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Buljubašić, Iva¹

EXPLORING THE MOTIVES OF YOUNG AUDIENCE FOR THEATRE ATTENDANCE

Abstract:

This paper presents scientific research at the national level in the Republic of Croatia, i.e. the analysis of the motives for the arrival of the younger age group, the generation Y so-called millennials and generation Z's in city and national theatres. The institutions of culture in the Republic of Croatia are always trying to find the best way to contain existing and attract new audiences. The aim of this paper is to investigate the development of young theatre audiences, i.e. their motives, but also the obstacles of attendance in to city and national theatres.

Keywords:

Theatre; generation y; generation z; audience development; marketing in culture

Author's data:

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Introduction

In the field of marketing in culture, it is important to represent and popularize cultural and artistic achievements and to encourage a contact between audience and art, works of art, and cultural institutions. It is therefore important to explore "distance of producers and consumers", and market access to culture imposes a requirement to encourage consumption due to higher economic returns as well as institutions whose products are marketable (exhibition, performance, etc.). Promotion activities are facing a "fertile ground" for implementation because the theatres in Croatia should have a creative, low-cost and interesting promotion, but they should also explore what promotional activities are most appealing to the younger audience (especially generation Y). Every theatre has its own mission and vision. The task of marketing in culture i.e. promotion activities should be that as large as possible number of potential users (today and future visitors) should familiarize themselves with a mentioned mission and vision, and also as much as possible audience.

Cultural institutions, specifically theatres, which are in focus of this research paper, are struggling to find the best way to approach and attract the audience, in particular the young audience (Generation Y and upcoming Generation Z).

The paper comprises seven chapters. Chapter 1 is the introduction, followed by a description of theatre marketing, including its definition and

past studies, in chapter 2. Chapter 3 and chapter 4 give a description of Generation Y and Z and audience with cultural institutions attendance motives. Chapters 5, 6 and 7 focus on methodology, research results, discussion and conclusion.

The purpose of this paper was to investigate how Generation Y and Z were developing as a theatre audience and how were they attracted to the national and city theatres in the Republic of Croatia.

Theatre marketing

One of the first marketing studies, conducted by the Ford Foundation to establish the impact of ticket prices and other factors (such as visitors' incomes) on theatre attendance and audience, dates back to 1974. Other authors explored the same topic in the 1980s and 1990s. Some of the authors looked into ways how leisure substitutions such as reading, cinema, and recreation affects the arrival of audience on performance in the theatres [1,2,3]. On the other hand, in the literature it can be found the impact of visitors' education on theatre attendance [4]. Searching for further literature, how the ticket prices effect on theatre subscribers and non-subscribers [5], and the analysed impact of the quality of theatre plays on attendance [6]. More recently, some of the authors looked into the motivation that attracts visitors to theatres [7], explored the use of websites to attract the young target audience to the theatre [8] and

investigated the impact of social media promotion on theatre attendance [9].

The main concept of marketing in the theatre is defined by the management, depending on theatre type (national, regional, urban, music, children's, etc.) and management principles (administrative, managerial, project or entrepreneur). The type of theatre has no significant impact on creativity in marketing, merely setting certain frameworks and target groups, while the management principle is of crucial importance in this respect. On the other hand, marketing can and should have a positive impact on the theatre's business and help the management build the principles of organization and management, production, overall business, and the general image of the theatre, define the sales and marketing programmes, the public relations concept and advertising campaign, create repertoire politics, visiting programs, tours and participation at festivals, and define the course of the theatre's research and development [10].

Business tactic is the essence of marketing in theatres. This implies the tactic of successful selection of marketing tools and the manner of communication with the environment [11].

Marketing in theatres is the procedure of selling tickets or services to the viewer (the consumer). The same author asserts that marketing in theatres uses tools like promotion, advertising, public relations and audience relations [12].

The above author hypothesises that theatre marketing is based on sales but also on successful communication with the viewers, which ultimately can contribute to attracting viewers and selling tickets and services. In order to have a successful marketing plan, every person working in marketing in the theatre needs to have precise answers to the questions above. These answers can raise awareness of the state of marketing in the theatre and provide better guidelines for future marketing activities and future marketing plan.

Regarding theatre marketing, research and planning are the main functions of marketing in the theatre. Research identifies the real needs of the specific environment for which the product is intended. There are no universal approaches and unique models; research is conducted specifically for each individual case, project and environment, with only general principles applying to the marketing of cultural products. Planning allows theatres to make a good marketing plan, but before they start working on the plan, they need to answer the following questions: Do we need a marketing plan at all?; What is our business and what are we doing at this moment?; What do we want to accomplish in the next five years?; What are our products?; Who do we produce them for?; What is the value for our consumers?; What would they actually want to buy?; What do we actually sell them?; What limitations is product sales faced with?; What do we know about our market and how?; How much information do we have about our competition?; Do we know the advantages of the market compared to the competition?; Do we differ

from the competition and if so, how?; Do we have any marketing plans anyway?; What are our marketing priorities?; What do we want to say about ourselves?; Who do we want to communicate with?; What will we use the available marketing resources for?; How do we get to the buyer?; Do we have an idea of what we really want from our advertising?; What will we focus on in advertising?; How do we communicate with the media?; What can we learn from the competition? [13].

In order to have a successful marketing plan, every person who works in marketing in the theatre needs to have precise answers to the questions above. These answers can raise awareness of the state of marketing in the theatre and provide better guidelines for future marketing activities and the future marketing plan.

Generation Y and Z

The chapter will give over view and critical opinions both of the generations.

Generation Y refers to the generation born from the early eighties (around 1983) to mid-nineties (around 1996), also known as “the millennials”. The author of the paper considered the reflections of several authors on Generation Y for the purposes of this paper and gave critical opinion.

Generation Y thinks and learns differently from the preceding generations, due in particular to the rapidly changing, highly technological environment in which they have been raised. The authors of this paper strongly agree with this statement. In the same paper, the above authors assert that Generation Y has not lived in a world

without computers, the Internet, DVDs and cell phones, which the authors of this paper agree with to some extent, because Generation Y did not spend its childhood in the time of the internet (the internet just started to break in), but only started to use the internet, DVDs and cell phones in their adolescents years (as opposed to Generation Z, who had access to all of the above from early childhood) [14].

Also, Generation Y is the most educated, well-travelled and technologically sophisticated generation in general [15]. The author of this paper strongly disagree with this view, because the so-called Alpha Generation (born from 2011 to 2025) has the features authors Postolov et al. (2017) ascribe for Generation Y.

Moving on the up-coming generation Z, they are born from the mid-nineties (around 1996) to early millennium (around 2010), also known as “the iGeneration”, “Digital Natives” and “Gen Wii” [16]. Key formative trends for this generation are: social media, skill gaps, global mind set and infinite diversity [17]. Although, some of the authors claim that this generation never lived without internet [18, 19], the author of this paper strongly disagrees with that claim.

Audience and cultural institutions attendance motives

Audience research is plaque by loose, woolly terminology that often perpetuates ambiguity and hinders attempts to cohere a scholarly community around it. What is interesting to observe, however,

how audience behaviour and expectations are changing, as the next generation “of prosumers” matures and factors such as big data, co-creation, participation, digital engagement, and live streaming continue to impact the on the sector [20].

Further on, what are the needs, motivations and drives for cultural institutions attendance, can be found in the table below.

Audience needs and motivations	Driver and type of engagement
Feeling part of special community of interest	Spiritual
Ritual	
Escapism and immersion	
Being ethically challenged	
Reflection	
Access to creative people and process	
Aesthetic pleasure and development	
Passing on the legacy to the children	
Quality me - time	
Tingle down the spine moment	
Having a visceral response	
Feeling the chemistry and the buzz	
Empathy	
Getting an emotional hit	
Being moved	

Being drawn and in engaged	Emotional
Mimesis and personal relevance	
Exploring human relationships	
Nostalgia	
Storytelling	
Developing world view	Intellectual
Being intellectually challenged	
Self - improvement	
Learning about history or current issues	
Stimulating others	Social
Enhanced socialisations	
Quality time with family and friends	
Dinner with a show	
Good customer service	
Partaking in a live experience	

Table 1. Needs, motivations and drives for cultural institutions [21]

In table 1 it can be noticed how the cultural institutions attendance is a complex matrix of human emotions and stimulations. Nowadays, especially the storytelling (emotional) and escapism (spiritual) are important motivators and drivers for cultural institutions attendance because the audience is trying to emotionally connect with the event (whatever is going on, whether a performance, show, exhibition etc.) and by this act to escape just for a moment from the reality.

Methodology

The aim of the paper is to better understand the motives of young audience theatre attendance and also which role play's the advertising activities in the mentioned part.

The survey was conducted in the Republic of Croatia during January 2019 and February 2019. The instrument used for data collection was a highly structured questionnaire by using the pen-and-paper method completed by students (23- 33 years old) at the following universities: University of Osijek (Faculty of Economics, Academy of Arts and Culture and Faculty of Humanities and Social Science) and University of North in Varazdin (Public Relations Department). The questionnaire was completed by 612 respondents. From the total sample, 285 concludes the Generation Y and 327 Generation Z. The data are analysed using methods of descriptive statistics and nonparametric statistics.

Based on previous research findings, the author tested four hypotheses of the paper and draw conclusions about the hypotheses:

H1: The most common obstacle for Generation Y to visit the theatre event is the lack of time.

H2: The most common obstacle for Generation Z to visit theatre event is lack of interest.

H3: Generation Y prefers a recommendation from a friend to be drawn to events in theatres.

H4: Generation Z prefers social media advertising to be attracted to theatre events.

In the first part of the questionnaire, the focus was on demographic characteristics (10 questions). The second part of the questionnaire put the emphasis on promotional activities of the theatre (27 questions), while the third part of the questionnaire addressed standpoints about the audience (19 questions).

Variable	n	%	n	%
Men	84	29.5	91	27.8
Women	201	70.5	236	72.2
Total	285	100	327	100

Table 2. Sample description - gender

The sample on which the study was conducted on Generation Y, which consisted of (70.5 %) of female respondents and (29.5 %) of male respondents, and also Generation Z, which consisted of (72.1 %) of female respondents and (27.8 %) of male respondents.

Variable	n	%	n	%
Full time student	193	67.7	301	92.3
Part time student	92	32.3	26	7.7
Total	285	100	327	100

Table 3. Sample description - student status

Table 3 show that the majority of respondents from Generation Y are full-time students (67.7%), while other respondents are part-time students (32.3%). From Generation Z they are (92.4%) full time students and (7.9%) part time students.

Variable	n	%	n	%
Yes	203	71.3	177	54.2
No	55	19.3	150	45.8
Total	285	100	327	100

Table 4. Sample description - own income

The last table in this chapter show that, in Generation Y most students have their own income (71.3%) and are financially independent, but the rest of the respondents do not have financial independence (19.3%). In category of Generation Z most students also have their own income (54.1%) and are financially independent, but the (45.8%) are not financially independent.

Results

This chapter presents the results of the research and the validity of the hypotheses.

Variable	n	%	n	%
Lack of time	115	40.3	51	15.5
Lack of interest	47	16.5	117	35.7
Lack of information	26	9.1	57	17.8
Price	18	6.3	35	10.7
Poor quality of the program	55	19.3	23	7
Insufficient number of performances	19	6.6	28	8.5
Theatre is too far away	5	1.7	16	4.8
Total	285	100	327	100

Table 5. - Obstacles in visiting the theatre events

According to the data in Table 5, the first hypothesis “the most common obstacle for Generation Y to visit the theatre event is lack of time” can be

confirmed. The lack of time (40.3 %) may be due to the fact that Generation Y are in the phase of being young parents and they do not focus on cultural events. However, further data can be read to indicate that Generation Y has a major lack of interest (16.5 %) coming to the theatres because of the poor program quality (19.3 %).

The results also show that the second hypothesis “the most common obstacle for Generation Z to visit theatre event is lack of interest” can also be confirmed. The lack of interest (35.7 %) can be connected to the fact that this generation has lack of longer contraction and it is hard to keep their interest. Although, the Generation Z confirmed they have lack of interest for theatre events, the percentage of their programme judgment was quite good, only (7 %) considered that the theatre has poor programme quality.

Considering the quality programme, the above information can be a further basis for future research, both of generations can resolve what the quality of programme means to them (do they prefer more drama, comedy, opera, musicals, etc. in the program).

Variable	n	%	n	%
Friend recommendation	110	38.6	45	13.8
Social media	45	15.8	120	36.7
Official web site	31	10.9	35	10.7
TV	11	3.9	9	2.7
Radio	21	7.4	15	4.5
Paper News	15	5.3	7	2.2
Poster	19	6.7	21	6.5
E-mail newsletter	33	11.6	75	22.9
Total	285	100	327	100

Table 6. - Information and advertising for developing interest in theatre events

Respondents were asked about the manner of informing about theatre events and were offered eight different ways of informing (Table 6). The respondents were able to choose one answer that describes their ways of informing about cultural events. Reading the data in this table, third hypothesis "Generation Y prefers recommendation from a friend to be attracted to events in theatres" can also be confirmed because the highest percentage of respondents answered that they are most attracted to an event because of friend recommendation (38.6%). Another study from 2013 year [22] confirms that Generation Y prefers the recommendation of an event, i.e. face-to-face communication. Therefore, it can be seen that the situation has not changed so much from 2019, i.e. the generation has not become more technologically dependent. On another hand, the Generation Z tells another story. Most of them prefer information and advertising via social media (36.7%), so due to that information, fourth hypothesis can also be confirmed. They are more technologically dependent.

After the shown results, it can be concluded how the strength of the research methodology was noncomplex, cost effective, precise and inexpensive analyse, while on the other hand the weakness of the methodology was the preparation of the questionnaire.

Conclusion

Culture and the audience themselves are developing at a place where people meet, so the leading people of cultural institutions, city and

national theatres in the Republic of Croatia, and Generation Y and Z must find themselves "halfway", which means that leading people in theatres should invest more time, energy and financial resources in getting to know their audience (and eventually getting development guidance), and Generation Y and Z should invest their time in the leisure culture. In the process of getting to know and develop their audience, leading people in theatres may ask themselves how far they are willing to go to get to know their audience, whether the audience is aware of the mission, vision and artistic values of the cultural institution, also whether the cultural institution is ready to tailor the program to their audience, etc. These are just a small number of questions that executives need to answer to further develop their audiences. Through the results of this research, theatre executives can realize which the best advertising tools are for mentioned generations.

Looking at the limitations of this paper, it can be seen that the group of respondents was homogeneous, i.e. all of the respondents were students, of similar age, education and personal income. This information may be linked to further research recommendations, namely the creation of a heterogeneous sample of respondents that will vary with the existing respondents in terms of demographics, educational level, etc. Also, the recommendation for further research may relate to the quality of the theatre program, i.e. what for Generation Y and Z means poor and good program quality (as stated earlier in the paper) and that said generation make its recommendations to

executives (intendants, directors, etc.) to create more interesting program for young audience. Also, this paper provides another basis for future research, identifying important influences for better understanding of advertising activities in theatres.

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Karić, Darko¹

IMPACT OF EXOGENOUS SHOCKS ON CONSUMPTION APPROXIMATED BY RETAIL TRADE IN CROATIA

Abstract:

This paper analysis the impact of two different types of exogenous shocks on the consumption, approximated by retail trade in Croatia. The aim of this paper is to show that the crisis caused by financial disturbances and the crisis caused by pandemic have different repercussions on movements of interest rates and further impact on consumption. Banks react differently in a crisis that has no cause in the financial sector compared to the crisis caused by disturbances in the financial and banking market as we had in 2008. Therefore, it will be proven that in crisis of 2020, which is more significant in strength than the crisis in 2009, Croatia has pursued a different economic policy, aimed to retaining jobs and maintaining the level of consumption from pre-recession periods. All mentioned emphasizes two facts: 1. The irrational behavior of the state in a

crisis caused by disturbances in the financial and banking sector differs to the state reaction to the crisis caused by a pandemic, that has no financial cause; 2. Fear of negative psychological expectations and falling demand and personal consumption, are the most important components in the GDP structure

Keywords:

economic crisis; economic policy; consumption; interest rate; real net salary

Author's data:

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Introduction

In the last few months, we have witnessed a new economic crisis that has not been recorded for the last 100 years. The crisis caused by the COVID 19 pandemic, which hit hard the world economy, also had significant consequences on Croatian economy. A new situation, which so far has not been seen in textbooks, caused a crisis of aggregate supply and aggregate demand. If comparing with the recent global crisis of 2008, which spread to the Croatian economy in 2009, significant differences in reaction of monetary and fiscal policy are visible. At the time of the financial crisis, the Croatian economy responded with a restrictive monetary policy, i.e. with increasing interest rates. This effect caused a contraction in aggregate demand and deepened the recession until 2014. However, the emerging crisis, which did not come from the financial sector, resulted in expansive monetary policy as well as expansive fiscal policy. Expansive monetary policy at the time of the pandemic was oriented towards decreasing the interest rates, while expansive fiscal policy had a goal to help entrepreneurs who were facing potential layoffs due to the crisis. However, it turned out that despite the measures that came both from the monetary side and from the Government, the negative effects of the crisis were not compensated and there was a decline in a consumption approximated by retail consumption as a key component in the structure of household consumption. The crisis arising from the non-financial sector has caused a double contraction on both the supply and demand sides, despite

strong monetary and fiscal measures. Domicile consumption and the model of maintaining employment at the pre-crisis level did not have a significant effect on the movement of gross domestic product (GDP). Thus, the Croatian economy entered a deep recession in Q2 2020 with a decline in GDP of -15.4% compared to the same quarter in 2019. That represents the largest quarterly decline in GDP since Croatia's independency. In addition to the decline in demand that occurred due to supply constraints, two factors worsened even further; negative psychological expectations and a decline in tourist consumption. The Croatian Government was trying to reduce negative psychological expectations by "pumping" money into the system and maintaining the unemployment rate in the pre-crisis period. However, they failed. Despite all economic measures, there was a significant decline in consumption aided by a decline in tourism consumption, which has a significant role in the structure of GDP (19.6% in 2019). Therefore, economic policy creators proposed different measures for 2009 crisis and the 2020 crisis. The foreign exchange reserves of the Central bank and the capital adequacy ratio of banks were still at a high level in 2009, and that could influenced a faster economic recovery. For the recent crisis, this was not the case. The one form of "liquidity trap" was noticed, in which, despite decreasing interest rates and implementation of expansive fiscal policy, the crisis of aggregate supply and demand occurred. All this points show the vulnerability of Croatian economy, which is extremely elastic to exogenous shocks, both to the movement of foreign

tourist consumption and to the movement of demand in countries, which are our most important foreign trade partners. In the other words, Croatian economy is still consumer-oriented with a strong production deficit. Strong production sector represents a long-term generator of economic growth.

Research methods

In this research, the author will use the monthly series of data of consumption in retail as the best approximation of personal consumption trends for period from January 2007 to September 2020, and the period from July 2013 to September 2020. Personal consumption in the structure of GDP makes about 60%, therefore it is the most important component. In addition to the movement of consumption in retail trade, additional data which are being analyzed: movements of interest rates on household loans, then the movement of real net salary, as well as the movement of foreign tourists' overnights, all by months. The variables of the growth rate of real net salary and the rate of movement of foreign tourists' overnights will be observed from the perspective of control variables while modeling. Source on retail trade trends, real net salary and the number of tourist nights is the Central Bureau of Statistics of Croatia, while the source of data on interest rate movements on a monthly basis is the Croatian National Bank. Based on the analyzed data, the impact of retail consumption due to changes in interest rate movements will be examined. Based on the

econometrics program E-views 8.0, the author will test hypotheses about the effect of independent variables on the movement of consumption in retail as a dependent variable. The database will be adapted to test the econometric model of multiple linear regression. The author will try to explain how the economic crisis caused by two different exogenous shocks have different effects on the movements on the economic activities. In addition to econometric testing, descriptive statistics is going to be used as well.

Hypothesis 1: Change in the interest rate on household loans and change of real net salary have no impact on demand growth due to exogenous shock caused in the non-financial sector

The effect of interest rate change on consumption has being analyzed. It is based on examination of the multiple linear regression model of the movements of personal consumption approximated by consumption in retail trade and the movement of interest rates in the period from 2007 to 2020, and the movement of real net salary. Particular emphasis was put on the two crises that has captured us for the past 11 years; the mortgage crisis that occurred in the USA and its effect of transmission on the Croatian economy in 2009. Also, it will be analyzed the crisis from 2020 caused by pandemic and economic policy reaction on both crisis. Based on the coefficient of determination and the correlation coefficient, the existence of a relationship between personal consumption measured by consumption in retail trade and the movement of interest rates and real net salary will be examined. All variables in the model will be

expressed in year-on-year growth rates, on monthly level.

Hypothesis 2: Monetary policy depends and it is influenced by institutionalism

After analysis of the Hypothesis 1, the author will point out the impartiality in conducting the monetary policy. Based on the collected data on the foreign exchange reserves of the Central bank, author will point out the model of conducting monetary policy in the conditions of various economic crises. Monetary policy was mostly influenced by institutions and did not have its own independence. That point was based on the analysis of the interest rate movements during the 2009 financial crisis and the 2020 crisis.

Hypothesis 3: The number of foreign tourists' overnights has an impact on consumption movements in retail trade

Consumption trends approximated by consumption in retail trade and the number of the foreign tourists' overnights present a significant role. In the econometric model of multiple linear regression, the dependent variable (Y) is the retail trade, while the foreign tourists' overnights (growth rate) and the movements of household interest rates on loans and real net salary present the independent variables. Since Croatia is extremely resilient to exogenous shocks, especially to shocks of foreign demand caused by changes in the number of foreign tourists, the author will examine the significance of tourist consumption approximated by the number of overnights on the consumption trends, which is approximated by retail trade.

Economic trends in Croatia between two exogenous shocks

For the purposes of this paper, author observed a period of two recessions, one that occurred due to the USA mortgage crisis in 2008 and its arrival to Croatian market in 2009, and another crisis caused by an exogenous shock - pandemic. For the purpose of the research, a series of data from January 2007 was taken, as the last relevant year in which Croatia and the world recorded positive economic cycle. Croatia ended the 2007 with a positive real GDP growth rate of + 5.1%. However, after the crisis in the USA which occurred in 2008, Croatia recorded a slowdown in the GDP growth rate of + 1.9%. In the last quarter of 2008, the Croatian economy recorded a decline in GDP of -0.2%. The aggregate decline in personal consumption was -0.6% in Q4 2007 and that was the first indication of the recession. Due to the low level of productivity and volume of industrial production and a high exposure of the personal consumption variable in the structure of GDP, each element that has effect on consumption has a significant impact on GDP movements. The share of personal household consumption in GDP in 2007 measured by the expenditure method was 59.9%, while the same share in 2019 was 57.0%. At the same time, observing the foreign trade balance and the goods coverage of imports by exports in 2007, it amounted 43.1%, and in 2008 42.1%, while in 2019 it was 55.0%. The estimation for the first half of 2020 is 57.6%. These indicators show an increasingly

dominant role of imports and personal consumption in the observed period.

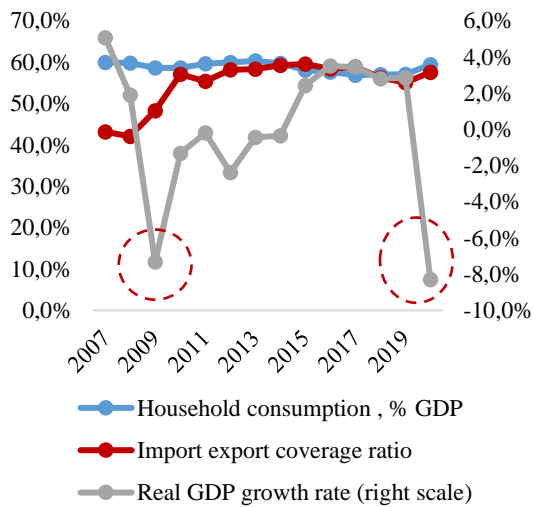


Figure 1. Movements in GDP growth rate, share of household consumption in GDP and coverage of imports by exports from 2007 to 2020 - estimation; Source: Croatian bureau of statistics, author calculation

Household consumption as a key variable of GDP measured by the expenditure method increased from 40.7 bn HRK in 2019 compared to 2007. At the same period, the coverage of imports by exports increased slightly after the global recession, with imports having slower growth rates compared to exports. After 2011 it was around 57.0%, and after Croatia entered the European Union, there was a re-strengthening of imports and a slower growth rate of exports, which unfavorable affects the foreign trade balance. Figure 1 shows the effect of the recession in 2008 on the share of consumption in the structure of GDP. At observed period the monetary policy had restrictive character, which led to destabilization of consumption due to increase of interest rates. The reaction of banks to the crisis of 2008 was shown as the automatic

increase of interest rates, which pushed Croatia even further into the recession, which lasted until 2014. The mentioned monetary policy also had an impact on other variables of GDP. The increase in interest rates had the direct consequences on decreasing investment activity and on decrease of personal consumption. The decline in personal consumption as a generator of economic growth, aided by the decline in investment activity from year to year, has made Croatian industry less and less competitive. As the domicile industry became more vulnerable, especially after Croatia entered the European Union, the consequences seen were next: a higher absolute imports compared to exports, which caused import deflation and further distortion of the competitiveness of Croatian industry. The accelerated growth rate of imports relative to exports had an impact on the most significant component in the structure of GDP according to the production approach method, where the processing industry makes the backbone of the economy.

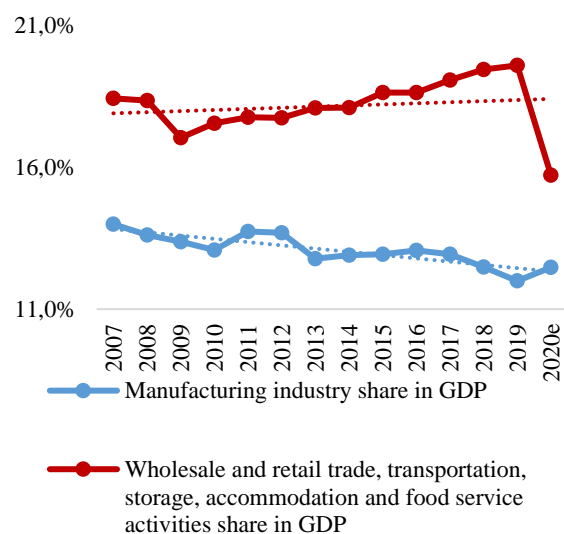


Figure 2. Movements in share of processing industry and the share of retail and wholesale trade, i.e.

categories according to the NACE C, G, H, I, from 2007 to 2019; Source: Croatian bureau of statistics, author calculation

Figure 2 shows the declining dominance of the processing industry in the structure of GDP measured by the production method, while the share of retail and wholesale trade, food storage, preparation and serving is increasingly emphasized in the structure. From 2007 to 2013, the share of the processing industry was around 14.0%, while this trend was declining after 2014, as a result of the entry of cheaper imports and significant pressure on the domicile industry, which was not ready to respond to international competition. However, the share of trade grew significantly in the structure of GDP, which is visible in Figure 2. Also, the gap between the curves of the share of manufacturing (NACE C) in GDP and the share of retail, wholesale (NACE G, H, I) after 2014 became more significant, i.e. the linear trend of trade is increasing, while the linear trend of the processing industry is decreasing. All these indicators show the vulnerability of Croatian economy, as well as the low level of competitiveness. There is a significant decline in personal consumption in retail trade in 2009 compared to 2008, and an even more significant decline in personal consumption in the first half of 2020. The consumer-oriented economy, which has no foothold in production, is not sustainable in the long run and is significantly exposed to exogenous shocks as can be seen in Figure 2.

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Consumption and the interest rate on household loans

An increase in the interest rate according to the theoretical definition results in a decrease in consumption. However, in the emerging crisis of 2020, which did not come from the financial sector, has resulted in a decrease of interest rates and in a decrease in aggregate demand, which has not yet been recorded in modern economic history.

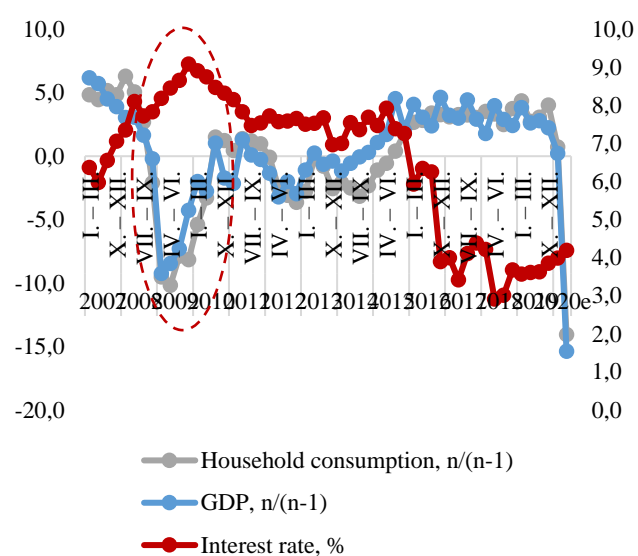


Figure 3. Movements in real GDP, household consumption and interest rate on household loans, growth rate from 2007 to 2020, quarterly level, yoy; Source: Croatian National Bank, Croatian bureau of statistics, author calculation

Figure 3 shows the movement of GDP growth rates, and growth rates of household consumption as the key variable in the structure of GDP measured by the expenditure method, and also the movement of interest rates on household loans. The correlation coefficient between personal consumption and GDP is $r = 0.92$. However, observing the correlation coefficient between the movement of interest rates

on loans to households is $r = -0.45$, which indicates a negative correlation between the movement of household consumption and interest rates. Figure 3 shows that the Croatian economy reacted differently on those two crisis. In the first crisis, interest rates increased, which had a negative impact on the movement of personal consumption, and consequently on GDP as well. On the other hand, in the second wave of the crisis in 2020 there was a continuous decline in interest rates, but this had no effect on consumption growth. The interest rate also tended to decrease in the third quarter of 2020. The effect of consumption neutrality occurred. This phenomenon resulted in one kind of "liquidity trap" in Croatia, where interest rates do not respond to demand.

The dependence of monetary policy

The analysis of CNB's foreign exchange reserves, show the increase of 13.7% in 2009 crisis in Croatia compared with the world crisis in 2008. Furthermore, that indicates the reaction of the banking system to the financial crisis where interest rate increased and banking system made even higher profit. This fact shows that during the financial crisis in 2008, the Central bank pursued a restrictive monetary policy, eventhough it had elements for expansive monetary policy which would absorb the exogenous shock. However, with a high level of bank capital adequacy, the policy was also disincentive. The Central bank had sufficient resources to meet the import coverage written in list of Central bank's goals. In spite of this, CNB was biased and did not play a positive role

in supporting the economic system. In the other words, CNB was influenced by institutionalism.

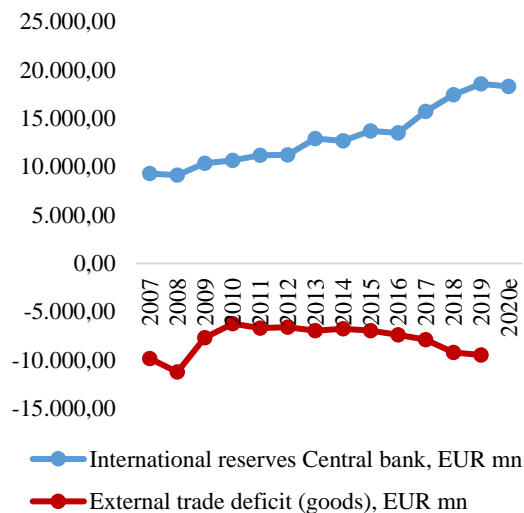


Figure 4. Movements in International reserves of Central bank in EUR mn and movements in external trade goods from 2007 to 2020; Source: Croatian National Bank, author calculation

Notes: at the time of writing this article, there was no full data available for the foreign trade balance

The continuous growth of the foreign exchange reserves of the CNB has led to the fact that the CNB currently has foreign exchange reserves at the level of covering the double trade deficit in Croatia from 2019. Even after Croatia entered the European Union, monetary policy did not change. It had a continuous growth of foreign exchange reserves. One of the factors for that fact is the high inflow of foreign tourists, i.e. foreign tourist consumption. The impact of foreign tourism consumption in 2019 was 19.6% of GDP, both directly and indirectly, while tourism revenue in 2019 amounted 10.6 bn EUR. However, the Croatian Government sent a clear message to the monetary authorities about the new crisis caused by the pandemic, confirming

that the CNB is ready to respond to the crisis as it has enough liquidity to keep economic activities at pre-crisis level. Pumping liquidity into the system through the low interest rates, as a response to the shock that occurred on the side of aggregate supply and aggregate demand did not yield expected results. An additional factor that accelerated the negative economic trends was the decline in tourist consumption, i.e. the decline in foreign tourists' overnights and also a negative psychological expectations that were present in almost all countries affected by the recession. However, the CNB had a completely different response to the new crisis. The interest rate decreased, despite the uncertainty of the market, what very much differs from the 2009 case, where we witnessed a significant increase in household interest rates.

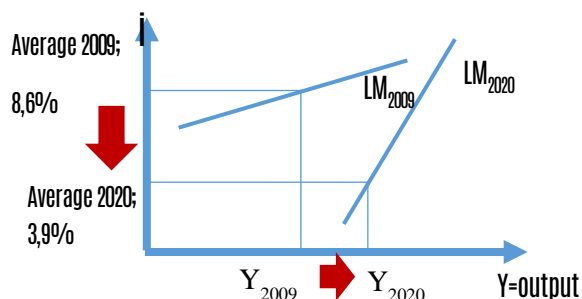


Figure 5. An impact approximation of interest rate change on total output 2009 vs 2020

Figure 5 shows a simulation of the change in the household interest rate on changes in consumption growth. One can see that the LM curves from 2009 and the LM curve from 2020 differ in their elasticity. In 2009, the change in interest rates resulted in a significantly stronger reaction on output growth, while in 2020 this case was totally

different and the LM curve from 2020 became more inelastic. A small change in interest rate does not significantly affect an output growth. This trend, if continues, could lead to the phenomenon of a "liquidity trap" where interest rates do not have any impact on the growth of demand or output. Mentioned observation is confirmed by H2 hypothesis. The monetary policy is highly dependent on fiscal policy and on government policy. Despite the recession, interest rates are very low, which in 2008 and 2009 was not the case.

The consumption approximated by the movements of turnover in retail trade

Personal consumption as the key component of GDP plays a significant role in the development of economic activities. In the structure of personal consumption, retail trade consumption approximated by retail trade turnover is the most significant contribution variable. The total volume of retail trade in 2019 was over 100.0 bn HRK. From that turnover, a significant share comes from the foreign tourist consumption.

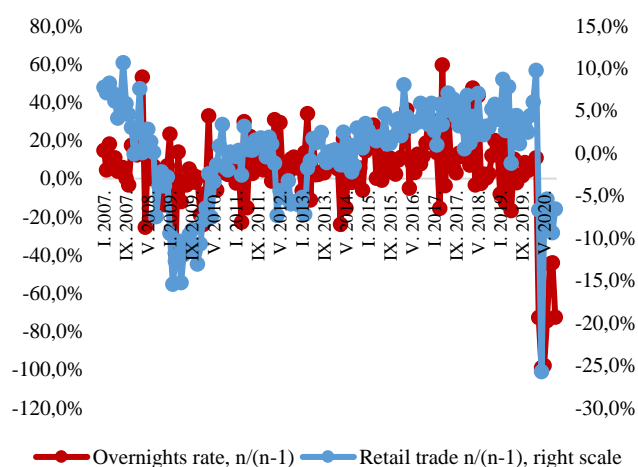


Chart 6. Monthly movements in retail trade and foreign overnights rate, 2007 to 2020

Chart 6 shows the movement of the retail trade turnover index (year-on-year growth rates) and the growth rate of foreign tourists' overnights. A significant correlation of variables is visible, where the correlation coefficient in the period from January 2007 to September 2020 was $r=0.52$, while at the same time the correlation coefficient after Croatia joined the European Union was very high $r=0.79$, while after January 2015 to September 2020 was even $r=0.81$. These indicators show an increasingly important impact of tourist consumption in the Croatian economy, which reports an increasing trend over the years. At the same time, the economy is becoming more and more exposed to the elasticity of exogenous shocks. To conclude, a small change in the movement of the number of foreign tourists' overnights, causes significant changes in the movement of consumption in the retail, and thus on total GDP.

Empirical research of the hypothesis H1 and H3

On the basis of conducted tests and analyzes from the previous chapters based on descriptive statistics, in this chapter the hypothesis H1 and H3 will be tested by use of the multiple linear regression model and the software package E-views 8.0. Based on 165 observations, the author examined the impact of changes in the interest rate, the impact of change in rate of number of foreign tourists' overnights and the rate of change in real net salary on the movement of consumption in retail trade.

H1: Change in the interest rate on household loans and change of real net salary have no impact on demand growth due to exogenous shock caused in the non-financial sector

H3: The number of foreign tourists' overnights has an impact on consumption movements in retail trade

Dependent Variable: RETAIL_TRADE

Method: Least Squares

Date: 11/28/20 Time: 18:46

Sample: 1165

Included observations: 165

Variable	Interest rate	Net salary	Overnights
Coefficient	-0.008366***	0.731951***	0.132611***
t-Statistic	(-4,291267)	(4,693904)	(-9,470353)

Model diagnostics

R-squared	0.533506
Adjusted R-squared	0.524814
S.E. of regression	0.038782
Sum squared resid	0.242156
Log likelihood	3,041151
F-statistic	6,137598***
Akaike info criterion	-3,63776

Schwarz criterion	-3,56246
Hannan-Quinn criter.	-3,60719
Durbin-Watson	0,868453

Table 1. Hypothesis test on 165 observations; an impact of interest rate, net salary and foreign tourists' overnights rate on retail trade consumption 2007(January) to 2020(September)

Dependent Variable: RETAIL_TRADE

Method: Least Squares

Date: 11/28/20 Time: 18:53

Sample: 78 165

Included observations: 88

Variable	Interest rate	Net salary	Overnights
Coefficient	-0.003348*	0.423978**	0,132262***
t-Statistic	(-1,857374)	(2,216266)	(1,139447)

Model diagnostics

R-squared	0.655667
Adjusted R-squared	0.643370
S.E. of regression	0.027786
Sum squared resid	0.064854
Log likelihood	1,925037
F-statistic	5,331667***
Akaike info criterion	-4,284174
Schwarz criterion	-4,171568
Hannan-Quinn criter.	-4,238808
Durbin-Watson	2,06679

*Table 2. Hypotesys test on 88 opservations; An impact of interest rate, net salary and foreign tourists' overnights rate on retail trade consumption 2013(july) to 2020(september); E-views, author calculation, *, **, ***, 10%, 5%, 1% significance level*

The conducted econometric research was based on 165 and 88 observations where the dependent variable is represented by the movement of the turnover rate in retail trade, while the independent variables are interest rate, real net salary growth rate, and the number of foreign tourists' overnights. All independent variables show a high level of reliability and a low level of relation error. All variables in the model have a high level of

significance and they are all statistically significant. In the first iteration of 165 observations, it is indicated that the interest rate growth has a very slight effect on retail consumption, while in the second iteration of 88 observations; the same observed variable has an inconsiderable effect on retail consumption. The coefficient of determination is $R^2=0.53$ in the first iteration, while in the second iteration it is above

$R^2=0.65$, which means that the model is representative in both cases. Table 2 analysis the period after Croatia joined the European Union, which presents even more representative model. By examining the representativeness of the model, the model is even more representative by approaching the 2020. All independent variables are significant in the model, with the pooled F test also being reliable. The level of significance is below 1% in both tests at 165 and 88 observations. In Table 1, the DW test showed a low value <2 , which indicates the existence of autocorrelation for relation errors. On the other hand, the author indicated by additional testing in the second test by lagging variables that there is no autocorrelation of the first order relations errors. Further confirmation of the absence of autocorrelation problems is shown in Table 2, where at 88 observations with high statistical significance, the independent variables are below 10%. Durbin-Watson test showed a value of $DW=2.06$ which explains that there is no autocorrelation problem of relation errors.

Conclusion

In the research author used a descriptive statistics and multiple linear regression model, where the dependent variable is consumption or turnover in retail trade, while the independent variables are the growth rate of interest rates on household loans, real net salary growth rate and foreign tourists' overnights. All independent variables in the model as well as the aggregate model indicate a high level of confidence, $<10\%$. From the

research, it is clear that the economic policies used during the crisis caused by the financial markets and the crisis caused by the pandemic were different. As in any crisis, nor was this one an exception, the financial system plays a key role in stabilization of the economic system. However, when the crisis in the financial markets in 2008 occurred and further affected Croatian economy in 2009, banks played a destabilization role, by raising interest rates in the market while automatically reducing demand and consumption. Such an effect of raising interest rates further pushed Croatia into deeper recession, which lasted until 2014. The mentioned recession lasted from 2009 to 2014 and was the longest recession among all countries in Europe. Although the banking system was strong enough and had an ability to absorb the exogenous shock caused by the financial crisis, mentioned did not happen. They used a contractionary monetary policy, in which banks made above-average profits, while aggregate demand had a continuous decreasing trend. However, the crisis caused by the exogenous shock from non-financial sector started beginning of 2020, and had different response of monetary policy. The monetary policy used in this crisis was a quite opposite compared to 2009. Monetary policy had an expansionary character with a reduction in interest rates, in order to stimulate demand and consumption. In addition to monetary policy, fiscal policy, which was also expansive, had a major impact as well. Despite of expansive economic policies, the phenomenon, which has not yet recorded in modern economic history, occurred, and that is the crisis of aggregate supply and aggregate demand.

In those situations, the money has more neutral role and is not the only factor driving the economy. Thus, the economic policy performed in 2009 could have mitigate the effects of the exogenous shock. The reason is that the banking system was strong enough, almost as it is now in 2020. The different responses of the Central bank to the crisis indicates the bias and high dependence of the monetary system. An economy based mainly on services and consumption in which the share of tourism revenues is 19.69% in 2019 in the GDP is extremely elastic to exogenous shocks. Therefore, the lack of a clear strategy of development of Croatian economy will become even larger problem. The strategy should be focused on developing a strong production economy and on self-sufficiency and exports. The high level of elasticity of the economy to foreign tourist consumption, with a continuous decline in domicile consumption caused by depopulation processes, followed by vaguely elaborated strategy, represents a significant challenge for economic policy makers in the upcoming period.

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Budimir, Verica¹

BALANCED SCORECARD METHOD IN PERFORMANCE AUDIT OF BUDGETARY USERS

Abstract:

The paper aims to explore how the Balanced Scorecard method can improve budgetary users' performance audit in Croatia. Literature review on performance measurement in the Croatian public sector gives an overview of the development level in strategic planning, control, and monitoring performance. The paper gives some suggestions for improving Croatia's budget system based on the identified disadvantages and weaknesses in measuring and monitoring performance.

Keywords:

Audit; Balanced Scorecard; budgetary users; performance

Author's data:

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Introduction

The public management governs budgetary resources by allocating them in programs and activities. The aim is to meet the needs of the population in a successful and quality way. Democratic decision-making on the allocation of public funds is entrusted to the government and public officials and employees. They have an obligation to responsible disposal and management of public resources. Users of public services are increasingly aware of their rights to information, including information related to budgetary resources allocation and spending. It is necessary to develop a system for measuring and monitoring performance and a system of controls and supervision in the public sector to make information about their leaders' budgetary activities and work to be credible and accessible to citizens.

This paper's motivation arises from developing the public sector in Croatia towards acceptance and creating an adequate performance measurement system for budgetary activities. Although the public sector's need for performance measurement in developed countries emerged in the early 1990s [1; 2; 3], previous experience and research in Croatia [4; 5; 6; 7] indicate a low level of implementation of internal reports in the public sector. Insufficient use of instruments of cost accounting and management accounting and performance indicators, and consequently, purely reliance on external financial reports in decision-making and reliance on experience or intuition in assessing the performance of provided services

[4] affects the quality of decisions with inevitable economic and financial consequences.

how the Balanced Scorecard method can improve the performance audit of budgetary users in Croatia. Current legislation in Croatia [8; 9] proscribe control and monitoring of performance and verify budgetary users' efficiency and effectiveness. For monitoring and evaluation of performance, it is necessary to implement performance measurement. Accordingly, the paper aims to explore how the Balanced Scorecard method can improve budgetary users' performance audit in Croatia.

Throughout the literature review analysis, the shortcomings and weaknesses in the existing performance measurement system and monitoring performance of Croatian budgetary users are recognized. Therefore, further in the paper, the authors give specific suggestions that would improve the budget system. The need for a higher quality of public services, lower budgetary assignment for public purposes, creating a friendly environment for citizens, and increasing budgetary user business management efficiency enforce the obligation for introducing theoretical and practical solutions applied in the profit sector [10]. To better plan, control, and manage all business processes and provide quality and cost-efficient public services, budget users need to move from the traditional bureaucratic decision-making system to the contemporary corporate management model of public finances. Accordingly, the paper proposes the use of Balanced Scorecard management method. The study examines the importance of the Balanced

Scorecard method for performance audits. The Balance Scorecard method ensures accountability for achieving desired results, quality monitoring of achievements, and transparency of the budgetary system by defining objectives, measurable performance indicators and initiatives, and measuring, monitoring, and comparing achieved results. The authors argue that using this method in the budgetary user operation provides an effective internal and external performance audit.

Performance measurement, control, and supervision of budgetary users

The main objective of private sector organizations is profitability and maximization use of available resources. On the other side, the main goal of budgetary users' operations is to provide public services. Various political and social goals affect their organizational structure and management. Budgetary users have different and very often conflict objectives and tasks, and, therefore, it is not easy to measure and evaluate their performance. Some performance indicators for for-profit entities can be useful. However, to create a complete figure about the programs' performance and budgetary users, it is necessary to define performance indicators adjusted to their structure and definition.

The question "how to effectively measure budgetary users' performance and their programs to obtained results enable the improvement of performance?" represents one of the top

questions for public management. "Performance measures are objective and quantitative indicators of different aspects of the effectiveness of public programs or budgetary users" [11]. Performance indicators usually measure efficiency, effectiveness, adequacy, quality of services, and customer satisfaction. Although performance indicators are often classified into specific categories, the most common performance indicators include measurement of "output, economy, productivity, service quality, efficiency, cost-effectiveness, and customer satisfaction" [11]. The most effective use and supervision of performance indicators are through a performance measurement system - control system to calculate the performance indicators in the planned intervals to achieve effective and responsible management decisions [11]. Management is responsible for establishing the strategic framework within the performance management system that will be used - it includes defining the mission, strategy, objectives, tasks, and desired volume. Management is also responsible for defining and maintaining public programs, services, operations, and standards and using the mentioned system to increase overall efficiency. The idea for performance measurement of the budgetary user operations exists for a long time, but its significance in Croatia was obtained at the beginning of the 21st century. The research results in Croatia [12; 7] show that budgetary users measure performance only by periodical analysis of the basic financial statements. Public managers do not attach sufficient importance to setting business objectives as well as defining

measurable performance indicators. However, it is an apparent positive correlation between the organization's size and performance measurement development. Namely, large budget users define measurable indicators of success more often than small budget users. Strategic planning in the Croatian public sector is partial. Strategic plans' existence does not significantly impact the definition of financial and non-financial objectives and performance indicators adjusted to them. The measurement system is based on the measurement of past events, and the successful execution of the strategy requires a future perspective. The conclusion is that Croatian budgetary users, partly and sporadic performance measurement base on the information from the basic financial statements. On the other side, they do not measure business performance by implementing the vision, mission, and strategy, using financial and non-financial indicators.

Although the performance measurement system is not developed, public managers are aware of the importance and the need for performance measurement and presentation of results to the public. Public managers believe that performance indicators should be the criteria for allocating budget resources and the elements of different forms of internal and external monitoring of operations. High developed awareness of public managers on the need to build a transparent system of performance measurement is not in correlation with the currently achieved level of development of the Croatian public sector. Performance indicators are only partly criteria for allocating budget resources, and performance

measurement results are rarely presented to the public. Less than half of budget users conduct internal and external control of performance indicators. It is concluded that the performance measurement system, in the function of management and control of Croatian budget users, is not developed sufficiently.

Control and supervision of budgetary users

"As control mechanisms of the functioning of the budget system can constitute different types of supervision. They aim to evaluate the efficiency and effectiveness of all government units' activities, their leaders, officials, public servants, and employees. The goal is to protect taxpayers' money from fraud and unintended spending" [13]. Efficient management of public revenues and expenditures implies supervision at all levels of the budget and in all phases of the budget cycle. By the authority that supervises (executor of control), an object of the control and time when control is performed, we distinguish:

1. Internal supervision (control and audit) and
2. External supervision.

In the Croatian budgetary system are provided internal financial control and internal audit. The external supervision carries out through the procedures of state audit and budget supervision. Internal Financial Control (PIFC) implies a comprehensive system of financial controls designed to ensure that financial management and control of the national cost centre (including foreign sources of funds) comply with relevant regulations, budget system, the principles of

reliable financial management, transparency, effectiveness, efficiency, and economy [14]. The internal financial control covers all measures used to control state revenues, expenditures, assets, and liabilities.

"Internal auditing is an independent activity which assesses the internal control systems. It provides independent and objective opinions and advises on business improvement. It helps the budgetary user achieve goals by applying a systematic approach to evaluating and improving the effectiveness of risk management, control, and governance" [15]. Unlike the financial management system and control system, independent internal audit units cannot establish all the budget users. In practice, internal audit of budgetary users should include [16] the financial audit (revision of budget and financial systems by checking regularity and validity, and detailed testing of transactions) and performance audit (it checks the efficiency and effectiveness of budget users; performance audit deals with the assessment of achieving the objectives of budgetary users and their programs taking into account the level of achievement results concerning costs, in proportion to the risk and within deadlines, with minimal use of resources). State audit conducts an external audit of the public sector. A state audit is the highest form of independent parliamentary control of disposal and use of public funds [17]. The area of state audit activities includes regularity audits and performance audits. Through regularity, audits examine documents, internal audit reports, accounting and financial procedures, and other

notes. The aim is to verify and evaluate the application of accounting principles, accounting standards, laws, and regulations in certain areas while recording business transactions and preparing government units' financial statements. Performance audit refers to the judgment of the purpose and efficiency of government units' operations. The performance audit checks the economy, efficiency, and effectiveness by using all available resources. Also, through a performance audit, an assessment of achieved objectives and control of realized activities is conducted compared to the intended goal.

The budgetary supervision is carried out by authorized officers of the Ministry of Finance - Budget Supervision Inspectors. Budgetary supervision checks the legality, purposefulness, and timeliness of budgetary resources and correct application of laws and regulations.

The Balanced Scorecard method

Traditionally, budgetary users during the decision-making process rely on financial data (budget constraints). However, in current business conditions characterized by modern and sophisticated information technology, orientation on consumers and their expectations, globalization of markets, and growth in importance of intangible assets, financial information is not enough for public managers' quality governance. In the early 1990s, Robert S. Kaplan and David P. Norton have developed a Balanced Scorecard management model. BSC model [18] is a set of performance indicators related to the vision and

mission to provide a framework for strategic management and performance measurement. "BSC is a model of a carefully selected set of measures and indicators derived from the strategy by which organization plans and directs its activities and measure achievements from different perspectives by connecting and balancing the most important factors for success" [19]. At the centre of this model is the strategy. The strategy defines the long-term plans, programs, activities, objectives, and resources required for their achievement. BSC translates the vision, mission, and strategy of the organization in plans, tasks, and indicators in the four essential perspectives [20; 21]:

1. Financial perspective - In what way we create value for customers by controlling costs?
2. User perspective - Who are our users? How we create value for them?
3. The internal process perspective - Which business processes need to be improved to satisfy customer needs (with budget constraints)?
4. The learning and growth perspective - By fulfilling current obligations, what space we left for changes, learning, and growth?

For budgetary users, the achievement of their mission is measured through public sector users' satisfaction. Consequently, the perspective of customers (users) rises to the top of the BSC model.

For the successful implementation of the BCS model, it is necessary to establish clear objectives and indicators for each perspective and their

relationships. The objectives and measures for each of the perspectives are interrelated cause-effect relationships illustrated graphically through the strategic map [22]. Financial measures are the result of previous activities. They are not suitable for measuring the resources that create value for modern budgetary users (such as knowledge or work in the network). We could call them "Lag indicators." BSC model bases on a balance of financial and operational indicators. Operational indicators are considered to be the drivers of future performance or "Lead indicators." Through a balanced system of performance measurement (balanced scorecard), the organization monitors the current performance (finances, customer satisfaction, and performance of business processes) and efforts to improve the process, motivate and train employees, and improve the information system ability of learning and training. Balanced Scorecard as a performance measurement system achieves a balance of financial and non-financial measures, thus improving the pre-set goals. Integrating financial and non-financial indicators and linking strategic objectives with cause-effect relationships through the four essential, balanced perspectives form a complete system for planning, managing, and controlling the organization.

Importance of BSC for internal audit of budgetary users

Activities of internal audit assist management in achieving strategic objectives. Therefore, it is often

called an "extended hand of management." Initiatives of internal auditors are associated with evaluating and improving public management and budgetary user process efficiency. The research results in Croatia [12; 7] show that most public managers believe that it is necessary to implement internal control of performance indicators. However, only half of the respondents have organized an internal control of indicators and results.

The role of internal audit can be improved by using the BSC method. BSC model provides the basis for the involvement of internal audit in achieving budgetary users' strategic objectives. Internal audit monitors the BSC model's implementation, provides accurate reporting on achieved results, and contributes to budgetary targets. Mission, vision, and strategy determine all activities of budgetary users and functions and internal audit activities. For the successful implementation of the strategy and achievement of strategic goals, organizational structure should be aligned with objectives and strategic action plans. The strategy should be regularly assessed and emphasize the vital strategic points. The strategy should be translated into achievable objectives and initiatives needed for their successful accomplishment.

Before defining the internal audit function, it is necessary to evaluate and select the most appropriate internal audit form (management, operational, or financial). It is considering that budgetary resources' effective management requires an independent, systematic, future-oriented evaluation of budgetary user activities

[23]. BSC method is a useful strategic management tool that facilitates the implementation of internal audit. The internal audit function is defined by taking care of various interest groups, internal business processes, innovations and employee motivation, and finances. "According to the International Institute of Internal Auditors, Internal Audit is an independent and impartial assessment and consultation activity, guided by the philosophy of added value and business improvement of an organization" [15]. How can an internal audit create added value, and what kind of performance indicators help her in that?

The BSC method's strategic-oriented performance indicators provide strategic competence and functions of budgetary users that add value and improve its operations. For quality functioning of internal audit, the BSC model should be successfully implemented within the budgetary user. Internal audit should be a part of the organization's management structure, and the audit scope should cover all four perspectives of the BSC model. BSC model provides a methodology for reporting, development, supervision, and execution of budgetary user strategic objectives. By implementing performance monitoring, internal audit can successfully, fairly, and comprehensive advice management and meet the growing needs for supervision and provide accurate, real, and relevant information about budgetary user operations. Internal audit reports that include perceived problems and deficiencies in the budgetary user's activities should include their elimination proposals.

Importance of BSC for external (state) audit of budgetary users

34 | Since the state audit procedures, apart from checking the regularity of financial statements and financial transactions, including carrying out and checking the performance of budgetary programs and activities, the BSC method's contribution should be considered in conducting a performance audit of budgetary users. Performance audit provides an assessment of the appropriateness and utility of administrative and managerial decisions. Implementation of performance audits can contribute significantly to the effectiveness of individual state programs or the state. Conducting a performance audit is much more demanding than conducting a financial audit. In Croatia, performance audit conduction is even more difficult because there are not developed parameters for its implementation [24]. The conducted research [12; 7] shows that public managers consider conducting external performance audits. However, the system level criteria and performance indicators are not uniquely prescribed but are defined for each entity individually.

A performance audit is carried out through control and supervision of disposal and spending of public resources by budgetary users, which is achieved by

monitoring budgetary users' performance and providing comprehensive and reliable information about their economy, efficiency, and effectiveness. Application of the BSC method at budgetary users would allow assessment in performance use of human, financial, and other resources and achievement of goals defined in the programs. A performance audit can rely on performance indicators of the BSC model.

The mission of budgetary users is to provide the most valuable public services to citizens for their money. Budgetary user strategic plans translate the mission into strategic objectives and action plans for their achievement. Usage of the BSC method in the budgetary user operations allows the state audit to supervise government units' strategic plans and evaluate the level of achievement of strategic objectives. Specification of target values creates a basis for measuring and comparing achievements for a specific period concerning each strategic program's objectives and budgetary user activities. By comparing the achieved results with target values, the state audit can assess how budgetary users meet program objectives and what program results they achieve. Tables 1 and 2 illustrate how the state audit can assess the quality of performance indicators and supervise budgetary user performance by using them.

Performance indicators	Linked to strategy	Relevance	Well defined	Ability to monitor performance	Promptness of a data	Reliability	Comparability	Possibility of control	Overall rating
User perspective	Yes/No/Indirectly	High/Medium/Small	Yes/ No	Yes/ No	Yes/ No/ Partially	High/Medium/Small	Yes/ No/ Partially	Yes/ No	Green / Yellow / Red
Internal processes perspective	Yes/No/Indirectly	High/Medium/Small	Yes/ No	Yes/ No	Yes/ No/ Partially	High/Medium/Small	Yes/ No/ Partially	Yes/ No	Green / Yellow / Red
Development and growth perspective	Yes/No/Indirectly	High/Medium/Small	Yes/ No	Yes/ No	Yes/ No/ Partially	High/Medium/Small	Yes/ No/ Partially	Yes/ No	Green / Yellow / Red
Financial perspective	Yes/No/Indirectly	High/Medium/Small	Yes/ No	Yes/ No	Yes/ No/ Partially	High/Medium/Small	Yes/ No/ Partially	Yes/ No	Green / Yellow / Red

Table 1: External supervision for quality of performance indicators [12]

Performance indicators	Target value	Achieved result	Distinction	Strategic objectives achieved	Program results achieved	Business economy	Business efficiency	Business effectiveness	Overall rating
User perspective	XX	YY	+/-	Yes/ No/ Partially	Yes/ No/ Partially	Yes/ No	Yes/ No	Yes/ No	Green / Yellow / Red
Internal processes perspective	XX	YY	+/-	Yes/ No/ Partially	Yes/ No/ Partially	Yes/ No	Yes/ No	Yes/ No	Green / Yellow / Red
Development and growth perspective	XX	YY	+/-	Yes/ No/ Partially	Yes/ No/ Partially	Yes/ No	Yes/ No	Yes/ No	Green / Yellow / Red
Financial perspective	XX	YY	+/-	Yes/ No/ Partially	Yes/ No/ Partially	Yes/ No	Yes/ No	Yes/ No	Green / Yellow / Red

Table 2: External supervision of budgetary user's performance [12]

Conclusion

Croatian public sector, since its foundation, passes through many reform processes. Today,

during the COVID-19 crisis, these changes are more pronounced. The bureaucratic system of public finance management based on control and justifying the costs is no longer adequate. Globalization, numerous economic changes,

growing and increasingly complex demands of citizens for public services, the need for quality, accountability, and performance, influenced the need for public administration modernization. By executing the tasks entrusted to them, the new public sector should create value for the public. Also, it should take care of customer needs and measure the results of operations. Accordingly, it is necessary to find new models for budgetary user management customized to new business requirements.

The need for control of public spending and increasing accountability for the costs and results of public programs have influenced the need to measure and monitor Croatian budgetary users' performance. Quality performance measurement system requires a set of financial and non-financial business goals and the development and definition of objective performance indicators. The paper proposes a modern Balanced Scorecard model (BSC model) for business management to respond to the perceived shortcomings and weaknesses of the existing system of management and supervision of budgetary users. BSC model is a set of performance indicators linked through the mission and vision to provide a framework for performance measurement and strategic business management.

In the paper is observed BSC method in the function of monitoring performance. Analysis of the components of the internal and external audit has resulted in some conclusions. BSC method integrates the organization's strategic objectives at all levels and in all business segments, which allows internal audit to monitor and supervise

budgetary users' overall achievement. The BSC method's perspectives allow the internal audit to focus on the business's financial and non-financial aspects that improve internal audit work results and increase its importance in budgetary user operations. Performance indicators of the BSC method inform the budgetary user's performance in all aspects of its business. External audit over budgetary users includes verification if defined indicators are valid, adequate, reliable, and relevant concerning strategic business objectives. The state audit can assess the performance of achieving strategic objectives and program results, efficiency, and budgetary users' effectiveness. The achieved results can be compared with the set objectives, previous results, and similar institutions' results.

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THE ANALYSIS OF ENTREPRENEURIAL ACTIVITY IN THE AREA OF BROD-POSAVINA COUNTY FOR THE PERIOD FROM THE YEAR 2014 TO THE YEAR 2018

Abstract:

The main objective of this paper is to determine total investments by activities in Brod-Posavina County, revenues and expenditures level, number of entrepreneurs by activities, including the achieved financial results of entrepreneurs of the Brod-Posavina County over the past five years. During research of facts and possibilities that currently exist, the following research methods are used in a different combination: historical method, the method of analysis and synthesis, classification, description method and generalization.

Keywords:

Entrepreneurs; investments; financial results; Brod-Posavina County

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Introduction

Entrepreneurship has historically been one of the most widely investigated topics in economic literature [1]. Traditionally related with the creation and growth of economic activities [2], entrepreneurship has been studied with multiple facets over the past years. It has been identified as one of the main elements of economic growth and GDP increases [3] as a factor fostering the economical sustainability of developing countries [4] as a factor influencing regional development through jobs creation [5] as one of individual responses to unemployment [6] in times of economic recession [7] as a driver of innovation and new product creation [8].

Croatia is at the top of the EU in terms of entrepreneurial activity, but this hidden component of the country's entrepreneurial capacity is not well recognized by employers. With incentive compensation programs within the company, this entrepreneurial activity of the employees would very effectively contribute to the creation of new products, and thus to a better utilization of invested in the technological equipment of the company and competitiveness.

There are on average 5 times more people entering the EU for entrepreneurial activity because of the perceived opportunity, and in Croatia, there are only 1.9 times more such entrepreneurs. At the same time, Croatia in the period 2016-2018 keeps the density of "adult" enterprises (number of "adult" enterprises per 100 adult population) at 4.2%, which is only 62% of the EU average. Such a low level of presence of "adult" enterprises is a long-

standing characteristic of the Croatian economy, which continues to point to the low basis of generating new value. Perhaps the reason is that one of the basic characteristics of the Croatian economy is the great difference in the development of individual regions - counties. The most intensive growth of entrepreneurial activity is shown by Dalmatia, and Istria, Primorje and Gorski Kotar. The biggest decline in entrepreneurial activity is in Lika and Banovina, where the level of entrepreneurial activity is the lowest, but at the same time, the motivational index is improving. Throughout the observed period, the lowest positive perception of the situation is in the regions of Lika and Banovina and Slavonia and Baranja, and the highest in Istria, the Primorje and Gorski Kotar and in Dalmatia. (<http://www.novilist.hr/Vijesti/Gospodarstvo/GE-M-istrazivanje-Najintenzivniji-rast-poduzetnicke-aktivnosti-pokazuju-Dalmacija-Istra-Primorje-i-Gorski-Kotar>)

For 2018, 131,117 annual financial statements of corporate income taxpayers without banks, insurance companies and other financial institutions were collected and processed in the Register of Financial Agency, based on which the data in this paper were processed. Part of the register is the data and documentation of entrepreneurs from the Brod-posavina county on the basis of which the analysis was made. (Brod-posavina county, Administrative Department for the Economy)

Methods of analysis, synthesis and compilation and statistical method of data processing were used in the paper. Data were processed using the Microsoft Excel and StatSoft Statistica software

tools. The most important shortcomings of the statistical method used in this paper are quantitative, numerical definiteness of phenomena and the question of possibility cognitions of the general on the basis of the individual and the special.

Entrepreneurial activity of the Brod-posavina county

In the Brod-posavina county in 2018, according to the number of annual financial statements processed, 2,042 were headquartered, employing 18,398, which is a 6.4% increase in the number of employees. In 2018, county entrepreneurs generated total revenues of HRK 9.8 billion (8.6% more than in 2017), total expenditures of HRK 9.5 billion (10.4% more), profit periods in the amount of HRK 434.1 million (1.1% less), loss of the period of HRK 271.9 million (87.9% more) and net profit of HRK 162.2 million (44.9% less). Gross investment in new fixed assets increased by 55.6% over the previous year. Imports increased by 13.3% and exports by 6.7%, with a trade surplus of HRK 1.7 billion. The average monthly net earning was HRK 4,925, which is 3.7% more than in 2017. (County of Brod-Posavina, Administrative Department for the Economy)

Name of the city / municipality	Number of entrepreneurs		Number of employees	
	Number	Rank in Croatia	Number	Rank in Croatia
Slavonski Brod*	1.157	15	12.040	10
Nova Gradiška*	249	67	2.051	58
Oriovac**	51	252	637	149
Gornja Vrba**	36	311	504	175
Oprisavci**	28	360	405	198
	Total income		Net profit / loss	
	Number	Rank in Croatia	Number	Rank in Croatia
Slavonski Brod*	5.741.197	15	218.592	24
Nova Gradiška*	1.642.397	49	84.787	53
Oriovac**	365.726	148	29.892	117
Gornja Vrba**	348.628	153	3.182	382
Oprisavci**	285.083	173	20.316	155

Table 1. Top list of 5 largest cities* / municipalities** of Brod-posavina county by criterion of total entrepreneur income in 2018 thousand kn

Source: Register of Annual Financial Statements

In the ranking of 28 cities and municipalities of Brod-posavina county, Slavonski Brod entrepreneurs are the first by number of entrepreneurs (1,157), by number of employees (12,040), by total revenue (HRK 5.7 billion), by period profit (HRK 218.6 million.) and after the loss of the period (HRK 214.8 million), while the first entrepreneurs of Nova Gradiška (HRK 58.9 million) made net profit. The Brod-posavina county is in 13th place in comparison with other counties in terms of the number of employees with entrepreneurs. In terms of total income and net profit, it is in 16th place, and in terms of number of

entrepreneurs and labour productivity indicator, measured by the ratio of total income and number of employees, it is in 17th place. According to the labour productivity indicator, measured by the ratio of net income to the number of employees, it is ranked 18th, and in economic efficiency it ranks 19th among all counties.

The analysis of entrepreneurial activity in the area of Brod-posavina county

In this chapter will be analyzed entrepreneurial activity in the area of Brod-posavina county for a period of five years, from the year 2014 to the year 2018.

N o.	Sym bol	Activity
1	A	Agriculture, forestry and fishing
2	B	Mining and quarrying
3	C	Manufacturing
4	D	Electricity, gas, steam and air conditioning supply
5	E	Water supply; sewerage, waste management and remediation activities
6	F	Construction
7	G	Wholesale and retail trade
8	H	Transportation and storage
9	I	Accommodation and food service activities
10	J	Information and communication
11	K	Financial and insurance activities
12	L	Real estate activities
13	M	Professional, scientific and technical activities
14	N	Administrative and support service activities
15	O	Public administration and defence; compulsory social security
16	P	Education
17	Q	Human health and social work activities
18	R	Arts, entertainment and recreation
19	S	Other service activities
20	T	Activities of households as employers
21	U	Activities of extraterritorial organisations and bodies

Table 2. Activities division according to NKD 2007

Source: Croatian bureau of statistics

Table 2. shows activities divided according to NKD 2007. Based on this division, in the following tables will be analyzed the entrepreneurial activity in the Brod-posavina county.

Activity/Year	Number of entrepreneurs				
	2014	2015	2016	2017	2018
A	72	77	75	72	80
C	281	298	321	335	338
F	190	229	231	235	263
G	332	358	367	356	382
H	71	80	82	88	94
I	61	87	103	104	118
J	53	59	62	69	73
M	195	215	228	226	249
N	21	29	31	36	42
P	12	25	20	19	28
Q	16	29	17	16	29
BPC	1427	1627	1679	1695	1842
	Number of employees				
	2014	2015	2016	2017	2018
A	473	546	550	573	737
C	7326	7284	7654	7886	8621
F	1782	1918	2068	2043	2459
G	1326	1438	1353	1408	1585
H	225	274	345	358	355
I	260	315	406	404	493
J	294	337	364	450	492
M	705	966	1083	980	985
N	100	171	165	210	212
P	40	93	86	87	139
Q	49	140	40	50	176
BPC	13451	14416	15051	15407	17301

Table 3. Number of entrepreneurs and employees

Source: Authors according to data from Croatian Chamber of Economy

According to Table 3, the largest number of entrepreneurs are in the following activities:

Manufacturing, Construction, Wholesale and retail trade and Professional, scientific and technical activities. It is interesting that entrepreneurship is not developed in activities such as: Public administration and defence; compulsory social security, Activities of households as employers and Activities of extraterritorial organisations and bodies. In the last observed year, the number of entrepreneurs by the activities is the highest.

The largest number of employees is in the activity of Manufacturing. If Public administration and

defence; compulsory social security, Activities of households as employers and Activities of extraterritorial organisations and bodies are excluded, the smallest number of employees is in Financial and insurance activities, Real estate activities and Arts, entertainment and recreation activity. In most activities, the number of employees increases through the years.

Activity	Number of entrepreneurs					Number of employees				
	Mean	Min	Max	Variance	Std.Dev.	Mean	Min	Max	Variance	Std.Dev.
A	75,2	72	80	11,7	3,421	575,8	473	737	9529	97,615
C	314,6	281	338	602,3	24,542	7754,2	7284	8621	295799	543,874
F	229,6	190	263	678,8	26,054	2054	1782	2459	64206	253,388
G	359	332	382	333	18,248	1422	1326	1585	10250	101,24
H	83	71	94	75	8,66	311,4	225	358	3516	59,298
I	94,6	61	118	473,3	21,755	375,6	260	493	8137	90,207
J	63,2	53	73	63,2	7,95	387,4	294	492	6668	81,657
M	222,6	195	249	389,3	19,731	943,8	705	1083	19976	141,335
N	31,8	21	42	61,7	7,855	171,6	100	212	2069	45,49
P	20,8	12	28	37,7	6,14	89	40	139	1233	35,107
Q	21,4	16	29	48,3	6,95	91	40	176	3918	62,594
BPC	1654	1427	1842	22477	149,923	15125,2	13451	17301	2031233	1425,213

Table 4. Number of entrepreneurs and employees descriptive statistics

Source: Authors according to Table 3

According to the data in the table, for the observed period 2014-2018, the average number of entrepreneurs in Brod-posavina county is 1654. In 5 years, the increase is 20%. The largest representation of entrepreneurs is in the Wholesale and retail trade, Manufacturing, Construction and Professional, scientific and technical activities. Regarding to changes in the number of entrepreneurs by activities, i.e. variance, the following activity are significant: Construction, Manufacturing, Accommodation and food service activities, Professional, scientific and technical activities and Wholesale and retail trade.

In Brod-posavina County, the average number of employees per year in 5 year period is 15125. Most employees are in manufacturing, over 50%. The biggest changes in the number of employees are in the activity manufacturing and construction.

Activity/Year	2014	2015	2016	2017	2018
A	555741019	529468467	696378605	595015505	796966994
C	2915157738	3365800630	3333175612	3992219607	4300907139
F	744176362	1129304278	917241360	621177082	988999902
G	1004776242	1062611543	1024639253	1130448238	1577793769
H	98457099	124777390	158865843	185933465	142079998
I	47780127	61494606	74666289	80063548	96590274
J	51930954	55626556	66497679	79952046	104055875
M	341474851	413283641	693933697	425111861	434990799
N	22930387	32240543	34344961	43356151	45915968
P	10719438	22686523	15999641	18655562	28978966
Q	4948168	13569505	4442651	4203634	20123263
BPC	6220832981	7252968454	7455227473	7596902467	8997968260

Table 5. Total income in kn

Source: Authors according to data from Croatian Chamber of Economy

The table shows the total income of the entrepreneurial activities over a period of 5 years. By far the largest income have the following activities: Manufacturing and Wholesale and retail trade. If the initial and final year of the reference period for Manufacturing activity are compared, the income has increased by 47,54%.

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Activity	Mean	Minimum	Maximum	Variance	Std. Dev.
A	634714118	529468467	796966994	12254470505361482	110699912
F	880179797	621177082	1129304278	40214430611725960	200535360
G	1160053809	1004776242	1577793769	56831596002092256	238393783
H	142022759	98457099	185933465	1101803084883594	33193419
I	72118969	47780127	96590274	343426565532350	18531772
J	71612622	51930954	104055875	447798915296404	21161260
M	461758970	341474851	693933697	18195694059883016	134891416
N	35757602	22930387	45915968	84958262488986	9217281
P	19408026	10719438	28978966	47506571718969	6892501
Q	9457444	4203634	20123263	50938244750402	7137103
BPC	7504779927	6220832981	8997968260	988120545989487490	994042527

Table 6. Total income, descriptive statistics in kn

Source: Authors according to Table 5

The average income of entrepreneurial activities in the observed period was HRK 7.5 billion, average per year. The largest contribution to income is made by Manufacturing, Wholesale and retail trade, where variance is highest. Other activities, in total, are below 40% of income.

Activity/Year	2014	2015	2016	2017	2018
A	554875927	523616099	686988072	579379548	779349373
C	2931414693	3404868352	3242546215	3775679009	4109022084
F	791129547	1078911661	906987061	617253895	962627008
G	989146853	1048615487	1003645325	1118525945	1548532430
H	99001745	121608539	154603234	176681338	136021409
I	45414708	58160522	70006392	80730338	93629427
J	48787596	52047172	61772314	74992785	96536732
M	333104591	418060001	707353098	442706222	570687318
N	22134076	30709777	33670275	42848225	45297150
P	8677077	19631864	14851762	15636079	25161878
Q	5045467	12921234	4325370	4504463	19158886
BPC	6247191114	7229813545	7317854000	7323931459	8813829397

Table 7. Total expenditures in kn

Source: Authors according to data from Croatian Chamber of Economy

As revenues were highest in Manufacturing and Wholesale and retail trade, as expected, expenditures are also the largest in these activities as it is which is evident from the Table 7. Comparing 2014 and 2018 year, in Manufacturing activity, expenditures have increased by 40,17%. Comparing the same years for activity Wholesale and retail trade, expenditures have increased by 56,55%. The minimum expenditure was recorded in Financial and insurance activities, in 2018. it amounted 2.009.660 thousand kuna's, which is 1,26% more compared to 2014 year.

Activity	Mean	Minimum	Maximum	Variance	Std. Dev.
A	624841804	523616099	779349373	11235857880588322	105999330
C	3492706071	2931414693	4109022084	211315635242692670	459690804
F	871381834	617253895	1078911661	30920870502944960	175843312
G	1141693208	989146853	1548532430	54261486300899512	232940950
H	137583253	99001745	176681338	891125901880946	29851732
I	69588277	45414708	93629427	354313064835308	18823205
J	66827320	48787596	96536732	379690370652521	19485645
M	494382246	333104591	707353098	21421256588779680	146360024
N	34931901	22134076	45297150	88327232117713	9398257
P	16791732	8677077	25161878	37268084266269	6104759
Q	9191084	4325370	19158886	44024206292958	6635074
BPC	7386523903	6247191114	8813829397	842117920805378430	917669832

Table 8. Total expenditures description statistics in kn

Source: Authors according to Table 7

The average of total expenditures of entrepreneurial activities in the observed period amounted to HRK 7.4 billion. The largest contribution to total expenditures is made by Manufacturing, Wholesale and retail trade. Variances for mentioned activities are highest. Other entrepreneurial activities make less than 40% of total expenditures in Brod-posavina county. By comparing data of income and total expenditures, it is clear that entrepreneurs in Brod-posavina county realized total profits of HRK 0.1 billion average per year.

Activity/Year	2014	2015	2016	2017	2018
A	11698666	12999983	6947206	3628219	5898324
C	146578462	227308053	182080484	119050248	199080581
F	7859602	22487898	16537305	10137665	9194072
G	5702528	7951352	7263657	2531886	6174817
H	7044338	3955762	8734268	2635852	5133575
I	5726929	2641150	5223557	148946	513326
J	900865	469182	54001	145319	371169
M	55987287	73173055	60071745	4848874	3253595
N	153037	217662	75211	1143818	103098
P	208960	543088	1151140	17227	762543
Q	71081	133567	21448	15000	283244
BPC	600951907	666287408	371002085	181848973	270670156

Table 9. Investments in kn

Source: Authors according to data from Croatian Chamber of Economy

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According to Table 9. investments were not recorded in the penultimate and last year of the observed period for activity Mining and quarrying, and in the last year for the Real estate activities. Investments were highest in the following activities; Manufacturing, Water supply; sewerage, waste management and remediation activities, Construction and Wholesale and retail trade. The largest investments were recorded in Manufacturing, in 2018. it amounted 199.080.581 thousand kuna's, which is 3.124,07% more compared to Wholesale and retail trade in the same year.

Activity	Mean	Minimum	Maximum	Variance	Std. Dev.
A	8234480	3628219	12999983	15760735773284	3969979
C	174819566	119050248	227308053	1826033957976515	42732119
F	13243308	7859602	22487898	37834620356422	6150985
G	5924848	2531886	7951352	4380807454325	2093038
H	5500759	2635852	8734268	5891937130209	2427331
I	2850782	148946	5726929	6677461666122	2584078
J	388107	54001	900865	110088412553	331796
M	39466911	3253595	73173055	1085849723036723	32952234
N	338565	75211	1143818	205567651402	453396

P	536592	17227	1151140	201462006842	448845
Q	104868	15000	283244	12204586293	110474
BPC	418152106	181848973	666287408	43700029016497368	209045519

Table 10. Investments description statistics in kn

Source: Authors according to Table 9

In terms of investment, Manufacturing and Water supply, sewerage, waste management and remediation activities are most represented. Other businesses entities are making 30% of total investments. The largest variances are in the activities of Water supply; sewerage, waste management and remediation activities. The reason for this is the contracted project funded by the EU fund.

Comparison of variables in the domain of entrepreneurial activity for the Brod-posavina county

In this chapter, the variables that were analyzed separately in the previous chapter will be compared, also for a period of five years, from the year 2014 to the year 2018.

Figure 1. shows a comparison between number of entrepreneurs and number of employees of Brod-posavina county from the year 2014 to the year 2018. through all activities.

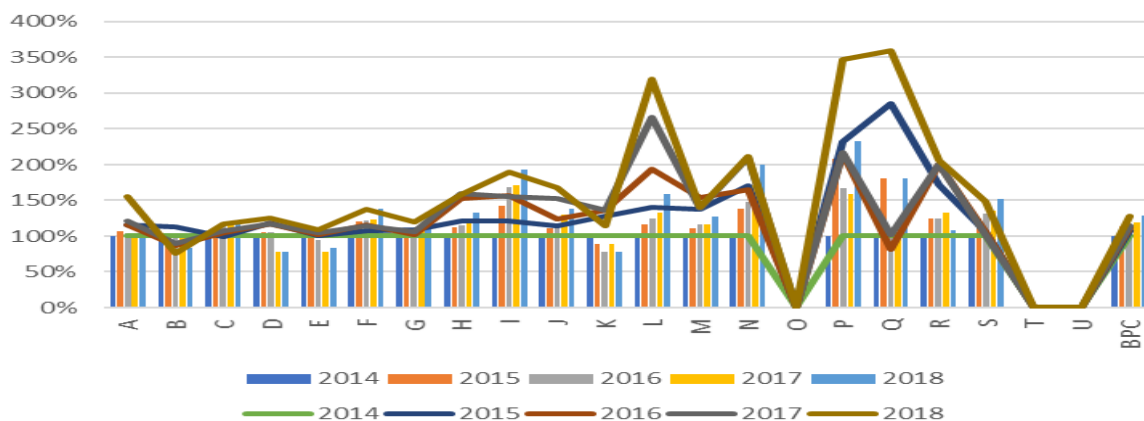


Figure 1. Comparison between number of entrepreneurs and number of employees of Brod-posavina county from the year 2014 to the year 2018. through all activities

Source: Authors according to Table 3 and Table 5

The Figure 1. shows the relationship between the changes of number of entrepreneurs and number of employees. The Figure 1. shows matches in most activities. Inequalities are seen in the number of changes in the number of employees in activities: Real estate activities, Human health and social work activities; compulsory social security and education.

Next figure (Figure 2.) shows a comparison between number of entrepreneurs and total income from the year 2014 to the year 2018. through all activities.

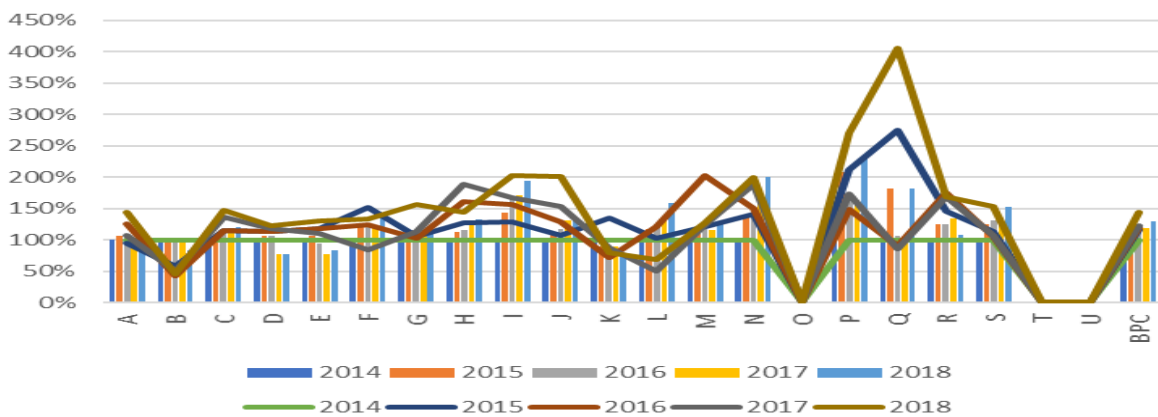


Figure 2. Comparison between number of entrepreneurs and total income from the year 2014 to the year 2018. through all activities

Source: Authors according to Table 3 and Table 7

The Figure 2. shows relationships of number of entrepreneurs and total income. The figure shows matches in most activities. Inequalities are seen in following activities: Professional, scientific and technical activities, Public administration and defense; compulsory social security and education.

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Figure 3. shows a comparison between number of entrepreneurs and total expenditures from the year 2014 to the year 2018. through all activities.

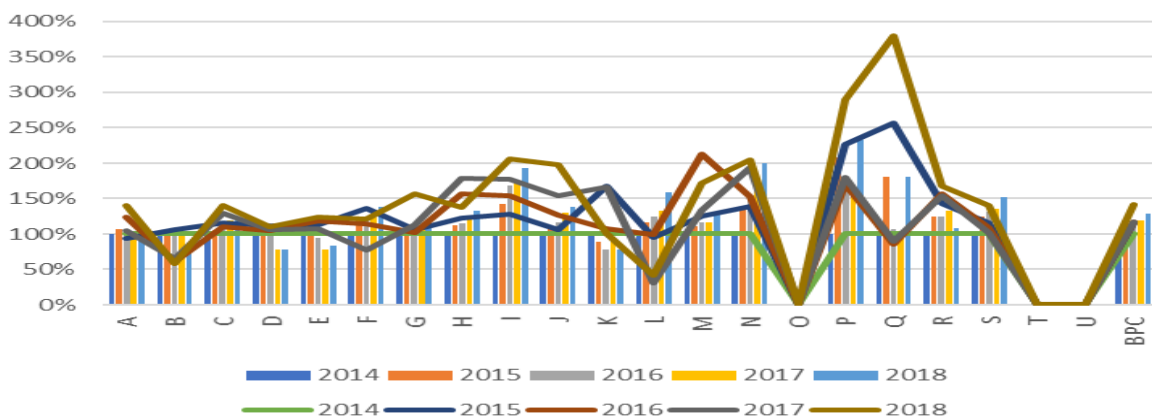


Figure 3. Comparison between number of entrepreneurs and total expenditures from the year 2014 to the year 2018. through all activities

Source: Authors according to Table 3 and Table 9

The Figure 3. shows relationships of number of entrepreneurs and total expenditures. The figure shows matches in most activities. Inequalities are seen in following activities: Professional, scientific and technical activities, Public administration and defense; compulsory social security and education.

Following figure (Figure 4.) shows a comparison between number of entrepreneurs and total investments from the year 2014 to the year 2018. through all activities.

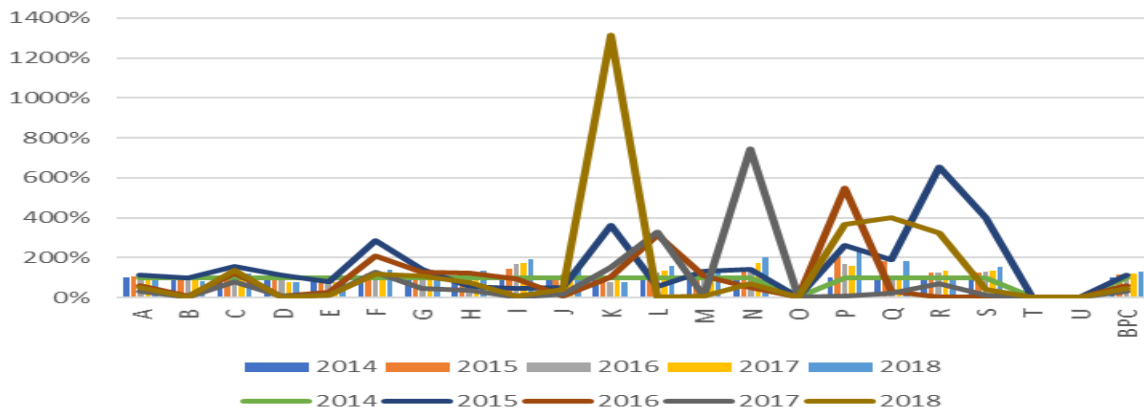


Figure 4. Comparison between number of entrepreneurs and total investments from the year 2014 to the year 2018. through all activities

Source: Authors according to Table 3 and Table 11

The Figure 4. shows changes over the years in number of entrepreneurs and investments. The figure shows matches in most activities. Inequalities are seen in following activities: Financial and insurance activities, Arts, entertainment and recreation, Administrative and support service activities, Education and Construction. Inequalities in activities in individual years can be linked to contracted projects of EU funds.

Conclusion

The following can be deduced from the analyzes carried out in the paper:

- The largest number of entrepreneurs are in the following activities: Manufacturing, Construction, Wholesale and retail trade and Professional, scientific and technical activities.
- In 2018, there were 1,842 entrepreneurs, an increase of 8.67% over the number of entrepreneurs in 2017 and 29% compared to 2014,

- There were 17,301 employees employed by entrepreneurs, an increase of 12% compared to the number of employees in 2017, and 29% compared to 2014,
- In 2018, the revenue from entrepreneurial activity was 18% higher than in the previous year, and 45% higher than in 2014,
- In 2018, total expenditures were 20% higher than in 2017 and 41% higher than the first year in the observed period,
- Investments were highest in 2015, 146% higher than in 2018, and 266% higher than in 2017 when they were smallest.

Observed data were obtained indirectly from the Croatian Chamber of Economy. In future research, it is possible to take data from a primary survey of business entities and analyze them with additional business indicators. In this way, a broader perception of businesses in Brod-Posavina County could be obtained. Furthermore, the data in this paper were taken to Brod-Posavina County. Future work may take data from a wider area.

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Jušić, Ivica¹

PRECONDITIONS FOR A QUALITY TOURISM DESTINATION STRATEGY AS A RECOGNIZABLE TOURISM PRODUCT

Abstract:

This paper analyses high-quality and recognizable tourism product, the coherence of all involved holders of the tourism as well as a good organization in the tourism destination, a strong brand, image and how to fulfil or even exceed the tourist expectations by ensuring a recognizable tourism product that creates positive experience. The aim of this research is to define the major preconditions for a quality tourism destination strategy as recognizable tourism product by including experts and their experience in a focus group interview.

Keywords:

destination strategy; tourism product; quality; organization

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Introduction

The emergence of the term "strategy" dates to ancient Greece (circa 5th century BC) and has been largely used and developed in military terminology. The strategy is to set long-term goals and to show directions how to achieve them. In the original sense of the term, the strategy signified "the art of warfare" [1]. First modern author who confront with the term "strategy" was Alfred D. Chandler. In his book *Strategy and Structure* (1963) he defined strategy as "de-fining the basic long-term goals of the company, adjusting the business activities directions, that is determining the conceptions by selecting resources necessary to achieve the set goals" [2].

The term "quality" has been changing for centuries, dating back to ancient times. The prescribed quality (standards) were already known by the ancient Chinese, Phoenicians and Egyptians in the construction of temples, pyramids, etc. In modern business, quality is given more importance only after the 1960s, when the concept of mass production ceased to give the desired market effects. This term is often in daily use in many industries and situations, as well as in the economy and business, beginning to assume a key role. Due to the nature of the quality itself, the paradigm (quality from the point of view of the customer, the producer, the market and society) and the frequent subjectivity of the quality experience (for example, the quality of the tourism service, the quality of the tourism product), lead to the conclusion that is demanding to define the term "quality". The general definition of quality:

"Quality (quality) is a measure or indicator of the volume, amount of usable value of a product or service to meet a specific need at a particular place and time, when that product and that service confirm as a commodity in social exchange process" [3]. Unlike the term "quality", the term "quality management" (management, ie quality or quality management) means "a set of actions of a general management function that defines quality policy, goals and responsibilities achieved within the quality system through planning, quality, quality monitoring, quality assurance and quality improvement" [4]. The main purpose of managing the quality of products and services is to increase market competitiveness in order to maximize profits. The basic measure of quality management success of a product or service is the actual customer satisfaction that can be evident by re-using the product or service. In order to achieve the highest level of customer satisfaction, a system of total quality management (TQM) began to develop in the late 20th century. It is specific management organization concept focused on quality achievement and improvement. In this concept, all members of the organization cooperate striving to reduce long-term costs, improve business operations and satisfy consumers with the long-term success and well-being of members of the organization and the community. Due to the complexity of quality tourism product management in terms of destination, the concept of IQM (Integrated Quality Management), an integral quality management, finds application in destination management. This concept implies a high level of satisfaction that

does not come from the individual elements of the offer, but from the integral product of the destination. There are already contradictions in the very concept of a tourism product. Tourism is a tertiary activity and the core of services can't be defined as a product, while the concept of the product itself is predominantly related to tangible material structures of primary and secondary activities. A tourism product involves tangible elements such as natural beauties and parks, cultural and historical monuments, accommodation facilities, restaurants, amusement parks, various settlements, cities etc. Therefore, a tourism product is made up of two elements: destination (content) and pleasure (experience), [6]. The tourism product can be viewed from multiple perspectives; from the perspective of tourists (overall travel and stay experience), destination (set of individual tourism products) and business units (individual tourism product), [6]. A tourist destination can be thought of as a "virtual enterprise" to be managed. Unlike the concept of tourism product and tourism destination, "management of a tourism destination or destination management can be defined as the coordination of those tourism functions in the destination that can't be performed by individual holders of the offer therefore joint prospects give them a greater chance of goal accomplishment" [7].

Different approaches to strategic management of quality tourism product result from different management strategies. By strategy analyses selection it is necessary to analyse the general environment (using PEST analysis: analysis of po-

litical-legal, economic, soc-cultural and technological environment), business environment (stakeholder analysis and analysis of the competitive environment) and internal environment (resource analysis, competency analysis, value chain analysis, portfolio models and company performance analysis). The multiplier is an indicator of a decrease or increase of economic effects. The multiplier, as the name implies, multiplies economic effects and its functioning model can be applied to different economic sectors, regions, macroeconomics, etc. The multiplier principle can also be applied in tourism. The complexity of strategic management of the quality tourism product derives, on the one hand, from the tourist destination's business complexity and on the other hand, from the breadth of definitions of the problem. A quality tourism product would be the one characterized by a high degree of excellence.

According to the tender issued by Institute of tourism, Croatia (2014-2020), „Defining and increasing the quality of individual tourism destinations" that has been recently conducted in the way that both: specific destinations within the country as well as specific destinations in different countries are connected and networked, all in order to define their destinations as a special tourism product with common value that connects two cities or two destinations. The goal of the S.LI.DES project is to encourage cross-border cooperation between destinations in order to develop cultural tourism, covered by the Program Area, as well as joint planning of smart strategies aimed at sustainable and balanced territorial

development through the promotion of tangible and intangible cultural heritage, especially those that reflect the destination identity. The project will provide local authorities with access to an innovative and dynamic information system that will improve the decision-making process related to the management of the most visited as well as less visited tourist attractions in order to revitalize the urban and social environment and stimulate local economic diversity and recognizable tourist product.

This is a good example of cooperation between multiple countries, multiple cities and institutions such as: Ca 'Foscari University Venice, Ciset - International Center for the Study of Tourism Economics, ECIP, SIPRO Provincial Agency for Lo Sviluppo-Ferrara, City of Bari, City of Venice, Alma mater Studiorum - University of Bologna, Institute of Tourism, Vocational School - Institution for Adult Education, Development Agency of the City of Dubrov-nik DURA, Šibenik Tourist Board. The total project value is 2,504,981.90€ [8].

Research Methodology

This research pilot study was based on several interviews with tourism professionals, destination management specialists, revenue management experts, government representatives, city and tourist board representatives, hotel directors, mayors, heads of travel agencies and local tourist boards.

Research Results

Quality tourist destination strategy as a recognizable tourist product strategy demands harmonizing, implementing, controlling and improving all elements of the tourism product. That's a lengthy process that needs to be carried out in a systematic and planned manner.

The research findings show three main preconditions and requirements that must be achieved in order to implement the quality tourism destination strategy as a recognizable tourism product faster and more efficiently:

- Process should be entrusted to an organization - These organizations must have a clear vision of the tourist destination as well as all destination offer providers and their representatives, such as: mayor or an appropriate person in charge of tourism, the director of the tourist board office, a representative of the brokerage association, a representative of the hotelier / caterers association, a representative of the renters association, representatives of non-profit associations (eco, cultural and artistic societies...), leisure providers, representatives of crafts, representatives of agriculture, representatives of political parties, representatives of the Church, representatives of communal and transport administrations, representatives of security and emergency services (police, hospitals and ambulances, fire services). It is not necessary that only one DMC company is represented. There should be more than one company/organization, but it is important that they are coordinated. According to

the Croatian Tourist Board website (2020), it can be concluded that this challenge has been recognized as a crucial one. A tender of non-refundable funds has been announced for all tourist agencies and DMC (destination management companies) [9].

- Cooperative and educated local government representatives - Community representatives often have different interests therefore strategic destination management of tourist product is a complex project. On the other hand, the consent of all relevant offer providers, good organization and professional service are not necessarily a guarantee of the success and quality of a tourism product if the experience of the tourism product does not meet satisfaction that depends on the tourist demand and expectations. Unfortunately, some local governments do not reach a consensus on the strategy and quality of the destination and its tourism product. It is mostly caused by political disagreements in which political and personal interests take priority over development strategy. Therefore, it benefits only individuals who neglect development strategy interest of the entire destination. As a consequence it causes destination stagnation; destination doesn't follow trends and additionally doesn't use its full potential and resources. Education and more interaction with locals should be set as a priority. The best example of destination strategy change is to create a recognizable tourism product as it occurs during each local political authority elections on the famous croatian Island of Hvar.

- Central government destination management website - This "all in one" website or

application would be accessible to everyone, and would mostly serve to the local government, the tourist community, entrepreneurs, hoteliers, caterers and all stakeholders in each destination. The main purpose of the website or application is prompt and quality information "all in one place". In one place, the strategies of each destination in Croatia would be available, which would speed up the networking of similar destinations, all with the aim of better cooperation and savings. This means that the search method would be predominantly the type of destination. This approach would definitely network "local stories" and raise small local destinations to a much higher level. Similar destinations could cooperate in joint promotion and presentation of their potentials. Wine roads are a good example in Croatia. Wine roads connect several counties and cities in particular regions that promote viticulture and winemaking. Also, such a platform would unite all financial grants and programs of croatian institutions. Therefore, it would be unnecessary to research from website to website, and everything would be unified.

Today, dozens of ministries, cities, counties, institutes, tourist boards, agencies, offer grants and financial EU or Croatian arrangements, but this information is not readily available.

Discussion

The role of the state and relevant ministries is crucial in terms of the national tourism strategy, but the tourist boards and local government hold the key in their hands. The current role of the

tourism representatives is to balance all elements of the tourism product (in terms of functionality, destination characteristics and quality) so that the total product has its value. Tourist boards are legal entities and non-profit organizations for the general benefit of all entities in the area in which the tourist board operates. Unfortunately, due to insufficient level of education, lack of understanding and old-fashioned habits, the expectations of the stakeholders result with unrealistic expectation that the tourist board is in charge of destination strategy definition in order to create a recognizable tourist product. The strategy should be adopted at the national level which respects the specifics of each destination and local stakeholders. The public call of the Croatian National Tourist Board (2020) directs all stakeholders to this process. The subject of the Public Invitation includes allocation of grants from the Croatian Tourist Board to destination development programs. All legal and applicable persons registered as a travel agency may apply for support in accordance with the applicable regulations on the provision of tourism services in the Republic of Croatia (proved by an excerpt from the court or other appropriate register and the decision on meeting the conditions for providing travel agency services) state administration offices in counties or the city of Zagreb. The funds are paid in accordance with the State Aid Act (NN 47/14 and 69/17) and Commission Regulation (EU) no. 1407/2013 of 18 December 2013 [10].

From this example, we can see that state institutions allocate support funds exclusively to DMC companies (travel agencies). Travel agencies

are also given the opportunity to create a quality management strategy that over time becomes a recognizable tourism product. It is important that this measure envisages the possibility of hiring experienced professionals which raises the level of competence and competitiveness.

Very often tourist boards are unfamiliar with the applicants and the programs for which they are applying for. In this case, there is an information gap between the destination management companies (travel agencies), the local tourist board and the local government. As noted earlier, in this case the destination stagnates, does not follow trends thus does not use its full potential and resources. Education and more interaction with locals should be set as priority. Preconditions for grant allocation are good information, detailed tender knowledge, but also a well-designed project that will guarantee success and realization. It isn't sufficient to contact development agencies for this endeavor as they can only offer advice. It is necessary to hire consultants/consulting agencies to prepare a project documentation based on their previous tender experiences.

Local authorities need to take into consideration all their resources as well as the experience of people running small businesses, restaurants, souvenir shops, travel agencies and others because they all contribute to the success of a destination. They all make small but important part to the overall recognizable tourist product. Seminars, panel discussions, debates and daily communication with all local government stakeholders, tourism community employees and entrepreneurs contribute as well to success of

destination in creating recognizable tourist product.

Conclusion

Quality tourist destination strategy as a recognizable tourist product is a long term process which requires the involvement of all government institutions, several ministries, local government, tourist boards and overall small, medium and large enterprises with several specific responsibilities. Government and local authority must be a generator of teamwork among the main actors in the planning and decision-making processes. Unfortunately, the above-mentioned public call for grants to tourism and destination management companies (DMC) is not sufficient. Finance is a driver and a great motivator. Public awards of grants and tenders must be extended to other stakeholders of the tourism destination and not only to DMC-s. Development guidelines should be based on clearly defined national and local strategies and adopted at the national level with full respect for the specifics of the destination and all local stakeholders. From the above it can be seen that more programs are needed to encourage creativity, innovation, competitiveness, reward programs, promotion, image strengthening, development of themed tourism products and employment of competent professionals. The process of quality tourism destination strategy as a recognizable tourism product should be entrusted to agencies or DMC. Therefore, a special tender might be required. Cooperative and educated local government representatives play

the key role to ultimate success and fulfilling important preconditions. Political disagreements must not be a reason for slowing down decisions by causing delays. Centralized availability of all necessary data (web pages) is needed. In order to create a quality tourism product it is also necessary to "switch roles" between "consumers" and tourist service providers. This means that the creators of tourism strategies must experience both; their own as well as a competitive tourism product. This leads to a better understanding and significant contribution to destination quality strategy improvement.

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THE PRECONDITIONS OF DRAFTING A LEGAL REGULATION

Abstract:

This paper systematically deals with the matter of nomotechnical rules of drafting legal regulations with special reference to essential preconditions of drafting legal regulations. The national sources of law are studied relating to the procedure of drafting legal regulations, which arise from the Rules of Procedure of the Croatian Parliament and what possibilities the prescribed and unique methodological-nomotechnical rules have. The emphasis is on determining the essential preconditions for the enactment and drafting of legal regulations, and on the advantages that contribute to a better drafting of legal regulations in the national system.

This is a very interesting topic since the so-called nomotechnical rules did not appear in scientific terms until the 19th century and are still evolving. The nomotechnical rules institute plays a very important role as a foundation of legal certainty.

Keywords:

nomotechnical rules; subjective and objective preconditions; the procedure of drafting a legal regulation

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Introduction

This paper defines the subjective and objective preconditions. For a proper and valid drafting of regulations, it is necessary to follow the precisely defined prescribed rules and the precisely defined procedure. The emphasis is on determining the essential preconditions for the enactment and drafting of legal regulations and on the advantages that contribute to a better drafting of legal regulations in the national system. This is a very interesting topic since the so-called nomotechnical rules did not appear in scientific terms until the 19th century and are still evolving. The nomotechnical rules institute plays a very important role as a foundation of legal certainty. In the legal sense, the development of nomotechnical rules results in the creation of increasing legal certainty and a legal state that has a need to ensure a proper drafting of legal regulations. The development of nomotechnics, as a new scientific branch imposes a significant accumulation of the legal expertise and at the same time the invested knowledge gives positive results. It is necessary to prevent harmful consequences that citizens may suffer within their scientific standardization. That is only possible by taking and fulfilling essential preconditions for drafting and enacting legal regulations. Researching the essential preconditions of drafting a legal regulation, we will determine how much they really contribute to legal security and the proper functioning of the rule of law.

The Methodology of Rules in Drafting Legal Regulations

The rules of drafting legal regulations through essential preconditions for drafting legal regulations are based on the comparative methodology of comparison of legal sources at a national level. The final consideration, with a focus on defining the role of nomotechnics in creating legal certainty, will be made through research and detailed study. Nomotechnical rules or nomotechnics, as a scientific discipline, developed much later and is still developing while striving for a more advanced system of rules for drafting legal regulations. Thus, with the comparative method of displaying the legal regulation of the matter of nomotechnical rules, the concrete conclusions related to the role of nomotechnics in creating legal certainty can be reached.

The Results and Discussion of Essential Preconditions for Drafting Legal Regulations

HISTORICAL OVERVIEW OF PRECONDITIONS OF DRAFTING A LEGAL REGULATION

Until the 15th century, the Parliament, drawing conclusions called *acta*, *decreta* or *constitutiones*, and in the 15th century, the conclusion was called *articulus* (article). Since the 16th century, this term has been used for more important conclusions, and in Croatian legal terminology it has synonym for law.

Until the 16th century, parliamentary sessions were held exclusively by order or authorization of the king, and in case of danger of war and the need for urgent holding of the parliament, this right was given to the ban, provided that parliamentary conclusions became valid only from the day of the king's confirmation. Parliamentary conclusions, confirmed by the king, had the effects of law.

The first Rules of Procedure of the Croatian Parliament were adopted in 1861, which for the first time determined the internal structure and manner of work of the Parliament, and procedure for passing legal acts. In 1875, the Parliament passed new and shorter rules of procedure establishing permanent working committee, as well as provisions on voting (voting for or against was conducted so that the parliamentarians gets up or stays seated) and provisions that parliamentarians were not allowed to read speeches. [8]

From time immemorial, parliamentarians have been required to speak freely, without reading a speech written on paper, since such a speech is more convincing and has a stronger effect than reading a text. The provision banning the reading of speech was last regulated in the Rules of Procedure of the Croatian National Parliament from 1942., and since 1947. such a provision no longer exists in the Rules of Procedure. Although the provisions of the Rules of Procedure were changed in accordance with the spirit of the times, the Rules of Procedure of 1875. defined some provisions that are still valid today, such as provisions on roll-call voting, interpellation, reprimands for deputies who

deviate from the topic, even then it provided for three readings of the bill, and a preliminary opinion of the working committee.

Throughout history, the rules of procedure have generally followed changes in the state order, so in 1976. a three-chamber parliament was established. These Rules of Procedure were changed only in 1990. with the declaration of independence of the Republic of Croatia, when the Constitution established a two-chamber parliament consisting of the House of Representatives and the County House. Two separate rules of procedure of the House of Representatives and the County House, established in 1993., were valid until 2001., when a one-chamber parliament was introduced, and it was regulated by the Rules of Procedure of the Croatian Parliament. [7]

THE SUBJECTIVE PRECONDITIONS

The formal layout of a legal regulation is specially regulated and determined by the Uniform methodological-nomotechnical rules [2], which were passed much later in our legal system. When approaching the drafting of a legal regulation, it is necessary to develop a plan of normative activity and determine the existence of essential preconditions for the drafting of legal regulations. The subjective preconditions are the preconditions related to the editor. The editor is a person, who can accept the complex activities of legal standardization. The knowledge that is considered necessary for the drafting of legal regulations includes the following:

- general education

- socio-political system and legal system knowledge

- knowledge of the principles and tenets of drafting legal regulations (knowledge of nomotechnics)

- the ability of linguistic expression.

The general education implies that the drafting of legal regulations is complicated. Legal rules are addressing various areas of social life with their regulation, in which they deal with various relations between numerous subjects.

The editor must especially:

- know the constitutional matter

- know all branches of substantive law, especially the branches in whose area the legal order is enacted

- know the rules of the procedure of nature and especially those that are related to the process of drafting and enacting legal regulations (the hierarchy of legal regulations)

- know the rules of logic about terms, courts and conclusions

- know the legal practice

- know the legal literature

- know the legal terminology.

The understanding of the socio-political system and legal system means that the appropriate areas of social relations are regulated within this context. The content of the regulation must respect the principles of both the social and political system.

The understanding of the principles and the tenets of drafting legal regulations, i.e. the knowledge of nomotechnics, means that the editors must know

them when drafting legal regulations. That applies to the drafting of every regulation.

The ability of linguistic expression implies that the thoughts of the person enacting the regulation are linguistically expressed through the drafting of a legal regulation.

The editor must make sure that the linguistic expressions:

- are clear

- match the content of the expressed thought

- are grammatically, linguistically and stylistically correct.

The authorized body must confirm that the proposal of an act is linguistically previewed and corrected [6].

THE OBJECTIVE PRECONDITIONS

The objective preconditions are the preconditions that must objectively exist when any legal regulation is enacted as a guarantee of a lawful and correct enactment.

The objective preconditions are:

- that the legislator is competent

- that a certain procedure had been carried out for the enactment of a legal regulation

- that the legal regulation has an adequate content

- that the legal regulation ensured a spatial and temporal action.

The competence of the legislator of the legal regulation and the procedure for the enactment of the legal regulation

The competence is the right and the duty of a social entity by which certain social relations are regulated through a legal regulation. The legislator must have answers to the following two questions:

- is he generally competent to enact a certain regulation?
- what issues and how broadly can it affect the provisions of a legal regulation which he is allowed to pass? [1]

The Constitution contains the authority to pass acts. The government determines the internal structure of the ministry with regulations on the basis of the power from the Constitution of the Republic of Croatia [5]. The procedure for enacting a legal regulation is a set of prescribed actions that must be executed as formal legal preconditions. They must be carried out during the entire procedure, from the 1st phase of submitting a proposal or the initiative for the enactment of a legal regulation, to the last stages. The last stages are:

- adoption
- promulgation
- publishing.

If an error occurs in the procedure of enacting a legal regulation, the formal legal validity of the legal regulation is called into question. In that way, the constitutionality, i.e. the legality, of the legal regulation is questioned. The Parliament of the Republic of Croatia passes acts on the basis of constitutional provisions. The procedure of passing an act in the Parliament of the Republic of

Croatia takes place according to the phases that are determined by the Rules of Procedure of the Croatian Parliament[4] and they follow a logical order:

- institute proceedings
- the proposal of an act
- the submission and making of the proposal
- the consideration of the proposal of an act in working bodies
- the debate about the proposal of an act (the first reading)
- the final proposal of an act
- the debate about the final proposal of an act (the second reading)
- the third reading.

A proposal for the passing of an act is initiated to the Parliament Speaker. The right to propose acts has:

- every member of the Croatian Parliament
- deputy clubs
- the working bodies of the Parliament
- the Government of the Republic of Croatia.

Prior to the passing of the proposal of an act, the Parliament can order a preliminary debate to be held. It refers to the reasons which are important for the passing of an act and to the basic issues that need to be regulated by that act. After such a procedure is carried out, it is necessary to file a report on its results. The report is submitted to the proposer, who has an obligation to take into account the views, opinions and proposals given in that procedure when drafting the proposal of an act. It is necessary to specifically explain the

opinions and the proposals that the act could not pass. The proposal of an act contains:

- the constitutional grounds for the passing of an act
- the assessment of the situation and fundamental issues that need to be regulated by the act and the consequences that will result from the passed act
- the assessment and sources of necessary funds for the implementation of the act
- the text of the proposal of an act, with its explanation
- the provision text of an existing act that is changed, i.e. supplemented, if an amendment or modification of the act is proposed
- the confirmation from an authorized body that the act proposal has been linguistically reviewed or corrected.

It is necessary to give an explanation of certain provisions that the act contains in the explanation of the proposal of an act. The Speaker of the Croatian Parliament receives a proposal of an act. He instructs the proposal to:

- the presidents of the working bodies
- all the deputies and the prime minister, when the Government is not the proposer.

The proposal of an act must be examined by the competent authorities in whose field of work the issues are regulated by the act. After considering the proposal, the working body determines the rapporteur. At the Parliament session, the rapporteur presents his views, opinions and remarks and explains the proposals of that body. The procedure of passing an act is implemented at the Croatian Parliament session. The first reading

of an act is the 1st part in the procedure of the proposal of an act and it includes:

- the oral presentation of the proposer
- a general debate on the proposed act
- a debate of the details that include a discussion on the text of the proposed act
- a debate on the views of the working bodies that considered the proposal and
- making a conclusion on the necessity of passing the law.

If the main working body and the Legislation Committee give their written opinion, a proposal for the first reading of an act can be submitted at the session. The proposed act can be rejected by a conclusion. That is done after the debate, when the deputies assess that it is not necessary to pass the law. The proposed act that is rejected by the conclusion must be justified and submitted to the proposer, and only after 3 months can the procedure be repeated. If it is concluded that the proposed act is accepted after the discussion the views, proposals and opinions regarding the proposed act are determined and the proposer is instructed to prepare the final text of the law within 6 months of the acceptance of the act.

The final proposition of the act is submitted when the first reading of the act is completed with a conclusion. The conclusion is referring to the enactment of a certain law. It is important that it is submitted in the form in which the law is passed and it must contain a rationale. The rationale includes:

- the reasons why the law is passed
- the issues that are resolved by it

- the explanation of the provisions of the proposed act

- the information about the financial resources required for the implementation of the law and about the way of securing these resources. The Speaker of the Parliament must instruct the final proposal of the act to the presidents of the working bodies, to all the deputies and the Government, if it is not the proposer. The proposer is obliged to submit the final proposal of the act within 6 months from the date of its acceptance. If this is not done in that time period, the act enactment procedure will be considered suspended. The second reading of the act discusses the final proposal of the act and it includes:

- an introductory presentation by the proposer
- a debate on the views of the working bodies
- a debate about the proposed amendments
- deciding on the amendments
- the enactment of the law.

The third reading of the law is an exception in the law enactment procedure. It is implemented if it is decided by the Parliament or at the request of the proposer. Such a decision can be made if a larger number of amendments is tabled or when the amendments are of such a nature as to substantially change the content of the final act proposal. The proposal to amend the final act proposal is called an amendment. It must be submitted with a rationale. The right to submit amendments has every:

- deputy

- deputy club

- working body of the Parliament

- the Government.

The amendment is directed to the Speaker of the Parliament until the end of the debate of the session of the Croatian Parliament on the final proposal of the act. The tabled amendments are submitted to the deputies by the Speaker of the Parliament. An amendment can become a part of the final law only if it is submitted within the deadline. It is being voted about separately in the following cases:

- if it was submitted by the proposer of the law

- if it was submitted by the main working body or by the Legislation Committee and agreed about with by the proposer of the law

- if it was submitted by a deputy or working body and agreed about with the proposer of the law.

If several mutually exclusive amendments to the same article of the final proposal of the law are accepted, the last amendment that is accepted by voting will be accepted.

The content of legal affairs and the effect of a legal regulation in space and time

It is necessary to give content to a legal regulation. This is achieved by covering the provisions of the area of social relations that fit the competence of their issuer. The content of that regulation must include all the essential and characteristic designations that are necessary for the total normative capture of the matter for whose normative regulation it is competent. In order for a legal regulation to be successfully regulated, it is

necessary to include the matter in its content and present it in a logical order. The content must have a logical connection between the beginning, middle and end. A legal regulation must function in a certain space and time. That means that its provisions must be applied in a specific area. Its provisions oblige to all the subjects to which it applies if they are located in an area in which it has legal force. That is the so-called territorial validity of a legal regulation. Considering the width of the territory to which the provisions of the legal regulation apply, it is divided into a universal and a particular regulation. The regulation that is valid in the entire territory is called a universal regulation, and the regulation that is valid in a narrower territory is called a particular regulation.

A legal regulation becomes valid when it starts to have legal effect. It has a possibility of applying a sanction to those on that it applies. The issuer determines when the legal regulation will be valid. Five ways of a possible beginning of validity of a legal regulation:

- determining the beginning of validity by specifying the day, month and year when the legal regulation begins being valid (the so-called calendar mark of validity)
- determining the beginning of the validity of a legal regulation on the day of its publication
- determining the beginning of the validity of a legal regulation on the day of its adoption
- determining the beginning of the validity of a legal regulation after its publication
- determining the beginning of the validity of a legal regulation with the occurrence of a certain event.

Determining the beginning of the validity by specifying the day, month and year when the legal regulation begins being valid means that the issuer of the legal regulation specifies the day, month, year when the legal regulation starts being valid.

Determining the beginning of the validity of a legal regulation on the day of its publication means that the legal rule comes into force on the same day as it was published.

Determining the beginning of the validity of a legal regulation on the day of its adoption means that the regulation begins being valid on the same day when the regulation was adopted, most unfavourably from the point of view of the current legal rule it refers to.

Determining the beginning of the validity of a legal regulation after its publication means that the time interval between the publication and coming into force may be longer or shorter. That depends on the decision of the legislator. It is necessary to assess whether there is a need to leave a longer period to get to know the text of the legal regulation before it becomes obliging with its provisions.

Determining the beginning of the validity of a legal regulation with the occurrence of a certain event means that there is a possibility that the issuer is linking the regulation to the beginning of the temporal effect of the regulation, which he passes for the occurrence of a certain event, whose occurrence may be more or less certain. The coming into force of all parts of a legal regulation does not have to be simultaneous.

A legal regulation stops being valid when it ceases to be bound by its provisions.

Possible ways to terminate legal regulations:

- the cessation of the validity of a legal regulation by passing a new regulation, which is determined so that the previous one expires (the derogation of regulations)
- the cessation of the validity of a legal regulation after a certain deadline
- the cessation of the validity of a legal regulation due to the cessation of the existence of the social relations that are regulated by it (the so-called extinction of regulations)
- the cessation of the validity of a legal regulation by objective repeal.

With the cessation of the validity of a legal regulation by passing a new regulation, which determines that the previous one expires (the derogation of regulations), the ways of certain social relations are replaced with a new legal regulation, because social needs and relations change. Such a way of cessation of the validity of a legal regulation is called a direct derogation. In contrast to that, an indirect derogation is a situation in which a regulation regulates the same matter that has already been regulated by a previous regulation in a different way. It does not mean the cessation of the validity of the previous regulation.

The cessation of the validity of a legal regulation after a certain deadline means that the regulation is passed with an unlimited duration. In case that the issuer has not extended its validity before the expiration, the legal regulation ceases to be valid.

The cessation of the validity of a legal regulation due to the cessation of the existence of the social relations that are regulated by it (the so-called

extinction of regulations) means that there is no purpose or goal of the regulation, and thus of a legal rule. The regulation is not formally derogated, it is not contrary to another act. Such a regulation no longer applies.

The cessation of the validity of a legal regulation by objective repeal may occur as:

- an annulment
- an abolition.

The annulment (*ex tunc* action) means that the legal regulation is repealed, but from the moment of its coming into force all the legal consequences that arose from the application of that regulation are annulled.

The abolition (*ex nunc* action) means that the legal regulation is repealed. The application of the legal regulation is not possible in its cancellation, but all the legal consequences that have occurred up to the moment of its cancellation are not affected.

The Constitutional Court of the Republic of Croatia is holding control for the constitutionality and legality of the legal regulation [3]. The Constitutional Court will annul a regulation:

- if it offends the fundamental freedoms and rights of man and citizens
- if it puts some individuals, groups or organizations unjustifiably in a more favourable position.

The Retroactive Effect of a Legal Regulation (The Retroactivity)

The retroactive effect of a legal regulation means that this regulation is applied to situations that

arose and that existed before the regulation came into force. Such an action of a legal regulation creates legal uncertainty. In the Croatian law applies the Constitutional rule:

- according to which the law comes into force no earlier than the eight day from its publication, unless it is provided otherwise by the law for special personal issues
- according to which only certain provisions of the law can have a retroactive effect.

In case that the proposed act determinates that its individual provisions have a retroactive effect, the proposer of the law is in that case obliged to explain the reasons that require it. The Constitution stipulates that nobody can be punished for an act for which it was not established by law or international law, that it was a criminal offense before it was committed. Nobody can be pronounced a sentence that was not provided for by law. In case that the law imposes a milder sentence after an act is committed, the perpetrator is then sentenced to such a sentence. The court can request that the Supreme Court of the Republic of Croatia submits a request to the Constitutional Court to evaluate the constitutionality of the law. That is done in case that the court finds a law that is not in agreement with the Constitution. If the court finds in its proceeding that another regulation that should be applied is not agreeing with the Constitution, it will not apply that regulation, but it will notify the Supreme Court of the Republic of Croatia until the constitutional evaluation of the original regulation is completed.

Conclusion

The objective and subjective preconditions are necessary for the quality performance of the nomotechnical tasks. Through a historical review of the activities of the Parliament as a legislature the existence of certain preconditions was prescribed by the Rules of Procedure of the Parliament. With the development of the legal state, the preconditions of drafting a legal regulations developed in the nomotechnical sense as important. They must exist objectively. The subjective preconditions are a total of knowledge and skills that the editor must have. If the editor does not have the necessary knowledge, he cannot draft a legal regulation. Therefore, a legal regulation should be drafted by experts, who have the necessary knowledge. The procedure of passing a legal regulation is a set of prescribed actions that must be executed as formal legal preconditions. They must be carried out during the entire procedure, from the 1st phrase of submitting a proposal or the initiative for the enactment of a legal regulation, to the last stages. If an error occurs in the procedure of enacting a legal regulation, the formal legal validity of the legal regulation is called into question. A legal regulation becomes valid when it starts having legal effect. The issuer determines when the legal regulation will be valid. At a national level, the constitutional law envisages the possibility of assessing the constitutionality and legality of certain regulations or their individual provisions, and thus a legal protection in case of incorrect drafting of a legal regulation is secured. Through a

system of developed nomotechnical rules that are significantly strengthened and that provide legal certainty that the rule of law will function properly, it also represents a form of legal protection. The compliance of nomotechnical rules gives equality to all and an easier and simpler application of legal regulations. The basis of regulated nomotechnical rules is the existence of subjective and objective preconditions of drafting a legal regulations, it clearly confirms that they contribute to legal security and the proper functioning of the rule of law.

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