molin, Blanca, 2014). The questionnaires were distributed to the hotels' employees in Dubrovnik in August 2017. A total of 201 valid questionnaires were obtained. Descriptive and correlation analysis were obtained to analyse the data.*

*Findings – The findings imply that there is a positive correlation between internal market orientation and internal service quality in the hotel industry in Dubrovnik.*

*Originality of the research – The study contributes to both academics and practitioners. It defines specific dimensions of internal market orientation that could influence internal service quality. Hotel managers could use such information to enhance internal service quality. Furthermore, the results provide valuable*

## **Introduction**

The hospitality industry is one of the major service industries around the world (Ma & Qu, 2011). In this rapidly changing market, hotels are constantly under severe competitive pressure. The greatest chance hospitality organizations have of gaining competitive differentiation is through service quality. The quality of internal service is the basis for improving the modern way of doing business (Marshall, Baker and Finn, 1998). The idea of internal services has emerged from the internal marketing perspective, which views employees within the firm as internal customers and suggests that satisfying the needs of internal customers would help organizations achieve their objectives (Berry, 1981; Grönroos, 1981). Therefore, it is not surprising to see a growing research interest in the role of internal service (Gremler et al., 1994; Johnston, 2008; Stauss, 1995; Vandermerwe and Gilbert, 1991) and its quality (Boshoff and Mels, 1995; Hallowell et al., 1996; Kang et al., 2002; Nazeer et al., 2014; Reynoso and Moores, 1995). Previous studies on internal service quality (ISQ) focus on its operationalization (Brandon-Jones and Silvestro, 2010; Frost and Kumar, 2000; Kang et al., 2002; Reynoso and Moores, 1995; Stauss, 1995), explore its antecedents and consequences (Boshoff and Mels, 1995; Edvardsson et al., 1997; Hallowell et al., 1996; Johnston, 2008; Loveman, 1998; Nazeer et al., 2014) or study its role as a moderator (Ehrhart et al., 2011). However, studies on the specific dimensions of IMO that enhance ISQ in the hotel service industry are rare. Previous empirical research has mainly focused on examining the direct relationships between the IM dimensions and the outcome variables such as: market orientation, employees' satisfaction, customers' satisfaction and service quality (Shiu and Yu, 2010; Aburoub et al., 2011; Gaspari and Taga, 2011; Akroush, 2012). Hence, based on the relevant literature review of IMO and ISQ, the research objectives are: first, to reveal both IMO and ISQ dimensions in hospitality industry. Second, to examine an integrated model of IMO on ISQ in the hospitality industry. Third, to provide hoteliers with an empirical model of IMO and ISQ from which hotel managements can benefit in making managerial and marketing decisions for a better performance.

This study contributes to the extant literature in many ways. First, it illustrates the role and dimensions of IMO and ISQ explicitly in the hospitality industry. Then, the conceptual model and the hypothesis driving the empirical examination are developed. Following this, the empirical research design is explained and justified, the data are explained and analysed and the results presented. Finally, the implications of the study are discussed, while providing some insights for future research.

## **1. Literature review**

The internal customer is an essential part of the service product and the perceptions of service quality in the hospitality industry. Satisfied employees create satisfied customers who are more loyal and therefore create more profit for the company (Ahmed and Rafiq, 2003).

### *1.1. Internal Service Quality*

Employees are of key importance in the service industry because their work represents an integral, inseparable part of the service. Internal services are defined as “services provided by distinct organizational units or the people working in these, to other units or employees with the organization” (Stauss, 1995).

The idea of internal services originated from the concept of internal marketing that involves viewing employees as internal customers and jobs as internal products (and services) that satisfy the needs and wants of these internal customers while addressing the objectives of the organization (Berry, 1981; Grönroos, 1981). Furthermore, Frederick and Mukesh (2001) defined internal service quality as an internal environment based on a supportive consciousness among employees in which customers are internal employees and the support staff includes management and other support service providers. In the reviewed literature about the internal service marketing, researchers argued that providing a better service to the internal customers will lead to a higher quality service provided to external customers (Bouranta *et al.* 2005; Yang and Coates, 2010; Gunawardane, 2011).

In recent years, the concept of internal service quality has developed in the hotel management field. Billy *et al.* (2006) studied people working in the international tourist hotel industry and found that employees' job satisfaction and commitment to the organization influence internal service quality. Wildes (2007) found that good internal service quality is conducive to attracting and keeping excellent service staff. Furthermore, the success of ISQ practices depends on the practices of excellent IM across the service organization (Yang and Coates, 2010; Gunawardane, 2011).

The most used model for measuring service quality is the SERVQUAL model. It was developed by Parasuraman *et al.* (1985; 1988) to measure the consumers' perceptions of service quality. Later on, it was modified to measure the employees' perceptions of ISQ and assess the quality of internal service provided to employees of different departments within the same organization. This research used the modified SERVQUAL model for internal service quality and it contains four dimensions:

- Reliability – ability of co-workers to handle problems and provide accurate and dependable service
- Assurance – ability of employees to inspire trust and confidence between each other
- Empathy – individualized attention, concerns between employees
- Responsiveness – employees' willingness to help each other by providing prompt service.

The following part of this research explores the importance of internal marketing strategy for maintaining high quality of internal service in the hospitality industry. Moreover, it explores the impact of specific dimensions of internal market orientation on the internal service quality in the hospitality industry

### *1.2. Internal Marketing*

The concept of internal marketing emerged during the 1970s, as the solution for those companies, which wanted to offer a more competitive service to their users (Berry *et al.* 1976). However, despite the rapidly growing literature on IM (Berry, 1981; Gronroos, 1981; Collins and Payne, 1991; Piercy and Morgan, 1991; Piercy, 1995), very few organizations actually apply the concept in practice. The main problem is that the explanation of IM is vague and there is not a single unified concept in the literature of what is



meant by IM, how it is supposed to work, and who is supposed to do it.

Berry (1981) pioneered the term IM and originally defined it as “viewing employees as internal customers, viewing jobs as internal products that satisfy the needs and wants of these internal customers while addressing the objectives of the organization”. Since then, several research attempts have been conducted to examine this concept. Berry and Parasuraman (1991), in the book *Marketing Services: Competing Through Quality*, stated that internal marketing is the philosophy of treating employees as customers. They also pointed out that internal marketing should be applied prior to the external marketing, especially in service companies. A process of attracting, developing, motivating, and retaining qualified employees through job-products that satisfy their needs should be applied prior to the external marketing (Berry and Parasuraman 1991).

In this view, Kohli and Jaworski (1990) as well as Narver and Slater (1990) consider internal market orientation (IMO) as the application of the marketing concept in business operations, and it includes these activities: monitoring and developing an understanding of the market, exchanging information between departments, and meeting the needs and wishes of employees who will then transfer their satisfaction to the guest. IMO refers to the process of generating and disseminating intelligence about internal market needs and then responding to and satisfying these needs (Lings & Greenley, 2005). The underlying dimensions of IMO adoption reflect the firm’s capability to reconfigure the existing human resource practices, allowing it to deploy them more effectively in relation to the tasks they have to perform and the strategic objectives that they need to meet (Gounaris, 2006). The first is the capability to generate intelligence that allows management to understand the needs and wants of the employees. This capability allows the company to identify and pursue opportunities to systematically deliver value to employees and remain in touch with evolving employees’ expectations (Pavlou and El Sawy, 2011). The second is the capability to use channels of communication that allow managers to communicate to employees about the company’s goals, expectations and policies, while at the same time allowing managers to receive employees’ feedback (Lings and Greenley, 2010). This capability embeds knowledge from internal market intelligence into existing operational capabilities through collective sense making. The third is the capability to respond to this knowledge, for example, through developing employment conditions that meet employees’ needs. This capability allows the company to reconfigure tasks, resources and activities, which in turn allows the organization to improve front-line employee performance in the delivery of the company’s customer service (Gounaris et al., 2016).

This research has adopted IMO model proposed by Ruizalba et.al (2014), which consists of three different dimensions. The first dimension (generation of internal market intelligence), is composed of two different factors: value exchange between company and employees, and internal segmentation; the second dimension deals with internal market intelligence communication and the third dimension (response to internal market intelligence), comprises three factors: training, management concern and work-family balance. In that same research, they emphasized that employees are an important factor in customer satisfaction. Using hotels in Spain as an example, they found that internal service affects employees’ work satisfaction and their involvement with the hotel, which affects outside service and customer satisfaction. This IMO framework differs from the previous research with work-family balance dimension in the hospitality industry, therefore making a study contribution.

## 2. Methodology

### 2.1. Study Framework

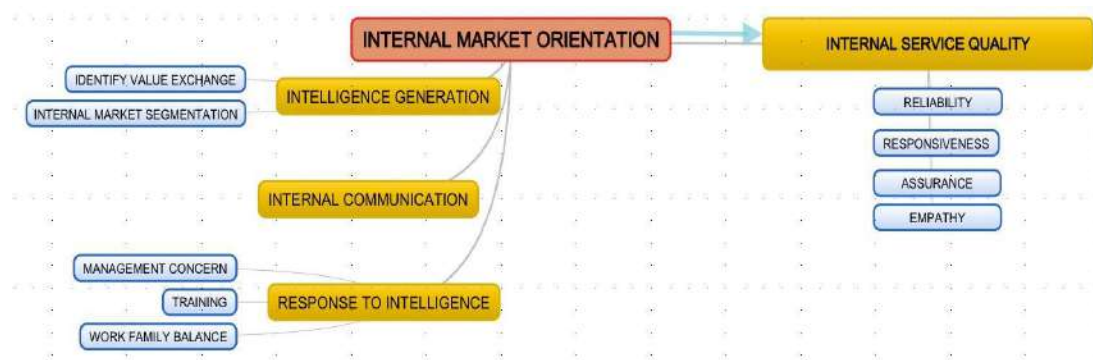
Based on the extensive literature review of IM and ISQ, the framework for this study is shown in Figure 1.

As stated in the literature review, educated, professionally trained, highly motivated and devoted employees create and maintain quality, which affects the guests' satisfaction and the success of the hotel. To achieve a high level of products and services, it is necessary to have satisfied employees because they are the only ones who can create good relationships with the guests and offer a higher level of service. How employees treat guests depends on how they feel in their work place. Therefore, the company should consider how to sell the internal products to the internal customers to fulfil the company objectives and deliver services in a high quality manner.

Based on this discussion, we can hypothesise that:

H1: Internal Marketing has a positive effect on internal service quality in the hospitality industry.

Figure 1. Study Framework



Source: (Authors)

### 2.2. Research instrument

A structured and self-administered survey was employed to collect data referring to relationship between internal service quality and internal marketing in the hospitality industry. The research questionnaire was developed based on the relevant literature review of IM and ISQ. Based on the previous literature, the items that were used to explore internal service quality are four dimensions of internal SERVQUAL (Yang and Coates, 2010). These dimensions were adapted to the hotel “context” and only four out of five original dimensions of internal SERVQUAL were used. The tangibles dimension was not used in the operationalization of ISQ since this dimension is an integral part of any hotel and is a must in this kind of business. Furthermore, the context of the study focuses on behavioral outcomes of IM practices that affect staff behavior. The four dimensions of internal SERVQUAL are responsiveness, reliability, assurance and empathy. These dimensions were operationalized using 14 items. Sample items include “I can trust my co-workers”, “Co-workers provide correct and necessary information”, “I feel safe in dealing with co-

workers”.

The other part of the questionnaire assessed employees’ perception of the implementation of internal marketing activities. The instrument was obtained from an already conducted research study in the hospitality industry in Spain (Ruizalba, Bermudez Gonzalez, Rodriguez Molin, Blanca, 2014). The questionnaire items covered the following dimensions: Identify Value Exchange (IVE) (4 items); Internal Market Segmentation (IMS) (3 items); Internal Communication (IC) between managers and employees (4 items); Management Concern (MC), with respect to employees (5 items); Training (TR), to develop the skills and capacities required by a job (3 items); and Work/Family Balance (WFB) (3 items). The wording of these 22 items was based on the previous studies (Clark, 2001; Kossek and Nichol, 1992; Thompson et al., 1999; Hammer et al., 2009). Sample items include “Supervisors are expected to spend time with employees, explaining to them the company’s objectives and how these objectives affect what the company expects from each individual employee”, “The needs of employees are taken seriously by company managers, and policies are developed with the aim of satisfying these needs”, “In this company, employees are able to find a balance between work and family life”.

Employees indicated their degree of agreement on a 5-point Likert scales. The last part of the questionnaire covered demographic information about the employees, including age, gender, marital status, level of education, field of education, leisure activities, hotel category, hotel size, type of employment, job position, department, work shift and time spent in the company.

### 2.3. *Sample*

The study was conducted in three-star to five-star hotels in Dubrovnik during August 2017. After contacting these hotels, all of them agreed to participate in this research. A total of 230 copies of the study questionnaire were distributed to hotel employees. Of 204 returned questionnaires, three were incomplete and excluded from further analysis. Thus, data analysis is based on a sample of 201 valid questionnaires representing a response rate of 87.39%. Socio-demographic structure of the sample is shown in Table 1.

Table 1: Socio-demographic profile of the hotel employees (N=201)

| Items                 | Frequency | Percentage | Mean  | SD    |
|-----------------------|-----------|------------|-------|-------|
| <b>Gender</b>         |           |            |       |       |
| Male                  | 72        | 40.2%      |       |       |
| Female                | 101       | 56.4%      |       |       |
| <b>Age</b>            |           |            | 33.76 | 12.21 |
| 18 - 29               | 84        | 45.4%      |       |       |
| 30 - 39               | 52        | 28.1%      |       |       |
| 40 - 49               | 25        | 13.5%      |       |       |
| 50 and above          | 24        | 13.0%      |       |       |
| Items                 | Frequency | Percentage | Mean  | SD    |
| <b>Marital status</b> |           |            |       |       |

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|          |     |       |
|----------|-----|-------|
| Single   | 110 | 56.7% |
| Married  | 73  | 37.6% |
| Divorced | 8   | 4.1%  |
| Widowed  | 3   | 1.5%  |

**Level of education**

|                       |     |       |
|-----------------------|-----|-------|
| Primary school        | 17  | 8.7%  |
| Secondary school      | 107 | 54.6% |
| College or university | 30  | 15.3% |
| MSc or PhD            | 42  | 21.4% |

**Field of education**

|                 |     |       |
|-----------------|-----|-------|
| Without answer  | 1   | 0.5%  |
| Tourism/Economy | 101 | 55.2% |
| Others          | 81  | 44.3% |

**Leisure activities**

|                          |     |        |      |      |
|--------------------------|-----|--------|------|------|
| Going to the cinema      | 139 | 100.0% | 2.65 | 1.41 |
| Fishing                  | 136 | 100.0% | 1.81 | 1.34 |
| Jogging/hiking/bicycling | 138 | 100.0% | 2.92 | 1.42 |
| Family time              | 154 | 100.0% | 4.08 | 1.10 |
| Watching TV              | 147 | 100.0% | 3.46 | 1.29 |
| Reading                  | 140 | 100.0% | 3.15 | 1.46 |
| Playing music            | 130 | 100.0% | 1.41 | .97  |
| Traveling                | 140 | 100.0% | 3.23 | 1.39 |
| Extra job                | 134 | 100.0% | 2.10 | 1.46 |

**Hotel category**

|        |    |       |
|--------|----|-------|
| 3 ***  | 31 | 16.1% |
| 4****  | 86 | 44.8% |
| 5***** | 75 | 39.1% |

|                              |  |     |     |
|------------------------------|--|-----|-----|
| <b>Hotel size # of rooms</b> |  | 229 | 123 |
|------------------------------|--|-----|-----|

**Type of employment**

|           |     |       |
|-----------|-----|-------|
| Temporary | 111 | 57.2% |
| Permanent | 82  | 42.3% |

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**Job position in the hotel**

|          |     |       |
|----------|-----|-------|
| Manager  | 36  | 19.1% |
| Employee | 150 | 79.8% |

**Department**

|                   |    |       |
|-------------------|----|-------|
| Marketing & Sales | 7  | 3.6%  |
| Food & Beverage   | 50 | 26.0% |
| Housekeeping      | 48 | 25.0% |
| Maintenance       | 8  | 4.2%  |
| Front Desk        | 37 | 19.3% |
| Human Resources   | 1  | 0.5%  |
| Finance           | 5  | 2.6%  |
| General Manager   | 4  | 2.1%  |
| Others            | 31 | 16.1% |

| Items                            | Frequency | Percentage | Mean | SD  |
|----------------------------------|-----------|------------|------|-----|
| <b>Work shifts</b>               |           |            |      |     |
| Daily                            | 118       | 61.5%      |      |     |
| Night shift /Sunday              | 2         | 1.0%       |      |     |
| Daily/ Night shift /Sunday       | 72        | 37.5%      |      |     |
| <b>Working for hotel (years)</b> |           |            | 7.4  | 8.3 |
| 0-9                              | 114       | 75.5%      |      |     |
| 10-19                            | 25        | 16.6%      |      |     |
| 20 and above                     | 12        | 7.9%       |      |     |

Note: Missing entries are not considered in the table

Source: (Authors)

Of the 201 participants in the study, 56.4% were female; most of them single (56.7%) and a majority finished secondary school (54.6%). They were mostly (45.4%) in the 18-29 years age range with a mean of 33.76 and standard deviation of 12.21. They mostly spent their free time with their families (77%) or watching TV (73%), while least of them spent time by playing music (65%) or fishing (68%). The highest percentage of employees works in a four-star hotel (44.8%), while 39.1% of employees work in a five-

star hotel and 16.1% of employees work in a three-star hotel. The average hotel size is 229 rooms, which falls under the category of big hotels. The majority of 79.8% of employees worked as line staff during the day (61.5%), 26% of them worked in the restaurant, 25% worked in housekeeping or at the front desk (19.3%). The average number of years spent with their current employers ranged from 1 to 9 years, with a mean of 7.4 years. All these data fairly represents the worker population.

### 3. Results And Discussion

In order to achieve the study goals, descriptive statistics and correlation analysis were performed. Descriptive statistics was used to examine the demographic profile of the respondents and to evaluate employees' perception of internal service quality and internal marketing in the hospitality industry. Correlation analysis was used to explore how the dimensions of internal marketing were related to the perceived internal service quality in the hospitality industry. Specifically, correlation analysis was performed to assess relationships between each dimension and overall employee satisfaction. For this purpose, Spearman correlation coefficients were calculated.

Table 2: Descriptive statistics and correlation matrix for Internal Service Quality

| Variables         | Mean   | SD     | 1      | 2             | 3      | 4      |
|-------------------|--------|--------|--------|---------------|--------|--------|
| 1. Responsiveness | 4.1367 | .76873 | 1.000  | .789**        | .808** | .819** |
| 2. Reliability    | 4.1020 | .83730 | .789** | 1.000         | .843** | .799** |
| 3. Assurance      | 4.2017 | .80402 | .808** | <b>.843**</b> | 1.000  | .811** |
| 4. Empathy        | 3.8434 | .96288 | .819** | .799**        | .811** | 1.000  |

\*\*Correlation is significant at the 0.01 level (2-tailed).

Source: (Authors)

Table 2 presents the mean and standard deviations of Internal Service Quality dimensions and their correlation. As for the average, a variation of 3.8 to 4.2 is verified and is generally concentrated at levels 3 and 4 of the Likert scale (neither agree nor disagree, and agree). This score indicates a medium, but not sufficiently high, perception of internal service quality in the hospitality industry. Correlation matrix indicates that perceived internal service quality dimensions were positive and statistically significant. According to the results, dimensions "assurance" and "reliability" had the strongest correlations ( $r = 0.843$ ,  $p < 0.01$ ).

Table 3: **Descriptive statistics and correlation matrix for Internal Marketing**

| Variables                       | Mean   | SD     | 1      | 2      | 3      | 4             | 5      | 6      |
|---------------------------------|--------|--------|--------|--------|--------|---------------|--------|--------|
| 1. Identify Value Exchange      | 3.8568 | .91900 | 1.000  | .673** | .762** | .801**        | .754** | .676** |
| 2. Internal Market Segmentation | 3.4688 | .96184 | .673** | 1.000  | .515** | .663**        | .650** | .506** |
| 3. Internal Communication       | 3.9948 | .94440 | .762** | .515** | 1.000  | <b>.818**</b> | .666** | .718** |
| 4. Management Concern           | 3.9179 | .87828 | .801** | .663** | .818** | 1.000         | .740** | .789** |
| 5. Training                     | 3.7663 | .96055 | .754** | .650** | .666** | .740**        | 1.000  | .579** |
| 6. Work/Family Balance          | 4.0677 | .87283 | .676** | .506** | .718** | .789**        | .579** | 1.000  |

Source: (Authors)

The above Table exhibits the mean and standard deviations of Internal Marketing dimensions and their correlation. As for the average, a variation of 3.5 to 4.1 is verified and is generally concentrated at levels 3 and 4 of the Likert scale (neither agree nor disagree, and agree). This score indicates a medium, but not sufficiently high, perception of implementation of internal marketing activities in the hospitality industry. Correlation matrix indicates that perceived internal marketing dimensions were positive and statistically significant. According to the results, dimensions “internal communication” and “management concern” had the strongest correlations ( $r = 0.818$ ,  $p < 0.01$ ).

Table 4: Correlation matrix between Internal Service Quality and Internal Marketing

| Variables                    | Responsiveness | Reliability | Assurance | Empathy |
|------------------------------|----------------|-------------|-----------|---------|
| Identify Value Exchange      | .606**         | .536**      | .588**    | .582**  |
| Internal Market Segmentation | .398**         | .375**      | .358**    | .454**  |
| Internal Communication       | .594**         | .622**      | .564**    | .590**  |
| Management Concern           | .634**         | .637**      | .634**    | .672**  |
| Training                     | .553**         | .527**      | .556**    | .595**  |
| Work/Family Balance          | .592**         | .622**      | .561**    | .637**  |

Source: (Authors)

Correlation matrix (Table 4) indicates that perceived internal service quality dimensions were moderately correlated with internal marketing dimensions. All the relationships were positive and statistically significant. Dimensions “management concern” and “empathy” ( $r = 0.672$ ,  $p < 0.01$ ) had the strongest correlations, followed by “management concern” and “reliability” ( $r = 0.637$ ,  $p < 0.01$ , respectively).

## Conclusion

Maintaining the service quality in the hospitality industry is one of the most critical factors in achieving the business success. As it has been elaborated in the literature review of this study, the most effective service improvement method is done by the implementation of IMO. This study empirically examined the nature of the relationship between perceived internal service quality (ISQ) dimensions and the implementation of internal marketing activities (IMO) in the hotel industry in Dubrovnik, Croatia. Objectives were achieved and hypothesis was tested by using several methods of statistical analysis. The findings from descriptive statistical method revealed that most of the employees working in hotels in Dubrovnik match the profile of young worker population. The hypothesis H1 is confirmed by correlation analysis, which stated that there is a positive relationship between each dimension of perceived internal service quality and the implementation of internal marketing activities in the hospitality industry. Dimensions, which are emphasized as critical factors in hotel employees' satisfaction are: reliability, assurance, management concern and internal communication. The dimension internal market segmentation had the least value. This refers to the process of generating and disseminating intelligence about internal market needs and then responding to and satisfying these needs (Lings and Greenley, 2005). It is very important that the hotel management recognises and satisfies its internal customer needs through policies and actions. When managers identify employees' needs and wants through internal market information and design jobs to respond to these needs, employees will feel satisfied and have positive perceptions of their jobs. Subsequently, content employees will work hard to satisfy external customers.

This study framework can serve as a guideline for cross-functional coordination and for manager - employee relationships as well as to help employees improve service skills and their ability to foresee market opportunities.

This study was based on a single service industry (hotel) and it is not clear to what extent the substantive results of this study can be generalized to other industries. Future research should apply the study's model on a larger population of other types of hospitality accommodation (motels, private accommodations etc.) and other service industries (hospitals, banks). Furthermore, the study's respondents belong to one culture, which may limit the generalization of the results to other cultures. Especially because a study of internal market orientation in the quality management environment under different cultural and social contexts would not only help to generalize the findings, but would also contribute to determine how differences in cultural and social contexts can influence the study results.

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## **Trends in E-Learning: Students Perceptions on Massive Open Online Courses (MOOCS)**

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**Abstract:** *Education is one of the most important segment of every society. Countries with best educational systems tend to prosper faster in overall development. Through the history, education was a privilege. In recent history, a good education is a privilege. A recent development of the technology revolutionized knowledge in many aspects. The Massive Open Online Courses as one of the most prominent developments in digital education in recent years has created a totally different approach to education and it tends to revolutionize system of getting an education. Scars and unreachable knowledge for many people from all around the world become accessible, free, and reachable with the click on the computer. This shift in education has potential to solve many problems but also it is facing many challenges. The government in developed countries recognized this shift and fully supported it. The situation in Bosnia and Herzegovina is different in many aspects. The government is mostly focused on political issues and economical survivor, modernization of education is way down on the list of important things. Innovations and stressing out the importance of new trends in education is completely left to individuals or on private institutions. Still, very little scholarly research has been done on e-learning in B&H. This study has a twofold significance. Firstly to fulfill the gap in the literature and secondly to offer some theories on which government or non-government institutions can act upon. The main purpose of this research is to examine what are the factors that are influencing students to use online education. The sample for this study are high school and university students. Quantities method would be used to analyze data and around 500 surveys have been collected.*

*If we manage to develop a culture of online learning this would save us years and years in figuring out what is wrong with traditional education. And it can bring this country on a highway when it comes to the skilled and educated population.*

**Keywords:** *MOOCs, e-Learning, online courses, education, knowledge*

## Introduction

Higher Education is playing a critical role in economic development. Seltzer & Bently, (1999) Coates, (2013) A University degree in many societies give an opportunity for better lifestyles. This factor is additionally pressed in emergent nations. There is a clear disadvantage of widening access to higher education and democratization of knowledge in developing countries. The current situation in decades didn't change drastically. (Barber, Donnely, & Rizvi, 2013) (Tett, 2018)

In the past various innovations has been launch in order to increase literacy and fulfill the gap that exists in an educational system. One of those innovations is e-Learning. It was recognized by the masses and it is emergent technology which makes an impact on the relationship between students and teachers. Two most important aspects of students' attitude towards innovation are expected benefit and perceived cost. (Mishra, Akman, & Mishra, 2014)

E-learning market is constantly growing. Back in 2015, it was 165.21 billion and it is expected to reach 275.10 billion by 2022. Growing at a CAGR of 7.5%. A key factor for such growth is accessibility, low cost, increased effectiveness. This statistic is helping the fact that some parts of the world are getting internet access and with that access to e-learning. (OrbisResearch.com, 2018)

The branch that is developing the faster in e-learning is MOOCs. Massive Open Online Courses (MOOCs) stand for courses that are offered remotely, which are intended for a large number of students from around the world with free access. (Lin, Nadzeya, Tardini, Elisabetta, & Lorenzo, 2015)

The history of MOOCs is not very far jet millions of registered users and hundreds of courses around the world. The term first appeared in 2008 by Stephen Downes and George Siemens from the University of Manitoba (Canada) with an enrolment of 2,000 people from around the globe. They based their model on 'connectivist' distributed peer learning. Stanford University developed more educational video base on this model back in 2011. This was the year MOOCs exploded around the world. 2012 Coursera was established, Udacity, Udemy, EdX followed the trend in the USA. In Europe Futurelearn based in the UK. Iversity and openHPI in Germany, Alison in the Republic of Ireland, France Université Numerique in France and Miriada X in Spain.

When it comes to the education system in Bosnia and Herzegovina. The country is still considered to be in transitional process, major concerns are an organization of the government where there is two entities Federation of B&H and Republika Srpska. There are three constitutional nations. This created problem that education curriculums are not harmonized and every part is introducing changes by themselves. There is no joint intention to improve the education which is preventing the growth of the nation.

On the elementary and secondary level of education, it is evident that professors and teachers are taking traditional methods of delivering knowledge. War caused the lack of the qualified teaching workforce. This situation created following statistic 38% of the population in Bosnia and Herzegovina has just elementary education and more than a half 52.5% has a just secondary education. Only 9.5% has higher education. (Večerni list, 2018) (Bašić, 2018)

## **Literature review**

### **E-learning**

E-learning is seen as the use of information technology to cultivate knowledge and information for education and training; e-learning appears as a paradigm of modern education. It uses the web to access information and knowledge, disregarding time and space Aparicio, Bacao, & Oliveira, (2014). E-learning is used through several devices, according to Liu & Hwang, (2010). Access to courses through computer networks (e-learning), wireless communications (m-learning) Amasha & Abdelrazek, (2016), the mobile sensor technologies mobile devices and wireless communications are changing the e-learning paradigm.

Technological progress significantly changed everything around us. The landscape of education, training, and development was changed as well. E-learning revolution started when internet technology started speeding. (Welsh, Wanberg, Brown, & Simmering, 2003)

E-learning is slowly becoming the alternative channel for teaching and learning. Croxton, (2014) It is not a surprise that we have constant growth. Back in 2015, it was 165.21 billion and it is expected to reach 275.10 billion by 2022. Growing at a CAGR of 7.5%. A key factor for such growth is the fact that it allows freedom of learning from anywhere any time. (Coleman, 2012)

E-learning has offered the personalized and flexible way of learning; it reduced the cost of learning and also allowed learning on demand. A variety of core technologies that can facilitate the design and implementation of e-learning systems are emerging, and therefore a far-reaching impact on learning is achieved in the new millennium. Bosnia and Herzegovina is a large country characterized by varying degrees of access to the digital world. 2.6 million or 74% of the population are active internet users. (Global Digital Report, 2018)

### **MOOCs**

E-learning adoption mostly happens among individuals. The branch that is developing the faster in e-learning is MOOCs. Massive Open Online Courses (MOOCs) can be explained as remotely offered courses which are built for large number of students around the world. (Lin, et al., 2015)

Terwiesch and Ulrich, 2018 has argued that MOOC has the following aspects:

- Students enrolling in course in large number. Attribute, massive.
- Most often free or very low cost and admission is not requirement. Attribute, open.
- World Wide Web is delivering courses. Attribute, online.
- Content is organized and structured. Attribute, course.

According to the Yousef et al. (2014), people are registering to MOOCs for a couple of reasons. Firstly, they would like to be educated in the field or topic they are interested in; Secondly, they would like to have certificate while applying for a job. Some instructors are giving students some

MOOCs classes in preparation for their classes. Taking courses is free but getting a certificate or taking an exam is paid.

Massive Open Online Courses have been also criticized. Siemens explained that MOOCs do not prepare learners to create, generate, solve and innovate. (Siemens, 2018) Appleman, 2018 argued that Online and Massive concepts are not new just some particular way of doing it. MOOCs have some positive and negative publicity. This makes this topic very interesting.

### **Bosnia and Herzegovina**

Bosnia and Herzegovina are still considered to be in transitional process, major concerns are an organization of the government where there is two entities Federation of B&H and Republika Srpska. There are three constitutional nations. This created problem that education curriculums are not harmonized and every part is introducing changes by themselves. There is no joint intention to improve the education which is preventing the growth of the nation.

On the elementary and secondary level of education, it is evident that professors and teachers are taking traditional methods of delivering knowledge. War caused the lack of the qualified teaching workforce. This situation created following statistic 38% of the population in Bosnia and Herzegovina has just elementary education and more than a half 52.5% has a just secondary education. Only 9.5% has higher education. (Večerni list, 2018) (Bašić, 2018)

### **Methodology**

Bryman (2012) suggested that right research methodology is the one which fit in the natural purpose and context of the research. In this research, descriptive statistics are used and the survey was developed.

Surveys have been widely used for all sort of researches. The main argument to use survey is the collection of a large data amount in a short period and at low cost. In addition to that is easy to explain and to understand because of being widely used.

In this research 522 surveys have been delivered to the students, 200 of them were in the printed version and the rest of 322 were delivered online through "Google Forms". 487 surveys have been accepted and the rest of 35 have been rejected since the surveys were not completed or some sort of patterns in the answers were recognized. So 93.2% surveys that participants answered have been analyzed for this study. And 6.8% have been rejected.

In order to have as much accurate picture of educational conditions in B&H researchers tried to include as much universities and high schools across whole country. Here are the names of educational institutions where we had at least 5 participants:

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| Original Name of the Schools                         | English translation                                  |
|--|--|
| Prva bošnjačka gimnazija                             | First Bosnian Gymnasium                              |
| Medicinska škola                                     | Medical school                                       |
| Opća gimnazija                                       | General Gymnasium                                    |
| Fakultet islamskih nauka                             | Faculty of Islamic Science                           |
| Srednja elektrotehnička škola Sarajevo               | Secondary electro-technical school Sarajevo          |
| Ekonomski fakultet                                   | Economic Faculty                                     |
| International Burch University (all faculties)       | International Burch University (all faculties)       |
| International University of Sarajevo (all faculties) | International University of Sarajevo (all faculties) |
| Američki univerzitet u Bosni i Hercegovini           | American University in Bosnia and Herzegovina        |
| Pravni fakultet u Sarajevu                           | Faculty of Law in Sarajevo                           |
| Medicinski fakultet                                  | Faculty of Medicine                                  |
| FFUNSA   | Faculty of Philosophy University of Sarajevo         |
| Mašinski fakultet                                    | Faculty of Mechanical Engineering                    |
| Veterinarski fakultet u Sarajevu                     | Veterinary Faculty in Sarajevo                       |
| Turistička škola                                     | Tourist school                                       |
| Gimnazija Edhem Mulabdić                             | Gymnasium Edhem Mulabdić                             |
| Unsko-sanski koledž, Bihać                           | Una-Sana College, Bihać                              |
| JU Gimnazija "Bihać"                                 | JU Gymnasium School "Bihać"                          |
| Mješovita srednja škola „Enver Pozderović”           | Mixed high school „Enver Pozderović”                 |
| Akademija likovnih umjetnosti                        | Academy of Fine Arts                                 |
| Filozofski fakultet                                  | Faculty of Philosophy                                |
| Gimnazija Travnik                                    | Gymnasium Travnik                                    |
| Gimnazija "Meša Selimović"                           | Gymnasium "Meša Selimović"                           |
| Treća gimnazija Sarajevo                             | Third Gymnasium Sarajevo                             |
| Prva gimnazija Sarajevo                              | First Gymnasium Sarajevo                             |
| MSS "Bosanski Petrovac"-gimnazija                    | Mixed high school "Bosanski Petrovac"                |
| Prva Gimnazija Zenica                                | First Gymnasium Sarajevo                             |
| JU Srednja škola Jablanica                           | JU High School Jablanica                             |



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|  |  |
|--|--|
| Visoka turistička škola  | High tourist school                                      |
| Srednja škola Pere Zečevića Odžak                              | Secondary school Pere Zečevića Odžak                     |
| Gimnazija "Mustafa Novalić"                                    | Gymnasium Mustafa Novalić                                |
| Ekonomsko-hemijska Škola Lukavac                               | Economic and Chemical School Lukavac                     |
| PMF geografija   | PMF geography  |
| JU Gimnazija Velika Kladuša                                    | JU Gymnasium Velika Kladusa                              |
| IT Academy   | IT Academy   |
| MSC Busovača   | Mixed high school Busovača                               |
| Fakultet za kriminalistiku, kriminologiju i sigurnosne studije | Faculty of Criminology, Criminology and Security Studies |
| Saobraćajni fakultet   | Faculty of Transportation                                |
| Učiteljski fakultet  | Faculty of Teacher Education                             |
| Fakultet političkih nauka u Banja Luci                         | Faculty of Political Science in Banja Luka               |
| JU SŠC "Ivo Andrić" Višegrad                                   | JU SŠC "Ivo Andrić" Višegrad                             |
| Richmond Park  | Richmond Park  |

Since some students worked the following table gives those professions. Some small present of participants less than 5% finished their education and they are not students anymore.

| <b>Occupation</b> |
|-------------------|
| Assistants        |
| Professors        |
| Touristic guide   |
| Accountant        |
| Secretary         |
| Lawyer            |
| Athletes          |
| Web Developer     |
| Marketing Manager |
| Trader            |
| Researcher        |

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|                      |
|----------------------|
| Banker               |
| Managers             |
| Online sellers       |
| Software developer   |
| Artist               |
| Mobile app developer |
| Full stack developer |
| OSBiH                |

## Findings and Discussion

The gender distribution of students can be seen in Table 1. As it can be seen, 44,1% (f=215) of participants are male while 55.9% (f=270) of them are female.

Table 1. Gender

|        | f   | %     |
|--------|-----|-------|
| Male   | 215 | 44.1% |
| Female | 272 | 55.9% |
| Total  | 487 | 100%  |

The age distribution of students can be seen on Table 2. As can be seen; 28.2% (f=137) of participants are from 14-18 years old, 63.9% (f=311) of them are 19-25, 7.4% (f=36) of them are from 26-32 and 0.4% (f=2) of them are 33-45 years old.

Table 2. Age

|       | f   | %     |
|-------|-----|-------|
| 14-18 | 137 | 28.2% |
| 19-25 | 311 | 63.9% |
| 26-32 | 36  | 7.4%  |
| 33-45 | 2   | 0.4%  |
| Total | 487 | 100%  |

The level of education of respondents can be seen in Table 3. As can be seen; 60% (f=292) of participants are in high school, 28.7% (f=140) bachelor degree, 22% (f=55) master degree, 0.8% (f=4) of them have doctorate degree.

Table 3. Level of education

|                  | f   | %     |
|------------------|-----|-------|
| High school      | 292 | 60%   |
| Bachelor degree  | 140 | 28.7% |
| Master degree    | 51  | 10.5% |
| Doctorate degree | 4   | 0.8%  |
| Total            | 487 | 100%  |

The level of education that respondents are planning to acquire can be seen in Table 4. As can be seen; 1% (f=5) of participants want to finish high school, 10.5% (f=51) bachelor degree, 51.7% (f=252) master degree, 36.8% (f=179) of them want to have doctorate degree.

Table 4. I'm planning to finish

|                  | f   | %     |
|------------------|-----|-------|
| High school      | 5   | 1%    |
| Bachelor degree  | 51  | 10.5% |
| Master degree    | 252 | 51.7% |
| Doctorate degree | 179 | 36.8% |
| Total            | 487 | 100%  |

Since many online courses are in the English language. It is crucial that students have very good or higher level of English in order to be able to follow the MOOCs material. For the following reason, participants have been asked about their level of English. As it can be seen from the Table 5; 5.3% (f = 26) participants stated that their level of English is Basic, 13.1% (f = 64) Good, 26.7% (f=26.7%) very good, 34.9% (f=170) excellent and 19.9% (f=97)

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Table 5. Level of English

|             | f   | %     |
|-------------|-----|-------|
| Basic       | 26  | 5.3%  |
| Good        | 64  | 13.1% |
| Very good   | 130 | 26.7% |
| Excellent   | 170 | 34.9% |
| Near-native | 97  | 19.9% |
| Total       | 487 | 100%  |

Table 6 is showing how often participants study online. As it can be seen from the table; 19.9% (f=97) participants study once in a week, 18.9% (f=92) once in a month, 18.5% (f=90) one in a year, 42.7% (f=208) participants never have taken an online course.

Table 6. How often participants study online.

|              | f   | %     |
|--------------|-----|-------|
| Once a week  | 97  | 19.9% |
| Once a month | 92  | 18.9% |
| Once a year  | 90  | 18.5% |
| Never        | 208 | 42.7% |
| Total        | 487 | 100%  |

The number of courses that participants successfully finished is showed in Table 7. None 48.7% (f=237) participants, 1 course 10.7% (f = 52), 1-3 courses 23.4% (f = 114), 4-8 courses 11.5% (f=56), 9-15 courses 2.1% (f=10) and 16 or more courses 3.7% or (f=18).

Table 7. Number of courses that participants successfully finished.

|            | f   | %     |
|------------|-----|-------|
| None       | 237 | 48.7% |
| 1          | 52  | 10.7% |
| 1-3        | 114 | 23.4% |
| 4-8        | 56  | 11.5% |
| 9-15       | 10  | 2.1%  |
| 16 or more | 18  | 3.7%  |
| Total      | 487 | 100%  |

Researchers wanted to see are participants ready to pay for the course on their native language. The results are presented in the Table 8. 28.8% (f=140) participants answered none, 26.9% (f=130) 50KM, 28.6% (f=139) 50KM to 100KM, 12.4% (f=60) 100KM to 300KM, 1.9% (f=9) 300KM to 600KM and 1.4% (f=7) 600KM or more.

Table 8. For courses in my native language, I'm ready to pay.

|               | f   | %     |
|---------------|-----|-------|
| None          | 140 | 28.8% |
| 50KM          | 130 | 26.9% |
| 50KM – 100KM  | 139 | 28.6% |
| 100KM – 300KM | 60  | 12.4% |
| 300KM – 600KM | 9   | 1.9%  |
| 600KM or more | 7   | 1.4%  |
| Total         | 487 | 100%  |

## Conclusion

Massive open online courses are one of the most prominent trends in higher education in recent years. It represents open access, global, free, video-based instructional content, problem sets, and forums released through an online platform to a high volume of participants aiming to take a course or to be educated. With time and place flexibility, MOOCs gathers scholars and learners around the world. It is offered as an addition to the knowledge that individual or an organization can build their knowledge. It is especially good for the emerging nation. It has been mentioned that countries with better educational system tend to prosper faster and they have higher economic standards.

Bosnia and Hercegovina are currently having many problems when it comes to the education. Major problems appeared as the result of Dayton agreement. Three constitutional nations in B&H cannot agree on many important aspects on the country level. That affected especially education where currently education curriculums are not harmonized, every part is introducing changes by themselves and there is no joint intention to improve the education which is preventing the growth of the nation.

Individuals and private institutions that are interested to improve education can do it by promoting and creating MOOCs. Accordant to this research 80% of students in B&H are able to follow MOOCs in English but almost 50% of students have never taken any MOOCs course. The first step would be to promote MOOC as the new trend and to explain to the students that they can take cutting edge education online.

The second reason why MOOCs are important is that all industries are improving drastically, professors from many universities do not update their knowledge even though that we have really successful and hardworking students. Once when they graduate they are not skilled to do their job. When they finish universities they start learning how to perform their job. This is expressed in many fields but especially in IT industry. Updating books, professors, and the system would take some years. The best alternative that is out there for students to learn about the trends in the industry is to watch MOOC and learn online. For that reason, more than 70% of all respondents they are ready to pay for the course in their native language. Institution and individual that recognize this trend can make a profit but also provide the market with the knowledge which is necessary for staying competitive in local as well as on the global scale.

Since no similar research have been done on this topic in Bosnia and Herzegovina, this research leads us to focus on two segments. There is 50% of participants that never took the MOOC, future researcher in this field can focus on the factors why is that so. Another 50% of respondents answered that they used MOOCs so the future researcher can focus on the things such as what did they like, what can be done better, what specifies differentiate MOOC learner from Balkan comparing the MOOC learner from the western countries.

MOOCs are the latest trend in the field of distance education which seems to go on for some time which indicates a significant need for research studies on it.

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## **Banking Concentration in Kosovo: Evidence from a Country in Transition**

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**Abstract:** *This paper focuses on the trends in the evolution of banking concentration indexes. Kosovo belongs to the economies in the transition process to open market economy. The creation of new financial institutions and financial system in Kosovo after 1999 started from scratch governed by the private initiative and private capital investment. This paper examines the evolution of banking competition over a period of 5 years from 2012 until 2016. It applies the HHI index and the CR3 and CR5 indicators in order to estimate banking concentration on five banking variables (total assets, household deposits, corporate deposits, household loans, corporate loans). Our findings show that the market has experienced high concentration by leading three and/or five institutions whereas latest established and smaller banks didn't succeed to gain market share. The results are of importance from the regulatory point of view as a tool if needed in undertaking various measures for a healthy banking system.*

**Keywords:** *Banking concentration, Kosovo banking sector, the HHI index, CR3, CR5 indicators*

**JEL Classification:** *3 codes*

### **Introduction**

Market concentration belongs to the regulatory institutions' responsibilities and interests; thus, banking concentration issues are of high interest to central banks who monitor on daily basis banking operations and risk inherited with. Oriented toward profit maximization, commercial banks tend to gain the highest market position within the market in sense of loan and deposit participation. In getting higher concentration presence in market, banks rely on offering more attractive deposit and credit services. Market concentration measurement uses different indexes or indicators which shows the market share of commercial banks within the same financial system and evaluates the level of competition and potential impact on banking and economic stability.

Main banking indicators of banking institutions individually and aggregated in Kosovo are showing very good level of capital adequacy, asset quality, liquidity and performance. It means that the banking operations and risks are within framework of regulatory requirements and international standards.

For the calculation of concentration indicators in Kosovo banking sector, the degree of concentration is assessed within 2012 to 2016 period or five years period, and the trends of market with respect to assets, deposits, and credits. Markets which are controlled or have share participation by one or few numbers of market participants are considered as highly concentrated markets while in situations where share participation is diversified between many participants it is considered as a market with less concentration and facing high competition.



## Literature Review

Many researchers, controllers and other banking experts have shown a great interest in the issue of market size and concentration on it. Financial instability has become a key source of concern globally which is highly related to the concept of the central role of banks at the heart of countries' growth dynamics.

As Heimeshoff and Uhde (2008) state, practical evidence and economic theories offer conflicting viewpoints in regards with the relationship among financial stability and banking concentration, hence during several years were established the existence of two main hypothesis such as the banking concentration stability and banking system fragility. The rapid consolidation of banks worldwide is increasing matters amid policymakers and other legislators about banking concentration.

The concentration-stability model implies that consolidation delivers several benefits for the banking sector, consecutively an increase of concentration. A lower probability of banking failures is frequently linked with highly concentrated and less competitive banking sector. A great number of active banks belong in a less concentrated sector, thus leading to a solid competition. Considering such conditions, it is stated that banks profitability would be lower, and their stability would be undermined as having less market power leads to more likely chances of choosing risky approaches and/or strategies (Craig and Dinger, 2010). Additionally, regulatory authorities would easily and effectively supervise and analyze a smaller number of big banks, which consequently may lead to a failure of system-wide infection (Davis, 2007).

Throughout the period of 2004-2008, the improvements, modifications and the liberalization which comprised about seventeen central and eastern European countries were studied by Andries and Capraru (2011). The results recommend that countries of EU have achieved to further increase the levels of financial liberalization consequential to more viable and competent services to clients. In contrast, the efficiency levels endure moderately unaffected in non-EU countries arising to advanced productivity progress records for their financial institutions. Additionally, the national case of FYROM in the mid-90s was observed by Giustiniani and Ross (2008). During this time period, initial changes come to pass.

The analysis was conducted throughout two main approaches: the first one being the Panzar and Rosse (1987) test on market structure and second the H-statistic, covering up the years up to 2005. Taking into consideration that the H-statistic results were close to zero, it is recommended that the competitiveness among markets is not as high enough as it should be, approaching to a more monopolistic or a pure cartel form. Generally, as a result of legal and other institutional limitations, the banking sector hovers fairly weak and undeveloped which leads to a fragile and uncertain competition.

The relationship among profitability and banking concentration in the Greek market is examined, indicating that monopolistic competition or imperfect competition is central, where private banks and major state lead the market. Athanasoglou et al (2008) put more emphasize and examine the markets such as Albania, FYROM, Croatia, Bosnia-Herzegovina, Bulgaria, Romania and Serbia-Montenegro, which in the early 2000s have established the foundation towards a more efficient banking system, bragging though various levels of market concentration. Furthermore, Dumicić

et al (2008) applying the index of the Herfindahl-Hirschman and other ratios investigated banking concentration in the ex-Yugoslav republic countries as Bosnia-Herzegovina, Serbia-Montenegro, and Croatia, where the outcomes were various but with Croatia and Serbia leading as the most efficient markets in the region.

On the other hand, Latin American countries, such as Argentina, Chile, Colombia, Mexico, and Peru were observed with the aim of explaining the market concentration effect on bank spreads. Top three and five banks were taken for examination, in which all of the cases the market share exceeded 40% and the index of Herfindahl-Hirschman was above 650, whilst in some cases surpassed the index of 1000. The process of banking consolidation is one of the main reasons why the concentration in these markets occurred, which appeared either by domestic banks mergers to withstand the competition or by acquisitions of domestic by foreign banks (Martinez and Mody, 2004)

Another case with a sample of 20 EU and Eurozone member countries using the approaches of Herfindahl-Hirschman and the top three and five concentration indicators was conducted by Tsiritakis and Tsirigotakis (2011). Generally, they claim that the European markets are mostly outlined by concentration levels which enable a monopolistic competition, carrying a satisfactory effect on prices for clients and credit access for companies. Similarly, Beck, Demirgüç-Kunt, and Levine (2003) studied the influence of bank concentration and principles, and the total competitive environment on banking system delicateness by means of cross-country data on 70 countries and 47 crisis episodes. The writers have demonstrated that bank concentration has a steadying effect and banking systems which are concentrated are less likely to encounter systemic banking crises. It is confirmed that during their research the inclusive impact of concentration on fragility is negative.

Differently, the model of the concentration-fragility claims that a highly concentrated banking sector presents a risk to the financial stability and creates systemic risk. Because of the competition deterioration and high market power of large banks, an amplified banking sector concentration can lead towards an increase of interest rates on loans and to decrease interest rates on deposits.

Moreover, for the time period 1997-2005 and by using bank balance sheet data from commercial banks crossways the EU25, it was found that an increased market concentration causes a negative effect on financial reliability, whereas this negative impact happens due to the reason that big commercial banks in Europe aim to involve hazardous investments than smaller ones (Uhde and Heimeshoff, 2008). Analyzing the situation from a theoretical perspective, higher banking system concentration may have either promising or contrary effects on both unemployment and financial intermediation. As several authors stated (e.g., Smith 1998, Guzman 2000), considering the structure-conduct-performance theory, higher loan rates occur due to a higher level of concentration, lower competition due to higher interest margins and so on. Accordingly, this clearly can lower investment, job opportunities, and economic growth, consequently raising the figures of unemployment.

Looking from another perspective, a more concentrated banking industry can be an outcome of further competent banks earning greater market shares giving the efficient structure hypothesis (e.g., Demsetz 1973, Peltzman 1977). This hypothesis shows that the higher efficacy of financial intermediation has most advantageous knock-on possessions on loan rates. According to Jeon

and Miller (2005), comparing the data of US state-level during the period from 1976 up to 2000, it is found that the higher bank concentration causes the growth of bank profitability, which supports the structure-conduct-performance hypothesis. Another case on the United States has studied Tregenna (2009), using quarterly bank-level data from 1994 to 2005 on the total of 644 banks, discovers an encouraging and highly substantial connection amongst profitability and concentration as well.

Numerous studies on evolving countries similarly recommend that higher bank concentration rises the price of financial intermediation. As Sufian (2011) demonstrates, over the period 1992 to 2003, concentration significantly increased profitability of banks in South Korea. Whereas, Tobar et al. (2011) studied the case of Columbian banking system using monthly data from 1997 to 2006 and found that when the system was under pressure and tension, the higher market concentration rose interest rates margin.

### Data and Methodology

The literature provides different methods to assess market concentration and competition levels across the economic sectors. Within such range of methods most accepted tools in estimating concentration in banking market are the Herfindahl-Hirschman Index and the CR3-CR5 indicators. These two tools are used for the purpose of analyzing the banking sector in Kosovo.

The Herfindahl index (also known as Herfindahl-Hirschman index, HHI) is estimated as follows:

$$HI = \sum_{j=1}^n (S_j)^2$$

Symbol S indicates each bank's share in the total amount of specific category, i.e. total loans, total deposits, total assets etc. while "n" indicates the aggregate number of banks in the market.

In this analysis, HHI on five banking variables is estimated:

- ↗ Total assets
- ↗ Household loans
- ↗ Corporate loans
- ↗ Household deposits, and
- ↗ Corporate deposits

The HH Index values range from zero to 10,000 where the market with an HHI with a value less than 1,500 is considered to be a more competitive marketplace, an HHI value of 1,500 to 2,500 is considered to be a moderately concentrated marketplace, and an HHI value of 2,500 or greater is a highly concentrated marketplace. Higher values indicate less competitiveness while values close or equal to zero indicate perfect competitiveness in the market.

Except for the HHI, an additional tool for the estimation of concentration it is applied, known as CR3 and the CR5 indicator. These indicators refer to the market share of the biggest three and/or five banking institutions that have in each variable. The dataset covers the period from 2012 to

2016 taken by the Central Bank of Kosovo and individual data of banks operating in the financial market of Kosovo.

## Data Analysis

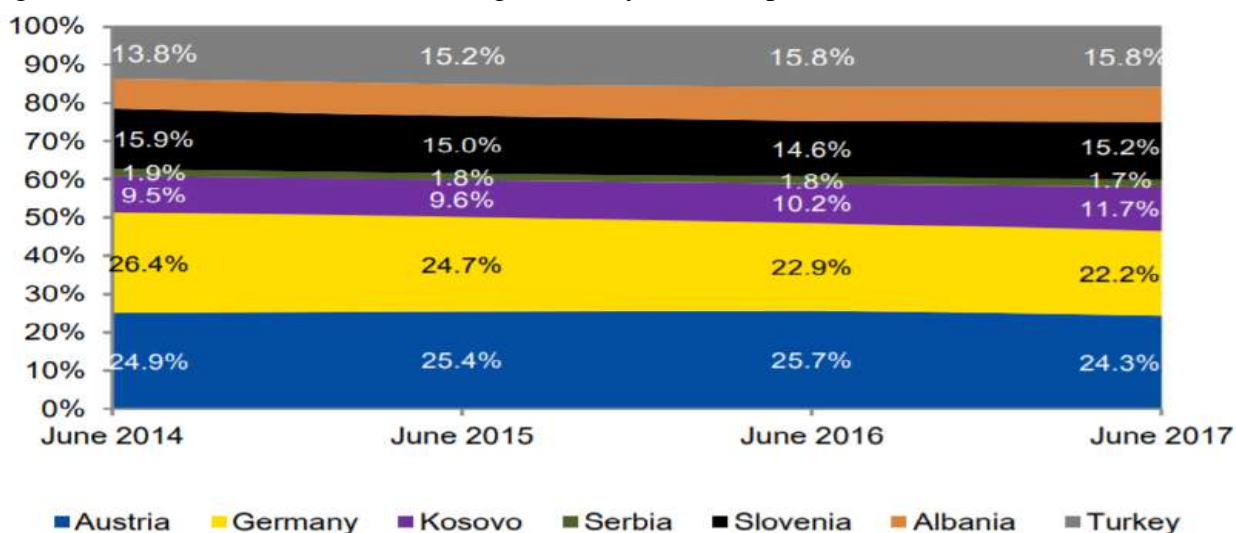
Kosovo continues to have a sound financial system, which represents a very important source of growth and stability of the domestic economy. All constituent sectors of the financial system marked an increase in their activity, consequently enabling the country's economy to provide a wide range of financial products. Financial intermediation activity of the banking sector marked a sustainable increase. Conditions for funding from banks continued their improvement, where in addition to the reduction of interest rates, access to bank loans was accompanied with facilities in other aspects. The improvement of lending conditions and the consistent development of new financial products, is also supported by the good soundness of Kosovo's banking sector, was reflect the continuous growth rate of financial intermediation in Kosovo.

Financial soundness indicators of the banking sector in Kosovo reflect a very satisfactory level, where it is worth mentioning the further decline of non-performing loans, which depicts Kosovo against the other regional countries in regard to the quality of credit portfolio.

The main source of financing the banking sector activities continue to remain deposits where the main contributor to the increase of total deposits were household deposits, which are considered to be a steady source of financing compared to other channels.

Ownership asset structure compares to the initial stage of establishment of banking institutions (out of 7 banks, 5 of them were with domestic capital ownership) has changed a lot and current ownership is represented in Figure 1.

Figure 1: Assets structure of the banking sector, by ownership



Source: CBK (2017)

The major shareholders of banking institutions have a capital source from Austria participating with around 24% of assets, followed by German ownership of 22%, Slovenian by 15%, Kosovo ownership by 11%, Serbia ownership by 1.7%. Number of banks with capital from Turkey has increasing trend showing 16% ownership. The HHI index is presented in Table 1.

Table 1: HHI index for five banking variables

| Year | Household deposits | Corporate deposits | Household loans | Corporate loans | Total assets |
|------|--------------------|--------------------|-----------------|-----------------|--------------|
| 2012 | 2667               | 2685               | 2705            | 2793            | 2708         |
| 2013 | 2629               | 2557               | 2748            | 2789            | 2726         |
| 2014 | 2587               | 2608               | 2724            | 2897            | 2670         |
| 2015 | 2920               | 2695               | 2767            | 3025            | 2808         |
| 2016 | 2834               | 2807               | 2832            | 2984            | 2838         |

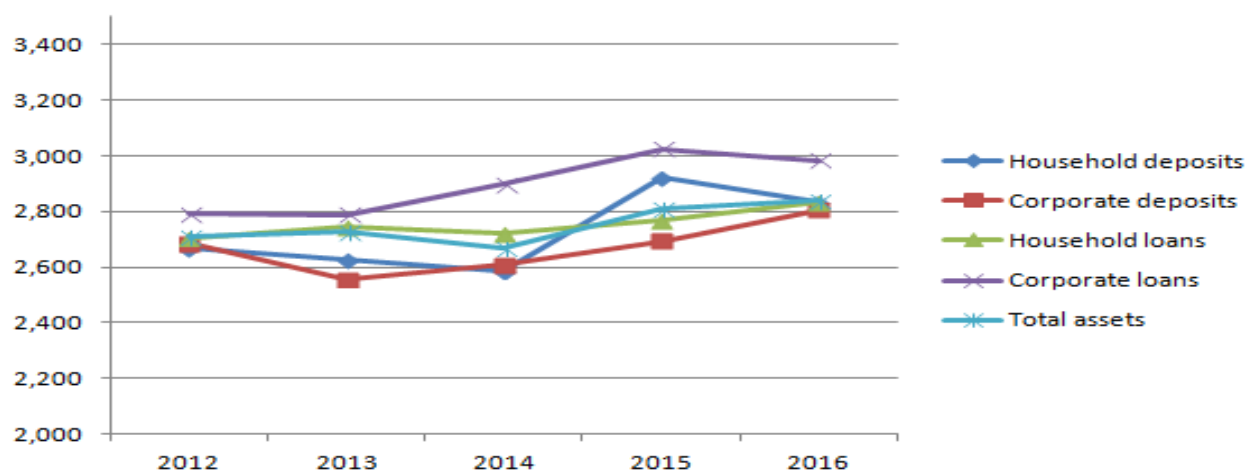
Source: Reports of CBRK and individual banks, 2012-2016

The HHI index is analyzed and tested for five banking variables. The table does show that the banking market in Kosovo is highly concentrated according to the values derived by the HHI index. The HHI index for total banking assets is showing highly concentrated banking industry which exceeds values of 2600. Values are ranging from 2670 to 2840 and what is more important the banking concentration have the increasing trend which reflects less competitiveness.

Concerning the corporate figures, we get this result. Both, corporate loans and corporate deposits are highly concentrated referring to the HHI index exceeding 2,550 units. In one side, corporate deposits are ranging from 2,560 to 2807 and it reflects up-ward trend until 2016. Corporate loans are ranging between 2,780to 3,025 unit and similar to corporate loans trend it has increasing movement until 2016. But, the concentration of corporate loans variable resulted with a higher concentration than corporate deposits variable. It means that the market in corporate loans is less competitive than the market in corporate deposits which was a more competitive indicating impact of the negative interest rates placed by some European Central Banks.

As far as the household figures situation has identical movement in both variables, household loans, and household deposits. While household deposits are ranging from 2,580 to 2,920, household loans ranging is from 2,700 to 2,830 units. It resulted with a high concentration of both variables. Both variables show increasing trends until 2016 and concentration similarity remains.

Graph 1: HHI index for five banking variables 2012-2016



Source: Reports of CBRK and individual banks, 2012-2016

The second tool used to estimate banking concentration on five variables is the CR3 and CR5 indicators. It reports the percentage that the three and five biggest banking institutions hold in each banking variable. The reflection of indicators is shown in Table 2.

Table 2: CR3 and CR5 indicators

| Indicator | Year | Total assets | Household deposits | Corporate deposits | Household Loans | Corporate loans |
|-----------|------|--------------|--------------------|--------------------|-----------------|-----------------|
| CR3       | 2012 | 65.62%       | 73.77%             | 83.94%             | 71.44%          | 64.47%          |
|           | 2013 | 63.85%       | 72.20%             | 68.98%             | 61.16%          | 62.65%          |
|           | 2014 | 66.46%       | 71.09%             | 74.75%             | 66.83%          | 59.07%          |
|           | 2015 | 61.64%       | 58.32%             | 67.97%             | 66.61%          | 56.04%          |
|           | 2016 | 60.44%       | 60.14%             | 63.82%             | 63.63%          | 53.41%          |
| CR5       | 2012 | 83.02%       | 88.42%             | 93.91%             | 92.97%          | 82.88%          |
|           | 2013 | 82.71%       | 89.28%             | 88.72%             | 82.70%          | 81.51%          |
|           | 2014 | 87.99%       | 88.40%             | 92.79%             | 91.20%          | 80.60%          |
|           | 2015 | 82.30%       | 95.96%             | 91.79%             | 96.46%          | 75.15%          |
|           | 2016 | 81.27%       | 79.62%             | 91.92%             | 93.04%          | 73.41%          |

Source: Reports of CBRK and individual banks, 2012-2016

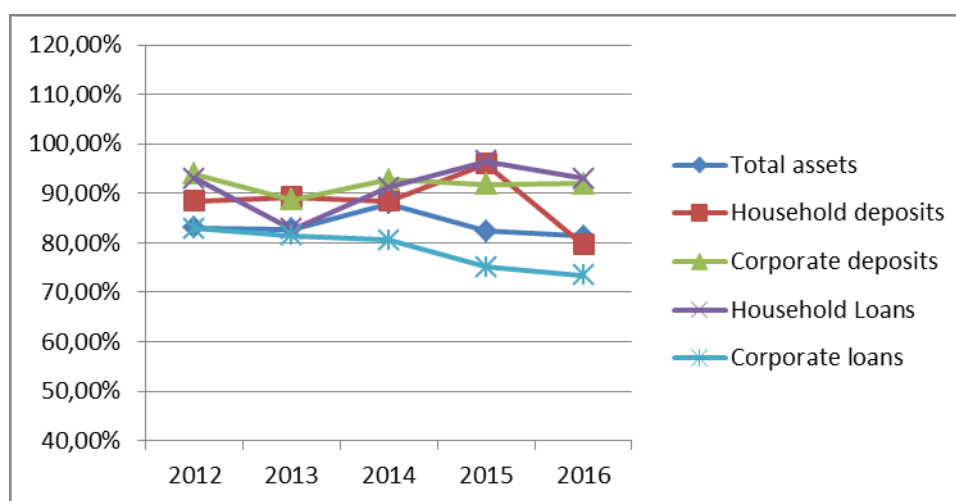
The first impression from the Table 2 is that the concentration indicator is increased if we compare CR3 indicator with CR5, proving concentration rose by adding two other banks in group.

Analyzing CR3 indicator, we conclude that the concentration in all five variables has decreasing trend whilst an increase of competitiveness in the market. The biggest concentration belongs to household loans variable and corporate deposits variable. Less concentration is reflected in corporate loans variable. According to Table 2 and Graph 2, the CR5 indicator shows highly

concentrated market in all variables. The highest concentration CR5 indicator is reflected in household loans ranging from 83% to 96% and corporate deposits ranging from 88% to 94%. The highest concentration in household loans reached the peak in 2015 with 96.5% and in corporate deposits in 2012 with 94%.

More competitiveness of CR5 indicator is shown with corporate loans variable having a declining trend of concentration from 83% to 73% in 2016, approaching medium concentration level. The concentration of total banking assets remains constant, except in the year 2014 where the concentration percentage has increased to the highest level of 88%.

Graph 2: CR5 indicator for five banking variables 2012-2016



Source: Reports of CBRK and individual banks, 2012-2016

## Conclusion

This paper aspires to analyze banking market concentration in Kosovo, as an economy in transition, and contribute to the area of concentration measurement. The paper examines the period from 2012 to 2016 and five banking variables. According to the results derived by HHI index, the banking concentration in all five banking variables is shown as highly concentrated market and there is a similar movement in all variables. Our research figures out that the banking industry in Kosovo is still highly concentrated and competition is mainly run by 3 to 5 bigger institutions. Out of 10 banks, 3 of them have a very minor presence in the market with around € 85 mil. in loans and €95 mils. in deposits which has an impact on higher concentration level of other banking institutions.

Examination of concentration using CR3 and CR5 indicators shows similar situation in regard to the banking concentration in the market as HHI index. But, in contradiction with other results CR3 indicator shows that the market faces medium concentration.

Even there was an entrance of new foreign banks in the financial market in Kosovo expectations for the introduction of higher competitiveness in the banking industry hasn't happened. It means that the domestic financial market has failed to improve the situation in regard to competition even though new competitors have entered the market.



This study could impact interest of regulatory and license institution in assessing potential risk inherited by high banking concentration.

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## **Utilization of Local Natural Raw Sources for New Modern Thermal Insulation Production Related to the Reconstruction Project**

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**Abstract:** *The building construction industry is facing several major problems, among which are the fact that it spends 45% of the energy and 36% of the pollutions are coming from this sector which directly mostly influences on the climate changes. EU Climate and Energy Package was created that outlines the goals to be achieved by 2020 in energy use and environmental protection by decreasing the emissions of greenhouse gases by 20% from the level of 1990, ensuring that 20% of energy comes from renewable sources as well as by increasing the energy efficiency by 20%. All mentioned requires serious changes and adaptation in the industry and all related sectors by the responsible interdisciplinary approach. Heritage protection and activities in protection and reconstruction of the old buildings today has to be in line with mentioned strategy goals. Usually during the reconstruction of those building the outside intervention on the facades are forbidden. Beside savings in building sector heritage buildings as touristic attractions could make savings in the sector of the tourism as well. Paper will present possibilities how it is possible to use environment friendly materials based on local natural raw sources as straw, hemp, flax, wood, etc. in the future projects of the reconstruction and thermal protection of the old, historically protected buildings by using of new modern thermal insulations technologies and materials. This paper will present new natural materials properties as insulation materials and will present as well practical evaluation on the existing example with one-year measurement in Czech (old typical Czech village house). Presented results will help countries in the process of the accession in the EU to recognize the best practice in the EU and to adopt those practices to their legislations and standards in the future. All of this will improve quality of the reconstruction work, will make healthier*

*environment, will introduce better quality of service as well as will attract more tourists which will all together support the circular economy.*

**Keywords:** *natural raw sources, circular economy, suitable development, natural based insulations, building reconstruction*

**JEL Classification:** *C8, Q55, O3*

## **Introduction**

First the energy crisis in eighties then climatic changes in last decades are great motivation for effort of our society look to sustainability. Buildings belongs to industries which consuming large extent of energy sources and has a great influence on environment from this point of view. Building consumes not only energy during service lifetime, but also during production of building materials which also requires a lot of energy and is not ecological or environment friendly. It is good to recall that at the end of the life cycle of building requires huge further energy-intensive processes which produces massive waste. Sustainable architecture needs to look at all aspects of energy flows in whole lifetime cycle of building nad materials.

Natural based materials have been always used in human history. These concepts have been passed for a long time and many of old buildings made by local natural materials could be found all over the world. The last century brings a lot of new artificial synthetic materials, which take a place in many areas of our live. Civil engineering and architecture are not an exception. Production of synthetic materials are often associated with high demands of energy in the production processes what is in contradiction of sustainability architecture requirements and mentioned strategic goals. In last decades we used to optimise the building energy performance by adding the additional insulation on the building envelop. Currently the thickness of the wall insulation are approximately seven times higher than forty years ago and still will rising. Further increasing of insulation thickness brings only small gains and there is a time for next step. Energy performance of buildings in line with climate change and environment requirements could be also improved already in the design by usage of environmentally friendly materials.

Natural based materials are well known today but there are not enough sources or massive production which determines their expensive price. Solution could be found in combination of natural, recycling and secondary raw materials. Secondary raw materials are often regionally available and has been waiting for they further chance. Many natural materials have positive and demanding insulation properties together with a lot of prejudice Usage of these materials requires laboratory and long-time experimental testing for future argumentation. A short description of testing with preliminary results are aim of this contribution (Chybik (2009), Vejeliene at al. (2011), Ibraheem, Aidy and Khalina (2011) and MacDougall (2008)). The results will help in future sustainable planning, design and testing especially for the reconstruction of old heritage buildings where the outside intervention on the facades are forbidden.

## Description

Under research work at Brno University of Technology the several mixtures of different insulation materials has been developed for testing. This research has been implementing since 2014 in cooperation with CIUR a.s. company. The subject of research is to development of the optimal insulation for future low energy houses based on secondary raw materials. The mixtures are based on recycled cellulose, hemp, straw and wood fibres with various ratio and additives. Some of mixtures with cellulose fibres has been used in retrofitting of family house in Nord Moravian region. The original characteristic of this ground floor family house is a roof - roofed by pitch roof with unused loft. For the need of this experiment external walls of the loft have been insulated from the interior side. Same inside insulation was used for a pitch roof, as an additional inside insulation system during reconstruction by cellulose and straw insulation. Section of wall and roof construction schematically displays in Figure 1. Original walls are formed by masonry which is covered by plaster from external side. From internal side originally house did not have any insulation. During this experiment the walls from inside are insulated by the mixture of cellulose and straw insulation which fills gap between final layer as gypsum board and masonry. Gypsum board is carried by metal profiles and vapor retarder foil is added between gypsum board and insulation. For the roof in the experiment we used the similar insulation which takes a place between the rafter. Final layer of the internal side of the roof has been closed by vapor retarder membrane and gypsum board. From the external side the roof composition is closed by diffuse permeable membrane and ventilated airgap covered by final layer of the ceramic roof tiles (see in figure 1). The thickness of insulations in both cases are 300 mm. Insulation has been used in the floor between ground floor and loft, too to ensure no energy losses.

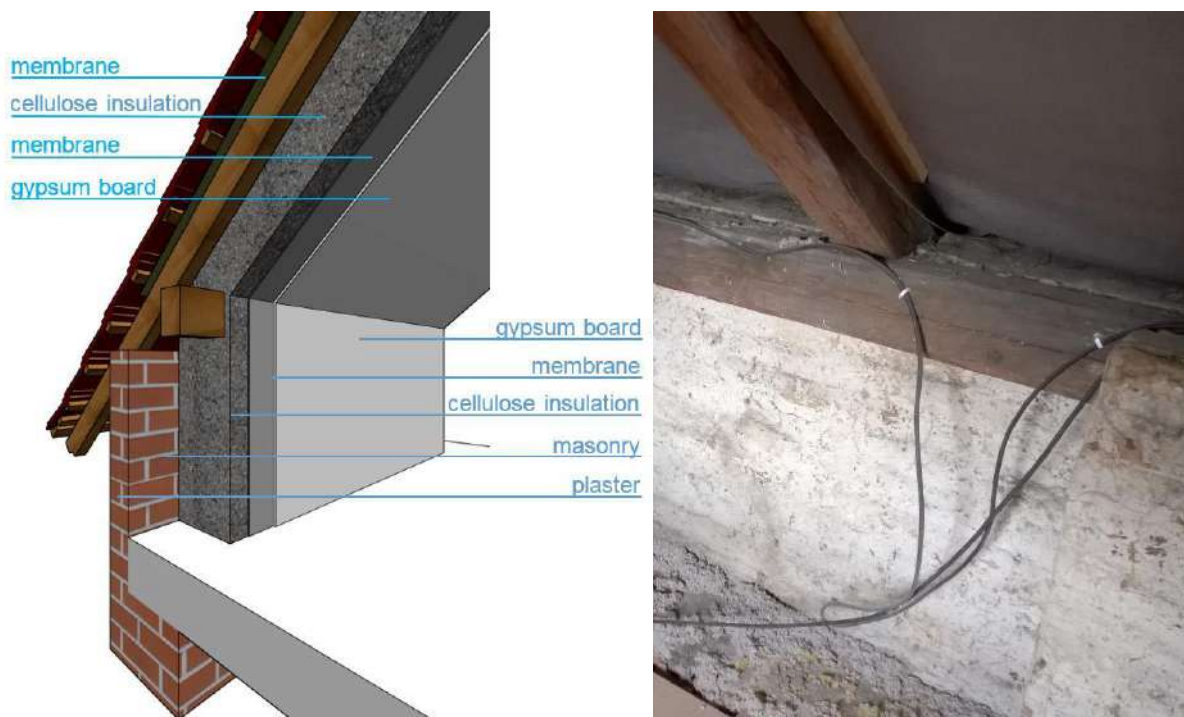


Figure 1: Detail and scheme of wall – roof connection

According to results of this experimental work, insulation material based on mixture of cellulose and straw (70:30 with density of  $45 \text{ kg/m}^3$  for roof part and 50:50 with density of  $60 \text{ kg/m}^3$  for wall part) was selected, thanks to their specific properties. The roof has had only limited additional load, so in this case has been used lighter mixture. Walls have a base mixture with higher density. All crucial insulation material parameters were measured at standard laboratory conditions and were published in scientific paper Slavik, Peterkova and Zach (2018). The properties of the selected insulator could be find in the table 1.

Table 1: Properties of developed natural based insulators (70 % cellulose : 30% straw with density of  $45 \text{ kg/m}^3$  for roof part and 50 % cellulose : 50% straw with density of  $60 \text{ kg/m}^3$  for wall part)

| Type of insulation mixture      | Density                           | Thermal conductivity<br>23 °C, 50 %                  | Thermal conductivity<br>dry condition                | Thermal conductivity<br>23 °C, 80 %                  | Factor of diffusion resistance |
|---------------------------------|-----------------------------------|--|--|--|--------------------------------|
| [-]                             | $[\text{kg} \cdot \text{m}^{-3}]$ | $[\text{W} \cdot \text{m}^{-1} \cdot \text{K}^{-1}]$ | $[\text{W} \cdot \text{m}^{-1} \cdot \text{K}^{-1}]$ | $[\text{W} \cdot \text{m}^{-1} \cdot \text{K}^{-1}]$ | [-]                            |
| 70 % cellulose : 30% straw with | 45                                | 0,04254  | 0,03970  | 0,05051  | 4,821                          |
| 50 % cellulose : 50% straw      | 60                                | 0,04372  | 0,04088  | 0,05174  | 4,025                          |

The goal of the experiment is to verify the behaviour of these materials in real application. All components have been designed according requirements of national and European technical standards with usage of renewable natural materials. Real hygrothermal behaviour is captured by electronic system with sensors which are embedded into components.

Temperature and relative humidity are measured by SENSIRIOIN SHT25 sensors. There are measured two roofs and two walls which has various orientation to the cardinals. Measurement starts in at end of spring 2016 and the collection of the data are still running. Data are collecting in fifteen minutes intervals and brings information about real evolution of temperature and humidity profiles. All current collected values has been displayed on the internet page with periodically evaluation. The Figure 2. shows one sensor and web application for data preview.

## Results

Figure 1 consists of two vertically stacked line plots sharing a common x-axis representing time from May 2016 to August 2017. The x-axis is labeled with dates at two-month intervals: 5/16, 6/16, 7/16, 8/16, 9/16, 10/16, 11/16, 12/16, 1/17, 2/17, 3/17, 4/17, 5/17, 6/17, 7/17, and 8/17. The top plot displays Temperature in degrees Celsius (°C) on the y-axis, ranging from -15 to 35. It features five data series: 'int' (green), '4' (black), '3' (orange), '2' (grey), and '1' (blue). All series show a seasonal cycle with a minimum around January 2017 and a maximum around July 2017. The 'int' series generally has the highest values, while '4' has the lowest. The bottom plot displays Relative Humidity in percent (%) on the y-axis, ranging from 0 to 100. It uses the same five data series. The '4' series (black) is consistently the highest, starting near 75% and ending near 65%. The other series are clustered between 30% and 65%, with 'int' (green) and '2' (grey) generally being the lowest.



Figure 3: temperature and relative humidity in wall with cellulose-straw mixture (50:50) orientated to the south

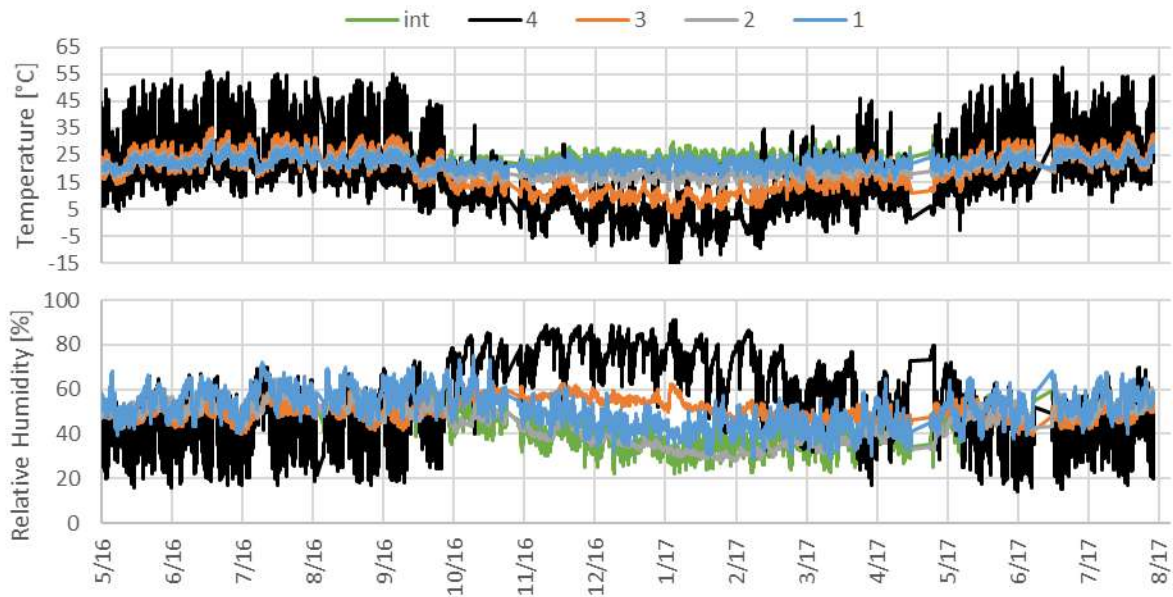


Figure 4: temperature and relative humidity in the roof with cellulose-straw mixture (70:30) orientated to the south

Measured data from wall are displayed by Figure 3 and from roof are shown by Figure 4. Both figures represent the collected data from the structures orientated to the south. Sensors are placed at all intersection of the all layers. Numbering of the sensors starting from the first one from the interior side. The first sensor is placed between gypsum board and vapor retarded. Second sensor is located between insulation and vapor retarder, third is in the middle of experimental insulation layer. Forth one is placed at masonry surface. Internal conditions are marked by “int” in the charts. External conditions have been measured but due strong variability and clarity are not plotted into this chart.

## Discussion

As mentioned before, the main task of this research is the comparison with numerical models for a different materials mixture in two positions the wall and the roof. Figure 4 presents the charts with the range of the areas of temperature and relative humidity values which has been obtained from the numerical simulation in the wall construction. Figure 5 shows the roof structure in same simulation model. Measured values in control points are projected to this area by vertical lines with diamonds. The top diamond represents maximum, bottom diamond minimum and middle diamond average value from sensor. As could be observed from figures, values obtained by numerical simulation reaches relatively good compliance with measurement.

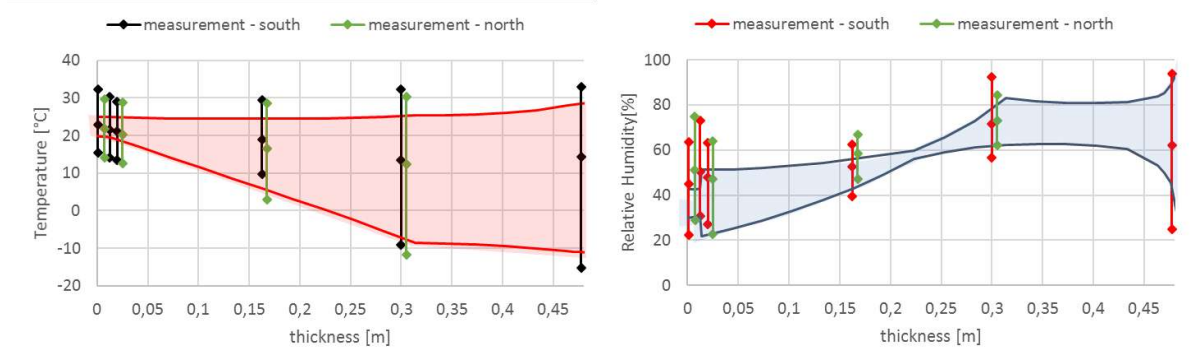


Figure 5: Comparison calculated and measured values at walls

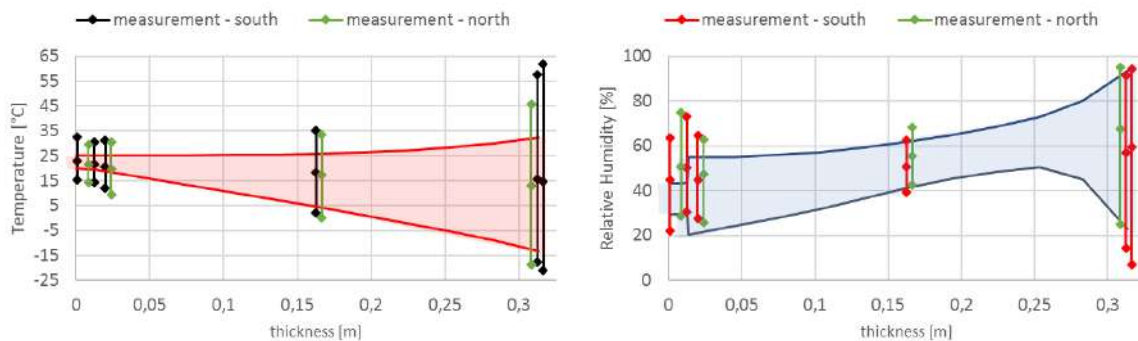


Figure 6: Comparison calculated and measured values at roofs

Similar comparison has been used for European and national standard, which uses quasi-stationary approaches of Glaser methods. Reached values in temperature fields has been inadequate low and moisture in relative humidity has been overestimated.

Further analyses have been oriented to the moisture behaviour in composition. Numerical modelling brings advanced possibilities in investigation of moisture distribution. As could be seen from Figure 7 moisture content in year periodically oscillates. The insulation material reaches only hygroscopic range of moisture. The one and only over hygroscopic range is reached in masonry and exterior plaster during colder period of more humid external conditions.



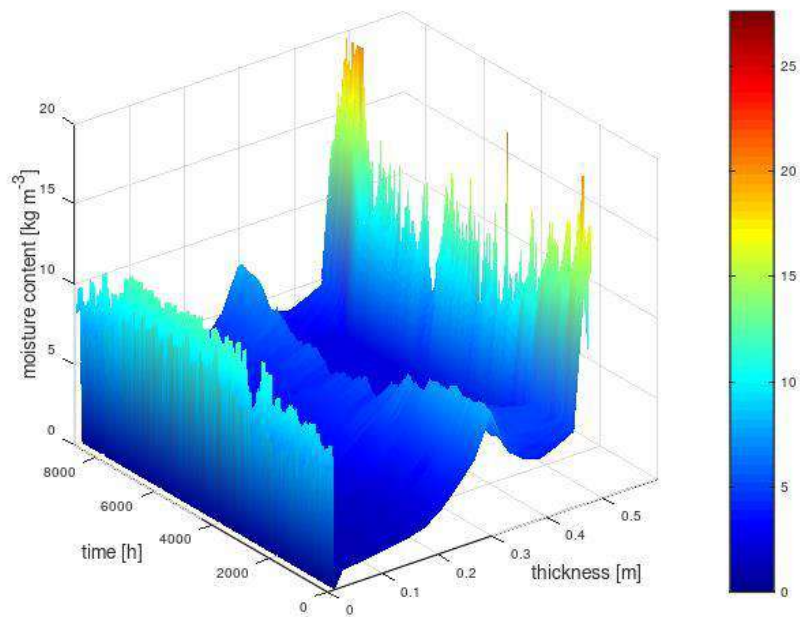


Figure 7: Moisture content in wall materials

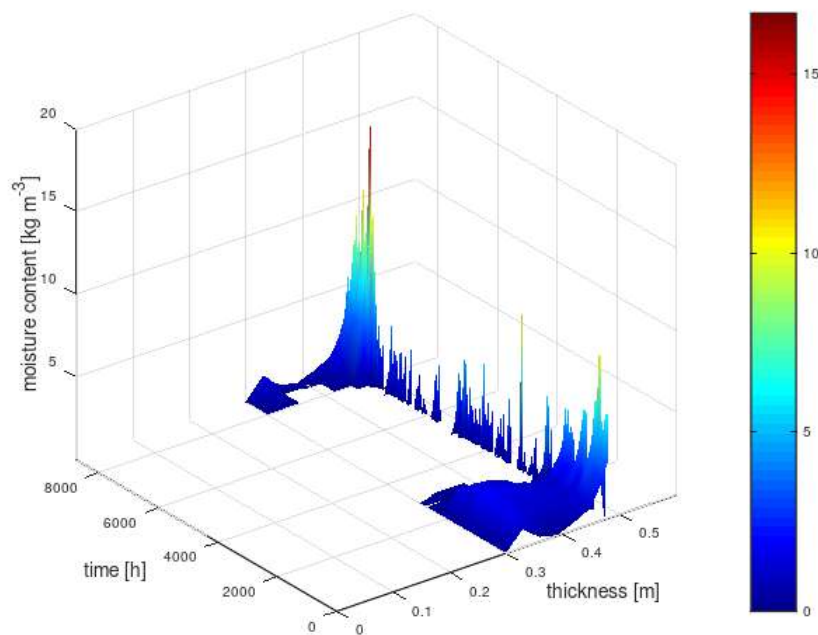


Figure 8: Moisture content in over hydrosopic region in wall materials

## Conclusion

Long term measurement brings data which could compare assessment methods. As is obvious from presented results (see in figures 3 – 8) insulation materials based on local natural raw sources is possible utilize for old building reconstruction. Due high moisture sensitivity and capacity you can see, that relative high amount of moisture (see in figure 7) is absorb in structure of thermal insulation. The rest moisture content in over hygroscopic region is finally very low (see in figure 8). It is the verification, that this kind of insulation system is suitable without some troubles with durability of construction.

Currently the moisture assessment of building component could be handled by quasi-stationary method at national or European level in contrast of numerical modelling. As has been seen from results, numerical modelling represents more progressive methods.

## Acknowledgement

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## **Optimal Portfolio Choice in Croatian Tourism Sector for Long-term Investors**

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**Abstract:** *Tourism sector has a significant importance on the Croatian economic development and it has played vital role in economic recovery after six-year long recession. The main idea of this research is to analyse stock liquidity in Croatian stock industry and to construct efficient frontier which consists of tourism stocks. Currently there are 31 stocks listed on Croatian capital market in the tourism sector. According to the market capitalization tourism sector is highly placed on the Croatian capital market with current market capitalization more than HRK 22 billion. Although the statistics show that tourism sector has large market capitalization, more detailed analysis suggests that only certain stocks are eligible to be included in the optimal portfolio on the Croatian capital market due to illiquidity problems. In order to find portfolio with the best risk/return performance, authors have calculated several portfolios with different risk/return profiles.*

**Keywords:** *Portfolio theory, illiquidity, stocks, efficient frontier, Croatian capital market*

**JEL Classification:** *G11; L83*

### **Introduction**

Tourism in Croatia has a long tradition. Its development began after the Second World War, after which it recorded a steady rise in the number of overnight stays and arrivals. Tourism in Croatia has demonstrated its full strength and resistance in the years of the financial crisis and the global disruption, stemming from the fact that Croatia is very attractive tourist destination that

according to its potential is one of the most attractive European destinations for summer holiday. After joining the European Union, Croatia gets new opportunities, but faces new challenges and tries to maximize the utilization of tourism potential for the purpose of economic development and competitive tourism development in the country, while respecting the value system of sustainable development and EU competitive strategy in the field of tourism.

Stunning coastline, unspoilt nature and beautifully-preserved centuries-old harbour towns are just some of the many attractions which offers. To meet ever more demanding tourist demand, Croatia needs to encourage further investments, to work on the overall offer of accommodation, including a whole set of additional tourist facilities in the destination, and to secure and improve production, organizational, human and institutional prerequisites for strengthening its competitive strength and capabilities in the foreign tourist market. Therefore, it can be concluded that tourism sector has the strength and potential to initiate all economic activities and to stimulate greater economic growth and prosperity. To accomplish these tasks, continuous, but also new incentives and investments that will trigger these activities are indispensable. In that respect, Croatia makes a lot of effort and goes in the right direction.

According to the leading British publication, Financial Times for Business, fDi Magazine - Global Tourism Places of the Future 2017/2018, Croatia is the seventh destination with the highest investment potential in tourism and has also been awarded with the Editor's Choice Awards. Croatia has been selected as one of the countries with the greatest advancement in the field of tourism infrastructure, accommodation, tourism development initiatives, hotel investment and cruise segment of nautical tourism. According to the data from Croatian Bureau of Statistics in 2017 Croatia has achieved record breaking tourist results, more than 86 million of overnight stays. Tourist arrivals increased from 15.6 in 2016 to 17.4 million, and over the last decade have continued to grow remarkably.

In 2018, according to the announcements of the Ministry of Tourism and survey data collected in Croatian tourism, 15% more investment in tourism is expected than in the previous year (2017) and almost 40% more investment in tourism than in 2016. This year, the private sector, will invest around EUR 628 million in tourism projects, which include investments in hotels, camps, and other accommodation facilities and attractions, and over 311 million euros will be invested in the public sector, ie counties, cities and municipalities (investments in beaches, promenades, etc.), which would be total EUR 950 million in new investments.

Tourism plays an important role in the economic development of Croatia, it has played vital role in economic recovery after six-year long recession. Dogru and Bulut (2017, 1) concluded that “tourism industry showed a remarkable recovery after the economic downturn and resilient growth in the past two decades in major European countries that have a coastline in the Mediterranean Basin.” There are numerous other research papers which confirm relationship between tourism and economic growth like: Briedenhann and Wickens (2004), Kim, Chen and Jang (2006), Tang and Tan (2015), Chou (2013), Antonakakis, Dragouni, and Filis (2015) etc. Since Croatia is country that largely depend upon tourism, the aim of this paper is to construct portfolio mix that consists of tourism companies from Croatian capital market and to investigate

their liquidity, risk and return, which would result in recommendations for future profitable investments in the tourism sector.

## 1. Analysis of Croatian tourism sector

According to the newest report of the WTTC—World Travel & Tourism Council, (2018) last year, the tourism and travel sector had generated 7 million new jobs, with 4.6% growth surpassing the growth of the global economy and was the fastest growing sector, while announcing a slower growth this year. The World Travel & Tourism Council in 2018 published a report on the world's tourism and travel economy report. This sector surpassed the growth of the overall economy last year. The growth of 4.6 percent was in the wake of the growth of other sectors, including manufacturing, which grew by 4.2 percent, retail and wholesale, with growth of 3.4 percent, agriculture, forestry and fisheries with 2.6 percent growth and financial services with a growth of 2.5 percent.

From the perspective of Croatia, tourism is considered one of the most important sectors for the economic development. To confirm this fact World Travel and Tourism Council has published some key facts of tourism impact on economic development. The direct contribution of Travel & Tourism to GDP was HRK 39,782.7mn, 10.9% of total GDP in 2017. Tourism has a great importance on employment also, in 2017 Tourism sector directly supported 10.1% of total employment. Investment in tourism in Croatia in 2017 was 10.9% of total investment.

After presenting tourism importance of the economic development of Croatia, second step was to analyse stocks in tourism sector. Generally, stocks which are listed on Croatian capital market are currently divided into the sectors due to their principal economic activity which is done according to the Statistical Classification of Economic Activities 2007 (NN 58/07 i 72/07). This breakdown of listed companies is in charge of the Croatian Bureau of Statistics. Each listed company on Croatian capital market is assigned to a sector according to the intermediate aggregation A\*38 which is composed of 38 categories. Tourism sector has 31 listed company on Zagreb Stock Exchange, this sector is known as the *Accommodation and food service activities sector*. All listed tourism stocks are shown in the table 1.

Table 1. Tourism stocks listed in Croatian capital market

| Symbol | Issuer                       | Mcap (HRK)    | % share in Mcap |
|--------|------------------------------|---------------|-----------------|
| AMDN   | Apartmani Medena             | 57,403,200    | 0.25            |
| ARNT   | Arena Hospitality Group      | 2,184,835,146 | 9.58            |
| DUPM   | DUBROVACKO PRIMORJE          | 60,249,700    | 0.26            |
| HBRL   | HOTELI BRELA                 | 208,135,465   | 0.91            |
| HBVD   | HOTELI BAŠKA VODA            | 23,844,249    | 0.10            |
| HHLD   | HOTELI HALUDOVO MALINSKA     | 26,402,954    | 0.12            |
| HIMR   | Imperial hotelijerstvo       | 515,042,550   | 2.26            |
| HJDR   | HOTELI JADRAN                | 21,423,000    | 0.09            |
| HMAM   | Hoteli Makarska              | 300,017,960   | 1.31            |
| HMST   | Hoteli Maestral              | 156,778,880   | 0.69            |
| HPDG   | MEDORA HOTELI I LJETOVALISTA | 88,473,000    | 0.39            |
| HTCP   | Hoteli Tucepi                | 184,195,200   | 0.81            |

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|       |                         |               |       |
|-------|-------------------------|---------------|-------|
| HTPK  | HTP Korcula             | 143,194,402   | 0.63  |
| HTPO  | HTP Orebic              | 36,162,320    | 0.16  |
| HUPZ  | HUP                     | 1,555,171,200 | 6.82  |
| HVDC  | Hoteli Vodice           | 42,191,119    | 0.18  |
| HZLA  | Hoteli Zlatni rat       | 109,553,369   | 0.48  |
| HZVG  | Hoteli Zivogosce        | 4,541,400     | 0.02  |
| ILRA  | Ilirija                 | 456,149,232   | 2.00  |
| JLSA  | Jelsa                   | 49,708,501    | 0.22  |
| LRH   | Liburnia Riviera Hoteli | 1,265,039,380 | 5.54  |
| LRHC  | FTB TURIZAM             | 553,833,030   | 2.43  |
| MAIS  | Maistra                 | 3,327,079,056 | 14.58 |
| OLVD  | Olympia Vodice          | 35,158,950    | 0.15  |
| PLAG2 | Plava laguna            | 0             | 0.00  |
| PLAG  | Plava laguna            | 3,824,123,280 | 16.76 |
| PLCH  | Palace hotel Zagreb     | 15,460,572    | 0.07  |
| RIVP  | VALAMAR RIVIERA         | 5,116,718,205 | 22.43 |
| SLRS  | Solaris                 | 447,846,275   | 1.96  |
| SUKC  | SUNCE KONCERN           | 928,541,780   | 4.07  |
| TUHO  | Turisthotel             | 1,078,262,640 | 4.73  |

*Source: Zagreb Stock Exchange*

According to table 1. and based on the size of the market capitalization first five stocks (RIVP, PLAG, MAIS, ARNT and HUPZ) together make 70.2% of total market capitalization in tourism sector, while first ten stocks make together sum of 89.2% of total market capitalization. For simplicity, instead of full company names, only symbols of tourism stocks will be used in further text.

Tourism sector is one of the fastest growing sectors on Croatian capital market compared to transport, food, construction and industry sector in the time period 22.02.2003–29.12.2017. Growth of the tourist sector compared to other sectors is dominant. The other four sectors (transport, food, construction and industry) are roughly constant throughout the observed period, while in the tourism sector it can be noticed constant growth with less oscillations. If we compare mean values, then it can be concluded that tourism has the highest return value in the observed period 0.11%, followed by transport 0.03%, industry 0.02%, construction -0.03% and food industry -0.05%. In figure 1. there is compared tourist stock index with the Crobex in the period 22.02.2003–29.12.2017.

Figure 1. Comparison of the tourism stock index and Crobex in the period 22.02.2003–29.12.2017



Source: Authors' own work, data retrieved from Zagreb Stock Exchange, [www.zse.hr](http://www.zse.hr)

Although the global financial crisis has had a very negative effect on the capital market not only in Croatia but also in the world, it can be concluded from the movement of these two indices that tourism stocks quickly recovered and achieved a growth rate. According to authors Sariisik, Sari and Halis (2011) in 2008 economic crisis hit very hard many sectors globally, beside tourism. Based on the data from Croatian National Bank (2016) tourism revenues grew until 2008, when they started to fall, but they had recovered in 2011, in 2015 tourism revenues were higher than those in 2008.

### 1.1. Measuring liquidity of Croatian tourism stocks

Since illiquidity directly leads to increased investment risk, potential investors are faced with greater losses, but also higher returns than on liquid and developed markets. Investors therefore cannot be sure that they will be able to make transaction at any time, especially large, without any significant change in prices. Liquidity is not easy to define and there is no common definition of liquidity anyway (Wyss, 2004), we can define liquidity as possibility of trading stocks in large volumes without affecting the price. General problem on Croatian capital market is low liquidity. For more detail liquidity analysis of tourist stocks, authors have analysed in the time period 01.01.2008–01.01.2018 26 stocks on monthly basis. Several stocks which have only few trading days (DUPM, HVDC, JLSA and SUKC) or weren't traded at all, like PLAG2, were



not taken into consideration for creating optimal portfolio. All other stocks are analysed in table 2.

Table 2. Tourist stocks analysis

| No. | Stocks | TM  | % Tm | TT     | TTN in mil. HRK | Amivest Liquidity ratio |
|-----|--------|-----|------|--------|-----------------|-------------------------|
| 1   | RIVP   | 120 | 100% | 62,695 | 1,115.45        | 159,402,909.6           |
| 2   | HUPZ   | 120 | 100% | 10,414 | 308.68          | 57,244,800.0            |
| 3   | LRH    | 120 | 100% | 14,415 | 202.63          | 23,295,404.9            |
| 4   | TUHO   | 120 | 100% | 3,439  | 114.62          | 20,672,455.6            |
| 5   | ARNT   | 120 | 100% | 17,454 | 210.37          | 19,025,870.8            |
| 6   | MAIS   | 120 | 100% | 10,059 | 85.56           | 11,261,324.3            |
| 7   | HTPK   | 120 | 100% | 7,309  | 37.26           | 3,039,264.4             |
| 8   | PLAG   | 119 | 99%  | 4,319  | 147.29          | 26,208,147.7            |
| 9   | SLRS   | 119 | 99%  | 4,463  | 31.02           | 3,175,019.9             |
| 10  | HMAM   | 116 | 97%  | 2,864  | 55.46           | 8,012,555.5             |
| 11  | HIMR   | 115 | 96%  | 8,246  | 116.54          | 14,439,427.6            |
| 12  | HMST   | 101 | 84%  | 7,672  | 46.46           | 3,974,960.2             |
| 13  | HPDG   | 101 | 84%  | 1,636  | 42.70           | 2,567,961.4             |
| 14  | HBRL   | 85  | 71%  | 2,200  | 7.14            | 470,925.7               |
| 15  | AMDN   | 83  | 69%  | 1,112  | 1.49            | 135,737.1               |
| 16  | HZVG   | 82  | 68%  | 449    | 0.94            | 66,091.6                |
| 17  | HTCP   | 64  | 53%  | 467    | 2.59            | 435,918.5               |
| 18  | ILRA   | 51  | 43%  | 637    | 13.90           | 3,357,817.4             |
| 19  | HZLA   | 47  | 39%  | 511    | 1.93            | 553,117.3               |
| 20  | HTPO   | 36  | 30%  | 157    | 2.38            | 484,018.5               |
| 21  | HJDR   | 34  | 28%  | 102    | 0.46            | 66,477.5                |
| 22  | HHLA   | 32  | 27%  | 3,634  | 4.56            | 937,736.1               |
| 23  | HBVD   | 27  | 23%  | 78     | 1.61            | 1,193,785.4             |
| 24  | OLVD   | 15  | 13%  | 44     | 0.80            | 105,591.9               |
| 25  | LRHC   | 14  | 12%  | 1,164  | 11.68           | 10,885,726.8            |
| 26  | PLCH   | 6   | 5%   | 12     | 0.03            | 35,284.0                |

Source: Authors' own work

Table 2 shows the analysis of tourist stocks in Croatia. All abbreviations in a table are defined in order of appearance as follows: TM – number of trading months, %Tm – percentage of total observed traded months, TT – total number of transactions, TTN – total turnover in HRK millions. Based on 26 analysed stocks, only 7 stocks were traded every month in the observed period, which has total of 120 months. The highest number of transactions was realized with the RIVP stock company, averaging 522 transactions per trading month. At the second place there was an ARNT stock with an average number of 145 transactions and on the third place was LRH with an average number of 120 transactions per month. Authors have also employed Amivest Liquidity ratio (Amihud 2002), which is daily ratio of absolute stock return to its dollar volume, averaged over some period, but for the purpose of this research authors have used this ratio as monthly ratio. Aim was to find out monthly price response associated with one dollar of trading volume, as a rough measure of price impact. According to the Amivest liquidity ratio top five stocks with the highest liquidity are: RIVP, HUPZ, LRH, PLAG and TUHO. A larger value of liquidity implies a lower price impact.

## 2. Forming the optimal tourist portfolio on Croatian capital market

Purpose of this research was to find out which performance have minimum variance portfolios in Croatian tourism sector. This theory enables investors to construct portfolio on tourism stocks according to their own risk preferences.

This theory was pioneered by Harry Markowitz (1952, 1959) and it was further developed by Sharpe (1966, 1994). In 1964 Sharpe has developed Capital Asset Pricing Model (CAPM) which is still often use in variety of research in portfolio selection. By using this theory investor can optimize or maximize expected return based on a given level of market risk. For example, investor will choose portfolio one over portfolio two if the return is equal or higher, and if the risk (standard deviation) is lower than for portfolio two. This is not the only reason, for choosing the first portfolio, first portfolio can have advantage over second portfolio if the return is higher and if the risk (standard deviation) is lower than or equal to that of portfolio two.

After analysing liquidity of tourism stocks, finally 11 stocks have chosen to create portfolios which will lie on efficient frontier. First step was to calculate monthly average price by dividing total monthly turnover with the number of traded stocks. Returns of monthly average prices were calculated according to the formula 1.

$$R_i = \frac{(P_t - P_{t-1})}{P_t} \quad (1)$$

After calculating monthly stock returns second step was to calculate volatility and monthly mean values of tourism stock returns.

Table 3. Volatility and mean value of monthly stock returns

|            | RIVP    | HUPZ    | LRH     | TUHO    | ARNT    | MAIS    | HTPK    | PLAG    | SLRS    | HMAM    | HIMR    |
|------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Mean       | 0.68%   | 0.36%   | 0.38%   | 0.99%   | 1.03%   | 0.36%   | -0.75%  | 0.55%   | 0.52%   | 0.72%   | 0.50%   |
| Volatility | 8.67%   | 5.86%   | 10.15%  | 6.51%   | 13.57%  | 8.49%   | 12.01%  | 6.66%   | 10.57%  | 10.44%  | 11.36%  |
| Min        | -30.25% | -23.13% | -25.60% | -26.90% | -51.83% | -26.98% | -31.13% | -31.74% | -30.65% | -26.31% | -50.88% |
| Max        | 31.38%  | 16.54%  | 46.02%  | 21.49%  | 47.47%  | 23.55%  | 33.57%  | 22.49%  | 25.58%  | 71.46%  | 56.53%  |
| CV         | 12.72   | 16.33   | 26.72   | 6.59    | 13.19   | 23.36   | -       | 12.13   | 20.33   | 14.52   | 22.63   |

Source: Authors' own work

According to table 3, ARNT has the highest mean value of return, but also the highest volatility. TUHO is on the second place according to the mean value with second lowest volatility compared to the rest of the group. CV (coefficient of variation) is defined as the ratio of the standard deviation to the mean value. CV can help investors to decide in which asset to invest based on risk/reward ratio, this ratio allows to determine how much risk in comparison to the amount of expected return. The lower the ratio, the better, since a high ratio may suggest that asset has a high degree of volatility. CV for HTP was not calculated since mean value is negative CV would then be misleading. According to the CV ratio, lowest value had TUHO, followed by PLAG, RIVP, ARNT and HMAM. Risk averse investors would individually prefer those stocks. In order to test diversification possibilities, correlation among stocks in tourism sector was tested in table 4.

Table 4. Correlation matrix of stocks returns in the period 01.01.2008–01.01.2018

|      | RIVP | HUPZ | LRH  | TUHO | ARNT | MAIS | HTPK | PLAG | SLRS | HMAM | HIMR |
|------|------|------|------|------|------|------|------|------|------|------|------|
| RIVP | 1.00 |      |      |      |      |      |      |      |      |      |      |
| HUPZ | 0.34 | 1.00 |      |      |      |      |      |      |      |      |      |
| LRH  | 0.40 | 0.29 | 1.00 |      |      |      |      |      |      |      |      |
| TUHO | 0.30 | 0.33 | 0.13 | 1.00 |      |      |      |      |      |      |      |
| ARNT | 0.27 | 0.23 | 0.15 | 0.35 | 1.00 |      |      |      |      |      |      |
| MAIS | 0.44 | 0.46 | 0.44 | 0.39 | 0.50 | 1.00 |      |      |      |      |      |
| HTPK | 0.35 | 0.50 | 0.40 | 0.33 | 0.32 | 0.50 | 1.00 |      |      |      |      |
| PLAG | 0.49 | 0.38 | 0.27 | 0.35 | 0.40 | 0.58 | 0.41 | 1.00 |      |      |      |
| SLRS | 0.41 | 0.33 | 0.33 | 0.46 | 0.52 | 0.51 | 0.45 | 0.46 | 1.00 |      |      |
| HMAM | 0.07 | 0.19 | 0.27 | 0.11 | 0.13 | 0.20 | 0.15 | 0.18 | 0.22 | 1.00 |      |
| HIMR | 0.31 | 0.27 | 0.32 | 0.35 | 0.12 | 0.29 | 0.28 | 0.22 | 0.33 | 0.21 | 1.00 |

Source: Authors' own work

According to the data in correlation matrix it can be concluded, there are no big diversification possibilities among stock companies. Higher correlation coefficients lower the diversification possibilities. All coefficients are positive values above zero, as it is shown in the table 4. correlation is only one of several important factors in constructing a strong and diversified portfolio, but investors should keep in mind that correlation coefficients should not be the only argument in deciding which stocks to buy. To obtain the minimum variance and covariance at a certain level of return, QP was used in this study. Short sales were not allowed.

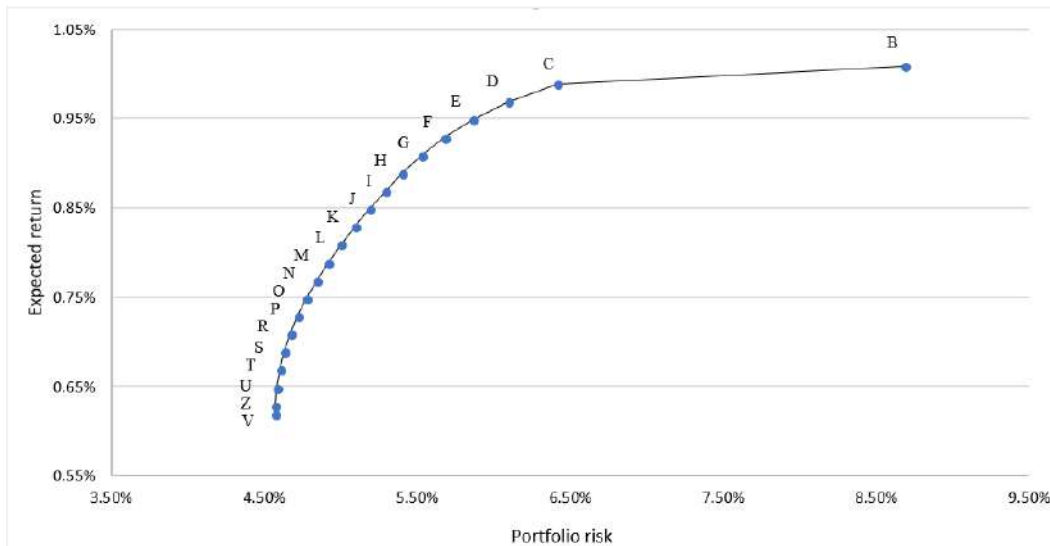
Table 5. Optimal portfolios

|              | A     | B    | C    | D    | E    | F    | G    | H    | I    | J    | K    | L    | M    | N    | O    | P    | R    | S    | T    | U    | V    | Z    |
|--------------|-------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| RIVP         | 0.00  | 0.00 | 0.00 | 0.00 | 0.03 | 0.07 | 0.11 | 0.11 | 0.11 | 0.10 | 0.10 | 0.09 | 0.09 | 0.08 | 0.08 | 0.07 | 0.06 | 0.06 | 0.05 | 0.04 | 0.04 | 0.03 |
| HUPZ         | 0.00  | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 | 0.04 | 0.07 | 0.10 | 0.12 | 0.15 | 0.18 | 0.20 | 0.23 | 0.26 | 0.28 | 0.31 | 0.34 | 0.35 |
| LRH          | 0.00  | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 | 0.01 | 0.02 | 0.02 | 0.03 | 0.04 | 0.04 | 0.05 | 0.05 |
| TUHO         | 0.00  | 0.48 | 0.89 | 0.84 | 0.79 | 0.73 | 0.69 | 0.65 | 0.62 | 0.59 | 0.57 | 0.54 | 0.52 | 0.49 | 0.46 | 0.44 | 0.41 | 0.38 | 0.35 | 0.32 | 0.30 | 0.28 |
| ARNT         | 1.00  | 0.52 | 0.10 | 0.08 | 0.07 | 0.05 | 0.04 | 0.03 | 0.02 | 0.02 | 0.01 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| MAIS         | 0.00  | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| HTPK         | 0.00  | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| PLAG         | 0.00  | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 | 0.06 | 0.08 | 0.09 | 0.10 | 0.11 | 0.12 | 0.13 | 0.14 | 0.15 | 0.16 | 0.16 | 0.17 | 0.18 | 0.18 | 0.19 |
| SLRS         | 0.00  | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| HMA          |       |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| M            | 0.00  | 0.00 | 0.01 | 0.08 | 0.12 | 0.14 | 0.15 | 0.16 | 0.15 | 0.15 | 0.15 | 0.14 | 0.14 | 0.14 | 0.13 | 0.13 | 0.12 | 0.12 | 0.11 | 0.11 | 0.10 | 0.10 |
| HIM          |       |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| R            | 0.00  | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| $\Sigma w_i$ | 1     | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    |
| $E(r_p)$     | 1.03  | 1.01 | 0.99 | 0.97 | 0.95 | 0.93 | 0.91 | 0.89 | 0.87 | 0.85 | 0.83 | 0.81 | 0.79 | 0.77 | 0.75 | 0.73 | 0.71 | 0.69 | 0.67 | 0.65 | 0.63 | 0.62 |
|              | %     | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    |
| $\sigma_p$   | 13.57 | 8.68 | 6.41 | 6.09 | 5.86 | 5.68 | 5.53 | 5.40 | 5.29 | 5.19 | 5.09 | 5.00 | 4.92 | 4.84 | 4.78 | 4.72 | 4.67 | 4.63 | 4.60 | 4.58 | 4.57 | 4.57 |
|              | %     | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    | %    |
| CV           | 13.19 | 8.61 | 6.49 | 6.29 | 6.18 | 6.11 | 6.08 | 6.08 | 6.09 | 6.11 | 6.14 | 6.18 | 6.24 | 6.30 | 6.38 | 6.48 | 6.59 | 6.72 | 6.88 | 7.06 | 7.27 | 7.38 |

Source: Authors' own work

As shown in table 5, a set of the mix solutions were found in 22 presented market portfolios which have different shares of tourism companies. The portfolio A has the highest return but also the highest risk, this portfolio consists of only one stocks (ARNT). In the last row of table 5 it is calculated coefficient of variation which allows investors to determine how much volatility is assumed in comparison to the amount of expected return from investment. Portfolio G has the lowest value of CV 6.08 and offers to an investor the best combination of risk and return. This portfolio is consisted of RIVP, TUHO, ARNT, PLAG, and HMAM. Portfolio Z has the lowest volatility and also the lowest return, which makes this portfolio safest, it is consisted of RIVP, HUPZ, LRH, TUHO, PLAG and HMAM. In figure 2 is estimated efficient frontier of calculated portfolios.

Figure 2. Efficient frontier of tourism stocks in Croatia



*Source: Authors' own work*

For each level of the expected return, investor can vary the portfolio weights on the stock companies to determine the portfolio that has the least risk. All portfolios that lie on the efficient frontier have the minimum variance for a given expected level of return. The portfolio that is farthest to the left, is label as portfolio V (has the least risk) and it is known as the minimum-variance portfolio. Just for comparison tourism stock index CROBEXturi has the mean value of expected return 0.11% and standard deviation of 1.15%, but this data was not calculated for the 10-year period, because stock index CROBEXturi was created 21.02.2013. Official stock index from Zagreb stock exchange which is consisted of 25 most liquid stocks — Crobex was also analysed for the same time period 01.01.2008–01.01.2018, authors have calculated average expected return for Crobex -0.51% while risk amounts 6.76%, based on this data it can be concluded that all calculated tourist portfolios outperformed investing in Crobex, they have larger expected return than CROBEXturi but they are also riskier.

## Conclusion

Croatia is a tourism-oriented country, and in the last decade tourism turnover largely confirms that tourism is an active generator of its economic development. Since Croatia has an exceptionally attractive tourism potential and since this sector has in Croatia stable and prosperous future, authors have researched investment possibilities in tourism sector on the Croatian capital market. The aim of this research was to compare optimal stock portfolios

consisted of tourism stocks with Crobex. Crobex presents official stock market index which is consisted of 25 representative companies. After comparing tourist stock index with Crobex it can be concluded that tourist stock index quickly recovered after global financial crisis and achieved a larger growth rate than Croatian stock market Crobex. Tourism sector is one of the fastest growing sectors on Croatian capital market compared to other sectors such as: transport, food, construction and industry sector. According to the stock growth tourism sector is also one of the most promising sectors on the Croatian capital market.

Considering that the main aim of this paper was to construct an efficient frontier which consists of tourism stocks the first presumption that was tested was related to the liquidity of the tourism stocks. Croatian capital market has liquidity problems and it was necessary to analyse stock market liquidity. After analysis, 11 tourist stocks were chosen for creating optimal mix. All stocks were analysed in the period 01.01.2008–01.01.2018. After comparing performance of optimal stock portfolios with Crobex on monthly basis, it can be concluded that investing in tourism sector can outperform investing in market index Crobex. Portfolio G can be highlighted as portfolio with the lowest value of CV, it offers to investors the best combination of risk and return. Portfolio G had return 0.93% and risk 5.68%. All portfolios outperformed Crobex, the difference between them is based solely on the risk preference. Higher risk increases return possibilities.

It is also necessary to point out some facts as limitations of this study: first limitation was that authors have used historical method with the assumption that the pattern of historical returns will repeat in the future. A second limitation, also arising from the historical value, is the difficulty of predicting expected return by using mean value. Third, transaction costs were not included in creating portfolio. Despite limitations this research has lots of room for further research. Authors suggest using more complex methods in estimating expected return and calculating risk value which will provide much more precise results.

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## **The Role of Forensic Accounting in Prevention of Tax Evasion in Bosnia and Herzegovina**

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**Abstract:** *Many countries around the globe are faced with the growing gray economy, accompanied with the lack or inadequate tax reform, what represent suitable environment for development of many illegal actions, including tax evasion which is one of the most devastating forces of a country's economy. According to the estimates of independent economic analysts, tax evasion in Bosnia and Herzegovina is approximately 4 billion BAM and as such represent a serious problem since the country is struggling with its budget deficit. The purpose of this study is to explain the role of forensic accounting in preventing tax evasion while focusing on Bosnia and Herzegovina. This study will explain the role of forensic accountants and internal and external auditors in the prevention of tax evasion. Data will be derived from various reports of government agencies, independent analysts and articles written by Bosnian authors to confirm that forensic accounting is currently the best weapon in tax evasion detection. The findings of the study will demonstrate the significance of this topic in the context of BiH and the role that forensic accounting plays in accounting profession and society as a whole.*

**Keywords:** *accounting, tax evasion, fraud detection, fraud prevention, forensic accountant*

### **Introduction**

Countries around the world experience some level of financial irregularities such as frauds, embezzlements, and tax evasions. In the recent years, one of the most important arising ethical and moral issues are tax frauds and embezzlements. This paper will focus on tax evasion which represents an intentional, illegal avoidance of payment or underpayment of tax. These tax evasions are the most important part of the grey economy and they are mostly done in underdeveloped countries with unorganized and unstructured law and where the rule of law is not the final word. The study produced a number of important results which need to be taken into considerations since term "Forensic accounting" is new in BiH.

### **LITERATURE REVIEW**

Tax evasion can be defined as the attempt or a try of a legal subject or taxpayer to avoid the payment of due amount of taxes, whether in total or partially when following the practices and methods which contradict to the tax system provisions of one country (Al-Khatib, 2018). Tax evasions represent an illegal practice in which a legal subject intentionally refuses to pay or pays

only a fraction of its true tax liabilities. These illegal acts may be carried out by different legal subjects such as individual persons, organizations, corporations or even government agencies and governments. Those who get caught in tax evasion process become a subject of criminal charges, prison and large fees and penalties plus paying the whole amount of unpaid liability.

These unwanted behaviors are more and more common in recent times but they are nothing unknown to all countries in the world. Every country in the world has faced, in a certain period of its existence, some level and attempts of tax evasion process. As it is mentioned before, throughout the modern history and as the information about our past have been stored and preserved, from the 1970s till now, each decade has its own moral and ethical issues, but they all had in common financial frauds, which include a variety of different illegal activities including the tax evasion. Irregularities and frauds have become a real industry, not just for the taxpayer, but for analysts studying it, accountants who investigate it, lawyers who go in the process of litigation for it, different events that debate it etc. The real problem for the society is that the system is not built for fraud prevention but it is based on the managing the fraud and its consequences (KPMG, 2009). The 1970s and 2000s are a period in which these accounting frauds and embezzlements are major and main issue for society, since the money is not stolen just from the owners, but from the whole society from governments, suppliers, employees in term of salaries, bonuses and compensation plan. Different methods and practices have been adopted by both individuals and organizations to try to evade the tax payment. According to the report of 2012 of the US Agency for International Development, most cases of tax evasion are connected to not presenting the true state of financial statement properly and making errors in reports or relates to increasing the operating and other expenses.

The most common forms of tax evasion in the world, according to the Jordanian Economic and Social Council (2014), are:

1. The individual or organization does not register all the people in the organization who receive some kind of allowance e.g. fuel, separate life, etc. which have high income, because they are not registered at the income tax department or at the social security.
2. The taxpayer does not disclose any information about the size of its activities.
3. The taxpayer does not deliver any tax deductions for its worker's income.
4. Taxpayer does not pay the social security and health contributions for its workers, by assuring the workers that they will have smaller salaries if the taxpayer pays all employee contributions.

There are many factors which stimulate tax evasion, according to Jordanian Economic and Social Council (2014):

1. The instability of the tax system of one country itself is one of the leading problem which contribute to the tax evasion. Unclearity of the amendments of the tax system in terms of that the laws are very hard to understand encourages the tax evasion.
2. With the difficulties of the tax system itself, it is also very important to mention that the bureaucratic procedures in one country are major contributor to the tax evasion. If the country has different department which all deal with the collection of taxes and they are confusing to the taxpayers, many of them will quit and choose not to pay the tax.

3. The inability to impose sanctions to people who break the law is another great factor that leads to tax evasion. When taxpayers do not get caught for the first time, this encourages them to continue with this behavior and leads to further tax evasion.
4. Poor control over the taxpayers and not investigating enough by the authorities who collect taxes is yet another factor which leads to the tax evasion.
5. The unclarity of what are the fruits of paying taxes.
6. The unequal tax rates system in different organizations and in terms of income.
7. The rise in the costs due to the rise in the general level of prices (The Jordanian economic and social council, 2014).

### *Accounting Practices Through History*

At the beginning of last century, in the early decades, it was a general belief that the role of the auditor was not to discover and address the frauds and financial crimes. Instead, they opt to protect themselves from any professional liability by issuing statements and pronouncements about minimized or even denied responsibility for financial crimes and irregularities discovery. After the years have passed, by the midpoint in the century, the audit professionals even started to avoid using the words such as “financial crimes“, „frauds” and “embezzlements”. Instead, they preferred the term “irregularities” in financial reports and statements (Eiya & Otalor, 2013).

After large series of unrelated and embarrassing financial scandals and auditing failures, it was necessary to find out who was responsible for those events. Consequently, it was said that it was not owner’s fault because they will always try to save some money to themselves but the burden was on the professionals who reviewed and revised their financial reports and statements. In the mid-20th century, the fight for right and fair accounting was at its peak and some of the analysts advocated that in the future there will be a need for the auditors to take full responsibility and liability for errors and irregularities in financial statements of the organizations, if they exist (Brown, 1962; Gray & Moussalli, 2006:17). Series of accounting frauds and pressure from whole society made the officials to rethink and to employ the knowledge and assistance of forensic accounting.

In the economy, knowledge is transferred to different companies all around the world whose headquarters are located in that country. As a result, they have sometimes difficulties in attracting investors and stakeholders so they need to “window dress” their image, financial statements and reports by using different methods in accounting, marketing and profit management to maximize their profits and minimize the risk (Scott, 2006). In order to minimize these irregularities and methods of “window dressing” and showing a more beautiful image of the company, experts and society have advocated for forensic accounting. It is based on the strategy of studying and investigating financial statements and reports by forensic accountants, which are professionals and experts in the field of accounting, judicial laws and any other procedures which are connected to the auditing procedures or preparation of financial statements. They are the ones that reveal the defects and manipulations done in financial reports and decide those cases.

### *Forensic Accounting*

Forensic accounting was defined by the American Institute of Certified Public Accountants as the process of application of specialized skills to collect, analyze and evaluate evidential matter and to interpret and communicate findings, whereby forensic accounting is performed in the form of attestation or consultation” (AICPA, 2005). According to Joshi (2003) the origins of forensic accounting lead to Kautilya, who was the first economist ever to recognize and advocate for the need for forensic accounting. He was the most famous for defining 40 different types of frauds and embezzlement several centuries ago. However, the term “forensic accountant” was defined by the Peloubet in 1946. In the same publication, Crumbley (2001) stated that the term “forensic accountant” can be traced back to 1817 in some court decisions.

Table 1: Comparison of Forensic Accounting and Financial Accounting

| Items for analysis                                 | Forensic Accounting   | Auditing   |
|--|---|--|
| <b>Why, When and Where the services take place</b> | Serve as a backing to prove a fraud in the business in an apparent risk prone environment.            | Continuous to certify the state of the art of a business and comply with an efficient market theory      |
| <b>Scope of the job</b>                            | Present analytical accounting and financial information to support legal and administrative decisions | Opine on the accounting statements of business entities considering all criteria used in its preparation |
| <b>Details of tasks performed</b>                  | Detailed planning of tasks aimed at documenting deterministic and calculative analysis.               | Sampled and/or probabilistic procedures to serve as a base of concluding the financial statement.        |
| <b>Periodicity</b>                                 | When necessary and particularly according to the periods stipulated by the Judge or client.           | Covering the fiscal year to substantiate the activities of the accounting period.                        |
| <b>Reporting</b>                                   | Investigative or expert reports   | Financial statements, management letters or auditors' report.  |

Source : Gray and Moussalli (2006)

The conventional accounting is incapable of “reading between lines” and going beyond just digits written on the financial reports. Conventional accounting and auditing are not capable of investigating further and analyzing other aspects that may be hidden. In these disciplines, there is no proper method for overcoming different influences and interferences in auditing and preparing financial statements. Also, in conventional accounting, there is no proper method for reviewing and making sure that the auditor’s opinion is authentic and fair. The inability of conventional auditors to stop and prevent frauds and if there is a fraud the mechanism of conventional auditing is not good for immediate action. These are just some differences between conventional accounting and audition versus forensic accounting.

Forensic accounting gained importance due to the large and increasing number of financial crimes, embezzlement and tax evasions. This new field brought together accounting, auditors with investigation skills which are put together to prevent fraudulent activities. The scope of forensic accounting is large and deal with areas like employee-related frauds to tax evasions and “window dressing”. The rise in importance and glory of the forensic accounting helped the fictional detective of Sir Arthur Conan’s Sherlock Holmes. People still believe that he was the first ever forensic accountant in the world. The need for forensic accounting has increased in the world substantially because of the failure of the tax system, laws and audit companies to prevent them along with the increased number of crimes and evasions which block the way for improvement. According to a study done by Kessler International in India, 39% of all organizations in India have thought about hiring a forensic accountant. The forensic accountant’s help is not just needed in discovering frauds, but in price fixations, then the stock market is not efficient and at the time when with the help of “window dressing” management hides real facts from all stakeholders and when funds are misused like compensations and bonuses by the management of the organization. (Smith, 2015)

Mistakes in the financial statements can be a result of:

1. Ignorance, carelessness or just mistake done in writing or reading other reports or
2. Purpose mistake or altering whole financial statements in order for company to “look” better and to cover its real financial position.

An accidental mistake can be easily spotted by looking at the financial statements by the internal auditors and can be easily corrected by the accountant who has made these financial statements. However, some companies change their financial reports on purpose in the attempt of some financial irregularity or even possibility of financial crime like tax evasion or illegal profit increase. These misleading financial reports show a completely different picture of the company’s real “health” and make investors to make wrong decisions. On the other hand, by changing its financial statements, they also create a state of tax evasion (Huber, 2013). With the increase in tax burden passed on the company, tax evasion appears by threatening the whole country’s economy and minimizing the progression of the society as a whole. The forensic accountant is there not just to help companies with fraudulent activities inside but also to help the government to enforce regulations (Smith, 2015).

Forensic accounting is a very complex area of expertise and the professionals are trained to look more than just numbers, but to deal with the business reality of one company and its position in the economy. As it is previously said, it is a complex area where forensic accountants need to have in-depth knowledge of different areas, not just accounting but also the judicial system of that country, requirements of the industry, interpersonal skills and internal control systems. In a nutshell, the forensic accountant needs to successfully integrate the knowledge from accounting, law, auditing and investigation for prevention of illegal activities done by individuals or organizations. Major beneficiaries from forensic accounting are governments, banks and the whole society. Forensic accounting is designed to deal with the detection of fraudulent and suspicious activities by employees of the company by following a specially designed protocol. If the employee-related fraudulent activities are noticed, the forensic accountant will investigate the

scope of that employees work in order to try and find the fraud, try to trace and locate the asset which is created in this fraud or embezzlement, to gather evidence and to confront the employee about the alleged fraudulent activity. Forensic accounting is also designed for individuals and companies who wish to surpass the law and evade taxes.

According to the KPMG report (2009) the professional expertise is not just as simple as adding up numbers. Firstly, in accounting, the numbers may not be in the right order and you need to know the principles and methods to find the numbers that go together. Also, the source of information may vary. Some information is available internally while other externally or interpersonally. Also, not all information is true and professionals need to find the right and true information which requires a lot of work. Sometimes, information may not be available at all, so you need to assume and figure them out. After that came the need for a person who will figure this. That person is called a forensic accountant.

Skills needed to become forensic accountant:

1. It is essential to know that the forensic accounting is based on the set of different and integrated skills in auditing and accounting and superior investigation skills. As it is said before, forensic accountants are almost programmed to look beyond the numbers.
2. Forensic accounting is designed to recognize fraudulent activities like embezzlements, tax evasions etc.
3. Forensic accountants need to possess a set of skills, traits and knowledge in order to prevent and reduce financial crimes. The most important skills for a forensic accountant are:
  - a. deep understanding of accounting rules and methods
  - b. auditing rules and principles
  - c. knowledge of judicial laws of that country and criminal remedies
  - d. litigation processes
  - e. genuine understanding of the financial system and interpersonal relationships.

Two major components of forensic accounting are the litigation support and investigative accounting. There are the milestones of forensic accounting and need to be mastered in order to become a forensic accountant. Litigation services represent the recognition of the role of the forensic accountant as an expert or professional consultant to a situation. Litigation support is defined as the nature of accounting support for previous and existing litigation processes. It is concerned with different issues which involve estimations of economic losses which result from the contempt of contract. Another major component is investigative accounting which is associated with the investigation of criminal issues, which typically involve investigation of employee theft, insurance and security fraud, tax evasion... Shortly, the forensic accountant is investigating and cataloguing financial evidence, which is connected to the development of different software which will help and analyze the present financial evidence, present them in forms of reports, graphs, exhibits and documents. Those documents are created to help and assist with the legal proceedings, which need to include the testimonies of the forensic accountant and the reports in the forms of visual aids to present it easily to the public.

*The Fraud Triangle – Insight of how individuals and companies commit frauds*

Fraud triangle can be explained as a three-leg model which is explaining the factors which make someone commit fraud. It is obvious that top management and stakeholders do not always want to engage the company in some fraudulent activities, but the demand for both increased corporate governance and improving the performance of the company has created a situation in which the fraud triangle can be easily used.

Figure 1: The Fraud Triangle



Source: Smith (2015)

The first factor that we are going to describe is the pressure. It is in form of the reporting done to stakeholders, which can be a driver of unethical and immoral actions. Opportunity in this triangle can be described as the demand for information, opportunity for business segments which leads people to dive in and enter into suspicious and grey areas of business. Rationalization is the easiest one to identify which is if there are more contributions, bonuses and more rewards, people will always try to cheat the system and go beyond the rules. Using this triangle, accountants need to figure out from where the pressure came from, who had the opportunity and the process of rationalization.

The world's most major and famous corporate scandals like WorldCom and Enron have been very costly for the stakeholders, costing them billions of dollars when the stock market "bubble" burst, which affected very negatively investor's confidence. These events started a rage in investors which demanded strict corporate governance. Driven by the constant strikes and marches, the new law has passed in the Senate of the USA called the Sarbanes-Oxley Act of 2002. This law is mostly called SOX and covers the issue such as auditor's independence, stricter corporate governance, internal auditor's opinion and stricter financial disclosure. SOX have begun to draw the attention to disclosure of documents putting more responsibility on the top management of the firms for misconduct. Also, the role of forensic accountants has been

increased since the law has passed. Similar types of SOX have been implemented in various countries around the world, such as Germany, Austria, and Italy etc.

Tax evasion in Bosnia is increasingly becoming a big deal. The various researches shows that the stream of illegal money laundering and tax evasions is seriously damaging the budget of BiH forcing the country's economy into greater crisis. Even though every country is fighting with this issue, BiH is new to all of that because the need for forensic accountants is huge while the personnel are not there to help the authorities at all. In the whole country, there is no education which is needed to become a forensic accountant. However, on 24 of February 2018, police officers and IRS inspectors have begun huge operation called "Zadruga" whose intent was to arrest and stop a chain of tax evasion and money laundering done by various firms and individuals. It is reported that over 500 representatives of Bosnian firms and individuals have become a suspect for actions mentioned before.

## CONCLUSION

The study presented several recommendations like the necessity of having a law that specifies the duties of the forensic accountant at courts, developing the mission of the expert pursuant to the forensic accounting requirements, raising the competency of controlling and supervising commissions, fast deciding to the legal disputes, reducing the conflicts between the financier and the tax authority and the impact of all that on tax earnings through reconsidering the tax departments' procedures, assigning a forensic accountant to check the financial statements presented by financiers without being satisfied with the legal clause which obliges them to present those statements in specific dates.

The role of a forensic accountant is highly valuable in forensic accounting. Forensic accountants should recognize red flags for early detection of frauds with his knowledge of the accounting information systems, and knowledge of various auditing techniques and software skills. They demonstrate their analytical skills, investigative skills, and organization and communication skills. They have to demonstrate and explain in courts the methodology and techniques used to arrive at their conclusion. The fact is that forensic accounting is practice done differently and detached from auditing. This clear-cut of professions make them gain space, importance in both private and public sectors of the economy. In practice, forensic accounting in Bosnia is merely just a term, but after the employment of different foreign professionals, the crime catching has become easier. In the world, forensic accounting is one of the most employed professions. However, in Bosnia, things are different. The term forensic accountant is just emerging into the society and not everybody even knows what it does and what is the scope of the profession, not even the people from the accounting branch. It all needs to start with education and with pointing out the importance of it. Tax evasion, embezzlement and many more can be resolved quicker and more easily just by looking beyond numbers. Cash flows and whole economies can be lifted up by this profession. Today, according to estimates BiH is losing around 2 billion EURO, which is for a country of its size, large amount of money. The current situation could be improved drastically with the assistance of forensic accountants.



The role of the forensic accountant is a foreign term in BiH. Even though it is a small country and has developed financial system consisted out of majority foreign banks, CPAs and independent accountants do all the work. In Bosnia, the presence of auditing is also increasing in popularity, since the arrival of foreign corporations. Today, all “Big Four” accounting firms are present in Bosnia which include KPMG, PwC, EY and Deloitte. They do all the work with consulting, tax services and advisory in Bosnia and all major corporations, SMEs and other enterprises which are present in Bosnia are their clients. The biggest division in these auditing firms is connected with tax services and advisory on that subject.

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## **Selection Criteria and Performance Measurement of Third-Party Logistics: A Meta-Analysis**

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**Abstract:** *Globalization and development of information technologies have made logistics and supply chain critical for company's success. Outsourcing logistics or third party logistics (3PL) was discovered in the last century, but has shown significant expansion in the last decade.*

*Outsourcing logistics have become one of the strategies to improve a company's competitiveness. Companies use it to improve their ability to plan, take action, manage and control the products services and information flow from the supplier to the customer. It enables faster penetration on the new markets, helps to reduce inventories and gain expertise.*

*Paper addresses two elements of 3PL: (1) selection criteria used in 3PL selection process and the factors that influence their formulation, (2) and performance metrics for evaluation of 3PL's performance.*

*In this study a meta-analysis of the articles published in the area of logistics management has been done. The analyzed data are gathered from the databases which are secondary data.*

*Research can contribute to the future competitive strategy planning and the understanding of the way 3PL can contribute to corporate plans.*

*It reveals that there is lack of study of 3PLs in general, especially about criteria which outsourcers use while choosing 3PL partners.*

**Keywords:** *Third party logistics, outsourcing, selection criteria, performance*

### **Introduction**

The organizational success is affected by an effective logistics and supply chain management. Logistics is a time-based activity concerned with the profitable movement of information, materials and products into the organisation, through the organisation and out to the customer. Logistics includes all activities from the moment a product or service needs to be made, through to procurement of raw materials, production, finished goods storage, delivery to customer and

after-sales service (Yeung, 2006). Organizations invest in a relationships with partners and supply chain competence in order to achieve a high quality and efficient corporate chain management. It has been estimated that about 40 per cent of the global logistics is outsourced. Increasing demand for third-party logistics services providers is noticeable in the world (Qureshi, Kumar, & Kumar, 2008). Third-party logistics (3PL), which is also called “logistics outsourcing” or “contract logistics”, was known in the last century, it has become popular in the last decade. 3PL is a relationship between a customer and outsourcing company. Compared to ordinary logistics company it offers more comprehensive, customized, and multipurpose services. It is also characterized by a long-term, more mutually beneficial relationship between service providers and customers (Man, 2006).

In an outsourcing logistics, firms employ some external company which perform logistics activities. External company may perform some, or all logistics activities for clients and help them to achieve high quality professional services. 3PL companies enhance efficiency and improve inventory management, and capture the economies of scale which are result from the high volumes that are obtained by the aggregation of demand across a large market (Man, 2006). Ashenbaum, Maltz and Rabinovich (2005), have suggested annual growth rates of between five and ten percent for the 3PL industry.

Meta-analytic research method allows us to aggregate and summarize the existing research in the domain of 3PLs. The most important advantage of the meta-analytic method is that we are able to make empirical generalizations after we get results, because data are valid beyond the limited scope of primary studies. Individual studies, usually, have lack of statistical power needed to explain the magnitude of a statistical relationship in the population because of their small sample sizes. (Leuschner, Carter, Goldsby, & Rogers, 2014)

Third-party logistics has been subject of academic research since the late 1980s. The aim of the study is to provide a systematic review of the studies published from 2006 to 2018. Review includes four doctoral dissertations and seventeen journal articles. All material included in analysis contains quantitative or qualitative analysis. Data are from different countries, including Southeast Asia, Hong Kong, Thailand, India, Turkey, USA, Netherlands, Taiwan, Brazil, China, UK, and Mexico.

We separate literature review into two sub-sections. The first sub-section reviews the findings on selection criteria and the second sub-section examines performance measurement of 3PLs. The methodology section covers the method of data collection and analysis. Data analysis begins with the overview of the data collected from different research studies, then continues with comparisons of collected data. Results lead to more detailed analysis of the criteria and performance measurement used in a research and studies of third-party logistics from 2006 to 2018.

## **Literature review**

### **Third-Party Logistics**

Term third-party logistics (3PL) is used as a synonym for transportation companies, carriers and logistics service providers (Forslund, 2012) . Third party logistics is also known as a contract logistics and logistics outsourcing (Shi & Arthanari, 2011).

According to Lieb (1992) third-party logistics involves the use of external companies to perform logistics functions that have traditionally been performed within an organization. The functions performed by the third party can encompass the entire logistics process or selected activities within that process. Third-party logistics companies differ in types. 3PL are not uniform in size nor is their use of technically advanced software, equipment, or the number of logistics services provided (Marasco, 2008). Not all 3PLs offer same or similar services, it differs from industry and needs of the targeted market. Although most outsourcing services cover one activity by an outside partner, third-party logistics providers cover several activities such as purchasing, warehousing, and distribution (Kang, Wu, Hong, & Park, 2012). Mostly, logistics services are outsourced by small and medium-sized companies because managers are under pressure to stay competitive. Logistics outsourcing is one of the strategies to help SME managers maintain competitiveness by using effective supply chain management. Third-party logistics (3PL) providers usually act as liaisons amongst suppliers and clients in supply chains (Masoud, 2016).

Third-party logistics started to appear in conference papers and journals in the late 1980s (Marasco, 2008) . Even though a third-party logistics has been subject of academic investigation since the late 1980s, it significantly expanded in 2000s (Shi & Arthanari, 2011). In 2008, Marasco conducted a comprehensive literature review. Literature review shows the development of the topic.

Marasco (2008) classified articles in a three periods of six years. From 1989 to 1994 only 11 academic articles focused on 3PLs. Later, from 1995 to 2000 the topic was studied in 55 articles, and in the next six years (2000-2006) it was studied in 86 articles. Many business researchers, logistics professionals and supply chain organizations have conducted a research in the third-party industry because studies have provided a valuable business information to many different industries (Tibbetts, 2015). Leuschner, Carter, Goldsby, & Rogers (2014) created the first meta-analytic review of the impact of 3PL on firm performance and they catalogued 864 studies.

### **Selection Criteria for 3PL**

In the literature there are lots of selection criteria for 3PL providers based on companies' requirements (Gürcan, Yazıcı, Beyca, Arslan, & Eldemir, 2016). The most important thing in a selection of third-party logistics provider is to know which metrics need to be used. During selection process, companies have to consider that selection criteria differ in different types of logistics service provider (Chen & Wu, 2011).

In (2006), Bottani and Rizzi presented the five main steps in a selection process of 3PLs:

- 1) the identification of the need to outsource logistics;
- 2) the development of feasible alternatives by comparing the use of internal expertise, knowledge, experience to hiring outside expert and obtain professional logistics service;
- 3) the evaluation of candidates and selection of a service provider;
- 4) the implementation of services; and
- 5) the service evaluation to control the performance, to select a new service provider or to enhance the relationship between the firm and the logistics service provide

One single criterion may not be enough to identify potential 3PL provider, as well as set of criteria used for one specific situation may not be suitable for the other. Selection process may be costly, tedious and time-consuming so a model for the identification and classification of selection criteria, for 3PL services providers is desirable to facilitate logistics managers (Qureshi et al., 2008).

They have identified fifteen important criteria to study their influence and classification. Criteria are: 1) quality of service, 2) size and quality of fixed assets, 3) the quality of management, 4) information technology capability, 5) delivery performance, 6) information sharing and trust, 7) operational performance, 8) compatibility, 9) financial stability, 10) geographical spread and range of services, 11) the long term relationship, 12) reputation, 13) optimum cost, 14) surge capacity, 15) flexibility in operation and delivery. (Qureshi et al., 2008)

Bottani and Rizzi (2006) put an accent on availability of the appropriate service, physical equipment and information technology.

Salviaridis, Spring, Profillidis and Botzoris (2008) in their work found out eleven key factors for successful logistics outsourcing procedures: 1) information sharing (both at pre- and post-contracting period), 2) understanding customer's supply chain needs, 3) clear service specifications and service level agreements, 4) long-term commitments from the buyer side, 5) frequent communications and service adaptations during implementation, 6) joint planning and management of relationship, 7) joint performance measurement projects, 8) review and renegotiation mechanisms, 9) service level improvement/reduction of distribution costs, 10) 3PL

provider ability to keep in pace with changing market requirements, 11) open-book contracts in situations of high uncertainty.

Percin (2009) in his research used criteria as: 1) similar values-goals, 2) similar size, 3) financial stability, 4) compatible culture, 5) strategic partnership, 6) technical ability, 7) management capacity, 8) market knowledge, 9) performance, 10) loss of functional control, 11) complexity in operations and delivery, 12) risk in choosing the right partner.

Hooks (2015) identified trust, finance and information sharing as a three main attributes of 3PL partners. Consistent/reliable services, competitive prices or fees, the provider's expertise, the provider's reputation, financial stability and information technology support are key determinants for selecting 3PLs resulting from Min's (2013) research.

Table 2. Most frequently used criteria for 3PL selection in the literature

|                         |                           |
|-------------------------|---------------------------|
| 1. Cost                 | 2. Responsiveness         |
| 3. Delivery performance | 4. Reliability            |
| 5. Financial stability  | 6. Information technology |
| 7. Flexibility          |                           |

Source: Author's own work

Table 3. Less frequently used criteria for 3PL selection in the literature

|                           |                                       |
|---------------------------|---------------------------------------|
| 1. Geographical spread    | 2. Compatible culture                 |
| 3. Range of services      | 4. Customized services                |
| 5. Track and trace system | 6. Reputation                         |
| 7. Market share           | 8. Trust                              |
| 9. Flexibility            | 10. Developing long-term relationship |

Source: Author's own work

Table 2 and Table 3 are the result of an analysis of research studies used in the meta-analysis.

## Performance Measurement of 3PL

Most of the literature propose that service performance is the most important criteria in a selection of 3PL. All criteria mentioned in a previous section may be used for performance measurement of 3PL as well.

Performance refers to the quality of an action that an organization takes out to achieve its principal missions and functions for the generation of profit.

Measurement of performance is a progressive guide for the achievement of corporate objectives. It is not just an observation of past performance, it is a tool which helps in a realization of corporate aspirations and the assurance of a prosperous future. It is a metric that is used to quantify performance. Performance measurement is an analytical tool in the performance measurement process that records measures, displays results, and determines subsequent actions. A performance measurement system can be defined as the set of metrics used to quantify both the efficiency and effectiveness of actions (Jothimani & Sarmah, 2014).

Performance measures are classified on a hard measures: financial and non-financial, and soft measures: tangible and intangible.

Financial performance measures focus on the resultant impact in financial symbols of production activities, such as logistics activities, whereas non-financial performance measures tend to focus directly on actual production activities, such as investment turnover, defect ratio, and lead time. The performance measures of tangible items indicate direct measurement, such as total costs and order fill rate, whereas soft measures are intangible metrics that indicate indirect measurement, such as instant attitude, service capability, goodwill, and reputation. Soft performance measures are indicative of intangible performance. (Polakoff, 1992)

The roles of performance measurement can be summarized as follows.

- Monitoring of business progress
- Monitoring the effect of strategies and plans
- Diagnosis
- Supporting decision making
- Direct guide to operations
- Facilitation of motivation and communication

Companies always outsource their logistics operations to enjoy certain benefits. Some of the possible benefits are: reduced transportation and other logistics costs, increased productivity, enhanced customer satisfaction and improved services levels (Yeung, 2006). Logistically, better 3PL customer services not only enhance an efficient service for supply chain partners, but also enrich performance effectiveness. An effective quality assessment of 3PL service would thus provide better links between 3PL service providers and supply chain partners (Man, 2006).



## **Methodology**

Marasco (2008) created a comprehensive literature review on the topic of third-party logistics for a period from 1989 to 2006, so we have chosen research papers which were published between 2006 and 2018. In the meta-analysis we have analyzed 21 research paper. Analysis includes four doctoral dissertations and seventeen academic journal articles. Material was retrieved using Google Scholar and academic database ProQuest. All material included in analysis contain quantitative or qualitative data and analysis. Articles and dissertations that were meta-analyzed investigate criteria used in a third-party logistics and/or performance measurements and methods used while measuring performance of third-party providers, all from the perspective of users of outsourcing logistics. In a criteria part we have examined the types of criteria which authors used for their research apart of standard criteria which are always used in 3PL selection. For performance, measured variables are extracted from research studies and compared between variables used in advanced economies and developing countries.

## **Data Analysis**

The main reason that motivates companies to start outsourcing logistics are their need to penetrate market, reduce inventory and gain expertise. Many organizations begin their relationship with third-party provides based on cost considerations (Núñez-Carballosa & Laura, 2011). In the meta-analysis of researches eight criteria are extracted which are frequently used during selection process of third-party logistics and they are listed in Table 2. In a

Table 4 are presented less frequent criteria which are used in by authors in their works. These criteria are more detailed presented in

Table 4. where rows contain titles of researches and authors, and columns contain ten less frequently used criteria in literature. Criteria which are present in a research which is mentioned in a column are marked with x sign.

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Table 4. Infrequent selection criteria used in literature

| Y<br>ea<br>r   | Article  | Author   | Loc<br>atio<br>n          | Criteria                       |                               |                                 |                                |   |                    |                         |           |                 |   |
|----------------|--|--|---------------------------|--------------------------------|-------------------------------|---------------------------------|--------------------------------|---|--------------------|-------------------------|-----------|-----------------|---|
|                |  |  |                           | Geogr<br>aphica<br>l<br>spread | Comp<br>atible<br>cultur<br>e | Ran<br>ge<br>of<br>serv<br>ices | Custo<br>mized<br>service<br>s | Tr<br>ac<br>k<br>and<br>tra<br>ce<br>sys<br>tem | Repu<br>tatio<br>n | Mar<br>ket<br>shar<br>e | Tr<br>ust | Flexi<br>bility | Devel<br>oping<br>long-<br>term<br>relati<br>onshi<br>p |
| (2<br>01<br>1) | Applying Analytical Network Process in Logistics Service Provider Selection – a Case Study of the Industry Investing in Southeast Asia | Kai-Ying Chen, Wan-Ting Wu   | Sout<br>heas<br>t<br>Asia |                                |                               | ✗                               |                                | ✗   |                    | ✗                       |           | ✗               | ✗   |
| (2<br>00<br>9) | Evaluation of Third-party Logistics (3PL) Providers by Using a Two-phase AHP and TOPSIS Methodology                                    | Selcuk Percin  | Not<br>spec<br>ified      |                                | ✗                             |                                 |                                |   |                    |                         |           |                 |   |
| (2<br>01<br>6) | Third Party Logistics (3PL) Provider Selection with AHP Application  | Ömer Faruk Gürcan, İbrahim Yazıcı , Ömer Faruk Beyca, Çiğdem Yavuz Arslan, Fahrettin Eldemir | Turk<br>ey                |                                |                               |                                 |                                |   | ✗                  |                         |           |                 | ✗   |
| (2<br>00<br>8) | An Integrated Model to Identify and Classify the Key Criteria and Their Role in the Assessment of 3PL Services Providers               | M.N. Qureshi, Dinesh Kumar, Pradeep Kumar  | Indi<br>a                 | ✗                              |                               | ✗                               |                                |   | ✗                  |                         |           | ✗               | ✗   |
| (2<br>01<br>0) | An Analytical Approach for Selection of a Logistics Provider   | Ankit Vijayvargiya and A.K. Dey  | Indi<br>a                 |                                |                               |                                 |                                | ✗   |                    |                         |           | ✗               |   |
| (2<br>01<br>1) | Selecting Logistics Providers in Thailand: a Shippers' Perspective   | Ruth Banomyong, Nucharee Supatn  | Thai<br>land              | ✗                              |                               | ✗                               |                                | ✗   | ✗                  |                         |           |                 |   |
| (2<br>00<br>8) | Benefits, Risks, Selection Criteria and Success Factors for Third-Party Logistics  | Konstantinos Selviaridis, Martin Spring ,  | UK                        |                                |                               |                                 |                                |   |                    |                         |           |                 | ✗   |

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|        |  |   |             |  |  |   |   |  |   |  |   |   |   |
|--------|--|---|-------------|--|--|---|---|--|---|--|---|---|---|
|        | Services   | Vassilios Profillidis and George Botzoris         |             |  |  |   |   |  |   |  |   |   |   |
| (2013) | Examining Logistics Outsourcing Practices in the United States: from the Perspectives of Third-Party Logistics Service Users | Hokey Min   | US A        |  |  | ✗ |   |  | ✗ |  |   | ✗ |   |
| (2015) | Logistics Outsourcing: the Value of the Relationship between a Corporation and the 3PL Contractor                            | Olivette M. Hooks                                 | US A        |  |  |   |   |  |   |  | ✗ |   |   |
| (2006) | Performance Measurement and Management of Third party Logistics: An Organizational Theory Approach                           | Yuen Sheung Man                                   | Hong Kong   |  |  |   |   |  | ✗ |  | ✗ |   |   |
| (2006) | The Impact of Third-Party Logistics Performance on the Logistics and Export Performance of Users: An Empirical Study         | Andy Cl. Yeung                                    | Hong Kong   |  |  |   | ✗ |  |   |  |   |   |   |
| (2011) | An Analysis of Third-Party Logistics Performance and Service Provision   | Chiung-Lin Liu, Andrew C. Lyons                   | UK          |  |  |   |   |  | ✗ |  |   |   |   |
| (2010) | Supply Chain Integration with Third-Party Logistics Providers  | Jayanth Jayaram, Keah-Choon Tan                   | US A        |  |  |   |   |  |   |  |   |   | ✗ |
| (2011) | The Influence of Contractual and Relational Factors on the Effectiveness of Third Party Logistics                            | Dianne Hofenk, Rinaldo Schipper, Janjaap Semeijn, | Netherlands |  |  |   |   |  |   |  | ✗ |   |   |

Source: Author's own work

Hong Kong has always been regarded as one the busiest container ports and air cargo terminals in the world (Yeung, 2006). In 2006 in Hong Kong, two researches were done in the area of third-party logistics. Yeung (2006) was researching the impact of third-party logistics performance on the logistics and export performance of users. He divided performance criteria on a four factors: timeliness of service, customized supplementary services, pricing and quality of delivery. The results of research suggest that the user's logistics performance is positively related to the user's export performance and that the 3PL provider's performance correlates positively with the user's export performance. Man (2006) also was studying performance measurement and management of third-party logistics. In his work, except frequently used criteria he measured the impact of reputation and trust on 3PL selection while Yeung had one infrequent criterion of customized services. In 2015 Hooks (2015) discovered that trust as a criteria is one of the most important qualities to nurture and safeguard, his research was conducted in USA. Malakoti-Negad (2016) in his doctoral dissertation focused on the four themes (a) enhanced customer service, (b) improved competitive advantage, (c) ability to access resources, and (d) ability to focus on core competencies. Negad found out that the use of a 3PL has a positive effect on customer satisfaction through providing on-time delivery service at low cost and that companies increasingly outsource logistics functions to focus more on their core competencies. Chen and Wu (2011) conducted research in Southeast Asia and considered eighteen criteria for 3PL selection, five out of eighteen are less frequently used: range of services, track and trace system, market share, flexibility and developing long term relationship. Out of fifteen selection criteria identified by Qureshi, Kumar and Kumar (2008) we have extracted five which are less frequently used by authors in a research and companies in selection process, these criteria are geographical spread, range of services, reputation, flexibility and development of long-term relationship. Criterion of compatible culture was identified by Percin (2009) while he performed AHP and TOPSIS analysis of the best alternative of 3PL provider. Yilmaz, Borekci and Ornek (2017) researched criterion of culture more detailed and explained how decision makers are influenced by their organizational cultures when they value and prioritize the relation-oriented versus success-oriented 3PL selection criteria. Min (2013) has conducted research in USA and used criteria of range of services, 3PL's reputation and flexibility as an infrequent selection criteria whereas Jayaram and Tan (2010) among infrequent criteria used developing long-term relationship. Vijayvargiya and Dey (2010), Banmyong and Supatn (2011), Liu and Lyons (2011), in their research used criterion of track and trace system among the frequent ones. Banmyong and Supatn (2011) also used geographical spread, range of services and reputation of third-party provider. Salviaridis et al. (2008) introduced developing long-term relationship. Hofenk, Schipper, Semeijn and Gelderman (2011) used trust as infrequent criterion. Gurcan, Yazici, Beyca, Arslan and Eldemir (2016) in a case study of 3PL provider selection for one Turkish companies used standard criteria of cost, quality, financial stability (etc.) and less frequent criteria of reputation and developing long-term relationship

Table 5. Variables used in literature for performance measurement of 3PL provider

Source: Author's own work

| Year   | Article   | Sample Size | Dependent Variable          | Independent Variable      | Location    |
|--------|---|-------------|-----------------------------|---------------------------|-------------|
| (2011) | R. Rajesh, S. Pugazhendhi, K. Ganesh, C. Muralidharan, R. Sathiamoorthy | 181         | Logistics cost reduction    | Multimodal transportation | India       |
|        |   |             | Average order cycle length  | Carrier selection         |             |
|        |   |             | Client satisfaction         | Freight consolidation     |             |
| (2011) | Dianne Hofenk, Rinaldo Schipper, Janjaap Semeijn, Cees Gelderman        | 77          | Relationship effectiveness  | Trust                     | Netherlands |
|        |   |             | Relationship effectiveness  | Commitment                |             |
| (2010) | Elten Briggs, Timothy D. Landry, Patricia J. Daugherty                  | 109         | Service satisfaction        | Positional performance    | USA         |
|        |   |             | Service satisfaction        | Velocity performance      |             |
| (2011) | Chiung-Lin Liu, Andrew C. Lyons   | 92          | Gross profit margin         | Operational performance   | Taiwan      |
|        |   |             | Sales growth                | Operational performance   |             |
| (2015) | Jose Geraldo Vidal Viera, Jan C. Fransoo                                | 119         | Restricted timetable        | Company size              | Brazil      |
|        |   |             | Vehicle availability        |                           |             |
| (2015) | Shan Wang, Hasan Cavusoglu  | 358         | Online marking capability   | IT capability             | China       |
|        |   |             | Performance                 | Cost                      |             |
| (2018) | Wenming Chung, Srinivas Talluri, Gyongyi Kovacs                         | 58          | Forecast error              | Service level             | USA         |
|        |   |             | Replenishment risk          | Order-lead time           |             |
| (2015) | Baofengn Huo, Yuxiao Ye, Xiande Zhao                                    | 247         | Opportunism                 | Company size              | China       |
| (2017) | Wenwen Zhu, Steohen C.H. Ng, Zhiqiang Wang, Xiande Zhao                 | 250         | Basic logistics outsourcing | Cost                      | China       |

When it comes to the performance measurement, it is directly or indirectly affected by criteria since it is criterion itself. When measuring performance of third-party logistics provider or performance of the client company we are measuring effectiveness of the criteria used in selection process. In Table 5 are shown some dependent and independent variables used in a analyzed research papers. Variables are clasified on dependent and independent variables. Observing the data in a Table 3 we can notice that perfromance, cost and company size are in presented data treated as independent variables. Performance variable is used against variables of

service satisfaction, cost, sales growth and gross profit margin. Online marketing capability was measured using IT capability. Dependent variables of restricted timetable and vehicle availability were measured by independent variable of company size. Relationship effectiveness is dependent on trust and commitment.

## Conclusion and Research Implications

Cost, responsiveness, delivery performance, reliability, financial stability, flexibility and information technology are criteria which are frequently used in literature, research papers and case studies.

Reputation of the 3PL provider and willingness to develop long term relationship are most used criteria after the ones mentioned above. Than range of services, flexibility and track and trace system. Market share, customized services, geographical spread and compatible culture are least common criteria according the analysis. From the data in Table 5 we can conclude that authors which conducted research in advanced world economies like United States of America and Taiwan while measuring performance of 3PL focus more on service satisfaction and quality of relationship. On the other side, authors which conducted research in emerging markets and developing economies like Brazil, India and China focus more on a cost and sales variables while measuring performance of third-party provider.

In the article is done analysis of seventeen academic journal articles and four doctoral dissertations. This paper has attempted to provide a framework and insight in research of third-party logistics from 2006 to 2018. It makes a solid base for further research in the area of third-party logistics,. The study is not without limitations. First, study focuses on time period of twelve years. Second, twenty one research papers were analyzed. Third, only academic journal articles and doctoral dissertations were analyzed, there can be found other relevant data in conference proceedings papers, master's theses and textbooks. Fourth, the review and classification of the literature are to the certain extent dependent on subjective estimation.

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## **Perception of Internet Users on Online Ads & Consumer Reviews When Making Purchase Decision**

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**Abstract:** *The social media is becoming unavoidable not just in organizations' marketing efforts, but also in ordinary people's lives. Two terms that are highly inseparable from social media include online ads and consumer reviews. A systematic literature review has been conducted in order to understand how those terms represent a significant and dominant influence that can showcase how online users are important for each other and that they need to stay connected in order to keep sales go up and company become even more profitable. There is a scarce evidence – both descriptive and empirical – on this topic, so this study investigated the perception of active internet users on different types of social media channels, online advertisements and online customer reviews while making a purchase decision. The data has been gathered by quantitative method, whereas 265 useful questionnaires were collected through both online and offline surveys in Bosnia and Herzegovina. The results provided the fundamental descriptive statistics of the variables, whereas the general perceptions and opinions of active internet users have been extracted.*

**Keywords:** *Digital Marketing, Online Ads, Consumer Reviews, Social Media, Purchase Decision*

**JEL Classification:** *M31, M37*

### **Introduction**

The Internet rapidly integrated as a powerful marketing tool in recent years, which has recorded an extremely large impact on how brands communicate with their customers, and how customers actually accept and experience it. In terms of marketing and advertising, the Internet exists to

serve local and global brands not just to expand their markets, but to acquire even more customers as well. The number of consumers who have been spending their time on the Internet is constantly growing as the time goes by. Concurrently, the opportunities the Internet offers in terms of searching information hugely effects their purchase decisions.

The Internet has become a mass media driver for consumer-sponsored communications. This is even more confirmed as social media bumped into a digital world. Originally, it started being active in early 2000s when many social networking sites emerged to connect people's common interests in different fields (Edosomwan et al., 2011). It now represents the number one source of media for consumers at work and the number two source of media at home.

Consumers have been identified to use more of social media in their daily search of relevant information than relying on traditional media, such as television, radio, and magazines (Mangold & Faulds, 2009). This is also supported by Keller (2009), who concluded in his paper that the circulation of information among people through social media is much stronger and more widespread when compared to the traditional media including TV, radio and print advertisements.

The idea of real online ads emerged from the need for the additional revenue for not just the online websites, but for the social media networks as well. The year 1994 saw the first online advertisement that was quickly followed by a period of experimentation on advertiser and publisher advertisement formats and technology (Anusha, 2016). As time went by, so-called simple banners evolved into more sophisticated ads with concrete goals and messages incorporated into a nice images – ads – in different formats available on different platforms.

The usage of the social media platforms in recent years has severely impacted the way people interact and communicate among themselves and their environment. Advertising and promoting a brand has become very simple and straightforward when using social media networks. However, this communication is not only one-sided, as customers get the chance to be involved in the communication process. That's where the customer online reviews glided onto Internet trippingly.

In spite of the widespread belief that the Internet may act as a huge “megaphone” in promoting product sales, few literature has provided evidence that online word-of-mouth, such as product reviews and recommendations, plays any role in influencing consumers' choices and purchase decisions (Duan, Gu & Whinston, 2008). This circumstance has underestimated the control managers' efforts they have over their brand (Berthon, Pitt, McCarthy, & Kates, 2007). Therefore, it is of crucial importance to understand that customers' perceptions of brands are not anymore influenced only by what the companies communicate, but what other customers have to say about the particular brand as well.

Although these terms are very “loud” nowadays, not many studies, opinions and results are published and constructed into a strong leading proof that should confirm if the online ads and reviews highly impact the consumers' purchase decisions. The topic is generally new in our region, and not many studies have been done so far, so this study aims to fill the gaps in the investigated literature.

Furthermore, social media and encompassing online ads are not just “new terms”, but huge potential and base for establishment of brands through them. Therefore, they should be examined in order to help positioning of brands in the mindsets of the potential and current consumers. Moreover, these new occasions can strongly advance and promote the companies and brands, which directly leads to the improvement of the overall economic situation of the region – especially in Bosnia and Herzegovina – that produces benefits not only for the brands and companies, but for all the citizens as well.

Having that said, companies and their brands have to get to work on the different social media networks and all the websites offering the opportunities to get advertised, because those are the most attractive and effective marketing and communication tools at the present time.

## **Literature Review**

The digital evolution happened in the blink of an eye as the internet collapse was occurring. The internet earned itself a new name – Web 2.0, where O'Reilly (2009) defined it as “the network as platform, spanning all connected devices. Web 2.0 applications are those that make the most of the intrinsic advantages of that platform: delivering software as a continually-updated service that gets better the more people use it, consuming and remixing data from multiple sources, including individual users, while providing their own data and services in a form that allows remixing by others, creating network effects through an "architecture of participation," and going beyond the page metaphor of Web 1.0 to deliver rich user experiences”. As a result, a lot of today’s advertising communication is different than in the past. Cristal (2015) affirmed in the book that the web comes with its own politics and the politics frame the development and demands for further supporting technologies, which sums up that the web platform is the perfect place for the online ads to be served. The companies and brands need to keep up with the Internet and technology developments in order to have positive impact on customers’ purchase decisions.

Internet marketing rapidly followed the developing Internet, and boomed in like a real monster with its unlimited opportunities. As consumers are progressively spending more time online, and hours spent on the Internet start to being equal to hours spent watching television, the internet marketing as a medium becomes to an increasing extent important to any advertiser. According to Chaffey, Ellis-Chadwick, Mayer & Johnston (2009), internet marketing is “the application of the Internet and related digital technologies in conjunction with traditional communications to achieve marketing objectives”. They claim that the internet marketing is not the only term used, but the others as well, including “e-marketing”, “digital marketing”, “e-business”, or “e-commerce”. Stokes (2015) stated his opinion in a bit different way, concluding that “the online advertising encompasses advertisements on search engine results pages, advertisements placed in emails, and other ways in which advertisers use the Internet”. What was different is that he afterwards dropped a line mentioning that the messages are not restricted by geography or time, emphasizing it as one of the greatest benefits of online advertising. Whatsoever, advertising aims to increase sales and brand awareness whether online or offline, and that is its main objective. Roberts & Zahay (2015) claim in their book that internet marketing seems to be a complex environment, where marketers attempt to hit four generic goals, including customer acquisition,

customer conversion, customer retention, and growth in customer value. By doing so, internet marketers can track customer behavior, calculate the profitability of individual customers, and improve the value of the overall customer base.

The expansion of internet-based advertising is occurring in almost every second of our life. Advertising is striving to provide more efficient methods of matching consumers and advertisers since its existence. Online advertising started in 1994 when first online ad in form of banner was sold and displayed on a web page (Evans, 2009). The ad was sold based on the number of “impressions”— individuals who were served with an ad – which was the model that is still being followed by most traditional media for this sort of brand advertising even today.

What online advertising strived to develop and traditional advertising didn’t is interactivity. The interchangeability exists between “interaction” and “engagement,” suggesting that if it isn’t interactive, it cannot be engaging. That being said, Interactive Advertising Bureau (IAB, 2014) mentioned in its whitepaper that “digital ad engagement is characterized by an overabundance of analytics and metrics and limited consensus on what they mean or how to use them wisely and consistently”. Additionally, IAB (2017) specified different ad types and sizes and the common ones include standard desktop and mobile ads, native ads, vertical video, standard video, wallpapers, interstitials, inter-scrollers, and other rich media formats.

Online advertisements are generally more attractive to consumers because advertisers try to match consumers’ interests. It can be done in a different ways, including a video, sounds, animations, text, and combinations of any to make it more dynamic (Tavor, 2011). Online advertising is also a cheaper version of advertising, and marketers can easily be exposed to a targeted audience and locate groups of consumers sharing the same interest – all of that at a low cost. Additional advantage is that online ads might be less irritating than traditional ads, and are more acceptable as marketers have chance to control the time, place and amount of information that is about to be served (Zhou & Bao, 2002). What is also a positive side of online ads is that they are measurable (Stokes, 2015). Collecting all the click-through rates or interaction rates gives marketers idea of how many people have actually been called to action.

Tavor (2011) emphasized some online ads’ disadvantages as well. The worst of them is perhaps the lack of privacy because users’ activities are tracked online. Another disadvantage might sound contradictory to one of the previously mentioned advantages, but it is true that some types of online ads, such as pop-ups, are rather annoying. The users are forced to watch the served ad, and their original activity is interrupted, which leads to frustrations. Third disadvantage refers to the complexity of online ads – they sometimes confuse the users as they consist of long text, music, photos, video, etc.

The explosion of social media networks brought even better opportunities to advertisers to cheaply promote their content and products or services. This has enabled marketers to reach their target audiences more easily and cost-efficient, just as stated by Shankar et al. (2011) that “technology related developments such as the rise of powerful search engines, advanced mobile devices and interfaces, peer-to-peer communication vehicles, and online social networks have extended marketers’ ability to reach shoppers through new touch points”. Neti (2011) defined social media as “any website which allows user to share their content, opinion, views and

encourages interaction and community building”. It is furthermore stated that “social refers to the communication or interaction of individuals within a group or community and media generally refers to the advertising medium where the communication of ideas or information takes place through publications or channels”.

According to Internet World Stats (2017), which is an international website that features up to date world internet usage, population statistics, social media stats and internet market research data; a fast expansion of Internet users in Bosnia & Herzegovina was evidenced, from 964,324 in 2006 up to 2,628,846 in 2017. The overall trend with a rapid growth in number of Internet users has been especially obvious since 2003, when it was only 4%, up to 69.3% in 2017.

The Internet, internet marketing, and general data advancements together with the informal and formal exchange of recommendations brought on a new form of word-of-mouth (WOM), so called “electronic word-of-mouth” (e-WOM). Ellis-Chadwick & Doherty (2012) described many tactics that can be used while spreading the WOM online through social media, blogs, email, etc. The most effective tactic proved to be an interaction, together with the viral messages that are introduced as the most effective interactive tools. Kimmel & Kitchen (2014) also accept e-WOM to be the most powerful media form through online networks. It can speedily reach countless number of not just consumers, but other publics, constituencies, and stakeholders.

Moreover, most websites that are dealing with buying and selling tend to expose product reviews that are written and posted by consumers. No matter how popular the website or brand is, consumer reviews are mostly influential, and, as the e-commerce is becoming more and more popular as the time goes by, those reviews attract the attention of both practitioners and researchers. Chen & Xie (2008) argued in their paper that the online review can serve as a new element in the marketing communications mix and work as an additional free sales assistant to help consumers identify the products that best match their purchase intention.

Even though the marketing and shopping are pretty much online today, one thing is never avoided – the decision-making process. All the people are human beings with a brain, and they need to become aware and think about a particular brand before making a purchase. Consumer’s purchasing intention consists of complex processes and stages that differ from each other, as formerly described by Bettman in late 1970s. They have been restated by De Bruyn & Lilien (2008), and typically include: (1) Awareness, when the consumer gets informed and tries to understand the possible benefits; (2) Interest, where consumer is aware and interested, and therefore attempts to learn something more about a particular brand; and (3) Final decision, when the consumer tends to take an action in a form of a purchase.

Having all of these said, marketers should wisely use their opportunities for online promotions at the very maximum because they can get strong results online for very low prices. As word-of-mouth was very impactful before, the electronic word-of-mouth became even more notable today, and marketers have no reason not use it as much as they can.

## **Research Methodology**

This research used a survey to open the possibility of gathering enough dependable information. The survey technique used in this research study is a structured questionnaire. The questionnaire consisted of three main parts that collected personal information (i.e. gender, age, educational level, etc.), identified the detailed usage of social media networks and other websites, and gathered personal thoughts on online ads and online consumer reviews while making purchase decisions. In order to collect more information on the consumers' purchase intentions against online ads and online customer reviews through the social media networks and other websites, a detailed research was conducted before creating and sending the survey to respondents.

Measurement scales for the online ads and brands shown on the online ads are slightly modified and mostly adapted from Liu & Ma (2010) and Schivinski & Dabrowski (2013). The purchase decision variable used the measurement scales from the same sources as they proved to be the best fitting ones. When it comes to factors measuring the dimensions of customer reviews, all the scales are adapted from Al Mana & Mirza (2013). For the rest of the questions that are related to the online ads' attributes and characteristics, a pilot study has been conducted with 30 potential respondents to check the quality of the survey before distributing the final questionnaire in order to confirm the reliability and validity of the constructs. Five-point Likert scales were utilized to measure the items in this research paper with an indication from "Strongly disagree" to "Strongly agree".

As the topic is related to the ads and customer reviews that are present online, the target group of respondents for this research paper included active internet users in Bosnia and Herzegovina. Most of the internet users are in the age group from 18 to 24, which is then followed by age 25-34. The target group was reached through both online and offline data collection method. The snowball sampling method was mostly used, where researchers usually request students, teachers, professors, experts, specialists, and other random people from different paths in life to jump in and help out with the data collection.

## **Results**

Even though there were almost 300 data sets collected, 265 of them were considered as useful and final number of questionnaires. Out of 265 (100%), 50.90% of the sampling group was female-oriented. Most of the respondents were in the 18-24 age group, which is 51.70. It is followed by 25-30 (38.50%), 31-35 (6.40%), above 36 (3%), and below 18 (0.40%). Both survey's respondents and previously mentioned active internet users in Bosnia and Herzegovina are in the largest 18-24 age group.

Furthermore, respondents with Master Studies (MA) are dominant – even 51.30% of them. That educational background group is followed by the respondents who had Bachelor's Degree (BA) – 38.50%, and then by those who earned a High School Diploma – 7.20%. Finally, 3% of the respondents have finished Doctoral Studies and earned a PhD.

Moreover, occupation of the respondents was also one of the survey questions. Participants were mostly employed – 40%. The group of employed respondents is followed by the students –

29.80%, and then by employed students – 19.60%. The percentage of 5.30% is the same for both self-employed and unemployed participants, which is 10.60% in total.

The sample group of respondents is online more than two hours a day, which is 62%. The following group of 27% is daily online one to two hours, while there is only 11% of respondents who are online less than one hour a day. In addition, even 41% of respondents use social media while being online. Social media is used one to two hours by 32% of respondents, while 26% of them use it for less than one hour. There is only 1% of respondents who do not use the social media at all. Mostly used social media network is still Facebook today with its quite strong 37%, even though Instagram is quite close with its 31%. They are followed by YouTube – 18%, LinkedIn and Twitter – 4%, Pinterest – 3%, Google Plus – 1%, and some others – 2%.

The other non-demographic questions were analyzed in SPSS. Since descriptive statistics was the only method used for the other sections, the scale was grouped into three main components, including “Online Ads”, “Customer Reviews”, and “Purchase Decision”. This opened a possibility to present a single descriptive table for each of the three sections.

#### *Descriptive Statistics on the Importance of Online Ads*

The scale questions below were blended in SPSS in order to formulate Table 1.

- Does the online ad that you saw play an important role before you buy a particular product?
- Through online advertising, do you learn more about a particular brand even before you click on it?
- Have you remembered a particular brand after you saw the online advertisement?
- Will you click on the online advertisement to obtain more knowledge?
- Can you quickly recall the symbol or logo of a particular brand that is shown on the online ad?

As stated previously, the total number of respondents was 265. The mean is equal to 3.23. Out of a 5-point range, these results show that the sample is quite neutral, but tends to be likely affected with the online ads while making purchase decisions. The variance and standard deviation are 0.794 and 0.89103, respectively.

Table 1: Descriptive Statistics on the Online Ads

| Variable   | N   | Mean  | Variance | STD     |
|------------|-----|-------|----------|---------|
| Online Ads | 265 | 3.230 | 0.794    | 0.89103 |

Source: Author

#### *Descriptive Statistics on the Importance of Customer Reviews*

The scale statements below were combined in SPSS in order to formulate Table 2.

- Before purchasing online, are the reviews presented on the website helpful for your decision making?



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- Does high number of received reviews for a product affect your purchase decision?
- Does the number of positive product reviews affect your purchase decision?
- Does the number of negative product reviews affect your purchase decision?

The mean of this survey section is equal to 3.878. Out of a 5-point range, these results show that the participants are likely affected with the customer reviews when making purchase decisions. The variance and standard deviation are 0.696 and 0.83402, respectively.

| Variable         | N   | Mean  | Variance | STD     |
|------------------|-----|-------|----------|---------|
| Customer Reviews | 265 | 3.878 | 0.696    | 0.83402 |

Source: Author

### *Descriptive Statistics on the Importance of Purchase Decision*

The rest of the scale statements below were compounded in SPSS to formulate Table 3.

- If I need a particular product, I would consider buying it after I see it on the online ad.
- I would buy a particular product immediately after seeing it on the online ad that I like.
- I would buy a particular product that is advertised online rather than the one that is not.
- I am willing to recommend that others buy a particular product that is advertised online.
- I intend to (re-)purchase the advertised particular brand in the future.

The mean founded to be 3.025. Out of a 5-point range, these results show that the participants are quite neutral while making the purchase decisions, even though they are on a good track to get likely affected by the online ads and customer reviews. The variance and standard deviation are 0.785 and 0.88582, respectively.

Table 3: Descriptive Statistics on the Purchase Decision

| Variable          | N   | Mean  | Variance | STD     |
|-------------------|-----|-------|----------|---------|
| Purchase Decision | 265 | 3.025 | 0.785    | 0.88582 |

Source: Author

### **Conclusion**

The online marketing strategies proved to be superior over other tools, advertisements, and strategies as they are cost-effective and easily spread among different levels of audience. Since more and more data and opportunities are becoming available on the Internet, making purchases are also becoming more complex, so marketers should give their best to invest in the best paths that bring profits and earnings to their companies, and this research paper might be a good start for some decisions.

Firstly, it has been demonstrated that the brands' utilization of online ads is on quite high point in Bosnia and Herzegovina. The online ads are becoming more and more frequent, and are pretty spread all over the local websites and social networks in the country. The companies in real

business sector should freely invest in online promotions as they seem to keep recording the impactful results. At the same time, it is both cost and time efficient option, and that opportunity should not be missed for sure.

Secondly, the online customer reviews found out to be tremendously meaningful and helpful not just to the potential customers, but to the existing ones as well. While collecting the data through the questionnaires, it has been discovered that 97% of the participants are interested in existing customer reviews. The companies and brands should pay attention on their reputation and image through building up positive reviews as much as possible wherever possible, that is, through their websites and social media networks as they are most popular nowadays. Brands should work on their awareness, recognition, and quality in order to earn loyalty and profits. Of course, there are always exceptions, such as having negative reviews, and those could be easily solved and vanished away with the good responsiveness and customer support of the company or brand.

Of course, every study has some limitations, so does this one. Firstly, the research could be applied to a specific region or a specific industry as this is kind of a specific topic. The surveys could be distributed to internet users who work in digital marketing-related companies only, for instance. In this way, the results might had been different. Furthermore, the research could analyze specific websites or social media networks in order to receive consistent results.

Moreover, a wider range of different industries could be investigated – each industry separately – to discover the differences between operating industries and if those participants would think differently. To add more, those participants who filled out the survey online might have need the help with the questions or language which can be called as a distraction while doing the survey, so there might exist a risk of less reliable data. Also, the sample could be increased as much as possible in order to collect and form as relevant as possible results. All of these could be explored in the future studies.

To conclude, companies are advised to pay attention to the above mentioned conclusion tips in order to perfectly communicate their values and offerings to the customers, and to provoke them to make purchase decisions. They should use low-cost advertising opportunities to easily reach target audiences and engage them to hit the companies' goals and objectives.

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## **How Social Network Marketing and Consumer Behavior Affect the Sales of the Products in B&H**

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**Abstract:** *The aim of this research paper was to collect and analyze data in order to discover the most effective consumer behavior and social network that influence the sales of the products in B&H. The research paper was conducted on the territory of Bosnia and Herzegovina including thirty randomly selected participants. These participants answered on thirty survey questions that are created using Google Forms. The aim was to collect participants' opinions, attitudes, and preferences. After the collection of primary data, SPSS tools were used for further analyses. Secondary data was extracted from books, journals, articles, and web pages. 53,3% of participants were females, 46,7% were males. 90% of participants belong to working age population. The undergraduate level of education is the most popular within my sample (36,7% of participants). 63,3% of participants is not employed and have low monthly income (0-450 KM). Every significant change in participants' income affects the sales of products in B&H. Participants are mostly influenced by their friends and user reviews (33,3%). The highest impact on consumer behavior has a price of the product because 93,3% of participants constantly compare the prices of competing products. The most influential personal factor on the sales is a monthly income. All elements of the marketing mix are important for the consumers. Season sales are positively related to the sales of products, customers will likely buy discounted products, and even they do not need them. The most usable social networks are Instagram (50%) and Facebook (40%), which means that these social networks mostly influence the sales of products in B&H. Through these networks, customers became co-creators of company value which makes companies more successful and their reputation constantly increases. The majority of participants prefer social network marketing rather than traditional media.*

**Key words:** *consumer behavior, social networks, sales, B&H*

**JEL Classification:** A11, A12, A14

### **Introduction**

Our research paper is focusing on the effects of social network marketing and consumer behavior on the sales of the products in Bosnia and Herzegovina. There are few reasons why we chose to

analyze those effects. One of them is that we wanted to learn more things about the social network marketing because that is the most popular marketing tool nowadays. Also, we wanted to get familiar with all possible factors that may influence consumer behavior. Many people heard about consumer behavior because all of them are some kind of consumers, but just small percent of people is aware of consumer behavior power and influence over the whole economy.

Our research paper is composed of six main parts: Introduction, Literature review, Methodology, Results, Conclusion, and References. In the literature review section, two main terms of the paper, marketing and consumer behavior, are explained. That section also includes their classifications, benefits, and influences on sales of products in Bosnia and Herzegovina. The third part, Methodology, explains data collection and methods that are used for a statistical analysis in order to provide concrete and significant results of the research paper. All these results are listed in the next part which is called Results. The fifth part of this research paper, Conclusion, explains all findings and answers on research questions. Reference section includes all bibliography used for this research paper.

This research paper may help people and organizations to better understand the importance of effective marketing strategies and high impact of consumer behavior on the sales of products in Bosnia and Herzegovina. They can improve their knowledge, so they can use it in an appropriate way. Also, people may realize how marketing works and how the companies create value in order to satisfy customers' needs and increase their profit.

## **Literature review**

### **Marketing**

Marketing is a mixture of different managerial processes as well as social ones. It creates communication, and delivers value to customers. The value has an aim to satisfy customers' needs and wants. Human or customers' needs are the conditions of felt deprivations and they represent the main mechanism of marketing. There are three types of human needs: physical (breathing, water, food, sleep), social (love, belongingness), and individual needs (understanding, knowledge). Human wants are the forms of human needs, and they are influenced by personal and cultural factors. Marketing is used in domestic, global, large, and small companies as a business function to increase the number of companies' customers in order to create benefits for the companies such as make more profit, improve customer relationship, satisfy shareholders, attract new investors, and so on (Kotler, Armstrong, Saunders, & Wong, 1999).

Marketing is not just advertising and selling products and services, it also includes development, placement, and determination of their prices. These actions are used in order to satisfy customers' needs and they represent a marketing mix also called the four Ps: product, price, place, and promotion. Marketers use the four Ps to create significant value for customers in a certain target market and to increase the demand for the products. They develop a marketing mix by collecting

and analyzing up-to-date information related to buyer needs such as their income, preferable characteristics of products, opinions about competitors (Pride & Ferrell, 2014).

### **Online marketing**

There are more than fifty types of marketing strategies which are used by different companies in order to increase the number of new customers, expand their businesses, build brand awareness, and so on. If companies want to be dominant in a market, they have to follow trends. That means that companies should use different types of marketing strategies to communicate the advantages as well as overall values of their products, so target market can be aware of them. Some of these marketing strategies are: cause marketing (finding certain cause that both customer and company care about), relationship marketing (establishing strong relationship with customers not just selling them products), scarcity marketing (limited number of products, available to few customers), word-of-mouth marketing (fluctuation of information from one person to another), diversity marketing (different strategies based on cultural differences), online marketing (using internet as tool to promote and sell products), and so on (Jeffrey & Bueno, 2013).

Over the last decade, Internet and different digital technologies have started with the influence on marketing strategies. They have created new opportunities for all companies to attract more customers and collect information from them. By this way, the companies have increased the awareness of customers' needs and wants. This type of marketing strategies is called online marketing. There are few synonyms for this marketing strategy such as digital, web, and internet marketing. Online marketing combines digital media and internet to establish communication between companies and customers. E-marketing is a strategic process which distributes, promote, and price product. It also discovers customers' desires using digital media (social networks, websites, and other). By this way, customers learn new information about certain products and this communication is really important for every company because it may create a competitive advantage. This type of marketing strategy is quite cheap but it is really efficient. The advantage of this type of marketing strategy is especially for companies that do not have their stores, and they sell their products online (Pride & Ferrell, 2014).

### **Social network marketing**

Social networks are meeting places on the web for different aspects of communication. They were firstly used for private needs, but after that many companies started to use them to communicate with the internal (within company, e.g. managers) as well as the external environment (outside a company, e.g. customers). Also, social networks establish the stronger relationship between employees which enhance employees' commitment and innovation. Employees can easily share information, experiences, ideas, solutions, and so on. Social networks have an important role in the relationship between companies and customers because customers became co-creators of company value which makes companies more successful.

Social networks add value to the products and increase the product recognition (Krasnova, Veltri, Eling, & Buxmann, 2017).

Many companies realized that they can profit from usage of social networks, so they have created their accounts and started to post different information about their companies on social networks. This means that the usage of social networks became their day-to-day obligation. There are many benefits for producers of the products as well as for consumers and some of them are: users (both consumers and producers) can inexpensively interact with each other, customers became active participants in marketing decision making, customer relationship management (CRM) reached higher level, new customers can be reached, cheap promotions of goods and services for producers, saving time while purchasing goods and services online, discount prices for online shopping, and so on (Wang & Kim, 2017).

### **Consumer behavior**

All people around the world are some kind of consumers which means that there are no lower and upper age limits in consumption process. Kids, teenagers, adults, old people - all of them participate in consumption process. Some of them are buying and using goods and services that are necessary for their life and some of them are buying luxury products. The most of people are not aware how consumption became part of our daily habits and because of that people do not understand its importance. In order to achieve higher profit, all companies have to understand consumer behavior. By this way, a company takes effective marketing strategies to attract new customers, satisfy their needs, and beat their competitors. Every part of marketing plan depends on the consumer behavior and because of that, a company adjusts to consumers by communicating interesting offerings. Consumer behavior studies different activities such as emotional, mental, and physical that buyers engage in when making the decisions about choosing, purchasing, and using goods and services in order to satisfy their needs and wants (Priest, Carter, & Statt, 2013).

### **Factors influencing consumer behavior**

There are seven factors that influence consumer behavior and they are: personal, cultural, social, psychological, economic, marketing and situational factors. All of these factors may influence consumer purchasing decision, and by this way increase or decrease sales of products. Because of that, many companies have to study consumer behavior and take certain actions on time in order to maintain good position in market and beat the competitors. Personal factors measure different aspects of people and they predict customers' tastes and preferences. Certain changes in this factor are interesting for marketers because they tell marketers what should they adjust and improve in order to beat the competitors. There are many subfactors under this factor and they are: age, gender, income, educational level, marital status, and occupation. The psychological (internal) factors are: perception, motivation, beliefs, and attitudes (Gajjar, 2013).



Culture is defined as the mixture of values characteristic for one group of people. These values are learned and passed from one generation to the next one and they are influenced by parents, relatives, and friends. Culture includes common attitudes, beliefs, habits, perceptions, traditions, and ethics. Besides culture, there are subcultures and social classes that also affect consumer behavior. There are three main social classes: upper, middle, and lower class. There are three main social factors on consumer behavior: family, reference group, and role. Base on family size there are two types of family: nuclear (small family size) and joint family (large family size). Reference groups consist of two or more people that have interdependent behavior, they associate with one another. Every reference group has its opinion leader, a person who has knowledge or skills to highly influence all other members. Every person is part of some groups (family, company, and so on). The person's position in these groups is defined as role and status. Economic factors are also influencer on consumer behavior. They are many subfactors of this influencer such as the personal income, family income, liquid assets, savings, credits, income expectations, and other economic factors such as inflation and business cycle (Ramya & Ali, 2016).

Marketing factors are related to the marketing components of four Ps (product, price, place, and promotion). This type of factors may directly and indirectly affects the consumer behavior. Product itself may be interesting for consumer based on different characteristics, features, advantages, but product price, design, packaging, appearance are also influence consumer behavior. Nowadays, people easily compare prices and features of similar products and then decide which product to buy in order to satisfy their needs (Chand, 2014).

Situational factors are also influencing consumer behavior. Regarding to the situation consumer is in, he/she may change opinion and purchase product that he/she did not plan to buy. One of the most significant influences is time. The time of a day, day in a week, month, and time that consumer have to finish shopping have huge impact on purchasing decision. Also, if there are season sales, some people will go to shopping and buy more products than planned. The next subfactors of situational factor are the reasons for the purchase. If you have to buy something urgently and your time is limited, you will not spend money on non-planned products, you will buy what you need and leave. Consumers' mood is also affecting purchasing decision (Solomon, Bamossy, Askegaard, & Hogg, 2016)

## **Methodolog**

This research paper is drafted in a standardized form that includes seven main parts. Some of these parts are supported by primary data (survey), and some by secondary data (such as books, journals, articles, web pages). The research was conducted in order to discover how social network marketing and consumer behavior affect the sales of the products in Bosnia and Herzegovina. During one week, I was randomly selecting thirty participants who answered on thirty survey questions which were divided into two sections. The first section was related to the consumer behavior, and the second section was related to the social network marketing. The

survey was created using Google Forms and it has an aim to target participants' opinions, attitudes, and preferences. The data collected from survey is primary data.

After the primary data was collected, it was passed to Excel in order to decode file for SPSS analyses. These analyses were conducted using different statistical tests: Descriptive statistics, Comparing Means, ANOVA, Chi-square test of independence, Correlation analysis, and Multiple regression.

a) Descriptive statistics are numerical as well as graphical methods that are used to summarize collected data and bring information regarding participants' answers to survey questions. This method is used to measure central tendency, variability, and so on. It also presents the diagrams such as bar chart, histogram, pie chart, and line graphs.

b) Comparing means is used to make comparison between some standard value and the mean of one certain sample (one-sample t-test) e.g. one-sample statistics of average monthly income/scholarship.

H0: There is no difference between the opinions of participants in the survey and the other population in B&H regarding question traditional media vs. social networks

H1: There is a difference between the opinions of participants in the survey other population in B&H regarding question traditional media vs. social networks

c) ANOVA (one-way between groups) uses F-statistic which compares two variances. One variance represents variance within group, and another is the variance due to the differences in one group of means.

H0: There are no differences between educational level of participants and number of hours they spend on social networks.

H1: There is a difference between educational level of participants and number of hours they spend on social networks.

d) Chi-square test of independence analyze hypothesis on discrete data. It compares the observed and expected cell frequencies.

H0: Educational level of participants is independent of gender.

H1: Educational level of participants depends on gender.

e) Correlation analysis assesses the relationship between few variables: age, educational level, employment status, marital status, and monthly income.

f) Multiple regression measures the relation between one dependent variable (monthly income) and several independent variables (educational level and employment status).

H0: There is no relationship between monthly income, educational level, and employment status

H1: There is relationship between monthly income, educational level, and employment status

All of these methods are used to transform data in significant information used to conclude the impact of social network marketing and consumer behavior on sales of the products in B&H.

## Results

*Table 6 Age of participants*

|              | Frequency | Percent | Valid Percent | Cumulative<br>Percent |
|--------------|-----------|---------|---------------|-----------------------|
| Valid 0 - 18 | 3         | 10.0    | 10.0          | 10.0                  |
| 19 - 59      | 27        | 90.0    | 90.0          | 100.0                 |
| Total        | 30        | 100.0   | 100.0         |                       |

Table 1 shows the frequency of answers regarding age structure. It is shown that 27 out of 30 participants are in category of 19 – 59 years, which tells us that 90% of participants belong to working age population. There are no participants who are older than 60 years old.

*Table 7 Gender of participants*

|            | Frequency | Percent | Valid Percent | Cumulative<br>Percent |
|------------|-----------|---------|---------------|-----------------------|
| Valid Male | 14        | 46.7    | 46.7          | 46.7                  |
| Female     | 16        | 53.3    | 53.3          | 100.0                 |
| Total      | 30        | 100.0   | 100.0         |                       |

Table 2 shows the sex of participants, 16 responses are collected from female population and 14 from male population, which means that genders are almost equally distributed.

*Table 8 Educational level of participants*

|       |               | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|---------------|-----------|---------|---------------|--------------------|
| Valid | High school   | 9         | 30.0    | 30.0          | 30.0               |
|       | Undergraduate | 11        | 36.7    | 36.7          | 66.7               |
|       | Master        | 9         | 30.0    | 30.0          | 96.7               |
|       | Doctorate     | 1         | 3.3     | 3.3           | 100.0              |
|       | Total         | 30        | 100.0   | 100.0         |                    |

Table 3 shows education level of each participant. The most of participants have undergraduate education level 36,7%. The least of participants have doctorate education level.

*Table 9 Employment status of participants*

|       |               | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|---------------|-----------|---------|---------------|--------------------|
| Valid | Employed      | 6         | 20.0    | 20.0          | 20.0               |
|       | Not employed  | 19        | 63.3    | 63.3          | 83.3               |
|       | Part-time job | 5         | 16.7    | 16.7          | 100.0              |
|       | Total         | 30        | 100.0   | 100.0         |                    |

*Table 10 Monthly incomes of participants*

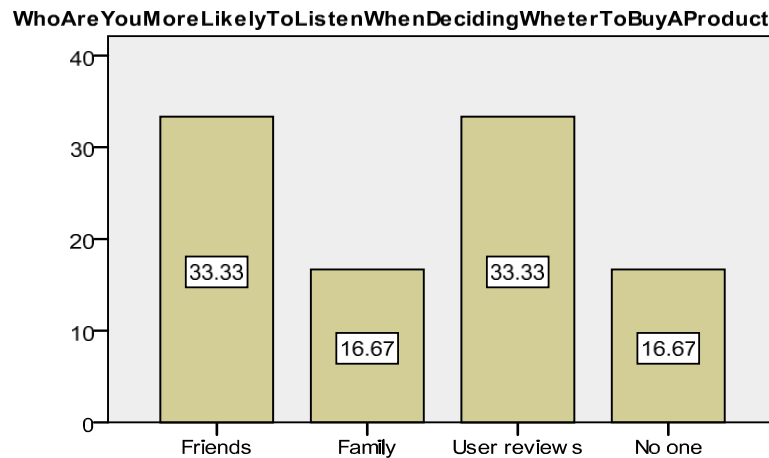
|       |                  | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|------------------|-----------|---------|---------------|--------------------|
| Valid | 0 - 450 KM       | 18        | 60.0    | 60.0          | 60.0               |
|       | 451 - 1200 KM    | 5         | 16.7    | 16.7          | 76.7               |
|       | 1201 - 2000 KM   | 4         | 13.3    | 13.3          | 90.0               |
|       | 2001 KM and more | 3         | 10.0    | 10.0          | 100.0              |
|       | Total            | 30        | 100.0   | 100.0         |                    |

Table 4 and 5 show the employment status and monthly incomes of participants. The most of participants are not employed (19 participants out of 30) and their monthly income is from 0 to 450 KM which means that the majority of participants have low income. Just few of them said that they have really high monthly income that goes beyond 2001 KM.

*Table 11 Does an increase/decrease in your monthly income affect purchasing decision?*

|       |           | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-----------|-----------|---------|---------------|--------------------|
| Valid | Rarely    | 2         | 6.7     | 6.7           | 6.7                |
|       | Sometimes | 13        | 43.3    | 43.3          | 50.0               |
|       | Often     | 6         | 20.0    | 20.0          | 70.0               |
|       | Always    | 9         | 30.0    | 30.0          | 100.0              |
|       | Total     | 30        | 100.0   | 100.0         |                    |

Table 6 shows participants' answers regarding question whether an increase/decrease in their income/scholarship affect their purchasing behavior. 43,3% of participants said that sometimes the change in their income affect consumer behavior, but 30% of participants said that every time their income changes their consumer behavior changes as well. However, two participants stated that the change in their income rarely play a significant role in making purchasing decision.



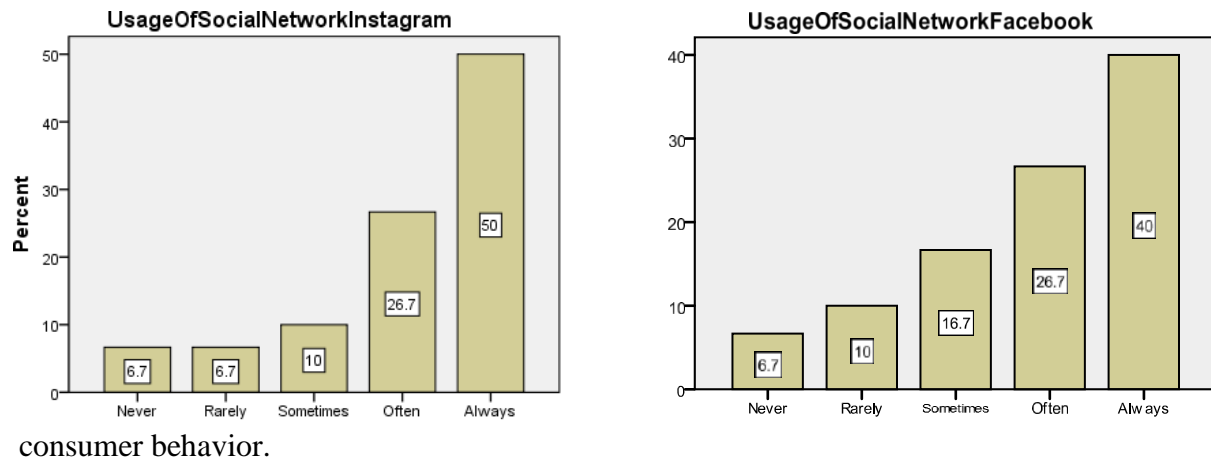
*Figure 4 Who are you more likely to listen when deciding whether to buy a product?*

Figure 1 shows who has the most influence on participants' consumer behavior. In this survey, participants said that their opinion is mostly influenced by friends (33,3%) and user reviews (33,3%). 16,67% of participants listen their family or no one while making buying decisions.

Table 12 Do you compare the prices of competing products?

|       |       | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------|-----------|---------|---------------|--------------------|
| Valid | Yes   | 28        | 93.3    | 93.3          | 93.3               |
|       | No    | 2         | 6.7     | 6.7           | 100.0              |
|       | Total | 30        | 100.0   | 100.0         |                    |

Majority of the participants (93,3%) said that they compare the prices of competing products during shopping, as you can see in Table 7. Just 2 participants said that they do not compare the prices of competing products. This means that price, as a marketing factor strongly influence



consumer behavior.

Figure 5 Usage of Instagram and Facebook

Figure 2 shows how frequently participants use Instagram and Facebook. Instagram is even more used than Facebook within the participants.

Table 13 Are social networks an effective way to reach you as a customer?

|        |        | SocialNetworksAreAnEffectiveWayToReachYouAsACustomer |    | Total |
|--------|--------|--|----|-------|
|        |        | Yes  | No |       |
| Gender | Male   | 13   | 1  | 14    |
|        | Female | 13   | 3  | 16    |
| Total  |        | 26   | 4  | 30    |

Table 8 shows what genders think whether the social networks are an effective way to reach new customers. There are no differences between genders regarding this question. Males as well as females agreed that social networks are an effective way to increase the number of customers.

*Table 14 Difference between the opinions of participants in survey and other population in B&H regarding question traditional media vs. social networks*

|  |                | N  | Mean            | Std. Deviation     | Std. Error Mean                              |       |
|--|----------------|----|-----------------|--------------------|--|-------|
| HowDoYouViewAdsOnSNV<br>ersusTraditionalMedia  |                | 30 | 2.33            | .959               | .175   |       |
|  | Test Value = 2 |    |                 |                    |  |       |
|  | t              | df | Sig. (2-tailed) | Mean<br>Difference | 95% Confidence Interval of the<br>Difference |       |
|  |                |    |                 |                    | Lower  | Upper |
| HowDoYouViewAdsOnS<br>NVersusTraditionalMedi a | 1.904          | 29 | .067            | .333               | -.02   | .69   |

H0: There is no difference between the opinions of participants in survey and the other population in B&H regarding question traditional media vs. social networks.

H1: There is a difference between the opinions of participants in survey and the other population in B&H regarding question traditional media vs. social networks.

In Table 9 is given descriptive statistics for the question social networks vs. traditional media. There were four possible answers: They are the same = 1, I prefer ads on social networks = 2, I prefer traditional media = 3, and Neither = 4. Mean is 2.33 which tell us that the most of participants said that they prefer social networks and new innovations rather than traditional media. The value of t-statistics is 1.904 and the test value is 2. The degree of freedom is 29 (30-1), and null hypothesis is not rejected because Sig. is 0.067 which is higher than 0,05. This means that both the participants as well as other population of B&H prefer the ads on social networks rather than the ads on traditional media.



*Table 15 Educational level of participants and number of hours they spend on social networks*

|                | Sum of Squares | Df | Mean Square | F    | Sig. |
|----------------|----------------|----|-------------|------|------|
| Between Groups | .121           | 3  | .040        | .072 | .974 |
| Within Groups  | 14.545         | 26 | .559        |      |      |
| Total          | 14.667         | 29 |             |      |      |

H0: There are no differences between educational level of participants and number of hours they spend on social networks

H1: There is a difference between educational level of participants and number of hours they spend on social networks

Table 10 shows that Sig. is 0.974, which means that null hypothesis is not rejected because Sig. is bigger than 0.05. This means that there are no difference between educational level and daily usage of social networks.

*Table 16 Educational level of participants and their gender*

|                              | Value              | df | Asymp. Sig. (2-sided) |
|------------------------------|--------------------|----|-----------------------|
| Pearson Chi-Square           | 1.916 <sup>a</sup> | 3  | .590                  |
| Likelihood Ratio             | 2.304              | 3  | .512                  |
| Linear-by-Linear Association | .001               | 1  | .978                  |
| N of Valid Cases             | 30                 |    |                       |

H0: Educational level of participants is independent of gender.

H1: Educational level of participants depends on gender.

Table 11 gives the results of the chi-square test. The null hypothesis is not rejected because Pearson Chi-square have Sig. of .590 which is higher than 0.05. Based on this we can conclude that there is no significant relation between the educational level and gender.

*Table 17 Correlation between age, educational level, marital status, employment status, and monthly income*

|                      |                 | Age   | EducationL<br>evel | MaritalSta<br>tus | Employme<br>ntStatus | MonthlyIn<br>come |
|----------------------|-----------------|-------|--------------------|-------------------|----------------------|-------------------|
| Age                  | Pearson         | 1     | .416*              | -.106             | -.018                | .237              |
|                      | Correlation     |       |                    |                   |                      |                   |
|                      | Sig. (2-tailed) |       | .022               | .575              | .923                 | .207              |
|                      | N               | 30    | 30                 | 30                | 30                   | 30                |
| EducationLeve<br>l   | Pearson         | .416* | 1                  | -.349             | .133                 | .285              |
|                      | Correlation     |       |                    |                   |                      |                   |
|                      | Sig. (2-tailed) | .022  |                    | .059              | .482                 | .126              |
|                      | N               | 30    | 30                 | 30                | 30                   | 30                |
| MaritalStatus        | Pearson         | -.106 | -.349              | 1                 | .088                 | -.393*            |
|                      | Correlation     |       |                    |                   |                      |                   |
|                      | Sig. (2-tailed) | .575  | .059               |                   | .644                 | .032              |
|                      | N               | 30    | 30                 | 30                | 30                   | 30                |
| EmploymentSt<br>atus | Pearson         | -.018 | .133               | .088              | 1                    | -.442*            |
|                      | Correlation     |       |                    |                   |                      |                   |
|                      | Sig. (2-tailed) | .923  | .482               | .644              |                      | .014              |
|                      | N               | 30    | 30                 | 30                | 30                   | 30                |
| MonthlyIncom<br>e    | Pearson         | .237  | .285               | -.393*            | -.442*               | 1                 |
|                      | Correlation     |       |                    |                   |                      |                   |
|                      | Sig. (2-tailed) | .207  | .126               | .032              | .014                 |                   |
|                      | N               | 30    | 30                 | 30                | 30                   | 30                |

Table 12 shows the correlation between mentioned variables. There are three correlations that are significant at the 0.05 level. Some of these correlations are positive, and some are negative. The first correlation is high positive correlation between age and educational level because r-value is .416\*, and p-value is 0.222. This means that, as age increases, educational level also increases. The second correlation is between monthly income and marital status. R- value for this correlation is -.393\*, which tells us that there is a high negative correlation. I have coded single marital status as 3 and married as 1, so as marital status decreases (from 3 to 1), income level increases from low income to higher income. The third significant relationship is between employment status and monthly income with r-value -.442\*. This correlation represents a high negative relationship, as your employment status changes from not employed (2) to employed

(1), which means that the employment status will decrease, your monthly income will increase. Other variables are not significantly correlated, because there is not enough evidence that will prove that these correlations are not created by chance.

*Table 13 Regression between educational level, employment status, and monthly income*

| Coefficients <sup>a</sup> |                  |                             |            |                           |        |
|---------------------------|------------------|-----------------------------|------------|---------------------------|--------|
| Model                     |                  | Unstandardized Coefficients |            | Standardized Coefficients |        |
|                           |                  | B                           | Std. Error | Beta                      |        |
| 1                         | (Constant)       | 2.498                       | .648       |                           | 3.856  |
|                           | EmploymentStatus | -.834                       | .274       | -.489                     | -3.046 |
|                           | EducationLevel   | .423                        | .194       | .351                      | 2.184  |

a. Dependent Variable: MonthlyIncome

H0: There is no relationship between monthly income, educational level and employment status.

H1: There is a relationship between monthly income, educational level and employment status.

Table 13 shows the regression coefficients and their significance. B represents the values for the regression equation for predicting the monthly income from employment status and educational level. Std. Error gives the results about the errors within variables. Beta shows the coefficients in case that all variables are standardized. T and Sig. are the t-statistics that test null hypothesis and alternate hypothesis. The p-value for beta coefficient of employment status is 0.005 and for education level is 0.038. Both these values are significant at 10% significance level, which means that H0 is rejected. There is a relationship between monthly income, educational level and employment status. This relationship may be represented by the regression function as follows  $2.498 - 0.834 \cdot \text{employment status} + 0.423 \cdot \text{education level}$ . There is a negative high relationship between monthly income and employment status (as one variable increases, another variable decreases). A high positive relationship is between monthly income and level of education, as level of education increases, monthly income increases as well.

## Conclusion

Based on the results from different SPSS analyses we can conclude that females and males were almost equally distributed. The most of participants belong to working age population who are

single and have undergraduate level of education. There are no distinctions between genders when it comes to the level of education which means that males are not smarter than females. The majority of participants is not employed and they have low monthly income. When we compared the monthly income of participants and monthly income of other population in B&H, they differ from one another, so we cannot say that whole population of B&H has low monthly income. Every significant change in participants' income has an effect on the purchase decision making and this will affect the sales of products in B&H.

We have found four relationships between some variables. The first relationship is between age of participants and their educational level. This is a high positive correlation, as age increases the educational level increases as well. A high negative correlation is between monthly income and marital status, employment status and monthly income, and between marital status and educational level. These negative correlations can be explained by an increase in one variable that will induce another variable to decrease. When it comes to the marketing factors influence on consumer behavior, all elements of the marketing mix are important for the customers. The highest impact on consumer behavior has a price of the product because males as well as females constantly compare the prices of competing products. They do not buy products immediately; they rather visit more shops and then make a purchase. Regarding social factors influence on consumer behavior, the highest impact on the participants' consumer behavior has their friends' opinions and user reviews about certain product. Almost all participants are aware of the differences between social classes and their consumer behavior. They understand that people that belong to upper class will purchase luxury goods and services, while people that belong to middle-class will make their purchasing decisions carefully, and they will have limit on their budget.

The participants see social networks as an important innovation that makes life easier. The most usable social networks among the participants are Instagram and Facebook, which means that these social networks mostly influence the sales of products in B&H. The social networks are used by participants as a way to communicate with friends, read news, and for entertainment. Also, the majority of participants follow their favorite brands on social networks. The participants spend less than five hours per day on their social networks accounts. The daily usage of social networks does not depend on participants' level of education. This means that if you have high school level of education you may spend more, the same or less time on social networks than some participants with master level. The most important thing for the companies in B&H is that participants perceive social networks as an effective way to reach them as the new customers (especially females). This means that if some company has a good promotion on social networks, the most of the participants will be likely influenced to buy that product and increase its sales.

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## **Environmental responsibility by the tourism service providers of South Transdanubia**

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**Abstract:** *By the recognition of the impacts of tourism, the industry must be directed towards a more sustainable path, which is indispensable for all societies and economies. The Hungarian National Tourism Development Concept (2014-2020) also considers social responsibility as a horizontal priority – in addition to dedication towards quality, consumer protection and sustainability. The research is aimed at the survey of the issues of environmental sustainability and responsibility by service providers in a Hungarian region: South Transdanubia. Besides the analysis of secondary sources, the survey included the elaboration of a questionnaire survey and making of in-depth interviews. Initiatives promoting environmental responsibility are typical in the field of energetics, in the first place, focused on the issue of energy efficiency. Another example for the environment friendly attitude of tourism service providers is their relations to local enterprises and original producers. Environmental and social responsibility requires interventions aiming at the promotion of a change of attitude in the whole of the tourism sector.*

**Keywords:** *sustainability, environment, responsibility, tourism service providers, South Transdanubia*

**JEL Classification:** *R11, Z31*

### **Introduction**

Being aware that the impacts of tourism are palpable not only in so-called tourist hot spots but also outside them, all participants of the industry must be driven towards sustainability. The natural resources on which tourism is built are available with limitations, only. Also, nowadays there seems to be a change on the demand side as well, as the decisions of tourists are more and more frequently influenced by environment consciousness: there is a visible growth in the number of those tourists in whose choice of destination the state of the environment of the destination is also taken into consideration and who are

consciously seeking service providers (accommodations) that operate following the principle and practices of sustainability (Gonda 2017a; Gonda 2017b).

In one of the visions of the Hungarian National Tourism Development Concept (Nemzeti Turizmusfejlesztési Stratégia 2030), the Hungarian tourism sector in 2030 is characterised, among other things, by its being “a pull sector in sustainable economic development”. In order to achieve this, sustainability appears, on the one hand, among the pillars of the Strategy (Kisfaludy Turisztikai Fejlesztési Program), and also among the horizontal fields of intervention of the strategic goals of the Strategy: H1 – “Tourism living with us” (MTÜ, 2017).

The region of South Transdanubia is not among the top tourism destinations in Hungary; nevertheless we thought it would be useful to get in contact with the hotels of the region, in order to explore the extent and the how of their environment responsibility, as responsible attitude is something that one can rightly expect of businesses today. In our research we also wanted to find out whether tourism service providers went beyond, and if so, how, the issue of sustainability from the aspects of energetics. Another purpose of our examination was to explore effective initiatives that can be implemented and followed as best practices by further service providers.

One factor that makes South Transdanubia a perfect field of such surveys, despite its modest share from both the number of tourists and the number of guest nights spent by them in Hungary, is the fact that it has made initiatives unmatched so far in Hungary in ecotourism and in the propaganda of sustainability in tourism in general. It is one of the few tourism regions in Hungary that features ecotourism among its primary goals of tourism development and also the one and only region so far that has an operating Ecotourism Cluster. This cluster has an initiative that can be applied as best practice by all tourism service providers not only in the region but also in the whole of Hungary: it has analysed several international labelling systems of sustainable tourism and adapted them to the Hungarian circumstances. The handbook written by the Ecotourism Cluster gives advice and information related to the application of the principles and practice of sustainability in all sort of tourism-related enterprises: the qualification system worked out has separate chapters designed for accommodation owners and operators, gastronomy service providers, programme organisers, festival and event managers and also for other tourism service providers like our operators etc. The aspects of sustainability taken into consideration include the management of the physical environment of the business, the minimisation of energy usage, the collection and possible recycling of wastes, the application of environment friendly technologies in the offices etc. The dozens of requirements and recommendations can be divided into three major categories: there are basic requirements, necessary conditions and expected actions. By meeting all these requirements the operation of the given entity becomes as much environment conscious as possible. The popularity of this scheme is demonstrated by the growing number of applications for this qualification.

Also, the region of South Transdanubia serves as a pilot region of environmental education in Hungary. The official website of the South Transdanubian Ecotourism Cluster ([www.gyeregyalog.hu](http://www.gyeregyalog.hu)) contains information that can also be applied by service providers in other regions of Hungary: on the Baranya Greenway Project, the already mentioned ecotourism qualification system etc.

The Cluster conducted a survey of the satisfaction of tourism service providers. This pioneer initiative was assisted by the overwhelming majority of the cluster members (26 out of the 30 contributed) and the lessons learned can serve as useful guidance for the “greening” of the operation of the tourism industry. The



findings that are of greatest use for the propaganda of environmental responsibility by tourism businesses and other service providers are as follows:

- The establishment of the cluster created an atmosphere of trust among members that promoted the creation and spread of innovation, and palpably accelerated the process of knowledge transfer;
- The successful implementation of community marketing resulted in positive externalities or members;
- Projects related to product development (e.g. new types of events, creation of a greenway, eco-festival etc.) promoted the strengthening of the positions of ecotourism within the tourism product portfolio of the region;
- The creation of an ecotourism qualification system resulted in a best practice initiative that is suitable for the attitude shaping and the promotion of the environment consciousness of tourism service providers all over Hungary;
- The culture of cooperation among members showed a significant progress: using each other's supply they were able to make their portfolio more complex, innovative and attractive.

## **Literature review**

Sustainable tourism is defined by Swarbrooke (1999) as follows: “(That type of tourism) which is economically viable but does not destroy the resources on which the future of tourism will depend, notably the physical environment and the social fabric of the host community” (Swarbrooke, 1999). The same year was the year of publication of the Global Code of Ethic for Tourism, approved in Santiago, Chile (WTO 1999). In each case we can see that the principles and goals of sustainable tourism are given special emphasis in the documents, just like in other pieces of literature, other works by different authors (Butler, 1993; Rátz, 1998; Swinton, 2001 etc.). Although the Code does deal with interactions of environment, society and economy (Hajnal et al., 2009), the concept of sustainability has not become evident and self-explanatory for tourism service providers (either). It has become a sort of ideology in the first place that is used as a marketing slogan in order to create a better image of the businesses or destinations. It is often pseudo-activities that are applied in order to prove the dedication of actors towards sustainability. The concept of responsible tourism was defined in the document called Cape Town Declaration on Responsible Tourism (2002). It should be highlighted also for this present research that responsible tourism is defined as a sort of tourism that “minimises negative economic, environmental, and social impacts”. We do have to emphasise the several similarities between sustainable tourism and responsible tourism. Where we can see the difference is practicality. We must mention in this place the work by Harold Goodwin who, on the turn of the new millennium, created the International Centre for Responsible Tourism, ICRT (in 2000). The objective of the Centre is to assist the actors of tourism in accepting responsibility, and to increase pro-activity with a kind of PBL (Problem Based Learning) methodology. In Goodwin's opinion the creation of this attitude can lead to the realisation of the objective defined in the Cape Town Declaration: “Better places for people to live in, better places for people to visit”.

Several international programmes related to environmental responsibility and sustainability have been launched (e.g. Planet21 Programme, EcoLabel), but their significance in Hungary is negligible. There is only one tourism service provider with EcoLabel qualification in Hungary: this is Eco-Park Pension, Camping Site and Adventure Park in Eger-Szarvaskő, the North of Hungary. It is positive, on the other hand, that the Hungarian Hotel and Restaurant Association announced the tender called “Green Hotel” already in 1994 for the first time, more than twenty years ago. This has been done since then every second year, as winners are only entitled to feature the award for a period of two years. The aim of this initiative is the creation of environment conscious thinking, i.e. the increase of the energy efficiency of operation, and attitude shaping.

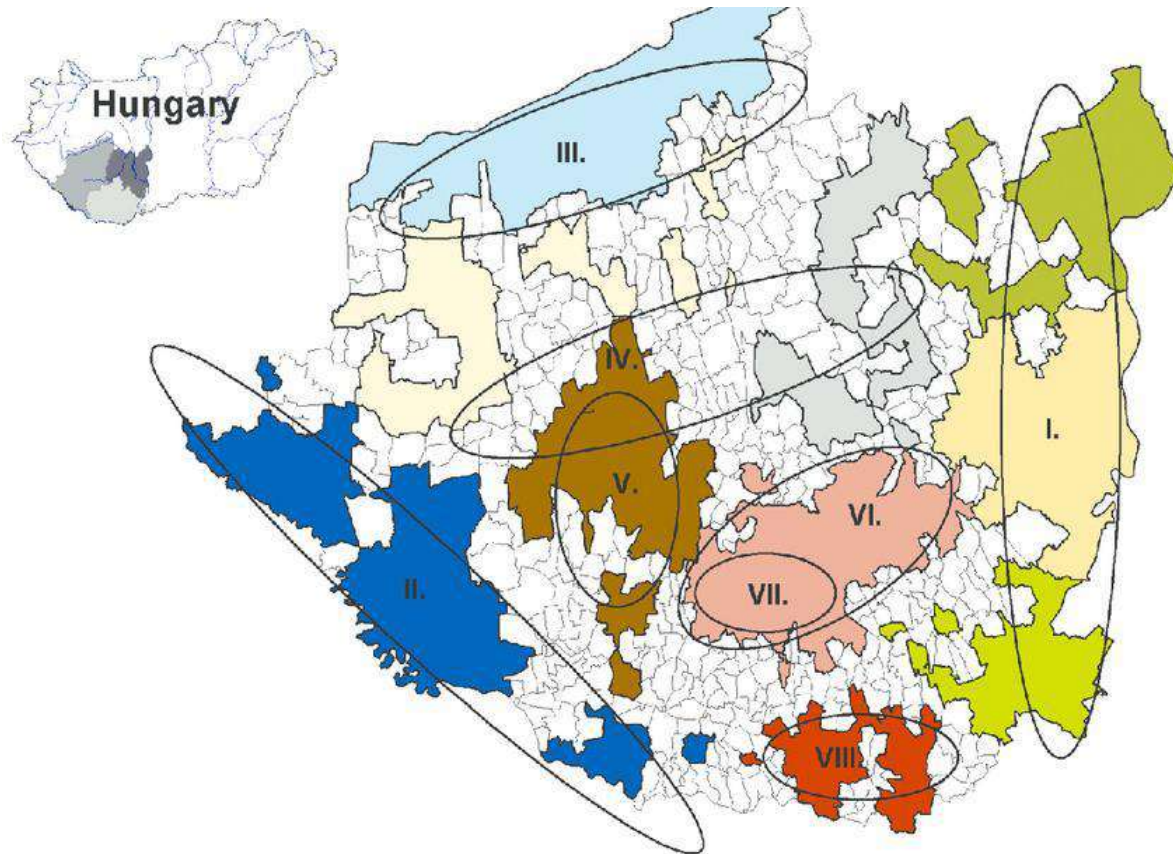
## **Methodology**

A secondary research method we used was the analysis of the literature background of responsible tourism. It was necessary because even tourism professionals do not have a consensus regarding the concept. The primary, qualitative research was field trip and semi-structured deep interviews made with tourism service providers in the region of South Transdanubia. In order to survey the issue of responsibility, we shared a structured questionnaire among three- and four-star hotels of the South Transdanubian division of the Hungarian Hotel and Restaurant Association, focusing on social and environmental responsibility. This paper is the dissemination of the findings of one part of the research, concerning environmental responsibility and sustainability. The filling out of the questionnaires was allowed both on- and offline, but the response rate was very low, unfortunately. Not more than eleven actors responded personally or online, which is only 36% of all members of the Hungarian Hotel and Restaurant Association in the region. The questionnaire survey contained eight questions concerning the issue of this paper.

## ***Tourism destinations in South Transdanubia***

The research area of this paper is South Transdanubia in Hungary, which, in the opinion of Aubert & Szabó (2007), has eight clearly distinguishable core tourism areas, as seen in Figure 6. (It is important to remark that the borders of the planning-statistical region and the tourism region do not perfectly overlap, and we contacted the accommodations in the territory of the planning-statistical region.) The core tourism areas of the region offer health tourism, enological tourism, gastrotourism, rural tourism, ecotourism, sports tourism, cultural tourism and some other forms of leisure activities. Despite this diverse offer, in 2017 the number of guest nights spent at commercial accommodations in South Transdanubia (a total of 1,121,227 nights) only made 3.8% of the total of guest nights realised in Hungary and the number of guests (477,815 persons) was not more, either, than 4% of all guests visiting Hungary (HCSO 2018).

*Figure 6 Tourism destinations in South Transdanubia - I = Dunamente (zone along the Danube River); II = Drávamente (zone along the Drava River); III = "Kis-Somogyország" (Little Somogy County); IV = Kapos-völgy (Kapos Valley); V = Zselic Hills; VI = Mecsek Mountains; VII = Pécs; VIII = Harkány-Siklós-Villány*



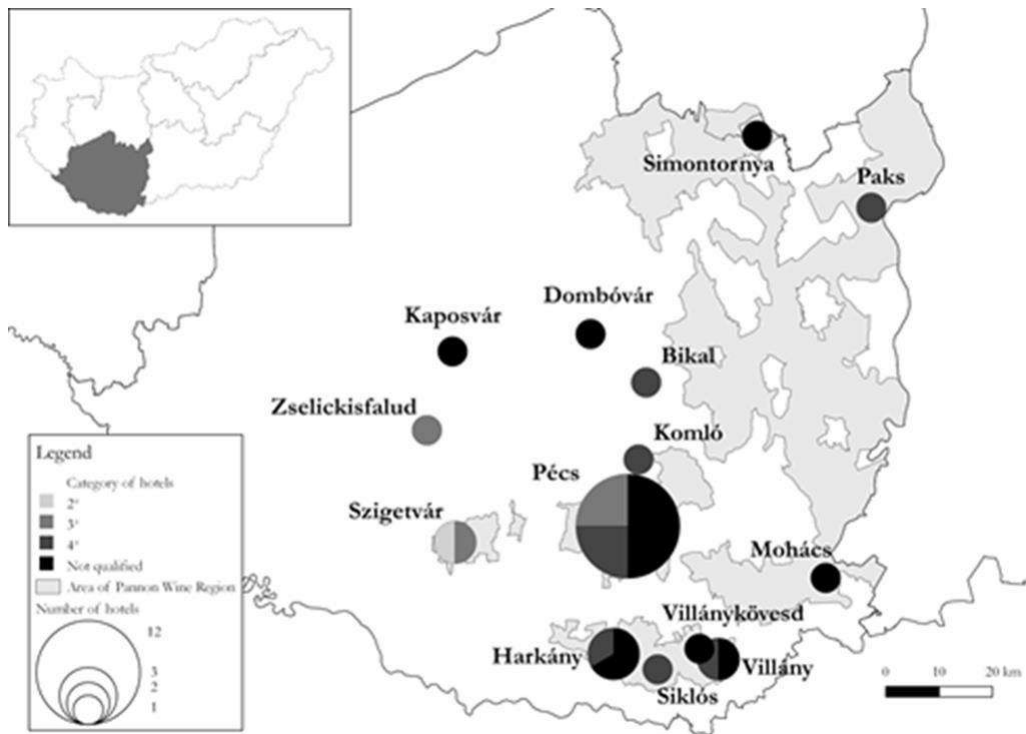
*Source: Aubert, A. & Szabó, G. (ed.), 2007*

It is worth mentioning that in 2010, for the pilot area of South Transdanubia, the Baranya County Rural Tourism Association worked out the qualification and criteria system of the network of “environment friendly hosts” or “eco-accommodations”, but this is a qualification system designed for accommodation operating in rural areas, especially for village accommodations. For commercial accommodations we applied the qualification system of Hotelstars, and also the already mentioned “Green Hotel” award related to sustainability.

#### *Members of Hungarian Hotel and Restaurant Association in the South-Transdanubian region*

The number of members in this association exceeds 500, including more than 400 hotels, 36,000 hotel rooms (60% of the Hungarian hotel capacity), 7 chain hotels, 30 individual restaurants and other joint members. In the South-Transdanubian region 30 hotels belong to the regional division of Hungarian Hotel and Restaurant Association (Figure 7).

*Figure 7 Members of Hungarian Hotel and Restaurant Association in the South Transdanubian region*

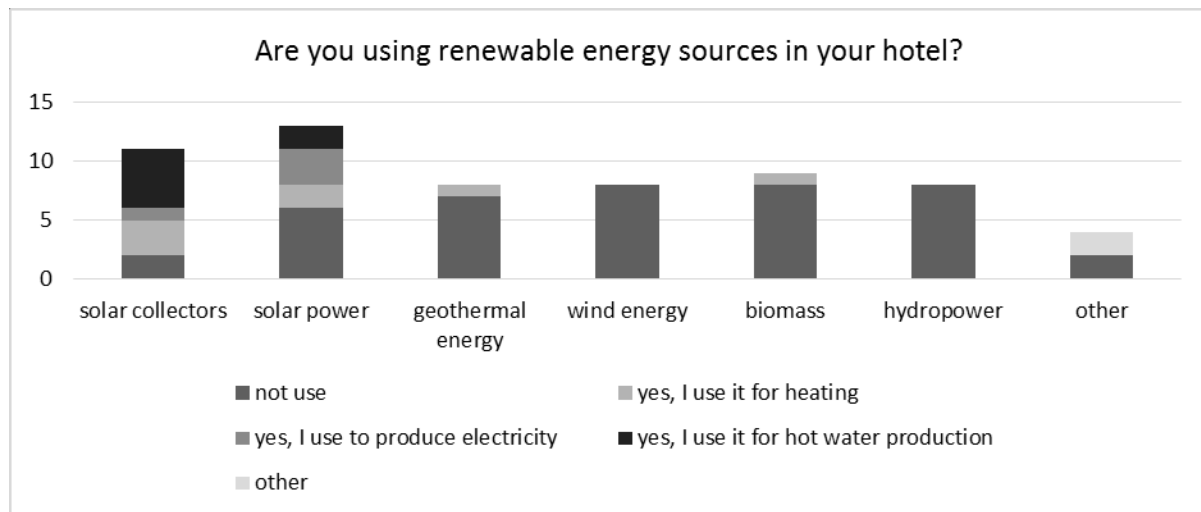


Edited by Závodi, B. from source: hah.hu & own data collection

## Results of the questionnaire and interviews

It is natural that the first thing we asked about concerning environmental responsibility was the use of sources of renewable energy. As several targeted supports were available for energetics investments in the recent years, we assumed to find a high proportion of hotels that used sources of renewable energy. The replies given in the questionnaire demonstrate that most of the responding accommodations use solar energy as a renewable source of energy, for hot water production, heating, and for the generation of electricity. We have to mention one accommodation that uses biomass: in this unit vine cane waste produced yearly by pruning the one year old canes is used as a source of biomass for heating (Figure 8).

Figure 8 Using renewable energy sources in hotel



More than 90% have applied or are planning to apply for financial support for the renewable energy investment. There was only one respondent who said that they wanted to implement the investment from their own resources. At the same time, what could be heard at the annual convention of the regional division of Hungarian Hotel and Restaurant Association revealed that the majority of participants expected earmarked development resources from the “Kisfaludy Tourism Development Programme” that is among the pillars of the National Tourism Development Strategy. For the time being South Transdanubia is not among the regions that are eligible for these selected financial development supports for tourism, designed for accommodation developments and constructions improving the competitiveness of the regions.

We examined what environment conscious methods are applied by the hotels during their daily routine, as the use of sources of renewable energy is not sufficient for the decrease of the environmental stress. As demonstrated by Figure 9 and Figure 10, the replies given were quite diverse. Energy saving light bulbs and electricity system operated and controlled by plastic cards in hotel rooms are constantly present in almost all hotels, but e.g. environment friendly textiles are rare exceptions, as only one respondent reported the occasional use of them and another one was planning to use these textiles. In most of the hotels, the selective collection of waste generated during the operation is solved (80%), but fewer hotels allowed guests to collect waste selectively (35%). It is promising that in most cases we received positive answers to the question whether they were using environment friendly cleaning agents and they also reported that they were making efforts to minimise the use of hazardous materials like pesticides, paints, disinfectants and cleaning agents (80%-70%). It is clear that environment conscious attitude plays a significant role in this, but the interviews revealed other important factors, respectively the availability of such products (e.g. more economical, larger versions, lower prices) and the information of the employees and the enlargement of their knowledge for the use of environment friendly materials.

We must mention that environment consciousness is indirectly promoted by the reception of guests at junctions of public transportation with horse-draught carriages, or the offer of bicycles for hiking, free of charge, which are initiatives present at some tourism service providers.

Figure 9 Answers to the question “What kind of environmentally conscious methods do you use during your daily work?”

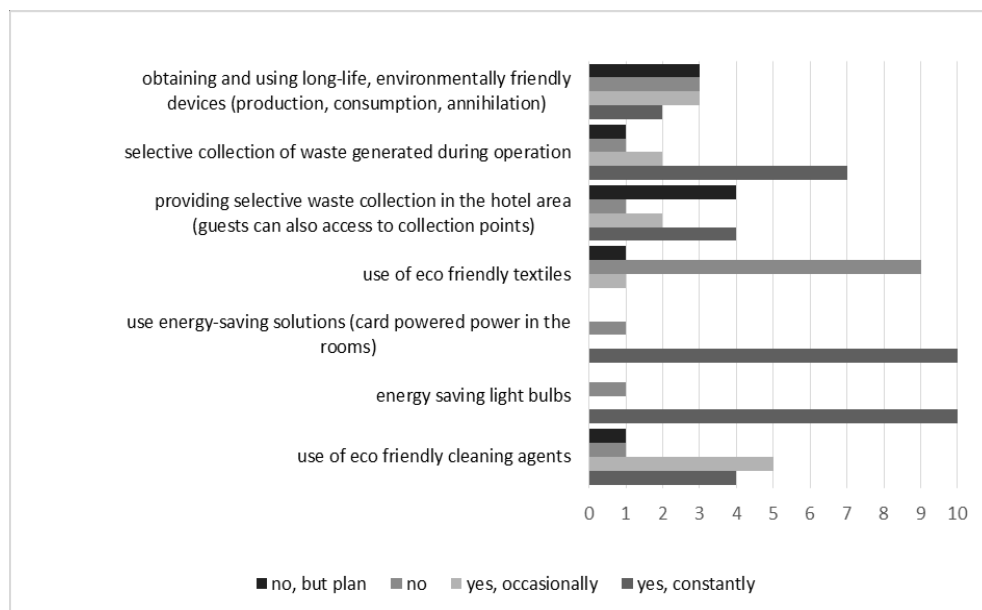
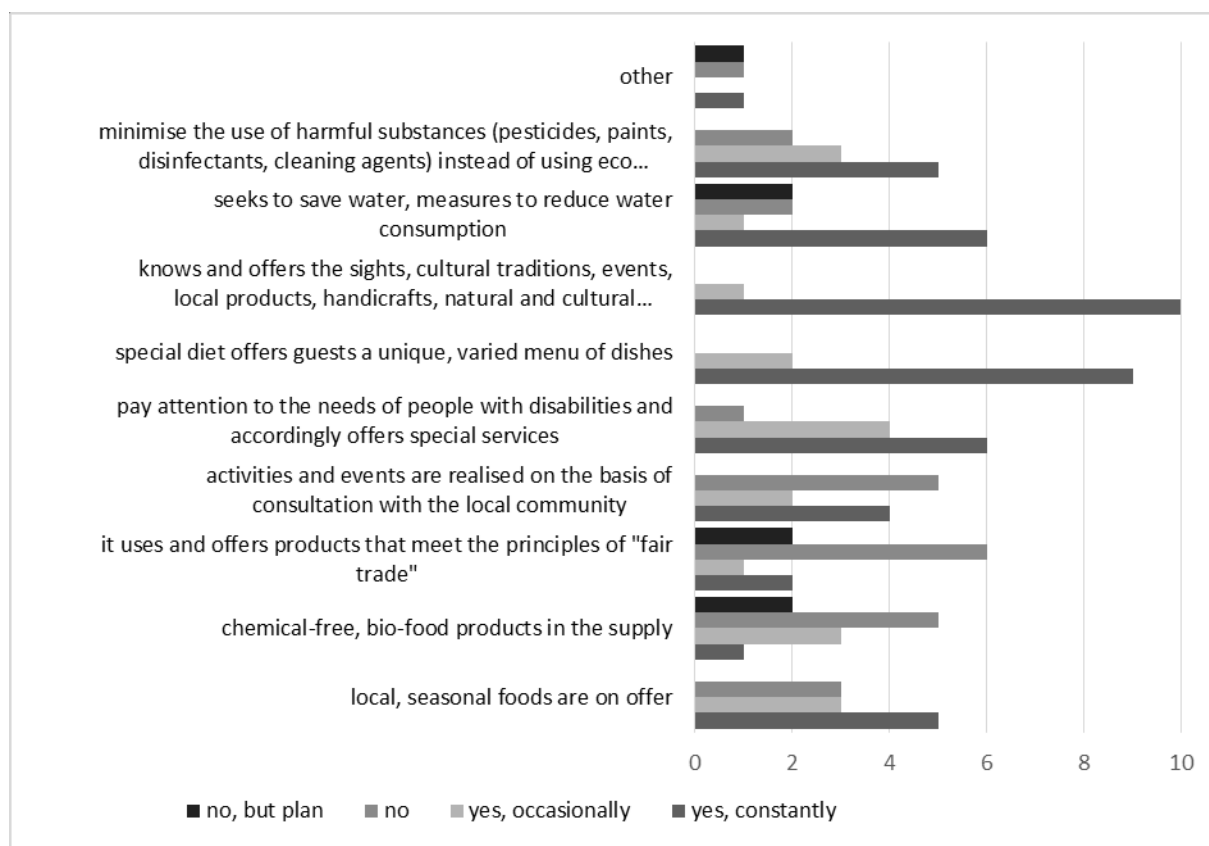


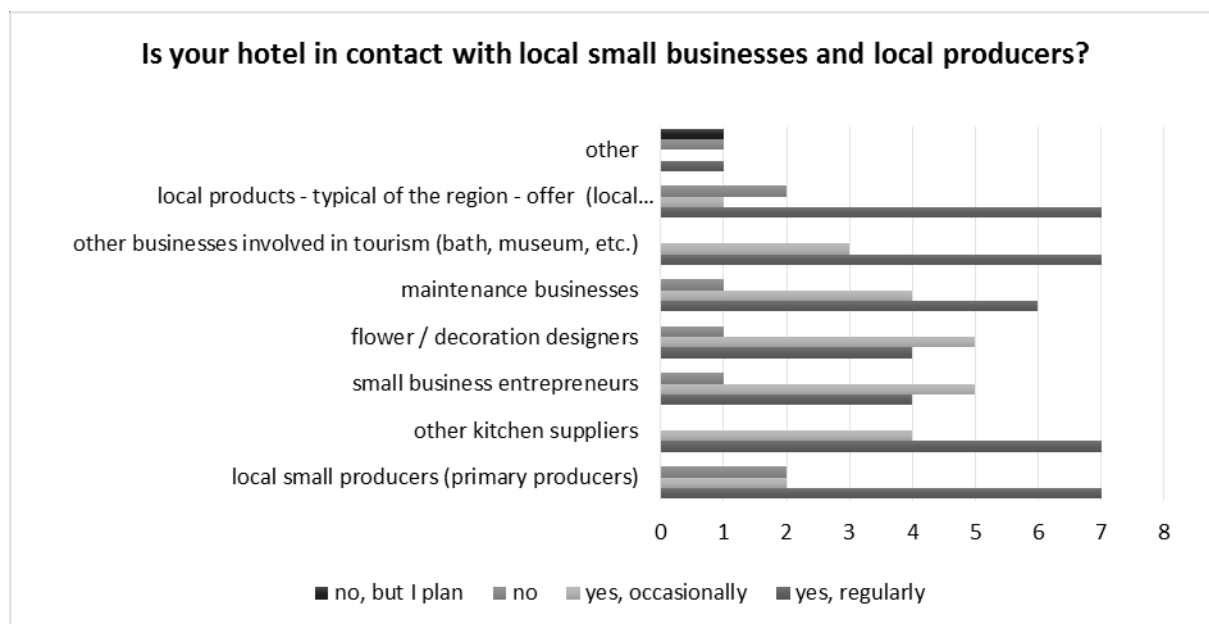
Figure 10 Answers to the question “What kind of environmentally conscious methods do you use during your daily work?”



Most restaurants reported on the regular or occasional use of local seasonal foods in their supply (e.g. wild growing plants like mushrooms or herbs). The share of chemical-free bio-foods in their supply, however, is almost negligible. Looking for the reasons behind the replies given to the two questions above (why the presence of local products is so limited), the interviews revealed that the cooperation of the actors in the SSC, i.e. short supply chain is not at the level that they are capable of the constant supply to hotels. Another bottleneck is the limited capacity of local goods producers and suppliers to meet the quantitative and qualitative requirements. In the latter a significant improvement had taken place in the recent years, as we heard from the managers of hotels.

The most frequent reply to the question “Does your hotel have contacts with local small businesses and local goods producers?” was yes, they had a permanent touch. It should be stressed that hotels promote local and regional goods, or they allow a possibility of purchasing local goods typical of the area in the hotel (local food products, handicrafts products). Accommodations prefer local businesses, although only occasionally (Figure 11).

*Figure 11 Answers to the question “Is your hotel in contact with local small businesses and local producers?”*



We also wanted to know how sensitive guests were to the environment conscious attitude of tourism service providers. Our question was also related to their experiences and whether their guests acknowledged and used such possibilities (e.g. the change of towels, the use of electricity). The opinions and experiences were mixed, both as regards the replies in the questionnaire and what we heard during the interviews. Some respondents and interviewees said that guests took such efforts into consideration. Some said this was not universal, saying that the majority of guests were susceptible for this attitude but there were always a significant number of guests who – claiming that they paid for the services – used too much electricity and water. This was an opinion frequently stated. There was a response, on the other



hand, saying that “This is not so much emphasised towards guests that it could grab their attention. Their behaviour is not different from that of the average guests”.

It is a crucial issue nowadays what image the hotels demonstrate on the market, and so we looked at whether environment consciousness was part of the hotel image and marketing and if so, in what ways. We were surprised to find that only two hotels communicated their environment conscious attitude to guests, also in the promotion of their facilities.

## Conclusions

On the basis of literature review, deep interviews and a questionnaire survey, environmental responsibility seems to be an important issue for tourism service providers. However, the implementation of investments in energetics and environment friendly technologies is greatly influenced, in addition to the attitude, by the availability of tenderable resources, in the lack of which investments must be made from own resources. The main obstacles to the shift in the attitude are as follows: economic weakness, and the lack of knowledge about effective methods. This calls for further researches in the topic, as in order to achieve a dominance of positive impacts of tourism over the negative ones we need a more active responsibility of the actors in the tourism industry. The propaganda of good practices, the explanation and promotion of their adaptability may be helpful, but service providers themselves are indispensable in this process. An important finding of our paper is that the motivation of service providers is important, but the influencing of the environment conscious attitude of guests can also be taken as a societal problem.

In order to continue this research it is necessary to include further tourism service providers, like catering facilities and other service providers. What would definitely be desirable are the enlargement of the territorial level and the increase of the willingness to respond.

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## **Students Perception on Brand Impact in Purchase of Domestic Products**

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**Abstract:** *The main purpose of this study is to measure brand impact on consumer domestic products purchase behavior.*

*Branding is one major component for organizations to work on. Branding is considered to be a major component in the success of a product in the market because it can control consumer decisions. This of course depends on the reputation of the brand, which refers to how it has appealed to consumers in the past and how it has served them.*

*Data for this study are collected through the online surveys and analyzed by performing descriptive statistics. The majority of the responses are received from the students studying at International Burch University.*

*Expectation are that results will support the hypothesis that the impact of brand has a positive influence on consumer to buy not just domestic, but all products and that ethnocentrism and branding has positive influence on purchase of domestic products and product preference.*

*For this research I had used university's library to get access to many books, articles and other type of secondary data that I used in this research. All the collected data are analyzed through software (SPSS).*

**Key Words:** *Brand impact, Ethnocentrism, Domestic products, Brand awareness, Country-of-origin, Consumer behavior*

### **Introduction**

Globalization presents considerable challenges and opportunities for international marketers. The relaxation of trade policies has provided consumers with more foreign product choices than ever before. From that reason today is too important for domestic companies to make strong brands and to gain the loyalty in domestic market. This was the motive for conducting this research. It

very briefly provides answers on the central question of this research. This central question is at which extent brand impact and consumers' ethnocentrism have impact on the customers' buying behavior.

It is normally that branding has a high and positive impact on consumers, but this research also measure the impact of other factors such as price and quality and compare them with each other. On other side there is consumers' ethnocentrism as second important factor that has strong impact on purchase of domestic products. The tendency of consumers to be ethnocentric represents their beliefs about the appropriateness and moral legitimacy of purchasing foreign products (Shimp and Sharma, 1987). Ethnocentric consumers prefer domestic goods because they believe that products from their own country are the best (Klein et al., 1998).

The remainder of the article is structured as follows. Firstly in this research I provide a literature review summarizing the general theoretical underpinnings of the brand impact and consumer ethnocentrism, based on existing empirical studies, develop a set of hypotheses which are subsequently summarized in the conceptual model for the study. Next, I report on mine empirical work in Bosnia by outlining the research methods and data analyses, and present a general discussion of the findings.

## **Literature Review**

Through this research I will examine two factors that can influence the purchase behavior of consumers. First and main factor for this topic that can influence consumer's purchase behavior is branding and second factor that also influence purchase behavior of domestic product is concepts of ethnocentrism. Those two factors are examined individually in many researches, so those researches will represent the basis of my secondary data and it will help me to make synthesis of that how those two factors interact together.

The extent to which branding will influence on consumers to purchase a domestic product can be shown in marketing literature to be related to the consumer's quality perceptions of that specific product. To great volume, quality perception is also influenced by the concepts of ethnocentrism and country of origin. Marketing theory suggests that if a consumer has ethnocentric tendencies he or she will be more likely to purchase locally produced products and to even further perceive

these products as possessing higher quality (Sharma, Shimp and Shin, 1995; Shimp and Sharma, 1987).

” Shimp and Sharma (1987) defined “ethnocentrism as an individual tendency to see products manufactured domestically as being superior and as the belief that it is not very patriotic and even immoral to buy foreign products because of the consequences that this generates for the economy and employment.”

Demographic characteristics like age, gender, marital status, educational level, region of the country where somebody lives, as a knowledge of foreign languages have a huge influence on his or her willingness to buy products that are made in a specific country.

Past research has shown that while consumer ethnocentrism influences both product judgments and willingness to buy products generally, regardless of the country from where they are imported, consumer animosity influences the willingness to buy products imported from a specific country independent of quality perceptions (Klein, 2002). Numbers of studies show that consumer ethnocentrism has positive and significant effect on domestic product purchase intentions. According to Parts and Vida (2013) the effect of consumer ethnocentrism on domestic product purchase intentions has been examined in various studies, and find out positive and direct effects of consumer ethnocentrism on domestic product purchase intentions.

Second factor that have an impact on consumer’s purchase behavior is branding. According to Khasawneh and Hasouneh customers realize the importance of brand while in their purchasing decisions and customers’ demographic characteristics have no significant relation and effect on brand awareness. People prefer the branded products with higher prices because they consider that branded items have more quality then non branded products. From this reasons brand preference is also a symbol of status.

According to many researchers there is a moderate relationship between consumer purchase attention, environmental factors and emotional factors. If consumer is emotionally attached with the product he/she will prefer to purchase that product. People mostly prefer those brands with which they are emotionally attached.

Bishnoi and Sharma argue that people from different locations will also react differently on the advertisement. According to them teenagers in rural areas are more influenced by advertisings

rather than urban areas. TV ads play a vital role to enhance the involvement of people in product selection and purchase decision.

## Methodology

Information for the study were gathered through an online study and conveyed for the most part to students in Bosnia and Herzegovina. Study was made from 22 questions and conveyed to the members by email and social media. As the outcome from that I gathered 221 reactions. Members are chosen randomly and the majority of them are students and educators of Burch University. The overview begins by asking 5 credit inquiries to the members, it proceeds with 8 behavior and 9 opinion questions. Expressive insights and connection tests have been utilized to break down the answers of the review. The outcomes were analyzed through SPSS programming, eighteenth version. In the following section will be displayed results of this exploration.

## Data Analysis

|                             | Frequency | Percent |
|-----------------------------|-----------|---------|
| <b>Gender</b>               |           |         |
| Male                        | 121       | 55%     |
| Female                      | 99        | 45%     |
| <b>Total</b>                | 220       | 100%    |
| <b>Age</b>                  |           |         |
| Under 18 years old          | 0         | 0%      |
| 18-24 years old             | 106       | 48.20%  |
| 25-34 years old             | 79        | 35.90%  |
| 35-44 years old             | 32        | 14.50%  |
| 45 years old or older       | 3         | 1.40%   |
| <b>Total</b>                | 220       | 100%    |
| <b>Education</b>            |           |         |
| Below than secondary school | 0         | 0       |
| Secondary school            | 32        | 14.50%  |

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|                      |     |        |
|----------------------|-----|--------|
| College              | 20  | 9.10%  |
| Bachelor's degree    | 82  | 37.30% |
| Master's degree      | 70  | 31.80% |
| Doctoral degree      | 15  | 6.80%  |
| Other                | 1   | 0.5%   |
| <b>Total</b>         | 220 | 100%   |
| <b>Nationallity</b>  |     |        |
| Bosniaks             | 147 | 66.80% |
| Serbs                | 17  | 7.7%   |
| Croats               | 7   | 3.20%  |
| Turks                | 38  | 17.30% |
| Others               | 11  | 5%     |
| <b>Total</b>         | 220 | 100%   |
| <b>Income</b>        |     |        |
| Less than 1000 KM    | 139 | 63.20% |
| From 1000 to 2000 KM | 62  | 28.20% |
| 2000 KM and above    | 19  | 8.60%  |
| <b>Total</b>         | 220 | 100%   |

| One-Sample Test |                                |     |                 |                 |       |       |
|-----------------|--------------------------------|-----|-----------------|-----------------|-------|-------|
| q13             | Test Value = 3                 |     |                 |                 |       |       |
|                 | 95% Confidence Interval of the |     |                 |                 |       |       |
|                 | Difference                     |     |                 |                 |       |       |
|                 | t                              | df  | Sig. (2-tailed) | Mean Difference | Lower | Upper |
|                 | 3.939                          | 219 | .000            | .24091          | .1204 | .3615 |

**H<sub>01</sub>: There is no significant difference among people who think that well-known brands have high quality.**

*However, at the t value of 3,939 and  $\alpha = 0.05$ , H<sub>02</sub> will have to be rejected since the p-value (0,00) is lower than 0.05. This means that at 5% level of significance, respondents strongly agree that well-known brands have high quality.*

| Independent Samples Test |                             |   |      |                              |         |                 |                 |                       |   |
|--------------------------|-----------------------------|---|------|------------------------------|---------|-----------------|-----------------|-----------------------|---|
|                          |                             | Levene's Test for Equality of Variances |      | t-test for Equality of Means |         |                 |                 |                       |   |
|                          |                             | F                                       | Sig. | t                            | df      | Sig. (2-tailed) | Mean Difference | Std. Error Difference | 95% Confidence Interval of the Difference |
| q11                      | Equal variances assumed     | 13.228                                  | .000 | 2.564                        | 217     | .011            | .37803          | .14744                | .08743 .66863                             |
|                          | Equal variances not assumed |   |      | 2.630                        | 215.743 | .009            | .37803          | .14374                | .09473 .66134                             |

**H0<sub>2</sub>: There is no difference between males and females in purchasing domestic products.**

*In the given example, a value of this test statistic indicates that the two groups, Male and female, do not have equal variance. Therefore, the statistic associated with equal variances not assumed should be used for the t-test for Equality of Means.*

*The t-test result (with equal variances not assumed) shows t statistic of 2.630 with 215.743 degrees of freedom. The corresponding two-tailed p-value is 0,009, which is less than 0.05 but higher than 0.01. Therefore, we can reject H3 at 5% significance level, which means that the average rate of purchasing domestic product between genders are significantly different from each other.*

#### ANOVA

| q11            | Sum of Squares | df  | Mean Square | F      | Sig. |
|----------------|----------------|-----|-------------|--------|------|
| Between Groups | 45.567         | 4   | 11.392      | 11.178 | .000 |
| Within Groups  | 218.086        | 214 | 1.019       |        |      |
| Total          | 263.653        | 218 |             |        |      |

**H0<sub>3</sub>: There is no difference between nationality groups in buying domestic products.**

#### One way Anova

*At confidence interval level of 95%; and  $\alpha=5\%$ . We found out that P (significance level) =0,000.  $P<\alpha$  and H3 is rejected, thus there is no enough evidence to accept H3. F-value is 11,178 and the corresponding p-value is given as <0.000. Therefore we can safely reject the null*



*hypothesis (H01) and conclude that there is difference among nationality groups while buying domestic products*

q6 \* Income Crosstab calculation

|       |                |                | Income               |                         |                      |       |
|-------|----------------|----------------|----------------------|-------------------------|----------------------|-------|
|       |                |                | Less than 1000<br>KM | From 1000 to<br>2000 KM | 2000 KM and<br>above | Total |
| q6    | Yes            | Count          | 91                   | 46                      | 16                   | 153   |
|       |                | Expected Count | 96.7                 | 43.1                    | 13.2                 | 153.0 |
|       | No             | Count          | 48                   | 16                      | 3                    | 67    |
|       |                | Expected Count | 42.3                 | 18.9                    | 5.8                  | 67.0  |
| Total | Count          |                | 139                  | 62                      | 19                   | 220   |
|       | Expected Count |                | 139.0                | 62.0                    | 19.0                 | 220.0 |

Chi-Square Tests

|                              | Value              | df | Asymp. Sig. (2-<br>sided) |
|------------------------------|--------------------|----|---------------------------|
| Pearson Chi-Square           | 3.653 <sup>a</sup> | 2  | .161                      |
| Likelihood Ratio             | 3.900              | 2  | .142                      |
| Linear-by-Linear Association | 3.630              | 1  | .057                      |
| N of Valid Cases             | 220                |    |                           |

**H04: The brand selection of respondents is independent of its income.**

*Pearson Chi-Square is higher than the significance level selected (5% or 10%). In our example the p-value of .161 is much higher than the commonly accepted levels of either .05 or .10. So we cannot reject the null hypothesis. In other words, there is no significant relation between brand selection of respondents and their income.*

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|             |                     | Correlations |        |             |        |           |        |
|-------------|---------------------|--------------|--------|-------------|--------|-----------|--------|
|             |                     | Income       | q8     | nationality | q10    | education | q6     |
| Income      | Pearson Correlation | 1            | .192** | .629**      | .472** | -.072     | -.129  |
|             | Sig. (2-tailed)     |              | .004   | .000        | .000   | .290      | .057   |
|             | N                   | 220          | 220    | 220         | 220    | 220       | 220    |
| q8          | Pearson Correlation | .192**       | 1      | .152*       | .139*  | -.044     | -.069  |
|             | Sig. (2-tailed)     | .004         |        | .024        | .039   | .512      | .311   |
|             | N                   | 220          | 220    | 220         | 220    | 220       | 220    |
| nationality | Pearson Correlation | .629**       | .152*  | 1           | .427** | -.066     | -.004  |
|             | Sig. (2-tailed)     | .000         | .024   |             | .000   | .330      | .952   |
|             | N                   | 220          | 220    | 220         | 220    | 220       | 220    |
| q10         | Pearson Correlation | .472**       | .139*  | .427**      | 1      | -.106     | -.133* |
|             | Sig. (2-tailed)     | .000         | .039   | .000        |        | .116      | .048   |
|             | N                   | 220          | 220    | 220         | 220    | 220       | 220    |
| education   | Pearson Correlation | -.072        | -.044  | -.066       | -.106  | 1         | .193** |
|             | Sig. (2-tailed)     | .290         | .512   | .330        | .116   |           | .004   |
|             | N                   | 220          | 220    | 220         | 220    | 220       | 220    |
| q6          | Pearson Correlation | -.129        | -.069  | -.004       | -.133* | .193**    | 1      |
|             | Sig. (2-tailed)     | .057         | .311   | .952        | .048   | .004      |        |
|             | N                   | 220          | 220    | 220         | 220    | 220       | 220    |

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

*In each cell of the correlation matrix, we get Pearson's correlation coefficient, p-value for two-tailed test of significance, and the sample size. From the output, we can see that the correlation coefficient between income and purchase decisions is 0.192 and the p-value for two-tailed test of significance is 0,004. From these figures we can conclude that there is a strong positive correlation between Income and Purchase decisions and that this correlation is significant at the significance level of 0.01. Results for correlations between other set of variables where (\*\*) can also be interpreted similarly. We can see that Education and Purchase decisions are not significantly correlated ( $r = -0,044$ ,  $p = 0,512$ ). All other variables without (\*\*) or (\*) are not significantly correlated at the 0,01 and 0,05 significance level.*

### Regression

We want to test two following hypothesis:

**H0<sub>5</sub>: Brand selection of respondents is positively related to income.**

**H0<sub>6</sub>: Brand selection of respondents is positively related to education.**

**Model Summary**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .224 <sup>a</sup> | .050     | .042              | .45156                     |

a. Predictors: (Constant), education, Income

| Model |            | Coefficients <sup>a</sup>   |            |                           |        |      |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|
|       |            | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. |
|       |            | B                           | Std. Error | Beta                      |        |      |
| 1     | (Constant) | 1.119                       | .137       |                           | 8.190  | .000 |
|       | Income     | -.082                       | .047       | -.116                     | -1.742 | .083 |
|       | education  | .075                        | .027       | .184                      | 2.780  | .006 |

a. Dependent Variable: q6

In this test, the dependent variable is brand selection of respondents, and two independent variables are income and education. From the Model Summary, we can observe that the R Square value in this case is 0.050. This means that the proportion of variance in the dependent variable (brand selection of respondents) which is explained by the independent variables (education and income) is 5%.

From Coefficient Table:

- The coefficient for income (-0.116) is not significantly different from 0 because its p-value is 0.083, which is larger than 0.05.

The coefficient for education (0.184) is significantly different from 0 because its p-value is 0.006, which is smaller than 0.05.

## **Conclusion**

According to the results we fundamentally consult cruise this hinder is very successfully meet the research objectives and provide answers on research questions. This research confirms previous researches that are conducted on this topic. The scanty affectation us that there is very strong impact of branding consumer purchase, same as the consumer ethnocentrism that has the loose role in impact of purchase of domestic products. The main suspend of this research are the low number of surveyed persons and little amount of time to conduct research that will cover more regions in Bosnia.

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## Linking Ethical Climate to Employee Behaviors: An Empirical Study in Banking Sector

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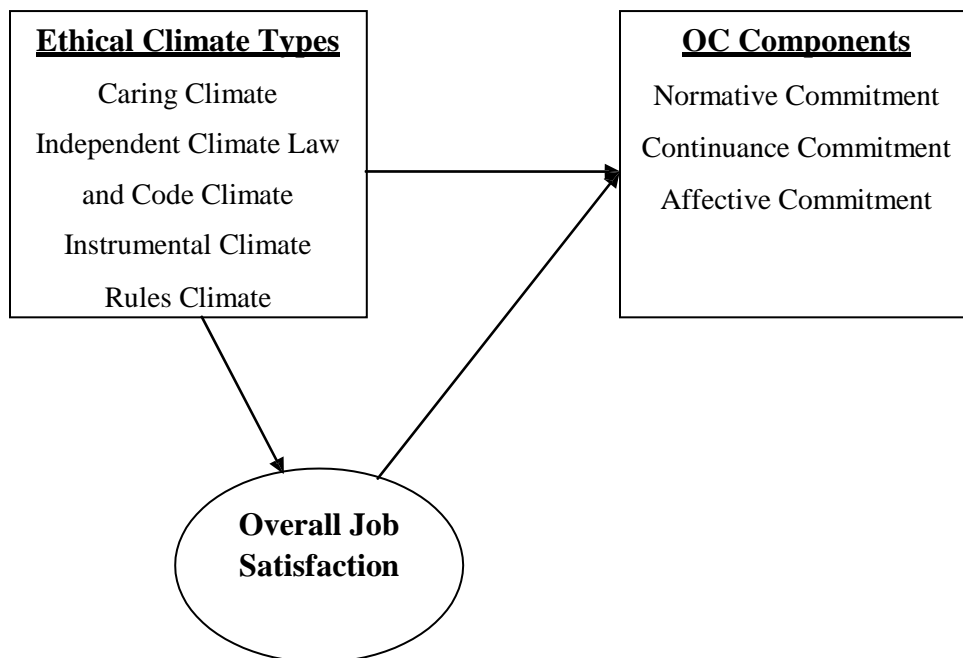
**Abstract:** *The performance of employees has become important in banks. Some studies have suggested that employees' perceptions of the ethical climate in their banks are related to a higher job satisfaction and organizational commitment, and thus influence organizational performance. Although a plenty of studies support this relationship in developed countries, there is a scarce empirical evidence in developing countries. This study aims to examine the relationship among the ethical climate, job satisfaction, and organizational commitment of employees in Bosnia and Herzegovina which is a developing and transitional country. Results based on a sample of 151 employees from three private banks in Bosnia and Herzegovina support the hypotheses. This study demonstrates that overall job satisfaction has a significant positive influence on affective and normative commitment. Furthermore, caring climate has a positive effect on overall job satisfaction.*

**Keywords:** Bosnia and Herzegovina, ethical climate types, banking sector, overall job satisfaction, organizational commitment components.

### INTRODUCTION

Employee shortage and a high turnover have recently been widespread issues in a banking sector. Some everyday unpleasant obligations of bank tellers such as direct contact with customers, monotonous working practices, and heavy paperwork can be reasons for these issues. Additionally, lower wages of employees working in banks contribute to a high turnover rate and shortage of employees in developing countries. Bosnia and Herzegovina (BiH) is one of these developing countries which have encountered both of these issues in banking sector in recent years. A report prepared by the Banking Agency of the Federation and Bosnia and Herzegovina (FBiH), a regulatory institution that conducts banking supervision showed that the overall number of employees in banks reduced by 0.04 % in the last three years (Banking Agency of FBiH, 2016). The most important causes of this occurrence are low average wages of employees which are between 450 and 475 USD (Foreign Investment Promotion Agency of BiH, 2015) and migration of young people to European countries (Dinc, Jahic, and Kocan, 2017). In order to prevent huge employee shortage in this sector in the future, there is a strong need for a research that will propose solutions for this issue. In this regard, some scholars have suggested the examination of performance management and workplace behavior of employees in the service

sector (Huang and Bond, 2012). While there are a lot of factors that influence employees' performance, many studies found that organizational commitment had a significant impact on job performance (Meyer and Allen, 1997; Jamal, 2011; Dinc and Plakalovic, 2016). A number of studies showed that job satisfaction had a significant impact on organizational commitment (Qureshi, Hayat, Ali, and Sarwat, 2011; Fu and Deshpande, 2014). However, several studies indicated that one of the most important factors in enhancing employees' job satisfaction is organizations' ethical climate (Deshpande, 1996). Therefore, the purpose of this study is to examine the effect of ethical climate types and job satisfaction on organizational commitment components of employees in banks of Bosnia and Herzegovina. This relationship is illustrated in Figure 1 as a proposed model of the study.



**Figure 1, Proposed Model**

## LITERATURE REVIEW

### *Organizational Commitment*

Organizational commitment is of a great importance for organizations, because it is in their best interest to keep talented employees. To put it succinctly, it is a measure of employee's identification with his or her organization (Fu & Deshpande, 2014). There are several conceptualizations of organizational commitment. The most cited and well-known conceptualization is Meyer and Allen's (1991) three-component model including affective commitment, continuous commitment, and normative commitment. Affective commitment is an individual's emotional attachment to the organization. On the other hand, continuance commitment can be described as willingness to be a part of the organization, while normative commitment is a feeling of obligation to continue one's employment.

Many studies have shown that employees who are most committed to their organization are least likely to quit their job and have a higher performance in their job (Meyer and Allen, 1991).

### *Job Satisfaction*

Job satisfaction is an employee's self-assessment about his/her job or job situation. It is defined by Locke (1976, p. 1300) as "a pleasurable or positive emotional state resulting from the appraisal of one's job or job experiences." Additionally, it is an emotional status which originated from the self-assessment of the employee, and which stimulates the job performance and achievements of the employee.

### *Ethical Climate*

Ethical Climate is a type of work climate, which has been studied since 1950s. Ethical climate is "a perceptual lens through which workers diagnose and assess situations" (Cullen, Parboteeah, Victor, 2003, p.129). In order to better understand the ethical climate concept, many scholars have

considered it as a construct including several subdimensions. The most well-known classification of ethical climate is that of Victor and Cullen (1988), which divided ethical climate into five dimensions: Instrumental, Caring, Independence, Rules, Law and Code. In an organization which has a caring climate, employees are concerned for each other's well-being. In an independent climate, employees act according to their own personal moral beliefs. Law and Code climate refers to the climate in which employees adhere to the codes and regulations of their profession or another authority. In an organization with Rules climate, employees' behaviors should comply with the accepted rules of conduct determined by the organization. The Instrumental climate is the least favorable type which suggests individuals' self-interest within the organization (Victor and Cullen 1987, 1988).

Organizational commitment is one of the most studied concepts with Job Satisfaction. Several studies exhibited that Job Satisfaction is significantly related to employees' organizational commitment (Mathieu and Zajac, 1990; Testa, 2001; Tett and Meyer, 1993). On the other hand, a numerous research found support for the effect of ethical climate on job satisfaction (Martin and Cullen, 2006) and organizational commitment (Tsai and Huang, 2008; Dinc and Huric, 2017). Based on the review of the literature presented in the previous part, following hypotheses can be posited:

*Hypothesis 1:* The ethical climate types, namely "caring," "independent," "law and code," and "rules" have a significant positive impact on overall job satisfaction.

*Hypothesis 2:* The ethical climate type "instrumental" has a significant negative influence on overall job satisfaction.

*Hypothesis 3:* The ethical climate types, namely "caring," "independent," "law and code," and "rules," as well as overall job satisfaction have significant negative influences on continuance commitment, but the ethical climate type "instrumental" has a significant positive influence.

*Hypothesis 4:* The ethical climate types, namely "caring," "independent," "law and code," and "rules," as well as overall job satisfaction have significant positive influences on normative commitment, but the ethical climate type "instrumental" has a significant negative influence.

*Hypothesis 5:* The ethical climate types, namely “caring,” “independent,” “law and code,” and “rules,” as well as overall job satisfaction have significant positive influences on affective commitment, but the ethical climate type “instrumental” has a significant negative influence.

## RESEARCH METHODS

### *Sample and Data Collection*

The Banking Agency of FBiH in the period from 2014 to 2016 (Banking Agency of FBiH, 2016) reported that the number of public and private banks in FBiH was 17 (Private banks: 16, Public banks: 1). The number of employees in these companies was 6,677. In order to enable a better generalization of the research results, the study targeted employees working in private banks in Sarajevo, the capital of FBiH. 200 questionnaires were distributed in three private banks. A formal research approval was obtained from the administration of each examined bank. Questionnaires were delivered to banks which agreed to take part in the study. The purpose of the study was explained to encourage employees' voluntary participation, and to guarantee the anonymity of participants. Questionnaires were distributed to employees who agreed to participate in the research. The overall response rate (160 completed questionnaires of which 151 were useful) was 75%.

A summary of the sample characteristics is presented in Table 1. The majority of the respondents (58.3%) were female, and 92.7% of these employees were older than 26. The predominant level of education among employees (57.6%) was bachelor degree. The majority of employee respondents (84.1%) had salary of more than 590 USD per month. 82.2% of the employees' total work experience was more than 6 years.

**Table 1,** Sample Characteristics

| Variable                 | Demographics  | Number | Valid Percent |
|--------------------------|---------------|--------|---------------|
| Gender                   | Male          | 63     | 41.7          |
|                          | Female        | 88     | 58.3          |
| Age                      | 21-25 years   | 11     | 7.3           |
|                          | 26-30 years   | 20     | 13.2          |
|                          | 31-35 years   | 40     | 26.5          |
|                          | 36-40 years   | 51     | 33.8          |
|                          | Over 41 years | 29     | 19.2          |
|                          |               |        |               |
| Job Experience (In Bank) | Under 5 years | 31     | 20.5          |
|                          | 5-10 years    | 59     | 39.1          |
|                          | 10-15 years   | 38     | 25.2          |
|                          | Over 15 years | 23     | 15.2          |
| Job Experience (Total)   | Under 5 years | 27     | 17.9          |
|                          | 5-10 years    | 48     | 31.8          |
|                          | 10-15 years   | 44     | 29.1          |
|                          | Over 15 years | 32     | 21.2          |



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|                 |                 |     |      |
|-----------------|-----------------|-----|------|
| Education Level | High school     | 9   | 6.0  |
|                 | Bachelor degree | 87  | 57.6 |
|                 | Master degree   | 55  | 36.4 |
| Average Income  | 0 - 255 USD     | 1   | 0.7  |
|                 | 285 - 590 USD   | 23  | 15.2 |
|                 | 590 - 885 USD   | 105 | 69.5 |
|                 | Over 885 USD    | 22  | 14.6 |

### *Measurement*

Questionnaire consisted of three pages with four sections. First section was related to Ethical climate including 14 questions. Second section referred to Organizational commitment with 18 questions. Job satisfaction was in the third section and contained three questions. Finally, demographic questions were asked in the fourth section including gender, age, education level, job experience in bank, and total job experience.

Ethical climate questions were 14 items developed by Huang et al. (2012), but originally adapted from Victor and Cullen (1988). Job satisfaction was measured by 3-item scale of Fu and Deshpande (2013), whereas Meyer and Allen's (1997) 18-item scale was used for measuring organizational commitment.

After collecting surveys, data were analyzed by using SPSS (v. 20) software packages. Reliability of the scales was measured by using Cronbach's alpha coefficient. Descriptive statistics were conducted to show detailed information about the sample of this study. The relationships between all types of ethical climate in the literature, organizational commitment components, and employee's job satisfaction were examined through Pearson Correlation analysis. Finally, effects of independent variables on dependent variable were analyzed using Regression test.

## **RESULTS**

### *Initial Results*

After the analysis of the reliability of the scales, the coefficient alpha for caring, independent, law and code, rules, and instrumental climate was 0.802, 0.696, 0.621, 0.791, 0.643 respectively. The coefficient alpha for job satisfaction was 0.755. Finally, reliability results for affective, normative, and continuance commitment were 0.561, 0.685, and 0.588 respectively. affective commitment, overall JS, and job performance

Table 2 presents the means, standard deviations, and correlations for the variables used in the study. As expected, affective commitment is significantly correlated with the independent variables. Respondents identified the presence of law and code climate (mean = 4.18). It was followed by rules climate (mean = 4.00) and overall job satisfaction (mean = 3.88). The lowest score among the variables was instrumental climate (mean = 2.80).

### *Hypotheses testing*

The first hypothesis stated that the ethical climate types, namely "caring," "independent," "law and code," and "rules" have a significant positive impact on overall job satisfaction. Table 3 shows that caring and independent climates have a significant and positive affect on overall job

satisfaction, while law and code and rules climate types do not. This finding partially supports the Hypothesis 1. Second hypothesis stated that the ethical climate type “instrumental” has a significant negative influence on overall job satisfaction. The results in the study show that instrumental climate negatively impacts overall job satisfaction, therefore, Hypothesis 2 is supported. The third hypothesis stated that the ethical climate types, namely “caring,” “independent,” “law and code,” and “rules” and overall job satisfaction have significant negative influences on continuance commitment, but the ethical climate type “instrumental” has a significant positive influence. Study findings demonstrate that only independent climate has a significant and negative influence on continuance commitment. On the other hand, instrumental climate has a significant positive influence. As a result, Hypothesis 3 is partially supported.

**Table 2,** Mean, standard deviations, and correlations

| Variables          | Mean | SD    | 1        | 2        | 3        | 4        | 5        | 6       | 7       | 8       | 9 |
|--------------------|------|-------|----------|----------|----------|----------|----------|---------|---------|---------|---|
| (1) Caring         | 3.76 | 0.726 | 1        |          |          |          |          |         |         |         |   |
| (2) Independent    | 3.62 | 0.662 | 0.185*   | 1        |          |          |          |         |         |         |   |
| (3) Law and Code   | 4.18 | 0.489 | 0,334**  | 0.218**  | 1        |          |          |         |         |         |   |
| (4) Rules          | 4.00 | 0.689 | 0,502**  | 0,049    | 0.426**  | 1        |          |         |         |         |   |
| (5) Instrumental   | 2.80 | 0.788 | -0.284** | -0.180*  | -0.238** | -0.375** | 1        |         |         |         |   |
| (6) Overall JS     | 3.88 | 0.616 | 0,487**  | 0,298**  | 0.327**  | 0,379**  | -0.397** | 1       |         |         |   |
| (7) Affective C.   | 3.45 | 0.480 | 0.268**  | 0,069    | 0,171*   | 0.087    | -0.016   | 0.361** | 1       |         |   |
| (8) Normative C.   | 2.86 | 0.564 | 0,036    | -0,136   | -0.034   | -0.099   | 0,412**  | 0,169*  | 0.582** | 1       |   |
| (9) Continuance C. | 2.89 | 0.499 | -0.156   | -0,228** | -0.133   | -0,228** | 0,451**  | 0.001   | 0,328** | 0.682** | 1 |

\*P< 0.05; \*\*P <0.01

In the Hypothesis 4, it was stated that the ethical climate types, namely “caring,” “independent,” “law and code,” and “rules,” as well as overall job satisfaction have significant positive influences on normative commitment, but the ethical climate type “instrumental” has a significant negative influence. Table 3 demonstrates that instrumental climate type and overall job satisfaction significantly and positively impact normative commitment. This finding does not support Hypothesis 4. Hypothesis 5 stated that the ethical climate types, namely “caring,” “independent,” “law and code,” and “rules,” as well as overall job satisfaction have significant positive influences on affective commitment, but the ethical climate type “instrumental” has a significant negative influence. The results of the study show that only overall job satisfaction has a direct influence on affective commitment. Consequently, Hypothesis 5 is not supported.

**Table 3,** Path analysis of the relationship among Ethical climate types, Overall job satisfaction, and three components of Organizational commitment

| <i>Ethical Climate Types</i> | Overall Job Satisfaction | Organizational Commitment |         |         |
|------------------------------|--------------------------|---------------------------|---------|---------|
|                              |                          | NC                        | CC      | AC      |
| Caring                       | 0,268**                  | 0.035                     | -0.057  | 0,113   |
| Independent                  | 0.163*                   | -0.150*                   | -0.168* | -0,044  |
| Law and Code                 | 0.118                    | 0.010                     | -0,002  | 0.090   |
| Rules                        | 0,080                    | -0.068                    | -0.091  | -0.084  |
| Instrumental                 | -0.172*                  | 0.387**                   | 0.302** | 0.088   |
| Overall JS                   |                          | 0,405**                   | 0.280** | 0,287** |

\*P< 0.05; \*\*P <0.01

## DISCUSSION AND CONCLUSION

Given the importance of organizational commitment of employees in organizations, this study examined the effect of ethical climate types and overall job satisfaction on organizational commitment of employees in private banks in FBiH. Consistent with the research hypotheses, overall job satisfaction had a significant impact on employees’ affective and normative commitment. The study also found that caring climate had a positive effect on overall job satisfaction of employees. The implications of the study are highlighted in the following paragraphs.

This study found a positive effect of employees’ job satisfaction on their affective commitment and normative commitment. These results are consistent with Alen and Meyer's (1996), Tsai and Huang's (2008), and Dinc and Plakalovic's (2016) findings. These findings imply that bank administrators should develop some strategies to increase job satisfaction of their employees. According to Smith et al. (1969), there are three important ways to satisfy individuals: satisfaction with pay, satisfaction with promotions, and satisfaction with co-workers. Due to the weak economic situation of the BiH, the monthly income of bank employees working at the private

banks is too low. Thus, bank administrators need to increase the satisfaction of their employees with their jobs by increasing their salaries and making promotions. Bank administrators should also focus more on the recruitment process as well as on training prospective employees in order to augment their current employees' satisfaction with their co-workers. According to Tsai and Huang (2008), for banks to increase their employees' job satisfaction, they need to encourage participation, fully empower their staff, increase educational training, and promote the growth of the nurses.

This research also shows that caring climate is a predictor of overall job satisfaction of employees working in the banks. This result is consistent with the existing literature (Fu & Deshpande, 2014; Dinc & Huric, 2016). Employees who believed that their banks had a caring climate had more overall satisfaction with their job and affective and normative organizational commitment. Thus, bank administrations in FBiH should increase a caring atmosphere and ensure that they are concerned with the well-being of all people in the banks. This research also strongly recommends the need for the improvement of different strategies for strengthening banks' caring climate. The bank administrations should foster caring climate by including the following: codes of ethics, whistle-blowing systems, and ethical training as some exemplary topics of conversation with employees. According to Dale (2005), there are five ways that can also be suggested to make employees feel cared about, namely personal touch, personal follow up, placing personalized remarks in writing, giving public praise, and making a frequent contact.

In overall, this study suggests that banking sector can retain quality employees and decrease their turnover rate by providing caring ethical climate type within the organizations and increasing their job satisfaction. Thus, employee shortage in banks of this country would also be reduced in a near future.

This study has some limitations. Number of respondents could have been increased and data might have been gathered from more banks from several other cities. However, more variables can be included for future research, such as Leadership of managers.

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## **E-Marketing Strategic Framework for Companies on B2B Market**

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**Abstract:** *This paper aims to broaden theoretical and practical knowledge about the specifics of e-marketing strategies in the B2B market. As an e-commerce marketplace is generally less relevant to the B2B market, this study should give important implications. The method of the case study is applied in this paper. The focus of the case study is the construction company Strabag, which is specific for its activities in the business market, to a smaller part in Bosnian and Herzegovinian market, and to a large extent on the international level. It is precisely because of these international and domestic activities with business clients that it will be interesting to observe this company in the context of e-marketing strategies, in which the secondary data will be analyzed, quantitative research with managers, will be conducted and benchmarking with the leading companies from the domestic construction industry will be done.*

**Key words:** *B2B (business-to-business), e-marketing, Web 2.0 technology, social networks*

### **Introduction**

This thesis will focus on characteristics of e-marketing strategies on B2B markets. The main goal of the thesis is to broaden the theoretical and practical knowledge on characteristics of e-marketing strategies with focus on business relationships. E-marketing strategies per se represent a dynamic area that is in marketer's focus both in academy and in practice. On the other hand, it is really important for B2B markets, as markets that sometimes generate higher outputs than final consumers markets, to analyze what are the specificities and possibilities of e-marketing strategies. Following the introductory part of the thesis, that describes the topic and problem of

the research, outlines the goals of the research as well as the structure and methodology of the thesis, theoretical framework of e-marketing will be presented. Definition of e-marketing and related terms will be given, as well as the key characteristics of the area and the discipline, together with the analyses of the e-marketing environment.

### **Importance of the Study**

In spite of the fact that the construction industry in Bosnia and Herzegovina is yet began to value of presence on e-market, it is equally important to be aware of the industry's realization of need for new ways for reaching new partners and clients. The main objective of this study is to identify a comprehensive list of factors used for the measurement of how presence in e-market can help in creating good business alliances.

Identifying the positive factors that the presence on the e-market brings, measuring criteria and how to make a new partnerships and getting new clients on the e-market will be a contribution to this knowledge-based study. For managers in particular, this research provides information on new partners and new clients that can lead to new partnership in creation new projects in construction industry. Managers can use information from this study to allocate resources in creating new opportunities for their companies.

### **Purpose of the Study**

The main purpose of this study is to explore how presence of construction companies on e-market in Bosnia and Herzegovina depends on creating relations with potential partners and new clients. Accordingly, this paper will examine the following issues:

- ✓ Define the concept of making new partners and clients in the context of construction industry;
- ✓ Identify a comprehensive list of factors for the measurement of how presence in e-market can help in creating good business alliances;
- ✓ Determine the appropriate criteria used as a tool for measuring how wide is the reach in e-market for new partners and clients;



- ✓ Conduct a survey on reach in e-market for new partners and clients and use the survey data to study the main factors influencing on creating good business alliances in the construction industry.

### **Hypotheses of the Study**

Hypothesis raised and test in this study are:

H1: Presence on e-market positively influences on reach to the new partners and customers in construction company.

H2: Cost positively influences on reach to the new partners and customers in construction company.

H3: Quality factor positively influences on reach to the new partners and customers in construction company.

H4: Personnel factor positively influence on reach to the new partners and customers in construction company.

### **Literature review**

E-marketing is an area that develops at a fast pace and provokes great interest of managers and researchers. Also, e-marketing has a significant impact on the behavior of customers both in the final consumer market and in the business markets. Strauss, Frost and El-Ansary (2009) define e-marketing through the use of information technology in creating and delivering value to customers and also to better managing customer relationships. E-marketing also serves to raise awareness about the company itself and impact on its reputation at the market, not only at the local but also at the international level. For example, this way information about a company from Europe can come to Japan and South America, etc., easier and faster than it would come from traditional channels. It can also serve to establish contacts with new clients, which could be easier to make cooperation with the new clients, based on the portfolio of existing clients of the company.

Dutta and Biren (2001) are among the first to analyze how marketing is changing under the influence of the Internet and form the so-called a market space model that consists of a traditional marketing management framework (4P), additional dimensions of customer relationship management, and two technological dimensions of the Internet: interactivity and connectivity. Interactivity is one of the key determinants of e-marketing.

Interactive marketing is an integrated process used by organizations to understand consumer behavior, technology, and other resources in order to create and manage value for consumers and customer relationships, thereby increasing the value for affected parties through relevant brands, products/services, ideas and messages communicated and delivered targeted consumers through appropriate channels at the right time according by Shankar & Malthouse (2006).

According to Mulhern (2011), there are four basic characteristics of e-marketing: information-based, interactivity, direct response-response and high degree of measurability of effects. An e-marketing strategy consists of a series of steps and procedures for marketing activities that take place online according to Ellis-Chadwick, Mayer & Johnston (2009). One of the basic tools for implementing e-marketing strategies is the company's website. It is necessary for the company's website to have an open communication opportunity, to get the appropriate feedback and to achieve interaction. Chaffey (2010) points to the growing acceptance of the concept of digital marketing that represents the use of various digital technologies (web, e-mail, databases, mobile telephony, digital television) to support marketing activities that the company attracts and retains existing consumers by simultaneous interaction through different channels and application of numerous new marketing tactics.

Generally speaking, an e-marketing strategy consists of a series of steps and procedures for marketing activities that take place online (Ellis-Chadwick, Mayer & Johnston, 2009). One of the basic tools for implementing e-marketing strategies is the company's website. First of all, the company's website should be adequate design, format and be tempting to leave a good impression on potential business partners. It is necessary for the company's website to have an open communication capability, to get the appropriate feedback and to achieve interaction. This can be

established, for example, via an interactive form to provide an option for sending a query to the company.

Chaffey (2010) points to the growing acceptance of the concept digital marketing that represents the use of various digital technologies (web, e-mail, databases, mobile telephony, digital television) to support marketing activities that the company attracts and retains existing consumers by simultaneous interaction through different channels and application of numerous new marketing tactics.

B2B (business-to-business) business is the exchange of products, services or information between companies, and not between companies and consumers. B2B marketing strategies include a range of programs that are related to the capabilities of the target market in order to achieve the company's goals. Determining this strategy usually involves three steps, the choice of the target market, the setting of marketing goals, and the development of B2B marketing programs. According to Corey (1992), business marketing can be defined as the marketing of goods and services that are intended for manufacturing and trading companies, government and non-profit organizations, for the production of their own products and services for the sale to other customers.

Exchange in B2B markets does not involve end consumers who buy products and services for their own consumption or benefits. The exchange involves manufacturing, processing, intermediary or utility companies, the government and its institutions, and non-profit organizations. They buy products and services in order to produce or perform their business functions and ultimately meet the needs of the market. For this reason, marketing principles acceptable in the personal consumption market cannot be applied literally in B2B markets. Specific knowledge and skills are needed in meeting demanding business customers. For bidders on the B2B market, it can be very important how the organizational buyer behaves in the purchase and how their behaviors are different among buyers (McCarthy & Perreault, 1996).

Information and Communication Technologies (ICTs) have made it possible to improve efficiency on the B2B market, but on the other hand, by having online sales companies are facing increasing competition due to globalization and low barriers to market entry, which were brought

by the Internet (Strauss, El -Ansary & Frost, 2006). ICTs play a key role in new flexible organizational structures, such as strategic partnerships and cross-functional networks. These are new organizations established with business processes in the centre, and not with functions and hierarchies, and it is necessary to introduce new types of information systems in marketing. In fact, information systems become the cornerstone of a new approach to marketing. Managers and system designers should therefore be more aware of all the options available to integrate marketing and managerial processes into the company in new, innovative ways (Hamidi & Safabakhsh, 2011).

E-marketing is generally less represented in business relationships than in a situation where a company directs its message to end-users. Leading content and marketing strategy tools in B2B relations are social media, articles on the business web, eNewsletters, multimedia content, etc. With one or more of these tools, companies are able to build a positive image in their sector.

E-marketing is not well developed on the B2B market in Bosnia and Herzegovina and is used by mostly large international companies operating in our market. Considering that one of the part in this paper refers to the Case Study for Strabag company that operates on the B2B market, ie, with business customers, and not end-users. It is necessary to analyse what e-marketing can offer to the end customer. In order to do this, it is necessary to have an analysis of these clients (for example, whether they are all large or small companies, small or medium-sized enterprises, how to make a deal, whether it is mostly through a tender or through individual agreements and how this communication). When it comes to B2B relations, it usually refers to long-term relationships. Precisely because of this long-term relationship, e-marketing can ease business communication.

## **Methodology**

Because of the complexity of the topic that was chosen, in this study will be used more scientific and research methods to achieve objectivity, reliability, accuracy and thoroughness. The method that will be primarily used is the descriptive analysis. Descriptive analysis has the following tasks: sorting and grouping of statistical data, displaying statistics and determine the basic

indicators of statistical series. The results of the research will be done at the end of the work and will be presented textual way.

Taking into account the subjects of the research, in the research process it will be used different methods and techniques. This requires the application of basic analytical and synthetic methods: analysis, synthesis, induction, deduction, abstraction, concretization and generalization. In the course of the research will be used method of cognitive processes while studying and consulting the latest scientific literature in the subject area.

The main source of data for this research will be the analysis of the most recent literature, studies, articles in journals and other resources. For empirical evidence will be used data from different research projects, statistical publications and so on.

The matter will be investigated following scientific methods:

- Methods of description and analysis as the basic methods that will be used in this paper. It will be especially useful in the first phase of research, defining and analysing the basic concepts and their importance. These methods will be explained the basic assumptions on which to base research;
- The method of compilation - existing information on both companies with extend comparisons of their internal values

## **Research**

### **Descriptive statistics**

In the first part of the survey, respondents were asked a few demographic questions. The following tables illustrate the summarized results obtained from those questions. Table 4.1 shows the main business distribution for the sample. The majority of the respondents surveyed were from civil engineering (70,3%) while high buildings respondents occupied a smaller portion compared to them (29,7%).

**TABLE 1.1** main businesses of Respondents

|       |                   | Frequency | Percent | Valid Percent |
|-------|-------------------|-----------|---------|---------------|
| Valid | Civil engineering | 59        | 70.3    | 70.3          |
|       | High building     | 25        | 29.7    | 29.7          |
|       | Total             | 84        | 100.0   | 100.0         |

In terms of age of companies, the respondents are being active below 5 years comprise 15,8% of the total, those 5 to 10 years 18,8%, those 10 to 20 years 32,1%, and 20 and over groups 33,3% (Table 4.2).

**TABLE 1.2** Ages of the Respondents

|       |                 | Frequency | Percent | Valid Percent |
|-------|-----------------|-----------|---------|---------------|
| Valid | Below 5         | 13        | 15.5    | 15.5          |
|       | 5-10 years old  | 28        | 33.4    | 33.4          |
|       | 10-20 years old | 27        | 32.1    | 32.1          |
|       | 20 and above    | 15        | 19.0    | 19.0          |
|       | Total           | 84        | 100.0   | 100.0         |

Table 4.3 shows that about 2,4% of the respondents have below 10 employees and 25,0% have between 10 and 50 employees. The number of respondents who has between 50 and 100 employees was 51,2% and this is the highest percentage. A considerable number (14,3%) of respondents have between 100 and 200 employees, and relatively lesser number of them (7,1%) have more than 200 employees.

**TABLE 1.3** Number of employees of the Respondents

|       |                 | Frequency | Percent | Valid Percent |
|-------|-----------------|-----------|---------|---------------|
| Valid | Below 10        | 2         | 2.4     | 2.4           |
|       | Between 10-50   | 21        | 25.0    | 25.0          |
|       | Between 50-100  | 43        | 51.2    | 51.2          |
|       | Between 100-200 | 12        | 14.3    | 14.3          |
|       | 200 and more    | 6         | 7.1     | 7.1           |
|       | Total           | 84        | 100.0   | 100.0         |

### Reliability of survey questions

Cronbach's coefficient alpha analysis is the most common formula for the evaluation of the internal consistency of measures in marketing research (Peter, 1979). A low coefficient signifies that the sample items have not been able to capture the construct, whereas a large alpha coefficient signifies that the given item is well correlated with the true scores. Cortina (1993) and Kline (1999) have identified that an acceptable value for Cronbach's alpha could reach around and over 0.7 (0.65 to 0.84); while values significantly less than 0.7 points toward an unreliable construct. In this study, Cronbach's alpha is measured for the second and third part of the survey that contains 19 items in total. From the table below we can see that all items are reliable since their Cronbach's alpha coefficients are higher than standard value of 0.70.

**TABLE 1.4** Reliability Test

| Variables                 | Cronbach's Alpha | Cronbach's Alpha Based on Standardized Items | N of Items |
|---------------------------|------------------|--|------------|
| Presence on e-market      | .837             | .840   | 3          |
| Cost                      | .858             | .862   | 3          |
| Quality                   | .855             | .855   | 3          |
| Personnel                 | .820             | .824   | 3          |
| Reach to the new partners | .874             | .875   | 4          |

### Results and Findings

In the second section of the survey, respondents were offered the scale response ranging from 1 (no importance) to 5 (extremely important), depending on the intensity of agreement or disagreement. For each factor, three questions were asked, and based on respondents' answers the most important sub factors from each factor category are identified and presented in the Table 4.5.

**TABLE 1.5** Ranking of sub factors based on their importance

| <b>Factor</b>        | <b>Sub factor</b>                                      | <b>Mean</b> |
|----------------------|--|-------------|
| Presence on e-market | To be in e-market in order to achieve new partnerships | 4.50        |
| Cost                 | Accurate insight into all costs                        | 4.61        |
| Quality              | Quality web pages and other pages in social media      | 4.54        |
| Personnel            | Highly motivated personnel with positive attitudes     | 4.62        |

In the last section of the survey, respondents were offered with the scale response ranging from 1 (strongly disagree) to 5 (strongly agree), depending on the intensity of agreement or disagreement. Within this section, four questions were asked, and all of them were related to how to reach to the new partners and clients that represents the dependent variable of this study.

The next part of the results is concerned with calculating statistics including mean and standard deviation and frequencies for totally 19 survey questions, or all questions except the first three questions that are related to demographics. All of the questions were asked in the identical format – five point Likert scale. The above mentioned statistical calculations are summarized and presented in the following Table 4.6.

Descriptive legend:



|                 |                         |           |                   |
|-----------------|-------------------------|-----------|-------------------|
| <b>NI</b>       | No importance           | <b>SD</b> | Strongly Disagree |
| <b>LI</b>       | Little Importance       | <b>D</b>  | Disagree          |
| <b>AI</b>       | Average Importance      | <b>N</b>  | Neutral           |
| <b>CI</b>       | Considerable Importance | <b>A</b>  | Agree             |
| <b>EI</b>       | Extreme Importance      | <b>SA</b> | Strongly Agree    |
| <b>M</b>        | Mean                    |           |                   |
| <b>St. Dev.</b> | Standard Deviation      |           |                   |

**TABLE 1.6** Statistical Calculations of Survey Responses

| Variable        | Questions for measurement  | Percentage of Respondents Answer |     |      |      |      |      |
|-----------------|--|----------------------------------|-----|------|------|------|------|
|                 |  | NI                               | LI  | AI   | CI   | EI   | M    |
| <b>Presence</b> | 1. Creating a quality company website with available all relevant company information along with recent job histories. | 1.2                              | 3.6 | 12.7 | 12.7 | 69.7 | 4.46 |
|                 | 2. Creating various pages on social and business networks in order to present your company to potential partners.      | 1.8                              | 2.4 | 4.8  | 27.9 | 63.0 | 4.47 |
|                 | 3. Making various ads in pages related to construction market in Bosnia and Herzegovina.                               | 1.2                              | 2.4 | 9.1  | 19.4 | 67.9 | 4.50 |
| <b>Cost</b>     | 1. E-market costs are effectively managed and controlled.  | 0                                | 1.8 | 9.1  | 18.2 | 70.9 | 4.58 |
|                 | 2. Valid records and clean insight in all costs.   | 1.8                              | 2.4 | 3.6  | 17.0 | 75.2 | 4.61 |
|                 | 3. Making various ads in pages related to construction market in Bosnia and Herzegovina.                               | 1.8                              | 3.0 | 6.1  | 24.2 | 64.8 | 4.47 |

|                  |   |     |     |      |      |      |      |
|------------------|---|-----|-----|------|------|------|------|
| <b>Quality</b>   | 1. Using high-quality web tools in creating pages on e-market in construction.                | 1.2 | 0.6 | 9.7  | 19.4 | 69.1 | 4.54 |
|                  | 2. Finding well-acknowledged programmers in creating and maintaining companies' pages on web. | 0.6 | 2.4 | 10.3 | 24.2 | 62.4 | 4.45 |
|                  | 3. Perceiving online quality as a important tool for reaching for new partnerships.           | 1.2 | 1.2 | 7.9  | 24.8 | 64.8 | 4.50 |
| <b>Personnel</b> | 1. Highly motivated personnel with positive attitudes toward e-market presence                | 0.6 | 2.4 | 3.6  | 20.6 | 72.7 | 4.62 |
|                  | 2. Employees understand and comply with all applicable regulations                            | 0.6 | 2.4 | 10.9 | 32.1 | 53.9 | 4.36 |
|                  | 3. An innovated, motivated and organized work environment is always maintained                | 0.6 | 3.6 | 12.7 | 23.6 | 59.4 | 4.37 |

Table 1.7 presents the data for the variance analysis. The average value for the responses to every statement for a particular reach for new partners' factor has been calculated.

**TABLE 1.7** Statistical Analyses of Model Factors

| <b>Reach to new partners (1)</b> | <b>N (2)</b> | <b>Mean (3)</b> | <b>Median (4)</b> | <b>Standard Deviation (5)</b> | <b>Variance (6)</b> |
|----------------------------------|--------------|-----------------|-------------------|-------------------------------|---------------------|
| Presence                         | 165          | 4.48            | 4.66              | 0.76                          | 0.58                |
| Cost                             | 165          | 4.55            | 5.00              | 0.71                          | 0.51                |
| Quality                          | 165          | 4.50            | 4.66              | 0.70                          | 0.49                |

Personal 165 4.45 4.66 0.69 0.48

A correlation analysis is generally used to describe the strength and direction of the relationship between two variables. In this study, correlation analysis based on all the 165 cases was performed to find out the inter correlations of the reaching new clients (presence, cost, quality and personal). All the coefficients were found to be statistically significant at  $\alpha = 0.01$ ,  $n = 165$ . Table 4.8 shows the correlation coefficients among the client-satisfaction factors. The results indicate that a strong (positive) linear relationship certainly exists among the reach for new partners factors.

**TABLE 1.8** Correlation Matrixes

| Reach to the new partners and customers (1) | Time (2) | Cost (3)    | Quality (4) | Personnel (5) |
|---|----------|-------------|-------------|---------------|
| Presence on e-market                        | 1        | .781        | <b>.800</b> | .760          |
| Cost  | .781     | 1           | .827        | .701          |
| Quality                                     | .800     | <b>.827</b> | 1           | .765          |
| Personnel                                   | .760     | .701        | .765        | 1             |

## Hypotheses Testing

### The Hypothesis Testing Process

As stated by Le and Corbett (2009), “a hypothesis is a testable statement of relationship derived from a theory”. Hypothesis specifies the nature of the relation between the variables and is derived from a theoretical context. In testing hypotheses, certain steps need to be followed (Sarstedt & Mooi, 2014):

- ✓ formulate hypotheses
- ✓ choose relevant test

- ✓ select level of significant
- ✓ estimate test statistic
- ✓ make decision on test
- ✓ interpret findings

The hypothesis testing process begins with the setting of a null and alternative hypothesis. A null hypothesis ( $H_0$ ) implies that there is no effect or difference in a statement. On the other side, the alternative hypothesis ( $H_1$ ) is a statement where the researcher expects some difference (Sarstedt & Mooi, 2014).

When choosing the level of significance, some level of uncertainty needs to be accepted. Generally, researchers will estimate that there is a 5% probability of error or uncertainty that can result in an incorrect decision based on the test results. There are two types of errors that can be manifested – “type I” and “type II errors”. A type I error happens when the researcher rejects a null hypothesis that is correct. A type II error occurs when a researcher fails to reject a null hypothesis that is false (Sarstedt & Mooi, 2014).

When making a decision regarding the null hypothesis and interpreting the finding, the “ $p$  value” or probability value is used. This “ $p$  value” can vary between zero and one and cannot be a negative value. The decision is based on comparing the  $p$  value with the appropriate level of significance set in third step of the hypothesis setting process. With a  $p$  value less than 5% ( $p < 0.05$ ) the result is approved significant by rejecting the null hypothesis and accepting the alternative hypothesis, and opposite, if the  $p$  value is greater than 5% ( $p > 0.05$ ) (Privitera, 2014).

### **The Regression Analysis**

Regression models are statistical models that explain the variation in one or more variables when one or more other variables vary (Larsen, 2003). Regression is principally practical to understand the predictive power of the independent variables on the dependent variable. More precisely, regression helps a researcher understand to what extent the change of the value of the dependent

variable causes the change in the value of the independent variables, while other independent variables are held unchanged. The following four hypotheses are devised for the present study:

**H1:** Presence on e-market positively influences on reach to the new partners and customers in construction company.

**H2:** Cost positively influences on reach to the new partners and customers in construction company.

**H3:** Quality factor positively influences on reach to the new partners and customers in construction company.

**H4:** Personnel factor positively influence on reach to the new partners and customers in construction company.

In order to test the hypotheses a Liner Regression method was used. The obtained results are shown in Table 4.10. Table presents the results of the regression analysis of presence, cost, quality, and personnel as independent variables with the reach for new partners and customers as the dependent variable. The coefficient of determination ( $R^2$ ) of 0.592 showed that 59.2% of the variance in the reach for new partners and customers was explained by the above mentioned four factors.

**TABLE 1.9** Regression Test

|                        |  |
|------------------------|--|
| Dependent variable:    | Reach to the new partners and customers        |
| Independent variables: | Presence on e-market, cost, quality, personnel |
| Multiple R =           | .769   |
| $R^2$ =                | .592   |
| Adjusted $R^2$ =       | .579   |
| Standard error =       | .43783   |
| F =                    | 46.075   |

| Independent Variable | b     | Std. Error | Beta | t     | Sig. | VIF |
|----------------------|-------|------------|------|-------|------|-----|
| (Constant)           | 1.329 | .240       |      | 5.528 | .000 |     |

|                      |       |      |       |       |      |       |
|----------------------|-------|------|-------|-------|------|-------|
| Presence on e-market | .179  | .086 | .203  | 2.086 | .039 | 3.683 |
| Cost                 | -.020 | .094 | -.021 | -.208 | .835 | 3.901 |
| Quality              | .248  | .104 | .260  | 2.378 | .019 | 4.661 |
| Personnel            | -.069 | .084 | -.071 | -.820 | .413 | 2.944 |

### Hypothesis 1:

**H0:** *Presence on e-market does not have a positive influence on reach to the new partners and customers in construction company.*

**H1:** Presence on e-market positively influences on reach to the new partners and customers in construction company.

From the Table 4.8 we can see that our first independent variable „Presence on e-market“ has a level of significance 0.039, which is less than 0.05 ( $<0.05$ ). Therefore, we can state that there is enough evidence to reject the null hypothesis, and accept H1. In other words, we claim that presence on e-market has a positive influence on reaching new partners with a construction industry.

### Hypothesis 2:

**H0:** *Cost positively does not have a positive influence on reach to the new partners and customers in construction company.*

**H2:** Cost positively influences on reach to the new partners and customers in construction company.

The p – value for beta coefficient of our second independent variable that is “Cost” is 0.835 (shown in the Sig column). This value is not significant at 5% significant level, since it is greater than 0.05 ( $>0.05$ ). Thus, there is enough evidence to accept the null hypothesis that states that cost factor does not have a positive influence on reaching new partners with a construction industry.

**Hypothesis 3:**

**H0:** *Quality factor does not have a positive influence on reach to the new partners and customers in construction company.*

**H3:** Quality factor positively influences on reach to the new partners and customers in construction company.

The p – value for beta coefficient of “Quality” is 0.019 (shown in the Sig column). This value is significant at 5% significant level, since it is less than 0.05 ( $<0.05$ ). Thus, we can conclude that there is enough evidence to reject the null hypothesis which states that there is no positive relationship between quality factor and reaching new partners with a construction industry. In other words, we claim that quality factor is positively related on reaching new partners with a construction industry.

**Hypothesis 4:**

**H0:** *Personnel factor does not have a positive influence on reach to the new partners and customers in construction company.*

**H4:** Personnel factor positively influence on reach to the new partners and customers in construction company.

The p – value for beta coefficient of “Client orientation” is 0.413 (shown in the Sig column). This value is not significant at 5% significant level, since it is greater than 0.05 ( $>0.05$ ). Therefore, we can conclude that there is enough evidence to accept the null hypothesis, which states that personnel factor does not have a positive influence on reaching new partners with a construction industry. In other words, we claim that personnel factor is not positively related to reaching new partners with a construction industry.

**Regression Assumptions**

The regression assumptions identified as primary concern in this study consist of normality, linearity, homoscedasticity, and multicollinearity tests. This section will in particular clarify each assumption, address how it was tested, and then interpret the results we got.

### Normality

Normality refers to the data distribution for a particular variable. The researcher is able to test it with a number of pieces of information: visual inspection of data plots, skew, kurtosis, and P-Plots (Osborne & Waters, 2002). In this study, normality was assessed in two different ways: skewness, and kurtosis.

Since the skewness is negative and less than -1 in this case, the data are negatively skewed or skewed left. This means that the left tail is longer, and the distribution is highly skewed. Kurtosis represents to the outliers of the data distribution. Data that have outliers have large kurtosis. Data without outliers have low kurtosis. For kurtosis, the general guideline is that if the number is greater than +1, the distribution is too peaked.

**TABLE 1.10** Normality Test

|                           | Presence on e-<br>market | Cost  | Quality | Personn<br>el | Reach to new<br>partners |         |     |     |     |     |
|---------------------------|--------------------------|-------|---------|---------------|--------------------------|---------|-----|-----|-----|-----|
| N                         |                          |       |         |               |                          | Valid   | 165 | 165 | 165 | 165 |
|                           |                          |       |         |               |                          | Missing | 0   | 0   | 0   | 0   |
| Skewness                  | -1.963                   | -     | -2.049  | -1.697        | -1.570                   |         |     |     |     |     |
|                           |                          | 2.308 |         |               |                          |         |     |     |     |     |
| Std. Error of<br>Skewness | .189                     | .189  | .189    | .189          | .189                     |         |     |     |     |     |
| Kurtosis                  | 3.895                    | 5.746 | 5.085   | 3.044         | 2.047                    |         |     |     |     |     |
| Std. Error of<br>Kurtosis | .376                     | .376  | .376    | .376          | .376                     |         |     |     |     |     |



### **Linearity**

Several researchers claim that this assumption is essential, because it directly relates to the bias of all analysis results (Keith, 2006). Linearity defines the dependent variable as a linear function of the predictor (independent) variables (Darlington, 1968). In the social sciences, the possibility of non-linear relationships is high and for that reason, it is necessary to examine analyses for linearity (Osborne & Waters, 2002). Linearity is the coherent slope of change that represents the relation between an Independent and a Dependent variable.

In order to test the linearity we used the linearity test available in the ANOVA test in SPSS. If the Sig value for Deviation from Linearity is less than 0.05, the relationship between Independent and Dependent variable is not linear. In this case, the sig. value for time, quality and safety is greater than 0.05, which means that the relationship between Independent and Dependent Variable is linear. On the other side, sig. value for cost and client orientation is less than 0.05, the relationship between Independent and Dependent Variable is not linear.

**TABLE 1.11** Linearity Test

| Satisfaction*Presence on e-market | Deviation from Linearity |
|-----------------------------------|--------------------------|
| Satisfaction*Cost                 | Deviation from Linearity |
| Satisfaction*Quality              | Deviation from Linearity |
| Satisfaction*Personnel            | Deviation from Linearity |

### **Multicollinearity**

Multicollinearity takes place when a number of independent variables correlate at high levels with one another. In the other cases, it may occur when one independent variable is a near linear combination of other independent variables (Keith, 2006). Multicollinearity might be identified with the assistance of tolerance and its reciprocal, called variance inflation factor (VIF). Tolerance is used to measure the effect of one independent variable on all other independent

variables. The levels of tolerance for correlations may vary from zero (no independence) to one (completely independent) (Keith, 2006). In general, small values for tolerance and large values for VIF point to the presence of multicollinearity (Keith, 2006).

If the value of tolerance is less than 0.2 or 0.1 and, at the same time, the value of VIF 10 or above, then the multicollinearity is problematic. As we can see from Table 4.13, all values indicate that there is no multicollinearity problem.

**TABLE 1.12** Multicollinearity Test

| <b>Model</b> |                      | <b>Collinearity<br/>Statistics<br/>Tolerance</b> |
|--------------|----------------------|--|
| 1            | Presence on e-market | .272   |
|              | Cost                 | .256   |
|              | Quality              | .215   |
|              | Personnel            | .340   |

## Discussion

The most important elements that will be discussed in this part of the paper include the summary of the results, their explanation and an examination in relation to existing research. First of all, we have to recall the purpose of the study, which was to explore how presence of construction companies on e-market in Bosnia and Herzegovina depends on creating relations with potential partners and new clients. In order to do that, we have identified four variables based on the literature review that include presence, cost, quality and personal, to develop the survey for measuring the reach to the new partners and customers (Strauss, Frost & El-Ansary, 2009, p.).

After that, the data was collected from 84 construction companies from Bosnia and Herzegovina. More precisely, the research sample included construction companies that are in business of construction roads, highways, and also in business of high building who work in domestic

construction market for at least 5 years to insure they have the needed knowledge and experience to answer the survey properly. In order to depict the demographic profile of our respondents, it is important to mention that the most of our respondents were from civil engendering business, and the majority of respondents have more than 10 years of experience in construction. When it comes to number of employees, most of them have between 50 and 100 employees.

The findings discussed in this chapter are in the context of the four hypotheses established for the study, which were grounded on the statistical analysis performed in the previous data analysis section. The first hypothesis that was approved stated that presence on e-market positively influences on reach to the new partners and customers in construction company. Numbers of studies confirm this hypothesis and we could see from the literature review many cases.

The second hypothesis, which states that cost positively influences on reach to the new partners and customers in Construction Company was rejected. However, prior research conducted by (Shankar & Malthouse, 2012). It is showed that the cost factor has a great impact on reach to the new partners and customers in European construction market, and that their customers consider the cost an essential factor of their partnership.

The third hypothesis explains the reach to the new partners and customers and quality of construction relation. The results supported the hypothesis that quality positively influences client satisfaction with a construction company. Stroh (2001) claim that a quality advancement effort will cause a higher web page and service quality, and that will consequently cause better reach to the new partners and customers.

The fourth hypothesis that states that the personnel positively influence client satisfaction with a construction company was rejected. This factor represents the issues related to communication in e-marketing market. Personnel are very important for the transmission of company-related information to all internal and external interest groups. In addition, good personnel strengthen the cooperation spirit and encourage the strengthening of shared goals (Woodruff, 1997).

## **Conclusion**

This paper aimed to extend theoretical and practical knowledge of the specifics of e-marketing strategies in the B2B market. As the e-marketer is generally less relevant to the B2B market, this paper has important implications.

In the last part of the thesis, the most important conclusions are presented, and in addition to that, limitations of the study are explained and certain recommendations for the future studies are given. Firstly we have to recall that based on the previous researches in the context of construction, the following four factors: presence on e-market, cost, quality and personnel were identified to be the focus of the study. Although the findings of this study are based on the input from the Bosnian and Herzegovinian construction market, it is probable that construction firms in other countries specialized in building construction may also find the results of this study useful in practice. It is important to state that the findings of this study showed that two factors from this study do not have a positive effect on reach for new partners and clients. More precisely, cost and personnel indicated significant differences.

Even though the research findings contribute to the body of knowledge, there are certain limitations. The research limitations are in the areas of the sample, the constructs used, and the data collection method used. Firstly, the study has focused on the construction industry clients in Bosnia and Herzegovina and it restricts the study generalization. Hence, the findings are limited to the 84 participants and should not be generalized beyond this context. Next, there are many ways of conceptualizing and measuring reach for new partners and clients, and the factors affecting it. A model of the reach for new clients developed in this study contains four factors taken for the purpose of the study. There are other additional factors that may have impact on reach for new partners, and hence this lead to another limitation of the study. Lastly, there are certain limitations related to the data collection, since this research was carried out by using online survey as the main method of data collection. Certainly computer-administered survey indicates that there is lack of monitoring, which means that respondents would not be able to ask for additional explanation in case that something was confusing about the questions. Therefore, some of their answers might be incomplete or untruthful. An additional limitation of online survey that could cause certain doubts regarding the truthfulness of the findings, is related to the fact that one person could fill out as many online questionnaires as they wish. However, to

overcome these limitations, it would be helpful to create an online survey that can be filled out only once by the same person. This eliminates the anonymity of respondents, for instance asking the respondent to enter their personal data, such as an e-mail address, but at the same time increases the reliability of the gathered data.

If there are future researches to come, the researcher can use qualitative methods to have a better understanding on reach for new partners and clients, since this research was only based on quantitative method. Similarly, it would be interesting if other dimensions are also added in the future researches except for the ones used in this research, or if different situational and control variables are used in future research.

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## **Factors that Affect Successful Branding: Emphasis on Furniture Companies in Bosnia and Herzegovina**

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**Abstract:** *The research domain of this dissertation is examination of factors that affect branding of furniture producing companies on a different market and aim is to show critical determinants that play key role in branding. The first step for doing this is to critically explore the literature. While reviewing several definitions of national branding in the extent literature from the perspective of product branding, corporate branding and national branding, this study finds what factors affect branding such as financial factors, social factors, organizational factors. These will be determined further through literature review. And then analyzing how these affect company performance in the end. Once a clarification of definition of branding is reached, critical pursuit of the important determinant and outcomes is possible.*

**Keywords:** *Branding, Marketing, Furniture companies, Markets, Domestic*

**JEL Codes:** *M31, M37*

### **INTRODUCTION**

In this increasingly competitive world, that in (existing) at peak of globalization, it has never been more important to stand out and develop brand that is unique. While quality of what is sold on the market is certainly important, effective branding is key for companies that are thriving. With technology continuously evolving and never-ending innovation in production field, it is must for companies to grow in order to survive and sustain in the long run. Furthermore, there is also pressures of free markets in which stock markets reward those brand that show their potential in constant growth.

Capitalist system triggers development of extreme competition, that in the end is starting complex process of incorporating value in commodities. Consumers today do not buy products just for sake of using them, products represent sense of identity, lifestyle and image.



They are in a way indicators of social positions and cultural inclinations. Factor that is highly important is differentiation of the products existing in market. More unique product means the product is more scarce and it increases its value with consumers.

In a more restricted form, globalization refers to the process of multiplication, acceleration and intensification of global interactions that has been taking place since 1980's. Globalization is also specified as concept that refers to the compression of the world and the intensification of consciousness of the world as a whole.

### **RESEARCH QUESTION/HYPOTHESIS**

H1: Branding has positive impact on the financial performance of a company.

H2: Concept product does affect branding.

H3: Organizational culture does affect branding .

H4: Higher social media presence has higher impact on branding the product.

H5: Branding has a significant positive relationship with organizational performance

### **LITERATURE REVIEW**

The empirical element of the study is composed of review and analysis of academic research papers concerning factors that affect successful branding. Articles used for revision are ones that explore branding topic and contain useful information regarding this study

The research domain of this dissertation is examination of factors that affect branding of furniture producing companies on a different market and aim is to show critical determinants that play key role in branding. The first step for doing this is to critically explore the literature. While reviewing several definitions of national branding in the extant literature from the perspective of product branding, corporate branding and national branding, this study finds what factors affect branding such as financial factors, social factors, organizational factors. These will be determined further through literature review. And then analyzing how these affect company performance in the end. Once a clarification of definition of branding is reached, critical pursuit of the important determinant and outcomes is possible.

Next an extensive review of the existing literature in branding and product branding provides the theoretical background for the selection of the critical factors included in the model.

### *1.1. Definition of branding*

The brand management literature to date fails to provide a definitive definition of brand or branding. However, there are multiple definitions that share a common theme of what are physical or functional elements of a good or service. A brand refers to a name, term, sign, symbol, or design, or any combination of these that are used to identify the goods and services of one seller or group of sellers, in order to differentiate them from those of competitors, or to improve the value of a product beyond its price and functional performance. A brand is also used to deliver a promise as an implied contract between the company and the consumers, or to reflect a general meaning associated with the brand. Because product features can be easily duplicated, brands are used to differentiate competing products and to make promises of value to consumers. To increase the competitiveness of a brand with respect to its competitors and to enhance that brand's market performance, marketers design different combinations of marketing mix variables to present favorable brand images to the consumers.

Branding is in the end about communication. Normally, the business world has thought of brand communication largely as a matter of creating logos that will attract customers' attention, a clever tagline, or a memorable jingle. In the last decade, however the interest in brands has taken discussion on the subject to a higher level. Increasingly, the brand is concerning all aspects of the relationship between the customer and the organization. It also concerns how the organization explains and portrays itself to its prospects, employees, channel partners, and other important stakeholders. And brand communication is an opportunity to create a meaningful and unified identity and image among a variety of audiences through a wide range of communication tools.

Product differentiation is everywhere in the marketplace as producers, fabricators, sellers, broker, agents, and merchants try to constantly distinguish their offerings from all others.

### *1.2. Effect of the finance on the branding*

There is great effort that firms spend in order to build brand awareness and involvement among customers. And there is finite understanding of financial returns of such investments. Among the many studies, results that researchers found are that there should be more accent on connecting consumer-based and financial-market focused perspectives on brand equity. The consumer-based view highlights efforts that build brand awareness and association among consumers to build up brand equity. Financial market perspective concentrate on financial outcomes of brand equity such as shareholder value. There are attempts to connect the two views. In such studies main intention was on finding financial value of consumer brand associations, with decreased attention to understand the role of brand awareness. But consumers' brand awareness is important dimension of brand equity and is prerequisite for building brand associations.

Study done on the topic evaluating the financial impact of branding using trademarks presents framework that is building close relation between brands and trademarks. Trademarks are classified into two categories – brand identification trademarks and brand association trademarks and then links between these two were evaluated with multiple metrics of firms' financial performance. Analysis that was conducted confirms that both brand identification and brand association trademarks affect firms' financial value. In this research was followed consumer-based perspective of brand equity, that is defined "the differential effect that brand knowledge has on consumer response to the marketing of that brand". It implies that brand name or identifies is main concept that once developed in memory aids consumers to remember important attribute and nonattribute associations they attach to the brand. Attribute-based association are the links that consumers hold between brands and product characteristics, for example product color, scent, package and sound. Brand equity has two dimensions, brand awareness and brand associations, with brand awareness being a necessary precondition for the creation of strong brand association. Trademarks involve a significant portion of firms' efforts to create brand awareness and associations among consumers.

In previously mentioned study goal was evaluating financial value of branding by linking trademark registrations of firms with their financial performance. Research confirms that efforts aimed to build brand awareness and associations among consumers have significant financial implications for firms. The findings also show that brand-association trademarks positively affect

firm cash flow, ROA, and stock returns. In addition, brand association trademarks help reducing variability of future cash flows. The findings also confirm that by improving consumers' awareness of brands, firms enhance the future cash flows generated by brand associations.

This study makes multiple contributions to marketing theory. It addresses researchers' recent calls to formulate new methodological approaches that bridge the gap between consumer-based and financial market focus perspectives on brand equity. Other its exant research on brand valuation has provided rich insights into the financial value of different types of brand associations held by consumers.

Another study conducted on topic The impact of brand value on financial performance examines relationship between brand value and stock performance of companies by using the historical stock performance of companies by using the historical stock performance of global brand stocks to test whether strong brands outperform the market index. Studies done in finance are suggesting that intangible assets are not fully valued by the stock market and because of that firms with significant intangible assets might be undervalued. In this study is investigated influence of brand value on financial performance. Intangible assets are difficult to measure and compute because they do not appear on a firm's balance sheet and because that they could be underpriced by equity markets. Conclusion of this study was that there is positive correlation between brand value and stock performance. It is suggested that brand value is positively correlated with year-end share price, and that an increase in brand value correlates positively with the annual stock return. Brand value estimates done by independent agencies are found to be shown in share prices when controlling for book values of equity and net income. The results are statistically significant and also hold for the simultaneity bias, which refers to the bias of share prices affecting brand values.

### *1.3. Brand concept*

When we mention the term 'brand' people typically react to it as it is something invented by manufacturers to attract as many customers as possible. When we look at today's brands, we can see that no brand has the same value for every consumer. A consumer can experience the brand in a completely different way than another consumer experiences it. Therefore, the basic task of branding is to distinguish a product or service according to the values it provides for that

consumer, and then the consumer, if he thinks that such a product or service meets his needs, decides whether to buy a particular product or service.

Branding is a result of marketing product management. In the developmental phases of the company, there was a category of customers who began to recognize products not only by their generic composition or function, but by their name, logo, colors, messages, but mostly by experience with that product. Service delivery has been transformed into the media for communication of the value and guarantee of market value. Today, the product and customer relationship are a unique marketing platform. When these two elements are connected and operate in one direction, then it is possible to achieve a competitive advantage. When a customer recognizes the value as the key to solving their needs and not just another option on the market, then one can speak about the brand.

The term brand is used in different ways and through very different concepts. What distinguishes a branded product from those who are not branded are certain consumer perceptions, feelings about product properties, brand names, and what it actually represents in consumer consciousness. The brand is a name, concept, symbol or design (or a combination of all the terms) defined by the creator or the seller of the product, and that product can be tangible good, service, organization, place, person or idea.

Branding became essential management priority in the last years due to the growing realization that brands are one of the most valuable intangible assets owned by companies. Brands are serving few important functions. For customers, brands can simplify choice, reflect certain quality, decrease risk. Brands reflect full experience customers have with products, they also play important role in determining effectiveness of marketing efforts such as advertising.

An important and unique aspect of branding research is the focus on brand intangibles – aspects of the brand image that do not involve physical, tangible, or concrete attributes or benefits. Brand intangibles are common means by which marketers differentiate their brands with consumers and transcend physical products.

Brand personality. Personality attributed to US brands were examined and they fall into five main clusters: 1)sincerity 2)excitement 3)competence, 4)sophistication, and 5) ruggedness.

Different brand personality dimensions affected different types of people in different consumption settings.

Corporate image has been extensively studied in terms of its conceptualization, and consequences. Corporate brands – versus product brands are more likely to evoke associations of common products and their shared attributes or benefits. Several empirical studies show the power of a corporate brand. There is difference between corporate associations related to corporate ability and those related to corporate social responsibility, such as treatment of employees and impact on the environment. Corporate credibility is extent to which consumers believe that a company is willing and able to deliver products and services that satisfy customer needs and wants. Successfully introduced brand extensions can lead to enhanced perceptions of corporate credibility and improved evaluations of even quite dissimilar brand extensions.

A variety of branding and marketing activities can be conducted to help achieve the desired brand positioning and build brand equity. Their ultimate success depends to a significant extent not only on how well they work singularly, but also on how they work in combination, such that synergistic result occur. Marketing activities have interaction effects among themselves as well as main effects and interaction effects with brand equity.

A number of broad criteria are useful for choosing and designing brand elements to build brand equity: 1)memorability 2)meaningfulness 3)aesthetic appeal 4)transferability 5)adaptability and flexibility over time 6)legal and competitive protectability and defensibility. Brand elements vary in their verbal and visual content and product specificity.

Research has shown that coordinating marketing activities can lead to beneficial results. For example print and radio reinforcement of TV ads where the video and audio components of a TV ad serve as the basis for print and radio ads has been shown to leverage existing communication effects from TV ad exposure and more strongly link them to the brand.

#### Brand equity

The importance of brand equity has been recognized in the marketing literature for at least three decades as an intangible asset that promotes firm performance. Brand equity has been shown to make an impact on brand loyalty and the financial value of the company. Research on brand

equity has evaluated the importance of the brand in marketing strategy and has sparked managerial interest. Brand equity has also been defined in a number of different ways for different purposes and has been addressed using comparative methods, holistic methods and the interplay between branding and financial considerations.

#### *1.4. Organizational culture does affect branding*

Regardless of industry and nature of the business, brands cannot exist independent of the company, its organizational culture, suppliers, distributors and buyers, at the same time specifying these elements as factors affecting branding aspect of the business.

In the past 25 years, the concept of organizational culture has gained wide acceptance as a way to understand human systems. Increased competition, globalization, mergers, acquisition, alliances, and various workforce departments have created a greater need for organizational culture. Thus, it has become an important pattern for the organization's development.

Organizational culture is a powerful component of an organization's success, laying the tracks for strategy to roll out on. It is the foundation for profit, productivity and progress. Each aspect of organizational culture can be seen as an important environmental condition affecting the system and its subsystems.

As a result, the actions of employees such as service personnel are seen as being important in communicating a company's corporate values and goals, particularly where they interact directly with customers and other corporate audiences. Their beliefs, norms and values derive from the organizational culture influence their actions and the informal messages that they communicate. This in turn, determines how their company is perceived, what it stands for, as well as the value of its product. This goes a long way to affecting the corporate image of the organization and makes it evident that there is a strong positive correlation between people's perceptions of a company (corporate image) and pro-corporate supportive behaviour (organizational behaviour).

Some have used the concept of corporate branding to conceptualize the role of organizational image seen in relation to the identity, culture and vision of organizations. There is potential to corporate branding to attract stakeholders and encourage them to feel a sense of belonging with the organization .

The importance of organizational image has increased. Outsiders have higher expectations about transparency and organizations' ability to express who they are and what they stand for; just as insiders pay more attention to how outsiders perceive their organization. At the same time, the value creation in organizations is increasingly depending on intangibles, where the unique heritage and identity of the organization is part of what enables the organization to create an organizational image, which is appealing to stakeholders.

Secondly, the construct of organizational image is developed in close interrelationship with other constructs such as organizational identity, organizational culture, corporate branding and corporate reputation.

One of the major communicative challenges facing the modern corporation is the need to communicate its identity and its values in order to distinguish itself from competitors and to promote the corporate brand in a highly competitive and international business context in which branding becomes increasingly important. The culture of an organization shapes its corporate image both for its internal and external customers. It also contributes significantly to the organization's brand image and brand promise. Organizational culture is known as the values, beliefs and basic assumptions that are guided by leaders and shared by employees. Organizational culture has primarily been viewed as an internal phenomenon, having an impact on staff behaviour and attitudes, and ultimately influencing organizational performance. Yet, it has more recently been conceptualized as a factor in shaping a company's image in the marketplace.

### *1.5. Social media impact on branding*

Going to the roots of each word, social media can be defined as an instrument that helps to communicate and interact. Media is a tool used for communication, like TV, newspaper, radio etc. Social media are media for social interaction, using highly accessible and scalable communication techniques. Social media is the use of web-based and mobile technologies to turn communication into interactive dialogue. Social media is also defined as a group of internet-based applications that build on the ideological and technological foundations of Web 2.0, which



allows the creation and exchange of user-generated content. Business may also refer to social media as consumer-generated media.

Companies are using social media in marketing, advertising, sales, innovation, customer service and problem resolution, information technology and human resources. Brands serve a different role in each of these cases, and the impact of the Internet will vary according to the role that the brand plays. There are variety of Internet technologies which will affect brands in a variety of ways. Brands aim to adapt to social media world. It states that low to high brands and retailers are embracing social media and use it in boosting sales and brand awareness. Luxury brands are now building relationships through Facebook, user reviews and consummating the transaction online. It notes that companies are now building their own social networks. Social media are changing the way we do business and how leaders are perceived, from the shop floor to CEO suit.

#### *1.6. Effect of branding on company's performance*

Companies all over the world whether the service or manufacturing firms, recognize the essential role branding plays in the course of business. In the present day marketing practice, branding has become an active weapon marketers use to strengthen their competitive advantage and thus improve the accomplishment of their prearranged objectives.

There are many factors that attribute to the brand being successful when extended into new markets or products categories, the prominent one among them being brand credibility. The imagery and stature of the brand is sold alongside with the service delivered to the customers who buy the brand.

The marketing procedure and brand give people in general, prepared learning of what the item is about and makes a state of distinguishing the brand amongst numerous other comparable items in the market. To add to this, the whole branding process has esteem for an organization as it helps the business concentrate on, improve and be predictable with its message. Also, it permits an organization to constantly test the message and check whether it is being understood in the correct way. Making brands will empower the organizations to separate their products from those of competition utilizing both intangible and tangible advantages. Branding can maintain brand against non-specific items after the lapse of the patent. A solid brand will profit by high

purchaser loyalty, permitting solid deals even after the patent has lapsed. In addition, brands will affect the conduct and state of mind of patient and specialists

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## Management of Sustainable Tourism Development based on Heritage

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**Abstract:** *Heritage represents a unique characteristic of a past of a certain nation and space. Its preservation represents a basic task of a contemporary destination management, but also of all stakeholders in a tourist destination. Challenge of managing heritage requires possessing numerous knowledge and skills, as well as use of contemporary technological solutions, and systematic exploration of needs and desires of contemporary destination visitors, taking into consideration the heterogeneity of tourist demand and strong competition of tourist destinations in the surroundings. Sustainable heritage managing is possible through inclusion of heritage into the tourist product. Inclusion of heritage into the tourist offer must be based on sustainability postulates with strengthening positive and removing negative influences of tourism on the heritage elements. The purpose of the paper is pointing out on the developmental possibilities of a competitive tourist offer based on elements of heritage, which is possible to achieve with tourist events. The goal of the paper is, by using scientific methods and experiences of competitive destinations, to present a model of a tourist event based on heritage with a goal of achieving competitiveness of the Republic of Croatia as a tourist destination and ensuring preservation and sustainable heritage managing. Within the paper, the author will present a review of a contemporary literature, as well as recommendations for formation of tourist events based on heritage as an element for achieving innovative and sustainable tourist offer with a goal of achieving competitiveness of a tourist destination.*

**Keywords:** *heritage, tourism, competitiveness, managing, Republic of Croatia*

**JEL Classification:** *L83*

### Introduction

Contemporary tourist demand is more demanding. Contemporary tourist wishes to spend his holiday in destinations with diverse offer which is based on achieving additional value for a tourist. In the last couple of decades tourists have found motivation for staying in a destination in resting, enjoying the sun and sea, while contemporary tourist sometimes gives the priority to the additional motives for staying in a destination, now a basic part of the main destination's product (Horrigan & Murphy 2017). This is where the offer of cultural heritage is finding its place, which was until now, despite exceptional developmental possibilities, insufficiently valorized in tourism sense. The offer of cultural heritage in the Republic of Croatia (material and non-material heritage) represents an insufficiently used market niche for development of tourist offer (Grgić et. al, 2017). Tourism and heritage are mutually conditioned, considering that tourism bases its development on a resource basis, and additional resources are ensured for the cultural heritage, necessary for its revitalization and preservation in the original state (Santa-Cruz & Lopez-Guzman, 2017). At the same time, heritage represents the foundation of identity of the local community, and the encounter of the local population with the tourists can represent a big challenge for destination's management (Andereck et al., 2005). Contact between the local community and the tourist can cause positive, but also the negative effects. Positive effects are manifested in expanding the comprehension of the local community in the sense of new knowledge and skills, and in

creating new economic uses for all destination stakeholders, and creating additional financial assets which enable more quality building of the accompanying infrastructure and creating new facilities and maintaining cultural heritage as a basis for rethinking the offer of heritage tourism (Besculides et al., 2002). But, tourism development can, besides positive, also have negative effects. Some of these effects are caused by the characteristic of tourism as a phenomena. The phenomena of desire for easy profit and general commercialization of the tourist product can lead to the loss of identity of the local community, and creating the intolerance among different members of the local community, i.e. those who want to preserve the traditional values and those who want to achieve their own economic growth and increasing the life quality by any cost, which can be exceptionally high. Tourism can influence negatively on the elements of heritage and identity by influencing on heritage destruction or exceeding the carrying capacity of the same (Chen & Chen, 2010). Based on the previously stated cognitions as founding elements, the goal of the research is following: preservation and sustainable development of material and non-material heritage through inclusion into a tourist product by application of contemporary knowledge and skills. Heritage contributes to the people's identity preservation and strengthens the recognizability of the Republic of Croatia on the tourist market by creating a product of additional value for all stakeholders in a destination. The research question is: which is the role of heritage in achieving competitive advantages of tourism of the Republic of Croatia? The paper is focused on pointing out the importance of inclusion of heritage into the tourist product as a factor for achieving competitive tourist offer of the Republic of Croatia. The contribution of the paper is mostly conceptual, and achieved in six phases. After the introductory part of the paper, the second part includes determining the interrelation of culture, heritage and tourism. The third includes the analysis of the state of cultural tourism of the Republic of Croatia and competitiveness of the existing offer. The fourth part of the paper explores the theoretical frame of competitiveness of tourist offer in a destination, and the fifth part covers the importance of tourist product based on heritage as a foundation for achieving competitive advantages of a destination and preserving its recognizability and identity. Conclusions include the managerial and practical implications, the abstract of the research and the limitations, as well as propositions for future research.

### **Synergistic Effects of Culture, Heritage and Tourism**

Creating synergistic effects among culture, heritage and tourism enables the creation of a new and recognizable tourist product due to the heritage characteristics as an element of priceless value for the humankind. Synergy of tourism, heritage, and culture can have numerous positive and negative implications conditioned by the marks of the stated phenomenon.

The diversity of offer on the world tourist market stimulates the destination management on constant creation of new and innovative products which will result in creating new experiences and motives of arrival of tourists to a tourist destination. Creation of new tourist products has a goal of creating additional value for all stakeholders in a destination and maintaining and improving the competitive position on the tourist market.

According to the data from the World Tourism Organization, culture as a basic motive of arrival in a destination is not significantly present. But it can be concluded that the number of tourists motivated by getting to know cultural heritage is constantly rising, demanding from the destination management continuous adjustment to the contemporary trends of the tourist demand. As a primary motive of arrival culture makes about 7%, while it represents a secondary motive for a significantly higher number of voyages. According to the World Tourism Organization, culture as a primary and secondary motive of travels makes totally of

60% of travels (Rudan, 2011). According to Deutsche Wirtschaftswissenschaftlichen Institut für Fremdenverkehr München, a by Rudan (2011), culturally motivated tourist spends 40% more of his funds in a destination than a tourist motivated by other experiences (Drpić, 2013). Previously mentioned data indicate on the importance culture and heritage have for inclusion of users into the destination's tourist product. From the stated it arises that cultural contents and elements of heritage need to be included into the tourist product, with a goal of creating innovative and recognizable tourist product which will differentiate the destination from the competition; knowledge and skills are necessary for this, primarily of destination management, but also of professional public, as well as the application of contemporary information solutions in all phases of development of a tourist product based on heritage.

Heritage tourism is based on authentic locations, which in the greatest possible measure need to be preserved and presented on the tourist market through tourist events and interpretation of heritage, which will include in itself the elements of local way of life, crafts and customs with a goal of getting to know the way of life of the local community today and in the past, and preserving the identity of the community for future generations (Brooks, 2000).

Tourist Destination Management has a goal to, by creating a recognizable tourist offer, to form a strong bond among heritage, local community and tourist who consumes the experiences on material and non-material heritage localities. Precisely due to that it is of utmost importance to create innovative tourist experiences based on contemporary demands of service users on the tourist market, and that is originality and simplicity, with a goal of strengthening the competitive position of a tourist destination on the market. Heritage represents a resource basis for creating a unique tourist experience that will become one of the main motives for visiting a tourist destination and a necessary element for creating tourist offer; this will ensure preservation of the identity of the local community for the future generations.

While rethinking a destination's tourist product based on heritage, special attention need to be given to the appropriate interpretation of the elements of heritage. Timothy and Boyd (2003) state that the interpretation is an educational activity which discovers the meaning and relations of use of buildings, while at the same time using the presentation of facts, but also the data gathered by direct experience. Concept of storytelling represents a very old phenomenon, and it can be stated that it reaches to the human escapade itself. In the beginning it was developed by the traders, philosophers in the old Greece, hunters, fishermen, and others. As the beginner of the first tourist stories it is possible to determine the so called "Grand Tour" which served as an educational journey to the rich European aristocrats (Jelinčić, 2010), and today is an integral part of tourist events and itineraries, and it is possible to implement it also in the cultural institutions by which additional value is made and inclusion of cultural institutions into the tourist movements while ensuring economic sustainability of cultural institutions which will, due to their characteristics strongly influence the promotion and preservation of identity and particularities of the local community. During that, interpretation doesn't necessarily need to match the real historical events on some locality, but can be adjusted to the demand, respectively, the desires of a contemporary tourist, which would awake the interest for consuming the product (visiting the heritage localities, buying souvenirs, consuming food and beverages, etc.), which will result in increasing the tourist consumption, and for the destination it will enable the creation of an additional value of the offer which will enable formation of a brand based on heritage, which will differentiate the destination from the other competitive destinations.

As stated by Telišman - Košuta (2011), the destination's brand is not possible to produce like merchandise brands for wide consumption. Respectively, destination's brand is leaning on its resource basis (landscape, people, history and culture, and in basis it can "make up" new

topography or culture very hard). Marketing professionals and highly qualified managers in tourism and culture of a destination need to determine the primal value which diversifies the destination from the competition on the market (Messina et al., 2016). This consistently projected brand is an important contribution to the creation of a “whole story” about a destination. Besides stated, integration of tourism and culture represents for a destination the possibility of increasing the general life standard of the local community, i.e. through higher employment. During the creation of a new tourist offer based on heritage, particular attention needs to be given to the preservation of high level of originality of the locality, and it is necessary, according to the developmental guidelines of the destination’s tourism, to determine the maximum permitted level of commercialization of heritage with the purpose of creating an attractive tourist product. Contemporary marketing approach needs to be based on the use of contemporary information technologies, web tools and applicative solutions which will help in creating the desired image of a destination in which the heritage object is situated, during which it is necessary to recognize the desires and needs of a contemporary tourist, and enable creation of positive awareness about the destination as one that respects high ethical and ecological standards and heritage that has inherited during the historical changes, while non disturbing the desires and needs of the local community.

### **Tourist Movements in the Republic of Croatia and in the World**

Cultural tourism or tourism and culture are mutually conditioned, they complement each other and enable creation of additional usefulness for the entire community and all the stakeholders in the areas of culture and tourism while creating positive implications on the wider public. In order to unite and focus its further tourism and economic-cultural development, the Republic of Croatia brought its own Strategy of Development of culture, tourism and cultural tourism which makes it one of few European countries which has determined strategic development of the mentioned problem, which is being witnessed by the research of Jelinčić conducted in five European countries: Great Britain, Netherlands, Finland, Cyprus and Italy (Ministry of Tourism, 2003; Ministry of Tourism, 2013; Jelinčić, 2008; Jelinčić, 2010).

According to the World Tourism Organization, around 37% of all international travels include the elements of culture, and it is being predicted that by 2020 the demand for this product will grow 15% annually. Also, TOMAS research conducted by the Institute for Tourism shows that demand of foreign visitors, who are already staying in some of the destinations on the Adriatic Coast, has more than doubled in the last five years for cultural tourist product, but at the same time the results have shown on a relatively low level of satisfaction of the guests with the tourist offer, based on cultural heritage of a destination (Ministry of Tourism, 2013). A lack of research of cultural offer in the tourism of the Continental areas of the Republic of Croatia has been registered, but also the non-existence of clear statistical data about the offer in tourism which is based on the elements of heritage, which makes the implementation of the previously mentioned Strategy and improvement of tourist competitiveness of the Republic of Croatia more difficult, as well as insufficient inclusion of all destination stakeholders in the creation of recognizable offer based on heritage, by which the basic competitive advantage of the Republic of Croatia on the tourist market is being lost, tourist offer becomes insufficiently attractive (Drpić, 2013).

In 2014, according to the Eurostat, in the EU-28 culture was the main motive of going on a holiday for 27% of the European Union citizens and 27% of the citizens of the Republic of Croatia. 25% of the European Union citizens has stated culture as the main motive of travel in 2014, which indicates the increase of demand for tourist product with cultural elements in Europe (European Commission, 2015). According to the same research, for the respondents

from Malta (34%), culture (religion, gastronomy, arts, etc.) is the most important reason for going on a holiday, followed by the citizens from Belgium (42%), Austria (38%), Estonia (37%), Luxembourg (36%) and Netherlands (35%). Opposite to that, only 12% of Greek citizens goes on journeys motivated by culture. Also, low motive of arrivals by culture has been registered in Slovenia (13%), and Bulgaria and Moldova (14%). According to the gender, no significant differences has been registered, and cultural contents are being visited by 24-30% of all visitors. The greatest share of visitors is older than 50 years of age (30%). Heritage significantly influences on the return visit of tourists to the destination, and according to this research, the sample of repeat visit to a destination for 30% of respondents, the majority in the age group 15-24 is 36%

According to the previously mentioned, it can be concluded that heritage, and tourist offer based on it, is the guarantee of achieving further sustainable growth of tourist turnover in the destinations of culture, and that it represents the main foundation of all future developmental strategies, as well as that it can become the basis for development of a recognizable and unique tourist offer of the Republic of Croatia. Tourist offer based on heritage is not sufficiently represented in the Republic of Croatia, and it can be concluded that management in tourism, but also in culture still hasn't sufficiently recognized all the advantages that a possible synergy of tourism and culture has for both of the phenomena. Tourism can contribute to the increase of visits and recognizability of cultural contents, and cultural resources can become one of the main motivators for visiting a destination and prolonging the stay, as well as increasing the tourist consumption, which decreases the influence of seasonality on a tourist product and general economic success of a country.

By monitoring the demand, culture and heritage are an important motive for choosing Croatia as a target destination for a holiday, and it makes the main motive of arrival for 34,6% of tourists, while urban and architectural harmoniousness of a place is decisive for 34,5% of tourists when choosing a destination. Republic of Croatia has a positive image on the tourist market; 48,2% of tourists decide to visit it due to its recognizable and unique image. Considering that heritage makes the foundation of the destination's identity, it can be concluded that it makes an important and main part of the country's image. According to the socio-demographic indicators, the highest number of visitors motivated by culture is older than 50 years of age (43,0%), followed by the age group up to 29 (37,2%), and greatest number of respondents goes on a holiday with their partner (40%), which points on the additional developmental possibilities of tourism based on heritage as tourism for the entire family. While in the Eurobarometer research the heritage conditions that 30% of tourists return to the destination again, according to the data from the Institute for Tourism in Zagreb, it is the factor of repeat visit to the Republic of Croatia for 40,7% of tourists (Institute for Tourism, 2012).

Improvement of the existing tourist offer based on heritage will enable further profiling of the Republic of Croatia on the tourist market as a country of rich history, preserved tradition and resource basis. Improvement of tourist offer on the locations of cultural heritage will most definitely influence on a more significant profiling of image of the Republic of Croatia, which will not only influence on growth of visits, but also the tourist consumption in the destinations.

Cultural heritage will enable preservation of the identity of the local community as a basis for preserving the traditional values as a foundation for creating a recognizable offer on the tourist market, which is marked by general commercialization and unification, lack of idea and unrecognizability. Development of new tourist events needs to be aligned with developmental strategy of tourism of the Republic of Croatia, as the main document that defines guidelines of tourism development in the future. According to the Strategy of Tourism



Development of the Republic of Croatia until 2020 (Ministry of Tourism, 2013), tourist product based on elements of heritage and culture makes a basic product of numerous regions of the Republic of Croatia, pointing to the fact that until now tourist development hasn't sufficiently recognized all the possibilities offered by the development of tourism based on rich material and non-material heritage (Drpić, 2013).

So among other things, until the year 2020, tourist offer based on cultural heritage mentioned in the strategy wishes to be based on the postulates presented in the table 1.

Table 1: Guidelines of development of Cultural Tourism of the Republic of Croatia until 2020

|  |   |
|--|---|
| New building                               | <ul style="list-style-type: none"> <li>✓ New construction of buildings intended for cultural tourism has mostly Brownfield character, and is related to the conversion and/or adaptation of diverse currently unused industrial or military buildings in public ownership with a goal of creating infrastructure for development of various events and manifestations.</li> </ul>   |
| Priority activities of product development | <ul style="list-style-type: none"> <li>✓ Creation of an Action Plan of Cultural Tourism in cooperation with the Ministry of Culture, Ministry of Tourism and system of tourist boards;</li> <li>✓ Investing in recognizability of a range of highly attractive individual tourist attractions (i.e. UNESCO localities, archaeological findings, castles);</li> <li>✓ Identification of possibilities of development of new events with a potential of international recognizability and building destination's image;</li> <li>✓ Stimulating development of cultural thematic roads (i.e. historical roads, UNESCO heritage roads, religious roads), which also implies clear developmental criteria and managing systems.</li> </ul> |
| Other activities of product development    | <ul style="list-style-type: none"> <li>✓ Stimulation of implementation of minimum level of touristification of cultural buildings (i.e. working hours adjusted to the tourists, basic interpretation on world languages);</li> <li>✓ Investing in cultural, entertaining and sport events, and particularly in contemporary cultural production in the cities (strategic and action plans, continuous education of professional personnel, support to the promotion);</li> <li>✓ Creation of a portfolio of highly attractive products of culture of life and work, where they primarily support the image of cultural-tourist destinations.</li> </ul>   |

Source: Ministry of Tourism (2013)

The basic guidelines of a desired development of tourist offer have been determined by the strategy for the future. The task of destination management is, through their knowledge and skills, to improve and adjust the stated guidelines to the needs of a destination, with a goal of satisfying the needs of a contemporary visitor and the local community with a particular attention on ensuring destination's sustainable development and preserving heritage as the main developmental element for destination's tourist offer, and as an important witness of destination's identity, with the application of contemporary knowledge and skills. Knowledge makes the basic developmental element of every society and the economy in the 21<sup>st</sup> century, and tourism represents the basic fast growing economic branch of the Republic of Croatia,

which besides positive possibilities brings numerous threats, primarily in a form of pollution of a landscape with waste, light effects, uncontrolled urbanization and commercialization of the offer.

### **Competitiveness of Tourist Offer in a Destination conditioned by Heritage**

Competitiveness represents the desired position of a tourist offer on the tourist market, and depends on numerous factors in the destination and its surroundings. Competitiveness in tourism and in a tourist destination is conditioned by a group of factors which represent attractiveness of a tourist destination which can be founded on comparative advantages of a destination, respectively, on its geographic position, preservation of landscape particularities, resource basis etc. (Crouch, 2011; Mihalić, 2000; Drpić 2013). According to Kušen (2002), by attractiveness factors, by their characteristics, determine the direction and the intensity of development of a tourist destination on a certain touristically receptive area. In order for heritage and institutions in culture to be successfully included in the existing tourist product, it is necessary to make a comparison with the existing tourist offer in the competitive tourist destinations, in a way to determine all the advantages and disadvantages of the Republic of Croatia, and to point out on the possible developmental opportunities, but also threats for sustainable development in the future. Based on the conducted analysis, it will be possible in the future to create in the most optimal way the desired tourist development on state and local level. The stated will be achieved by creation of the SWOT analysis of the tourist offer based on heritage on the example of the Republic of Croatia.

Table 2: SWOT analysis of tourism based on cultural heritage of the Republic of Croatia

| <b>ADVANTAGES</b>  | <b>DISADVANTAGES</b>  |
|--|---|
| Tourist tradition<br>Easy traffic availability<br>Significant level of preserved heritage<br>Recognizability on the tourist market of the Mediterranean<br>Strategy of development of Cultural Tourism of the Republic of Croatia<br>Adequate geographical position<br>Low level of pollution<br>Safety        | Insufficient education of the personell<br>Insufficient level of interest of local government and the local community<br>Value for money<br>Insufficient level of recognizability of Cultural Tourism<br>Non-existence of clear and publicly reachable statistical indicators<br>Non-existence of internal models for measuring the reception capacity of heritage<br>Insufficient knowledge for application of projects for competitions for financing through EU funds<br>Non-existence of connection among institutions in culture and tourism |
| <b>OPPORTUNITIES</b>   | <b>THREATS</b>  |
| Creation of traditional products<br>Ban of use of pesticides, plastic products, polluters<br>Formation of creative teams<br>Active inclusion of the local community in development of tourist product of heritage<br>Formation of internal quality standards<br>Application of international quality standards | Pollution<br>Terrorism<br>Political instability<br>Incompatibility of developmental strategies<br>Lack of understanding of the local community<br>Local community vs. tourists<br>Identity loss   |

|   |  |
|---|--|
| Cross-border cooperation<br>EU Cohesion Funds |  |
|---|--|

Source: Author's analysis

From the previously state analysis (table 2) it can be concluded that advantages possessed by the Republic of Croatia represent until now insufficiently researched market niche, and here we include rich and largely preserved cultural material and non-material heritage, which is from the mentioned reasons in numerous examples preserved in a high level of originality (Diocletian's Palace, Dubrovnik Walls, Euphrasian Basilica in Poreč and local speeches-Čiči in the part of Čičarija, Kastav Bellringers, lacemaking, etc.), about which testifies the inclusion of numerous elements of material and non-material heritage on the UNESCO list, which represents the most sensitive and most precious value for development of a competitive offer of cultural tourism and tourism of heritage in the Republic of Croatia. On the UNESCO list are, among others, Istrian two-voice singing and playing on a double scale, Sinjska alka, making Licitars, Bečarac, Ojkanje, Šibenik Cathedral, old city core of the city of Hvar, etc.) (Ministry of Culture, 2018). Non-material heritage is especially exposed to the danger of disappearing due to the reduced number of population, whether due to the reduced number of the population caused by the negative demographic movements or due to their leave from the country, or due to non-paying attention for preservation of the non-material heritage through education system of the Republic of Croatia.

Stated at the same time represents also a threat for further tourist, economic, and general development of the local community because there is no sufficient inclusion of heritage into the tourist offer, and there is no sufficient level of awareness of destination management and the local community about the need for promotion, protection and improvement of heritage as a basis for creation of a tourist offer and preservation of a nation's identity. World experiences in protection and promotion of cultural heritage through tourism are insufficiently implemented in the Republic of Croatia (Drpić, 2013).

As developmental opportunities it can be determined creation of new tourist experiences based on particularities of heritage of the Republic of Croatia as the identity carrier which is based on influences from the cultural circle which surrounds the Republic of Croatia of middle and South-Eastern Europe, but also the influences of East and close Eastern influences, which creates a unique colorite of cultural heritage as a basis for creating a unique tourist product. Entering of Republic of Croatia into the European Union will most definitely contribute to the preservation and promotion of cultural heritage in tourism, while contemporary knowledge and skills possessed by the managers in culture and tourism will enable for unique tourist product of cultural heritage to be successfully presented on the tourist market by creating permanent connection with the tourist demand (Drpić, 2013).

As threats brought by the synergy of tourism and heritage it can be determined the danger from too big commercialization of cultural asset while not taking into account not only the accepting capacity of the material heritage, but also preservation of originality and identity of non-material cultural heritage. Tourist exploitation can contribute towards losing the connection between the local community and the cultural heritage, and there is a danger of creation of "false" heritage based on tourist stories-events.

Demonja (2011) emphasizes multiple problems that occur in Croatian cultural tourism such as insufficiently developed system of cultural statistics, insufficient knowledge of project coordinators about cultural management, centralization and bureaucracy of procedures, non-existence of recognizable cultural-tourist product, superficial knowledge of local population about their own heritage, insufficient or poorly organized promotion, insufficient cooperation between the sector of culture and tourism, and non-existence of advisory institution for organizers of cultural-tourist initiatives.

Solutions for the stated lacks is impossible to put in one paper, but by conducting joint developmental strategies of cultural and tourism economy, especially on local levels, it is possible to contribute towards more successful tourism development of localities of cultural heritage of the Republic of Croatia, during which particular attention needs to be given to constant improvement of knowledge of cultural and tourism management.

Based on the previous conducted analysis it is necessary to rethink a new tourist product which will enable removal of weak spots of cultural tourism of the Republic of Croatia, and to point its strong sides.

### **Tourist Product based on Cultural Heritage and its Sustainable Development**

Sustainable tourism is tourism which bases its development on an agreement with the local community, businessmen and other factors with the goal of preserving the resource basis and strengthening the identity of the local community. The tendency is to develop tourism in a way that it is fair and acceptable for the local communities, economically sustainable for a longer period of time and which avoids damaging the tourist attractions of physical environment. It offers for tourist high quality, diverse experiences, and in usual and specialized markets (Forsyth, 1996).

Sustainable development of tourism pleases the needs of present tourists and the domicile population while at the same time preserving the resources of future development. Such development means managing the resources in a way to satisfy the basic economic, social and aesthetic demands while at the same time preserving the cultural integrity, basic ecological processes and biological diversity (UNWTO, 2005).

Sustainable tourism development uses natural and cultural heritage with a goal of increasing the number of visitors and profit, but within reasonable limits in a way for it, like a resource basis of development of tourist offer, to be preserved for future generations as well.

In order to support sustainable development of a destination which bases its tourist development of a tourist valorization of heritage, it is necessary to introduce the integrated system of heritage managing. Preservation of heritage elements as a basic carrier of the identity of people is one of the most significant demands today. Growing awareness about the need of preserving the identity of a local community, its historical and natural surroundings, and constant desire of tourists for new and original experiences during their stay in a destination is a foundation for establishing a new model (system) for managing destination development. Implementation of this system is mandatory in contemporary conditions, and it contributes to strengthening the awareness of the need of sustainable development and preservation of heritage and particularities of a destination in the future (Jelinčić, 2010; Drpić, 2017).

Managing destination takes into consideration goals of protecting heritage while planning, conducting and controlling activities of hotel enterprises, institutions, tourist boards and tourist destinations in general in all areas due to reduction of the load of the object of heritage itself, but also the environment as well as due to ensuring long-term developmental goals of a tourist destination.

Due to the stated it is necessary to ensure an integrated system of destination managing in a way that it enables unification of managing sustainable development of a destination and the existing system of destination managing. Numerous advantages are expecting in front of the competition by introducing and maintaining the system of heritage managing, like i.e. improvement of relations with the public services and services for supervision of protection of monuments of culture and the environment and the local communities, and early recognition of a problem caused by tourist and general economic development. It is necessary to ensure

transparency of the organization of destination managing organization, in order to achieve reduction of risk of mastering the process and contribute to the strengthening the awareness and motivation of the local community and other factors (Drpić, 2008; Drpić, 2017).

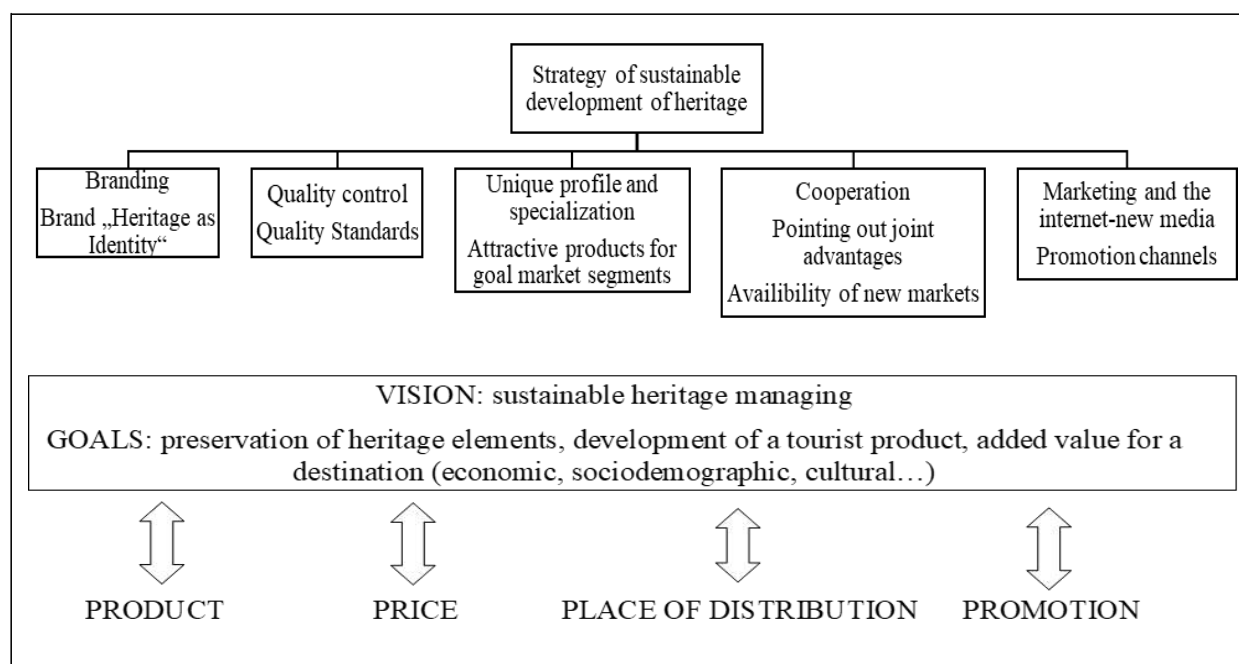
Integration of the managing system of heritage sustainable development and possible application of internal of international systems of managing quality with destination managing until now in which the heritage object is situated, enables managing, monitoring and constant improvement of the destination elements which can influence the business quality and the state of the environment, while avoiding unnecessary doubling of documentation and activities. By rational combining these systems, and non-creating new ones, contribution will be made to the reduction of costs, better information flow and more rational exploitation of resources. In the end, the system of managing quality and the environment has a goal to ensure quality and preserved environment, as well as permanent supervision on a destination level. The goal of the system is, furthermore, that local government, tourist and other interested organizations to use the managing system as an objective, documented and measurable tool for planning, monitoring of achievement and the analysis of goals, which enables risk reduction and continuous improvement of environment protection, quality improvement, and in the end, leads towards safe sustainable development in the future of a destination (see picture 1).

For achieving the set goals, actors on all levels, from local to national one, need to act according to the principles of sustainable development. In order to achieve that goal, and achieve long-term sustainability of tourism development and heritage preservation as the basic identity carrier, it is necessary to do the following (Ministry of Tourism, 2003):

- To understand, recognize and satisfy the needs of tourists, because, if their demands are not met, they will share the negative implications of their personal experience with everybody from their surroundings, which will reflect negatively on the destination's image;
- Ensure preconditions for profitable business of subjects on the market, because creating positive business climate ensures the condition for arrival of new investors and tourism development in the future;
- To invest in education and training of employees in tourism on all levels due to expressive personal contact with the guests, and the need for educated management;
- Insist on protection and renewing of natural wealth as a primary resource of Croatian tourism;
- To respect cultural values and differences of localities and residents, respectively, destinations and its inhabitants which directly have use of tourism. Their relation towards tourism and tourists is vital for the impression left by the country, which influences on the guest's satisfaction and total level of use of tourism;
- To ensure continuous active role of the state which through development of infrastructure, correction of the law regulation, etc. significantly influences the state's tourist potential, and in long-term has big advantages from its development.

Only through balance in the mutual relationship and fulfilling the needs respectively goals of various participants on the tourist market, it will be possible to form a stable and long-term sustainable tourist development.

Picture 1: Achieving joint marketing strategy and achieving vision of sustainable development of heritage in tourism



Source: Authors' adaptation according Drpić, 2008.

Creation of a new marketing approach needs to be based on previously conducted analysis of all elements that can influence on preservation of elements of heritage.

Marketing approach also needs to be based on the existing state of spatial development, whose further development needs to be included in the Strategy of sustainable heritage managing, which will be used as a base by which possibilities, potentials and limitations of inclusion of heritage elements into the tourist product will be shown (Trpanj Municipality, 2018):

- Rationality in using space and elements of material and non-material heritage-during consideration of the possibilities of tourist valorization of heritage, it is necessary to care about the sustainability of heritage elements. Contemporary need of a human is to ensure rational use of space and heritage elements according to the current and in the close future perceived possibilities;
- Heritage as a basis of identity-richness of heritage, cultural and natural, and contemporary world trends and findings in protection of cultural and natural heritage seek that accessing the valorization and revalorization of anything valuable in the space with great care, and what is significant for preservation of the community's identity and which could be directly and indirectly in the function of overall economic progress of the space, as well as preservation of ecological stability and value of parts of the environment.

Solutions need to be according to the following assumptions of:

- Sustainable development which will use elements of material and non-material heritage in a way to prevent unrepearable destruction of heritage;

- Protection of space and the environment in the surroundings;
- Determining carrying capacity of heritage, respectively, the ability of space to accept a certain number of visitors or tourist products without consequences for the environment and the heritage element itself.

Besides the analysis of the state of heritage elements, it is also necessary to conduct the analysis of the immediate environment which will point out on the frames of sustainable development and satisfy the needs for achieving growth of usefulness for the local community on the optimal level. Solutions need to be such that they do not make it worse, but improve the natural ecological state of the space.

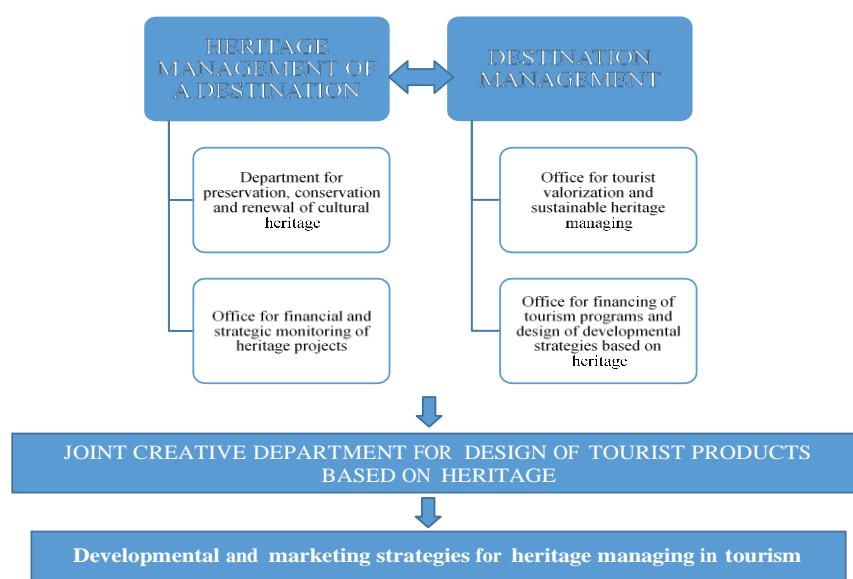
Landscape and its components, and the elements of material and non-material heritage make a reflection of the identity of a nation, its culture and past. It is a reflection of all good and bad acts in a long time period which occurred and on elements of heritage, by which grows the importance of further planning of its protection. Stated assumptions need to be taken into consideration while creating a tourist product.

Based on previously conducted analysis, destination management will be able to, based on previously conducted public discussion and inclusion of all interested stakeholders in bringing guidelines of further desired development to ensure creation of clear and unambiguous marketing and total developmental strategy.

Formation of tourist products in a way for heritage to be included is particularly sensitive considering that heritage (material and non-material) represents a resource basis which, if not managed adequately, can be irretrievably destroyed. Also, during planning of a tourist product particular attention needs to be given to the load which certain locality of cultural heritage can take, and at the same time not to diminish its value for the community.

In order of process of planning, implementation, supervising and timely conducting of corrective measures in function of achieving success, it is necessary to ensure a tight synergy between tourism and cultural management, which is possible through formation of a creative department for design of tourist programs of cultural heritage, as presented in the picture 2.

Picture 2: Model of organization of a creative department for design of heritage tourist programs



Source: Drpić, 2013.

From the previous picture it is visible that cooperation between management of culture and destination management (in this case the Tourist Board of a destination of tourism of cultural heritage) is permanent, and there are strong influences of management of cultural heritage of a destination and vice versa.

The task of management of tourism and culture in a destination is, through application of contemporary knowledge, skills and technologies to ensure design of new, attractive and recognizable tourist products through formation of a joint developmental and marketing strategy of cultural heritage as a basic part of a tourist product. Particular attention needs to be given to the sustainable managing of cultural heritage. Such development enables achieving complete usefulness which use of heritage (material and non-material) has for the local community, while at the same time minimizing negative influences of tourism on preservation of cultural heritage (UN Documents, 1987).

Besides stated, it is necessary to carefully choose the adequate model of financing the heritage revitalization, and tourist offer as well. As possible models of financing it possible to emphasize i.e. models of public-private partnership (application of a model in a way to ensure maximization of usefulness for public and private partner, while at the same time not compromising public interest for the heritage), cohesion funds of the European Union, financial programs of ministries of culture and tourism, sponsorships and donations and others. Preservation and protection of cultural heritage (material and non-material) during design of tourist offer is of utmost importance, and the joint creative department is of great importance (Drpić, 2013).

In order to achieve this, during planning of tourist events and programs of cultural heritage it is important to take care about maximum carrying capacity, especially of material heritage, by tourism. This can be achieved through application of the existing methods of determining the carrying capacity such as Limits of Acceptable Change (LAC), Visitor Experience and Resource Protection (VERP), Recreation Opportunity Spectrum (ROS), Visitor Impact Management (VIM), Visitor Activity Management Process (VAMP), Protected Area Visitor Impact Management (PAVIM), and Tourism Optimisation Management Model (TOMM) (Antolović, 1998; Drpić, 2013).

As an example of model of revitalization of cultural heritage, following the author will present the model of possible revitalization of the oldest hotel on the example of micro destination Malinska. The oldest hotel in Malinska "K lovcu" was opened in the end of the 19<sup>th</sup> century, and today in the stated building is the municipal administration. By revitalizing the building and its re-use in the museum of tourism of the Malinska-Dubašnica municipality, a new tourist product based on cultural heritage will be achieved, in a form of preservation of a building in the original form along with ensuring the exhibition space which will represent new cultural-tourist facilities in a destination. A small hotel up to twenty accommodation units would be situated within the building, which would base its offer on creating a picture of Malinska from the 19<sup>th</sup> century, through autochthonous and traditional food and drinks, prepared in a traditional way, offered in the traditional dishes and in the traditional surroundings of Malinska and Dubašnica.

The value of the building can be determined by multiplying the space of the building and the belonging croft with current prices on the market. The price that can be achieved currently is 1,500 EUR per square meter, which remits significant quantity of funds into the budget, but due to the historical value it is not advisable to sell it to the private partner.

It would be necessary to invest three hundred and fifty thousand euro into the reconstruction and total refurbishment of the building, which includes the total reconstruction, museum



arrangement, the accommodation units and additional restaurant services, while the economic sustainability of the building would be achieved by offering accommodation and food and beverage services in the hotel rooms and the hotel restaurant, and through selling tickets for the museum of tourism. Possible models of financing the project of hotel and museum arrangement “K lovcu” is presented in table 3.

Table 3: Comparison of advantages and disadvantages of investments of public funds and Private-Public Partnership in heritage revitalization

| Implementing steps                               | Public financing | Public Private Partnership | Public financing   | Public Private Partnership   |
|--|------------------|----------------------------|--|--|
| Documentation and reconstruction of the building | 100.000 EUR      | 100.000 EUR                | The funds burden the budget over a period of up to 20 years. With an interest rate of 4%.            | The private partner on the order and the project of the public partner performs the reconstruction of the building.  |
| Arrangement of the museum's setting              | 80.000 EUR       | 80.000 EUR                 | Funds are provided in the Budget, and are intended for redeeming the setup from the local community. | A private partner takes part in the redemption of the setup at a certain rate (50:50, 20:80), which results in less pressure on budget sustainability.       |
| Decorating and equipping the hotel               | 120.000 EUR      | 120.000 EUR                | The municipality budget is charged for 20 years with an interest rate of 4%.                         | The private partner arranges the hotel and becomes its manager for 50 years with the obligation of continuous reporting and monitoring by the Public Partner |
| Creating a tourist offer                         | 30.000 EUR       | 30.000 EUR                 | The Tourist Board creates a tourism product on its own, with all costs incurred                      | A private partner creates a tourism product with the agreement and cooperation with the tourist community as a supervisory body                              |
| Promotional activities                           | 20.000 EUR       | 20.000 EUR                 | The Tourist Board designs and conducts promotional activities.                                       | A private partner determines promotional activities  |

|       |             |             |  |  |
|-------|-------------|-------------|--|--|
| TOTAL | 350.000 EUR | 350.000 EUR |  |  |
|-------|-------------|-------------|--|--|

Source: Authors' analysis

As financing models it is possible to determine financing with public funds or through public-private partnership, or more recently, financing through public-civil partnership in which various citizens associations and European Union funds are included in financing. Model of financing with public funds primarily includes financing through the Budget of the Malinska-Dubašnica municipality, which in the current economic moment is impossible to achieve, respectively, it would be an additional burden to the fiscal sustainability of the municipality, and it would reduce its public functions.

Financing of projects can be achieved through selling the building where the ownership, as well as rights of managing are given to the private person, by which the possibility of influence of public on the direction of development and conducting a project is lost completely.

Through public-private partnership the municipality keeps the ownership over the building and remains permanently included in the possibility of creating the offer and the contents in the museum of tourism. Through private partnership it is possible to achieve economic sustainability of a project and heritage preservation for future generations while liberation of public funds for other developmental projects like infrastructure which will contribute to the growth of quality of life in a destination and creation of recognizability through ensuring funds for support for the entrepreneurs and hoteliers, and the local community.

Financial revenue would be achieved from selling the museum tickets, organization of adequate exhibitions, shows and events, and from selling the local products and services in the hotel restaurant, and accommodation in the hotel rooms. Abidance of the assumptions stated in this paper will enable for a destination to present itself on the tourist market as an ecologically and culturally responsible and high quality, which bases its particularity on sustainable valorization of cultural heritage which represents a basic resource for development of a unique tourist offer which promotes the identity of a country-host while at the same time enabling for a tourist to sense the touch of history and richness of tradition and heritage in every tourist product.

## Conclusion

When monitoring the current state of the offer of cultural tourism of the Republic of Croatia, it can be concluded that heritage represents an element of tourist offer which is insufficiently exploited in relation to its real possibilities in terms of development of a high quality and competitive offer of a tourist destination. Certain European countries which possess a developed quality heritage tourist offer can be used as a benchmark and a guide mark for a successful development of tourist offer based on heritage (Venice, Jerusalem, Rome, etc.). In order for heritage to be successfully included into the tourist product, and to achieve positive effects on the very element of material and non-material heritage, and the destination itself, it is necessary to ensure sustainable managing of heritage, while taking care of the importance of heritage for a destination and the world in total (economic, social, emotional, etc.). The analysis of characteristics of tourist offer based on heritage, previously stated in the paper, point out on numerous developmental possibilities a certain tourist product has. Model of organization of a creative department for design of tourist programs of cultural heritage will achieve multiple benefits for a destination in a form of growth of recognizability, product and service quality, innovativeness, originality, greater satisfaction of tourists with a tourist

product, and the local population by increasing the employment and life standard. The presented model of creation of a joint marketing strategy and achieving vision of sustainable development of heritage in tourism will additionally contribute to this. Development of a project “K lovcu” will enable preservation of tradition and strengthening of the identity of the local community of Malinska-Dubašnica, which will result in permanent and sustainable economic development of tourist offer based on cultural particularities of the area. When planning a tourist product on the heritage localities, special attention needs to be given to the carrying capacity of the locality itself and ensure permanent and sustainable development of tourism and cultural heritage as an inseparable economic unit. As a limiting factor of previous research, it is necessary to emphasize the lack of research of attitudes of the local population and potential market, which would contribute to the creation of more precise conclusions. Further research needs to be pointed towards determining the role of heritage in creation of innovative tourist offer and sustainable managing of heritage based on quantitative and qualitative research of target groups as well as on the role and the way of sustainable heritage managing in the countries in closer and wider environment.

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## **Heritage as a Factor of Achieving Competitive Cultural Tourism Offer of the Republic of Croatia**

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**Abstract:** *Continuous changes within the world tourism industry, contemporary trends indicate that cultural tourism has achieved significant growth within the European and world tourism flows. Republic of Croatia, as a competitive destination, needs to use this opportunity, especially when taken into consideration all the numerous socio-economic advantages. Republic of Croatia is a country with numerous resources which represent a key foundation for development of a top quality offer. Among these resources it is necessary to emphasize its cultural heritage, which, if properly used, can significantly contribute to the formation of a competitive cultural tourist offer. However, it is crucial to bear in mind the possibility of over-use of these resources, which is the reason why application of sustainability principles is a must. Certain developmental activities were done over the years on the state level by the tourism organizations as well as the ministries in charge of tourism and culture. However, still insufficiently in order for cultural tourist offer to reach its realistic possibilities. Within this paper the authors will emphasize the necessity of inclusion of cultural heritage into the tourist offer of the Republic of Croatia, respectively, by comparing the developmental indicators of tourist offer based on cultural heritage of Croatia and the European Union, they will emphasize the potentials for development of a new tourist offer based on unique cultural heritage, which will position the Republic of Croatia on the tourist market as a country rich in well preserved cultural heritage.*

**Key words:** *cultural heritage, tourist product, tourist offer, competitive tourist offer, Republic of Croatia*

**JEL Codes:** *L83*

### **Introduction**

Republic of Croatia is a country rich with numerous (cultural heritage) resources necessary for development of top quality cultural tourism offer. However, in order to achieve long-term satisfactory level of success on the tourist market, it is of upmost importance to apply sustainable development postulates and all other activities necessary for preservation of (cultural) tourist resources. Although so far activities were undertaken by the tourist organizations and the ministries in charge for tourism and culture, they still haven't managed to ensure the sufficient level of development of cultural tourism development in relation to its realistic potential. The purpose of the paper is to emphasize the importance of inclusion of heritage elements in the tourist offer of the Republic of Croatia, as the main carrier of its

nation's identity and the witness of historical epochas as an important element for ensuring long-term economic sustainability of tourist offer and the heritage element itself. The goal of the paper is to, through comparison of indicators of development of tourist offer based on cultural heritage of the Republic of Croatia and the European Union point on all the potentials for possible development of new, recognizable offer based on heritage, which will position the Republic of Croatia on the tourist market as a country of rich cultural-historical heritage, which is in significant measure preserved, but unfortunately insufficiently valorized.

### **Characteristics and significance of Heritage in a Tourist Offer**

Heritage represents an important factor for ensuring sustainable growth of tourist turnover and economic use in the destinations that base their tourist product on cultural and historical heritage. Heritage in tourism appears in a form of ensuring visits for tourists to the localities of heritage, cultural institutions, etc., while achieving additional goods and services, respectively, creating additional value of the destination's tourist product itself. Heritage represents a significant resource basis for creating an innovative tourist offer for domestic and foreign tourists as an independent or a part of a wider tourist product (tourist events, package arrangements, etc.). Tourist activities on the heritage localities will inhale a new economic strength to the heritage, and contribute to the sustainable development of heritage in a way for preserve it in its original form for future generations.

Cultural heritage is the inheritance of the past. There are numerous definitions of heritage, but almost all of them include material heritage as well-buildings, monuments, artefacts, archaeological sites, historical parts, etc., and non-material heritage-traditions, customs, memories, ideas, languages, beliefs, etc. When these expressions of heritage are localized and historically processed, we get special cultural traditions. These processes-terms are social constructions which accompany every artefact and custom. Cultural heritage relates to a place, natural landscape, settlement, architectural complex, archaeological site or stand alone buildings that are recognized and frequently protected by law as a place of historical and cultural significance (ICIP, 2016, pp. 2)

Cultural heritage has become a preoccupation, but also at the same time the priority of all stakeholders in the society, and it includes a group of monuments, buildings as well as places of general importance from historical, aesthetical, ethnological and anthropological point of view, and it represents an important element which can be engaged and used with a goal of support to the sustainable development which includes satisfying the needs of the present without endangering the possibilities of future generations to satisfy their own needs, with a goal of ensuring better quality of life for all, now and for future generations (UNESCO, 1972).

When defining heritage, particular attention needs to be placed on determining the social importance of the same, so called constructivism, because through it historical and aesthetic determinants are set which place heritage in a wider social context (Benhamou 2003, pp. 255). Stated determinants are not static and not entirely clear, but they serve as a starting point for a whole range of services that separate the heritage that will be transferred to the future generations from those that will not be preserved. Depending on the value that the society members give to the heritage depends the judgment and conducting the measures related to use and preservation of heritage in the future (Mišković, 2017).

Heritage consists of all elements that make a certain region unique, and which visitor remembers after visiting a destination, such as monuments, architecture, style of city planning, but also songs, food and customs. The complexity of heritage comes to expression in the possibility that it feels like its own or worldly, not bringing into connection the locality in which it is situated. So, in time, an idea is being accepted that heritage is an inherited good

which is transferred to the future generations, and it can belong not only to a family, but some social group as well. Heritage becomes a national good, and the strength it possesses as a carrier of an identity of a certain social community represents the past, but also conditions the present and the future of the community. Heritage can be determined in a wider and in a more narrow sense (non-material heritage-customs), or according to a certain segment of heritage (cities, architecture, monuments). Heritage is the inheritance of material artefacts and non-material attributes of the community are inherited from the previous generations, maintained in the presence, and preserved for future generations (Drpić, 2017; Ministry of Culture, 2011; Jelinčić, 2010, pp. 17-33).

Heritage as an identity can be observed through meeting of material and non-material artefacts and spiritual feelings of individuals, but also through material creativity of a person, depending about the conscious act of intent in determining the most suitable average of those elements that will provide optimal possibilities of expressing such identity within the existing or potential inventory of heritage, museum collection fund, archive fund or the library (Maroević, 1993, pp. 99).

However, heritage users are not connected the same for every heritage form, so scalability of connection of heritage with the locality can be observed as (Jelinčić, 2010):

- *World heritage*: known to the wider circle of users, and very frequently visited within organized travels. It easily causes veneration and admiration of visitors, frequently it does not cause the sense of particular attachment to the locality, but users visit it as an important civilization heritage;
- *National heritage*: very frequently it is about monuments of exceptional national importance which point to the survival and the history of a nation. Despite the fact that they have an income potential, most frequently they are not the purpose of visit of a destination. National heritage can be used in educational purposes for domestic population, but also for the visitors who wish to learn more about the country-host;
- *Local heritage*: heritage that is characteristic for a certain area, whose preservation enables tendency of a sense of a certain community's regional affiliation. Due to its importance preservation on national level cannot be achieved. On every worldly recognized heritage comes approximately about hundred of localities of local importance, and mostly does not attract tourists from abroad (rural views, old crafts, etc.);
- *Personal heritage*: it attracts people who are emotionally involved with a certain locality. This category includes also the heritage connected with the visits of the interest groups to which the traveller belongs, including religious associations, ethnic or professional groups (Jelinčić, 2010, pp. 19; Timothy 1997, pp. 753-754).

Previously mentioned division leaves the possibility that the differentiating elements of an individual building/locality of heritage intertwine, respectively, that for some users the object of world heritage appears like national, or national as a personal locality of heritage. For numerous visitors Dubrovnik Walls are an important element of national, but also world heritage, while for the inhabitants of the city of Dubrovnik they are very frequently of personal nature and cause significant sense of connection (Jelinčić, 2010, 19-20).

Besides the stated, there is a division on material and non-material heritage. Material heritage is a witness of human survival in a certain area. It can be stated that it is a physical evidence of human existence in an area, and by its monitoring through historical epoch it is possible to monitor migrations of population, changes in culture and habits, as well as sequence of historical events.

According to the Strategy of protection, preservation and sustainable economic use of cultural heritage of the Republic of Croatia for the period 2011-2015 (Ministry of Culture, 2011), material heritage can be divided on immovable and movable cultural heritage.

Immovable cultural heritage contains buildings, archaeological heritage (mainland, underwater and cultural landscapes), while the movable material heritage contains museum heritage, archive material and library material.

Non-material heritage represents an identification card of a certain place or a region, and its preservation points out the particularities that differentiate it in relation to the other competitive world destinations.

According to the UNESCO definition (UNWTO, 2012), non-material heritage contains practice, statements, knowledge, skills as well as tools, objects, artefacts and cultural space which local community, the group, and in some cases, the individual recognize as a part of their heritage. Non-material heritage exists in numerous appearing forms:

- Handicrafts and fine art within traditional trades;
- Gastronomy and culinary habits;
- Social customs, rituals and ceremonial events;
- Music and traditional performances (rites)
- Oral sermons and expressions, including language as a means of intangible cultural heritage;
- Knowledge and customs of nature and space.

Republic of Croatia possesses exceptionally rich, diverse and for centuries preserved non-material heritage. By founding numerous societies for cultivating tradition, especially on a local level, through studying, documenting, and transferring knowledge and skills to younger generations, has contributed to its preservation. Non-material heritage is permanently exposed to numerous influences which can violate the originality or due to which the originality can disappear completely, i.e. demographic changes and decrease of the number of inhabitants in certain areas. Tourism and economic development also have a strong influence on non-material heritage through many positive, but also negative influences, due to change of way of life, going to the cities, disappearing and commercialization of crafts, etc. (Ministry of Culture, 2011).

In a tourist destination non-material heritage is particularly exposed to changes because, due to the influence of tourist flows and migration of the population in it, various cultures, life customs and habits of visitors are met, who bring a part of their identity and culture, and share it with the hosts, which enables formation of a permanent interrelation and interaction among the host and the visitor.

### **Characteristics of Tourist Offer and Demand of Heritage Tourism**

During the last decade in a range of destinations in the Republic of Croatia significant efforts were made towards development of this group of products, primarily thanks to bringing the State Strategy of development of Cultural Tourism, but also due to systematic work on creating of a regionally and globally recognizable events and increased opening towards cultural tourism from greater and greater number of tourist destinations.

### **Structure of Tourist Demand of Heritage tourism**

As positive influences of synergy of tourism and culture on competitiveness of a tourist destination it can be determined the following (OECD, 2005):

- Creating permanent cultural activities;
- Strengthening the degree of inclusion of local community into a tourist product;
- Creating possibility that all products and services that will be offered during the event are ensured in a destination;
- Interdependence of activities will enable formation of a “Cluster-grape of activities”;



- Organization capacities of a place/destination of events.

According to the Strategy of Development of tourism of the Republic of Croatia until year 2020, the basic obstacles need to be searched in the system of commercialization (primarily in integrating in world systems), and then in the system of destination managing by which cultural contents would be appropriately integrated into positioning and delivery of total experience on the level of individual destinations. Within the Strategy, as especially relevant products of cultural tourism, for Croatia are determined: a) city tourism; b) heritage tourism; c) event tourism; d) creative tourism; and e) religious tourism (Ministry of Tourism of the Republic of Croatia, 2013, pp. 8).

Structure of tourist demand conditioned by heritage is heterogeneous and differentiated considering the target market niche to which the destination management is addressing on the tourist market, because it is conditioned by the demand and its characteristics.

Principles of sustainable tourism development connect environmental, socio-cultural and economic aspects of tourism development and require mutual balance (UNWTO, 2011). Considering that tourism, according to the growth rate, belongs to the world leading sectors, its matching cultural aspect means additional value and big contribution to the stimulation of sustainable development and raising the awareness about its significance.

Contemporary tourist offer of cultural tourism includes the following elements (OECD, 2009):

- Development of cultural tourism as a stimulation for creation of new work places and increasing the income;
- Cultural tourism is seen as a possibility for growth of the tourist market;
- Development of culture as a result of regional development;
- Growing availability of information about culture and tourism through new technologies;
- The emergence of new nations and regions which want to establish special identity (i.e. states in Central and Eastern Europe);
- Influence of culture on image of countries, regions and nations;
- Financing culture and problems related with the increase of cultural offer.

According to the European Cultural Tourism Network (ECTN), socio-cultural and demographic trends which have a significant influence on growth of cultural tourism in Europe are: ageing of population, growth of population's wealth, strengthening of middle class, lack of time, strengthening of stressful way of life, more and more sophisticated consumers, increase of internet use, trends of market turnover of the European Union (tourist arrival will double in the following 25 years), liberalization of transport and travel, internal market and joint European currency (Pivac et al, 2016, pp. 25).

Further growth of cultural tourism is anticipated in the Republic of Croatia, and great significance of this tourist product is emphasized for achieving future growth of entire tourist sector. Trend of further diversification of demand and growth of niche products will support the growth of smaller, specialized service providers. Growth of "Creative Tourism" is anticipated in particular, which in a way enables more active inclusion of visitors in the local culture. Growing sensitivity of buyers on ethical questions particularly concerned with the influence of travels on the environment and the local social communities, will contribute to further strengthening of responsibility in the offer of products of cultural tourism (Ministry of Tourism of the Republic of Croatia, 2013, pp.26). Tourism and culture have numerous positive influences also on total competitiveness of a tourist destination and forming positive awareness about the destination in hosts and visitors.

### **Structure of Tourist Demand and Motives of Tourist Travels motivated by Heritage**

Heritage tourism is based on material (buildings, monuments, archaeological sites, historical areas) and non-material cultural and historical heritage (tradition, customs, languages, beliefs, etc.). The goal of tourist economy and tourist offer carrier is to enable creation of new experiences and satisfaction of needs and motives of visitors of a destination. Tourist destination management needs to explore and recognize contemporary movements on the tourist market as well as motives of visitors that influence the choice of a specific destination for a holiday. Number of tourists who undertake travels motivated by heritage is constantly on the rise.

Contemporary tourist movements in cultural tourism are marked with the following elements (OECD, 2009):

- Increased interest for culture, particularly as an identity source and differentiation in terms of globalization;
- Growing level of cultural capital, stimulated by the growth of level of education;
- Population ageing in developed parts of the world;
- Post-modern styles of consumption, emphasizing of personal growth, and not materialism;
- Desire for direct forms of experience (“live viewing”, and not sightseeing);
- Greater significance of non-material culture and the role of photo and atmosphere;
- Increased mobility of the population, ability of access to other cultures.

Estimates state that around 40% of all international holidays contain a cultural component. This product is expressively heterogeneous and includes various activities which makes more difficult the precise determining the motives of tourist's arrival in a destination as ones stimulated by culture, so it is difficult to discuss about a unique product and unique profile of cultural tourist. Cultural tourism covers voyages mostly motivated by getting acquainted with the heritage, history, arts and “the culture of life and work”. Tourists who choose the elements from heritage and culture as a motive for travel are a desirable segment of tourist demand in a destination due to multiple reasons, but mostly because they are the guests with higher purchasing power, more educated and they stimulate cultural activities in a destination. Today there are numerous sub-segments of tourist offer of cultural tourism (Tomljenović, Boranić Živoder, 2015, pp.10-11, Richards, 2011):

- Travels motivated by getting acquainted with cultural heritage related on getting to know the past, and they include cultural events, attractions and traditional culture;
- Travels motivated by attending a cultural event that relates on staging some events from the past, or they are of contemporary character, and they make popular culture;
- Motivated by creative cultural activities that relate on the activities that are saved from previous times such as learning Glagolitic letters, traditional skills, and contemporary practice of culture of life or contemporary arts production.

As previously stated, knowledge and necessity for learning, acquiring new experiences and greater importance of atmosphere as an element of cultural product represent the component of competitive advantage on a contemporary tourist product, unlike the traditional picture of cultural tourists as mostly consumers of high culture (museums, monuments and art). Today the range of contemporary cultural tourism is expanding and includes greater spectre of cultural attractions and events of which many are connected with the so called popular culture, considering that today cultural tourism does not just serve as a medium of search for new cognitions, but uses as a medium of leisure and entertainment during the journey. Products that are offered on the market of cultural tourism combine more and more traditional cultural products with the elements of live and popular culture in order to create additional attractiveness of a tourist product. Mentioned cognitions will help tourist destination's management when creating optimal model of interpretation of heritage with a goal of providing greater range of visitors in a destination (Richards, 1996, 1999a, 1999b, 2011).

Heritage will, due to its particularities and values, contribute to achieving competitiveness of tourist events especially if it is based on its originality, and if during formation of a tourist event contemporary knowledge and skills are used that are necessary for bringing good quality implementing decisions of destination management. Decisions of destination management are far-reaching and will influence on determining the development and rising the quality of life of total local community.

### **Influence of Tourist Valorization on Heritage Elements**

Contemporary tourist flows in the 21st century are marked with the growth of free time, financial funds, constant changes of travelling motives, high competition, and fast growth and development of new knowledge and skills and information solutions point on the need of creating new value of heritage as a witness of human past and identity of a nation through inclusion of heritage (locality and buildings) into a tourist product (Getz and Page, 2016), which is possible through interpretation of heritage (Coupland and Coupland, 2014), which represents a founding element for rapprochement of the local community and its identity with the visitors.

Interdependence of culture and tourist offer is ambiguous, and its understanding is very significant for successful tourist valorization and sustainable heritage managing. Consciousness has developed only in recent decades about tourism and culture being mutually dependent variables, respectively, that the level of preservation and diversity of cultural facilities can influence positively on total destination's tourist product, and by that on its competitiveness. In the previous epoch culture and cultural heritage were observed only as a resource, which makes a part of destination's cultural heritage, which are significantly connected with the cultural identity of the local community. At the same time, tourism has been observed as a phenomena intended for spending free time by participating in the activities mostly different from those which mark the tourist's everyday life (Pivac et al, 2016).

In order to be able to manage tourist demand successfully and accordingly create tourist product, it is necessary to know the particularities of heritage and its influence on tourism, as well as carefully estimate wishes and desires of the local community in a destination in which the object of heritage is situated. Heritage elements most frequently represent part of interest of business circles and businessmen, which brings in interrelation the desire for control and authority over cultural assets, and potential conflicts among the local community and tourism economy. By including heritage in tourism, objects of heritage and non-material elements of culture are becoming cultural assets, respectively, they are turned into merchandise which can be consumed by visitors on the tourist market. Heritage (material and non-material) as a product and service can be served on the tourist market in the most adequate way if it contains within itself the elements of entertainment and education, the so called "Edu-tainment". Contemporary museums use previously mentioned most frequently with a goal of facilitation of transfer of information and knowledge to the public (UNWTO, 2012).

According to Richards (2011), influence of tourism on heritage is mostly negative, particularly in the part of the originality of tourist event which, for its driving force uses the object of heritage or some historical event which may (or may not have) occurred in a destination. Heritage is very often used as a "bait" for attracting larger number of visitors, and by creating new events it tends to influence on the increase of visitor's satisfaction, but also on economic use in the destination, in a form of creating additional value of a tourist product, so the development of contemporary tourist offer needs to be developed by adapting sustainable development postulates, considering that preserved resource basis is mandatory for its long-term and sustainable development.

Following are stated the emerging forms and the intensity of interrelation of two partners- tourism economy and the local community (McKercher and du Cross, 2002).

Table: Models and emerging forms of cooperation of tourism economy and the local economy in tourist valorization of heritage

| Relation among partners             |   |
|-------------------------------------|---|
| Complete cooperation                | True cooperation for creation   |
| Working relationship                | Realization of joint interests, initiated dialogue, efforts are made that the interests of both sides are satisfied |
| Peaceful coexistence                | There is a certain level of dialogue  |
| Paralell existence/lack of interest | Separated and independent activities<br>Small or non-existing contact   |
| Nuisance                            | Low level of understanding among stakeholders, but without conflicts  |
| Growing conflict                    | Problems in cooperation, without the possibility of easy problem solving<br>Change of relations                     |
| Complete conflict                   | Open conflict among stakeholders  |

Source: McKercher and du Cross (2002)

Cooperation between the tourism economy and the local community is possible only in case if the same is established in an equal manner, respectively to respect the interests and values of both partners. The interest of the tourism economy needs to be focused towards development of equal relation with the local community, developing the awreness about the concepts, ideals and practices of managing cultural heritage with a goal of its preservation and creating additional value for a destination's tourist product. Often visitors, but also the local community do not notice the violated originality of events, but consider it a tradition which has been built into the local identity. Until now research has shown the differences among the understanding the originality among the local community and the visitors. Local community very frequently starts from the economic use brought by the object and the locality of heritage, which is multiplied by a successfully formed event, due to the fact that it ties various elements of tourist offer in a recognizable unit. While the visitors experience the originality of the event as a possibility of acquiring new experiences, as well as experiences that are different from their own, various differences were also registered among different groups of visitors and among different groups of population, which points to the necessity of thorough research on how tourism "spends" heritage, and the influence of tourist events based on heritage on a tourist destination. Tradition and contemporary tendencies in tourism and culture are frequently observed as an ideal blend for creating a tourist product in a way that the existing events (local customs, folk feasts, castles and fortresses, buildings that had an important function in history) are included in the event in a way that past customs adopt a wider form (length of duration expands from one day to a week and more), and they are redesigned and marketing repositioned by creating "new tradition" in order to stimulate tourist demand for a destination, and by that to create conditions for further economic development. This happens frequently due to the need of creating new facilities and activities in tourist destinations, but also in many cases, inclusion of heritage in a tourist product comes from the desire that traditional and popular culture is positioned as community's identity from one side, and from the other, as a new event for tourists (Richards, 2011).

In the Strategy of Development of Tourism of the Republic of Croatia until 2020 (Ministry of Tourism of the Republic of Croatia, 2013), investments are anticipated into a development of

a palette of innovative products of cultural tourism and their more intensive and specialized sale and promotion. It is expected that this will contribute towards Croatia becoming recognized as a new, content, and interesting cultural destination. Particular attention will be given to the investments in live city cultural scene in order to achieve more frequent inclusion of bigger cities in tourist itineraries. Revitalization and equipping individual heritage objects (i.e. UNESCO localities), religious localities and network of pilgrimage routes, and introducing new generation products which enable creative expressions and interactions of visitors with the local ambience are determined as one of priorities of tourist development from which it is expected that it will enable access of the Republic of Croatia to the new market niches and segments of consumers. Heritage has been determined as a key element for building tourist recognizability of Continental Croatia as a destination of rich cultural-historical heritage with more than a thousand of castles and fortresses. Planned new building of buildings intended for cultural tourism has mostly Brownfield character and relates on conversion and/or adaptation of currently unexploited industrial or military buildings in public ownership with a goal of creating infrastructure for development of various events and manifestations.

### **Heritage Interpretation-a Basis of Successful Tourist Offer of Cultural Tourism and Preservation of Nation's Identity**

Inclusion of heritage into a tourist product is a continuous and complex process by which an additional value of the existing product of a destination is being created, and it ensures new value (use, economic, sociological and others) of heritage. Valorization of success and effects of tourist events on a locality of heritage is very important for sustainability of not only the locality of heritage, but of the tourist destination as well, and it is based on protection and preservation of originality of heritage and its preservation or improvement, and its economic valorization on the tourist market. Owning cultural identity means finding its own position in the world (Richards, 2007). In that sense, tourism contributes to constant cultural interaction among different cultures and nations. This interaction includes the host and the visitors bring a part of their cultural identity in the destination that they are visiting. Meetings as such enable the exchange of cultures, which can, by themselves, be considered a strong motivation for undertaking a journey and being welcomed by the host in a destination. Such exchange can have numerous emergent forms considering that tourist movements represent a particularly significant occasion for interaction among social groups (UNWTO, 2012).

Heritage is a witness and an accomplice of long-term historical changes in a particular area, and represents the identity core of every nation. Its inclusion in the tourist product through interpretation will enable for the local community to preserve and strengthen its identity, and for visitors to acquire new, at least temporary part of their identity, and in such a way to get to know the tourist destination in which they are staying (Jelinčić, 2006).

In order for an interpretation to give the desired effect, it is necessary to ensure good quality presentation of heritage and the interpretation of infrastructure and high quality guides, and it represents a carefully planned communication of contents through schedule of interpretative information, physical approach and interpretation infrastructure on the site of cultural heritage. It can be transferred through various technical equipment, including the elements such as information boards, museum presentations, formalized hiking tours, lectures and guided tours, multi-media applications and websites. Good quality presentation is possible in case of ensuring high quality interpretation infrastructure which relates on physical facilities, buildings and areas on the heritage location, or connected with the cultural heritage that can be used particularly with the purpose of interpretation and presentation, including those which support the interpretation through new and existing technologies (ICIP, 2016, pp.2).

Interpretation enables the ability for a visitor to understand better the importance of a certain subject, living creature, monument or an area; it represents the way of communication which enables understanding and appreciating the world that surrounds us. Heritage interpretation communicates ideas, information and knowledge about natural or historical places in a way that it helps visitors to find the meaning of its environment. Good interpretation will stimulate creation of interesting, unique and meaningful experiences for visitors (Jelinčić, 2006; Interpretation Australia, 2016).

Heritage (museums, historical places, places of cultural-historical heritage, archaeological areas, markets, shopping malls, sports stadiums and theme parks) represent additional facilities of tourist events. In order for them to be presented to the public properly, it is necessary to form models of interpretation of heritage (Petersson and Getz, 2009, pp.141).

Heritage interpretation is possible through application of many communication models, including guided tours, conversations, drama, arts, sculpture, signs, brochures, use of electronic media, as well as application of other ways for idea transfer (Interpretation Australia, 2016).

International society for heritage interpretation ICOMOS that was founded in 1965, brought in 2008 a Treaty about the principles of heritage interpretation. According to this Treaty, the interpretation makes a part of a complete process of preservation and managing the locality (the object) of heritage, and it can include a whole range of possible activities intended for increasing the awareness of the public and improvement of understanding the particularities of cultural heritage (printed and electronic publications, public lectures, installations on the heritage locations, and those indirectly connected with the outside institutional installation, educational programs, activities in the community and permanent research, education and valorization of the interpretation itself. The goal of bringing the Treaty was to determine clearly the principles on which successful interpretation and presentation of heritage needs to be based (no matter the form of interpretation of the media used for that purpose), bearing in mind that interpreting and presenting the heritage makes a part of a complete process of preservation and managing heritage (ICIP, 2016).

Heritage interpretation is an exceptionally demanding process in which all the creativity and innovativeness of destination management is expressed. Interpretation needs to make heritage more accessible and more interesting for visitors, and needs to stimulate their sense of belonging, through which negative influences of tourist valorization of heritage are lost, while at the same time positive sides are strengthened in a form of free promotion, additional consumption, repeat return of visitors to a destination, etc. For successful heritage interpretation it is mandatory to know the structure of the existing offer of a tourist destination, as well as to manage its development according to the needs of the contemporary tourist market.

## **Conclusion**

Sustainable heritage managing represents a challenge for the destination management in finding optimal solutions for preservation of heritage as a valuable resource basis, and for creating new usable and economic value of heritage for a destination in a way that all stakeholders which have interest for achieving total competitive advantages are included in decision-making. Heritage value is possible to improve by creating clear indicators by which its value will undoubtedly be determined, taking into consideration economic, cultural and emotional importance and the state of heritage for the local community and tourist economy. Achieving competitiveness of heritage is possible only if mechanisms of permanent supervision of locality load in tourist purposes are established, which is possible through application of contemporary scientific knowledge and preventing negative phenomenon of

tourist valorization of heritage by implementing the sustainability principles. Achieving competitiveness of tourist offer is closely connected with successful interpretation because it enables for their users to experience new and different experiences, very frequently until now hidden and unexplored, which are very often the foundation of identity of a certain community. Through successful interpretation they will be represented to the wider community and by that preserved from the oblivion, and at the same time creation of a new tourist product with a high additional value will be enabled. Today tourist valorization of heritage does not only mean its sightseeing but also the experience and understanding by the visitors.

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## **Role of Religious Events in Development of Cultural Tourism**

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**Abstract:** *Religious tourism is one of the oldest forms of travel. Religion, tourism and economics are intertwined on a relatively limited space. This represents a challenge for all stakeholders directly included in tourism development: church structures and tourism economy, but also for all stakeholders that are not directly included: merchants and communal structures. Religious tourism is one of the forms of Cultural Tourism, and represents tourist travels with religious motives. One of the products of Religious Tourism are also religious events. In the Republic of Croatia, according to the main document for tourism development, Strategy of development of Croatian tourism until the year 2020, Cultural Tourism has been recognized as one of dominant selective forms of tourism. Within the frame of Cultural Tourism it has been emphasized that one of its main forms is precisely Religious Tourism. The goal of the paper is, through quantitative and qualitative analysis, to explore cultural tourist market of the city of Sinj, with a particular accent on religious events. The authors will conduct a benchmarking analysis with the most competitive destination of Religious Tourism in the Republic of Croatia, Marija Bistrica. Based on the results of the analysis they will propose measures for improvement.*

**Keywords:** *religious tourism, religious events, destination, cultural tourism*

JEL Code: L83, Z32

### **Introduction**

Throughout the years, in the conditions of fast changes and overall implementation of new technologies in communication, as well as faster and more comfortable means of transport, tourist travels became more massive, more available as well as more acceptable for the majority of the world population, respectively, potential travelers who decide to participate to participate in world tourism flows (Cerović & Zanketić, 2014). This is being witnessed by the continuously growing tourist arrivals and overnights on world level. Development of a successful tourist offer brings numerous socioeconomic benefits for a destination, and needs to be developed with great care in order to maintain competitive position on the turbulent tourist market.

When comparing the state of tourism today in relation to thirty or forty years ago, it is obvious that globalization trends made a significant influence in the sense of development of new qualitative trends, respectively, various new tourism forms have been developed in comparison with the "old" tourist offer, all as a result of changes in tourist behavior, tourism industry, technologies, managing tourism and its policy, etc. (Alkier Radnić, 2003). One of the specific forms of tourism for which tourists are constantly showing strong interest is Religious Tourism and religious events as an important element of its offer. Cerović & Zanketić (2014, pp. 38) emphasize in their work that "religiously motivated travels represent the oldest and most widespread type of journey in the history of humanity, and has been present from the beginning of many world religions, and today is one of the most significant motives for travel according to the number of tourists, and their participation in the total tourism". Various world tourist destinations have recognized the needs of contemporary tourists for achieving emotional satisfaction and fulfillment when visiting religious tourist destinations and participating in religious events, and undertook developmental activities aimed towards developing and placing a top quality tourist product on the contemporary tourist market.

Republic of Croatia is a country with a long tourist tradition, which still bases its tourist offer still majorly on bathing tourism. When discussing its potential for development of Religious tourist product, it has been noted that some activities were made towards development of religious tourist offer of individual destinations, but not on the state level. According to the Strategy of Development of Croatian Tourism until 2020 (2013), Religious tourism is being considered as a product of Cultural Tourism, which is being considered as a dominant tourist product. However, according to the same Strategy, in the majority of Croatian regions religious tourism is considered as a tertiary tourist product (with an exception of Kvarner and Central Croatia where it is considered as a secondary tourist product).

Bearing in mind all previously written, it is the author's opinion that Religious tourism still hasn't reached its true potential in Croatia, and needs to be developed in accordance with the world trends, while at the same time preserving its authenticity. One of the destinations which is slowly developing this specific form of tourism is the city of Sinj. The authors will in this paper present how the development of religious tourism and organization of religious events can contribute towards achieving competitiveness on the tourist market, on the example of city of Sinj. The paper is structured as follows:

### **A Brief Presentation of the State of Religious Tourism within World Tourism Flows**

In 2016 international tourist arrivals (overnight visitors) reached the figure of 1,235 million worldwide, which is an increase of 46 million (+3.9%) in relation to the previous year. World tourism is registering an above average growth for seven years consecutively. In terms of growth Asia and the Pacific led with a 9% increase in international arrivals, followed by Africa (+8%) and the Americas (+3%). Europe once again remained the world's most visited region (+2%) despite the fact that it showed mixed results, while available data for the Middle East (-4%) points to a decline in arrivals (UNWTO Tourism Highlights 2017, 2018).

According to the UNWTO (2016), Religious tourism represents one of the fastest growing segments of the travel industry. UNWTO estimates that 300 million tourists visit the world's major religious sites each year (one fourth of total international tourist arrivals), and that 600 million national and international religious travels are undertaken annually. Religious tourism

development can result in numerous socioeconomic advantages such as creating new work places and livelihoods, attracting new investments, infrastructure development, as well as stimulation of local culture, crafts, and gastronomic offer. This will not only help and stimulate local communities to value their unique cultural and religious tradition even more, but will also stimulate them to build pride and self-esteem even more. Something else that needs to be emphasized is the increasement of economic opportunities and building the foundations for peace. Religious tourism can also promote a culture of peace by encouraging intercultural and interfaith dialogue and understanding. Common values of tolerance and co-existence can be shared and promoted alongside pilgrimage principles of sacred hospitality, openness and welcome to the stranger. Taleb Rifari, the general secretary of UNWTO stated that "Religious tourism is a key agent of peace. It is a transformative force that breaks down cultural barriers and builds bridges between people, communities and nations. Leveraging the growing interest in religious tourism is crucial in building cultural dialogue, mutual understanding and peace".

Grim states in his paper titled "How religious will the world be in 2050?" (2015 according to the World Religion Database, 2015) that the impact of religion is registering growth on global level. It is being expected that by the middle of this century, the number of people affiliated with a religion will grow by 2.3 billion, respectively from 5.8 billion in 2010 to 8.1 billion in 2050, while the number of people unaffiliated with any religion (including those who state that their religion is "nothing in particular", and who self-identify as agnostics and atheists) is expected to achieve an increase of only 0.1 billion, from 1.13 billion in 2010 to 1.23 billion in 2050. The following table presents projections for every religious group separately.

Table 1: Projections of religiosity of world population until the year 2050

| Religion     | Projections   |
|--------------|---|
| Christianity | <ul style="list-style-type: none"> <li>✓ Growth projected to be about the same rate as overall global population growth between 2010-2050;</li> <li>✓ Largest share of Christians is expected to be in Sub-Saharan Africa by 2050;</li> <li>✓ Expectation of increase of the economic growth among the global Christian population, but significantly less than economic growth in the world as a whole;</li> <li>✓ In the following years the global distribution of economic influence associated with Christian populations expected to remain largely dominated by the Americas, with Europe slightly decreasing in influence and Sub-Saharan Africa and Asia-Pacific regions slightly increasing.</li> </ul> |
| Islam        | <ul style="list-style-type: none"> <li>✓ Expectation of nearly doubling the number of Muslims in the period 2010-2050;</li> <li>✓ Expectation that they will lead the world in population growth in comparison with other religious groups;</li> <li>✓ The largest share of the world's Muslims expected to continue living in the Asia-Pacific region in the decades ahead;</li> <li>✓ Economic growth among the global Muslim population is expected to significantly outpace global economic growth;</li> </ul>  |

|          |   |
|----------|---|
|          | <ul style="list-style-type: none"> <li>✓ India expected to have the largest Muslim population of any country in the world by 2050, surpassing Indonesia;</li> <li>✓ Slightly more than half of the economic influence associated with Muslim populations expected to be in the Asia-Pacific region in the following years, with India's economic overall growth also helping to add some to the global economic resources of Muslims.</li> </ul>  |
| Hinduism | <ul style="list-style-type: none"> <li>✓ Expectation of growth of Hindus by 400 million in the period 2010-2050, but it is projected that their share within the world population will remain the same in the following decades;</li> <li>✓ Expectation that the largest share of Hindus in the world will continue to live in the Asia-Pacific region (notably India);</li> <li>✓ Expectation that the economic growth among the global Hindu population will significantly outpace global economic growth, mostly led by the rising economy of India.</li> <li>✓ Hindus vast majority of economic resources is in India, but Hindus in the United States and the United Kingdom also contribute significantly to the global economic resources available to Hindus.</li> </ul>  |
| Buddhism | <ul style="list-style-type: none"> <li>✓ The number of Buddhists in the world expected to remain at nearly 500 million in the period 2010-2050, but it is projected to decrease as a share of the world's population;</li> <li>✓ Expectation that the largest share of the world's Buddhists will remain to live in the Asia-Pacific region (notably China) in the decades ahead;</li> <li>✓ Economic growth among the global Buddhist population expected to be on par with global economic growth, largely due to China's economic rise;</li> <li>✓ China and Japan jointly hold nearly all of the world's economic resources available to Buddhists; estimate that Buddhists in the United States also contribute significantly to the global economic resources available to Buddhists.</li> </ul>  |
| Judaism  | <ul style="list-style-type: none"> <li>✓ The growth of the global Jewish population slowing more quickly than the world overall;</li> <li>✓ Expectation that the number of Jews will be about two million more in 2050 than in 2010 (increase from about 14 million in 2010 to slightly more than 16 million worldwide in 2050);</li> <li>✓ Expectation that the largest share of Jews will live in the Middle East-North Africa region (namely Israel) by 2050;</li> <li>✓ Economic growth among the global Jewish population expected to increase, but be significantly less than economic growth in the world as a whole;</li> <li>✓ In the following years, the global distribution of economic influence associated with Jewish populations expected to slightly decrease in the Americas with corresponding slight increases</li> </ul> |

|                          |   |
|--------------------------|---|
|                          | among Jewish populations living in the Middle East- North Africa region.  |
| Religiously Unaffiliated | <ul style="list-style-type: none"> <li>✓ The growth of the global religiously unaffiliated population slowing at a much faster rate than global population growth;</li> <li>✓ The largest share of the world's religiously unaffiliated population lived in the Asia-Pacific region as of 2010 with over half of the entire world's unaffiliated people living in China;</li> <li>✓ Population growth of the religious unaffiliated population in the Americas expected to be substantially higher than growth in other regions of the world;</li> <li>✓ Economic growth among the global religiously unaffiliated population expected to be on par with global economic growth in the years ahead;</li> <li>✓ The global distribution of economic influence associated with religiously unaffiliated populations expected to grow in the Asia-Pacific region, with economic influence decreasing slightly in Europe and the Americas.</li> </ul> |

Source: Grim, B.J. (2015)

All the previously presented statistical indicators as well as the forecasts point on the strong growth of Religious tourism market, which obliges all the destinations which have potential for development of this specific form of tourism to make an effort towards developing it in order to achieve competitiveness on the tourist market. Particular accent needs to be given to the development and organization of religious events, considering that participation in them represents an important reason for undertaking a journey.

### Religious Events as an Element of Destination's Cultural Tourist Offer

Blackwell (2007) points out in her paper the fact that religion has been influenced for a long period of time, and still is, by the population's movements, which is visible from the increasing number of pilgrims and religious tourists. Despite the fact that there is a growing trend of religious believers travelling in groups organized by or through the religious organizations, this does not represent a contemporary phenomenon, considering that the majority travels in groups with a goal of satisfying their desire for companionship alongside the religious motivation as a primary motive, and at the same time they demonstrate the strength of their faith and religion to the outsiders. Canoves and Prat (2016, pp. 26) state in their research that Religious tourism, as a social and economic phenomenon significantly contributes when bringing new value on tourist destinations, not only for the tourists, but for the local population as well. Visiting emblematic sites of religious pilgrimage has evolved into the creation of a recognizable and unique tourism product. The following table presents some of the attractions and motives of tourists for participating on religious tourism flows.

Table 2: Tourist classification of religious attractions and motives

| ATTRACTION | MOTIVE |
|------------|--------|
|------------|--------|

|   |  |
|---|--|
| <b>A) RELIGIOUS MANIFESTATIONS</b><br>1. Visits of the church superior<br>2. Pilgrimage<br>3. Feasts            | - watching<br>- listening<br>- experiencing<br>- cognition   |
| <b>B) CHURCH INSTITUTIONS</b><br>1. Church museums<br><br><br>2. Sanctuaries and shrines<br><br><br>3. Convents | - sightseeing<br>- experiencing<br>- learning<br>- professional-scientific education<br><br>- participation in the ceremony<br>- sightseeing of the sanctuary<br>- experiencing<br>- learning<br><br>- sightseeing |

Source: Kušen, E. 2002

Religious tourism and religious events have over the years become a significant part of a contemporary tourist offer, and numerous destinations have aimed their efforts towards developing this form of tourist offer, in order to be able to achieve higher level of competitiveness and recognizability on the tourist market. Numerous scientific and professional researches have been made. I.e., Suntikul and Dorji (2016) researched in their paper the effects of tourism on religious events by conducting a survey. The respondents were local laypeople and the monks. The results indicated that over 83% of local population agreed (30%) or strongly agreed (53%) that they sense pride of their culture when seeing tourists attending the festival. In terms of monks, the results were a bit lower (70%, respectively 36,7% agree and 33,3% strongly agree). Also, it is also necessary to emphasize that over 91% of the local population and 87,5% of monks feel the importance of tourists who visit Bhutan that they need to attend at least one festival in order to get a better understanding of the Bhutanese culture. Both groups of the respondents agreed that there could be more tourists attending the event. Also, 70% of the local people and 61% of the monks expressed that they are very happy when seeing tourists attending the festival. Cerutti and Piva (2015) researched in their paper the role of religious events as a key component in local tourism development on the example of two small/medium religious events. The results indicated pleasure and holiday as the main reason for undertaking the travel, of which almost 60% are motivated by religious tourism and religious events. The success of these events has been confirmed, among other things, by the growing trend of tourist arrivals, as well as the attraction of tourists of various profiles. All this was achieved through good communication among event organizers and the destination management, as well as proper managing which not only had a significant socio-cultural impact on the local population, but it has also enabled promotion of the territory on the world tourist market.

One of the most important things that needs to be monitored constantly is the level of satisfaction of tourists with the services within the destination, and the destination in total. By conducting an artificial neural network-based importance-performance analysis (ANNIPA), Krešić et. al (2012) managed to provide an insight into the level of satisfaction with the destination attributes in Međugorje. They determined that tourists have expressed a lower level of satisfaction with the

quality of accommodation in Međugorje, traffic, road signage, transport accessibility of the destination, parking availability, quality of provision of information in the destination, information about Međugorje before departure, etc. The attributes that were graded as stronger were courtesy of hospitality staff, friendliness of the local people, and personal safety while staying in the destination.

It is obvious from the previously described examples that numerous world countries have recognized their potentials and advantages of developing a successful Religious Tourism offer, and are making greater efforts towards further development, which will not only enable higher level of satisfaction for the tourists-pilgrims, but will contribute to the competitiveness of a tourist destination. One of the European Member States with a high potential for development of this specific form of tourism is the Republic of Croatia. The authors will, within this paper, present the state of the Religious Tourism offer of the city of Sinj, and propose potential guidelines for improvement of its offer.

### **Characteristics of the City of Sinj and an Insight into its Religious Tourist Offer**

Sinj is situated in the County of Splitsko-dalmatinska, in the heart of Dalmatinska zagora. Its total surface amounts 194,27 km<sup>2</sup>. Its suburb settlements, which administratively belong to Sinj are: Bajagić, Brnaze, Čitluk, Glavice, Gljević, Jasensko, Karakašica, Lučane, Obrovac Sinjski, Radošić, Sinj, Suhač, Turjaci, and Zelovo. Due to its specific geographical position (situated in a pit, distanced 30 kilometers from the sea), moderately continental and sub-Mediterranean climate are intertwined. The city is rich in numerous natural, cultural-historical and other resources, all which make it a unique and recognizable as a destination on the tourist market. It is necessary to emphasize the natural beauties of the river Cetina, Kosinac, Miletin Spring, landscapes of Sutina and Rumin), the sights like the tombstone of the Gaj Laberije, the statue of a girl drinking water on a spring, the sculpture "The Monument to the Alkar", Alkar Castle, etc., the Museum of Cetinska Krajina, Archaeological Collection of the Franciscan Monastery, the Museum of Sinjska Alka, etc. It is possible to pass through the Old Town, see the traditional costumes, traditions and crafts, as well as the non-material cultural heritage which is protected by the UNESCO (Nijemo kolo Dalmatinske zagore, Sinjska rera, Cetinska lađa, etc), and taste the unique gastronomic and wine offer of the city (Official Website of the Tourist Board of Sinj, 2018). Religious tourism represents one of the most important elements of the Sinj's tourist product. It is a well-known fact that religious heritage and tradition represent an important dimension of the city, and Sinj's history is closely and deeply connected with worshipping the Holy Virgin Mary. Over the years Sinj significantly developed and became one of the biggest Croatian Marian sanctuaries visited by the pilgrims during the whole year, and especially on August 15<sup>th</sup> when a holiday of the Assumption of the Blessed Virgin Mary is being celebrated, which is also the day of the city of Sinj. The Church of the Holy Lady of Sinj was built in the period from 1699 until 1712, and until today it preserved its original appearance. The main part within the church takes the picture of a miraculous Lady of Sinj, painted by the unknown author in the 15<sup>th</sup> or 16<sup>th</sup> century. In 1716 the picture was framed with a golden crown in which it is inscribed *In Perpetuum Coronata Triumphat-Anno MDCCXV-Forever crowned celebrates-1715*. Today the picture is in the silver frame, with a relief of the Sinj Fortress in the back (author Ante Jakić, the sculptor) decorated by the votive gifts of believers. Within the church, besides the altar of the Holy Lady of Sinj, there are altars of St. Joseph, St. Nicolas, St. Ante, etc., as well as

many other unique particularities. The Church and the convent are registered in the register of Cultural assets of the Ministry of Culture of the Republic of Croatia as a protected cultural asset of sacral building heritage. The city of Sinj has, among other things, recognized the significance and the potential, and is organizing various types of events in the service of developing a religious tourist product and offering it to the world. The Holiday of the Assumption of the Holy Virgin Mary is being celebrated every year on 15th August. Many pilgrims visit Sinj with a goal to kneel and pray in front of the miraculous Lady of Sinj, light the candle, send their thank you and open their hearts even more. Many of the pilgrims arrive barefoot, from distant places. The first mass, traditionally called “Zornica” is celebrated at four o’clock in the morning. At seven o’clock a holy mass is being served in a small church in the Old town. At 9,30h, followed by the bell ringing and playing fanfares, the picture of the miraculous Lady of Sinj is carried from the church for the ceremonial procession in the city streets. Alkars, Alkar boys, police officers, Croatian military, firemen, members of the city societies, nuns, Franciscans, patrons of the Sanctuary, and many others carry it on their shoulders, which is considered as a great honor. From the City the cannon “mačkule” are being fired in order to mark the place of the blessing. Sinj citizens throw flower petals on the Holy Lady’s Trail from their windows. Accompanied by the Rosary prayer and singing Marian songs, the Holy Lady’s picture is returned to the square in front of the church where Good service is being celebrated. In the evening the holy mass is also being celebrated, however there is no procession. One of the events that needs to be emphasized is the Festival of the Marian-spiritual klapa songs named Klape to the Lady of Sinj. This musical events has been organized in Sinj since 2009 in the beginning of August in the period of Day of Alka and the Holy Lady. This festival is entirely humanitarian; all the income made by selling the tickets and cd’s goes to the humanitarian fund of the Holy Lady of Sinj, which helps poorer students. The artistic board is not only searching for new compositions, but also reach for those from the rich heritage of the Marian songs, with a goal to reaffirm the existing ones for klapa singing. It is expected that in the following years other compositions of spiritual content will be introduced as well, with a goal of creating a recognizable repertoire of klapa Marian and, and generally spiritual songs. This unique musical events has not only surpassed all the expectations and became a joyful moment of gathering and celebrating Holy Mother of God, but it has also confirmed Sinj as one of the biggest Marian Sanctuaries. The recording of the festival is being broadcasted by the Croatian Radio-television and the radio stations. Additional effort towards developing Religious tourism in Sinj has been confirmed by undertaking an EU project “The Our Lady of Sinj Route”. This route is 148 kilometers long and on the route Solin – Sinj – Livno – Tomislavgrad – Rama. Pilgrims arrive mostly from the south, from Solin and from Bosnia and Herzegovina. This project has been confirmed with the IPA program Croatia-Bosnia and Herzegovina, and leans on traditional hiking and horseback riding trails and the abandoned trail of Rere, former Sinj railway. Through development of the existing infrastructure and raising the awareness about the priceless value of cultural and religious heritage, this route, which is active during the whole year, is becoming more and more recognizable on the international level. Within the document of a project a joint strategy of the Republic of Croatia and Bosnia and Herzegovina has been made, which defines improvement of activities of this cross-border area as a tourist destination, further improvement of knowledge and skills of tourism service providers and the civil sector in this cross-border area through training programs, and raising the awareness among citizens and tourists regarding the offer, services and the sights within the route by forming a promotion strategy and creating and spreading information and materials to increase



the project visibility. This in particular has an influence on development of cultural, religious and economic cooperation of these areas, and additionally the phenomenon of the Lady of Sinj is gaining its deserved place on the tourist market (Strategy of Development of the city of Sinj, 2015; Official Website of the Tourist Board of the city of Sinj, 2018). All the previously mentioned indicates that the city of Sinj has recognized its potential and is working towards gaining its rightful competitive position on the tourist market. However, in order to determine the state of its tourist offer, additionally qualitative and quantitative indicators need to be analyzed.

### **Presentation of the qualitative and quantitative indicators of the tourist offer of the city of Sinj**

The following table presents the accommodation capacities of the city of Sinj.

Table 3: Accommodation capacities of the city of Sinj

|                       | Type of the accommodation | Number of objects | Number of beds |
|-----------------------|---------------------------|-------------------|----------------|
| Hotel Alkar           | Hotel 3*                  | 1                 | 89+18          |
| Hostel                | Hostel 4*                 | 1                 | 11             |
| Private accommodation | Vacation house 5*         | 1                 | 6              |
|                       | Vacation house 4*         | 10                | 70+22          |
|                       | Vacation house 3*         | 8                 | 43+16          |
|                       | Private apartments 3*     | 7                 | 24+15          |
|                       | Private apartments 4*     | 12                | 32+20          |
|                       | Rooms in households 2*    | 1                 | 8+2            |
|                       | Rooms in households 3*    | 3                 | 30+8           |
|                       | Rooms in households 4*    | 1                 | 6              |
| Total                 |                           | 45                | 319+101        |

Source: author's analysis according to the Statistical data provided by the Tourist Board of Sinj (data acquired through e-mail)

It is visible from the data in the previous table that three star private accommodation prevails in the total structure of accommodation capacities of the city of Sinj, while there is only one three star category hotel. Accommodation offer as such is incapable of satisfying the needs of contemporary tourists who expect suitable level of quality and diversity of services during their stay in a destination. Ivanovic et al. (2015) emphasize in their paper that numerous investments were made on the European Union level in development of accommodation capacities (hotels and similar accommodation, accommodation for short stays for tourists who prefer to plan their itinerary on the road, etc.) However, chain hotels were given a particular accent considering that their rich offer and quality standards vouch achieving value and experience for money.

Besides the accommodation capacities the city of Sinj disposes with two konobas, three pizzerias, three pizzeria restaurants, one pizzeria pastry shops, and five restaurants of which one is within the hotel Alkar (Official Website of the city of Sinj, 2018). Previously presented information points to the necessity of further improvement of the restaurant tourist offer.

Following the authors will present the achieved tourist arrivals and overnights of foreign and domestic guests in the city of Sinj in the period 2012-2017.

Table 4: Number of tourist arrivals in the city of Sinj in the period 2012-2017

|          | 2014   | 2015   | 2016  | 2017   |
|----------|--------|--------|-------|--------|
| Domestic | 4.624  | 4.719  | 3.842 | 4.003  |
| Foreign  | 6.621  | 5.948  | 5.791 | 7.314  |
| Total    | 11.245 | 10.667 | 9.633 | 11.317 |

Source: Central Bureau for Statistics of the Republic of Croatia, 2018

The data in the previous table indicate a steady growth of total tourist arrivals in the period 2012-2017, with minor oscillations in the years 2015 and 2016; these years registered a decrease of tourist arrivals. However, what needs to be emphasized is the fact that the majority of arrivals was achieved by foreign tourists, which indicates the recognizability on the tourist market.

Table 5: Number of tourist overnights in the city of Sinj in the period 2012-2017

|          | 2014   | 2015   | 2016   | 2017   |
|----------|--------|--------|--------|--------|
| Domestic | 11.322 | 12.115 | 5.911  | 7.850  |
| Foreign  | 10.467 | 12.085 | 8.892  | 10.693 |
| Total    | 21.789 | 24.200 | 14.803 | 18.543 |

Source: Central Bureau for Statistics of the Republic of Croatia, 2018

The data in the previous table indicate significant oscillations of tourist overnights in the period 2012-2017. Despite the achieved growth in 2017 in relation to 2016, year 2017 is registering a significant decrease of overnights.

Table 6: Number of tourist arrivals and overnights in the city of Sinj for August for 2015-2017

|        | 2015     |            | 2016     |            | 2017     |            |
|--------|----------|------------|----------|------------|----------|------------|
|        | Arrivals | Overnights | Arrivals | Overnights | Arrivals | Overnights |
| August | 1.514    | 2.290      | 1.900    | 2.819      | 2.113    | 3.479      |

Source: Central Bureau for Statistics of the Republic of Croatia, 2018

An insight into the data in the previous table indicate a steady growth of both total arrivals and overnights in August 2015-2017. Despite the fact that precise statistical indicators achieved by religious tourism are not being registered, it is the opinion of the authors of this paper that the growth is being achieved due to the organization of the cultural-historical manifestation „Sinjska Alka“which occurs in the first weekend of August, and due to the celebration of the holiday of the Assumption of the Blessed Virgin Mary which occurs on the 15th of August. However, it is necessary to emphasize that we are still discussing the summer season when tourists would still visit cultural-historical areas of county of Splitsko-Dalmatinska. In order to be able to determine true effects of organization of these events, it is advisable to conduct the adequate research with

a goal of finding out true motives of tourists when visiting Sinj, respectively the real influence of these events on attractiveness of Sinj as a tourist destination.

In order to determine the true state of the religious tourism of city of Sinj, following the authors will conduct a benchmarking analysis of its tourist offer with the greatest Croatian Sanctuary of Holy Mother of Bistrica.

### **Benchmarking Analysis of Religious Tourist Offer of Holy Mother of Sinj and the Holy Mother of Bistrica**

In the previous chapter, the authors presented the characteristics as well as the state of religious tourism of the city of Sinj. In order to be able to rethink possible developmental guidelines aimed towards future success of Sinj's religious tourist offer, the authors will conduct a benchmarking analysis with the religious tourism offer of the most developed sanctuary in the Republic of Croatia, Marija Bistrica, and try to determine possible positive experiences that could be implemented in Sinj.

According to the Official Website of the Municipality of Marija Bistrica (2018), Marija Bistrica is a settlement and a municipality situated in the County of Krapina-Zagorje. From 1993 it has been acting individually as a unit of local self-government. Its neighboring municipalities are Konjščina, Zlatar Bistrica, Gornja Stubica, and the cities of Sveti Ivan Zelina and Zagreb. The surface of the municipality amounts 68,01 kilometers and covers the following statistical settlements: Marija Bistrica, Globočec, Hum Bistrički, Laz Bistrički, Laz Stubički, Podgorje Bistričko, Podgrađe, Poljanica Bistrička, Selnica, Sušobreg Bistrički, and Tugonica. In terms of tourism offer development, it can be stated that Marija Bistrica represents the most visited tourist place in its region which is witnessed by the growing number of pilgrims and tourists. Pilgrimages last every year from the White Sunday (first Sunday after Easter) until Thanksgiving (last Sunday in October). The tourist season lasts during the whole year round. Along with religious tourism, a variety of various types of events are being organized during the whole year round (church, cultural, sports and entertainment), and various trails are arranged for tourists (pilgrimage, cycling and hiking) along with other accompanying tourist facilities, all coordinated by the municipality, the Sanctuary and the official Tourist Board. The Sanctuary of the Holy Mother of Bistrica represents the most important part of religious tourist product of Marija Bistrica. It is rich with various metal and textile sacral objects such as pastorals, chalices, monstrance, censers, chasubles, miters and flags, and primarily clothes for the Holy Mother and Jesus. Along with a rich library, the Sanctuary also possesses a large number of religious pictures from the Baroque period. However, what needs to be particularly emphasized is the fact that the biggest part of the Sanctuary's history is connected with the black Statue of the Holy Mother of Bistrica. The Sanctuary is open and available for the believers from early Spring until late Autumn, and Bistrica pilgrimages start every year on White Sunday and are attended by pilgrims from Gornja Stubica Parrish. Spiritual Feast is visited by the pilgrims from Podravina, Bjelovar, Pakrac, Karlovac, etc. Varaždin Feast occurs on Sunday after St. Peter's Holiday (Petrovo). Zagreb Feast occurs in July on Sunday before St. Margareta. During Vela Gospa, Marija Bistrica is visited by the believers from the surroundings from Čakovec, part of Moslavina, Banija and Kordun, Garešnica, Nova Gradiška, etc., while during Mala Gospa the pilgrims from Jasenovac, Petrinja, Sisak, Kostajnica, Stara Gradiška, and Marija Bistrica visit, all with a goal of spiritual renewal, vowing to the Holy Mother, for thanking for all the prayers that were answered, or just

to take a bow to the Queen of Croats. One of the well worthy projects that was undertaken on the municipality level was an international project of the Tourist Board in the cooperation with other Tourist Boards in North-Western Croatia and the neighboring Republic of Slovenia, all with a goal of achieving a Cross-border pilgrimage route that would connect all the Marian pilgrimage centers and other Marian sanctuaries included in this project.

It is visible from the previously mentioned that the Marija Bistrica has recognized its potential and it is working towards further development of its religious tourist product. However, in order to determine the state, following the authors will present the statistical indicators of its tourist turnover and compare it with the city of Sinj.

Table 7: Number of tourist arrivals in the city of Marija Bistrica in the period 2014-2017

|          | 2014   | 2015   | 2016 | 2017   |
|----------|--------|--------|------|--------|
| Domestic | 5.108  | 5.681  | n.d. | 5.506  |
| Foreign  | 4.906  | 4.620  | n.d. | 10.180 |
| Total    | 10.014 | 10.301 | n.d. | 15.686 |

Source: Central Bureau for Statistics of the Republic of Croatia, 2018

n.d.-No data

The data in the previous table present the achieved tourist arrivals in Marija Bistrica in the period 2012-2017. As visible, the data for the year 2016 are not visible, however, when comparing total arrivals achieved in 2017 in relation to the years 2014 and 2015, a significant increase has been registered, in which once again prevail foreign tourists.

Table 8: Number of tourist overnights in the city of Marija Bistrica in the period 2014-2017

|          | 2014   | 2015   | 2016 | 2017   |
|----------|--------|--------|------|--------|
| Domestic | 7.597  | 8.187  | n.d. | 9.538  |
| Foreign  | 6.543  | 5.977  | n.d. | 13.090 |
| Total    | 14.140 | 14.164 | n.d. | 22.628 |

Source: Central Bureau for Statistics of the Republic of Croatia, 2018

n.d.-No data

In terms of the achieved overnights, a significant increase has been registered in 2017 in relation to the previous years (all except the year 2016 for which there was no data). As expected, the majority of overnights were achieved by foreign tourists.

Additional information that need to be emphasized further on were presented on the assembly of the Tourist Board of Marija Bistrica in January 2018 (Zagorje.com, 2018):

- In 2017 the number of achieved overnights on the area of municipality of Marija Bistrica was exceeded since 1998 since the statistics has been registered in the office of the Tourist Board;
- In 2017 the highest number of arrivals was achieved by the South-Korean tourists (4,728), followed by Polish tourists (1,957), Chinese tourists (799) and German tourists (786);

- The highest number of overnights was also achieved by tourists from South Korea (4.769), Poland (2,001), China (1,439) and Germany (1,117).

The Director of the Sinj Tourist Board also provided the information about the foreign guests, stating that among them, as well as in Marija Bistrica, Polish, Italian, Spanish and Portuguese tourists (excluding the tourists who arrive from Bosnia and Herzegovina) are the ones who tend to visit Sinj Sanctuary and Međugorje more and more often.

Table 9: Achieved number of visitors of Religious Tourism in Marija Bistrica in the period 2012-2017

| Year | Total     | Foreign |
|------|-----------|---------|
| 2012 | 919.000   | 110.200 |
| 2013 | 950.000   | 166.000 |
| 2014 | 883.000   | 127.000 |
| 2015 | 812.000   | 130.000 |
| 2016 | 1.022.300 | 130.900 |
| 2017 | 970.740   | 129.240 |

Source: The Statistical Report of the Tourist Board of the Marija Bistrica Municipality for the year 2017 (data gathered through e-mail)

One of the worthy efforts that needs to be emphasized is monitoring of achieved religious tourist visits. The data in the previous table do indicate the on oscillations in the monitored period, as well as the fact that foreign tourists make the smallest share of these visits, which indicates the necessity of further developmental and marketing activities with a goal of attracting larger number of visitors. Previously mentioned Strategy of development of Croatian tourism until the year 2020 states that Religious Tourism has been placed as Cultural Tourism. This is something that the Republic of Croatia, as a country with an excellent potential should not permit. Current state and the level of development of Religious Tourism offer of Sinj and Marija doesn't contribute significantly to the total tourism development of their counties, respectively, the offer is insufficiently developed in relation to its true potential. This is witnessed by the following statistical indicators.

Table 10: Arrivals and overnights in the County of Split-Dalmatia and Krapina-Zagorje, and in the cities of Sinj and Marija Bistrica in the year 2017

|                                   | Arrivals  | Overnights |
|-----------------------------------|-----------|------------|
| County of Split-Dalmatia (Total)  | 3.159.851 | 16.595.717 |
| Sinj                              | 11.317    | 18.543     |
| County of Krapina-Zagorje (Total) | 142.313   | 330.277    |
| Marija Bistrica                   | 15.686    | 22.628     |

Source: Central Bureau for Statistics of the Republic of Croatia, 2018

From the data in the previous table it can be concluded that total arrivals and overnights of the city of Sinj achieved in 2017 participate with less than 1% in total tourist turnover of the County

of Dalmatia-Split, which is extremely discouraging. On the other hand, Marija Bistrica as a municipality of the County of Krapina-Zagorje participates with total arrivals with 11% and almost 7% of overnights, which is "positive" in relation to Sinj, but still extremely poor in relation to the true potential. Bearing in mind all the previously mentioned, following the authors will present a proposal of developmental guidelines necessary for improvement of current state of Religious tourism offer of Sinj and Marija Bistrica.

### **Proposition of developmental guidelines for improvement of Religious Tourist offer of the city of Sinj**

The results of the previously presented analysis in this paper indicate that Religious Tourism hasn't reached its full developmental capacity in the city of Sinj, despite the high potential. Development of this specific form of tourism must be brought to a higher level of development, in order to not only contribute to the tourist offer development of Sinj, but the Republic of Croatia in total, which must in the end result in achieving competitiveness on the turbulent European and world tourist market.

Bearing in mind previously stated, the authors propose the following strategic developmental guidelines (Author's adaptation according to Tourist Board of Rijeka, 2015):

- Position Sinj as a recognizable religious tourist destination through adequate valorization of sacral heritage (greater openness of spaces of cultural and religious importance which would attract greater number of visitors, define a precise model of preservation of church buildings and the inventory, clearer marking of religious buildings in order to make it easier for tourists to find it and visit it);
- Enable further improvement of the integral tourist product of the city of Sinj through further development of its Religious Tourist offer (development of routes of organized and individual tours of religious objects under the professional guidance, enable services on various foreign languages, organization of multiple days religious seminars, planning and programing of diverse cultural contents (music, arts, audiovisual, etc.) inspired by religion, organization of gastronomic events arose from religious customs such as Halal, Kosher, etc., top quality education of tourist guides, animators and volunteers as well as ensurance of programs of lifelong learning, continuous market research research and promotion activities online and offline, creation and offering of unique and authentic souvenirs, etc. );
- Increase the total tourist turnover as well as the level of satisfaction of tourists and pilgrims while staying in Sinj (increasing the accommodation capacities with a particular accent on hotel capacities, increasing the diversity and quality of restaurant facilities according to the specific needs of tourists and pilgrims, better traffic connection, cleanliness in the destination, improvement of trade offer of autochtonous products, etc.);
- Enable coordinated actions of all activity carriers of tourist offer of Religious Tourism (maintaining their continous coordination) as well as networking of stakeholders.

## Conclusion

In this paper the authors have presented the most important characteristics of the Religious Tourist offer of the city of Sinj, as well as the facts why it is important and necessary to undertake further developmental actions for Religious Tourism offer. The determined state indicates that despite until now undertaken efforts, the city of Sinj, as a religious tourist destination is lagging in terms of quality and diversity of its tourist offer and needs to make additional activities in order to become more competitive on the tourist market in relation to other competing religious tourist destinations. This could be achieved through application of previously stated developmental guidelines.

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## **Analysis of the Influence of Tourist Demand on Tourism Consumption in the Republic of Croatia**

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**Abstract:** *Tourism market consists of tourism demand and tourism supply. In order to achieve the success of the destination at tourism market it is necessary to stimulate the tourist demand with a quality tourist product. The increase of tourism demand is accompanied by increased consumption which directly affects the economic benefit. Tourism demand encompasses a number of factors such as the number of arrivals and tourist overnights, the motives of arrivals, tourist activities in the destination ... It is therefore necessary, by analyzing tourist demand, to determine tourist's preferences in order to form a quality tourist product. In this article, tourism demand in the Republic of Croatia will be analyzed through certain factors such as: number of tourist overnights, tourist motivation, tourism activities in a tourist destination, the average number of days of tourist stay in the destination ... In addition to demand analysis, and consumption analysis and to determine the impact of tourism demand on tourism consumption. The aim of this article is to determine the trends and the mutual impact of tourist demand and tourist consumption in the Republic of Croatia through quantitative and qualitative analyzes. Based on the analysis obtained through the SWOT analysis, advantages and disadvantages, strengths, weaknesses, will be identified, and suggestions for improvement will be provided.*

**Key words:** *Tourism Demand, Motivation, Tourist Consumption, Tourist Destination*

JEL Code: L83

### **Introduction**

Tourism market can be defined as the meeting place of a tourist supply and tourist demand. Tourism supply and tourism demand are interrelated. Tourism demand depends on the quality of touristic offer. If the destination has a quality destination product, it will attract tourists. Tourism demand is dependent on the success of tourism supply, which can be analyzed on many aspects such as the number of arrivals and tourist overnights, the motivation of tourists, tourist activities in a tourist destination, tourist consumption and the level of tourist satisfaction. Today, changes at tourism market are taking place very fast. Tourists daily change their preferences that are important to be monitored and analyzed to create a quality

tourist product that suits their wishes. In the Republic of Croatia there is a trend of rising tourist demand. In order to respond to more demanding tourist needs, Croatian Tourism Development Strategy has been developed by 2020. The Strategy focuses on selective forms of tourism. Dominant products have been defined: sun and sea, nautical tourism, business tourism and cultural tourism. Also there are outlined products with a perspective of development: health tourism, cycling tourism, gastronomy and enology, rural and mountain tourism, golf tourism, adventure and sports tourism and ecotourism (Strategy of development of Croatian tourism, 2012, p. 7-9). By analyzing tourism demand, based on available resources, it will best meet the needs of modern tourists.

### **Main determinants of tourist demand**

There are over 80 definitions for tourism. The most accepted definition of tourism is one from AIEST: "Tourism is a set of relationships and occurrences that arise from the travel and stay of a visitor to a place, if such residence is not based on permanent residence and if no such economic activity is associated with such residence (Pirjevec, 1998, p.19)." The definition itself places the emphasis on the travel of tourists because without travel there is not tourism. This highlights show the importance of tourism demand itself.

Tourism demand can be defined from different aspects. For the purposes of tourism statistics, tourism demand is most often defined as the total number of persons participating in tourism traffic, of wishing to participate in tourism traffic, to consume various tourism services in places away from their usual place of residence (Cooper, Fletcher, Gilbert, Wanhill, 1998). From an economic perspective, tourism demand can be defined as the quantity of goods and services that can be sold on the tourism market under specific conditions and at specific prices, that is, the quantity of goods and services for which potential tourism consumers show a realistic and objective interest (Vukonić et al., 2001).

Tourism demand has four main characteristics (Križman Pavlović, 2008):

1. Mobility - stems from the fact that tourists must come to a tourist destination to consume the product
2. Heterogeneity - stems from the many individual characteristics of individual tourist users due to which they behave differently on the tourist market
3. Elasticity - stems from the fact that tourism demand is strongly responsive to change.
4. Seasonality - manifested in the concentration of tourist traffic in space and time

Factors of demand are the international and domestic market and the local population that uses and enjoys tourist attractiveness, facilities and services.

According to Freyer, the factors influencing tourism demand are divided to (Magaš, Vodeb and Zadel, 2018):

- individual (travel hub, basic need, curiosity, urge to explore, solitude and contact, pleasure and activity, rest and recovery, jobs and communication)
- social (values and norms, social organization, social structure, relation to free time and mobility)

- ecological (climate, landscape, ecology, urbanization, housing conditions)
- economic (overall economic development, trading conditions, revenue , distribution, prices and courses, workplace and business conditions, transportation costs)
- state (legislation, foreign exchange, customs and border regulations, political relations)
- influence of offers (service, product, price, sales channel, advertising).

According to Dwyer there are three groups of determinants of the demand for tourism (Gomezelj, Omerzel. 2011):

1. Socio-economic and demographic factors (population, income in country of origin, leisure time, education, occupation etc.)
2. Qualitative factors (variables such as tourist appeal, image, quality of tourist services, destination marketing and promotion, cultural ties etc.)
3. Price factors (cost of tourism includes the cost of transport services to and from the destination and the cost of ground content)

Analyzing tourism demand is very complex because it involves a lot of variables. For the purposes of this paper, the following variables have been used: the number of arrivals and overnights, the motivation of tourists, tourist activities and the consumption of tourists. In the course of the work, tourism demand was analyzed in the Republic of Croatia based on the secondary statistical data of the Central Bureau of Statistics, the Ministry of Tourism and the Institute for Tourism.

### Analysis of tourist demand

Number of arrivals and overnights in the Republic of Croatia are increasing. The total number of tourists increased by 13% in 2017 compared to 2016, while the total number of overnights increased by 11%. The largest share in arrivals and overnights have foreign tourists. The average number of days of tourists stay in the destination is about 5 days, and is decreasing. The average number of days of domestic tourists stay in the destination is about 3 days which is very low. Foreign tourists stay in destination for about 5 days. This means that the destinations do not have enough additional offer to keep visitors in the destination for a longer period.

Table 1. Analysis of number of tourists and number of overnights in Croatia

| Tourists | Number of tourists |            | Number of overnights |            | The average number of days of tourists stay in the destination |         |
|----------|--------------------|------------|----------------------|------------|--|---------|
|          | 2016.y.            | 2017.y.    | 2016.y.              | 2017.y.    | 2016.y.  | 2017.y. |
| Domestic | 1.748.590          | 1.837.681  | 5.819.465            | 5.978.264  | 3,3  | 3,3     |
| Foreign  | 13.714.570         | 15.592.899 | 72.099.390           | 80.221.997 | 5,2  | 5,1     |
| Total    | 15.463.160         | 17.430.580 | 77.918.855           | 86.200.261 | 5,0  | 4,9     |

Source: authors by Arrival and tourist overnights in 2017., Declaration, Central Bureau of Statistics, Zagreb, 2018., p.2.

The following table shows the analysis of the structure of arrivals and overnights of foreign tourists in 2017.

Table 2. Structure analysis of arrival and stay of foreign tourists by country of origin in 2017.

| Land of origin         | Number of tourists |            | Structure in % |            |
|------------------------|--------------------|------------|----------------|------------|
|                        | Arrival            | Overnights | Arrival        | Overnights |
| Germany                | 2.215.900          | 19.525.823 | 14,2           | 24,3       |
| Austria                | 1.331.215          | 6.990.661  | 8,5            | 8,7        |
| Slovenia               | 1.297.681          | 7.140.125  | 8,3            | 8,9        |
| Italy                  | 1.110.219          | 4.915.170  | 7,1            | 6,1        |
| Poland                 | 934.336            | 6.056.181  | 6              | 7,5        |
| UK                     | 750.675            | 3.809.782  | 4,8            | 4,7        |
| Czech Republic         | 741.757            | 5.067.098  | 4,8            | 6,3        |
| Hungary                | 545.789            | 2.769.749  | 3,5            | 3,5        |
| France                 | 536.072            | 1.969.831  | 3,4            | 2,5        |
| USA                    | 451.947            | 1.178.063  | 2,9            | 1,5        |
| Korea Republic of      | 448.636            | 548.624    | 2,9            | 0,7        |
| Netherland             | 442.692            | 2.904.353  | 2,8            | 3,6        |
| Slovakia               | 425.173            | 2.794.329  | 2,7            | 3,5        |
| Bosnia and Hercegovina | 354.018            | 1.546.753  | 2,3            | 1,9        |
| Sweden                 | 294.281            | 1.571.052  | 1,9            | 2,0        |
| Switzerland            | 250.601            | 1.088.400  | 1,6            | 1,4        |
| Spain                  | 250.387            | 534.065    | 1,6            | 0,7        |
| Belgium                | 202.796            | 951.024    | 1,3            | 1,2        |
| Australia              | 186.323            | 488.437    | 1,2            | 0,6        |
| Norway                 | 172.077            | 1.058.398  | 1,1            | 1,3        |
| Japan                  | 142.043            | 221.360    | 0,9            | 0,3        |
| Canada                 | 136.519            | 363.585    | 0,9            | 0,5        |
| Danmark                | 123.662            | 809.586    | 0,8            | 1,0        |
| Others                 | 2.498.487          | 5.919.548  | 14,5           | 7,3        |
| Total                  | 15.592.899         | 80.221.997 | 100            | 100        |

Source: authors by Arrival and tourist overnights in 2017., Declaration, Central Bureau of Statistics, Zagreb, 2018., p. 3-4.

Analysis of the structure of arrivals and overnights of foreign tourists in 2017 shows that the largest share in the Republic of Croatia, is made up of dominant tourist markets. These are tourists from neighbouring countries: Germany, Austria, Slovenia and Italy. The share of tourists from the United States and the United Kingdom increases. There is a growth of tourists from Asian countries, China and Japan.

### Analysis of tourist motivation

In the next table, there are shown trends of tourist arrival motivation to Croatia. Most important reason of tourists, is resting and recreation - passive recreation. Croatia is extremely seasonal tourist destination. Most of the tourist arrivals is during summer season and because of it, most important reason of tourist arrival are sun and sea. However, if the trend is analyzed in general, it is possible to notice that the most important reason of resting and recreation is decreasing. In 2001, 91,10% of tourist arrived because of sun and sea, and later that trend is decreased and in 2017, that number is decreased and is only 54,9%. That leads to a conclusion that tourist will in the future also travel mostly because of sun and sea (passive recreation), but they also seek for some additional offer. It is possible to notice a growth of motivation trends for an additional offer, like new experiences, sport and recreation, health reasons, diving, cultural attractions, events and gastronomy. For that reason, it is necessary to follow and analyze touristic preferences and to adjust tourist offer to the preferences of guests.

Table 3. Motives of tourist arrivals in Croatia

| Motives                                     | 2001   | 2004   | 2007   | 2010   | 2014   | 2017   |
|---|--------|--------|--------|--------|--------|--------|
| Resting and recreation – passive recreation | 91,10% | 66,70% | 61,60% | 75,10% | 75%    | 54,90% |
| Fun   | 36,10% | 42,50% | 43,30% | 44,10% | 43%    | 24,20% |
| Seeing nature                               | 32,50% | 24,40% | 26,10% | 20,90% | 20%    | 26,20% |
| New experiences                             | 20,20% | 24,60% | 25,50% | 25,30% | 30%    | 31,10% |
| Cultural attractions and events             | 7,50%  | 6,00%  | 9,80%  | 7,10%  | 7,00%  | 12,30% |
| Sport and recreation                        | 7,10%  | 8,80%  | 10,20% | 8,30%  | 6,80%  | 19,80% |
| Visit friends and family                    | 6,20%  | 6,00%  | 8,30%  | 8,60%  | 6,10%  | 9,80%  |
| Health reasons                              | 4,20%  | 5,10%  | 5,00%  | 4,70%  | 5,00%  | 6,90%  |
| Diving                                      | 3,10%  | 3,00%  | 6,30%  | 3,60%  | 3,20%  | 6,10%  |
| Buisness                                    | 1,10%  | 1,30%  | 1,20%  | 0,80%  | 0,90%  | 2,50%  |
| Shopping                                    | 0,60%  | 1,50%  | 2,50%  | 2,30%  | 1,10%  | 3,20%  |
| Gastronomy                                  | -      | 19,40% | 19,60% | 21,90% | 26,00% | 29,00% |
| Religion                                    | -      | 0,20%  | 0,70%  | 0,30%  | 0,20%  | 1,00%  |
| Other motives                               | 1,60%  | 2,10%  | 0,90%  | 3,20%  | 0,50%  | 0,60%  |

\*possibility of more answers

Source: authors by Attitudes and consumption of tourists: TOMAS 2001, TOMAS 2004, TOMAS 2007, TOMAS 2010, TOMAS 2014 and TOMAS 2017, Institute for Tourism, Zagreb

The following table analyzes the trend of tourist activities during their stay in destination. The trend of tourist activities in Croatia follows the previously analyzed motivation. Since tourists come to Croatia mainly because of sun and sea, the highest percentage of tourists in the destination are swimming and sun. However, in accordance with motivation, the motivation of the sun and the sea is decreasing, so the trend of tourist activities by swimming and sun is also decreasing. In 2007 year, 97.50% of tourists are swimming and sun, while the share in 2017 year decreased to 78.30%. In the period from 2007 to 2017 year there is also a trend of decreasing activities on other elements of tourist offer.

Table 4. Activities of tourist during their stay in destination

| Rang | Activities                              | 2007 in % | 2014 in % | 2017 in % |
|------|---|-----------|-----------|-----------|
| 1.   | Swimming and bathing                    | 97,50     | 98,90     | 78,30     |
| 2.   | Going to caffes, pastry shops           | 87,40     | 94,50     | 45,50     |
| 3.   | Going to restaurants                    | 84,20     | 91,30     | 46,90     |
| 4.   | Shopping                                | 71,70     | 68,60     | 16,10     |
| 5.   | Visiting local events                   | 66,00     | 56,60     | 30,10     |
| 6.   | Dance or disco                          | 55,70     | 43,80     | 15,30     |
| 7.   | Excursions to national parks            | 54,20     | 38,00     | 21,10     |
| 8.   | Diving                                  | 43,00     | 37,00     | 16,30     |
| 9.   | Health-recreations and wellnes programs | 24,80     | 36,10     | 15,00     |
| 10.  | Visiting museums and exhibitions        | 47,60     | 34,90     | 14,00     |
| 11.  | Sports on water                         | -         | 33,90     | 16,60     |
| 12.  | Driving a bike                          | 37,20     | 33,20     | 13,50     |
| 13.  | Visiting concerts                       | 47,40     | 30,70     | 10,30     |
| 14.  | Visiting wine roads                     | 33,40     | 27,70     | 9,50      |
| 15.  | Visiting theatre and events             | 37,60     | 23,10     | 14,00     |
| 16.  | Fishing                                 | 35,10     | 21,40     | 7,70      |
| 17.  | Tennis                                  | 36,80     | 21,10     | 9,90      |
| 18.  | Visiting olive oil roads                | 28,00     | 20,60     | 9,10      |
| 19.  | Adventure sports                        | 25,60     | 14,30     | 11,10     |
| 20.  | Mounataineering                         | 23,50     | 12,60     | 3,90      |
| 21.  | Golf                                    | -         | 8,00      | 2,20      |
| 22.  | Horse riding                            | 18,80     | 6,80      | 3,50      |

\*possibility of more answers

Source: authors by Attitudes and consumption of tourists: TOMAS 2001, TOMAS 2004, TOMAS 2007, TOMAS 2010, TOMAS 2014 and TOMAS 2017, Institute for Tourism, Zagreb

Great changes are present in trends of cafes, pastry shops and restaurants visits Tourists much less go to cafes, pastry shops and restaurants, which may be due to inadequate tourist offer. The trend of reducing activity in certain elements of tourist offer may be the result of

inadequate quality of tourism products, but also the inappropriate offer of tourist wishes and expectations. All this points to the necessity of analyzing of a tourist demand.

### Analysis of tourist consumption

The following chart shows the trend of average daily consumption in Croatia from 1997 to 2017 year. It is evident that there is a trend of average daily consumption growth. In 2017 year the tourist spent 78.77 € per day in the destination, which is in comparison with 2014 year an increase of 19%. The increase in average daily consumption is the result of an increase in the number of arrivals and overnights.

Chart 1. Trend of average daily consumption in Croatia from 1997 to 2017 (in €)



Source: authors by Attitudes and consumption of tourists in Croatia: TOMAS 2001, TOMAS 2004, TOMAS 2007, TOMAS 2010, TOMAS 2014 and TOMAS 2017, Institute for Tourism, Zagreb

The following table shows the structure of average daily consumption by country of origin. In 2017 year the highest average daily consumption was realized by tourists from the USA (158,20 Euro per day), UK (138,76€ per day), Spain (126,05€ per day), Russia (121,11€ per day) and tourists from Scandinavia (118,76€ per day). The largest average daily consumption is realized by tourists from more distant countries. Lowest average consumption in 2017 year has been realized by domestic tourists (61.03 €/day).

Table 5. Average daily consumption by country of origin in Croatia

| Country of origin                   | Average daily consumption in |
|-------------------------------------|------------------------------|
| USA                                 | 158,20                       |
| Great Britain                       | 138,76                       |
| Spain                               | 126,05                       |
| Russia                              | 121,11                       |
| Sweden, Norway, Denmark and Finland | 118,76                       |
| France                              | 96,20                        |

|                        |       |
|------------------------|-------|
| Serbia                 | 95,03 |
| Austria                | 90,93 |
| Netherlands            | 78,75 |
| Italy                  | 76,24 |
| Germany                | 75,35 |
| Hungary                | 71,52 |
| Czech Republic         | 70,50 |
| Bosnia and Herzegovina | 69,61 |
| Slovakia               | 66,85 |
| Poland                 | 65,76 |
| Slovenia               | 61,72 |
| Croatia                | 61,03 |

Source: Attitudes and consumption of tourists in Croatia, Institute for Tourism, Zagreb, 2018, p. 94.

The following table shows the structure of average daily consumption of tourists in Croatia in 2017 year. The most of the consumption tourists are generating through accomodation (49,20%) and that share is increasing. Beside accomodation, tourists are generating increasing ammount of consumption on food in restaurants and bars (16,50%) and also shopping (15,30%) which share is also increasing.

Table 6. Structure of average daily consumption of tourists in Croatia in 2017

| Services                     | €     | %      |
|------------------------------|-------|--------|
| Accomodation                 | 38,77 | 49,20  |
| Food in restaurants and bars | 12,96 | 16,50  |
| Shopping                     | 12,03 | 15,30  |
| Culture and fun              | 2,72  | 3,40   |
| Sport and recreation         | 3,05  | 3,90   |
| Excursions                   | 2,66  | 3,40   |
| Local transport              | 4,70  | 6,00   |
| Other                        | 1,89  | 2,40   |
| Total                        | 78,77 | 100,00 |

Source: authors by Attitudes and consumption of tourists in Croatia, Institute for Tourism, Zagreb, 2018, p. 52.

Less consumption are generating in culture and fun, sport and recreation, excursions. It can be a consequence of low price of such touristic products and inadequate quality of product. Consumption should be stimulated in accordance with other tourist products in a way that quality tourist products will be created in accordance with tourist preferences.



## SWOT analysis

Based on previously performed analyzes of tourist demand, motivation, tourism activities in destination and tourist consumption, SWOT analysis was performed in the following chart.

Table 7. SWOT analysis

| STRENGTHS   | WEAKNESSES   |
|---|--|
| <ul style="list-style-type: none"> <li>- increasing the number of tourist nights and arrivals</li> <li>- increasing the consumption of tourists in the destination</li> <li>- attraction base</li> <li>- space for new tourist construction</li> <li>- raising the quality of the tourist offer</li> <li>- tradition of tourism</li> <li>- a favorable climate</li> <li>- a large share of foreign tourists</li> <li>- the image of the tourist country</li> </ul>  | <ul style="list-style-type: none"> <li>- a small share of local tourists</li> <li>- the seasonality of tourism business</li> <li>- unfavorable structure of accommodation capacities</li> <li>- Croatia's image limited to "sun and sea"</li> <li>- insufficiently valorised attraction base</li> <li>- reducing the motivation of tourists "sun and sea"</li> </ul>   |
| OPPORTUNITY   | THREATS  |
| <ul style="list-style-type: none"> <li>- the existence of an attractive base for the development of new tourist products</li> <li>- diversification of tourist products</li> <li>- activation of unused military tourist complexes</li> <li>- increasing the interest of tourists for tourist products of certain selective forms of tourism</li> <li>- increasing the share of hotel accommodation capacity</li> <li>- a high share of potential tourists in the major broadcasting markets</li> <li>- conquering new tourist markets</li> </ul> | <ul style="list-style-type: none"> <li>- reducing the motivation of tourists for certain products of selective forms of tourism</li> <li>- reducing the average number of days of tourists staying in the destination</li> <li>- an increase in the interest of building a vacation home</li> <li>- a high share of tourist spending on accommodation</li> <li>- a small share of tourist spending on additional tourist products</li> <li>- a prolonged economic recession</li> </ul> |

Source: authors by Strategy of development of Croatian tourism, Report 7. SWOT and PEST analysis and development scenario, Institute for Tourism, Zagreb, 2012., p. 24.

The main strengths in Croatia are the growth of demand in destination. The growth in demand has led to an increase in consumption in a tourist destination. Croatia has a wealth of attractions that have not yet been valorized, which is an opportunity to create new tourist products. The high share of foreign tourists means a larger foreign currency inflow which has a positive impact to the economy.

One of the main weaknesses is the 'sun and sea' image of Croatia which leads to extreme seasonality during summer months. Croatia has no recognizability on the tourism market that would be realized through other selective forms of tourism, which would have an impact on the extension of the tourist season. The motivation of tourists sun and sea tends to fall, what means tourists are looking for other forms of tourist offer. The unfavorable structure of

accommodation capacities is reflected in the high share of private accommodation of inadequate quality. The lack of adequate quality tourist products leads to almost half of their spending on accommodation.

Opportunities are reflected in the increase of tourists for selective tourism products, since Croatia has an attractive base for the development of selective forms of tourism that is not sufficiently valorized. One of the major threat is to reduce the motivation of tourists for selective tourism products, indicating that there are no adequate quality products. Also the inadequate tourist offer directly affects the average number of days of tourists staying in the destination.

## **Conclusion**

There is a positive trend in tourist demand in the Republic of Croatia. Numbers of tourist arrivals and overnights increase. There are also positive changes in the structure of arrivals and overnights of foreign tourists. The share of dominant markets, including neighbouring countries (Germany, Austria, Slovenia and Italy) remains the same, but new markets emerge from distant countries such as China, Japan and the United States. Negative trend is noticed in the average number of days of tourists staying in the destination. Average tourists stay lasts for 5 days, which should be extended by creating a new quality tourist products.

There are great changes at tourism market every day. Tourists change their preferences. The motivation of tourists, who mostly focused on sun and sea, decreased considerably. Tourists want new offer forms. Sun and sea will remain the dominant form of tourist offer, but it is also necessary to develop other selective forms of tourism. It is therefore necessary to analyze tourist needs and thus develop a tourism product. The Republic of Croatia has a wealth of attractiveness and can respond to the sophisticated needs of contemporary tourists.

The increase in the number of arrivals and overnights was positively reflected on the consumption of tourist in the destination. Problem is in the structure of tourist spending because tourists spend most of the amount on accommodation. By creating new products, the consumption in other segments will also increase.

Positive changes that have to happen on the side of tourist demand in the Republic of Croatia should be exploited, and the mentioned negative factors should be reduced to the smallest possible extent. The answer lies in the development of selective forms of tourism as cited in the Tourism Development Strategy for the Republic of Croatia by 2020. This will stimulate demand and consumption, and achieve the most important goal in tourism – satisfaction of the guests.

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## **Analysis of the state of Senior Health Tourism offer in the Republic of Croatia**

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**Abstract:** *Throughout the years, the world and European tourism industry has been registering significant demographic changes, respectively a highly growing number of senior tourists who belong to the so-called Third age group of tourists. This represents a significant challenge for the tourist offer carriers considering that in relation to the past years, today, senior tourists are more educated in many ways, and especially when using information and communication technology, which enables them to have all the necessary information about (health) tourism offer on the palm of their hand. Contemporary senior tourists have significantly higher expectations than ever before when undertaking a journey, and want a more diversified, top quality tourist offer, adapted to their preferences and likings, which will enable them to achieve experience and value for money. One of the specific forms of tourism, which has been developing significantly over the years, is health tourism, towards which services senior tourists are showing growth attention, all with a goal of health improvement, and prolonging their life expectancy. Republic of Croatia, as an EU member, and as a tourist destination with a very long tradition of providing health tourism services, has developed significantly over the years and is tracking contemporary trends on the European tourist market. But to what extent? The main purpose of this paper to provide an insight into the state and attitudes of senior tourists towards health tourism offer on the European, and the Croatian level, and possibly emphasize the improvement measures which will enable higher level of competitiveness of the Republic of Croatia as a destination of health and well-being.*

**Keywords:** *health tourism offer, senior tourists, tourist offer development*

JEL Codes: L83, Z32

### **Introduction**

In the last couple of decades world economy, as well as tourism industry, is registering significant changes, mostly caused by the strong effects of globalization, which had a significant impact on tourist's behavior, respectively changes in way of thinking and behavior of contemporary tourists. By using new and modern technologies, tourists are in a position to make a much easier decision about visiting a destination and experience its beauties and particularities. Additional thing that needs to be emphasized, is the significant change within the demographic structure of the population on world level, and European Union in particular, respectively, a significant growth of share of people who belong to the so called "Third age" group.

In the past, the social role of the seniors was classified or identified mostly to their usual life functions, tasks, requirements and duties. By becoming elderly usually meant going to retirement, be passive, become a grandparent, continue to be a support to their family and friends, and enjoy the fruits of their hard work earned during their working career (Perri & Groe, 2014). Constant exposure to the significant amounts of psychological and physical stress due to work as well as family support had a big impact to their quality of life, respectively, health disorder. By entering the third age period of their life, they tend to show greater interest for health tourism services, with a goal of recuperation of disrupted health and improvement of quality in life in general. This represents a big opportunity for the destinations which have already developed their health tourism offer, or which possess all the preconditions for future development, to focus their efforts towards adjusting the elements of their offer towards third age tourists. Within the European Union, one of its members is the Republic of Croatia, a tourist destination with a long history of tourism development, and health tourism in particular. However, what is the actual state when discussing its offer for seniors? Within this paper, the authors will present the main characteristics of the contemporary senior tourist and their tendencies towards experiencing Health Tourism services. Following they will present briefly the state of Health Tourism on European Union and Croatian level, and provide guidelines of improvement of Health Tourism for senior tourists.

#### CHARACTERISTICS OF WORLD AND EUROPEAN TOURISM WITH PARTICULAR ATTENTION TO THE THIRD AGE (HEALTH) TOURISM

European tourist market is extremely challenging in the sense of development of new qualitative trends, changes in the preferences of tourists who are constantly changing and increasing, and they ask fast and timely reaction in the sense of improvement of offer of tourist product and achieving competitive advantages (Alkier et al, 2015, pp. 181). An insight into the tourism indicators point to the fact that throughout the years, despite the effects of the financial and economic crisis, Europe continued holding the leading position within the world tourism flows. According to the UNWTO European Union Trends (2018), in 2016 Europe registered 619 million of tourist arrivals (50% of world's total), respectively, an increase of 2% in relation to 2015. In terms of achieved receipts, Europe also achieved the leading position by achieving 406 billion in 2016, respectively, 37% of world's receipts at destinations, which represents a 1% increase in relation to the year 2015. When monitoring the arrivals by purpose of visit of a certain destination, holidays, recreation and other forms of leisure remained the main purposes for travelling to the EU destinations, respectively, 61% of total arrivals to EU destinations in 2016, which is somewhat above the world average of 57%. In Europe, 170,8 million of arrivals were due to visiting friends and relatives, health, religion and other reasons, within which the EU-28 participated with 120,0 million arrivals.

Europeans are living longer and healthier lives, and subsequent generations can benefit from longer lifespans lived together. However, this is accompanied the fertility rates which are below replacement level, and as a result, population growth is slowly decreasing, while population ageing is registering an increase. It is predicted that in the future period there will be rapid increases in the elderly population, in particular due to the ageing of the post-war baby-boomers (European Commission, 2014).

According to the data from EUROSTAT (2018), in 2016 within the European Union, the elderly population participated with 19,2% in the total population, which in relation to 1996, amounts a 4,3% increase. In a twenty year period, the highest growth of the seniors was registered in Lithuania (+8,7%), Malta (+7,7%), Finland (+6,2%), Slovenia (+5,9%), Latvia

(+5,8%), Portugal (+5,6%), Greece and Germany (+5,5%), Estonia (+5,3%). The lowest increase was registered in Sweden (+2,3%), Belgium (+2,2%), United Kingdom (+2,0%), Ireland (+1,8%), and finally Luxembourg (+0,1%). There was no available data for Croatia for 1996, so comparison could not be made. However, in 2016, Croatia participated with the share of 19,2% among the EU-28 member states. In terms of life expectancy among men and women and the age 65, it has been determined on EU-28 level that in 2015 the age for women amounted 21,2 years, while for men it was 17,9. As far as expectancy of healthy years at the age of 65, the age amounted 9,4 years for both genders. In terms of travelling, it has been registered in 2015 that 48,8% of seniors in EU-28 travel actively. The highest number of active senior travellers was registered in Denmark (83,7%), Sweden (80,4%), Netherlands (72,1%), Finland (70,8%), Germany (68,3%), Luxembourg (64,4%), Czech Republic (64,1%), France (64,0%), and Ireland (62,9%). A bit lower share was registered in the United Kingdom (59,6%), Austria (54,6%), Cyprus and (42,8%). Low share was registered in Belgium (39,9%), Hungary (39,8%), Spain (39,0%), Poland (38,0%), Slovenia (36,2%), Estonia (34,8%). The lowest share was registered in Croatia (19,1%), Romania (13,5%), and Bulgaria (11,0%). As previously mentioned, use of Information and Communication Technologies and internet is registering a strong growth on world and European level, in all generations, and seniors are no exception. In 2016, on the EU-28 level 45% of seniors use the internet at least once a week. The highest percentage was registered in Luxembourg (88,0%), Denmark (81,0%), Sweden (80,0%), Netherlands (77,0%), United Kingdom (73,0%) and Finland (66,0%). A bit lower share was registered in Belgium (57,0%), Germany (56,0) and France (55,0%). Significantly lower share: Malta (36,0%), Slovakia and Hungary (35,0%), Latvia (33,0%), Spain (32,0%), Slovenia (28,0%), Portugal and Cyprus (26,0%), Italy (25,0%), and Poland and Lithuania (23,0%). The lowest share was registered in Croatia (16%), Greece (14,0%), Romania (13,0%) and Bulgaria (12,0%).

Previously presented indicators point out on a firm and growing trend of seniors within the total EU-28 population, whose (healthy) life expectancy is prolonging, they increasingly decide to participate in tourism flows, and they are becoming literate in use of information technology more than ever. Seniors represent an important share within European tourism flows, and they need to be taken into consideration when developing destination's tourist product. In order to be able to develop an adequate tourist product capable of satisfying their needs, it is mandatory to determine the profile of a contemporary senior tourist. One of many European projects that needs to be emphasized, and which has managed to do just that is the ESCAPE Project Report on Senior Tourists needs and demands (European Commission, 2015), respectively, a report based on empirical research whose goal was to determine the profile of a senior tourist, respectively their current needs and demands. The countries that participated in the research were Italy, Portugal, Cyprus, Ireland, Greece, Denmark-Faroe Islands, United Kingdom, Netherlands, Malta, France, Poland, Germany, Czech Republic, Sweden, Belgium, Lithuania, Brazil, Turkey, Spain, Slovenia, Hungary, Bulgaria, Austria, USA, and Albania. The majority of respondents were women (58,5%), and men (41,5%). The majority of respondents belonged to the age group 55-60 (34,2%), followed by 61-65 (24,5%), 66-70 (19,6%), 71-75 (11,0%), 76-80 (6,9%), 81-85 (2,3%), and 85+ (1,4%). 32,6% of the respondents were fully retired, while 29,0% of the respondents were not retired at all, and low 3,5% were partially retired. In terms of marital status, 67,5% of the respondents were married or in a relationship, followed by widow(er)s (15, 1%), divorced (10,9%), and single (6,5%). Over than half of the respondents (54%) possess a tertiary education (university and postgraduate), followed by Secondary Education (secondary school) (30,7%) and Primary Education (elementary school). When deciding on the company during their journey, 37,9% prefers to travel with their partner, 28,3% with their relatives and family, and 20,3% in the

group of familiar people. Foreign destinations are preferred by 50,9% of the respondents, while 41,7% decide to remain in their home country. While travelling abroad, 55,7% of the respondents stated that they spend up to 100 EUR per day, while 37,8% stated that they spend 101 to 300 EUR per day. Only 4% of the respondents tend to spend between 3,001-500 EUR per day (4,0%) and over 501 EUR (2,4%). When discussing the duration of their travels, 42,7% prefer to stay in a destination for 4-7 nights, followed by 8-13 nights (33,4%), and 2-3 weeks (13,3%). Only 3,3% undertake journeys longer than 3 weeks (3,3%). Preferred period for travel is summer (36,6%) and spring (31,8%), followed by autumn (16,1%) and winter (5,0%). Despite the fact that use of Information Technologies is constantly on the rise, recommendation of friends and relatives, respectively, Mouth to Mouth Marketing remained the most represented as the source of information when choosing a holiday destination (28,3%), while the use of internet is on the second place (25,2%), followed by Travel agencies (15,2%). What is interesting to emphasize is that Social media achieved very poor results (only 2,2%).

All the previously presented data indicate that desires and tendencies of contemporary senior tourists have changed significantly over the years, respectively, they are not exclusively interested in just spending their time on the beach, and passive resting, but they are willing to participate in many newly formed forms of tourist offer, and test their limits. However, one thing that is extremely present among senior tourists today is continuous desire for maximum protection of their health and wellbeing, as well as prolonging of their life expectancy. Contemporary senior tourists are showing a growing interest in Health Tourism offer. The results of previously mentioned ESCAPE Project European Senior Citizens' Actions to Promote Exchange in tourism (European Commission, 2015) emphasize that high 67% of respondents consider health and wellbeing as very important/important when choosing their holiday destination. High 63% of the respondents consider quality of services provided by high quality specialized personnel very important/important, as well as quality of facilities and services (72%) and according to the affordable price (71%).

According to Mintel 2014 Health and Wellness in Europe, the greatest European emissive markets include Germany that generates almost half of total travels and one third of consumption, followed by France, Great Britain, Austria, Switzerland and Russia. Average European Health tourist is a well situated, educated, middle-aged individual. He is oriented towards Health tourist offer in its own or other European countries, and is willing to spend up to 130% of its hard saved funds more per travel than an average vacation guest. It is the fact that travels motivated by health are expressed in all age groups, however their needs are different. The "Quiet generation" of tourists between 70 and 90 are mostly loyal clients of spas, and especially those that are close to their domicile, they are interested in basic and checked health treatments, and personalized service. "Baby boomer" generations or today's 50 and 60-year olds mostly show tendency towards treatments for mobility and skin, they are interested in experimenting and are very much mobile (Ministry of Tourism, 2014, pp. 18 according to Mintel Reports, 2014).

Mainil et al. (2017) also confirmed the strong growing trend of Health Tourism on European Union level by conducting a very thorough analysis of its achieved tourist turnover. They conducted their own calculations according to the data gathered from Expanded Health Tourism Database (further in text EHTDB). Their findings are visible in the table below.

Table 1. Volume and share of health tourism arrivals on the EU-28 level (2014)

|   | All trips | Domestic | International |
|---|-----------|----------|---------------|
| Total trips (million)                   | 1,361     | 900      | 461           |
| Health tourism trips (million)          | 61.1      | 56.0     | 5.1           |
| Health tourism share of total trips (%) | 4.3       | 5.8      | 1.1           |

Source: Mainil et. Al., 2017; UNWTO, 2016

In 2014, 1,361 million of total health tourism trips were registered on EU-28 level, in which health tourism trips participated with 61,1 million (4,3%). Registered domestic total trips amounted 900 million, of which 56 million were health tourism trips (share of 5,8%), while international total trips amounted 461 million within which 5,1 million were health tourism trips (1,1%). In the same year European Union Members achieved total of €46.9 billion from health tourism, which represents 4.6% of all tourism revenues, as well as 0.33% of EU-28 GDP (Mainil et al., 2017).

Previously presented figures indicate a strong and continuously growing recognition of health and wellness tourism oriented activities on the European Union level with existing of different health practices of the people in different regions for staying healthy, and for healing/curing remedies as well. This strong development can be interpreted as a result of world economic growth, as well as demographic changes. Consequently, the society is aligned between the consumer's strong interest in health and the rising affluence, resulting in plethora of consumer products, whether anti-aging creams or medical procedures, as everyone is in search for health and well-being (author's interpretation according to Azman and Chan, 2010 according to Yeoman, 2008).

Senior tourists represent a specific interest group for which during planning and development of health tourist offer it is mandatory to bear in mind their state of health, respectively, most frequent illnesses that third age population is experiencing (cardiological, rheumatological, respiratory, dermatological, etc.). In order to ensure them top quality and most efficient health tourism services, it is of utmost importance to enable them adequate consultation in order to determine which programs would be the most adequate for them. The imperative of economic, public-health and social development of the 21<sup>st</sup> century must be given on ensuring healthy, active ageing of today's and future more and more growing third age population, which is a dictated attitude of World Health Organization and the United Nations which arises from the growing quantitative and qualitative increase of demands and needs for various measures and actions aimed towards protection of seniors, among which the most significant place takes the demand for prevention measures of application of Programs for Health Tourism for seniors (Tomek Roksandić et. al (2001; Tomek Roksandić et al., 2005;). It is the opinion of the most contemporary European and Croatian gerontologists that in the 21<sup>st</sup> century significantly large number of seniors will have preserved functional capabilities and adequate state of health in middle, but also the deep age. This places an imperative on undertaking further activities towards health protection of seniors, among other the development of health tourism offer (Tomek Roksandić et. al, 2012).

In the Balkan Region Hungary and Slovenia belong among the most recognizable and most developed Health Tourism destinations, which in many ways can be used as the examples of good practice, and role-models for destinations that still haven't reached their potential. Following the authors will present briefly some of characteristics of their Health Tourism offer which significantly contribute to the health improvement of (senior) tourists.

Hungary is extremely rich in thermal or medicinal water (which can be found in 80% of the country) of minimum temperature of 30°C or higher at the source of the very spring. The



value of the geothermal gradient is 1,5 times the world average. Medicinal water contains at least 1000 mg per liter of minerals or rare elements. Hungary's offer is diverse and capable of satisfying various preferences, from visiting historical spas from different centuries, public and private spas clinics that offer evidence based medical treatments, spa towns and resorts, open-air thermal aqua parks, visiting spa parties "Spaties" which enable night bathing-thermal experiences. Budapest itself is the city of spas, which possesses 123 natural springs. Among the most developed spas it is necessary to mention Bükfürdő, Hajdúszoboszló, Harkány, Héviz, and many others. Lake Héviz represents the largest biologically active, natural medicinal water in the world, which changes every three and a half days, maintaining its cleanliness. The thermal water is rich in dissolved gas components, such as of carbonate, Sulphur, calcium, magnesium and hydrogen carbonate. Complex balneotherapy or drinking cure may favorably affect and heal rheum, osteoporosis, degenerative spinal/joint diseases, Bechterew syndrome, and inflammation diseases of the joint in their chronic phase, tender tissue rheum, secondary diseases of the joints, as well as chronic, peripheral, nervous, and mechanical-related complaints. It may be used for post treatment of injuries and locomotor operations. Throughout the years developmental efforts resulted in formation of a recognizable unique and traditional Héviz Therapy brand. In Hungary the Health Tourism services that are provided within hospitals and clinics are dental services, orthopedics, plastic surgery, ophthalmic services, intensive physical rehabilitation, cardio rehab and adequate diagnostic procedures. Services offered within Spas and Spa Hotels are focused on Balneotherapy rehabilitation, provision of Lifestyle and Disease Prevention programs such as alternative therapies, classical spa treatments, followed by detox/fasting and weight-loss programs, distress programs and classical beauty programs (Hungarian Tourist Agency, 2018; Lake Héviz, 2018).

Slovenia is a tourist destination that has over the years developed a competitive Health Tourism offer. According to the publication Healthy Waters Slovenian Natural Spas<sup>1</sup>, Slovenia possesses 15 natural spas distributed in four regions (Terme Čatež Spa, Terme Dobrna Spa, Dobrna Medical Centre, Terme Dolenjske Toplice Spa, Terme Lendava Spa, Terme 3000 Spa, Moravske Toplice Spa, Radenci Health Resort, Rogaška Medical Centre, Thalasso Strunjan, Terme Topolšica Spa, etc.), and over 47,000 m<sup>2</sup> of indoor and outdoor thermal water areas (87 natural thermal springs of which the water temperature varies from 24 to 73 degrees Celsius). Two world famous thermal healing waters used for drinking that need to be mentioned are Radenska and Donat Mg. Other natural resources that need to be emphasized are the climate, peat, seawater and brine, salt pan mud, aerosols for inhalation, mud with healing properties, and other forms of mineral peloid. Slovenia possess an over 600-year old tradition with a contemporary Health Tourism offer. The majority of spas and medical centers are focused towards treating rheumatic illnesses, locomotor system injuries, neurological illnesses, skin problems, and many others. The accommodation capacities are diverse, and mostly belong to a four star category. In total, Slovenia offers over 14,500 beds in hotels, apartments and campsites (Official Website of Tourist Board of Slovenia, 2018).

Briefly presented characteristics of Slovenia and Hungary's Health Tourism indicate that they have recognized their full potential, and that they are working hard towards further development of their Health Tourism offer. It is obvious that both destinations, but Slovenia in particular, are tracking world trends due to the high level of quality and diversity of its Health Tourism offer. The richness and diversity of services and programs offered enables achieving satisfaction of all age groups, but senior tourists in particular, who are on the rise. Bearing this in mind, it can be justifiably stated that these two Balkan destinations can be used

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<sup>1</sup> See more in [https://www.slovenia.info/uploads/publikacije/healthy\\_waters.pdf](https://www.slovenia.info/uploads/publikacije/healthy_waters.pdf)

as an example of good practice and role-models for development of Croatian Health Tourism offer.

#### CHARACTERISTICS OF HEALTH TOURISM OF THE REPUBLIC OF CROATIA AND ATTITUDES OF SENIOR HEALTH TOURISTS TOWARDS HEALTH TOURIST OFFER

Republic of Croatia is a small European country, situated at the crossroads of Central Europe, the Balkans and the Mediterranean. It covers 56.594 square kilometers or 21.851 square miles. Croatia coastline stretches for 5.835 kilometers (3.598 miles), and consists of 1.777 kilometers (1.104 miles) of mainland and 4.058 kilometers (2.493 miles) of islands. Croatia has diverse, mostly continental and Mediterranean climate, and its Adriatic Sea coast boasts more than a thousand islands (Barišić & Marić, 2012, pp. 423).

Croatia has been attracting tourists from all over the world for many years now, all as a result of a long-term tradition of formation and offering a unique and recognizable tourist product based on its natural, cultural-historical and other resources. This was interrupted by the war as well as the world economic crisis. However, in the following years Croatia continued registering positive trend of growth of its tourist turnover, and through that significant contribution to the Croatian economy. According to the Travel and Tourism Economic Report 2018 for Croatia (2018), tourism and travel's direct contribution to GDP in 2017 amounted 10,9% (HRK39,782.7mn), which is a slight increase in relation to the previous year 2016 when it was 10,7% (HRK37,017.7mn) (Report Travel and Tourism Economic Report 2018 Croatia; Report Travel and Tourism Economic Report 2017 Croatia). The same reports show that total contribution of tourism and travel to GDP amounted 25% (HRK91,033.5mn) in 2017, which is a small increase in relation to the previous year (24,7%, respectively, HRK85,173.4mn). In terms of direct contribution to the employment no significant changes were registered in 2017 and 2016 considering that the number of supported jobs by tourism and travel amounted 138,000 (approx. 10%). Total contribution of tourism and travel in 2017 registered a smaller decrease (320,500 jobs) in relation to 2016 when it was 321,500. Visitor exports generated 39% (HRK73,029.1mn) in 2017, which is an increase of 1% in relation to the previous year when it amounted 38% (HRK66,431.1mn). Investments in travel and tourism in 2017 amounted 10,9% of total investments (HRK7,910.8mn), while in 2016 they amounted 11% (HRK7,440.7mn). Positive developmental trend of Croatian tourism is also visible in the following table.

Table 2. Tourist arrivals and overnights in the Republic of Croatia in the period 2005-2017

|      | Achieved arrivals |           |            | Achieved overnights |           |            |
|------|-------------------|-----------|------------|---------------------|-----------|------------|
|      | Total             | Domestic  | Foreign    | Total               | Domestic  | Foreign    |
| 2005 | 9.222.410         | 1.479.618 | 7.742.792  | 50.282.182          | 5.370.924 | 44.911.258 |
| 2006 | 9.655.410         | 1.667.442 | 7.987.968  | 51.791.844          | 5.907.117 | 45.884.727 |
| 2007 | 10.351.442        | 1.792.756 | 8.558.686  | 54.627.053          | 6.346.637 | 48.280.416 |
| 2008 | 10.453.601        | 1.789.020 | 8.664.581  | 55.668.893          | 6.401.207 | 49.267.686 |
| 2009 | 10.270.490        | 1.576.694 | 8.693.796  | 54.988.432          | 5.758.924 | 49.229.508 |
| 2010 | 10.604.116        | 1.493.374 | 9.110.742  | 56.416.379          | 5.424.058 | 50.992.321 |
| 2011 | 11.455.677        | 1.529.003 | 9.926.674  | 60.354.275          | 5.602.970 | 54.751.305 |
| 2012 | 11.835.160        | 1.465.934 | 10.369.226 | 62.743.463          | 5.221.326 | 57.522.137 |
| 2013 | 12.433.727        | 1.485.361 | 10.948.366 | 64.818.115          | 5.138.485 | 59.679.630 |

|                 |            |           |            |            |           |            |
|-----------------|------------|-----------|------------|------------|-----------|------------|
| 2014            | 13.128.416 | 1.505.455 | 11.622.961 | 66.483.948 | 5.160.376 | 61.323.572 |
| 2015            | 14.343.323 | 1.660.144 | 12.683.179 | 14.343.323 | 1.660.144 | 12.683.179 |
| 2016            | 15.463.160 | 1.748.590 | 13.714.570 | 77.918.855 | 5 819 465 | 72.099.390 |
| 2017            | 17.430.580 | 1.837.681 | 15.592.899 | 86.200.261 | 5.978.264 | 80.221.997 |
| Index 2017/2005 | 189,00     | 124,20    | 201,39     | 171,43     | 111,31    | 178,62     |

Source: State Bureau for Statistics [www.dzs.hr](http://www.dzs.hr)

According to the data in the previous table it is visible that both total tourist arrivals are registering a significant increase. In the period 2005-2017, Croatia achieved growth of 89% of total tourist arrivals, and 71,43% of total tourist overnights. Within both foreign tourists make significant majority. In terms of foreign tourist arrivals, an increase of 101,39% was registered and 78,62% of foreign tourist overnights.

One of many specific forms of tourism that has the longest tradition within the integral Croatian tourist product is Health Tourism.

Health Tourism started its development in the 19<sup>th</sup> century by developing spas, according to the model of numerous European spas (Vichy, Abano, Karlovy Vary, Spa, and many others) primarily thanks to the natural particularities (thermal mineral water springs, healing mud sites, etc.). Such bathing places started developing in the Continental part of Croatian inland (Varaždinske Spa, Lipik, Daruvar, etc.) and today make the framework of Croatian Health Tourism. From the mid-twentieth century these spas include a part of their accommodation capacities mostly in the spas, respectively, specialized hospitals in the health system, which in a certain way has determined and slowed down the development of Health Tourism. Even today the majority of Health Tourism service users are people sent for recovery or health treatment by the Croatian Bureau of Health Insurance (Bartoluci and Hendija, 2012, pp. 10) The following table presents a clearer review of service providers of Health Tourism in Croatia today.

Table 3. Health Tourism services providers in the Republic of Croatia

| FACILITIES OF RESTAURANT OFFER   |  | HEALTH INSTITUTIONS   |   |
|--|--|---|---|
| Wellness offer (hotels, spas)  | Natural spas   |   | Clinics/hospitals   |
|  | Spas   | Special Hospitals   |   |
| Hotels (around 80 hotels with wellness facilities)<br>Spas (with accommodation):<br>Tuhelj Spa, Jezerčica Spa, Sveti Martin Spa, Lešće Spa | Topusko Spa<br>Top Spa, Topusko<br>Bizovac Spa<br>Veli Lošinj<br>Istrian Spa | Varaždinske Spa<br>Stubičke Spa<br>Krapinske Spa<br>Daruvarske Spa<br>Lipik<br>Naftalan, Ivanić Grad<br>Thalassotherapy Opatija<br>Thalassotherapy<br>Crikvenica<br>Kalos, Vela Luka<br>Biokovska, Makarska | Public Health Institutions<br>- Clinic Hospital Centers (5)<br>- Clinic hospitals (3)<br>- Clinics (5)<br>- General hospitals (20)<br>- Polyclinics<br><br>Private health institutions:<br>Around 800 facilities, larger ones:<br>Special Hospital St. Catherin's<br>Special hospital Akromion<br>Special Hospital Dr. Nemec<br>Magdalena Clinic<br>Medico Polyclinic |

Source: Institute for Tourism, 2014; Ministry of Health, 2014; Croatian Chamber of Commerce, Tourism Sector, 2014; Croatian Chamber of Commerce Community of Health Tourism, 2014

All the previous Health Facilities, depending on their position and the availability of natural curative resources use the factors (presented in the following table) in a combination of appropriate procedures of physical medicine and rehabilitation, all with a goal of preservation and improvement of health and/or improvement of quality of life Ivanišević (2003, pp. 22).

Table 4. Natural Curative factors of Health Tourism

| Climate                       | Sea                 | Spa (balneotherapy)  |
|-------------------------------|---------------------|----------------------|
| Climate change                | Climate             | Thermomineral waters |
| Climatic elements and factors | Cleanness of air    | Muds                 |
| Climate procedures            | Sea water           | Naphthalane          |
| Cleanness of air              | Algae               | Climate              |
| Solar radiation               | Vegetation          | Cleanness of air     |
| Sea factors                   | Walkways and trails | Vegetation           |
| Karstic caves                 | Solar radiation     | Walkways and trails  |
| Salt mines                    | Sand                | Solar radiation      |
|                               | Salt pan mud        |                      |
|                               | Marine mud (liman)  |                      |

Source: Ivanišević, 2001, pp. 34

It is visible from the previous table that Croatia bases its Health Tourism offer on a very rich basis of natural curative factors, and by that has a potential for development of a tourist product of even greater quality and diversity, capable of satisfying all age groups. However, according to the Strategy of Development of Tourism of the Republic of Croatia until 2020 (2013), Health Tourism is placed within the group of products with a significant perspective of development. The Strategy emphasizes that due to the vicinity to the bigger markets, richness of natural beauties and adequate climate, safety of the country, long-term tourist tradition, competitive prices and in general good reputation of Health Services provided, Croatia possesses all the necessary comparative advantages for development of competitive Health Tourism offer. Health Tourism products in particular adequate for Croatia include wellness, spa tourism and medical tourism.

Health Tourism represents an important, if not one of key elements of formation of an integral Croatian tourist product. Further successful development of this specific form of tourism will result in numerous advantages such as socio-economic ones, satisfying the needs of tourists of various age groups (with a particular accent on third age tourists), overcoming the seasonal character of business, opening of new job positions for the local population, increasing the tourist turnover, and finally achieving even higher level of competitiveness on the European and world tourist market (Gramatnikovski et al., 2014). Senior tourists represent a significant chance for Croatian Health Tourism, considering their tendency for health improvement and travel is rising so future efforts need to be focused more towards them. In order to be able to form an identity and profile of a destination of health and wellbeing, the Republic of Croatia needs to define new developmental concepts in order to be able to meet the needs of contemporary senior tourists (Gračan et al., 2008).

In order to be able to determine in which direction to go, it is necessary to determine the profile and tendencies of senior tourists who choose Croatia as a holiday destination of health. In order to determine the attitudes of senior tourists towards Health Tourism offer in Croatia, authors will present the selected results of the research titled TOMAS Summer Attitudes and Consumption of Tourists in Croatia (2010, 2014, and 2017). In year 2017, 15,4% of the respondents belonged to the age group +56, which in relation to 2014 is a decrease of 2,5%,

while in 2010 the share amounted the same as in 2017. Following the authors will present the selected parts of the research for the age group 50+, considering that this was the oldest age group presented within the research results.

Table 5. Frequency of arrivals of senior (foreign) tourist's age group 50+ to Croatia (%)

|              | 2010 | 2014 | 2017 |
|--------------|------|------|------|
| First visit  | 11.0 | 9.4  | 23.4 |
| Second visit | 7.2  | 9.5  | 13.0 |
| 3-5 visits   | 29.3 | 24.7 | 22.3 |
| 6 and more   | 52.4 | 56.4 | 41.2 |

Source: TOMAS 2010; TOMAS 2014; TOMAS 2017

In terms of frequency of visits of senior foreign tourists to Croatia, the data indicate that the majority (41,2%) of the respondents visited Croatia and more times, however, when compared with previous research results, it has been registered that the frequency decreased in relation to year 2014 (-15,2%) and 2010 (-11,2%). The results for the category of respondents who visited Croatia 3-5 times is also decreasing. The result in 2017 registered 22,3% which in relation to 2014 is a decrease of 2,4%, and in relation to 2010 a decrease of 7%. The remaining two categories are registering an increase.

Table 6. Sources of information of senior (foreign) tourist's age group 50+ (%)

|   | 2010 | 2014 | 2017 |
|---|------|------|------|
| Internet                                    | 18.4 | 18.8 | 27.3 |
| Recommendations of relatives and friends    | 21.1 | 18.3 | 22.7 |
| Previous stay                               | 38.3 | 47.7 | 28.3 |
| Brochures, ads, posters                     | 20.4 | 12.5 | 15.6 |
| Radio, television, film or video            | 9.5  | 2.4  | 7.5  |
| Articles in newspapers or journals          | 12.5 | 3.6  | 6.7  |
| Recommendations by a Tourist Agency or Club | 10.0 | 11.4 | 7.8  |
| Tourist fairs, exhibitions                  | 7.0  | 3.5  | 4.0  |

Source: TOMAS 2010; TOMAS 2014; TOMAS 2017

When acquiring information about tourist offer, the majority of respondents stated in 2017 that for them the most important is positive experience during the previous stay in a destination (28,3%), following by the use of internet (27,3%) and positive word of mouth (22,7%). The results indicate that the use of the internet is growing, which is in accordance to the European Union trends previously mentioned in the paper. Positive word of mouth registered an oscillation in a seven year period, but it grew 4,4% when comparing the result from 2017 with 2014.

Table 7. Motives of arrival of senior tourist's age group 50+ to Croatia (%)

| Motives        | 2010 | 2014 | 2017 |
|----------------|------|------|------|
| Health Reasons | 8.1  | 10.2 | 11.6 |
| Wellness       | 2.7  | 2.8  | 8.8  |

Source: TOMAS 2010; TOMAS 2014; TOMAS 2017

Table 8. Activities of senior tourist's age group 50+ during their stay in Croatia (%)

| Activities                                | 2010 | 2014 | 2017 |
|---|------|------|------|
| Health Recreational and Wellness Programs | 41.4 | 48.5 | 20.0 |

Source: TOMAS 2010; TOMAS 2014; TOMAS 2017

Motives of arrival of senior tourists in Croatia register that both health reasons and wellness register a positive trend of growth. Health reasons were the motive of visiting Croatia for 11,6% of respondents which is an increase of low 1,4%, and in comparison with the results from 2010 an increase of 3,5%. Wellness services were a motive of visit for 8,8% of visitors, which is a 6,1% increase in relation to the results from 2010. However, the situation with the activities during their stay is completely different. In 2017 only 20% of senior tourists stated that they used or will use Health Recreational and Wellness Programs during their stay in Croatia, which is a strong decrease of 28,5% in relation to 2014, and a decrease of 21,4% in relation to 2010.

Previously presented results indicate the Health Tourism offer still hasn't reached its potential, in relation to its true possibilities. Despite the fact that Health reasons and wellness were registering growth as motives of tourist's visit, it is visible that the use of tourist's use of Health Recreational and Wellness Programs is significantly decreasing, which can be interpreted in a way that senior tourist's needs are not entirely met. In order to achieve further development of Health Tourism offer more focused towards senior's needs, it is necessary to rethink and formulate, and finally apply adequate Health Tourism and Wellness programs and developmental directions which will ensure growth of senior tourist's level of satisfaction which will result in growth of interest for Health Tourism and wellness programs, and through that higher level of competitiveness on the tourist market.

## POTENTIALS OF DEVELOPMENT OF HEALTH TOURISM OF THE REPUBLIC OF CROATIA WITH PARTICULAR EMPHASIS ON OFFER FOR SENIOR TOURISTS

Facts presented in the previous chapter indicate that despite so far undertaken activities, Health Tourism offer focused on seniors still hasn't reached its potential. This is witnessed by the fact that the interest of seniors for participating in Health Recreational and Wellness programs has dropped significantly, meaning, further developmental activities of adequate programs need to be made in order to be able to satisfy the needs and stimulate them to visit and remain loyal tourists. In order to achieve this, some the following key success factors that need to be taken into consideration are the following (author's adaptation according to Institute for Tourism, 2004):

- Staff professionalism: high quality staff (especially those with a tendency towards continuous lifelong learning) can lead towards formation of an excellent reputation of an institution-service provider. Well educated staff will be able to provide not only

high quality services, but also the individual approach and sense for the guest which is very important for seniors;

- Continuous product and service innovation: it is necessary to track changes in the tourist trends continuously, and conduct product and service improvements (no matter how small the changes seem) while being maximally creative, unique, but also at the same time preserving its own authenticity;
- Quality of equipment: technological innovations are being developed on global level daily, and in tourism in particular, which makes provision of high quality health tourism services much easier. It is important to track the developmental trends and invest into new equipment;
- Monitoring the senior tourist's needs: represents the most important part of tourist offer development. Considering that senior tourists represent a specific interest group, for which, in order to satisfy their needs, a bit approach is needed when developing health tourism services. It is mandatory to track which are the most frequent illnesses and problems that strike them, and focus towards reducing them as much as possible, with a goal of prolonging their life expectancy and healthy years;
- Adequate ambience: this factor is very important in particular when wellness services are concerned. Service users wish to relax and recuperate after long-term stress exposure, and it is most likely that they will rate their satisfaction based on their senses, and not exclusively on the quality and diversity of services;
- Particularity/uniqueness: it is important that it is built through some particularity whether it derives from natural or cultural attributes of a destination in which health-tourist complex is situated, or it is created in an artificial way. It is crucial to be different from the competition and ensure recognizability and entering the consumer's mind;
- Quality: consistency in quality of provided services, equipment, preservation of natural factors (sea water, fango, curative muds, etc.), maintaining cleanliness, etc., are of particular importance for seniors when deciding which health tourist destination and spa to visit.
- Marketing activities: need to be planned and conducted carefully and strategically in order to reach to senior tourists as much as possible, and to present the Health Tourism offer in the most precise and best way possible in order to stimulate their visit.

Taking into consideration previously presented factors of success while developing Health Recreational and wellness programs and services will result in significant improvement of their state of health, prolonging the life expectancy and healthy year, as well as greater satisfaction with products and services, which will stimulate them to return to Croatia, and recommend it to their friends and family.

## **Conclusion**

The authors have presented within this paper the main characteristics of the contemporary senior tourists, as well as their growing interest in participating in Health Tourism flows on European Union and Croatian level. The results indicate that the importance of Health Tourism has been recognized on the European Union level, which is witnessed by growing numerical indicators. In terms of Croatia as a European Union member, which has a rich tradition in developing and providing Health Tourism services, further improvements need to be made towards developing greater quality and diversity of programs intended for senior tourists, in order to stimulate them to choose participation in Health Recreational and wellness programs while staying in a destination. In order to achieve further development, it is

advisable to determine the ways and actions how competitive Health Tourism destinations are achieving their success and apply it in Croatia.

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## **An Insight into the Current Motives of Tourist Visitors of the Zadar County**

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**Abstract:** *The main aim of this paper is to present the main characteristics of the tourist offer in the Zadar County, as well as to determine the profile of tourists, in terms of their preferences, who choose the destinations within this county for their holiday. After a brief theoretical background in which the main characteristics of the Zadar County will be presented, the authors will conduct an analysis of the present state of tourist offer by using adequate qualitative and quantitative indicators obtained from secondary sources. Based on the determined state, the authors will present which are the strengths and opportunities that Zadar County needs to exploit, as well as which are the weaknesses and threats that need to be minimized or completely removed. Also, with a goal of achieving higher level of recognisability as well as competitiveness, the authors will present potential measures important for future tourist offer development.*

**Keywords:** *tourist offer, County of Zadar, tourist offer development*

**JEL Classification:** *L83*

### **Introduction**

In the ancient times travel represented the way of life that was only affordable for the rich people. Over the years significant socioeconomic changes occurred which resulted in making travel more available to all. Today travelling represents a contemporary way of life. It is a known fact that people have always had the need for exploring new and unknown, which significantly resulted in growth of tourism flows on world level. By visiting new and unknown destinations people get to experience something new and never seen before, like new landscapes, sounds, tastes and smells, new people and their culture and tradition, etc. Motivation for undertaking travels differs from person to a person. What influences on the decision-making when choosing a specific destination for a holiday is most definitely the characteristics of an individual tourist (what kind of holiday do they prefer), and competitive advantages (natural, cultural-historical, and many others) which may be the very trigger that will result in tourist's choosing a specific destination (Birin, 2017). In order to be able to provide for tourists maximum positive experience, and stimulate them towards prolonging

their duration of stay and tourist consumption, it is necessary to determine which are the elements of contemporary tourist offer of a certain destination that influence on their decision-making process, level of satisfaction, and intention to re-visit (Maunier & Camelis, 2013), which can be determined by using various methods. I.e., Lončarić et al (2018) conducted an empirical research in Croatian sun and sea destinations, and determined that memorable tourist experience consists of four different factors (hedonism and novelty, local culture, involvement and refreshment). They also determined a positive relationship with the satisfaction with holiday experience on behavioral intentions measured through tourist's intention to return to the destination, positive word of mouth, respectively recommending the destination to their friends and relatives as well as sharing it through social media, and finally through tourist consumption. The strongest relationship determined was the one between tourist satisfaction with holiday experience and the intention to recommend, followed by the intention to revisit if the satisfaction level provided by the experience was sufficiently high.

Kao et al. (2008) investigated in their paper the motivations of Taiwanese visitors to Australia, and the level of satisfaction they experienced during their stay. The results of the research managed to determine that Taiwanese tourists have shown significant level of satisfaction with the factors like travelling around the world, enjoying a comfortable journey, sunny weather and beautiful landscape, seeing well-known attractions, and convenience for a family vacation. Despite the fact that they did not consider prestige as an important factor, it turned out that they have shown a higher level of satisfaction with it, and as a result they have shown higher tendency towards spreading the good word to their family and friends (Mouth to mouth marketing). They also showed lower level of satisfaction with the price of goods offered, respectively, that prices were too high, followed by the insufficient diversity of food offer, and that they didn't achieve value for money.

Previously presented examples of research results emphasize that determining tourist attitudes towards elements of tourist offer and a destination in general is of great significance as a part of the process of determining the presence of poor performances and their reduction or total removal, all with a goal of further tourist offer development and achieving competitive position on the tourist market. This can be achieved through provision of new and unique experiences while staying in a destination. Zadar County represents one of Croatian counties which bases its tourist offer development on exceptionally rich natural, cultural-historical and other resources basis, and as such is capable of developing and offering its (potential) tourists a top quality and unique tourist product formed on these particularities, which will enable for the tourist a whole experience based on learning about destination's culture and tradition, which will result finally in repeated visits, higher level of satisfaction, and positive word of mouth to friends and family. In order to determine the current situation of Zadar County's tourist offer, the authors will following present its basic characteristics of tourist offer within Zadar County, as well as tourist's attitudes towards Zadar County as a destination, and based on which they will consider whether further improvements are necessary at this point, and if so, they will suggest possible further actions (Alkier et al., 2015; Ivanović et. al, 2016; Cerović et al., 2014).

### **Presentation of Characteristics of Zadar County's Tourist Offer**

Zadar County is situated in the middle part of Croatian Adriatic Coast. Its total size amounts 7.276,23 km<sup>2</sup> (8,3% of Croatian total surface), of which the mainland part occupies 3.643,33 km<sup>2</sup>, and sea part 3.632,9 km<sup>2</sup>. According to the size, Zadar County is the fifth on the state level. The county consists of 34 units of local self-government, of which 28 are municipalities (Bibinje, Galovac, Gračac, Jasenice, Kali, Kolan, Kukljica, Lišane Ostrovičke, Novigrad,

Pakoštane, Pašman, Polača, Poličnik, Posedarje, Povljana, Preko, Privlaka, Ražanac, Sali, Stankovci, Starigrad, Sukošan, Sveti Filip and Jakov, Škabrnja, Tkon, Vir, Vrsi and Zemunik Donji) and 6 cities (Zadar, Benkovac, Biograd na Moru, Obrovac, Pag and Nin). Its administrative center is the city of Zadar, the fifth city according to its size on state level. Due to its geo-traffic position, this county has a very significant place in the Republic of Croatia because it connects North and South of Croatia by road and railway (Official Website of Zadar County, 2016). The climate is slightly different, depending on the part of the County. In the seaside part the climate is Mediterranean with mostly warm and dry summers and mild rainy winters, while in the mountain and hilly areas prevail pleasant summers with warm days and cool nights (ZADRA nova Agency for Development of Zadar County, 2016). Tourist resource basis of Zadar County manifests in richness of natural, cultural-historical and other resources, as a crucial basis which enables development of a competitive tourist offer based in particular on specific forms of tourism (Ivanović et. al, 2016) presented in the following table.

Table 1. Specific forms of tourism as a factor of Zadar County's tourist offer and

| Specific form of tourism  | Resources   |
|---------------------------|---|
| Bathing tourism           | Beaches Prosika in Pag, Kolovare, Sakarun Cove, Dražica, Pisak & Kulin Riviera, Queen's Beach, Zaton Beach  |
| Ecotourism                | Parks of nature Paklenica, Telašćica, Vransko jezero and Velebit, the islands Galešnjak, Pag, Dugi otok, Pašman, Ugljan, Rava and Iž, and Vir   |
| Cultural tourism          | Historical locations: Church of St. Donat (the protector of the city of Zadar), St. Cross Church in Nin (the smallest cathedral in the world), the remains of the Templar city and Mašković Han in Vrana, Benedictine convent on the Čokovac Hill in the Island of Pašman, etc.<br>Non-material heritage: 131 cultural asset entered in the Registry of Cultural Assets, such as Tovareća mužika iz Sali, ojkanje or orzanje, Glagolitic singing, Pag lace, traditional manufacturing of Pag cheese, traditional pottery of the Island of Iž, celebration of the Holy Mother of Zečevo, klapa singing, and many others.<br>Material heritage: Nin Ships, St. Stošija Cathedral, Museum of antique glass, The Prince's palace. |
| Gastronomy and wine offer | Dalmatian cuisine characterized by three most famous groceries fish and sea food, meat flavors such as lamb, goat, sheep and goat cheese, smoked ham Dalmatian style, wine, olive oil, salted sardines, marinated anchovies, peka, etc., liqueur Maraschino, various wines.   |
| Adventure tourism         | Scuba diving, cycling, trekking, sailing, kayaking, hiking, tennis, rafting, speleology, jeep safari, windsurfing, kitesurfing, bungee jumping  |
| Nautical tourism          | ACI Marina Šimuni, D-Marin Marina Dalmacija, Marina Benjamin, Marina Borik, Marina Kornati, Marina Preko, Marina Šangulin, Marina Veli Rat, Marina Zadar,   |

Source: Official Website of the Tourist Board of Zadar County, 2018

Tourist resources presented in the previous table indicate that Zadar County possesses significant potential for development of even more competitive tourist offer based on specific forms of tourism such as Ecotourism, Cultural Tourism, Gastronomy and Wine Tourism, Adventure Tourism and Nautical Tourism. Offer of these tourism forms, accompanied by the unique tourist attractions such as Sea Organs and Salutation to the sun, permanent exhibition

of sacral art, lighthouse Veliki Rat, and the old city core that is situated on the peninsula and surrounded with the historical walls, which has been placed on the UNESCO list of world heritage can provide a unique and unforgettable experience for a visitor, and contribute towards increasing the level of competitiveness on the tourist market.

### **Presentation of the state of tourist offer in Zadar County**

In this chapter the authors will, by presenting selected quantitative and qualitative indicators present the present state of tourist offer of Zadar County, respectively, achieved tourist arrivals and overnights, sociodemographic profile of tourists who choose Zadar County as a holiday destination, their motives of visit, activities preferred, their satisfaction with the tourist offer, and the structure of their daily consumption during their stay in a destination.

Table 2. Tourist arrivals and overnights in Zadar County in the period 2012-2017

|                 | Achieved arrivals |           |           | Achieved overnights |            |            |
|-----------------|-------------------|-----------|-----------|---------------------|------------|------------|
|                 | Domestic          | Foreign   | Total     | Domestic            | Foreign    | Total      |
| 2012            | 234.817           | 1.051.994 | 1.286.811 | 2.102.025           | 7.107.044  | 9.209.069  |
| 2013            | 226.042           | 1.151.035 | 1.377.077 | 1.986.938           | 7.632.935  | 9.619.873  |
| 2014            | 235.600           | 1.232.706 | 1.468.306 | 2.077.354           | 8.005.296  | 10.082.650 |
| 2015            | 240.298           | 1.309.259 | 1.549.557 | 2.149.222           | 8.567.713  | 10.716.935 |
| 2016            | 240.931           | 1.383.470 | 1.624.401 | 2.631.873           | 8.935.613  | 11.567.486 |
| 2017            | 262.576           | 1.545.624 | 1.808.200 | 3.614.678           | 10.084.210 | 13.698.888 |
| Index 2017/2012 | 111,82            | 146,92    | 140,52    | 171,96              | 141,89     | 148,75     |

Source: Tourist Board of Zadar County (data gathered through e-mail)

The data from the previous table indicate a strong growth of both tourist arrivals and overnights in a five-year period, with foreign tourists making the most significant share in both arrivals and overnights. In 2017 total arrivals achieved growth of 40,52% in relation to 2012, and total overnights 48,75% in relation to 2012.

In order to determine the attitudes of contemporary tourists towards tourist offer of destinations within the Zadar County, the authors will present the selected results of TOMAS Summer Attitudes and Consumption of tourists in Croatia 2017 (2018), respectively, the duration of tourist's stay in a destination, the sources of information they prefer using during the process of decision-making when choosing a holiday destination, their motives for choosing the destination(s) within the Zadar County for a holiday, which activities do they prefer to during their stay, which is the level of their satisfaction with the elements of tourist offer in the Zadar County, as well as their consumption during their stay. The results of the TOMAS study indicate that in 2017 the majority of tourists belonged to the age group 26-35 (27,1%), followed by 36-45 (26,0%), 46-55 (17,3%), up to 25 (15,1%), while 56 and more amounted 14,6%. The average age of a tourist was 40,2 years. 37,1% of tourists possessed university education or higher, followed by those with two year college (34,5%) and last secondary school or less (28,4%). They possess a strong purchasing power; 24,4% of them have monthly income 3,501 EUR and more, followed by those with income 2,001-2,500 EUR (14,5%), 1,501-2,000 EUR (12,6%), 1,001-1,500 EUR (12,2%) 2,501-3,000 EUR (11,8%), 3,001-3,500 EUR (11,4%), 501-1,000 EUR (9,7%), and finally up to 500 EUR (3,4%). They mostly prefer to stay in a destination in duration 4-7 days (44,7%), while 24,7% prefer to stay

in duration 8-10 days, and 12,1% prefer to stay up to 14 days. Average number of overnights amounted 8,7 days. As expected, and according to the world trends which indicate a strong growth of Information and Communication literacy, the internet has remained as the main source of searching for information when choosing a holiday destination (37,1%). As the main internet source of information they used the social media websites such as Facebook, TripAdvisor, Instagram, Twitter, etc. (50,0%), followed by online tourist agencies such Booking.com, Expedia, HolidayCheck, etc. (49,8%), websites of accommodation facilities (42,6%), and finally the websites of national and local Tourist Boards (41,1%). In terms of social network activities, 59,4% of tourists were uploading photos taken during their journey on Facebook, Instagram, etc., while updating statuses on Facebook, Instagram, etc. was preferred by 34,7% of tourists. 34,9% of tourists were not practicing any social network activities. Following, the most influencing source of information was the positive word of mouth or recommendations of friends and relatives (29,6%), previous positive experience during stay in a destination (20,3%). For 17,1% of tourists there was no need for information. The rest of classic sources of information for gathering tourist information registered a significantly smaller share in relation to the internet.

Table 3. Motive of tourist arrivals in Zadar County

|  | %    |
|--|------|
| Passive rest, relaxation                 | 70,2 |
| Enjoying food and drinks, gastronomy     | 29,1 |
| Visiting natural attractions             | 28,6 |
| Entertainment                            | 25,7 |
| New experiences                          | 24,8 |
| Visiting cultural attractions and events | 16,8 |
| Sport and recreation                     | 16,1 |
| Scuba diving                             | 8,3  |
| Visiting friends and relatives           | 7,0  |
| Shopping                                 | 3,7  |
| Health reasons                           | 3,7  |
| Wellness                                 | 3,1  |
| Business reasons                         | 1,3  |
| Religious reasons                        | 0,5  |
| Other motives                            | 0,5  |

Source: Institute for Tourism, 2018

In terms of motives when choosing a holiday destination, passive rest and relaxation remained the dominating motive for visit for 70,2% of tourists, followed by enjoying unique enogastronomic offer (29,1%), visiting and viewing natural attractions (28,6%), entertainment offer (25,7%) and experiencing something new and never seen before (24,8%). Elements of offer such as visiting cultural attractions and events as a motive of visit registered poor results (low 16,8%), followed sport and recreation (16,1%), scuba-diving (8,3%), visiting friends and relatives (7,0%). The lowest results for motive of visit were registered for shopping opportunities and health reasons (3,7%), wellness (3,1%), business (1,3%), and finally religious motives (0,5%).

Table 4. Activities during stay in a destination

|   | %    |
|---|------|
| Swimming and bathing                            | 76,3 |
| Going to restaurants                            | 53,3 |
| Going to cafes, cake shops, etc.                | 51,6 |
| Sightseeing                                     | 36,8 |
| Visiting national parks/protected natural areas | 32,8 |
| Attending local entertainment event             | 26,1 |
| Shopping (excluding groceries)                  | 25,1 |
| Scuba diving                                    | 21,3 |
| Walking (trekking, Nordic walking, etc.)        | 20,5 |
| Organized boat excursions                       | 17,4 |
| Dance or disco                                  | 17,1 |
| Water sports                                    | 13,5 |
| Jogging   | 12,4 |
| Attending concerts                              | 10,1 |
| Cycling or mountain biking                      | 9,4  |
| Visiting museums and exhibitions                | 8,0  |
| Tennis  | 7,7  |
| Adventure sports                                | 7,4  |
| Visiting theatres plays and performances        | 6,5  |
| Visiting olive oil roads (olive oil mills)      | 6,3  |
| Visiting water parks                            | 5,1  |
| Visiting wine roads (wineries)                  | 4,9  |
| Health Recreation and Wellness programs         | 4,5  |
| Hiking  | 4,5  |
| Fishing   | 4,3  |
| Visiting theme parks                            | 3,9  |
| Visiting rural tourism households               | 3,2  |
| Horse riding                                    | 2,0  |
| Golf  | 1,7  |
| Something else                                  | 1,0  |

Source: Institute for Tourism, 2018

In 2017 swimming and bathing remained the most preferred activity during stay in a destination (76,3%), as well as experiencing enogastronomic offer like going to restaurants (53,3%) and visiting cafes and pastry shops, etc. (51,6%). Seeing the beautiful sites of the destinations within the Zadar County registered a moderate result (36,8%), as well as visiting national park and protected natural areas (32,8%), attending local entertainment events (26,1%), shopping opportunities (25,1%), scuba-diving (21,3%) and walking (20,5%). The most disappointing results are related with the elements of cultural tourism. Despite the fact that the Zadar County possesses significant richness of cultural-historical heritage and tradition, the elements of tourist offer such as concert attendance (10,1%), visiting museums and exhibitions (8,0%), visiting theatres and performances (6,5%) were extremely little preferred as an activity during stay in a destination. Also, extremely low interest has been registered for visiting olive oil roads (6,3%), wine roads (4,9%), and rural households (3,2%). All three represent a unique and unavoidable elements of extreme importance, especially since Dalmatia has become world famous for its top quality wine and olive oil.



Table 5. Level of satisfaction

|   | %    | Level     |
|---|------|-----------|
| Suitability for a family holiday  | 82,0 | Very high |
| Scenic and natural beauty   | 81,9 | Very high |
| Personal safety   | 81,5 | Very high |
| Friendliness of staff in the accommodation establishments                                       | 79,3 | High      |
| Atmosphere  | 75,6 | High      |
| Service quality in the accommodation establishment  | 75,4 | High      |
| Comfort of accommodation  | 75,3 | High      |
| Quality of information in a destination   | 72,5 | High      |
| Quality of food in restaurants outside the accommodation establishment                          | 71,8 | High      |
| Food quality in the accommodation establishment   | 70,5 | High      |
| Suitability for short break holiday   | 70,2 | High      |
| Traffic accessibility of a destination  | 69,4 | Medium    |
| Offer of organized sightseeing one-day trips  | 69,1 | Medium    |
| Friendliness of local people  | 67,7 | Medium    |
| Walking paths   | 65,8 | Medium    |
| Richness of gastronomic offer   | 65,7 | Medium    |
| Entire stay   | 64,9 | Medium    |
| Picturesqueness and tidiness of town (resort)   | 64,4 | Medium    |
| "Value for money" for the accommodation   | 64,0 | Medium    |
| Quality of marking of tourist attractions   | 61,5 | Medium    |
| Beach cleanliness   | 61,4 | Medium    |
| "Value for money" for gastronomic offer   | 61,0 | Medium    |
| Shopping opportunities  | 60,5 | Medium    |
| Quality of local transport  | 59,9 | Low       |
| Equipment and tidiness of a beach   | 59,0 | Low       |
| Variety of entertainment opportunities  | 57,6 | Low       |
| Environmental preservation  | 57,2 | Low       |
| Richness of sport's activities offer  | 56,9 | Low       |
| Organization of traffic in a destination (parking places, pedestrian zones, traffic management) | 56,3 | Low       |
| Variety of cultural events  | 55,2 | Low       |
| Suitability of a destination for people with special needs                                      | 54,8 | Low       |
| Presentation of cultural heritage   | 53,0 | Low       |
| Bicycle paths   | 45,7 | Very low  |
| Bad weather program   | 38,5 | Very low  |

Source: Institute for Tourism, 2018

In 2017 tourists considered the destinations within the Zadar County very suitable for spending a family holiday (82,0%), very safe (81,5%) and possessing numerous scenic and natural beauties (81,9%), which is confirmed with a very high grade. They evaluated with a high grade the following elements: friendliness of staff in the accommodation establishments (79,3%), atmosphere (75,6%), quality of services (75,4%) and comfort (75,3%) in the accommodation establishments, quality of information provided during their stay in a destination (72,5%), suitability for a short break holiday (70,2%), etc. Elements such as traffic accessibility of a destination (69,4%), friendliness of domestic people (67,7%), richness of gastronomic offer (65,7%), the impression of the entire stay in a destination (64,9%), achieved "value for money" for the accommodation services (64,0%) and gastronomic offer (61,0%), quality of marking the tourist attractions (61,5%) were marked as average. Quality of local transport has been graded with a low grade (59,9%), followed by equipment and cleanliness of beaches (59,0%), preservation of the environment (57,2%), offer of sports

activities (56,9%), variety of offer of cultural events (55,2%), presentation of cultural heritage (53,0%), etc.

Table 6. Average daily expenditure of tourists

|                                 | 2017  |      |
|---------------------------------|-------|------|
|                                 | €     | %    |
| Total average daily expenditure | 64,61 | 100  |
| Accommodation                   | 29,05 | 45,0 |
| Shopping                        | 11,87 | 18,4 |
| Food in bars and restaurants    | 11,05 | 17,1 |
| Local transport                 | 5,34  | 8,3  |
| Same-day trips                  | 2,45  | 3,8  |
| Culture and entertainment       | 2,35  | 3,6  |
| Sport and recreation            | 1,54  | 2,4  |
| Other                           | 0,96  | 1,5  |

Source: Institute for Tourism, 2018

In 2017 tourist's consumption was defeating, extremely low 64,61 EUR per day, of which the majority was on basic accommodation services 29,05 EUR, 11,87 EUR on shopping, 11,05 EUR on consuming food in bars and restaurants, while the lowest expenditure was on culture and entertainment (2,35 EUR), and sports and recreation (1,54EUR).

It is obvious from the previously presented indicators that despite the growing trend of tourist arrivals and overnights, significant changes are necessary on county level in terms of qualitative and quantitative improvements. When monitoring the results of motive of arrival, it is visible that tourists perceive destinations within the Zadar County majorly as destinations that can offer only bathing tourism product, while other reasons for visit are considered significantly lower, which can be avoided by undertaking improved marketing activities. Similar situation is with activities chosen to participate in during their stay in a destination; the highest percentage of tourists chose swimming and bathing, followed by experiencing enogastronomic offer in restaurants, café and cake shops, while other elements of tourist offer such as sightseeing or getting acquainted with destination's beauties and particularities is lower than it should be. One of the lowest interests shown was for cultural-historical heritage for which these destinations are most famous and recognizable for, as well as visiting wine and olive roads, and rural households, where tourists would be able to experience true and unique domestic enogastronomic offer characteristic for the destination, and buy the autochthonous products. Evaluated level of satisfaction during their stay indicates that Zadar County destinations are very highly perceived as family-friendly destinations with preserved scenic and natural beauties, and very importantly, safe, which represents one of the most important factors in a decision-making process when choosing a holiday destination. However, significantly large number of tourist offer elements such as traffic accessibility, friendly behavior of domestic population towards tourists, richness of gastronomic offer, the overall grade of the entire stay in a destination, achieving value for money for the accommodation and enogastronomic services, beach cleanliness, shopping opportunities etc. was graded with an average grade. In their opinion the beaches are poorly kept and inappropriately equipped (which is defeating considering that the highest interest is still present for bathing tourism), there is a serious insufficiency of entertainment opportunities, organization of cultural events based on destination's tradition and heritage, as well as presentation of cultural heritage. All these insufficiencies have resulted justifiably with a poor daily tourist consumption. Tourists who decide to visit a tourist destination wish to experience

diverse and unique tourist offer, something new and unexplored, and they are willing to spend their funds in order to achieve that. Tourist offer of Zadar needs to undertake efforts towards improving the current state of its tourist offer.

### **Proposition of further developmental activities in function of improvement of Zadar County's tourist offer**

In the previous chapter the authors have, by presenting the current state of tourist offer development on the level of Zadar County, detected some serious insufficiencies that need to be reduced or completely removed in order for destinations of Zadar to be able to achieve higher level of competitiveness on the tourist market. The authors propose the following activities (author's adaptation according to ZADRA nova Agency for Development of Zadar County, 2016):

- It is important to bring networking among stakeholders within a destination on a higher level, all with a goal of improving the complete destination managing;
- Improving the current traffic accessibility of destinations, as well as the organization of traffic within the destinations;
- Development and improvement of other public and private tourist infrastructure (walking paths, cycling paths, sports-recreational facilities...);
- Formation of autochthonous tourist products and destination in general through appropriate valorization of complete tourist resources while upholding principles of sustainable development;
- Increasing the quality and diversity of elements of integral tourist product;
- Further development and improvement of specific forms of tourism;
- Stimulation of cultural events, in particular those based on destination's tradition and heritage which would reflect the destination's essence and particularities;
- Further improvement and raising the level of quality of beaches (its cleanliness and equipping, especially since tourists still show the most interest for Bathing tourism);
- Stimulation of knowledge development, and introduction of new technologies and innovations;
- Managing and improving the communication between tourists and domestic population (domestic population needs to be aware of all the advantages that successful tourist offer development brings to them), and making tourists feel welcome and sincerely accepted, which could result in repeat visit;
- Development of loyalty programs of tourists for the destination;
- Further improvement of tourist-information center systems with a goal of providing timely and accurate information for tourists while staying in a destination, which would contribute to the tourist's awareness of numerous elements of tourist offer for which they may have not been aware that it exists;
- Marketing activities need to be adequately conducted, and all the introduced improvements need to be promoted on the international tourist market.

### **Conclusion**

The authors have presented the current state of tourist offer on the level of Zadar County, as well as the current attitudes of contemporary tourists towards the same. The results within the paper indicate that tourists who choose to visit destinations within the Zadar County show strong interest for passive rest, relaxation and bathing, while other forms of tourism offer are seriously neglected. In order to be able to achieve stronger qualitative growth of its tourist

offer, Zadar County will need to undertake further improvements of the elements of a tourist product that were graded average and lower, and thorough appropriate marketing activities to promote it on world level. Bearing this in mind, the authors proposed the developmental activities whose implementation would contribute to the overall competitiveness of destinations within the Zadar County.

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## **Human Resources as a Factor of Nautical Tourism Development**

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### ***Abstract***

*The main purpose of this paper was to present the role of human resources in the development of nautical tourism. Nautical tourism along with the sun and sea, business tourism and cultural tourism is a perspective form of Croatian tourism. The basic parts of the same industry are the ports of nautical tourism, charter and cruising. According to the Tourism Development Strategy of the Republic of Croatia until 2020, nautical tourism is divided into yachting (ports of nautical tourism and charter) and cruising. There are hydrographic and climatic elements and a relief suitable for the development of nautical tourism on the Croatian side of the Adriatic. The key to the development of any part of the nautical but also all other forms of tourism are people - the knowledge and skills needed to satisfy the wishes and needs of the service users of each form. As a result there are 91 high schools and 42 universities in Croatia for tourism and catering industry. Despite this, according to the research from 2015, Croatia is ranked as 80th in comparison to the 140th place, according to the Competitiveness of Human Resources in the Labor Market. In the research conducted for the purpose of this paper and compared with the research on the satisfaction of the sailors with the services of the ACI Club, the competences of the ACI marinas employees are still satisfactory. The survey respondents were ACI Marine employees, and a depth interview with the head of staff was conducted. The results can be of a great help to the future research on the employee satisfaction and the development of their competences.*

**Keywords:** Human Resources, Tourism Development, Nautical Tourism, employment, ACI Club

**JEL Code:** L83, Z32

## **Introduction in nautical tourism**

Nautical tourism is a phenomenon which has recorded in the last three decades one of the most developed rate well-known in European and Croatian economy. Economic predictors of tourism development agree that nautical tourism is at the initial developing period and the valuable developed results are only to be expected. The development of nautical tourism from the scientific point of view has not been sufficiently presented in touristic science. Nautical tourism means a new economic developing chance for Croatia and that has stimulated ever growing, vivid, scientific and research activity in Croatia and on the Mediterranean. To understand better what we can expect from nautical tourism, first of all, it is necessary to define it. Nautical tourism, being a multifunctional activity, is possible to be investigated and defined in multi-disciplinary way (Luković, 2007).

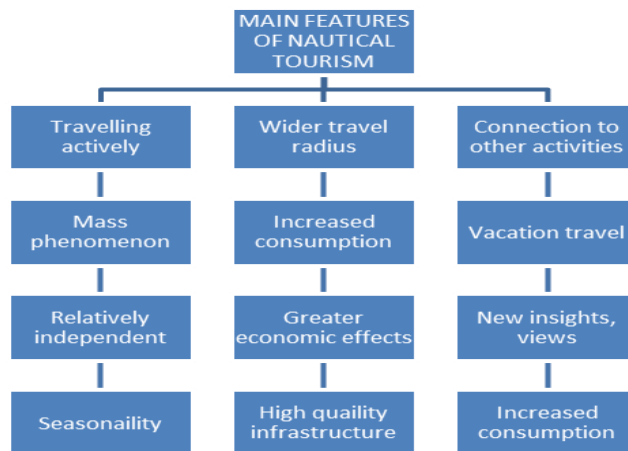
Nautical tourism is a very broad notion. Nautical tourism includes all types of travel by sea, and boating on rivers and lakes. As such, there are many different definitions that attempt to describe it, including those by the authors below (Uran et.al., 2016):

- This type of tourism not only takes places on the sea, but also on rivers, lakes and their shorelines, on leased and owned vessels, for the purpose of recreation, entertainment and sport on still water or at sea (Štetić et.al., 2013).
- Nautical tourism is a type of tourism related to nautical activities such as: sailing, viewing and buying vessels, and associated infrastructure (Mikolič, 2016).
- Nautical tourism is part of maritime tourism, which on the one hand represents a community of permanent, frequent or occasional voluntary social events, activity and travel by tourists at the sea and coasts and on rivers, lakes and canals using their own, rented or foreign tourist vessels, in tourism ports and other maritime - nautical - shipyard facilities and infrastructure for fun, relaxation, sports, passive and active recreation, relaxation, environment, health, cultural and other reasons, and this is all tourism, not just for profit; on the other hand, a set of organised economic affairs and functions with the aim to rationally plan and facilitate, develop and improve these events and activities, in order to create and increase income (Jadrešić in Gračan et.al., 2011, p. 188).
- Nautical tourism is a multi-functional tourist activity with a strong marine component. We can also classify nautical tourism into three main branches, which are: marina operations, (yacht) charters and cruises. (Luković, 2012., p. 401).
- Nautical tourism means the navigation and accommodation of tourists - passengers on cruise ships and in nautical ports for the purpose of rest and recreation. The difference between nautical tourism and other forms of tourism is just sailing. This offers the nautical tourist considerable mobility and frequent changes in where to stay (Strategija razvoja nautičkog turizma Republike Hrvatske za razdoblje 2009.-2019., p. 5).

- Nautical tourism is a specific tourism product that focuses on attractions and fun-related activities on or near the water. The tourist experience is based on combining elements such as boating, marine research, sailing, diving and eco-tour attractions for holidaying and special occasions. Nautical tourism has become one of the most profitable industries, which has introduced new ways of viewing and exploring the world (Abdell, 2013., p. 7).
- In defining nautical tourism, it is important to note that this tourist activity is not an isolated or specific branch, but an association of many industries with specific public administration, infrastructure and general supplementary services. Nautical tourism should therefore be seen as a tourist attraction associated with recreational activities on or near the water, offering a large variety of nautical activities, always with environmental interactions and a respect for nature (Kizielewicz and Luković, 2013., p. 462).
- Nautical tourism is any tourism-based travelling on or near the water utilising different vessels, which may be for fun, sports or scientific purposes. Since this type leisure tourism involves so many people, nautical tourism can be considered a type of mass tourism. Given the high costs of nautical tourism it can be considered one of the most elite forms of tourism (Zubak et.al., 2015).

The fundamental characteristics of nautical tourism are well illustrated in Figure 1:

Figure 1: Fundamental characteristics of nautical tourism



Source: Gračan et.al., 2011., p. 191

It is obvious from the above figure that nautical tourism is a highly active tourist activity. It is becoming a mass phenomenon, since it allows individuals a great deal of independence in choosing a preferred service, and also allows larger scope of movement leading to more

consumption. Service providers in nautical tourism report better economic results every year, thus contributing to the improvement of infrastructure. The negative side of this type of tourism is that it is largely seasonal.

### **Training programs for the employees in nautical tourism**

Recruiting and selecting high potential employees does not guarantee that they will perform effectively because if the employees are unaware of what to do or how to do it they cannot perform effectively even if they want to. Therefore an organization must ensure that their employees know what to do and how to do it (Gorshkov and Kliucharev, 2013). The traditional system of supplementary professional education and the training and retraining of cadres, funded by employer, cannot always keep pace with the actual needs of industry and the labor market (Gorshkov and Kliucharev, 2013). Employee education can be done through the training. Training provides new employees with the basic background information required to perform their jobs satisfactorily such as information about company rules. Programs may range from brief informal introductions to lengthy, formal courses (Singh, 2016).

With the growth of the work's intellectual demands, the adoption of science-intensive technologies, and, most important, the increasing specialization of the professions and amount of knowledge workers need, in-house training has become substantially more widespread. Organizing the training of employees is becoming a profitable investment (Gorshkov and Kliucharev, 2013). For example, extensive, large-scale studies in a number of American companies have shown that a 10-percent increase in spending on personnel training yields an 8,5 percent increase in labor productivity, whereas the same increase in capital investment raises labor productivity only by 3,8 percent (Green, 2003). Examples of investment in employee training in ACI marinas will be shown in the research part of this paper.

### **Investments in training of ACI employees**

All of the employees of 21 ACI marinas were able to participate in this study. Management of ACI marinas were excluded from the survey, 60 of them. Before the start of the research, authors had an interview with Human Resources Manager of ACI. The following information was obtained from it. The ACI Society organizes team building in Split or Zagreb for receptionists and sailors at least once a year. In this way, the employees of all marinas meet, exchange experiences, and learn from each other. During summer season in some of ACI Marinas come secret guest who, as in other catering activities, visits the objects and plays the role of a guest, nautical tourist, and checks the competences of the employees. When employees get good rates from secret guest, they get some kind of rewards.



Except demographic questions, respondents were asked to write their competences which help them in their job. Also, they had to write what is their job position as well as which languages they speak. Last three questions were about their additional education and the way of its financing.

Total of 93 correctly completed questionnaires were received and all of them were included in the processing. Questionnaires were received from ACI Opatija, Trogir, "Veljko Barbieri" Slano, Split, Skradin and Milna (island of Brac).

In Opatija, almost all respondents were between 43 and 58 years old and are employees of ACI between 9 and 27 years. In the research, besides the director, there were also receptionists, sailors, crane operators, skippers, maids. Almost all respondents finished high school or high school, while some of them finished graduated at undergraduate studies. One of the respondents was previously in the position of the sailor and it helps him to do his current job. English and German are the main foreign language that every employee of ACI Marina Opatija speaks. Some of them speaks Italian while one employee pointed also knowledge of Russian. It is interesting that director was in some form of education. Sailors and crane operators were also participated in some form of education and it was financed by ACI. They have emphasized competencies that help them in their job: work in a safe way, IT courses as well as courses for crane operator and forklift trucks.

In Trogir, employees were between 43 and 50 years old. Only one of the respondents finished primary school, others have a high school education. In the survey participated receptionists, sailors and maids. One respondent has been employed in ACI Trogir for six years, and for one employee it was the first working season during this survey. The rest of employees are employed in ACI Trogir for 12 to 32 years. Their past jobs, as in ACI Opatija, are related to the current one. All respondents speak English, Italian and/or German. Only one of the respondents participated in some form of education financed by ACI, while one of employees also participated in some form of education but he paid it by himself. Organizational skills are the most commonly mentioned skills which helps them doing their job.

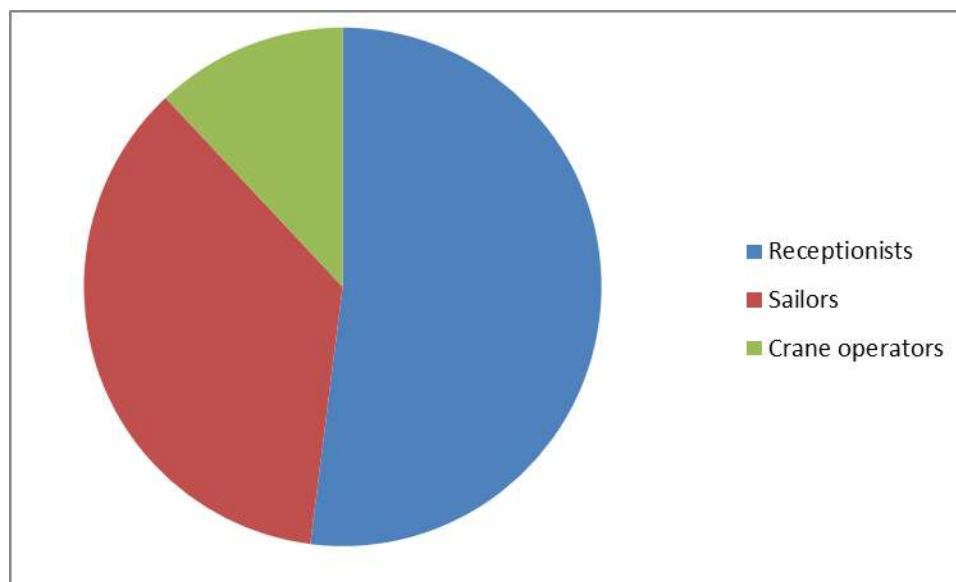
In survey participated receptionists, sailors, skipper and maids of ACI "Veljko Barbieri" Slano, at the peninsula of Pelješac. This ACI is opened for tourist in 2016, so employees are there from then, or a few months before that season. They are between 26 and 34 years old, have finished high school and two of them have master's degree. Their past jobs are related to the current ones. They speak English, Italian and German and one of them speaks Spanish. Before this marina started to work, few of employees were at some kind of education. Some additional competences they possess are communication and experience at similar jobs.

ACI Marina Skradin is part of Šibenik region and its employees have also participated in the research. The highest number of respondents is between 51 and 58 years old. The last education of these was a high school and two respondents were also bachelors. Almost everyone speaks English, Italian and German and one of them speaks French. In the survey participated, as in previous, receptionists, sailors, crew leaders and maids. They are employed in ACI between 8 and 33 years. Their past jobs aren't fully related to the current ones. Eight of them were participated in some form of additional education. As their competences they emphasized organizational, communication, IT, team work skills, etc.

In the research were also participated receptionists, sailors, crane operators and maids of ACI Milna (island of Brač) in the middle Dalmatia. They are employed in ACI between 15 to 32 years and their average is between 43 and 50. Most of them finished high school and almost everyone speaks English, Italian and German. For three of them ACI financed some kind of an additional education. Competences that help them in their everyday work are communication, organizational, IT skills, as well as finished courses for skipper. Receptionist of ACI Milna was the president of Milna Tourist Board.

Receptionists, sailors, crane operators, skippers and maid of ACI Split also participated in this survey. Most of them are between 35 and 42 years old. As in the most of ACI Marinas, employees of ACI Split speaks English, Italian and/or German, and two of them speaks French. They finished high school, one of them finished master's degree and one is a bachelor. They are employed in ACI between 13 to 25 years. ACI financed some kind of an additional education for receptionists and some of sailors. Next figure shows the number of employees who participated in any kind of an additional education.

Figure 4. Number of employees of ACI who participated in some kind of an additional education programs



Source: authors

Only receptionists, sailors and crane operators were at some form of education to improve their working competences. It is necessary to invest in their language skills as well as giving them the opportunity to go to education. It is the most recommended way of investing in the quality of services which is the basis for future development, attracting guests and expanding the broadcasting market.

## CONCLUSION

Nautical tourism, according to the Tourism development strategy of the Republic of Croatia, has the most significant role in the market, ie it is the most attractive and most competitive form of tourism. The research for the purpose of this paper was conducted among ACI employees. Total number of 367 employees is only 0.11% of the total number of employed persons in tourism in the Republic of Croatia. However, it is the elite form of tourism and the contribution in revenue is much higher.

As in the other forms of tourism, in nautical tourism comparative advantages are not enough, because people are those who make them recognizable in the broadcasting markets. So, it is necessary to know the potential, to invest in it, and then to attract the appropriate consumer segment. In this case, the Republic of Croatia has hydrographic and climatic elements, has an indented coastline and a relief attractive to sailors. Accordingly, in the ACI (Adriatic Croatia

International Club), in all marinas (22) they think about it and almost every season they increase their offer.

Analyzing the answers to the survey questionnaire, it is evident that the quality of the service or the satisfaction of the yachtman certainly comes from the expertise and long working time of the employee. An experienced worker to whose knowledge and skills are constantly investing in, is the most significant resource of development. As stated, each year, two employees from each marina go to some kind of an additional education, and from the questionnaire it is obvious that they personally invest in their knowledge, going to the language courses and the other for which they get the opportunity and believe they will help them to continue the business career.

For future research is proposed survey testing for a prolonged period, for example during the summer season. Also, it is proposed to simultaneously examine the yachtman and compare the results of one and the other exploration to reveal the current situation in the ACI marinas. In this way, it would be possible to continue investing in products and services in line with trends and with Croatia's tourism development strategy.

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