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The Journal enables authors to present their researches relating to advancing and improving the practice, as well as understanding information systems of the organization. The Journal accepts theoretical, methodological and empirical contributions, i.e. the works that significantly contribute the thematic fields of the Journal, i.e. management, finance, marketing, law, IT technology, agriculture, and other interdisciplinary topics. It will provide enough space for original empirical and developmental researches.

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A. Chamaru De Alwis ¹

Aayanthi Umayangana Kulasekara ²

RECRUITMENT ADVERTISING: CHANGES WITHIN THE LAST FOUR DECADES IN SRI LANKA

Abstract:

Recruitment is one of the most important functions of the Human Resource Management and the success of the function is depended on the attraction of most suitable candidates to the relevant vacancy. To attract applicants, the organizations can be used no of modes, however among those, most popular one is newspaper advertisements. However just publishing advertisement on newspaper does not bring expected results. To get maximum results, the advertisements should be prepared in an attractive way. Under this study, it was evaluated the changes happen with newspaper advertisements

within last four decades to get understand how that advertisements has create attractively and to understand the trends of the current newspaper advertisements. For that, it has used 200 published advertisements with the period 1970 - 2009 as a sample of the study. According to the results usage of graphics, company logo, pictures, have been increased. On the other hand, usage of descriptive language in recruitment advertisements has been increased. Most of recruitment advertisements presented the position in direct, however there is a trend to present in creative ways and with a statement that encourage applications.

Keywords:

Recruitment advertisements, applicants, recruitment

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Introduction

Success of the Human Resource Management [HRM] is depended on how well it achieves objectives of HRM within the organization. Basically, one of the main objectives of the HRM is to procure right people at the right time to do the right jobs. If any organisation fails to achieve this objective, then it is impossible to achieve any of their organisational goals effectively and efficiently. This process has recognised as a function of HRM and named it as as “Recruitment and Selection”. According to the Mathis and Jackson [5], “Recruitment is the process of generating a pool of qualified applicants for organizational jobs”. Basically, recruitment function deals with two major activities. That is; finding suitably qualified individuals from the job market and attracting them towards job vacancies. Success of all the other HRM functions is highly depended on the success of this recruitment process of the organization. Essentially, recruitment can be done two ways: internally and externally. In other words, attracting candidates within the organization and attracting candidates from external environment. Throughout this external recruitment category; number of alternative modes can be identified such as employee referrals, past employees, education institutes, internet job posting sites, employee agencies and advertising [6]. Advertising is the mostly practiced recruitment mode and it is consisted number of sub modes such as newspaper, television radio, posters and banners and etc. Among those, newspaper advertisements are the most popular recruitment mode among the sub modes of the Recruitment Advertising [RA]. Not only that, it is the most common recruitment mode, if is considered as a separate major mode of recruitment [1], [2]. However its success highly depends on the level of attraction of the advertisement. Perkins and

Thomas comment on that level of attraction and confirmed that the level of attraction as a vital for the success of the advertisement, because it is directly affected to the job seekers’ reputation, perceptions and job-pursuit decisions [10].

To get successful results from the advertising, employers have to address two major issues: selecting correct the advertising medium and developing advertisement construction in proper manner [3].

Under this study, it was given concentration to evaluate most popular mode; newspaper advertising to identify changes happened within the last four decades and the trends of the current newspaper recruitment advertisements.

The purpose of this study

This study was carrying out with the expectation of accomplishing following two objectives.

- To identify the impact of advertising practises in preparing job advertisement throughout last four decades

This was evaluated in three aspects of those have been used to measure effectiveness of the advertisements: Frankfurt; Germany

1. The way of presenting the advertisement
Some are happy to publish advertisements just using wordings without logos, any graphics or pictures. However there is a resent trend using those types of changes to the advertisements expecting to get more attention.

A number of organizations use open advertisement that contains the name of the organization offering the job and others wish to use blind advertisement that is not mentioned the name of the employer and providing just post box number and name of the post office [6].

There is another way of presenting advertisement. That is using pictures specially pictures of current employees in their advertisements. Using employees in RA’s provides

a real face for the corporate image and it demonstrates how employees have fulfilled their own aspirations and been successful in achieving their goals [9].

Using company logo and some graphical images with the advertisements are another ways of presenting at present, because the advertisement which makes use of white spaces and graphic images will often be more successful at capturing the attention of the reader [9].

2. The way of using the language of the advertisement

Generally, there are two types of language that can be used in advertisements as descriptive and short. Under this short language, they expect to provide just basic information to attract employees, however with this descriptive manner, it explains information in more details to get maximum attraction from suitable candidates.

3. The way of defining the position of the advertisement.

There are three common methods that can be seen with the advertisements. Directly mentioning position in the advertisement “Direct method without different formatting” and use some attractive, creative methods just like using different fonts, doing different formatting “Direct method with different formatting” to highlight from other advertisements in the same page are the first two. Third one is keep the position with creative heading which is describing some motive aspects of the position “Creative heading”.

- To identify the additional or indirect factors considered in developing job advertisement throughout last four decades.

This objective was achieved by evaluating following areas: the size of the RA (the height of the RA and the width of the RA) and the side of the news paper which the RA was published.

Methodology

Population

Population of this study was consisted by RAs which were published on “Sunday Observer” that is the most popular newspaper for job advertisements in Sri Lanka [5]. Selected period for the evaluation was forty years from 1970 to 2009 and the reason for selection was as shown below.

- *Change the national economic policy from close economy to open economy*

National economic policy was changed in 1977 from close economy to open economy. Since 1977, the Sri Lankan government has been implementing privatization program and under the open economy domestic companies have to face global competition. Under these circumstances companies have to work more effectively than earlier. Therefore the recruitment process should be more effective.

- *Information technology (IT) era*

Information technology is the next major significance factor influence to the business organisations. Actually after IT was become popular in Sri Lanka, IT has been playing major role in many business activities. Now companies need people who have IT background and were started to use IT for their marketing promotion activities. Job advertising is also one of their major marketing efforts which help to not only attract job seekers however also to built company image.

- *Change in Organizational culture*

Total Quality Management tools and are techniques are one of major management concept which many organisations were implement rapidly after the 1995 to overcome rapidly increased competition. Actually quality was replaced to the position of quantity in the management decisions with in last decade.

Selected period (Population)	Cluster Sampling (Sub Groups)	Simple Random Sampling (Selected Sample)
1970 - 1979	1970	1970 march
	1978	1975 May
1980 - 1989	1980	1980 January
	1985	1985 September
1990 - 1999	1990	1990 march
	1995	1995 April
2000 - 2009	2000	2000 December
	2005	2005 July

Table 1: Sample of the study

Significance of the research

As per the Opatha [6] the quality of the HRM in an organisation depends heavily on the quality of the job applicants been attracted. That quality of the job applicants are depended heavily on the successful performance of recruitment process. Thus recruitment is very significant HRM function that has to be successfully implemented an organization due to following reasons: to acquire a pool of suitable qualified job seekers [not over qualified or under qualified job seekers] at the lowest possible cost and reduce the likelihood that an applicant, once hired would leave the organisation after a short period of time. Under this circumstance, designing a recruitment advertisement with essential information has to be given substantial attention.

If the recruitment message is advertised in a popular newspaper for that purpose, it is possible that the overall job seekers in the country are made aware of it [6], however it is not adequate, the advertisement should be more attractive and has to be employed proper strategies to get utmost attention from appropriate candidates at a minimum cost. If the advertisement has fulfilled those, then, it will be helped to attract more job

seekers, and then the selection process will be become more competitive and effective. Finally, it

will help the organisation to select the most suitable candidate to fill the vacancy.

Under this circumstance, it is very important to understand the trends behind advertisements, because it will bring idea how to prepare newspaper advertisements to get maximum attraction.

Literature Review

"Advertising is any paid form of non-personal presentation and promotion of ideas, goods and services through mass media such as newspapers, magazines, television or radio by an identified sponsor" [3]. An organisation can be published its job advertisements through different modes such as television, radios, banners, posters and newspapers. However the success of the advertisement depends on two basic requirements. Firstly, the right advertisement must be made at the right time in the right way. Secondly the advertisement should be consisted with appropriate information [8]. As per the Opatha [6] a good recruitment advertisement contains the following: A clear indication of the relevant job vacancy, a brief introduction of the organisation, a brief job description, a brief job specification, Rewards [Pay, incentives and benefits], way of sending applications, closing

date. Ryan et al [8] commented based on Price [7] that HRM has been marketed the employment product without really knowing or realizing it. He identified job offer as the first 'P' of the marketing mix [Product]. It is defined in the job description and may include conditions, hours, holidays, opportunities for personal development and promotion, and the like. Salary and other benefits offered defined as the "Price" of the product and place of the emplacement recognize as "place". Promotions of this offer are the communications that the organization has with its employees or perspective employees. It is important to adopt a marketing orientation to jobs and recruitment [9]. Ryan et al [9] comment based on Price [7], HRM managers would be well advised to see employees as "employment consumers" who are free to choose another supplier of employment just as a typical consumer may choose another product and he also suggested that organizations should forget the banality that "our employees are our greatest asset" and recognize that employees are customers of the organization.

From a marketing viewpoint, jobs can be identified as products. In marketing perspective, they are going to analysis customer's motivations, needs and behaviour to develop a product to satisfy customer needs. In the same way, HRM departments have to identify, employee need, motivations, and behaviour to attract and retain most appropriate cordierite to perform their organizational requirements.

Ryan et al [9] commented based on Price [7] as employers are the providers of these employment products and employees are the consumers of employment. Adopting this perspective, marketing can provide a useful strategic framework for HRM [9]. Marketing imply a desire to understand consumer needs and to work toward meeting their requirements. The basic principles of marketing such as consumer

analysis, segmentation, and targeting may be used to develop accurate and effective RA [9].

Findings

Obj. 1: Identifying the impact of advertising practices in preparing job advertisements

This objective was evaluated through based on the three important areas that affect to the effectiveness of advertisement: the way of presenting the advertisement, the way of using the language of the advertisement and the way of defining the position of the advertisement.

Way of presenting the advertisement

This was evaluated by categorizing all the advertisements in to six categories as shown in the table 2. Throughout all the four decades the advertisements have used just wordings without graphics, pictures or company logo hold foremost position among the six categories; however its position is continually diminishing. In 1970-1979 it has recorded 65% from all sample however when 2000 - 2009 it has reduced up to 36%. It was reduced by 55% from within the last four decade and form 1990-1999 and 2000-2009 it has reduced drastically by 40% when compared with the previous years.

The advertisements that has used wordings with company logo was consisted by 30% of the advertisements during the period in 1970 - 1979, however it has reduced by 40% with the three decades and finally it was represented with just 18% during the period of 2000- 2009. There is significant increase [600%] can be seen with the wordings with graphics category from 1970-1979 to 1990-1999 and recorded slight decrease (10%) from 1990- 1999 to 2000- 2009. The category that consisted wordings and pictures has risen on 1980 - 1989 and from 1990 - 1999 to 2000 - 2009 it has recorded 180% increase compared with past decade.

Type	Percentage from total advertisements			
	1970-1979	1980-1989	1990-1999	2000-2009
Wordings only	65	52	48	29
Wordings with Graphics	5	12	30	27
Wordings with Pictures	0	4	5	14
Wordings with Company logo	30	32	11	18
Wordings with graphics and pictures	0	0	2	5
Wordings with graphics and company logo	0	0	2	4
Wordings with pictures and company Logo	0	0	2	3
	100	100	100	100

Table 2: The way of presenting advertisements

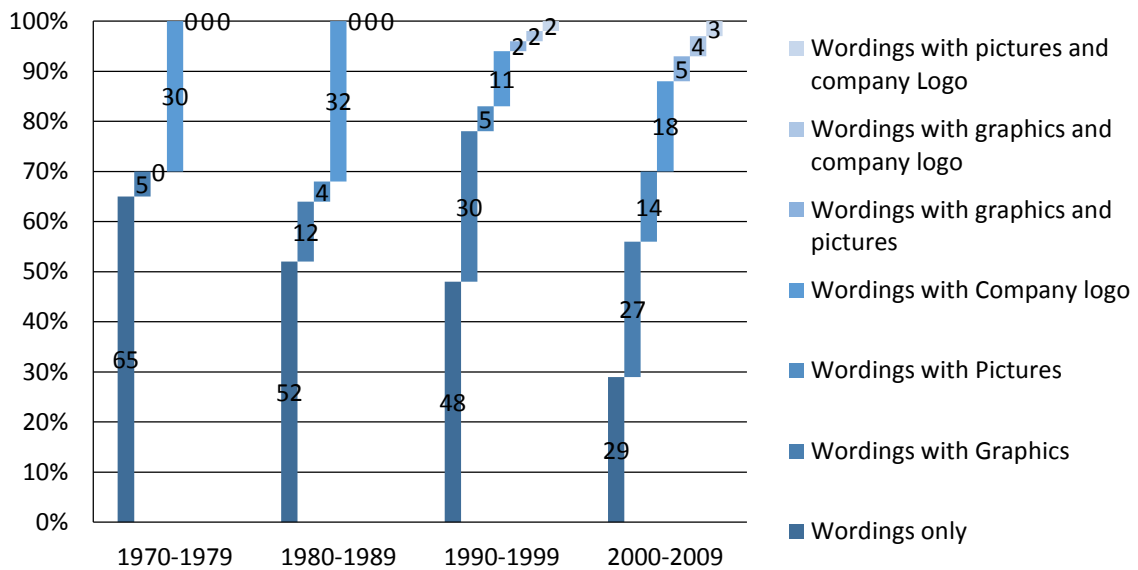


Figure 1: The way of presenting advertisements

Identify the way of Language usage of recruitment advertisements:

Basically, manner of the language used in RA was identified as the descriptive and the short.

Following figure 2 clearly shows the manner of language used as descriptive and short in the RAs

during last four decades. There is positive trend in using descriptive language with RAs and it can be identified from the first decade to 2000-2009. In 1970-1979 it was recorded just 25% however when 2000-2009 it has increased up to 48% that is almost close to 100% increased within the four decades.

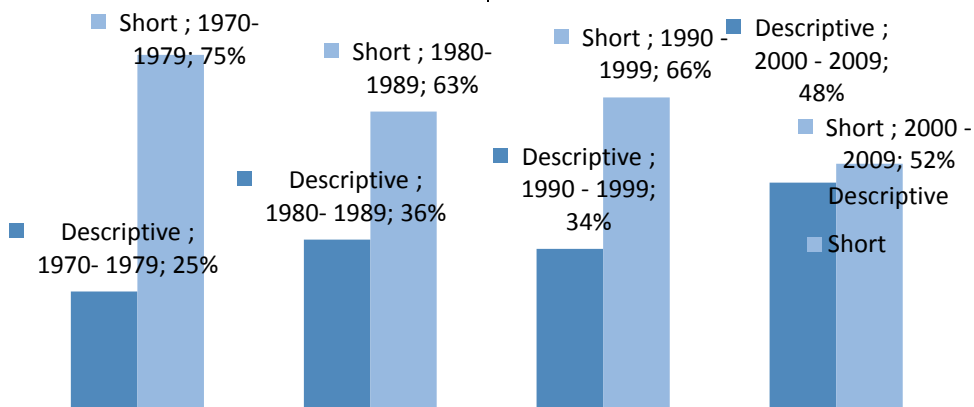


Figure 2: Manner of Language used in recruitment advertisement

Identify the way defining the position of recruitment advertisements

The way of defining the position is another important aspect which affects to the readership of the advertisements. 'Presenting this highly important factor of the RA' during the last four decades has slightly changed however almost all the decades employers has given their preference to mentioned it by using it in direct format "Direct method without

different formatting". However there is a trend that can be identified with the way of mentioning the position at present form 1990s. That is "Direct method with different formatting": creative headings by formatting it with different fronts or other ways of differentiate and "Creative heading": mentioning the position with some wordings to encourage applicants.

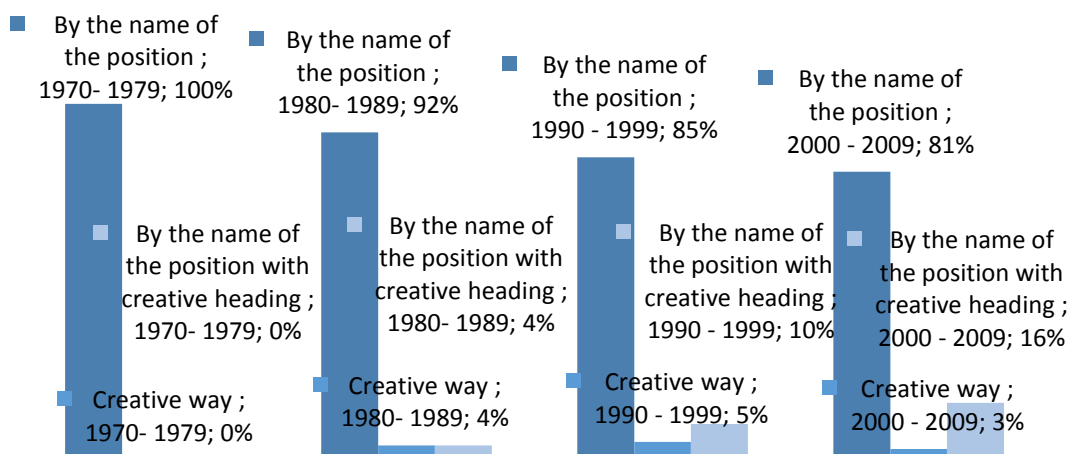


Figure 3: Manner in defining the Position

Obj.2: Identify the additional or indirect factors considered in preparing job advertisements:

This objective was achieved by evaluating following areas of the RA: the size of the RA (the height of the RA, the width of the RA) and the side of the news paper which the RA was published.

Average Sizes of the advertisements which were published during the selected period:

Size of the advertisements was highly affecting the readership of the advertisement. This objective was achieved by analysing the size of selected 200 executive level advertisements which contained private sector, government sector and NGOs and it was measured by column inches

Criteria	Average size of the Advertisement			
	1970- 1979	1980- 1989	1990 - 1999	2000 - 2009
Average height	10.42	19.32	18.54	21.92
Average width	8.82	11.59	11.52	14.31

Table 3: Average size of the Recruitment Advertisements

In this above table 3 illustrated that the height of the advertisement was slightly increased with compared to the increased rate of the width of the advertisement.

Side of the Page which the Advertisement published:

Side of the advertisement published were also affects to the readership of the advertisement. It's

popular that the readership is high on the advertisements published in the right side of the news paper.

Following tables 4 shows separately the number of advertisements which was published in both sides.

Sector	Percentage of advertisements published							
	1970 - 1979		1980 - 1989		1990 - 1999		2000 - 2009	
	Left	Right	Left	Right	Left	Right	Left	Right
Government	5	3	1	8	3	2	3	4
Private	9	10	11	12	15	33	33	44
NGO	0	0	0	0	1	2	0	1
Total	14	13	12	20	19	37	36	49

Table 4: Side of the Page which the Advertisement published

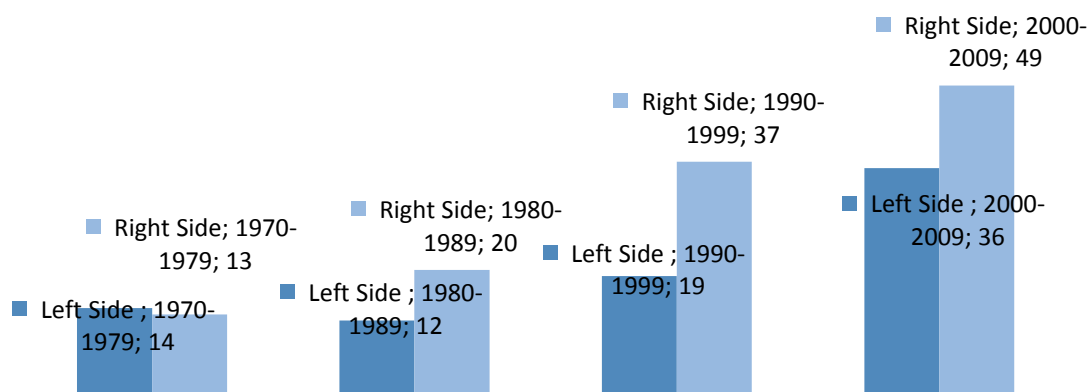


Figure 4: Side of the Page which the Advertisement published

According to the above table, 4 and figure 4, in 1970 - 1979, there was no much difference between selected sides of the page. However from 1980-1989 more of the advertisements has been selected right side than left side of the paper.

Discussion

Presentation of the RAs has been changed drastically during last four decades. The competition, technological development, the perspective towards quality and applications of TQM directly were affected to that development of the business atmosphere. During 1970 -1979, companies have used just classified advertisements that were consisted limited wordings. However at present 100% of employees are using descriptive

advertisements for attract executives to their organizations.

Usage of graphic designs was become popular after IT becomes popular in Sri Lanka. After 1990 when IT industry was developed rapidly in Sri Lanka, usage of IT in to business activities was increased. It was proven by showing the gradual increased of using graphic designs in RAs. This trend was mainly shown in the private sector advertisements rather than the government sector. Since; the competition among the private sector organizations. The reason is for using graphic design in RA is advertisement which makes use of white space and graphic images will often be more successful at capturing the attention of the reader.

Using the company logo was another technique which was used both government sector as well as private sector. People do not worry to read more and wants to get the nutshell within few second. Therefore, organisations have to use other techniques to convey the message other than putting advertisement with full of wordings. That was why, the importance of using only wordings in the RA become decreased.

Especially private sector organisations were increased their usage of descriptive language in RAs after the period of 1989s. As mentioned earlier, after the period of 1990s, private sector competition was increased and new management concepts like quality put into practice. Therefore, organisation more interest to introduced their self more and disclosed more details about the position and the qualification of the person they required. In that point, organisations were used more detailed advertisements or more descriptive language in RAs. This type of more detail advertisements helps to applicants to screen themselves and decide if they fit the requirement. In other wards fit into the job as well as the company. Therefore, possibility of getting most suitable CV's will be increased.

Just mentioning name of the position in RAs was showing a slight decrease. Most of private sector organisations were tried to use creative and innovative headings for the RAs. Even though, this will violate one of major criteria importance which was discussed earlier. This can be seen specially, when they advertised marketing field related positions.

Organisations were interest to put creative headings, just because not to disclose their job related details to the competitors and to get people who are really interest on that particular position. That means, putting creative heading will negatively affects to the readership and people who may read it is the people who is really interest on that position.

The height of the advertisement was slightly increased with compared to the increased rate of the width of the advertisement. In the period of 1970 - 1979, most of RAs were published as classified advertisements; especially in 1970s. However it was changed after the period of 1980s. Important factor which was affected to deciding the size of the advertisement was "cost". Even though, paper advertisements are more effective in converse the message in to large audience, this is one of costly method in RA. Therefore, financial strength of the organisation is indirectly affected to the size of the advertisement.

As per the details of the post discussion with HR Managers, 80% of HR managers were not very much aware of the side of the paper which they want to put their advertisement exactly. This was because, most of companies outsource to design their RA and only doing the finalising the art work. In that point, advertiser may give it to the publisher to without considering other critical points. Thus, under this background HR managers do not have much more idea about these critical factors. Out of ten, two organizations have requested the page number and side which they want to publish the RA.

Some organisations have given more interest to differentiate their advertisement form other RAs. To get reach that expectation, they have used different structuring formats and positioned important data in different spots of the space and continually used same format for company whole RAs. This is to keep the uniqueness of the advertisements which are published by a particular company. As a instance, one HR manager told that normally they are requesting to put their advertisement in black and white and positioning it in between the coloured advertisements.

Conclusion

Some of the advertising practices were highly affected on preparing and presenting RAs during

last four decades. Using of graphics, company logo, pictures, was increased and at the same time the usage of only wordings in RAs were highly decreased. On the other hand, usage of descriptive language in RAs was become increased when the short language usage was decreasing during the selected period. The advertisements have been written in a general or specific manner and most of RAs directly mentioned the name of the position however after the period of 1989s defining the position with creative heading has risen. When considering the other indirect factors which are affecting to the RAs, it shows that the height of the advertisement and the width of the advertisement have been increased. Even that the side of the paper which the advertisement publishing were affected to the readership however most of organisations do not aware about that.

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Pupavac Drago¹

THE GHOST OF HERZBERG MOTIVATIONAL THEORY: MOTIVATORS AND DEMOTIVATORS

Abstract:

Managers tend to sense, that many employees could do more. The question is: What can we do to influence them to contribute more than job description requires? Herzberg answer it, but his Two-Factor Theory has not received strong support in the literature. Accordingly, the basic objective of this scientific debate is to examine the relevance Herzberg motivation theory in terms of the new work economy. Scientific research methods applied in confirming the working hypothesis about the ghost of Herzberg motivation theory based on scientific methods of analysis and synthesis, methods of descriptive statistics, method of mathematical modeling and method of mathematical programming. The resulting findings suggest that any manager should not ignore its recommendations.

Keywords:

managers, employees, motivation, motivators, demotivators

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Introduction

For most of the past century, experts in psychology, sociology, and, more recently, organizational behaviour have investigated the direct predictors of individual performance. One of the most frequently formula was performance = knowledge × ability × motivation. All three factors are critical influences on an individual's performance; if any of them is low the employee would perform tasks poorly. Motivation is goal directed, not random. The second element of motivation is intensity and third is persistence. These elements are cognitive (thoughts) and emotional conditions that directly cause us to move. To figure out how to create a more engaged and motivated workforce especially in time of economic crises we will evaluate Two-Factor Theory. Two-Factor Theory was proposed by Frederick Herzberg [7]. Herzberg accepted Maslow's concept of the importance needs, but went further to suggesting that not all needs are motivational. Herzberg's research led to the following conclusions: First, there are extrinsic job conditions whose absence or inadequacy causes dissatisfaction among employees. However, if these conditions are adequate, it does not necessarily mean the employees are motivated. These extrinsic-contextual factors are the dissatisfiers or hygiene factors. They include: job security, salary, working conditions, status, company policies, quality of technical supervision, quality of interpersonal relations among peers, supervisors, and subordinates and fringe benefits. Second, intrinsic job factors exist whose presence helps to build levels of motivation that can result in good job performance. However, if these conditions are not present, it does not cause dissatisfaction. These conditions are intrinsic-content factors of the job and are called motivators, or satisfiers. These include achievement, recognition, challenging work, responsibility, advancement, personal growth, learning, and development.

Two-Factor Theory has not received strong support in the literature, many authors underestimate [3], [8], [11], [12]. Accordingly, the aim of this paper is to examine the actuality and validity of Herzberg's motivation theory in terms of the economic crisis. The main challenge for leaders in the twenty-first century is attracting and retaining not just employees, but the best employees - and more important, how to motivate them so that they work with passion, energy and enthusiasm. But very few people with brains, skills and initiative appear. The timeless challenge in the real world is to help less-talented people transcend their limitations [1].

Theoretical framework, problem and research methodology

The objective of a human resource strategy is to manage labor and design job so people are effectively and efficiently utilized. As we focus on a human resource strategy, we want to ensure that people [6]: 1) are efficiently utilized within the constraints of other operations management decisions, 2) have a reasonable quality of work life in an atmosphere of mutual commitment and trust. By reasonable quality of work life we mean a job that is not only reasonably safe and for which the pay is equitable, but that also achieves an appropriate level of both physical and psychological requirements. Frederic Taylor was an engineer who studied the efficiency of physical labor. His studies of iron handlers and other laborers at the Bethlehem Steel plant in Maryland led him to conclude that business were not getting their money's worth from the wages they paid to their laborers. There were two reasons for this, Taylor believed. One was the fundamental motivation by almost all hired workers to do the least amount of work possible, and the other was the inefficient design of work procedures. Douglas McGregor, who wrote the classic study of

management attitude The Human Side of Enterprise, labeled this concept of human as „Theory X“. Despite the efforts of many management writers, and a number of visionary CEOs to promote a more humanistic view of humans in the workplace, „Theory X“ view is still the norm in many organizations, particularly large ones. Mutual commitment means that both management and employee strive to meet common objectives. Mutual trust is reflected in reasonable, documented employment policies that are honestly and equitably implemented to the satisfaction of both management and employ. When management has a genuine respect for its employees and their contributions to the firm, establishing a reasonable quality of work life and mutual trust is not particularly difficult. But in organizations when management pronouncements like „People are our most important assets“ are perpetuating Taylorism. It's hard to think of people as human beings when you talk about them as assets [2]. No longer can organizations be effective if the top „does the thinking“ and the rest of the organization „does to work“. Everyone needs to be involved in the strategic management process. The challenge facing organizational leaders is that most employees aren't very engaged. Several consulting reports [10] estimate that only about one-quarter of American employees are highly engaged, which is slightly above the global average. Less than 60 percent are somewhat engaged, and approximately one-fifth have low engagement or are actively disengaged. Actively disengaged employees tend to be disruptive at work, not just disconnected from work. Globally, employees in Mexico and Brazil seem to have the highest levels of engagement, whereas several Asian countries (notably Japan, China, and South Korea) and a few European countries (notably Italy, Netherlands, and France) have the lowest levels. Some writers

suggest that globalization, information technology, corporate restructuring, and other changes have potentially undermined the levels of trust and commitment necessary to motivate employees beyond minimum standards. Other point out that companies have not adjusted to the changing needs and expectations of new workforce entrants. Overall, these reports of low employee engagement imply that many employees are not very motivated to perform their jobs.

To create a more motivated workforce, we first need to understand employee drivers and needs and how these concepts relate to individual goals and behavior. Herzberg reduced Maslow's five need levels to two distinct levels (cf. exhibit 1).

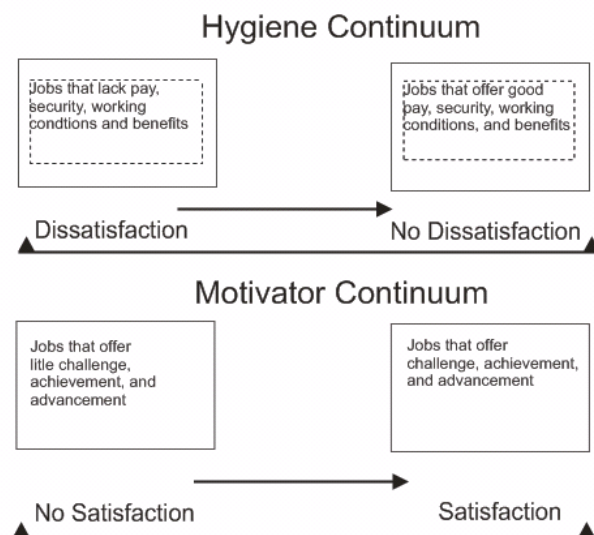


Figure 1.: Hygiene and Motivator Continuum

The hygiene factors, or dissatisfiers, are similar to Maslow's lower-level needs. They are essentially preventative factors that reduce dissatisfaction. In other words, hygiene factors, if absent in the job, lead to high level of dissatisfaction, if present, they create „zero dissatisfaction“ or neutrality. By themselves, hygiene factors do not motivate individuals to better performance. A spate of attempted and successful suicides at France Telecom has sparked a debate about life in the modern corporation. This suicides was explicitly

prompted by troubles at work. Since early 2008, 24 of the firm's employees have taken their own lives—and this follows similar episodes at other pillars of French industry including Renault, Peugeot and EDF [5]. Yet the problem is not confined to France. America's Bureau of Labour Statistics calculates that work-related suicides increased by 28% between 2007 and 2008, although the rate is lower than in Europe. And suicide is only the tip of an iceberg of work-related unhappiness. This is certainly one of the indicators that the ghost of Herzberg motivation theory still walks the land. According to Herzberg's framework, the problems remain because these firms try to motivate through hygiene factors, which he claims are nonmotivational. For example, a worker might be less motivated to work in an unpleasant or uncomfortable physical environment, but making the workplace more comfortable may simply influence the worker to stop performing poorly and begin performing at a minimally acceptable level. According to Herzberg, a hygiene factor (demotivator) is any condition or experience that leads a worker to feel alienated from the work, and consequently less inclined to invest any extra personal energy in doing the job. When demotivators abound - such as poor pay, unsafe or unpleasant working conditions, low job security, abuse or maltreatment by supervisors, or any of a number of factors that diminish „quality of work life“ - people will tend to invest little or none of their discretionary energy in their work [2].

The most obvious reasons for the rise in unhappiness are the: recession and drive to improve productivity. Recession destroying jobs and spreading anxiety throughout the workforce. Drive to improve productivity is typically accompanied by an obsession with measuring performance. Giant retailers use “workforce management” software to monitor how many seconds it takes to scan the goods in a grocery

cart, and then reward the most diligent workers with prime working hours. In Japan some firms even monitor whether their employees smile frequently enough at customers.

„Disgruntled employees are figurative terrorists, says Paul Goodstadt, former director of quality development for England's National Westminster Bank. They can destroy customer perceptions of quality faster than just about any other factor I can think of [2]. A survey by the Centre for Work-Life Policy, an American consultancy, found that between June 2007 and December 2008 the proportion of employees who professed loyalty to their employers slumped from 95% to 39%; the number voicing trust in them fell from 79% to 22%. A more recent survey by DDI, another American consultancy, found that more than half of respondents described their job as “stagnant”, meaning that they had nothing interesting to do and little hope of promotion. Half of these “stagnators” planned to look for another job as soon as the economy improved. People are both clinging on to their current jobs, however much they dislike them, and dreaming of moving when the economy improves. This is taking a toll on both short-term productivity and long-term competitiveness: the people most likely to move when things look up are high-flyers who feel that their talents are being ignored. To remedy the situation, according to Herzberg, management should direct its attention to the motivators - for example, changing jobs to remove the routiness, boredom, and lack of challenge. According to Herzberg, motivators are psychological opportunities: chances to experience positive feelings associated with behaving in ways that support the success of the enterprise. For example, when a professional staff member is encouraged to submit a technical paper for a presentation at an industry conference, and the company pays the expenses for the trip, the employee has an

opportunity to fulfill needs higher up on Abraham Maslow's hierarchy than just those associated with drawing a salary. Professional pride, the respect of one's peers, praise and recognition from management, and the intellectual challenge of the experience, all can influence the employee to feel more like an important part of the enterprise. If as a result the employee contributes more and more discretionary energy, then we can say that the experience has been a motivating factor for that person in that situation [2]. The function of job satisfaction can be simplified in the following equation:

$$S = \alpha - \beta_1 NT + \beta_2 MOT + \beta_3 Re + \beta_4 Ri + \beta_5 Fp + \beta_6 Fd + \beta_7 ORG + \beta_8 x + e \quad (1)$$

with S= job satisfaction; Ri= extrinsic and intrinsic rewards; Fp and Fd= procedural and distributive fairness; and where the model assumes that expectations are appropriately summarised by the natural (e.g. gender) and acquired (e.g. education) traits of the employee (variable NT), while MOT= intrinsic motivations of the worker approximates the employee's values, and ORG= organizational characteristics and working environment influence the perceptions of the employee.

We expect that all the parameters β in the function (1) are significant and satisfaction is particularly influenced by the main proxies of workers' intrinsic motivations, social preferences, and other organisational and non-monetary aspects. Specifically, the most significant parameters are expected to be β_2 expressing the weight of intrinsic motivations, β_4 referred to intrinsic rewards, β_5 and β_6 referred to distributive and procedural fairness. Also organizational and group effects can be positive and significant, although they differently summarise specific proxies of the working environment. Finally, some variables

could have a null or negative effect on job satisfaction, as expected for economic rewards (Re), extrinsic motivations and some of the natural and acquired traits which are related to workers' expectations.

We use the ICSI2007 data (Indagine sulle Cooperative Sociali in Italia, Enquire on Social Cooperatives in Italy), which was collected by a pool of six universities (Trento, Bergamo, Brescia, Milano Bicocca, Napoli Federico II and Reggio Calabria) in 2006 through questionnaires submitted to a representative sample of 4,134 employees and 338 managers of 411 Italian cooperatives. The survey includes a large set of questions ranging from socio-demographic controls (age, gender, education, etc.) to economic variables (e.g. wage), job characteristics (tasks, working hours, overtime) and job satisfaction with respect to a number of possible domains (relationship with colleagues, wage, type of job). The result is an extremely rich database which allows for the study of the conditions and motivations of people employed in Italian not-for-profit enterprises. The main weaknesses of this secondary data and interpretation of research results lies in fact that the survey was conducted before economic crises.

Research results and discussion

In order to inquire the nature of motivational drivers in social cooperatives, workers were asked to answer the following question: In general, how important are the following aspects of the work for you? Descriptive statistics in Table 1 clearly show the complexity of drivers in worker behaviour.

Item	No of observation	Average (1-12)	Standard deviation	Percent 10 or higher	Mode	Median
Extrinsic motivation						
Flexibility of working hours	3992	8,00	3,09	37,40	9	9
Wages and economic incentives	3932	8,63	3,00	49,20	12	9
Physical working environment	3927	7,44	3,69	38,40	12	8
Job stability	3950	9,52	2,79	61,90	12	11
Relatedness on the job	3965	9,50	2,59	61,30	12	10
Intrinsic motivations						
Autonomy, variety and creativity	3920	8,48	3,03	45,60	12	9
Job coherent with individual training	3915	7,06	3,69	33,00	1	8
Social visibility of the job	3905	7,20	3,51	32,50	12	8
Self realization and career prospects	3911	8,36	3,12	44,80	12	9
Sharing common ideals and values	3944	8,77	3,25	52,50	12	10

Table 1.: Job motivations items, source: Prepared author according: ICSI 2007 database [4]

Workers are clearly motivated by social relatedness, but some other extrinsic and intrinsic aspects, such as job stability and the sharing of ideals also appear to play a crucial role. The employees surveyed rank wages and other economic incentives only third in importance and other extrinsic aspects even lower (cf. table 1). Each of the 10 chosen motivational items was evaluated on a scale who goes from a minimum of 1 (low satisfaction) to a maximum of 12 (high satisfaction).

Extrinsic aspects of the job receive a high degree of attention too, especially in relation with job stability, economic remuneration and accomplishment in terms of career and self-

realization. Among the items of intrinsic motivation, the search for variety and creativity and the search for common values and objectives appear dominant.

The selection of satisfaction items stressed the relevance of the intrinsic and extrinsic components of satisfaction, since these are most likely to be related to worker motivations, to the inclusive governance of the organization in terms of fairness and transparency of procedures, and to the incentive mix implemented by the organization and directed to valorise both monetary and non-monetary aspects of the job. Average values of the selected items are displayed in Table 2.

Satisfaction with ...	No of observation	Average (1-7)	Standard deviation	Mode	Median
Extrinsic aspects					
Work hours	4035	5,35	1,58	7	6
Flexibility of work hours	3966	5,41	1,55	7	6
Job security	3984	5,34	1,69	7	6
Work environment	3985	5,32	1,59	7	6
Social security	3946	5,49	1,61	7	6
Wage satisfaction	4072	3,80	1,70	6	6
Intrinsic aspects					
Involment in the decision-making process	3999	4,29	1,67	4	4
Transparency of procedures	4027	4,90	1,69	4	5
Recogniton of his/her work by the cooperative	4019	4,81	1,70	4	5
Professional development	3971	4,64	1,59	4	5
Autonomy in decesion-making	3986	5,07	1,48	6	5
Achieved and expected career prospects	3861	3,83	1,71	4	4
Self-realization	3947	4,92	1,63	6	5
Variety and creativity of the job	3991	5,20	1,49	6	5

Table 2.: Job satissfaction, source: Prepared author according: ICSI 2007 database [4]

Average satisfaction is relatively high for all the considered items apart from the wage. The items of extrinsic satisfaction show a strong homogeneity of results and high values, as also testified by their modal and median values. Stronger variability is shown by the average values of the items of intrinsic satisfaction. Social cooperatives appear particularly strong in satisfying their workforce in terms of autonomy and overall sense of self-realization. A good performance is also shown in terms of transparency of procedures, recognition of workers' contributions, and the ability to guarantee professional development. More problematic are the results concerning involvement in decision-making, which does not appear to be a characterizing feature of social cooperatives. Finally, weak results matching the relatively low score of wage satisfaction are achieved in the case of achieved and expected career prospects. Though the degree of wage

satisfaction is low, the overall degree of job satisfaction is fairly high and this shows the ability of these firms to fulfil workers' expectations and needs on most dimensions of their activity. Based on the data from the table 2 is visible greater importance of extrinsic factors in job satisfaction than intrinsic. This results are quite similar to Maidani findings. Maidani [11] compared public sector and private sector employees' ratings of the importance of fifteen job factors. He found that both sectors identified intrinsic factors as important, but public sector employees rated extrinsic factors as more important than private sector employees did. Although many factors contribute to employee job satisfaction, only two (job security and compensation/pay) have remained among the top five aspects in the period from 2002 to 2012. In a recovering USA economy, none of the aspects employees selected as the top five contributors to their job satisfaction was a surprise.

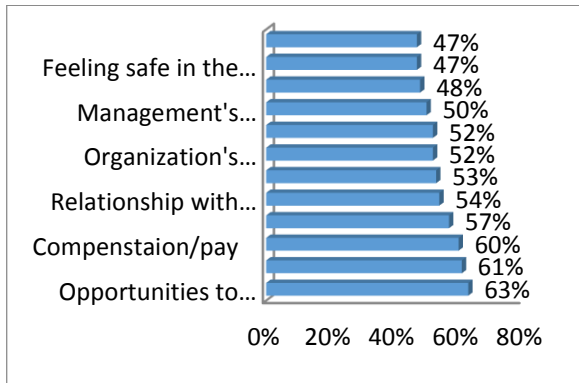


Figure 2.: Very important aspects of employee job satisfaction in 2012., source: Prepared author according [14]

The importance of Herzberg motivation theory will be also presented on the following practice example. Chairman of the Polytechnic of Pozega's business department, needs to assign professors to courses next semester. As a criterion for judging who should teach each course, chairman reviews the past 2 year's teaching evaluation (which were filled out by student and professors selfevaluation). Since each of the six professors taught each of the six courses at one time or another during the 2-year period. Chairman is able to record a course rating for each instructor. These ratings are shown in the following table.

Course Professor	S	M	F	E	L	SD
P ₁	90	65	95	40	55	70
P ₂	70	60	80	75	45	50
P ₃	85	40	80	60	65	75
P ₄	55	80	65	55	60	45
P ₅	80	75	60	65	70	50
P ₆	60	70	75	80	65	60

S: Statistics; M: Management; F: Finance; E: Economics; L: Logistics; SD: Sustainable Development

Table 3.: The result of course attractiveness evaluation, source: Author

Chairman should find the assignment of professors to courses to maximize the overall teaching rate. This example consists from two dimensions of motivation: what demotivates professors and what motivates them. If the teachers for their lectures on certain course evaluated by the students as very good or excellent and if that assessment coincides with their assessment of the process of self-evaluation (satisfied with the conditions in which the courses are taught, are satisfied with the conduct and activities of students in classes, are satisfied with the additional training for in teaching, etc.) it is obvious that the potential causes of dissatisfaction professors removed. High scores from student surveys on a particular course motivating factor for teachers and contribute, professional pride, respect of colleagues and management colleges, positive teaching experience, intellectual challenge for new achievements, all can influence the professors to feel more like an important part of the Polytechnic.

This example represents standard assignment model, or allocation problem. The core of the problem is to assign or allocate n positions (tasks, objects) to m workmen (locations) under the condition that single position is assigned to a single workman. The aim is the optimal contentment of the workers with the positions assigned to them. The aim is the optimal contentment of the professors and student with the course assigned to them.

Mathematical model:

$$z = 90x_{11} + 65x_{12} + 95x_{13} + 40x_{14} + 55x_{15} + 70x_{16} + 70x_{21} + 60x_{22} + 80x_{23} + 75x_{24} + 45x_{25} + 50x_{26} + 85x_{31} + 40x_{32} + 80x_{33} + 60x_{34} + 65x_{35} + 75x_{36} + 55x_{41} + 80x_{42} + 65x_{43} + 55x_{44} + 60x_{45} + 45x_{46} + 80x_{51} + 75x_{52} + 60x_{53} + 65x_{54} + 70x_{55} + 50x_{56} + 60x_{61} + 70x_{62} + 75x_{63} + 80x_{64} + 65x_{65} + 60x_{66} \rightarrow \max. \quad (2)$$

With constrains

$$\begin{aligned} x_{11} + x_{12} + x_{13} + x_{14} + x_{15} + x_{16} &= 1 \\ x_{21} + x_{22} + x_{23} + x_{24} + x_{25} + x_{26} &= 1 \\ x_{31} + x_{32} + x_{33} + x_{34} + x_{35} + x_{36} &= 1 \\ x_{41} + x_{42} + x_{43} + x_{44} + x_{45} + x_{46} &= 1 \\ x_{51} + x_{52} + x_{53} + x_{54} + x_{55} + x_{56} &= 1 \\ x_{61} + x_{62} + x_{63} + x_{64} + x_{65} + x_{66} &= 1 \end{aligned} \quad (3)$$

$$\begin{aligned} x_{11} + x_{21} + x_{31} + x_{41} + x_{51} + x_{61} &= 1 \\ x_{12} + x_{22} + x_{32} + x_{42} + x_{52} + x_{62} &= 1 \\ x_{13} + x_{23} + x_{33} + x_{43} + x_{53} + x_{63} &= 1 \\ x_{14} + x_{24} + x_{34} + x_{44} + x_{54} + x_{64} &= 1 \\ x_{15} + x_{25} + x_{35} + x_{45} + x_{55} + x_{65} &= 1 \\ x_{16} + x_{26} + x_{36} + x_{46} + x_{56} + x_{66} &= 1 \end{aligned} \quad (4)$$

Assignment model is typical problem for transport.

$$\begin{aligned} 1 & i = 1, \dots, 6 \\ x_{ij} & \\ 0 & j = 1, \dots, 6 \end{aligned}$$

In table 4 we have set solution for problem assignment by us of Excel calculation table, or its add-in solver.

each courses are placed in address area C10:H10, for second professor (P2) to address area C11:H11, for sixth professor they are placed to address area C15:H15. After that the address sequence C2:H7 is reserved which is filled with initial values.

At the same time, these are decisive variables that will contain optimal answer to the question which course should be assigned to which professors. In address sequences B2:B7 and C8:H8 the sums of professors, or sums of assigned courses are defined, with respect to limitation that each professor can be allocated to only one course. Also defined is the address for aim function, which in our case is B16.

This address contains the value of total grades of every course attraction for all professors, and can be calculated as a sum of 36 products of single grades from address sequence C10:H15 and assigned positions to each workman from the address sequence C2:H7. The function sumproduct, which integrates multiplying and adding the products, is used in the formula.

	A	B	C	D	E	F	G	H	I
1			S	M	F	E	L	SD	
2	P1	0	0	0	0	0	0	0	0
3	P2	0	0	0	0	0	0	0	0
4	P3	0	0	0	0	0	0	0	0
5	P4	0	0	0	0	0	0	0	0
6	P5	0	0	0	0	0	0	0	0
7	P6	0	0	0	0	0	0	0	0
8			0	0	0	0	0	0	0
9			1	1	1	1	1	1	1
10	P1	1	90	65	95	40	55	70	
11	P2	1	70	60	80	75	45	50	
12	P3	1	85	40	80	60	65	75	
13	P4	1	55	80	65	55	60	45	
14	P5	1	80	75	60	65	70	50	
15	P6	1	60	70	75	80	65	60	
16		0	0	0	0	0	0	0	
17									

Table 4.: Model for problem solving by use of calculation table

The grades evaluating each course for each professors are put in the table separately. For professor no. one (P1) the grades of evaluating

In Tools menu we choose programme Solver and start to fill in the data in the Solver Parameters as shown in scheme 1.

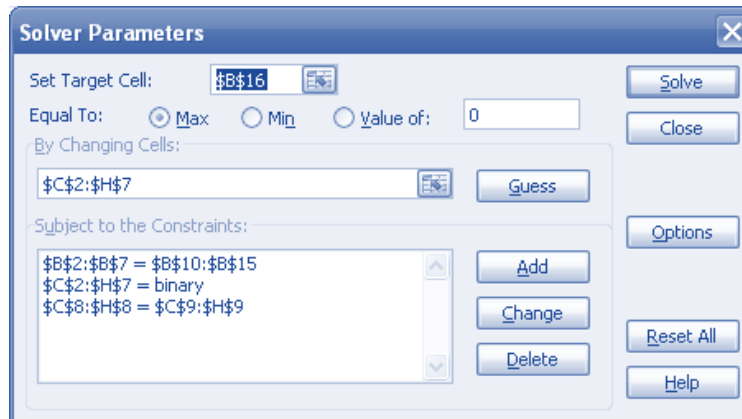


Figure 3.: Solver while solving the assigned problem

When all the data is filled in, we click on the solve button in solver parameters, which will activate solver programme to calculate decision variable values on address sequence C2:H7. decision

variables that are calculated in address sequence C2:H7 define the optimal solution. Table 5 shows the optimal solution of the problem by using MS Excel.

	A	B	C	D	E	F	G	H	I
1			S	M	F	E	L	SD	
2	P1	1	1	0	0	0	0	0	0
3	P2	1	0	0	1	0	0	0	0
4	P3	1	0	0	0	0	0	0	1
5	P4	1	0	1	0	0	0	0	0
6	P5	1	0	0	0	0	0	1	0
7	P6	1	0	0	0	1	0	0	0
8			1	1	1	1	1	1	1
9			1	1	1	1	1	1	1
10	P1	1	90	65	95	40	55	70	
11	P2	1	70	60	80	75	45	50	
12	P3	1	85	40	80	60	65	75	
13	P4	1	55	80	65	55	60	45	
14	P5	1	80	75	60	65	70	50	
15	P6	1	60	70	75	80	65	60	
16		475	90	80	80	80	70	75	

Table 5.: Optimal problem solution by use of calculation table

From the above table we can deduct that maximum contentment of the professors and potential students is achieved by course assignation as follows: P1 → statistics, P2 → finance, P3 → sustainable development, P4 → management, P5 → logistics, P6 → economics, which represents total "amount of contentment".

$$90 + 80 + 75 + 80 + 70 + 80 = 475$$

The meaning of contentment optimisation of the professors and students confirms also the fact that in case contentment would not be regarded for assigned course, total "amount of contentment" would only amount to 290 or 63,79% less than maximum. Such amount of contentment is reached when this function is solved as per minimum contentment with the courses assigned.

Conclusion

In mainstream economics, the employment relationship was mainly conceived as an exchange of wage for time and effort, since the worker is supposed to only pay attention to the contracted labour services he/she is delivering to the firm. Employee performance is frequently described as a joint function of ability and motivation, and one of the primary tasks facing a manager is motivating employees to perform to the best of their ability. It is no longer possible to assume that the wage is the sole (not even the most important) variable influencing worker performance. In particular, in certain work field, like social enterprises, it's hard to evaluate and control employees job, and this make clear that there should be more motivation in determining happiness of workers. Work motivation is invisible, internal, hypothetical construct. We cannot actually see work motivation nor can we measure it directly. Instead, we can recognize the set of internal and external forces that initiate work-related behavior, and determine its form, direction, intensity, and duration. Herzberg argued that only characteristics of the job itself motivate employees, whereas the hygiene factors merely prevent dissatisfaction. Demotivators alienate people, but removing the demotivators doesn't motivate them. True motivators are opportunities to satisfy individual psychological needs: needs for affiliation, acceptance and inclusion, needs for achievement, needs for a sense of self-worth, and needs for personal growth and development. Build those into the business and the motivation problem no longer even requires discussion. It might seem obvious to us today that the job itself a source of motivation, but the concept was radical when Herzberg proposed the idea. Herzberg motivational theory in terms of the economic crisis gets on its actuality and it is difficult to assume that any manager could ignore its recommendations.

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PHOTO 1.

Berba | Grape harvest

PHOTO BY: JOSIP MESIĆ

Koodichimma Chinazom Ibe-Ariwa¹
Ezendu Ariwa²

CONSUMER ELECTRONICS AND HISTORICAL ANALYSIS OF THE IMPACT OF EFFECTIVE ADOPTION OF CLOUD COMPUTING IN HIGHER EDUCATION

Abstract:

Cloud computing in the Educational sector has immensely enhanced academic performance in the developed nations and the professional contributions may benefit the education strategy of Nigeria particularly in transforming the traditional education model to computer based virtual applications with a focus on e-pedagogy. Cloud computing remains a paradox and open to academic debate with respect to business adoption of its utility, and studies depict that cloud computing to an extent is still at its early incubation in institutions of higher learning; that also affirms the infancy of cloud computing in academia, and this has caused the dearth of a unified definition and understanding of cloud computing. However, this study will develop

academic definition and meaning of cloud computing with reference to institutional applications. This study will also explore the benefits of cloud computing in learning, and focus on the development of relevant models for resource usage in higher education institutions. Author shows that successful adoption of cloud computing by various educational institutions in Nigeria depends on their transition strategies in terms of resource acquisition and deployment. These strategies could form barriers in delivering effective teaching learning, and assessment of instruments encountered through migrating to the cloud. Hence this study is geared towards bridging the gap between the usage of cloud computing in education and effective delivery of educational services via the 'cloud' in Higher Education Institutions (HEIs) in Nigeria.

Keywords: cloud computing, Internet, Nigeria

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Significance of the study

Cloud computing seems to be largely gaining popularity both in the community and in the educational sector, but the impact it has created on HEIs has largely been unexplored especially in Nigeria one of the developing nations. This study will explore the impact of cloud computing in HEIs, the challenges users encounter in adopting the technology, and a proposed model to address the barriers encountered in the implementation of cloud computing. The successful and unsuccessful HEIs that adopt cloud services will be assessed and analysed by the use of Likert scale and statistical measurement. Despite the hype for cloud computing, so many people including academics especially in developing countries are still unfamiliar with its features, although they unintentionally adopt cloud computing in various ways. This study will also be an exploratory study to expose those features to the knowledge of the users. It has been noted by Abidi and Abidi that libraries worldwide are deficient in data flexibility, resource efficiency in information delivery, inter collaboration within libraries, and invariably expensive in management. [1] In this view, digital Cloud computing is developed on libraries and can be regarded as 'location independent computing'. This is a widely assessed resource pool, which enhances massive file storage, file sharing and easy accessibility of information. Cloud computing is regarded as an emergent form of technology inculcated in the educational sector of higher learning which includes the Universities especially in developing countries like Nigeria. In this regard, cloud-computing services are considered as influential factors and of immense value to educators in teaching-learning sector. Matthew in his observation, observes that the trend of migrating to the cloud system has been extended to the developing countries like Nigeria in recent times by most top cloud storage providers

such as IBM, Microsoft, MTN. HEIs in Nigeria would be examined by carrying out an in-depth investigation and exploration of the barriers against the adoption of cloud based services by these institutions.

Research Aims

The aim of this research is to explore the usage of Cloud computing and develop a conceptual model that addresses its Impact in HEIs. Research objectives are:

1. To explore the benefits of cloud services in HEIs in Nigeria
2. To assess the challenges in adopting cloud computing in HEIs Nigeria
3. To evaluate the impact of cloud computing usage in HEIs in Nigeria
4. To develop strategic model for effective adoption of cloud computing in HEIs in Nigeria
5. To develop benchmarking standard for cloud computing in Nigeria

Proposed contribution

This research is aimed at assessing the way cloud computing is being used in HEI in Nigeria, with the view of identifying the benefits, current usability scenarios and proposing a model for good practice and successful adoption of cloud computing to enhance teaching-learning in Nigeria as it affects HEI in Nigeria.

There are three basic contributions for this thesis

1. This thesis will provide a model to bridge the „gap“ in cloud computing implementations and devise the strategy for the deployment of cloud services in HEIs
2. The research will provide benchmarking standard for effective measurement index of cloud computing in HEIs in Nigeria
3. The research would develop conceptual model for effective adoption of cloud computing.

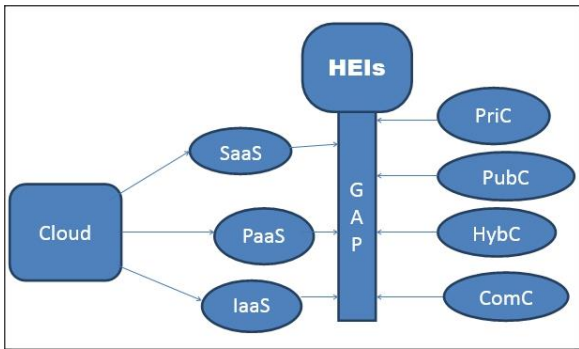


Figure 1.: Conceptual model

- PriC: Private Cloud, PubC: Public cloud
- HybC: Hybrid Cloud, ComC: Community Cloud
- SaaS: Software as a Service
- PaaS: Platform as a Service
- IaaS: Infrastructure as a Service
- HEIs: Higher Education Institutions
- Fig: Figure

Literature Review

Originally, Academics have been adopting cloud computing in different transformational forms of computing such as distributed computing, parallel computing, grid computing, utility computing, network storage mechanism, as well as the traditional computing either through the Internet or intranet, but now digital cloud computing virtualization is the key advancement in technology. The reason for these systems of computing is generally to deliver to the system user an integrated

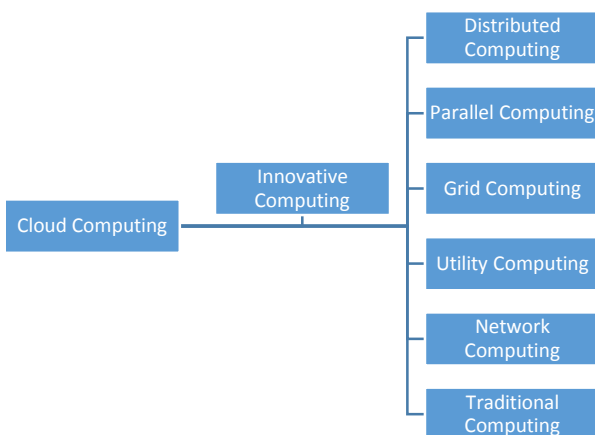


Figure 2.: Cloud computing developmental architecture

Cloud computing has improved educational provisions in Nigeria using the e-learning programmes tailored towards virtual applications. There is research evidence that Nigeria lack adequate infrastructures to facilitate effective cloud services at HEIs. The main problems were that of lack of energy management strategy, poor power supply and inefficient data storage facilities. Cloud computing provides platforms to bridge the gaps and improve the deficiencies of traditional ICT provisions through effective management of educational resources such as e-library, e-administration, e-management, e-portfolio and virtual e-driven support programmes. Cloud Computing is defined as "an emerging computer paradigm where data and services reside in massively scalable data centers in the cloud and be accessed from any connected devices over the internet. There is gap in this definition as it fails to consider the personalization of cloud computing within the organizational intranet or private virtual domain. On the other hand, Vaquero, L.M. et al in their view defined cloud computing as the process of providing computing infrastructure on the network by delivering application software over the Internet down to the user, irrespective of the user's location. From this definition, cloud computing is limited to a 'process' not considered as an application that renders services to the user, it also does not capture the enhanced storage capacity of cloud which provides medium of massive data storage as defined by Aziz that cloud computing is an enabler of a location where computing infrastructure, data, software and application is stored. Mell and Grance in The NIST and ITU Focus Group defined cloud computing as "a model for enabling network users' on-demand access to a shared pool of configured resources that can be rapidly provisioned and released to the

client without direct service provider instruction. National Institute of Standards and Technology (NIST) and the ITU Focus Group, 2012, p. 3. Cloud Computing provides opportunities for organizations to realize return-on-investment (ROI) through quality service delivery, infrastructure acquisition and improvement in the training of professional employees.

Research definition of Cloud computing

The researcher defined cloud computing as an application that virtually deploys and manages services through the Internet or intranet to the end user. It is service-paying application that companies invest on due to cost reduction and effective service delivery to the users. The cloud services deployment is functionally measured by: efficiency in service delivery, effectiveness of platform and flexibility in the performance of infrastructure and cost benefit in service deployment. This concept of cloud computing can be represented using the Mathematical representations shown below:

Key representations: Cloud in HEIs (CHE), Public cloud (Pb), Private cloud (Pr), Hybrid cloud (Hb), Community cloud (Cm), Software (s), Infrastructure (i), Platform (p)

Assumptions

$$CHE = Pb + Pr + Hb + Cm \tag{1}$$

Similarly,

$$CHE = Pb = s+i+p \tag{2}$$

Where s, i, and p are represented as HEIs requirements

Alternatively,

$$Pb = f(s+i+p) \tag{3}$$

if $CHE = Pb$ and $f(s+i+p) = \text{functions}$

$$Pb = f[s + (i0) + (p0)] \tag{4}$$

Where $(i0)$ and $(p0) = 0$

This implies that HEIs only considered Service (s) as the cost effective requirement for the organisation otherwise, the loop may be applied to Hybrid as well as excluded if not viable

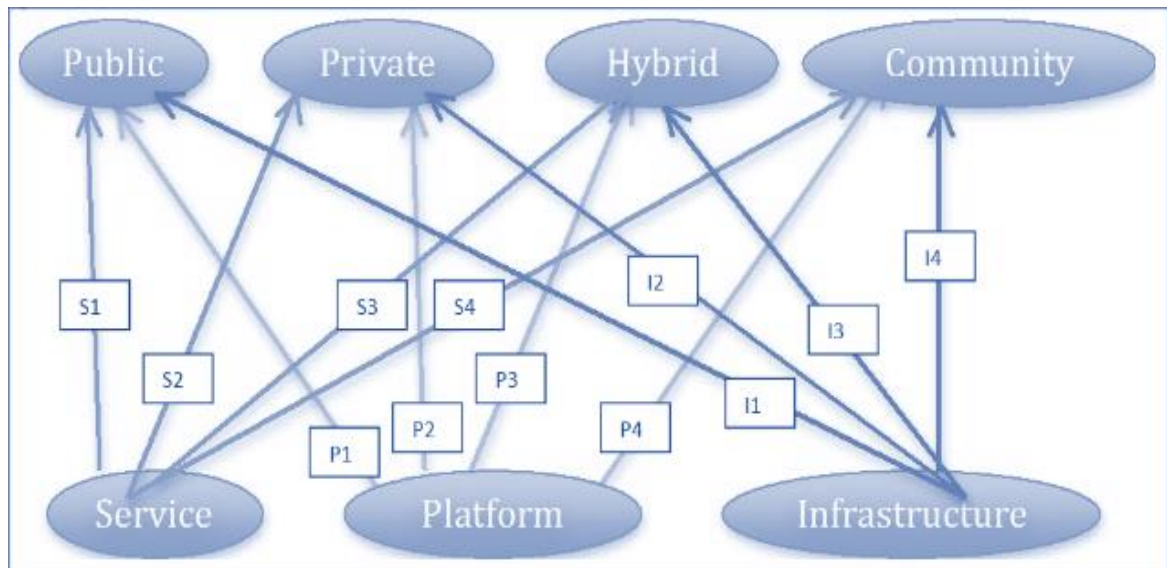


Figure 3.: Cloud computing definition representation

Blue Line: measures the benefit of cloud services based on SaaS using indicator 1,
Yellow lines: measures the benefit of cloud services based on PaaS using indicator 2,
Purple lines: measures the benefit of cloud services based on IaaS using indicator 3

Research questions strategy

Indicators such as Cost savings, efficiency in service delivery, and effectiveness of software deployment, storage capacity, performance and standards will be used to measure the first objective (RQ1s)

To measure the second objective, the PEST analysis will be employed, as indicators for identifying the challenges of cloud computing in HEIs

Evaluating the impact of cloud computing in HEIs, the indicators to be used are the SWOT analysis metric

By the end of this study, the researcher, the researcher will developed model for cloud computing implementation in HEIs.

Benefit of cloud computing

Literature have shown that the basic benefit of Cloud computing is cost savings in terms of deployment and management of services , by Menon and Anala, but lack evidence of benchmarking index and standardization. There is no evidence of professionalism within the cloud computing subject area, as it seems to include other specialist disciplines such as integration of ICT, Engineering and Applied Management Sciences with different background and professional expectations.

The cost reduction and pay as you use strategy has given cloud computing competitive edge above other provisions. In-house data centers and provision pay as you go synergy and the concept of renting IT infrastructures, services and platforms in order to achieve the maximum benefits of Cloud Computing using other ICT innovative strategy to create values and best practice. The financial reward to organizations cannot be over emphasized as most researchers focus on the acquisition of reduced rate of cost of installation, maintenance, training, software and hardware. Cloud being a visualized system of computing can

be regarded as resource bank holding various huge information, applications, services, IT infrastructure, which can be easily accessible as online-real-time via the web services and outsource to the user on-demand. Therefore cloud computing plays significant role in information service deployment and such facility provision is to a large extent essentially recommended to educational sector as it enhances learning through its visualization system, scalability, flexibility, and portability nature as academics access the information bank conveniently based on their demand. These computing resources are simply used on the Internet other than on various personal computers, yet all needed facilities are available.

With the evolution of cloud service, it is obvious that many organisations, countries migrate to the cloud efficiently because of its beneficial Conceptual, Economical, and technical benefit, which enhances business; an evident from 'Energy Saving Trust' employs analytics and cloud computing from IBM to help reduce domestic carbon footprints across the nation.

Conceptual efficiency of cloud service usage

The above entails the theoretical framework on cloud computing and how it supports efficiency in terms of cloud service provision and delivery while the key parameters to be considered will be in three areas regarded as the features of cloud computing; the Software as a Service (SaaS), Infrastructure as a Service (IaaS), and Platform as a Service (PaaS).

Infrastructure as a service (IaaS)

This service is commonly known to render the virtual machines, all the instances to the subscribed clients. Hence, IaaS is mostly concerned with carrying out mathematical

calculations of data, managing and storing unencrypted data and this is specifically a function of a computer server. It is regarded as a service from a sphere of low-level operations, which gives access to elasticity of IT resources. This means that service users have the capacity to increase or reduce the volume of service they need, therefore it reduces the cost of usage. Also the computing resources offered at this level are on the basis of 'pay per use'. According to Ciuffoletti, one of the products delivered by the IaaS includes; 'load balancing'. Load balancing means equal allocation of processed information to the clients over the computer network to avoid overflowing of information on a single client. An example of company adopting the IaaS is Amazon EC2.

Platform as a service (PaaS)

PaaS is solely concerned with constructing and developing programming and code testing software in the form of custom application and deployment of these services to the service users. It is a middle form between the IaaS (low-level functionality) and the SaaS (High level functionality). This makes PaaS be seen as a unique type of SaaS as it could be combined to provide application software to host the server over the cloud. In the same vein, it can be seen as a special type of IaaS being that IaaS combines with PaaS to design and develop hosting infrastructure and make the design available to the service user, as such the service user can design the application (using it as a template) uniformly either for his employees or for his clients to suit his desire. An example of a PaaS is Windows Azure.

Software as a Service (SaaS)

The SaaS is fondly seen to be a type of cloud service with the highest functionality (Hon, et al., 2011) because it provides the end product usage to the end user. SaaS supports application of the end-

user's modified application for instance by the use of 'Drop-Box' SaaS enables the end user stores their downloaded applications in the Drop box. The Drop box simply means where a service user stores his downloaded files or application. Also, SaaS as well supports the social network sites like Twitter, Facebook, web pages, Google applications etc. In recent times, the conceptual benefit of Cloud computing has attracted variety of meanings in the IT sector by various authors and is evidently shown in this thesis. As at 2009, a report from McKinsey & Co. disclosed as much as twenty-two different definitions of cloud computing including the typology of SaaS that describes;

Delivery stage: cloud computing has been defined as a platform which collaborates with the provider to manage and host IT infrastructure, and by the use of on-demand services deploy these infrastructure to the required applications. The platform through which cloud runs includes; the public cloud, private cloud, hybrid cloud, and community cloud.

I. Private cloud plan: this is a model exclusively owned by just one company or by a business unit, like Amazon VPC. The private cloud is more securely controlled, more expensive to manage and processed within the company. Information does not go beyond the cloud providers managing the service.

II. Community cloud plan: is a model owned and provided for a group of people with similar vision, mission and goal, usually managed by one or more organisation in the community. The cloud service is usually open and membership is required.

III. Public cloud plan: this is an open cloud platform for public use with the benefit of no initial capital investment as argued by Astrova, an example of Public cloud is Google AppEng. [3]

IV. Hybrid cloud plan. Is a cloud platform that comprises of all the cloud models, or two cloud

models, (private, public, community). They share same synchronised services.

Development stage: at this stage, cloud computing provides programming language such as Bungee Labs for general purpose using on-demand service.

Application-led stage: by the use of Software as a Service (SaaS) applications is developed and deployed through cloud computing. This definition could be seen as an ill defined concept of cloud computing as it is centred solely on Software as a Service, whereas other platforms; IaaS and PaaS yet exist and will be captured in this study.

Economical efficiency of cloud service usage

Further explanation from Vaquero, L.M. et al, shows that the reason for the provision of the computing infrastructure on the network is to reduce the cost of hardware management as well as the cost of software resources. Similarly, cloud computing usage scales up moderate infrastructure for short period of time and at a very moderate cost. This as well depicts the elasticity of the cloud.

Technical efficiency of cloud service usage:

People adopt the file storage system as a form of cloud service usage in the cloud to maximize space, yet majority are left in ignorance of a comprehensive meaning of cloud computing as evidently shown by Audrey and Uwe who defines cloud computing as a central hub that allocates computing infrastructure and services to data centres, an enhancement of scalability, cost efficiency and the elasticity of computing. These three factors represent the technical benefit of cloud computing to the users. They also emphasised on the vital role of cloud computing on the fast growing IT generation, but argued the need for user awareness on the concept of cloud

computing including data privacy of user's data on the cloud. [4]

The Technical architecture of cloud is based on; the design of server (hardware) and the size of the infrastructure. Exploring the design of the server, the storage capacity is widely considered, the reduction in IT cost of running the server is effective and because cloud computing suffer on data explosion since organisations try to track information hence requires data harmonisation which looks at data migration from old to new platform and data transformation which is based on content (distinctiveness of data) management strategy. Cloud computing exerts a high performance of distributed computing. All the system software required by organisation to host their application software can be configured in a Virtual Machine or made available by the organisations' cloud Platform as a service provider (PaaS). Therefore the technicality of cloud service brings about its flexibility to the users especially who depend on their cloud providers' infrastructure and hardware to execute the needed software application.

Research Methodology

The approach of the research focused on qualitative and quantitative methods based on the emerging concepts of the discipline in developing economy, especially in Nigeria. The research will be focused on the following triangulation strategy, namely: case studies, interviews and questionnaire in order to provide a balance in data collection with respect to relevance and appropriateness.

Research Epistemology

The research will be carried out from management science perspective to position its epistemology. There are various theories considered such as critical reflection and constructive paradigm. The

Knowledge gap in the field of cloud computing may be attributed to some challenges such as professional expertise, technical competence, electricity and Internet connectivity [2]. The concept of knowledge management and knowledge science paradigm can be classified using critical reflective theories, constructive theories and stakeholder theories.

Knowledge Management in Cloud Computing

This concept of knowledge management paradigm can be seen as facilitator in mapping requirements for cloud computing in HEIs. Knowledge management repository plays transformation role in terms of mapping cloud computing storage and service requirements. Knowledge requirement and classification remains the key indicators for the growth.

Interpretivist

This philosophy advocates how expedient it is to explore and understand the various differences in human by regarding individual as a social actor. Hence it is more concerned with studies centred on beings than on object. Therefore, the researcher of this philosophy deciphers the meaning of people's thought, what they feel, how they verbally and non-verbally communicate then he puts up an interpretation derived from his understanding of these factors and because he builds his theory from the activities of human actors there would be a close rapport he develops with people, hence the chances of having a biased mind is high and this could affect his generating theory, but to avoid biasness, Flowers admonished a self-reflection be adopted for better understanding of inductive reasoning (theory building)

With this, the interpretivist builds a theory by starting with an observation, and from the observation, he inductively reasons a theory out,

hence an inductive research approach is adopted by this philosophy. They appreciate the existence of other realities and try to infer their own interpretation from those realities in the field of the researcher's experience. However, an interpretivist researcher does not generalise his inference unlike the positivist. Also because this approach is subjective, it therefore uses a 'qualitative' method in its data collection and analysis.

Inductive reasoning

This approach seems the most common form of reasoning adopted in educational research. In developing this, the Grounded theorists are of the context that theory should be tested by data collected and not to be tested from a hypothesis which was deductively formulated. In the same vein, Turney support this view of reasoning through a step-wise inductive research approach of semi-structured interview, conversion to text definition generation and testing, followed by formation of new theory and data validity.

Deductive reasoning

This is a reverse of the Inductive. It is generally considered an approach in which the research starts from a general view to a more specific view. It is as well informally known to be a top-down approach (waterfall) in the sense that the study first explores the theory, by hypothetical testing through observation, and finally confirms what was tested for, from an already existing theory. Heit and Rotello highlights that the confirmation of a hypothetical testing is deduced from a known fact (theory). This approach is akin to scientific studies and usually theory is developed and tested before data is collected as found in Saunders, et al. (2009).

Research methods

The basic research methods are the quantitative, qualitative, and other methods like mixed methods.

Quantitative method

The information generated through this method has to be numerical; therefore it is based on statistical data analysis. In this study, through the research questions, hypothesis is generated for proper data collection, and from the collected data, statistical analysis will be carried out to effect a conclusion. Although this study does not take a form of inductive approach, yet there will be a case analysis through the use of questionnaires.

Qualitative method

This involves visual, narrative data (non-numeric). It organises data into a narrative and usually explores a smaller population of sample size. Hence the data that is generated after analysis is not in a mathematical form. It takes a holistic form in analysis, akin to the social sciences. The basic aim of a qualitative research is to convey a comprehensive description of people's experiences and meanings derived out of their communication with variables (human, objects, things) under study.

Mixed method

Mix method relates to process and procedural data collection and analysis mechanism, which involve the combination of quantitative and qualitative research within a single study for the understanding of research problem(s). According to Axinn and Pearce the implementation of mixed method in a study grants the researcher the ability to use the advantage of one method to offset the disadvantage of the other method thereby produces a highly valued result of the study. Similarly, Bryman and Bell explains that a

researcher who does not use a single method such as qualitative or quantitative method, uses mixed method to support the research findings with a method derived from the research strategies. By mixing research methods in a study, comprehensive empirical documentation can be realised.

Adopted research method

It is the desire of the researcher to carry out research using a mixed method as it is classified as appropriate and relevant for a research of this nature. This is to say that both quantitative data and qualitative data will be generated through structured questions for questionnaire and semi structured interview. It is deemed appropriate as a single method and provides in-depth and rich data collection to address the research problems especially in this emerging discipline in the developing economies. The approach used in this research focuses on four distinctive methods of data collection strategy namely:

- Interviews
- Questionnaires
- Focus groups
- Case studies

The above Four methods were adopted due to lack of in-depth research evidence and literatures in the field as cloud computing is at its embryonic stage in developing countries. In addition, Yin (2013) supports the use of multiple cases to extract complex data especially where there is lack evidence in data collection and found triangulation as platform to generate research authenticity, reliability and validity in terms justification of in-depth applications for data collection strategy.

Case studies

Similar to ethnographic studies, case studies intensively examine individuals in an organisation

or in a particular location, but not a group per say, rather studies the activities and programs in which those individual are involved in. According to Merriam, case study is seen as a stepwise process to making inquiries. In accordance to Creswell, qualitative researchers most times study these types of case study; intrinsic (case which is of interest), instrumental (case with a particular or peculiar issue, like same language, hence it is used to clarify such), and collective case (cases that involve description and comparison).

Interviews

It is a method commonly applied in a qualitative research design. Interview could be structured (open-ended) or unstructured (semi-structured). Axinn and Pearce reveals that the flexibility nature of a semi structured interview enables the interviewee bring up new issues which the researcher is oblivious of, but will be of great importance to the researcher. Interview can be administered one-on one, to group of people commonly known as focus group, can be done over the telephone, and or through e-mail.

Questionnaire

This tool is a form of statistically designed questions, which the responses should be geared towards answering the research questions of the study. This is to say that the questionnaire should be structured in the way that would aid in the achievement of the aim of the study particularly to be able to measure the research questions correctly. Questionnaire can be in an open or closed form. When it's structured in a closed form, it takes a quantitative approach, whereas as an open form a qualitative and a risky approach.

Research Approach

This research would:-

I. Develop analytical study to improve the current ways in which HEIs in Nigeria migrate to the cloud, with the focus on the impact of cloud computing in education, showing how this impact has influenced academic and learning in HEIs.

II. Carry out empirical study in education sector as a form of case studies and will be faced with difficulty in manipulating the characteristics of the organisation, however, the researcher will start up with a good framework so as to maximize the needed ideas.

III. Use multiple sources of information gathering technique for this study to be effectively carried out. The researcher would employ the use of interview, the use of questionnaire and documentation review.

Population

HEIs in Nigeria comprises of Universities, Polytechnics and Colleges of Education. This study will focus on twenty-five HEIs where eleven (11) Universities, eight (8) Polytechnics and six (6) College of Education will be randomly selected as shown in the Appendix 'Population Sample selection'.

The HEIs concerned in this study will be selected from each of the three geopolitical zones of Nigeria (southeast, south-south, southwest). The population of this study will basically consist of the users of cloud services in HEIs:

- Academic staff
- Non-academic staff (Administrative Staff)
- Technical staff
- Students user groups (Undergraduates or post graduates)

Research strategy and design

This research would be a multiple case study research because of the complexity of culture in

Nigeria and differences in the geopolitical zones and for the richness of data as single case cannot justify the selection of sample size. Yin, argued on the benefit of multiple case study and the requirements for its implementation as it involves the extent of research domain, application of research domain and the sample size requirement. This study supports triangulation because it captures case study, interview (semi-structured) and questionnaire (structured), hence the researcher would operationalize the study by the use of analytical approach (SPSS), multi-technique, of information gathering for this study to be effectively carried out.

Reliability and Validity

Reliability

The concept of reliability was supported by Golafshani as essential tools for positivist. Zhaojun and Kailash defines reliability as "The extent to which results are consistent over time and an accurate representation of the total population under study; and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable".

The present research in cloud computing has its key attribute of reliability from the nature of data consistency to measure the various domain of the cloud classification with the data having reliable research outcome.

Reliability according to Creswell is the consistency of the scores shown through the administered instrument. Hence, this study will adopt reliable measures to ensure consistency by:

- I. Administering closed questions, which would require definite responses.
- II. Using structured questions for interview sessions. This enables the researcher to maintain focus on achieving the set aims of the study. While

the respondents err their view within the question structured.

- III. Using SPSS a standardized tool to test the responses from the randomly selected sample.

Validity

Validity is defined in different context by different authors, but as Wainer and Barsottini describes validity in quantitative research as "construct validity". "The construct is the initial concept, notion, question or hypothesis that determines which data is to be gathered and how it is to be gathered". It is obvious that validity with reference to cloud computing must focus on the purported outcome in terms of research result.

To ascertain the validity of the scores from instrument that will be used in this study, the researcher will

- I. Identify the instrument to be administered
- II. Examine the earlier studies that have used SPSS and released their scores
- III. Critically examine the reason for using SPSS for the study
- IV. Critically ascertain if the instrument measures the supposedly variable intended to measure for validity.

Ethical consideration

This implies code of conduct expected to be put into consideration in carrying out a study. In a research study, ethical consideration is related to; collection of data, distributing the instrument for data collection and in reporting the study. In this regard the researcher of this study will consider ethical issues by avoiding;

Invasion of people's privacy In constructing the questionnaire, the researcher will avoid to ask questions which are irrelevant and would not be used. Therefore respondents' privacy will not be intruded.

Data Protection The responses that will be got from the administered questionnaire and interviews will be strictly used only for the purpose of this study. No information got from the respondents will be divulged to any one for a personal interest.

Reporting data The finding of this study is will be unadulterated, and will be reported exactly as derived from the analysis to be carried out. The researcher will wait for the questionnaire to be returned, and carry out analysis based on questions answered. Structured interview session will be organised by the researcher and the interviewees will be pre informed of the topic before the interview session resumes.

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THE RETAIL INTERNATIONALIZATION DYNAMICS IN CENTRAL AND SOUTHEASTERN EUROPE

Abstract:

One of the dominant economic trends in transition countries of Central and Southeastern Europe (SEE) is the internationalization of retailing. The countries in this region represent a receptive market for large retailers from developed countries. The aim of this paper is to fill the existing gap in the contemporary literature regarding retail internationalization in particular geographical area. Therefore, firstly

the paper explains the very concept and motives of retail internationalization. Subsequently, based on the analysis of secondary data on the world's largest retailers, it gives an insight into the current state of retail internationalization in Croatia, Bosnia and Herzegovina, Serbia and Slovenia, and discusses the dynamics of internationalization of retailing from 2004 until today. Finally, some indications of problems related to future retail development in Central and Southeastern Europe are explained.

Keywords:

retail industry, retailers, retail internationalization, Croatia, Bosnia and Herzegovina, Serbia, Slovenia, Central Europe, SEE

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Introduction

International activity has become a commonplace of retailing at the beginning of the twenty-first century [4]. Over the past few decades, opportunities for entering new markets have improved considerably, which contributed to increased investment of large retailers to foreign markets in the retail sector. Prior to the 1980s, retailing was essentially a localized, domestic industry and thus retail operations were long considered poor candidates for international expansion. However, for the past two decades, retailers in mature markets have expanded their operations into overseas markets as a means for strategic growth. Dawson [16] defined international retail operations as “operations, by a single firm or an alliance, of shops or other forms of retail distribution in more than one country”. Dawson [14] emphasize that large retailers became the key participants of international trade in the past decade. Therefore, the question of their role in world trade shaping has emerged and has to be adequately addressed by WTO, UN and other global institutions in the near future [25]. Empirical studies have listed several factors motivating retail firms to internationalize their activities, and have illustrated the complexity and the influences prevailing in the international retail decision-making process. Treadgold [39] identified various “push” and “pull” factors associated with both the macro and micro environments. Hutchinson [21] highlights the industry competition, economy, legislation, and domestic saturation as prevailing push factors, and the economic and political stability of global markets and profit opportunities in the oversea market as prevailing pull factors. The increased size of retail operations has stimulated and supported international expansion. Revenue earned within the domestic market has been invested in operations in new markets in an

attempt to sustain financial growth targets [2]. Today many retail companies earn a significant share of their revenue in international markets. For instance over 50% of the sales of the German retailer Metro and over 80% of the sales of Dutch company Ahold come from the foreign operations [20]. Retail internationalization for many retailers/participants represents an opportunity to expand their activities outside their home country, and thus expand their customer base. In recent years Europe recorded increased cross-border operations by retailers. With the appearance of fast-growing large retailers, redefining the balance of internalizing and externalizing functions and the need to respond to a more pronounced cultural diversity present in Europe, the retail sector has undergone significant structural changes [15]. Several papers have pointed out the importance of studying the consequences of retail internationalization and described the process of retail internationalization and consequential changes in the retail structure in the growing markets of Central and Southeastern Europe (see [12], [15], [29], [35] and [36]). However, these papers have not discussed the dynamics of the retail internationalization and the attractiveness of the retail market in Central and Southeastern Europe.

This paper considers the relatively new and growing interest shown by European retailers in the opportunities available within Central and Southeastern Europe (SEE). Since the transition to a market economy, SEE markets have occupied a particular place in the process of European retail internationalization. For European retailers, SEE countries offer an opportunity to develop operations in less developed markets that are geographically close to their domestic markets [36]. However, interest in SEE markets is not limited to continental European retailers. The UK retailers that have limited opportunities for growth

at home also welcome the opportunity to invest in emerging markets of SEE countries. Therefore, the objective of this study is (1) to explain what is the retail internationalization, what motivates it and how retail internationalization is measured, and (2) describe the trends and dynamics of the retail internationalization in selected countries in Central and Southeastern Europe. In order to achieve the first objective, published literature in retail internationalization will be analyzed; the second objective of paper will be realized by analyzing secondary data.

Retail internationalization and its motives - literature review

Even Kotruljevic in 15th century emphasized transnational meaning of tradesmen whose main purpose and goal is “to bring commodities from areas at which there is a plenty to areas where there is a scarcity” [27]. The literature on international retailing grew considerably after the 1980s. But, there is no clear definition of the retail internationalization in contemporary literature. In the most broaden sense, retail internationalization is the movement of retailer from the domestic to the global market [4]. According to Knežević and Szarucki [24] retail internationalization is a process that can be observed in two dimensions: (1) internationalization of retail activities such as sourcing and logistics, and (2) internationalization of retail formats or outlets in order to approach customers at non-domestic markets.

Alexander and Doherty [2] defined the internationalization of retailing as the transfer of retail management technology or the establishment of international trading relationships that bring to a retail organization a level of international integration that establishes the retailer within the international environment in such a way as to transcend regulatory,

economic, social, cultural, and retail structural boundaries. The retail internationalization process is a long, risky, complex, expensive and non-linear one. Failure rates have been high for some of Europe’s major firms [26]. In order to reduce risk, retailers will often confine their operations to a relatively limited and comparatively safe collection of markets. Empirical studies have listed several factors motivating or demotivating retail firms to internationalize their activities within retail industry. Alexander [1] and Treadgold [39] classified retail motivators to push and pull factors, while Wrigley [40] divides them into proactive and reactive motivators. Push factors such as saturation of domestic market or legal restrictions are forcing retailer to search for new markets, those factors drive retailer to act in a reactive manner. On the other hand, pull factors are stimulating retailer to take new opportunities offered by a new market i.e. to be proactive in taking new chances. Both push and pull factors can be further divided into internal and external drivers. External drivers are all factors created outside the company, while internal drivers are comprised inside the company [24].

According to McGlodrick [30] and Alexander [1] examples of external push factors are saturation, strong competition, low population growth rate, unstable political and economic structure. Examples of internal push factors are the start-up costs, logistic costs, operating costs and the lack of international experience. On the other hand, examples of external pull factors are low political and economic barriers, stable political and economic conditions, market size, high population growth and the growth of economic prosperity. Finally, examples of internal pull factors are international image and experience, innovative retail culture and enterprise culture directed towards international relations.

In order to understand the motivation of internationalization it is useful to distinguish between market seeking (MS) and efficiency seeking (ES) internationalization [32]. A company driven by market seeking internationalization enters a country in order to supply its markets, while other firms seeking efficiency operate in a country in order to minimize costs (e.g. production costs). Motivations for the former are the protectionism, and the market development strategies (like in Central and Eastern Europe). Efficiency seeking firms operate in a country because it has favorable production costs (e.g. firms investing in China) or can procure cheaper or better quality products. By the analysis of internationalization these different motivations should be carefully considered.

According to Ebeltoft Group Report [17] we have reached the point where it has become impossible to neglect the impact and importance of “international” in retailing, both in terms of expansion opportunities as well as new challenges. Technology and e-commerce development are speeding up the pace of internationalization and blurring the line between national and international, emerging markets have formidable home grown retailers and brands, but also offer tremendous opportunities with their strong, growing middle-class.

Motives for the retail internationalization are the target market size (excellent opportunity for earnings growth), the size of retailer, its comparative advantage in the international experience, the level of economic prosperity in the target markets, the uniqueness of the retail offer, the recent changes in the geopolitical redistribution and internationalization of direct competitors [3], [40]. Furthermore, several obstacles of retail internationalization would be the lack of resources, knowledge and international market linkages, the perception of risk associated

with the retail internationalization, government regulation, economic and political instability, cultural differences, exchange rate fluctuations, instability or saturation of the target market and the costs of the internationalization process [34], [21]. Dawson [14] suggests and applies two basic measures of retail internationalization level: number of countries that retailer is operating in, and ratio of non-domestic sales in total sales generated within a year. According to applied methodology for period 1999 to 2007, Dawson drew several conclusions relevant for retail internationalization: (1) the share of 100 largest companies is increasing in total sales generated by retail industry, (2) the largest companies are becoming more and more international in the geographical scope, (3) proportion of sales generated at international markets increases in given period. In spite of the enlarged international activity of retailers, their markets are still local in the nature. Therefore, retailers have to take into account local culture and local structure of consumer market.

Quinn [33] distinguishes between commercial motives of internationalization, related to profit growth and increasing profitability, and non-commercial motives, related to social, political, personal and ethical factors, or factors that cannot be controlled.

Tatoglu, Demirbag and Kaplan [36] identified the main retail internationalization factors that motivate multinational retailers to operate in Central and Eastern Europe in their research. The findings indicate that the main retail internationalization motives appear to be associated more with host country-specific attractions than home country and firm-specific factors, which provides evidence to the proactive school of thought. The study finds that the relative importance of the retail internationalization motives varies most with the retail type of

operations, and, to a moderate extent with the market entry mode. Most of the variation between retail internationalization motives and retail type of operations occurred within the category of proactive motives where multinational retailers operating in food retailing rate these motives more highly than those operating in fashion retailing.

There are implications that foreign retailers are capable to adapt to local culture, but also they are capable to change local host markets. Several studies confirmed that entry and development of international retailers affects different economic processes in the host countries [25], such as:

- they bring different items into traditional retail assortments,
- they introduce new ideas about design and styles,
- they implement new HRM practices,
- they apply different pricing policies and quality standards,
- they deal with suppliers in different manner,
- they implement sophisticated information and communication technology.

On the basis of Croatian market analysis for the period 1990-2001, Knežević [22] suggests that the entry of European chain stores enhanced competition, brought their know-how and introduced new technologies, new forms of trading (such as hypermarkets and large specialty stores), standardized business procedures which are to some extent adapted to domestic market requirements, and new specialization of work places and work processes, together with new work attitudes and habits.

Bartlett and Ghoshal [11] analyzed the behavior of retailers in international markets; according to their research there are retailers who replicate their business model in new markets without major modification developing international strategy. Examples are Aldi, Lidl and

Wal-Mart. Some of them tend to take advantage of the convergence of consumer preferences and the economy of scale and scope and start to create global strategy. However the global integration of processes and management is not achieved yet, therefore there is no real global strategy in the retail business. Other retailers adjust more to the local conditions and have multinational strategy (e.g. Carrefour). But the subsidiaries are not fully independent and there is integration in the procurement processes.

Despite the long history, it is in relatively recent times that the European retail sector has seen substantial expansion of international operations. The meaningful moves towards a common market across Europe represent a second phase, and mark a period from the early 1970s to the mid-1980s in which several retailers explored, some robustly and others more tentatively, international expansion of operations. Many of the moves by British retailers resulted in failure, for example Dixons' move to The Netherlands, Tesco's move to Ireland, and Mothercare's expansion into France and Germany [15]. A third phase of development of the European retail market, starting from the mid-1980s, is characterized by a stronger steady growth in consumer affluence but with little real growth in retail-sales volume at the European level. Over the past decade the EU experienced considerable changes in the retail industry reflected in the development of new retail formats, development of new services, increasing competition, higher efficiency, the pursuit of loyal customers, etc. [1]. The increase in international activity of European retailers and the expansion in Europe of non-European retailers is one of several structural changes that have taken place since the late 1980s. In this period the large firms have grown at a substantially faster rate than the sector as a whole. Lamely [28] stated several reasons for the wave of internationalization in Europe: limited

expansion opportunities in the home market due to perceived market 'saturation' of floor space; public policy restraints in the domestic market; an unexploited growth opportunity in the target country resulting from; under-provision of facilities; under-provision of a particular format; moves of the established customer base to the target country and barriers removal to entry into potential target markets.

Based on the analysis of the Croatian market in the period from 1990.-2001., Knežević [22] suggests that the entry of European chain stores enhanced competition in this sector, while enhanced competition caused the loss of position of the existing retailers which were forced to learn quickly how to adjust to a brand new way of market competition. The ones who were capable enough and who had a clear cut market strategy, as well as flexible management, managed to survive and to catch up with international chain stores with the quality of their products, the level of their services and with the way they conduct business processes, as well. As a consequence of the enhanced competition, customers gained wider product choice, broadened formats choice and better service. Thus, consumers' lifestyle started to change accordingly. For instance they became more demanding and more informed, and their way of choosing purchasing location shifted from small shops in the town centers to large formats (such as shopping malls, hypermarkets and large specialty stores) at suburbs [25].

Knežević, Knego and Renko [23], observed that changes in majority of EU countries are: small growth of retail importance in the structure of employees, small decrease of retail importance in GDP creation, respective increase of average size of retail companies, polarization of retail structure on micro and large companies and increase of employees' productivity. The global spread of major retail players is continuing with a focus on

growth of emerging markets, while acquisitions are changing global face of retail. The following chapters will explain the current trends and dynamics of the development process of retail internationalization on the selected markets in Central and Southeastern Europe.

Comparative analysis of retail internationalization in Croatia, Bosnia and Herzegovina, Serbia and Slovenia

In this research the secondary data from several research studies and reports on retail development will be used, and the comparative analysis of central European and SEE countries, Croatia, Bosnia and Herzegovina, Serbia and Slovenia, will be performed in order to assess the present level of retail internationalization and retail trends at given markets. In order to explain the internationalization level, the indicator of total number of large foreign retailers will be in the focus, as it is suggested as one of metrics to evaluate the level of retail internationalization at a given country. Since the beginning of nineties, with a fall of communist system, foreign retailers are considering entrance and start investing in SEE and CEE markets. In Croatia the war was taking place from 1991 till 1995 and, therefore, important foreign investments in the retail industry are starting with the delay of almost ten years [24]. The number of large foreign retailers in Croatia exceeded number 10 until 2005. The Serbian trade sector has undergone major changes at the end of the last century. However, Serbia has not yet completed the transition toward an institutional and functional market economy. Numerous changes were made towards the harmonization of Serbian trade sector with the developed economies, particularly the European Union. The implementation of the concept of modern and open market economy started in early 2000, thus creating positive preconditions for the arrival of foreign trading

companies on the Serbian market. Many of them see Serbia as an opportunity for further business expansion and market niche to generate profits [13]. The number of large foreign retailers present at given markets is continuously growing till nowadays, recording a trend of exponential growth in the observed period. At Figure 1 the total number of the largest global retailers that entered central European and SEE markets is shown. It is obvious that Croatia and Slovenia have the largest numbers of foreign retailers at each year comparing to other

countries at given period. Since 2011, there are more than 20 large global retailers in Croatia and Slovenia and that number is still increasing. The number of large retailers is increasing at all markets in the given period. The only anomaly was Bosnia and Herzegovina, where, due to overall social and political situation the number dropped from 5 to 3 large global retailers in 2009. In given period, Croatian, Serbian and Slovenian market express trend of exponential growth of number of large foreign retailers.

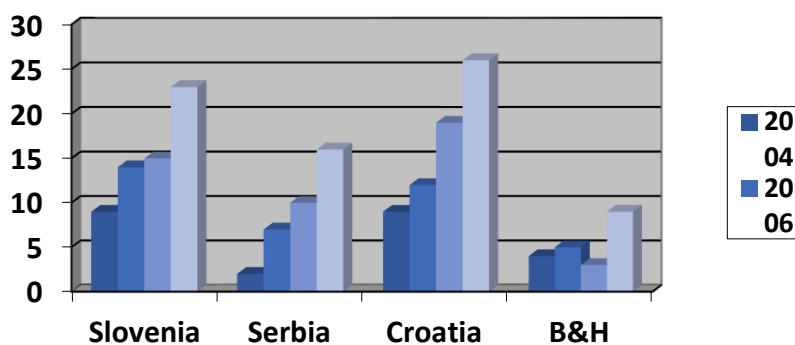


Figure 1.: Total number of Top 250 global retailers present in selected countries, source: own compilation based on data available at reports: Global Powers of Retailing (2006 and 2008), Delloite and Stores.org; Top 250 Global Retailers (2010 and 2011), Delloite and Stores.org

Even though, the trend of growth is present, the pace of the growth is not the same. At Table 1 relative changes within number of large retailers at given markets are presented. It is obvious that trend of retail internationalization, as measured with the indicator of foreign retailers present at market, is slowing down at Slovenian and Serbian market. At the same time, the change rate in Croatia is at very high level (above 30%) and it

shows that trend is increasing, while the change rate in Bosnia and Herzegovina exceeded 200%. For Croatia, we can expect some major player to enter the retail market in following years due to the fact that Croatia is the newest member state of European Union (since July 2013) and, thus, interest of some major retail players can be expected in next 5 years.

Country	% change 2004- 2006	% change 2009- 2011
SLOVENIA	55%	54%
SERBIA	250%	60%
BIH	25%	200%
CROATIA	33%	37%

Table 1.: Relative change in number of Top 250 retailers present in selected countries, source: own compilation based on data available at reports: Global Powers of Retailing (2006 and 2008), Delloite and Stores.org; Top 250 Global Retailers (2010 and 2011), Delloite and Stores.org

In the next step the longitudinal comparative analysis of originating countries for period 2004-2011 is performed; the results are summarized at Table 2. The dominant originating country from which large retailers entered given markets is Germany with very high proportion of companies, comparing to other originating countries. Other country that plays significant role in retail internationalization is France and then follows UK. The proportion of retailers originating from Germany at Croatian and Slovenian market exceeds

30% in each year. Exception is Serbia where in 2009 there were 50% of French retailers in the overall number of large retailers that are active at the market. While, regarding the importance of UK retailers within the overall number we have to point out Slovenia where they is more than 15% UK retailers in total number of large foreign retailers operating at the market. Upon given explanation we can conclude that there are two dominant originating countries of large foreign retailers present at selected markets, Germany and France.

Market	Year	Number According to the Country of Origin					TOTAL
		Germany	France	UK	USA	Other	
CROATIA	2004	5	1	2	0	1	9
	2006	4	1	2	1	4	12
	2009	9	3	1	1	5	19
	2011	9	3	2	2	10	26
SLOVENIA	2004	5	1	1	0	2	9
	2006	5	2	3	1	3	14
	2009	8	2	2	0	3	15
	2011	7	4	4	1	7	23
SERBIA	2004	1	1	0	0	0	2
	2006	3	1	1	1	1	7
	2009	2	5	1	0	2	10
	2011	3	5	1	1	6	16
BIH	2004	2	1	1	0	0	4
	2006	2	1	1	1	0	5
	2009	2	1	0	0	0	3
	2011	2	2	0	0	5	9

Table 2.: Origin of Top 250 global retailers present in selected countries, source: own compilation based on data available at reports: Global Powers of Retailing (2006 and 2008), Delloite and Stores.org; Top 250 Global Retailers (2010 and 2011), Delloite and Stores.org

At Table 3 we scrutinized large retail companies according to their presence at all given markets and we isolated those which are operating in all central European and SEE markets, but still are not present in Croatia. Finally, at last column we showed those that are operating in Croatia, but still are not present at any central European and SEE markets. The number of companies which

operate at all given markets in 2011 climbed up to 5 large retailers that are operating at given markets. Regarding Croatia, it is important to monitor strategic plans of those large retailers which are operating at all central European and SEE markets because as they broaden their international reach it is likely that in the near future they will take into account Croatia as a potential market.

Furthermore, based on data that are available regarding strategic plans of large retailers, in next 3 years we can expect further growth in number of companies operating in all central European and

SEE markets. But, in accordance to indicators of retail market attractiveness (which will be discussed in the next chapter) this trend will slow down.

Year	Variable	All SEE, Central Europe AND Croatia	All SEE and Central Europe NOT Croatia	Croatia NOT any of SEE or Central Europe countries
2011	Number of retailers	5	0	4
	Companies	Inditex, S.A., PPR S.A., DM - drogerie markt, Mercator, Esprit Holdings Limited	-	Rewe Combine, Alliance Boots GmbH, Steinhoff International Holdings Ltd., Douglas Holding

Table 3.: Top 250 global retailers and their presence at central European and SEE markets in comparison with Croatia, source: own compilation based on data available at reports: Global Powers of Retailing (2006 and 2008), Delloite and Stores.org; Top 250 Global Retailers (2010 and 2011), Delloite and Stores.org

Analysis of the attractiveness of the retail market

According to market coverage, internationalization can be realized as regionalization or globalization. There are many factors affecting the internalization of the retail trade and various criteria are taken into account when companies consider to which market they should internationalize their business activities. In this chapter, we will summarize criteria according to A.T. Kearney methodology and we will give an overview of situation regarding central European and SEE markets.

A.T. Kearney created the Global Retail Development Index (GRDI) as an indicator of attractiveness of retail market situation. The indicator is calculated annually (since 2002) and ranks the top 30 developing countries (leading countries) in terms of attractiveness for investors' market expansion in the field of retail industry.

The Index analyzes 25 macroeconomic and retail-specific variables to help retailers devise successful global strategies and to identify emerging market investment opportunities. The

GRDI is unique because it identifies today's most successful markets and those that offer the most potential for the future. It is composite index which is composed of four sets of estimated factors. These are: (a) economic and political country risk, (b) market attractiveness, (c) market saturation and (d) time pressure. Until 2008 the index is formed as a composition of estimated factors with following weights: country risk and market attractiveness 25%, market saturation 30% and time pressure 20%. Since 2009 each of the four factors participates in the structure of the GRDI by 25% [6], [10].

Table 4 presents the ranking of central European and SEE countries per GRDI values for the period from 2004 to 2011. The top ten countries (range 1-10) were the countries that are suggested as the most attractive markets, i.e. "markets on the radar screen". The other ten countries (range 11-20) were the countries that may be taken into account when making decisions about entering this market. Last ten countries (21-30) are the countries that should be avoided and it is not advised to make investment to those markets.

Central European and SEE countries	Global Retail Development Index (GRDI) (A total of 30 countries)							
	Rank by year							
	2004	2005	2006	2007	2008	2009	2010	2011
Slovenia	4	5	8	17	23	9	-	-
Serbia	-	-	-	-	-	-	-	-
BIH	-	20	25	-	-	-	29	-
Croatia	5	7	9	19	-	24	-	-

Table 4.: Central European and SEE countries and Croatia ranked according to the Global Retail Development Index, source: own compilation on data available at: AT Kearney, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011

It is evident (from the data in Table 4) that Slovenia and Croatia passed the first and second group from 2004 till 2007. Slovenia passed the first group also in 2009. Bosnia and Herzegovina was in the third group of countries only in 2005, 2006 and 2010. Serbia does not appear at the list of top 30 countries that are attractive to foreign investment in retail trade. Croatia appears for the first time in 2004 on the high fifth position of the GDRI which means that it was considered as a favorable market for retail internationalization. Yet, in 2009 Croatia was in the third group of countries which means that it should be avoided in decisions about the internationalization of business. Since 2010 both Slovenia and the Croatia do not appear at the list of top 30 countries that are attractive to foreign investment in retail trade. According to GDRI Index all selected central European and SEE retail markets are considered to be the market with low market attractiveness, high market saturation and low time pressure to enter.

The analysis of GRDI elements given at Table 5 shows that the Slovenian and Croatian retail markets were interesting for foreign investors by 2006. These markets do not appear after the 2010 in this analysis. Bosnia and Herzegovina was interesting retail market in period from 2005 to 2006, while Serbian retail market does not appear at all.

FACTOR	YEAR	Slovenia	Serbia	BIH	Croatia
COUNTRY RISK	2004	83	-	-	61
	2005	83	-	36	63
	2006	78	-	31	57
	2007	100	-	-	73
	2008	65	-	-	-
	2009	100	-	-	58
	2010	-	-	30	-
MARKET ATTRACTIVENESS	2004	60	-	-	53
	2005	52	-	18	48
	2006	52	-	18	51
	2007	33	-	-	38
	2008	28	-	-	-
	2009	64	-	-	58
	2010	-	-	27	-
MARKET SATURATION	2004	43	-	-	-
	2005	43	-	79	55
	2006	25	-	71	49
	2007	13	-	-	28
	2008	12	-	-	10
	2009	12	-	-	-
	2010	-	-	21	46
TIME PRESSURE	2004	76	-	-	93
	2005	68	-	85	88
	2006	70	-	75	91
	2007	47	-	-	70
	2008	58	-	-	-
	2009	33	-	-	46
	2010	-	-	77	-

Table 5.: Values of GDRI factors, source: same as Table 4.

*All factors are evaluated from 1-100. For *country risk* if value is lower than the risk is higher. For *market attractiveness* if value is lower than market is less attractive. For *market saturation* if value is lower than the market is more saturated. For *time pressure* if value is lower than pressure to enter market is lower, while 100 means that it is urgent to enter the market.

All four listed retail markets are, at the moment, considered as markets of low market attractiveness according to GDRI, with high market saturation and low time pressure. The process of internationalization of the retail market, in these circumstances, can be sporadic. Every foreign retailer will think twice before making a decision about entering any of the analyzed markets. It is possible that some of French retail chains will show some interest for Croatian retail market due to (1) the fact that currently dominant retail chains are those with headquarters in Germany and Austria and (2) the fact that Croatia entered EU recently.

Conclusion

Based on the analysis of the literature, we can conclude that the retail internationalization is multidimensional problem that is explored from different aspects in the past twenty years. This paper gives an overview of the important sources that define and explain the issues and indicate the motives of retail internationalization, which was the first research objective.

Comparative analysis of retail internationalization in Slovenia, Serbia, Bosnia and Herzegovina and Croatia showed that since 2004 the number of large foreign retailers is still increasing year after year despite some reports on low market attractiveness at given markets. But, the dynamic of trend is slowing down at Serbian and Slovenian market, while in Croatia and Bosnia and Herzegovina the trend of growth is still exponential with two-year

change rate higher than 30%. In number of large foreign retailers which are active at given markets, there is respectable number of retailing companies originating from Germany. Only in Serbia, in addition to German retailers, there is a significantly high proportion of French retailers. Based on the data that are available from the strategic plans of large retailers, in the next three years we can expect further growth in the number of foreign retailers on the Croatian market. Croatia is the newest EU member state and, therefore, can expect some significant EU players to enter the retail market very soon. Competitive advantage of retail companies in Bosnia and Herzegovina could be improved by their internationalization, in the way that the country ambience becomes remarkable for the competitive advantages of foreign companies which would transfer part of their businesses or develop new ones in our country. Bosnia and Herzegovina cannot provide a large market but it can be the international business area, because of its favorable position and the competitive advantages which will need to be developed. A serious Bosnia and Herzegovina retail initiation toward internationalization can be expected after Bosnia and Herzegovina entering European economic integrations. European experience has shown that a serious initiation toward internationalization within Europe was marked just after forming the free European market and the European Union.

The main limitation of this research is that it is based on an analysis of number of large foreign retailers active at given markets. In order to improve conclusions, in the future, we suggest including more data into analysis. Some indicators which can contribute to retail internationalization understanding are: proportion of revenues generated by foreign retailers, productivity levels of foreign retailers compared to domestic retailers, number of stores owned by foreign

retailers and operating sales area (in m²). So, these indicators should be included in future analysis of this topic.

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Petrov Dancho ¹

DETERMINANTS OF CHOOSING SOURCES OF FINANCING FOR MUNICIPAL PROJECTS

Abstract:

The paper discusses various alternatives for financing socially significant projects of municipalities. Having in mind the opportunities and limitations of municipal budgets and the example of the municipality of Burgas, the paper analyzes positive and negative sides of financing with own resources, bank loans, bond issues, pooling and revolving schemes.

The focus of the research are the factors that influence the choice of a financing alternative - costs of funding, level of financial infrastructure, regulative conditions, debt risk, level of decentralization and opportunities for generating revenues. By use of selected diagnostic indicators there are outlined the challenges to successful realization of socially significant municipal projects.

Keywords:

municipal budget, own resources, socially significant projects, financial market, bond issue

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Introduction

Meeting the rising demand for local public services requires the application of innovative schemes and instruments for their financing from municipal budgets. In Bulgaria, local budgets are financed mainly with subsidies from the central Republican budget and the municipalities' own revenues. The subsidies provided from the state budget to the municipalities are targeted according to the activities delegated in the sphere of health care, education, maintenance of the road network, etc. The trend evident in Bulgaria of constantly exacerbating budget deficit and deteriorating values of the fiscal reserve have limited the possibility of subsidizing basic local activities and services from the state budget over the last decade. The implementation of local projects with high social value is among the activities that favor the development of municipalities in the long term and has a positive impact on future opportunities to generate their own income. However, usually no target subsidies are planned to finance this type of activity. The importance of local governments' ability to generate own income from municipal activities is growing under these circumstances. The municipalities' own revenues become a major "driver" of the sustainable development of the regions [1,2]. The investment of the resources coming from the municipal revenues in local projects contributes, on one hand, to the opening of new jobs and decrease of unemployment among the local population [3]. On the other hand, the implementation of local projects in socially significant spheres is a precondition not only for sustainable growth of the expected future municipal revenues but also for improving the welfare of the municipal population [1,4]. Undoubtedly the best option to provide financing is when the municipality applies for funds under the programs of the European Development Funds. This

option does not guarantee the safe realization either, especially in the cases of finding inconsistencies in the areas of financing, the deadlines for implementation or the focus of the social project with the officially adopted financial support policies of the European Union. Furthermore the active utilization of resources from European funds requires the relevant financial potential to ensure availability of the necessary co-financing from local budgets. An obvious possible outcome of this situation for the municipal authorities is to ensure the financial implementation of social projects that are important for the development of the municipality with its own resources and/or with borrowed funds from the financial market. The goal of this article is to reveal the opportunities for an adequate choice of sources for financing municipal projects with high social significance, based on a structural analysis of the capacity of the municipal budget and an analysis of selected diagnostic indicators which have an impact on the choice of a way of financing. The subject of the study has been narrowed to the most often practiced forms of financing - municipalities' own resources and borrowed resources from the financial market - bank loans and bonds, revolving and pooling financing. Diagnostic indicators have been selected that have a major influence on choosing the form of financing - market interest rates, maturity of financial instruments and the degree of development of the financial structure. Thus, the presented methodological restrictions of the study cannot encompass completely all possible alternatives for financing, as well as a number of factors that are able to impact the choice of a way of financing such as economic environment, cycles, sovereign risk, lawful environment, changes in the social and demographic structure of the population and others.

Structural analysis of municipal budget

The approval and implementation of municipal budgets is subject to certain legal limitations related to the economic appropriateness and the cost efficiency requirements. For example, according to the Public Finance Act, the growth rate of the annual municipal expenditures may not exceed their average annual growth rate over the last four years. Another limitation concerns the undertaking and payment of municipal debt. The annual disbursements under the debt may not exceed 15% of the amount of own revenues. These conditions aim to ensure, first of all, compliance with the public interest and binding the annual amount of municipal expenditure with the planned revenues to the municipal budget. Another important aspect is the minimization of the risk of sharp increase in the indebtedness of municipalities and the occurrence of problems with the proper payment of the municipal debt. Under these expenditure restricting conditions the investments drawing on the municipalities' own resources must focus on the implementation of long-term objectives and lead to sustainable growth of the future municipal revenues.

The city of Burgas has a number of comparative advantages in terms of geographic location, developed industry, cultural and historical heritage. The city has won three times the "The best city to live in Bulgaria" Prize over the past four years. Best developed here are tourism and the oil refining industry. The macro frame of the budget of the municipality of Burgas for 2014 envisages spending a total of 165 million BGN of which nearly 100 million BGN comes from the municipalities' own revenues (fig. 1).

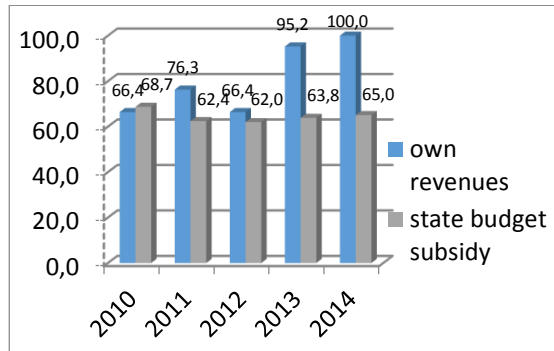


Figure 1.: Dynamics in the changes of the own revenues of the municipality of Burgas and the state subsidies provided for the period 2010 - 2014 (million BGN), source: Annual reports on the implementation of the budget of the municipality of Burgas; Budget 2014 of the municipality of Burgas.

The growing importance of municipal own revenues became clearly visible over the last two years when the revenues from own sources sharply increased. Their growth significantly exceeded the subsidies provided from the state budget.

Non-tax revenues (45%) are expected to constitute the largest share in the revenues of the municipal budget for 2014. This "item" expects largest income from municipal waste charges - 17, 2 million BGN and the income from municipal property (income from sale of goods and services, rents, dividends, etc.) - 10,3 million BGN (Fig. 2).

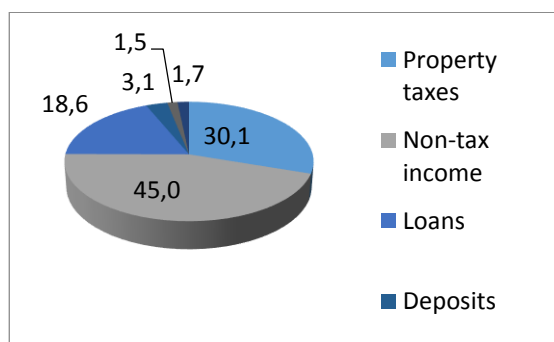


Figure 2.: Structure of municipal revenues in 2014 (%), source: Budget 2014 of the municipality of Burgas.

The statutory local taxes are expected to bring 29.5 million BGN to the municipal treasury. Most significant are the revenues from taxes on real estate (13 million BGN), motor vehicles (8.5 million BGN), legacies, donations and tourist tax.

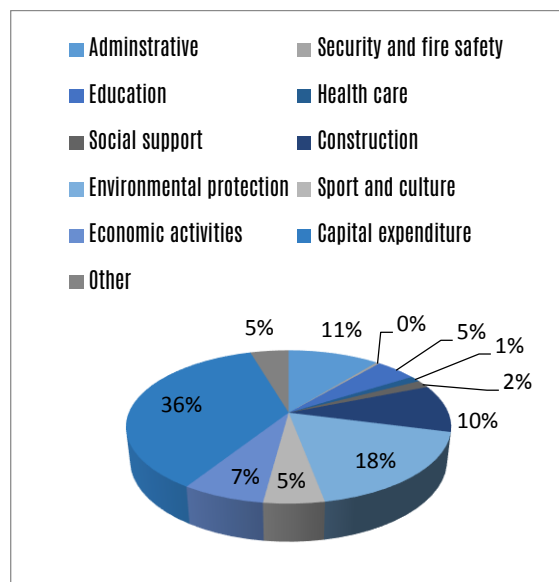


Figure 3.: Structure of municipal expenditure in 2014 (million BGN), source: Budget 2014 of the municipality of Burgas.

Largest share in the structure of the planned expenditure from the municipal budget in 2014 (fig. 3) is attributed to the capital expenditure which was increased by 13% on an annual basis compared to the previous year. The expenditures for environmental protection have decreased by 5% compared to the previous year but are second in terms of largest relative share (18%) in 2014 and include cleaning and landscaping activities. A positive fact in the structure of municipal expenditure of Burgas in 2014 is the envisaged reduction of administrative expenditure by 5% to 10.8 million BGN compared to 2013. The expenditure for cultural and sports activities grows by 11% on an annual basis and the expenditure for education, health care and social activities remain at the same relative levels.

Providing resources from the financial market

Providing adequate resources from the local financial market at relatively good price conditions and risk parameters and their investment in social activities could have a beneficial effect on the economic development of the municipalities and the competitive positioning of their public projects and initiatives. It is known that the cost of financing is determined by its market supply and demand. In most developing and transitional economies, the supply of capital available from the domestic private economy greatly exceeds the opportunity for investment [5]. The current market situation in Bulgaria is characterized by sustained demand for alternative investment instruments with relatively low risk and moderate returns by large institutional investors such as investment funds, pension and insurance companies. This opens up opportunities for a successful issuing of municipal debt in the local financial market.

Bank loans

Bank loans traditionally enjoy the status of the most commonly used source of financing. This is due to the experience that banks have in the field of specialized provision of banking services to municipalities and the possibility of securing loans with movable assets or real estate municipal property. Banks also treat municipalities as borrowers with a favorable risk profile, as they have guaranteed revenues from local taxes and fees.

It is common practice in bank lending to set limits and conditions that do not always meet the interests and abilities of borrowers. For example, banks require securing loans with immovable or liquid movable property of the municipality of a value exceeding by a certain percentage the nominal debt to the bank. Another approach that is troublesome for borrowers is the inclusion of

restrictive clauses in the loan agreement that limit the ability of municipalities to attract additional debt capital.

The dynamics of long-term indebtedness of the municipality of Burgas (table 1) shows that the financing of long-term bank loans has sharply increased over the last two years of the analyzed period. The resources coming from these loans are invested in capital expenditure. The annual amount of the interest due under the utilized bank loans is expected to grow proportionately to the growth rate of the loan facilities. Until 2014 the municipality has duly paid all obligations under its bank loans and has not admitted delays.

Bank loans	Years				
	2010	2011	2012	2013	2014
Utilized loans	6965	10004	1032	22176	24340
Repaid loans	3682	4229	4548	5808	5714
Paid interest	560	791	928	895	820

Table 1.: Dynamics of the long-term debt of the municipality of Burgas (thousand BGN), source: Annual reports on the implementation of the budget of the municipality of Burgas; Budget 2014 of the municipality of Burgas.

Municipal bonds

Municipal bonds are a complex debt instrument that overcomes some of the limitations of bank loans. How to calculate the cost of financing in municipal bonds? A specific feature of the bond loan is that it is distributed with the help of a professional investment intermediary - underwriter of the issue. The cost of financing of bonds must contain first of all the underwriter's compensation, as well as all costs associated with the preparation of the issue. Then the influence of some essential fundamental factors should be taken into account. The impact of these factors is not amenable to control by the issuer. Such factors are, for example, the stage of economic development, inflation and the monetary policy

pursued in the country. Their effects are expressed in the formation of a percentage risk premium, which largely determines the cost of financing in municipal bonds [6]. The "liquidity" factor can also affect investors' interest, and therefore the cost of financing. Most investors prefer investments in liquid assets and other things being equal they will tend to choose lower returns in exchange for greater liquidity of their investment [7].

Bond loans are one of the instruments which have not been used by the municipality of Burgas and which may turn out to be an efficient tool to finance projects with long-term socio-economic benefits. It has been widely discussed that bond loans offer some advantages to bank loans in terms of lower cost of financing when the borrower's investment rating is available [8,9,10]. The investment rating of the municipality of Burgas has been assessed by BCRA Credit Rating Agency (table 2).

Rating	Initial rating 08. 08. 2008	Update 09. 09. 2009	Update 30. 08. 2010	Update 13. 01. 2012	Update 25. 02. 2013
Long-term	BBB	BBB	BBB+	BBB+	A-
Perspective	Stable	Stable	Stable	Positive	Positive
Short-term	A-2	A-2	A-2	A-2	A-1

Table 2.: Credit rating of the municipality of Burgas, source: www.bcra-bg.com

The rating issued to the municipality of Burgas and its updates in a positive direction indicate that the municipality may be financed with a bond loan at a

relative low cost due to its investment rating. A bond loan would have considerably decreased the budget expenditure by optimizing the payments of interest rates [8,11]. Bank loan interests are usually paid in monthly installments while the payments of interest coupons under bonds are made once or twice a year. A possible substitution of some bank loans with bond issues requires preparation of prospectuses to acquaint the investors with the investment intentions of the municipality.

Pooled Finance and Revolving Funds

Pooling is a more complex option than the issue of municipal bonds. It is realized through the establishment of a separate entity, such as a special investment purpose fund. This fund acts as an issuer of securities and mediates between the municipality-borrower and the investors. The idea of pooled finance is to lower the issuance costs. This scheme is successful for the financing of a number of similar projects carried out by various municipalities or a joint project whose financing would be provided simultaneously by several municipalities. The establishment of a common pooling fund in such cases leads to substantial cost savings compared to a scenario where each municipality alone bears the costs of individual debt issues.

Revolving financing is a complex and institutionally more advanced version of pooling schemes. Instead of setting up a special investment purpose fund, the revolving approach offers a principally different vision of financial mediation, consisting of the establishment and operation of an institution with a long-term mission and status, which has its own assets. This institution is not limited only to the implementation of individual projects, and actively supports the provision of financial resources and the implementation of municipal projects. Funds

can be collected from different sources: national and European funds, donors and private investors. The great advantage of revolving financing is that it "produces" financial instruments that meet investors' interest as concerns the size of the investment, liquidity and risk.

Diagnostic indicators for the choice of a financing option

The most important diagnostic indicators that influence the choice of financing sources of socially significant projects are the market interest rates, the maturity of the debt instrument and the degree of development of the local financial infrastructure.

Interest rates are structured according to inflation, the maturity of the investment, the current market conditions (supply and demand) and the borrower's risk rating. All things being equal, interest rates increase with the increase of the duration of investment to compensate for inflation and the investment risk assumed. Negotiating the interest rate is usually done under two basic conditions - variable or fixed rate. In negotiating a "floating" interest rate the latter is based on generally accepted benchmark indices such as Libor or the local index Sofibor. The variable interest rate is sensitive to market conditions and reacts to any change in the underlying index. Thus the lowering of the indices reduces the cost of financing for the issuer, while their increase leads to rising of the cost of the resource.

As for bank loans negotiating the so-called "stop-limits" could be a reliable protective technique for the pricing of municipal debt with variable interest rates. When the indices forming the base interest rate grow at a rapid pace, the risk arises for the borrower to pay higher and higher interest rates. The stop-limit is a maximum fixed interest rate for the borrower as a guarantee that the interest rate of the loan instrument will not

"exceed" the limit previously agreed with the lender. The presence of such a clause in the loan agreement restricts the uncontrolled growth of the interest rate. This provides a solid "insurance" of municipal debt against its sudden appreciation and even impossibility for repayment. At the same time, the limiting of the interest rate allows the municipality to forecast and evaluate the risks and to calculate the maximum interest rate that it can afford to pay even in conditions of extreme uncertainty and instability of the financial markets.

The fixed interest rate on the loan exposure of the municipality provides greater security and predictability of future repayments of the debt. The fixed rate protects the borrower from the uncertainties resulting from rising market interest rates. However, fixed interest rates deprive borrowers of the opportunity to lighten the debt servicing in periods of significant declines in market interest rates.

The maturity structure of the debt is another important factor that influences the choice of sources and tools for financing municipal debt. The successful implementation of projects requires that the period of debt servicing coincides with the period of return on investment. The social municipal projects typically require a long-term investment, which implies the choice of an instrument with adequate maturity - from 5 to 7 or even 10 years. With respect to the relation "maturity of the loan - term of the investment" bank loans are not without some drawbacks. The long-term payback period of social municipal projects can become a major problem in dealing with banks. Banks may express reservations and not be willing to provide the necessary long-term resource, since they are dependent on the maturity structure of their deposit base. If the maturity structure of bank deposits is rather short-term, banks will face the risk of gap between the

maturity of their assets and their liabilities. In this respect, bonds have priority over bank loans because they allow flexible custom "design", which satisfies the requirements concerning maturity, yield, interest payments and other parameters both of the issuer (municipality) and of the most influential investors.

The degree of development of the local financial infrastructure is another important factor. The capital market plays an important role in mobilizing private long-term resources as it provides a "meeting" between investors and investment opportunities. Providing the necessary long-term borrowing for a municipality depends on the degree of development of the institutional infrastructure of the capital market, including investment banks and brokers, regulators and rating agencies. Are there reliable sources to provide long-term resources to local financial markets, necessary for the implementation of social municipal projects? It is an axiomatic rule that long-term financial resources are formed in the availability of long-term savings in the financial system of a country. The activity of private pension funds and insurance companies in the local market is an indicator of the availability of resources with such maturity. Pension funds and insurance companies accumulate long-term investments of their clients and strive to transform them into investments of corresponding maturity. They are interested in the opportunity to diversify their investment portfolio by investing in long-term instruments with predictable risk and return. The issue of long-term municipal bonds with a good investment rating would undoubtedly be of interest to those large institutional investors, as it will provide diversification, and thus mitigate the risk of their portfolio.

The ability to select appropriate sources of funding for municipalities also depends on a number of important conditions relating to the

specificity of the state structure, local government and regulation of the relations between the state budget and local budgets. One major factor is undoubtedly the level of decentralization. Decentralization of power is a global phenomenon that is more pronounced in developed economies. Decentralization gives local authorities more freedom but also greater responsibilities regarding the generation of revenue and incurrence of costs. Decentralized local governments need an adequate legal and regulatory environment. Municipalities should be legally empowered with the right to free access to financial markets. Local authorities should be able to make independent decisions to raise resources from financial intermediaries or by issuing debt instruments, and to dispose of liquid movable and immovable municipal property.

Conclusion

The limited subsidies for local activities from the central budget requires efficient use of the generated own revenues and supplementing the shortage of resources in the financial market. Resources to finance social important projects using the own resources the municipality of Burgas may be obtained by restructuring the expenditures of the municipal budget. It would be appropriate to reallocate more resources to activities related to the rich cultural and historical heritage and the places of special natural interest. This would have a favourable impact on the possibilities to generate more income in the future for the municipality from the increased tourist flow.

Gaining investors' trust is of crucial importance to form an attractive cost of the debt. Investments offering security under conditions of relative profitability draw investors' interest. The municipality of Burgas has all required conditions to attract investors' interest and to achieve

attractive terms under the municipal bond debt. The stable financial situation of the municipality, the sustainable growth rate of its own revenues, the active investment program, the sound financial management and the absence of overdue obligations are indicators favouring a successful municipal bond issue. In view of the proven higher cost efficiency of bond loans when an investment rating has been provided the financing of projects of socio-economic significance could be partially or even fully supported by the issue of municipal bonds. In the future, subject to appropriate conditions and improved financial infrastructure, the municipality could reap the benefits of consolidated schemes to raise financial resources through pooling and revolving financing.

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PHOTO 2.

Ptice | Birds

PHOTO BY: JOSIP MESIĆ

Sipos Ciprian¹

A COMPARATIVE ANALYSIS OF PROPERTY TAXATION WITHIN EUROPEAN UNION

Abstract:

The correct settlement of a property taxation system is a topic of interest at the moment, which draws attention in economic or academic debates. One of the most convenient alternatives and easier to implement in order to raise revenues to the state budget is the taxation of property. The comparative analysis of property tax systems in the European Union reveals the need to develop and modernize the property tax system in the new member countries. The tax paid by taxpayers who own property is considered the tax with the fewest negative effects on economic growth, given the immobility of the subject of taxation. This reduces the behavioural effects of this type of tax

and minimizes economic distortions. For this reason, is considered necessary to be presented the recent European perspective regarding the taxation of property, be it buildings for housing or special purpose, owned by individuals or corporate. In these conditions, the paper aims to analyze the correlation between the purchasing power of citizens of EU28 countries and the level of property taxes and to perform a grouping of European Union countries according to these indicators. The findings can help governments of the new member countries of European Union to develop a property tax system that would lead to the economic development.

Keywords:

property taxation system, purchasing power, EU countries

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Introduction

As a consequence of the global crisis that affected the most of the European countries, the governments are looking the best ways to get more money to the budget. A proper settlement of property taxes is one of the best solutions to this important problem. Therefore, many European countries have made significant changes in their property taxes in the last two years. For these reasons, the paper aims to study, in comparative terms, the possibilities of modernizing and harmonizing the system of property taxes in Europe. Thus, the paper analyzes the measures taken in many European countries mainly in 2013 in the field of property taxation and particularly regarding housing properties which are trying to correlate the taxation system to real needs of the present economy.

Compared to other categories of taxes, the property taxes do not seem to distort the economic decisions to employ, to invest in human capital or to produce and innovate. Property taxation is the most convenient and easy to implement option in the terms of raising the amount of taxes paid to the state budget [7]. However, changing the property taxes is a practical measure for governments from a number of reasons.

Firstly, because a building or a land has a visible and immobile character, it is more difficult for taxpayers to evade this tax. Meanwhile, the amount of the taxed base is relatively constant, which can be particularly attractive at a time when the values which are subject to impose for other taxes become increasingly mobile, especially due to the globalization [2]. For example, the income tax reduces subsequent return on investment, reduce incentives to invest and innovate, while personal income taxes can influence hiring decisions. Comparing to these, the consumption taxes and the taxes on the immovable property are less harmful to the economic efficiency and

growth [6]. The taxes on capital transactions (including here the taxes on the transfer of property) may have a dissuasive effect on transactions which effectively allocate resources in the economy [10].

A proper tax policy aids the recovery from the economic crisis and helps to long-run growth [3]. In these conditions, taxes on property, with a regular update of the methodology tax, may increase the progressivity of the tax system (for example, exemption from taxation of low-value properties or of people with low incomes). Permanent correlation of property taxation with market value would increase or decrease the size of imposing along with the general trend of the economy without direct intervention of the state in managing this tax [12].

Starting from these assessments, the paper main objectives are to present the recent European perspective regarding the significant changes in the taxation of property and to analyze the correlation between the purchasing power of citizens of EU28 countries, given by the GDP/capita, and the level of property taxes. Then is performed a grouping of European Union countries according to these two indicators in order to study the level of homogeneity within the EU28 in terms of property taxes level and the living standards of citizens of the European countries. The results of this research wants to argue that governments have to take measures in order to optimize and harmonize the system of property taxation in the European Union.

The European perspective regarding the taxation of property

During the last two years, almost half of the European Union countries made changes to property taxation system. Therefore, it seems that exist the desire of authorities to do the property taxation system more effectively and to increase

revenue to the state budget in a way more favourable for taxpayers [4]. The annual property taxation may be one correct way to increase the government revenue, even though this will be a in a less extent than other taxes. However, it is acceptable to increase the property taxes only if the amount of revenues to the state budget of other types of taxes is maintained at the same level [8].

Although is very accredited the idea that there are many reasons for the governments to rely more heavily on property taxes, these taxes are underused in practice in many countries of European Union [1]. In some cases, the budget revenues raised from property taxes are much lower than the income accruing from other types of taxes as percents of GDP. At the same time, there are other forms of property taxes, the most common being the taxes on transfer of property, in other words when the ownership of real estate is transferred through sale. These taxes are high in Belgium, Italy, Luxembourg, Malta and France. One of the measures that can be taken by governments is to increase the rental income taxation. However, this will lead to increased rents, which can be reflected in higher prices for certain services [11]. Especially in big European cities, the rent represents a significant percentage of the cost of service providers, so they may be strongly affected by this measure.

Often, in the EU countries, taxation includes tax incentives for indebteding to buy a property, in the sense of a deduction of mortgage interest expense from income tax calculation. This seems to have generated in the EU property market an instability and a debt crisis, so the tax legislation in several states in 2013 aimed at reducing mortgage interest deductibility. For example Spain (since 2013) and Belgium (since 2014) have opted for a total elimination of the deductibility of interest in these cases, while the Netherlands, Finland and Estonia

have taken measures to gradually reduce the amount of deductibles. As we have said, about half of the EU member states have amended in the last period the legislation on annual property taxes, be it buildings or land. An example of changing the property taxation system is Ireland, where a new local property tax was introduced in July 2013 (0.18% rate for residential properties with a value under EUR 1 million). Great Britain adopted a new annual tax for the taxable value of properties over £ 2 million held by legal entities. Lithuania and Latvia have broadened the tax base on property and new rates will be determined by local authorities.

In some new EU countries, the property taxation became progressive to attenuate the potential social impact. Slovenia has introduced an increased tax for properties worth over 500,000 Euros (0.5%) and over 2 million (1%). Romania has introduced in 2013 a new tax on special construction from sectors as energy, telecommunications, utilities, transport and infra-structure, which has generated many discussions on the impact of the new taxes in the price of energy and fuel. In most of the countries in Eastern Europe, the ratio between residential prices and population incomes is much higher than in developed countries [5]. One of the important causes that led to this situation is the policy regarding the property taxes. Thus, the reduced rates of property taxation led to relative affordable ownership, while low degree of taxation of the rental market has generated significant additional revenues. All of these contributed to the development of the housing bubble before the crisis and the development of prices without correlation with the purchasing power of the population [9].

In all former communist countries, especially on the individuals' taxation sector, property tax is extremely low, but at least so far, no government had the courage to significantly increase this tax.

Beyond that affect budget revenues, low taxes paid by owners greatly contribute to maintaining high prices on real estate market [5]. It is true that many find it difficult to pay a high tax of the home, but for the really poor people can apply various reductions or exemptions to make taxes more supportable. However, in the developed countries, very poor people cannot afford to be owners of a house (situation that is quite common in Eastern European countries).

The poor tax administration is the most important constraint on the implementation of property tax in developing countries. There is a well known critical saying that governments in developing countries are practically unable to administer

a property tax that works very well in the developed countries [4]. Usually, in Eastern European countries, property tax varies much more than in developed countries regarding taxation base, setting the tax rate, the registration, classification and valuation of property. These fluctuations give a great inconsistency to tax policies and transmit to the citizen a lack of transparency and credibility. In addition to these, in most European countries, the general settlement of property taxation system is regulated by the central authorities, but the exact property tax to pay is determined by the local authorities. This leads to the need to harmonize central and local legislation. In most cases, this is difficult to achieve and leads to a lack of homogeneity of the property taxation system within the country, especially in the larger countries. These gaps in homogeneity are transmitted in stronger ways at the level of the European Union.

As can be seen from this succinct presentation of the European perspective regarding the taxation of property, the trend for EU member states is to increase the state budget

revenues from annual property tax. Given the still difficult situation of the housing market, but also due to increasingly heavy lending conditions, increasing annual tax on property appears to be more effective than raising taxes on real estate transactions. This measure seems to be most appropriate if is desired a tax revenue growth from this area.

Positioning of EU countries by GDP/capita and Taxes on property

Based on data provided by the "Taxation Trends in the European Union" - 2013 Edition published by Eurostat[13] are grouped the EU27 countries by GDP/capita and Taxes on property as percents of GDP. To have the complete study, for EU28, are added the data for Croatia from other statistics of Eurostat [14]. The data refers to year 2011, which are the most recent available for taxes on property.

The econometric research method used in the paper consists in calculating and interpreting the linear correlation coefficients and in analyzing the main parameters of the simple linear regression. The reason of using these methods is that the classical linear regression model is one of the most versatile and commonly used econometric techniques in economic analysis. The main purpose of the use of the regression model is to obtain the parameters corresponding to a set of variables, by analyzing the dependence between the variables when the series of data are recorded for a period or a moment of time. The main weakness of the regression method used is that in some cases it is found that the linear relationship appears to be inadequate to completely describe the dependence between variables or the scales used are not the most appropriate.

Thus, the linear correlation coefficient calculated for the EU28 is only 0.311 which shows that there is not a very strong correlation between GDP/capita and Taxes on property. Similar values of correlation

coefficients are obtained using indicators as Purchasing Power Standard per inhabitant or

GDP/capita calculated as percentage of EU28 total, as is shown in the following table:

Variables	Taxes on property as % of GDP
GDP/capita (Euro/inhabitant)	0.311660905
Purchasing Power Standard per inhabitant	0.233691806
GDP/capita (as percentage of EU28 total)	0.311772892

Table 1.: The values of the linear correlation coefficients

The detailed statistics of correlation between GDP/capita and Taxes on property is given in the following table:

Regression Statistics				
Multiple R	0.311660905	Standard Error	0.92391708	
R Square	0.09713252	Observations	28	
Adjusted R Square	0.062406847			
ANOVA	df	SS	MS	F
Regression	1	2.387701	2.38770	2.797138
Residual	26	22.19419	0.85362	Significance F
Total	27	24.58189		0.106425601
	Coefficients	Std. Error	t Stat	P-value
Intercept	0.851888958	0.320342	2.65930	0.013226
GDP/capita	1.8769E-05	1.124E-05	1.67246	0.1064256

Table 2.: The detailed statistics of linear regression

The Line Fit Plot figure shows the positioning of points regarding the correlation between GDP/capita and Taxes on property:

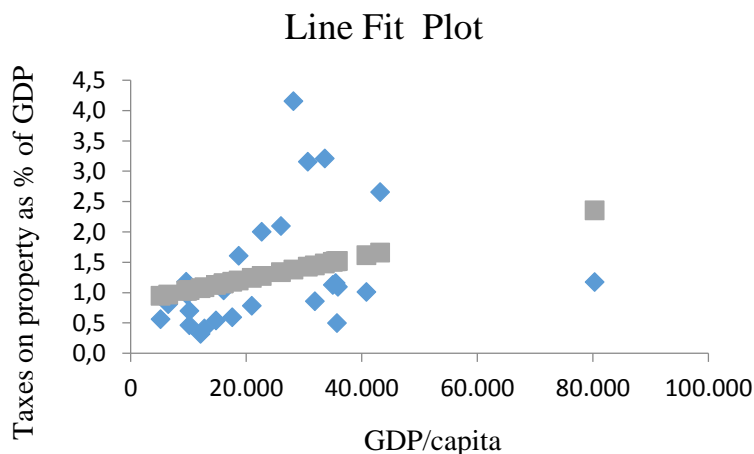


Figure 1.: The Line Fit Plot of regression function

It can be seen from Table 2 that the regression between GDP/capita and Taxes on property in EU28 is not very significant. The values of Multiple R, R Square and Adjusted R Square are small. Regarding the Fisher test, the calculated value F is not very high while Significance F is large. Also, t Stat values of Student test are not very high and probabilities P-values, especially in the case of the coefficient of GDP/capita, are pretty large. These statistical considerations lead to a weak relationship between Taxes on property and GDP/capita within EU28.

Also, the Line Fit Plots shows the significant spread of European countries in relation to the indicators analyzed. It can be seen that the trend line is followed only by a relatively reduced number of countries, many of which are quite far from it. This proves the lack of homogeneity within the EU28 in terms of correlation between property taxes level and the living standards of citizens of European countries. There are countries in Europe Union with high level of development and reduced property taxes, while some countries with lower level of development have higher property taxes. According to the data analyzed, there are significant discrepancies within the EU28 in terms of the ratio between property taxation and the purchasing power. Thereby, is revealed the high necessity to create a more uniform property tax system within European Union, which takes into account the purchasing power of citizens. However, even the statistics of the regression are not very relevant because of this lack of homogeneity within the EU28, it can be drawn some relevant conclusions referring to the positioning of EU countries by GDP/capita and level of taxes on property. Thus, the positioning of the new European Union member states comparing to developed countries from the EU regarding the GDP/capita and the taxes on property is shown in Figure 1:

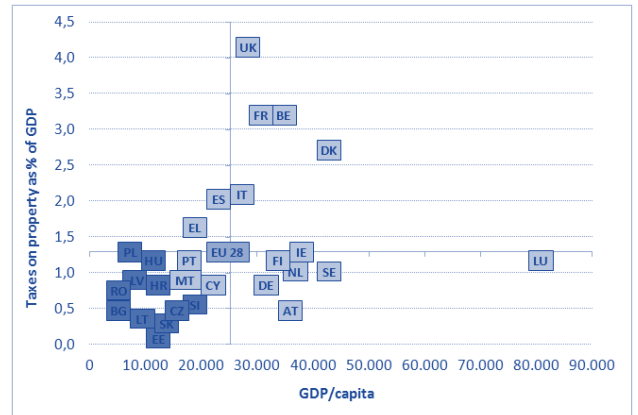


Figure 2.: Grouping EU countries by GDP/capita and Taxes on property, source of data: Eurostat

It is easy to see that all eleven countries with economies in transition are in the bottom left of the chart grouping the European countries by GDP/capita and taxes on property. This shows that in these countries is a very low level of property taxation, correlated with low living standards. All these countries are below the European average both in terms of property taxation and in terms of GDP/capita.

The situation of developed countries from EU28 is not as homogeneous as that of the countries from Eastern Europe. They are grouped into several categories. The first category involves a level of GDP/capita above the average EU28. Among these countries, the first group includes countries with high property taxes (UK, France, Belgium and Denmark) and the second group includes countries with low levels of properties taxation (Ireland, Finland, Netherlands, Sweden, Germany, Austria and Luxembourg).

As an example of first group, in France a net wealth tax (ISF) is charged to resident individuals, the amount of assets held exclusively passive if the net value of these assets exceeds 790,000 Euros. Assets, equity, certain life insurance policies and other miscellaneous assets are excluded from this tax. An exemption of 75% is applied to some registered shares held by employees, managers or shareholders and a 50% deduction from income

tax applies to capital investments in SMEs. As an example of second group, in Germany the wealth tax is not applicable. The property tax is charged annually by all provinces, according to the tax assessed value of land and buildings located in their region. Basically, share transfers real property tax amounts to 3.5% and from 1 January 2007, the German Lander, can modify their own share and as a result, half of them increased their share. Inheritance and gift taxes were amended in 2008 and are charged at rates ranging from 7% to 50%, depending on the value recorded.

The second category involves the countries with GDP/capita very close or below the average EU28. Among these countries, the first group includes countries with relative high property taxes (Italy, Spain and Greece) and the second group includes countries with low levels of properties taxation (Portugal, Malta and Cyprus). For a better discussion of the results, in the following table are presented the values of property taxes as percentages of GDP for the EU28 member states (year 2011):

Country Code	Tax on property as % of GDP	Country Code	Tax on property as % of GDP	Country Code	Tax on property as % of GDP
BE	3.2	ES	2.0	AT	0.5
BG	0.6	FR	3.2	PL	1.2
CZ	0.5	IT	2.1	PT	1.1
HR	0.7	CY	0.8	RO	0.8
DK	2.7	LV	1.0	SI	0.6
DE	0.9	LT	0.5	SK	0.4
EE	0.3	LU	1.2	FI	1.1
IE	1.2	HU	1.1	SE	1.0
EL	1.6	MT	1.0	UK	4.2
EU28	1.3	NL	1.1		

Table 3.: The values of property taxes as percentages of GDP within EU28, source of data: Eurostat

As can be seen in the Table 3, the highest level of taxation of transitional countries is Poland with 1.2%, followed by Hungary with 1.1%. Note that these maximal values are still below the EU28 average, which is 1.3%. Also, these values are very far from the maximum European value which is the UK at level of 4.2%. The lowest level of property taxation of transitional countries and represents the minimum of EU is Estonia with 0.3%. Very close to this minimum of property taxation is Slovakia with 0.4% and Lithuania with 0.5%. In the same quadrant with transitional countries are also positioned Portugal (1.1%), Malta (1.0%) and Cyprus (0.8%), which have low values of taxes on property and are below the European average of GDP/capita.

On the other hand, great differences are recorded in the UK (4.2%), Belgium (3.2%), France (3.2%) and Denmark (2.7%) with very high levels of property taxation, correlated with above average GDP/capita. A special case to mention is the UK, with the maximum taxation of properties from entire EU28. In the UK, the stamp tax on land and property varies between 0% and 4%, depending on the value of the transaction (with significant deductions as first purchaser). Starting with 2012, a new rate of 7% applies to the purchase of residential properties over 2 million pounds.

Between these groups are positioned countries as Italy (2.1%), Spain (2.0%) and Greece (1.6%) which are very close to EU28 average in terms of GDP/capita and with higher level of taxation than EU28 average.

Conclusion

As was shown in the beginning of the paper, the present research aims to argue the use of property taxation as an instrument of fiscal policy, especially in the Eastern European countries. Property tax is probably one of the most unpopular tax instruments because it is hard to avoid, and in

some countries requires considerable financial resources from owners. Furthermore, the limited revenue from property taxation in the most of European countries suggests that citizens do not agree increases in their property taxes and the governments know this.

As seen in the grouping of European countries in those four quadrants, the most of former communist countries undervalues the importance of this type of tax. Usually, in these countries, the reason of low property taxation is given by social criteria because of a large numbers of low income owners. At the same time, there are countries in EU28 such as the UK, Belgium, and France where the tax level is very high. Also, can be seen from the grouping made, there is a wide variety of combinations of tax systems and the level of development in the EU28. However, it is observed that scattering is higher in developed countries. There are both developed countries with a high level of property taxes and developed countries with low level of these taxes. Former communist countries are fitting all in the same group, which assumes lower taxes, with little differences.

As was shown during the paper, the experts [1, 3, 4, 7, 10] continue to emphasize the benefits of property tax due to its high efficiency and relatively low cost. The negative impact of this tax on economic growth is very low, as it does not affect the directly productive sector or the consumption, as do most other types of taxes. In addition, it offers a high accuracy of taxation and the possibilities of fraud are very low. Property taxation is, therefore, currently considered to be underused in most countries, despite numerous arguments for it.

Efficiency of a tax is often measured in terms of its effectiveness and of economic distortions that may create by an excess of taxation. The tax can cause additional costs to the economy, which may delay the achievement of a medium and long-

term growth. In this context, the main advantage of property taxes is that are seen by taxpayers as reasonable payments for local services which usually reflect the only the administrative costs of the local authorities. The efficiency and the equity of these taxes are strong reasons for finding the best ways to further enhance the role of property taxes, especially in terms of annual taxes on real estate.

Is it realistic to believe that will be registered an increasing of the share of property taxes of GDP in the next years for all developing countries in the EU, but with a greater potential for growth in many developed countries which today rely only slightly on the taxation of real estate as Austria, Luxembourg or even Germany. Finally, it clearly results the necessity of a serious analysis at European Union level to assess the current capabilities of member states in order to take political decisions on the future role of property taxes in the growth of the European economy.

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PHOTO 3.

Muzej | The museum

PHOTO BY: JOSIP MESIĆ

Stipanović Christian¹

Rudan Elena²

CREATIVE TOURISM IN DESTINATION BRAND IDENTITY

Abstract:

This paper analyses the emerging trends in creative tourism, as well as the possibilities of developing creative offer as a means of sustainable development (protection of resources, socio-cultural elements, natural elements and improving the local population's standard of living) of small historic towns on the Opatija Riviera (Volosko, Kastav, Lovran, Veprinac, Mošćenice, Brseč). It further analyses the current state of creative offer, sets the goals and suggests some possible strategies for developing creative tourism (educational workshops, creative workshops, etc.) as both the basic and additional element of the tourist offer based on

sustainable principles, and for creating a recognizable destination brand identity through a valorisation of uniqueness and diversity. The paper also answers the key questions of creative tourism offer enrichment and enhancement, and defines the means to innovate the promotional strategy with the goal of repositioning. The reconception of development in small historic towns and, ultimately, attracting future tourists, requires a synergy of all offer stakeholders, local communities and indigenous residents in forming new elements of creative initiatives through a valorisation of the past and the present.

Keywords:

sustainable tourism development, creative tourism, small historic towns, Mošćenička Draga, Pinel

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Introduction

Through valorisation of tradition and indigenous values, small historic towns need to attract modern tourist interests and reposition themselves on the turbulent tourism market as distinctive oases of cultural and creative tourism. The affirmation of selective forms of tourism, especially those based on cultural and historical heritage, creativity and innovation, can enable a sustainable creation of attractive contents for both tourists and the local population (quality of life, encouraging entrepreneurial activity, retaining young population, etc.)

The relevance of this research arises from the hypothesis that small historic towns can position themselves on an increasingly demanding tourism market solely on the basis of an indigenous offer and creative tourism in terms of sustainable development. In developing a creative destination brand, the research relies on the situation analysis. The analysis of the current situation provides a critical overview of small historic towns and their position on the tourism market, pointing to the unfortunate lack of awareness about the possibilities of creative tourism development and the lack of research on the topic. The paper defines the goals of development and the specific concrete ways of innovating strategies in the affirmation of creative tourism in creating the destination brand. Local residents and businesses need to evolve into key creators of a new tourism offer and a new, personalized view of tourists as active co-creators and promoters of an indigenous offer and a unique experience.

Theoretical Determinants of Creative Tourism

Cultural tourism is an important element in the consideration of the special forms of tourism, and is defined as a form of tourism in which travel is motivated by cultural events, cultural and

historical heritage and history. Cultural tourism has a number of sub-forms which have developed, i.e. become recognizable as a special form of tourism with a special type of offer, and with specifically motivated tourists. This variety of forms, including heritage tourism, art, history, gastronomy, etc., can provide guidance or features which, when combined, create a distinctive cultural offer of the tourist destination. Fifteen years ago, Richards and Raymond [1] were the first to define creative tourism as “tourism which offers visitors the opportunity to develop their creative potential through active participation in courses and learning experiences which are characteristic of the holiday destination where they are undertaken”. Creative tourism [2] can be further defined as a form of cultural tourism that provides a new dynamic dimension that satisfies the modern traveller’s need for creativity. In the development of this selective form of tourism, the offer is created through the initiative at the local level and, as such, promotes economic and tourism development and enables the development of each destination in its own indigenouslyness. Furthermore, Richards [3] states that creative tourism can potentially address some of the pitfalls of contemporary cultural tourism models and can help to make places more distinctive and engaging for residents and visitors alike. UNESCO defines creative tourism as tourism in which “travel is directed toward an engaged and authentic experience, with participative learning in the arts, heritage, or special character of a place, and it provides a connection with those who reside in this place and create this living culture.” [4]

In Croatia, creative tourism has not been sufficiently recognized, and is present only in certain tourism destinations that are trying to achieve recognition and differentiation with new, creative offers. The Croatian Tourism Development

Strategy until 2020 [5], a document issued by the Croatian Ministry of Tourism, is the first to predict the growth of creative tourism as a form of cultural tourism that enables active involvement of visitors in the local culture. According to Rudan [6], Croatia could, with its individual creative offers, strive toward a joint cooperation, the creation of a joint offer, and the creation of clusters and branding, all under the syntagm “Croatia - the Country for a Creative Holiday”. Lindroth, Ritalahti and Soisalon-Soininen [7] suggest that creative elements could also be brought into the destination development and management work in order to guarantee success in the ever increasing competition between destinations. Creative programs that are or will be offered by a destination may be both the primary motive for visiting a destination, and the secondary, i.e. the programs can be a part of the destination’s additional offer which can result in a prolonged stay of tourists in the area, greater satisfaction and, finally, increased spending in the destination. In the development of creative tourism, the destinations need to create such an offer that will result in a distinctive and competitive integral tourism product on the turbulent contemporary tourism market. The lack of initiative for action at the local level results in the lack of recognition of small historic towns in creative tourism offer. Creative tourism in small historic towns would represent a novel, innovative product developed on sustainable principles. The aim should be the transformation of small historic towns into modern centres of economic development.

Creative Tourism in the Development of Small Historic Towns

As tourist destinations, cities, especially those with interesting historical sites and valuable cultural and historical heritage or events, have

always been interesting to tourists. Many cities are trying to transform into creative cities and encourage their creative industries. Unlike in small historic towns, this is fairly easy to achieve in larger cities (due to creative industries, cultural institutions, events, etc.). The importance of creative cities at the global level is further emphasized by the UNESCO Creative Cities Network (individual cities are identified and classified among different fields of creative industries: literature, film, music, gastronomy, etc.). [8] The creativity of a small historic town depends on the creativity of space, i.e. its cultural surrounding (authenticity), the creativity of its people and the creativity of its offer. According to Đelov [9], creative cities are more than just places intended for artists and cultural activities. As the author points out, creativity is of great importance as an economic factor and, in the future, cities will reorient toward attracting new population, which would stimulate the interest of investors. In the study of possible generators of development of small towns, Dumbović Bilušić [10] points out various forms of tourism (cultural, eco- and other selective forms of tourism), which, when relying on the specificities of space, its ambient and architectural features and other forms of intangible heritage, can create new values. Furthermore, Turner [11] states that the identities of small towns attract tourism and affect investors and decision makers looking for a comfortable space for their businesses. By developing and promoting creativity, small historic towns can lay foundations for a new form of economic development.

Today, the conditions of Croatian small historic towns are very different. Some are well preserved; others are inadequately preserved, while some are devastated by various upgrades or changed by various embellishments. Without adequate investment in maintenance and

infrastructure, and with no strategic plans for economic and tourism development, or plans for restoration, protection and revitalization, it is impossible to imagine the tourism development of these authentic historical values. [12] The development of a tourism offer based on cultural and historical heritage of urban areas can bring a new quality of life to the local population and, in particular, the development of entrepreneurial activities. In the document issued by the Croatian Ministry of Culture [13], entrepreneurship based on cultural heritage is defined as a group of those activities whose products and services' commercial value depends on creative work based on the knowledge of history, art and culture. Stimulating creative activities and creativity-based entrepreneurship certainly opens up new possibilities for a systematic development of small historic towns as tourism destinations. Their tourism offer must be developed in a way that does not violate the harmony of life and the value of their heritage. [14] The history and culture of small historic towns is an important link in the survival of Croatian identity. The development of creative tourism in small historic towns can be shown on the example of Mošćenička Draga.

Analysis of the Current State of Tourism in Mošćenička Draga

Mošćenička Draga [1] is part of the known tourist destination the Opatija Riviera. In the last fifty years, Opatija has developed a summer holiday form of tourism, with a tourism offer based mainly on sun, sea and swimming. Although there are other forms of tourism present on the Opatija Riviera (such as health, congress, cultural, culinary, event etc.), Mošćenička Draga strives to develop cultural and culinary tourism alongside summer holiday tourism. Destination management is creative tourism, has not yet been systematically viewed nor studied, and this form of

tourism is not even recognized as a possible solution to the insufficient recognition of both the destination and its cultural tourism. The existing cultural tourism offer requires development and innovation. Table 1 shows the SWOT analysis of the tourist destination Mošćenička Draga.

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Geographical location (vicinity of emissive markets) • Unique natural and cultural environment • Cultural- historical heritage • Hospitable local population • Cultural manifestations • Clean and preserved environment • Tradition in tourism • Safety • Gastronomic offer 	<ul style="list-style-type: none"> • Pronounced seasonality and focus on summer holiday tourism • Accommodation facilities • Poor catering offer • Undeveloped offer of selective forms of tourism • Undeveloped offer for the young • Insufficient funding • Insufficient promotional activities • Local population's lack of interest for entrepreneurship in tourism
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • The tourists' desire for active holidays, new contents and the acquisition of new knowledge • Stagnation of rival destinations • Incentive measures in spatial planning and projects of revitalization of historical areas • EU funds 	<ul style="list-style-type: none"> • Recession and crisis • Non-stimulative legislation • Rival activities • Failure to consider new trends in tourism • Changes in tourists' preferences • Unfavourable climate for realization of creative programs • Monetary and fiscal policy

Table 1.: SWOT analysis of the tourist destination Mošćenička Draga, source: authors' interpretation

Mošćenička Draga has a valuable cultural and historical heritage (two old medieval towns - Mošćenice and Brseč, churches, the mythical-historical path Trebišće - Perun, fisheries and maritime heritage, ethnographic museum collection), and offers an array of events to both local residents and tourists: fishermen's nights, international literary evenings "Sipar", Municipality Days ("Marinina"), burning the

carnival mascot - Pust, traditional boat regatta, walking tours on the mythical-historical path Trebišće - Perun, Blues Festival, art festival "Mufić", traditional Easter event "picanje jaja", Kandalora, etc. These events are not being sufficiently recognized, which is confirmed by the results of the surveys conducted in the tourist destinations of the Opatija Riviera and shown in table 2.[2]

Tourism offer elements at the OPATIJA RIVIERA sub-region level	Ičići	Lovran	Mošćenička Draga	Matulji	Opatija	sub-region
Events	4.50	4.98	4.03	4.68	5.11	4.66
Historical and cultural heritage	4.13	5.17	5.00	4.95	5.30	4.90
Contents for children	4.42	4.98	4.71	4.84	5.08	4.80
Accommodation facilities	4.38	5.33	5.32	5.25	5.56	5.15
Catering facilities	4.38	5.33	5.38	5.17	5.53	5.16
Cultural contents	4.25	4.73	4.48	4.71	5.22	4.67
Entertainment contents	5.25	5.25	5.06	5.32	5.35	5.25
Sports contents	4.38	4.92	3.90	4.85	4.95	4.54
Meeting and congresses	3.79	4.47	3.46	4.13	4.88	4.15
Health tourism contents	4.17	4.70	3.70	4.65	5.31	4.47
Nautical offer	4.58	4.97	4.65	4.95	5.17	4.84
Excursion offer	4.71	5.20	4.76	5.25	5.34	5.00
Local gastronomy	4.79	5.12	5.39	5.35	5.68	5.25
Price-quality ratio	4.63	4.68	5.15	5.12	5.19	4.91
	4.72	5.15	5.07	5.32	5.31	5.06

Table 2.: Tourists' satisfaction with the Opatija Riviera tourism offer elements in 2012., source: Blažević, B., Peršić, M. (Ed.): "Istraživanje turizma destinacije" ("Tourism Destination Research"), Faculty of Tourism and Hospitality Management in Opatija, Opatija, 2012, pp. 39-40.

It is evident that the cultural events (4.03) and cultural contents (4.48) in Mošćenička Draga are given lower marks compared to the average marks for the sub-region of the Opatija Riviera. In the development of cultural tourism, there is a gap between the destination management's wishes and the perception of the tourists staying in the destination. Mošćenice, as one of the old historical towns (within the Municipality of Mošćenička

Draga) wants to achieve its recognition through creative projects and programs. One such manifestation is the international art colony "Mošćenički Pinel", held every year (for the last six years) in the last week of August and attended by eight to ten artists from different European countries. The art colony opens with an initial exhibition of the participants' previous art works by which the artists present themselves to the

audience (tourists, local residents, experts). During this 7-days event in Mošćenice, the artists. After a week, the new works are displayed at the exhibition that will remain open for the next twenty days. During the seven days of the colony, the artists visit the historical sites and the whole event is organized in a way to encourage and create sharing and communication both between the artists themselves, and between the artists and the environment in which they create. In addition, children's creative workshops "Mošćenički Pinelići" are organized for both tourists and the local children, led by the artists- colony participants, where children work in different techniques adapted to their age, creating works on specific topics related to the landscape in which they are staying or living.

The analysis of the current state of tourism proves that Mošćenička Draga needs to innovate and qualitatively enrich its uniform, stereotypical offer by putting special emphasis on creative contents.

The Goals and Development Scenario Analysis of Creative Tourism in the Transformation of Mošćenička Draga into a Distinctive, Recognizable Tourism Destination

Each small historic town of the Opatija Riviera needs to build its creative tourism product on its own, authentic and recognizable basis, emphasize its cultural resources and heritage, and integrate its indigenous values into the development of its creative offer, for example: Lovran can develop as a creative gastronomic destination (cooking schools - indigenous ingredients such as marun (sweet chestnut), cherries, asparagus, etc.), Brseč (Glagolitic alphabet school, art colonies and workshops, etc.), Volosko (art workshops, colonies, etc.), Kastav (traditional crafts workshops,

create their artworks in the open (on Kosnica, squares, stone steps, in front of the church, etc.). culinary workshops, creative workshops related to the events Bela Nedeja and Kastafsko kulturno leto -Kastav Cultural Summer Festival, etc.), Veprinac (art and music workshops, authentic gastronomy, etc.). The qualitative development of the creative offers will also multiply the quantitative results (profit increase).

The most important goal of tourism development is the transformation of Mošćenička Draga, and especially Mošćenice, into the most distinctive and recognizable creative destination on the Opatija Riviera. Quantitatively, it is necessary to increase the number of creative events and visitors. In the development of creative tourism, is necessary to create the image of Mošćenice as the town of creative initiatives. Mošćenički Pinel needs to be transformed into a recognizable brand of the creative destination, i.e. it needs to encourage: the participation of tourists and their children in the creative elements of the event; the strengthening of Croatian art scene at the international level; the exchange of experiences and contacts between the artists from Croatia and abroad; children's creative work and initiatives that would allow them to become cultural connoisseurs and consumers; the initiatives for new projects for cooperation and exchange between artists, and establishing contacts and communication of the artists and the local residents.

In the future, it is necessary to encourage the synergy and innovation of operational strategies in Mošćenička Draga, in other words, find a way to develop a distinctive creative offer oasis that will result in the creation of a creative destination brand. As Karabag, Yavuz and Berggren [15] state, festivals and events, which create an interactive, relational, and experience-based atmosphere, can

become the key promotion and communication tools for cities.

Using the R&D strategy, it is necessary to obtain quality information about the changes in tourists' preferences and the rivals' activities, and to implement the findings into concrete offer enhancement.

In the supply strategy, it is necessary to bring innovation to the Mošćenice tourism product and direct it toward the creative offer. Some possible ways to improve the creative offers of Mošćenički Pinel and Mošćenički Pinelić are the following: rewarding the participation of visitors and tourists in the event with, for example, photographs of the most interesting moments of Mošćenički Pinel etc.; various workshops (art, music, sculpting) for both children and adults; cooking schools using indigenous ingredients and preparing food in traditional ways; traditional music evenings; Glagolitic alphabet schools; integration of mythical-historical paths into creative artwork, and rewarding the best work in children's creative workshops.

In addition to painting workshops and artistic creation in the open, it is necessary to include other events in the offer, such as evenings of traditional music, concerts, authentic gastronomy, literary evenings and other cultural and historical heritage. Each new event in the offer should be in harmony with the identity of the small historic town in which it takes place.

The marketing strategy, based on market research, defining target segments, positioning and innovating the marketing mix, should adjust the creative offer to any particular segment of tourists who are all, to a greater or lesser degree, potential creative tourists. The colony itself should attract tourists motivated by culture, especially families with children who will be actively involved in mastering the painting skill and who will interact with local residents and artists alike. The

colony should become a meeting place for both Croatian and international artists, and the actual content solutions need to involve as many other artists as possible (exchange of experiences, making new business contacts, etc.). By providing a creative environment during these seven days, the event can become a destination brand. Mošćenice, and the destination as a whole, need to be integrated into promotional activities. Mošćenički Pinel needs to become a part of tourism packages of accommodation providers in Mošćenička Draga and the Opatija Riviera alike. Web pages are especially important; Kolb [16] states that one of the main advantages of a website is that it can communicate to more than one market segment of tourists at the same time by having different content pages. In addition, a website can be more easily and inexpensively updated than a brochure. In the overall promotion of the event, an extremely important role is that of the exhibitions that are held throughout Europe and that show artworks created in previous colonies (e.g. Mošćenički Pinel Exhibition that was held in Gelsenkirchen in Germany, and the United Nations Office in Vienna, used for presentation and promotion of Mošćenička Draga). In the future, more such exhibitions should be planned, with the goal of promoting Mošćenička Draga as a creative tourism destination. Mošćenički Pinel should become a symbol of Mošćenice and be used as a promotional tool that will present this historical town as a town of creative initiatives. As part of the future Ecomuseum Mošćenička Draga, the distinctive visual identity of Mošćenice must be in harmony with its cultural characteristics in order to differentiate this small historic town among its competitors in the region. Mošćenička Draga can, in accordance with the development of its offers, create a promotional message that will contain the word creative (e.g. "Mošćenička Draga -

destination for creative holiday”, “Be creative - come to Mošćenička Draga” etc.).

Human resource strategy should encourage and educate the employees, but also include the local residents and tourists in the development of creative activities. In order to maximize the quality, certain programs and projects will require the involvement and hiring of experts. It is necessary to strive for self-realization in entrepreneurial ventures (souvenir shops, local delicacies, galleries, cooking schools, painting schools, traditional crafts workshops, olive growing and olive oil production, etc.). The local population should become the basis of the destination’s creative programs development.

Using the financial strategy, the creative programs need to be applied for funding competitions by the EU, ministries and counties that support such initiatives in typical urban environments. It is necessary to find supporters and sponsors for Mošćenički Pinel, who would further support the development of creative programs.

Through continuous innovation and reconception of development based on the totality of cultural and historical heritage and its indigenous, small historic towns need a quality answer to the challenges of a turbulent 21st century environment in achieving sustainable development and building their own distinctiveness.

Conclusion

Each small historic town, with its specific elements and landscape, tries to respond, in its own unique way, to the demands of local residents, visitors and tourists alike. The tourism development of small historic towns must be based on their unique and rich heritage; most importantly the cultural and creative offer that will not cause adverse effects on the existing values

and quality of life in the destination. Furthermore, the small historic towns need to strive toward cooperation and the creation of a joint offer (the Opatija Riviera destination) on the market, emphasizing each micro-destination’s distinctiveness.

In the event offer of Mošćenička Draga the art colony Mošćenički Pinel and children’s creative workshops Mošćenički Pinelići are especially prominent. Based on the situational analysis (key advantage: cultural and historical heritage, key disadvantages: insufficiently profiled tourism offer and promotion) it is necessary to redefine the objectives and innovate the operational strategies, providing concrete solutions for promotional innovation and a qualitative transformation of events, in order to transform Mošćenički Pinel into a brand, a symbol and the brightest tourism story of Mošćenička Draga.

This work creates the foundation for new research, with the goal of defining new trends in creative events, researching stakeholder attitudes and achieving offer- and promotional innovation in each Kvarner micro-destination, emphasizing their own uniqueness and distinctiveness based primarily on sustainable development and natural, cultural and traditional values.

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PHOTO 4.

Diplomanti | Graduates

PHOTO BY: JOSIP MESIĆ

Ana Opačić¹

THE PROBLEM OF THE POSITION OF NATURAL PERSON IN THE PROCESS OF BANKRUPTCY IN THE CONTEXT OF EUROPEAN INTEGRATIONS

Abstract:

Individual bankruptcy, as a procedure of preferential bankruptcy procedure reserved for natural person, often leads to problems in application, which are a consequence of not understanding the essence of the institute or often bad implementation of application instruments, where all of this then leads to paradoxical inability to apply the institute. This paper will emphasize the basic problems which appear when the subject of the bankruptcy procedure is a natural person. Author will analyze it through the problem of insolvency of individuals and factual inability to realize payment of creditors. It will be analyzed based on the following aspects: this matter is

unregulated in Serbian law; then a comparative overview of the issue of the position of an insolvent artisan in Croatian law, and the issue of abuse of rights which are used by the citizens of EU through the institute “bankruptcy tourism”. Based on this comparative analysis, the author will try to provide suggestions with the goal of progress of at least partial payment of the creditors by the individual debtor in the bankruptcy process. This Article will provide specific suggestions which the future legislation of Serbia should deal with, and which will be based on the critical overview of the foreseen institute of individual bankruptcy in Croatian law, which is not used in practice.

Keywords:

individual bankruptcy, natural person, European integration

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Introduction

It is impossible to give a complete definition of over indebtedness, which is directly linked to the subjects who create this over indebtedness. The consequences that are created due to over indebtedness of natural persons are not only of economic nature, manifested in impossibility of servicing their debt, but they also have a sociological and psychological aspect, which creates new expenses for the entire society.

When we are talking about legal person as the subject of the bankruptcy, it is clear that the goal of the procedure is to provide at least partial payment to the creditors along with the system of general realization on the total assets of the debtor, which causes a consequence of cessation of subjectivity of a legal person. So, a specific real subject ceases to exist by finalizing the bankruptcy procedure. Legal person, who cannot service his obligations, should be erased from the commercial register and cease to exist because that is according to the strengthening of legal certainty. However, would an analogue application to all natural persons be appropriate in case of insolvency? And would it be appropriate not only for the consumers but also for the natural persons registered to conduct economic activities, like entrepreneurs in Serbian Law, artisans and traders in Croatian Law? Natural person who conducts economic activities is an economic entity, so if he is faced with inability to keep the liquidity of business and is late with payments or he becomes absolutely insolvent, he would have to have an alternative besides the simple enforcement proceedings, which is available to Serbian entrepreneurs. There are many reasons to justify this claim. Firstly, how one should approach to the situation of absolute insolvency when setting the procedure in motion only creates new debt, and thus increases the existing overall debt, that will never be paid; how one should handle a huge

number of unpaid claims that can have an effect of chain reaction of insolvency for all the clients of over indebted person; in which way to provide obeying of the Constitution guaranteed dignity of an individual in the procedure that is forced by nature; in which way to realize a just division among the creditors in the procedure in which the time sequence is most important and where a more aggressive creditor has greater possibility of getting paid. The basic problem with natural person who practices economic activity in the insolvency procedure is his limitless responsibility, prying of the executor into personal assets of an entrepreneur, where conducting economic activities carries the risk of losing a home and existence.

The reality that has been warning us in the last couple of years that the lack of systematic consideration of the problem of insolvency of natural person causes the present statistics which shows that in 2014 significantly less new entrepreneurs were registered in Serbia and artisans in Croatia, that the trend of late payments is increased, the overall debt is also increased in long-term blockage of economic entities (longer than 5 years). Serbia and Croatia are fighting the same problems but in different space and time frame, but the essence is the same. We should decrease the state apparatus and make it more efficient and profitable from the state budget point of view, and on the other hand encourage the development of private entrepreneurship as a framework of economic development. It is utterly desirable to have a specific goal, however, is it necessary to realize it and in what way when the instruments for conducting those ideas are unavailable. How we should encourage the development of entrepreneurship and what should be the pillar of future economic development or the recovery of the state, when we approach to it with negation of the basic issues entrepreneurs face.

How to expect them to enter an economic match, when in case of eventual failure, nothing else is guaranteed besides basic guarantees given by the enforcement proceedings in respect of exception of execution. It is necessary to systematically, through the law that regulates the procedure of founding and registration of legal person and bankruptcy law, provide instruments that will motivate entrepreneurs not to hide assets in order to deceit executors, to really show the profit, that will generally motivate the sector of “grey economy” to be narrowed. For realizing these goals, it is necessary to offer something, within legal solutions, to the entrepreneur in the form of stimulations, like decrease of tax levy but also through creating the “safety net” in the situation of liquidity and insolvency problems. This procedure should certainly only be applied to those persons who are honest in their situation, i.e. which should be interpreted according to the phrase “honest but unfortunate debtor”, and thus avoid the possible abuses by entrepreneurs.

Therefore, it is necessary to conduct an analysis of the existing problems that insolvent persons and their creditors are faced with, and based on the criticism of the current legal solutions to try and give some suggestions for decrease of insolvency of the economy, which is currently an issue for Serbia and Croatia and this represents the basic author’s motive in the further text of this paper.

The position of a natural person in case of insolvency in Serbian Law

Natural person cannot be the subject of the bankruptcy according to the Serbian law. Law on bankruptcy of Serbia states in the article 1, that only legal person can be the subject of bankruptcy [1]. By this definition bankruptcy law of Serbia made a discontinuity with bankruptcy solution from 2004 [2], which defined the possibility of

executing bankruptcy procedure on legal and natural person who conducts economic activities - entrepreneur. So the reform done in 2009 in the field of bankruptcy did not continue to develop and perfect the establishing of individual bankruptcy institute, but the bankruptcy procedure over the assets of a natural person, in Serbian law, has become impossible, even though the real indicators of growing over indebtedness of citizens and disincentive of entrepreneurs advocate the implementation of this institute.

The citizens of Serbia loaned around five billion euros in credits from the banks, where most of them are mortgage loans 3.2bn. According to the data of Credit Bureau of the Association of Serbian Banks, every citizen is indebted to the banks and leasing companies in the amount of 837 euros, loans are 749 euros, overdrafts 35 euros, credit cards 47euros, leasing services 6 euros [3]. If we compare these data with the data of the Association of banks from 2012, we can see that there is an insignificant increase of debt per capita from 814 euros in 2012 to 837 at the end of 2013. Total indebtedness of Serbian citizens and economy for bank loans is decreased by 5.1% in 2013 and is 2,140bn dinars, where the indebtedness of companies is decreased by 8.2% and is 1,414bn dinars. Indebtedness of citizens by the bank loans is increased by 2.8% and is 616.37bn dinars, however if we take into consideration the inflation rate we notice the stagnation in citizen indebtedness [3].

If we look at the loan structure of citizens the biggest decrease can be seen in consumer loans - by 18.3%, while cash loans increased by 14.4% [4].

By considering strictly the statistics we would surely come to a wrong positive conclusion in respect of movements of the trend of indebtedness of the citizens of Serbia. What masks this statistics is the trend of increasing later in

payment of the loans of citizens, entrepreneurs and legal persons.

According to the data of Credit Bureau of the Association of Serbian Banks until 30.11.2014 20.69% of legal persons was more than 15 days late in paying their payment obligations, which shows a significant growth compared to 2013 when the percentage was 15.49%. Entrepreneurs also follow the trend of rate growth later in their payments, so that percentage in 2013 was 16.39% and in 2014 21.79%. The citizens of Serbia also had more difficulties paying the payment obligations, so there we also see the growth trend of rates later in paying the loans. Even 6.89% of citizens, in 2014, were late with payments of their obligations for more than 60 days, which shows us a trend of growth of 1.89% when compared to 2013 [5].

Taking into account all data we can notice the decrease of credit activity which will continue in the next year as well, if we do not get significant investments in economy, because the economy does not own its own means which can be used for investing and it is forced to be financed from the loans and the number of economic entities suitable for obtaining a loan is decreasing. The decrease in loan activity causes the decrease in investments and the inability to develop the economy of a country.

Without a systematic approach to solving the problems of over indebtedness of natural persons we will soon have an alarming statistics of losing homes as the consequence of execution, psychopathological manifestations in respect of increase in the number of suicides, and the numbers are already alarming.

According to the data of Statistical Office of Serbia, in 2009 there were 1376 suicides, and in 2013 1198. During the analysis of these data we also have to take into consideration the negative population growth where in 2011 65,598 were born and 102,935 died, and the same trend continues in 2013 when

65,554 were born and died 100,300 [6]. If we look at the number of people born and those who took their own life by suicide we get the final number of 2%, of all the born people, committed suicide, of people born in 2013. Nobody has the statistics of suicides among the entrepreneurs, but the numbers have become alarming. Entrepreneurs who face business failure, sudden poverty, loss of image, loss of homes because of activating the safety measures (mortgage), and often psychological torture and threats to them and their families by the usurers, decide to opt for this method of finalizing entrepreneurial activities. According to the data of Serbian Union of Employers for the period 2004-2010, 75 entrepreneurs chose suicide as an epilogue to their business careers [7]. If we add that, unfortunately, more and more often entrepreneurs see the way out of the over indebtedness in suicide, it is obvious that it is high time for us to consider the problem of effects of permanent insolvency on the natural person. Also considering the data got from Serbian Business Registers Agency for 2013, where a large number of entrepreneurial companies was closed by the newly founded ones, and the existing entrepreneurs instead of dealing with economic reintegration and ways of financial restructuring, of course together with the assistance of the state, they create the ugly statistics of this country, leaving behind not just psychologically negative consequences to the family, but also serious debt for the society.

The problem of piled, unregulated debt which is a serious battle for the economy of Serbia has long-term consequences for the overall society. By stating that a debt cannot be regulated, that the payment is impossible because there are no means, leaves the creditor without his means, but also creates the effect of insolvency that is passed on to others, which can, directly or indirectly, jeopardize the creditor and push him to insolvency.

Considering that it is necessary to encourage development of entrepreneurial spirit and to take care of entrepreneurs at the market, at the same time, it is necessary to legally regulate the procedure in case of insolvency within the bankruptcy law, which will give long-term effects.

According to the current Law on companies, entrepreneur is a natural person who registers himself for conducting economic activities and he vouches for his business by his entire assets, including his home [8].

One new thing about this law is that debt responsibility does not stop only by erasing from the register, for example by suicide an entrepreneur is erased by the law, but the article 85 of the law, paragraph 2 says that even though the entrepreneur is erased he is still responsible and vouches with his assets [8]. However the Law on companies does not oblige an entrepreneur to own any kind of property, but only to provide the means necessary for the functioning of a company. Due to this, nowadays, it is often that entrepreneurs behave in misleading way, where they register and do business, while they do not have anything from the assets on their name, so when they are faced with insolvency, the creditors do not have the material for execution and at least get the partial payments. It is obvious that the existing system is dysfunctional and that it cannot realistically meet the needs of the economy in transition. One time decision to cancel the payment of rates and piled debts, one time arrangements with the banks in respect of trying to refinance and debt rescheduling, obviously do not give results.

By creating a bankruptcy procedure for natural persons, for entrepreneurs with forecasting of “new financial beginning” and implementation of the institute in respect of liberation from unpaid debts, we would humanize the position of an entrepreneur and strengthen the financial responsibility of market participants. Considering

that the rules that one must obey the contract obligations, there is a question of what happens with all obligations which stay unfulfilled due to the statement that there are no means to execute them.

Implementation of the bankruptcy procedure for natural persons showed that it has many benefits. The critics often put the system of individual bankruptcy in the context of social giving and creating new expenses for the state, but the truth is completely opposite. Systems of bankruptcy have been designed for individuals who are able to create enough profit to sustain themselves and their families; however the problem is that piled debt undermines their initiative and decreases their productive capacity. These debtors do not seek stronger intervention in their lives, but smaller intervention in respect of constant conducting of overpriced and destructive procedures of collection of debt. The goal is not to receive financial or other support, but to stop counterproductive procedures of forced debt collection [9]. The essence of differing the welfare system and system for fighting the insolvency is that the problem of poverty cannot be solved by establishing a single procedure, while the practical issues of insolvency are being solved in that particular way [9]. A well-structured and well-functioning bankruptcy system should facilitate to those debtors who absolutely need it and it should be available in a short timeframe. Every well-designed bankruptcy system will foresee the fulfilment of certain requests as a precondition for entering into bankruptcy system. If it is determined that even the decrease of the debt will not lead to its payment, even with all the measures which encourage self-reliance of the debtor, bankruptcy procedure should, in the short timeframe, facilitate for the debtor to apply the institute of debt relief [10]. Relatively quickly after the end of a bankruptcy procedure, majority of

debtors should again be financially stable and they would not be expected to ask for this support again, since this procedure should, besides financial reintegration, educate in respect of strengthening of financial responsibility. It is highly likely that, in the following period, the legislator will approach solving this issue more seriously and form a legislation which will in detail regulate the bankruptcy procedure for the assets of natural persons in Serbia.

Artisan in Croatian law and practice

Individual bankruptcy is announced in Croatian law in its full form, as a proceeding of benefited procedures, which can be used by all categories of natural persons. However, when it got the form of legal text they saw that they deviated from the Basic foundations for introducing the institute of individual bankruptcy from 2011 and they opted for a narrower regulation of natural person's bankruptcy.

The current Croatian bankruptcy law, in the very first article, where it determines the subject of this law, mentions the institute of debt relief as a possibility guaranteed to the debtor individual, which represents the framework of the individual bankruptcy institute [11]. The third article determines the debtor individual as a trader and an artisan [11]. So, the Croatian law opted for a narrower form of application of individual bankruptcy, to acknowledge this right only to natural persons who conduct economic activities. Analysis of application of the insolvent procedure to the artisan would be incomplete without the interpretation of the regulation which regulates turnover. Law on turnover, article 2, defines the notion of turnover as an independent and permanent conducting of economic activities with the goal of gaining profit by production, selling or providing services at the market [12]. Regulations of the law which are important for the needs of this

paper are the regulations on the responsibility of artisans for their business, which are regulated by the article 36 of this law. The law determines artisan as a natural person in registered business who vouches with his all assets, like in Serbian law, however in certain paragraphs of the same article, there is a more detailed definition of responsibility, which gives certain safety to the natural person to decide to conduct economic activities. Therefore, article 36 of this law, paragraph 2, says that execution with the purpose of finding financial means cannot be done on those assets and rights, on which execution could not be done if he was not conducting economic activities. As well as on those assets and rights which are necessary for conducting of his economic activities, if it is his main source of means for business operations [12].

Serbian legislators should take this legislation, on guaranteeing the preservation of the basic means for business operations during execution, into consideration, because it provides support to individual bankruptcy procedure in respect of encouraging the artisans to create new value, and by doing so he can service the creditors.

Essential legislation which guarantees a home to a natural person, if faced with financial difficulties during doing business as an artisan, can be found in paragraph 3 of the same law.

Execution for realization of financial claims against an artisan cannot be done on his real estate where he lives, but only in the scope of satisfying the basic needs of the debtor and other people the debtor is obliged to support [12]. This legislation made a significant step towards guaranteeing safety of the home to the debtor, towards humanization of debtor's position and also towards preventing the expenses that would be created for the state by creating more people who have to use welfare. They also had in mind that they have to be careful about possible abuses, so

they put as an option, selling a larger home, getting a smaller one and using the difference to pay creditors. However, if the creditor, based on voluntary legal business with the artisan gained a lien or a similar right of insuring the claims, artisan cannot opt for execution procedure for the ban on home alienation [12].

The law that has to be taken into consideration during the analysis of artisan's position in Croatian law is the Law on financial transactions and pre-bankruptcy settlement [13]. Procedure of pre-bankruptcy settlement is a procedure which is done with the goal of establishing liquidity and solvency of the debtor. This law foresees this procedure as obligatory for legal persons and individual debtors. The pre-bankruptcy settlement procedure is started only on the request of the debtor, and he has to suggest it in two cases: if the debtor cannot obtain the state of liquidity within 60 days from the start of measures of financial restructuring, excluding the pre-bankruptcy settlement, and if 21 days passed from the start of his insolvency [13]. There is a difference between the regular and shortened pre-bankruptcy settlement procedure. The shortened pre-bankruptcy settlement procedure is opened if there are two cumulative conditions fulfilled: that the overall amount of obligations is not over 2ml kuna, and that the employer employs less than 30 employees.

The pre-bankruptcy settlement procedure is an emergent procedure and it has to end in front of settlement council within 120 days from its opening, besides from the fulfilling the conditions for its elongation for another 90 days. The shortened pre-bankruptcy settlement procedure has to be ended within 100 days from its opening [13].

Law on financial transactions and pre-bankruptcy settlement proved to be very faulty, with much space for manipulation and abuse

which makes it hard to conduct it in practice. Very few settlements were closed, and parties that made a pre-bankruptcy settlement rarely fulfil their obligations regularly [14].

I will not go into further analysis, when it comes to legal persons, to what extent the obligatory pre-bankruptcy settlement contributed, and to what extent it just prolonged the inevitable creating of more expenses. Every failure of pre-bankruptcy settlement leads to opening the bankruptcy procedure. There is a question of justification of application of this law, especially in the situation when we are talking about a natural person who conducts economic activities. Then we are actually talking about doubling the procedure, because the Croatian bankruptcy law foresees the procedure of individual bankruptcy, so the artisans and traders individuals should not be found in pre-bankruptcy settlement procedures.

The individual bankruptcy procedure which is foreseen in the text of Croatian bankruptcy law, foresees the measures which strongly resemble to the ones foreseen by the rules of pre-bankruptcy settlement. When we are considering artisans, it seems that the full application of the bankruptcy law and chapter VIII would give much better results than autistic persistence of pre-bankruptcy settlement. Artisan who is faced with inability to pay has to, according to the Bankruptcy law; submit a proposal for starting the bankruptcy procedure. To be more precise, people who represent the debtor in front of the law, and individual debtor have to submit a proposal for opening a bankruptcy procedure within 21 days from the day when he is unable to pay, and he is responsible for the damage caused to the creditors by not fulfilling his duty defined by that legislation [11]. Along with the proposal for opening bankruptcy procedure over his assets, the debtor must submit the proposal for debt relief. By asking

for debt relief he accepts to do a debt rescheduling in the period of 7 years, because there is no automatic relief in Croatian law. In the situation where it is clear that the debtor cannot pay back to his creditors, and Law on crafts as we have seen guarantees means for business operations which can create new value and continue to do economic activity, is it not better to oblige debtor to submit a proposal for opening bankruptcy procedure over turnover and to be obliged to make payments to the creditors during 7 years according to the established order.

The debtor's position in bankruptcy procedure is the same as in pre-bankruptcy settlement; he has limited business ability and has to fulfil a sequence of severe criteria to get liberated. Firstly, before opening bankruptcy procedure, bankruptcy judge names the creditor on the assets of debtor, to whom the debtor gives all the transferable claims based on labour and other appropriate current claims to the period of time of seven years after the closure of bankruptcy procedure. The cession is decided about by the bankruptcy judge by the decision on liberation [11].

During the period of 7 years, the so-called period of good behaviour, the creditor is obliged to keep the amounts, that he receives on account of cession and all other payments which benefit the debtor or a third party, separately from his own assets and once a year to divide them among creditors based on final list. In order to motivate the debtor to stay productive, because the period of good behaviour is difficult for the debtor (he only gets means necessary for a simple life), the law determined that the debtor will, after 4 years from the closure of bankruptcy procedure, provide 10%, after 5 years 15% and after six years 20% of the amount that he receives based on cession or other obligatory payments [11].

Article 291 of this law regulates in detail the obligations of the debtor during this period, where

there is an emphasis on the obligation of the debtor to create new value, which accomplishes multiple goals. Firstly, the debtor is economically recovered; he is reintegrated into the market, while on the other hand he is obliged to work in order to create new value from which he can service the creditors. Then the measures which have a goal to prevent abuses are foreseen, and which motivate the registration of all his profits, and not to go into "grey economy", where he would make his assets inaccessible to the creditors. They also foresee a great number of reasons to deny this liberation, even when the decision on liberation becomes final, it can be revoked if it is determined that the debtor had an intention or done fraudulent action with the goal of causing damage to the creditors [11].

Considering that there are such well-structured bankruptcy procedures for artisans as forms of individual bankruptcy, is it not better, in cases of insolvency, to open bankruptcy procedure immediately, and start making periodical payments to the creditors, because individual bankruptcy does not have stopping of turnover as a goal, but financial recovery, which is the purpose of pre-bankruptcy settlement.

The pre-bankruptcy settlement has proven to be inefficient in respect of turnover faced with absolute insolvency, where there are no assets from which creditors could get paid at least partly. There are one time fiscal reliefs, which only add to the state's expenses.

Opting for individual bankruptcy in these situations means to affirm such turnovers and make them continue those activities, which encourages the economy itself. By debt relief, debtors are motivated to create new value for creditors in the period of 7 years, to register assets and profits, not to hide them like they do nowadays with the goal of inability to pay. Instead of doing one time reliefs to citizens for receipts for utilities

(electricity, water, heating...), the state should approach to procedure of debt relief for the narrow circle of those who are absolutely bankrupt, with the goal of affirmation of this procedure's usage or creation of the Solidarity fund as is the case comparatively, which would finance procedures of individual bankruptcy for those artisans who underwent economic collapse. By doing so they have a chance for economic recovery, while in the opposite case, they will again become a problem and expense for the state in the form of one more person who uses welfare.

Overview of the absence of harmonization of Bankruptcy laws of the Member States of the EU

Within the EU law frame there still is not the law that has a goal of regulating of matter of individual bankruptcy, the bankruptcy where a subject is natural person, the consumer. The EU member states including Croatia have regulated the possibility, the way and procedure of opening individual bankruptcy procedure, which resulted in great number of different legislative solutions [15]. European Union tends to harmonize laws, including bankruptcy laws in other state members. Until this harmonization is not achieved, the citizens of the EU member countries can legally declare individual bankruptcy and to opt for application of the most appropriate legislative solution of any member country to their legal situation.

Treaty on the functioning of the European Union guarantees the right to the freedom of movement and settling inside a unique market, overcoming the national borders of countries that keep legislative authority in their territory. Until the field of material law remains unharmonized, the possibility of competition among different legislatures is always present, as well as moving with the goal of using the favourable bankruptcy

law is enabled. As the Treaty on the functioning of the European Union guarantees the freedom to the citizens of EU to move from one member state to another, there is a question of whether every movement is connected to the purchase of authority. Phenomenon dominant in Great Britain, because of significantly more liberal bankruptcy procedure, is the so-called bankruptcy tourism, which is basically purchase of authority i.e. the search for the most favourable bankruptcy law. [16] After subjects become indebted and insolvent in one member country they seek to move the centre of their actual business operations or to create the impression that they have moved it to another member state in order to start the main procedure there and get debt relief according to the bankruptcy law of that state which offers benefits in relation to their country of origin. Moreover, the debtors can choose the bankruptcy law which is mild towards debtors, which will have a negative reflection throughout EU, including the state where the original centre of business operations was i.e. the country where the debt was created [17].

Every case of bankruptcy involving a foreign citizen, who led his business operations on the territory which is under the authority of another legislature, creates practical difficulties and additional expenses for creditors and institutions like courts, bailiffs and creditors for bankruptcy issues. It is certain that it is more expensive and more difficult to find and make a list of assets, research possible bases for a lawsuit and identify creditors, when the centre of bankruptcy is in another country, the one where the centre of actual business operations was.

In 2011 World Bank conducted preliminary research, and the work group, in its report in 2014, defined the issue of insolvency of natural persons as a system risk, and pointed out the need for modernization of the law and institutions in

certain countries, in order to enable the authorities to fight the risks of over indebtedness of natural persons in an effective and efficient way. It is essential to recognize various approaches to solving this issue, values, culture preference of certain society and legal tradition, which condition the access of authorities to the issue of over indebtedness [18], and according to this to try and create the bases of getting the legislation closer to the EU, in order to prevent the guaranteed liberties to grow into abuses.

Conclusion

The equality of all subjects in front of the law imposes the equal treatment of all participants in economic relations regardless of their status of legal or natural person. Individual bankruptcy is not an ideal, but it is the end tool in the situation when there is no other way for an individual to pay his debts.

During the previous decades, legislators have fought with many negative effects caused by the growing trend of over indebtedness of natural persons. These problems have spread across regions which differ a great deal, not just in cultural, historical and social structure, but also in economic and business development.

Over indebtedness and piling of unregulated debts, which is the case with Serbia and Croatia, represents a serious economic issue and a system risk. It causes the fall in productivity of great part of population burdened by debts, which undermines individuals' initiative and decreases their capacity for debt payment. Statistical data, which have already been analysed, show the trend of growth of indebtedness of natural persons, as well as the trend of being late with servicing their obligations. The decrease of number of new entrepreneurs in Serbia is obvious, as well as artisans in Croatia, while there is a trend of growth of closing enterprises every year.

Serbia is at the very beginning, even though the public talks more and more about the need to implement individual bankruptcy into the law, while Croatia on the other hand has all the instruments in its hands, which it needs to start implementing. Having that goal, it is necessary to approach the harmonization of the existing laws, because there are differences in regulating the same institutes, and we should also consider changing the law on financial business and pre-bankruptcy settlement where the individual debtors, trader individual and an artisan, would be excluded from this procedure, and included in the individual bankruptcy procedure.

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PHOTO 5.

Analiza | Analysis

PHOTO BY: JOSIP MESIĆ

Sevdalina Hristova¹

POSSIBILITIES TO DEVELOP LOCAL TOURISM POTENTIAL BY EUROPEAN REGIONAL DEVELOPMENT FUND (THE CASE OF BURGAS MUNICIPALITY)

Abstract:

This paper provides an overview of the funding opportunities for projects in Bulgarian municipalities from the European Regional Development Fund under Operational programme „Regional Development” 2007-2013 and Operational programme „Regions in Growth” 2014-2020 in the context of the development of the local tourism potential. Besides being presented opportunities for supporting the development of local tourism potential by European Regional Development Fund at national level, this work is focused on the possibilities to develop local tourism potential by EU funding following the example of the Burgas Municipality.

A review of the implemented projects, funded under

operational programmes, of the Burgas Municipality during the programming period 2007-2013 has been carried out. The European Regional Development Fund co-funded projects concerning the development of tourism are classified into several groups. Opportunities for EU funding projects in the current programming period 2014-2020 are revealed in the context of the development of alternative forms of tourism.

Besides the opportunities for supporting the development of local potential by EU Funds at national level, this paper introduces also the possibilities to develop local tourism potential by EU funding following the example of the Burgas Municipality.

Keywords:

regional development, operational programme, EU funding, Bulgaria

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Introduction

Tourism is considered one of the important sectors of the Bulgarian economy. The specific resources of the Bulgarian regions and municipalities, in particular, favour the development of sustainable forms of tourism - natural, cultural, environmental, etc. In recent years, tourism has established itself as a thriving business area, which has a significant share in the gross national product and generates employment. At the same time, tourism is an activity that can provide a good foundation for the development of innovations, thus contributing to the positive image of the regions as well as their economic and social development. Undoubtedly, in many Bulgarian municipalities there is considerable local potential, such as immovable cultural assets, natural resources and landmarks, suitable climatic conditions, landscapes. This potential remains underutilized for the development of tourist activities.

The available local tourism potential can be developed by the municipalities through various activities involving conservation and restoration of immovable cultural assets, introduction of modern forms of showcasing immovable cultural assets, renovation of museums, development of tourism infrastructure, suitable for rural, spa, adventure, sports and other types of tourism. All of that requires significant financial resources.

European funds and in particular the European Regional Development Fund (ERDF), are one of the possibilities to fund projects for the development of local tourism potential. For the programming period 2014-2020, Bulgarian municipalities are one of the main beneficiaries in four of the seven operational programmes. Municipalities will have access to ERDF for the development of local tourism potential through the Operational Programme "Regions in growth" 2014-2020.

Burgas municipality is one of the Bulgarian municipalities that actively benefit from EU funds to develop local tourism potential. In the programming period 2017-2013 it has implemented several successful projects that can be used as good practice.

In light of the aforementioned, the aim of the author of this work is based on research practice of Burgas Municipality to outline the opportunities and to derive some recommendations to the Bulgarian municipalities for more efficient development of local tourism potential through the implementation of projects funded by the ERDF under the Operational Programme "Regions in growth" 2014-2020.

Supporting the development of local tourism potential in the programming period 2007-2013

Bulgaria, as a full member of the Community, has access to the financial instruments of the European Union for the implementation of the Cohesion Policy and the Common Agricultural Policy. These are the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Fisheries Fund. Significant financial resources have been allocated for Bulgaria for the programming period 2007-2013. The financial framework amounts to just over 9 billion euros - 6,674 billion euros from the Structural (European Regional Development Fund and European Social Fund) and the Cohesion Funds, and 2,682 billion euros from the European Agricultural Fund for Rural Development and the European Fisheries Fund.

All six regions of Bulgaria corresponding to level II of the Nomenclature of Units for Territorial Statistics (NUTS II) are eligible for funding from the Structural Funds under the Convergence objective. Operational Programme Regional Development

(OPRD), as one of the seven operational programs operating during the period 2007-2013, contributes to the implementation of the Cohesion Policy and is carried out with the assistance of the European Regional Development Fund. It is the only operational program for the six planning regions and is complemented by interventions within the National Strategic Plan for Rural Development.

Operational Programme Regional Development 2007-2013 aims to improve the socio-economic conditions in the 6 planning regions, i.e. to overcome their lagging behind the EU regions, on the one hand, and to reduce the interregional disparities in Bulgaria, on the other hand. [1]

For this purpose, the Operational Programme provides for a wide range of measures, from infrastructure to cultural heritage protection, taking into account both the general trends and the specifics of the different municipalities and settlements. Support is provided both for projects of large urban centers with high potential for economic growth and social inclusion, and for their neighbouring and peripheral areas, which at that point lag behind the overall development of the region. An important role plays the cooperation between the municipalities, which may ensure integrated and sustainable development accordingly.

Priority axis 3 of OPRD - Sustainable Tourism Development is in line with the Community Strategic Guidelines on Cohesion, where tourism is considered to be one of the measures to promote economic growth, and the preservation of historical and cultural heritage - as a potential for tourism development. The Strategic Guidelines also emphasize the role of tourism in the development of rural areas mostly and the need for an integrated approach to quality, focusing on consumer satisfaction and based on the economic, social and environmental dimensions of the sustainable development.

The specific objective of the priority is to increase the potential for regional tourism development and marketing of sustainable and diversified, region-specific tourist products with high added value and increasing the sector's contribution to the sustainable regional development.

The financial resources to this priority amount to BGN 387 437 451, of which BGN 329 321 834 are EU funding from the European Regional Development Fund. The total amount represents 12.37% of the entire programme.

Priority activities are concentrated in three operations:

- Operation 3.1 Enhancement of Tourism Attractions and Related Infrastructure. The objective of this operation is to develop integrated and distinctive tourism products based on competitive and marketable attractions that contribute to diversification and territorial spread of tourism.
- Operation 3.2 Regional Tourism Product Development and Marketing of Destinations. The objective of this operation is to increase the number of visitors and visitor days, to improve seasonal and territorial distribution of tourism development in different regions and areas based on integrated destination management and marketing and to use different tools, techniques and systems ensuring effective tourism information and marketing.
- Operation 3.3 National Tourist Marketing. The objective of this operation is to enhance the effectiveness and impacts of national marketing efforts and related activities, market intelligence and transparency to facilitate diversification of tourist products and markets and sustainable tourism development. Specific beneficiary of this operation is State Tourism Agency.

The data published in Unified Management Information System for management and

monitoring of the EU structural instruments in Bulgaria can be used as an indication for the implementation of Priority Axis 3 Sustainable Tourism Development of OPRD 2007-2013 (see Tab. 1). Over 130 contracts have been concluded for the provision of grants to the total value of BGN 288 297 459 or 74,41% of the budget under the Axis, of which BGN 200 188 688 have been actually paid as of the beginning of December 2014. The absorption rate is about 51%.

Although the Ministry of Culture and the Ministry of Economy and Energy are the specific beneficiary of a significant part of the projects funded under this priority axis, more than 60 municipalities have successfully developed and implemented projects resulting in stimulating the development of sustainable forms of tourism and the promotion of cultural and natural values.

Under operation 3.1. supported objects are in the territory of the country. Some emblematic landmarks, including real cultural values of national and global significance, are supported. Supported project activities are:

- Development of nature, cultural and historic attractions;
- Development of tourism related infrastructure when and if needed for the use of attractions, incl. facilities and amenities for disabled and elderly visitors;
- Reconstruction and renovation/upgrading of publicly owned mountain chalets complementing tourism product development in remote areas, shelters and safety facilities;
- Complementary small scale technical infrastructure in the area of the attractions when and if needed for the use of attractions, such as access roads, utilities, amenities serving tourist attractions and visitor needs required to ensure the integrated development of tourism products;
- Complementary training of staff required for the operation of supported attractions and facilities;
- Complementary small scale non-infrastructure activities, explicitly related to the supported attractions.

Operation / Priority axis	Contract count	Contracted Amount		Actually paid	
		Total (BGN)	ERDF Funding (BGN)	Total (BGN)	Actually paid - ERDF part (BGN)
Operation 3.1 Enhancement of Tourism Attractions and Related Infrastructure	72	221 264 344	188 081 308	156 122 797	137 118 186
Operation 3.2 Regional Tourism Product Development and Marketing of Destinations	46	16 446 345	13 978 905	10 547 913	9 437 606
Operation 3.3 National Tourist Marketing	14	50 586 770	42 998 754	33 517 978	29 613 674
Total Priority axis 3 Sustainable Tourism Development	132	288 297 459	245 058 967	200 188 688	176 169 466

Table 1.: Implementation of priority axis 3 Sustainable Tourism Development of the Operational programme Regional Development 2007-2013, source: <http://umispublic.government.bg/>

Under operation 3.2. the projects are implemented in partnership with at least two municipalities. Eligible activities supporting regional tourism products are divided into six groups:

1. Development of travel packages or diversification of existing ones;
2. Promotional activities - preparation and dissemination of information and promotional materials for the tourist area and offers of support tourism product;
3. Participation in regional, national and international tourism fairs and exhibitions;
4. Studies of the impact of the implemented marketing and advertising;
5. Organizing trips, visits to travel agents, tour operators, travel writers, journalists;
6. Supporting public awareness activities and information services.

Deeper observation of projects shows that there are funded projects related to tourism products with minor potential. In our opinion, this is the result of project selections on the basis of the competition principle among all eligible beneficiaries. Obviously, this leads to a waste of resources and it is inefficient. The accumulated experience clearly indicates that the activities related to tourism should cover the entire territory of the country on the basis of predefined projects. This is reflected in the strategic documents for the programming period 2014 - 2020.

Development of local tourism potential in the new programming period 2014-2020

According to the final decision on the distribution of the funds within the European Structuring and Investment Funds Bulgaria will have access to a little over 10 billion euro during the programming period 2014-2020. Around 7,57 billion euro are allocated to Cohesion Policy: 3,57 billion euro to the European Regional Development Fund, 2,28 billion

euro from the Cohesion Fund, 1,52 billion euro from the European Social Fund, 55,2 million euro are distributed especially for the Initiative for Youth Employment and 165,7 million euro for territorial cooperation. As for the development of food industries and agricultural regions there are 2,34 billion euro allocated from the European Agricultural Fund for Rural Development. The allocated sources from the European Maritime and Fisheries Fund comes up to around 88 million euro.[2]

Successor of Operational programme Regional Development 2007-2013 is Operational programme Regions in Growth (OPRG) 2014-2020, which will be funded from the European Regional Development Fund. [3] The new program will focus on four sectoral policies, one of which is Regional Tourism, delineated in a separate priority axis.

Priority Axis 6 Regional Tourism of OPRG 2014-2020 provides support for the preservation, promotion and development of cultural and natural heritage of global and regional significance and creation of an entire tourism product for the relevant object. Until 2020, it is expected to provide support to 30 objects which are part of the cultural - historical and natural heritage and have national and world significance as there will be a growth of 1,2 millions in the number of the visits to the supported touristic objects. The indicative budget of the priority axis is 6,53% of the financial resources of the programme and is significantly lower in comparison to the budget of priority axis 3 under the Operational programme for Regional Development 2007-2013. Besides, it is important to underline that 50% of the planned financial resource within the ERDF (85 642 499 euro allocated for priority axis 6 of the OPRG 2014-2020) will not be allocated as granted funds but will ensure support by means of different financial instruments.

The projects to be supported should include one or more of the following indicative eligible activities:

- Development of natural, cultural and historical attractions, including religious sites, of national and global significance by restoration, conservation, exhibition, socialization, equipment, introduction of techniques and programs for interpretation and animation;
- Development of supporting infrastructure in the region of attractions (trails and paths of health, climbing routes, horse riding and biking, picnic areas, signposting, visitor information centers);
- Development of regional products and market information, events and information campaigns;
- Training of staff engaged in the attractions, participation in fairs and exhibitions.

The following data support the claim, there is a huge local tourist potential. Bulgaria has registered over 40 thousand monuments of immovable cultural heritage of global, national, regional and local significance, as well as 540 natural landmarks. Nine sites are included in the List of World Heritage Sites of UNESCO. Remarks should be made to the rich natural heritage with over 600 mineral springs, rich biodiversity (including 3 national and 11 natural parks) and 160 monasteries, more than 330 museums and galleries, rich traditions in organizing festivals and holidays, preserved ethnographic heritage, national cuisine and quality wines, etc. There are 142 officially announced resorts in the country, of which 58 are spa resorts, 56 mountain climatic resorts and 28 sea resorts. [4]

It is important to note that unlike OPRD 2007-2013, the new programming period provides for funding a limited number of predetermined cultural and natural attractions of national and global significance and religious sites located

throughout the country. The regional development policy will focus on priority projects derived from the total 1400 cultural assets of global and national significance, and 25 natural sites and phenomena with the potential to attract tourists.

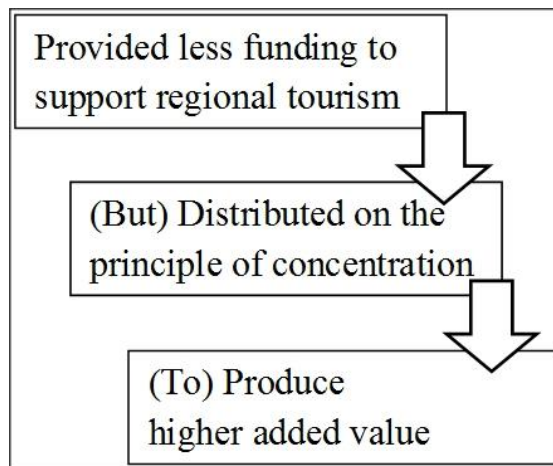


Figure 1.: Logic of Priority Axis 6 Regional Tourism of Operational programme Regions in Growth 2014-2020

Here, conclusion can be made that in terms of tourism, OPRG 2014-2020 is based on a new concept. Funding will cover a limited number of predetermined cultural and natural attractions of national and global significance and religious sites with the potential to attract tourist interest located throughout the country, regardless of the differentiation between urban and rural areas. In comparative plan should take into account that the new programming period are provided less funding to support tourism, but in view of their distribution on the principle of concentration is expected to produce higher added value and sustainability (See Figure 1).

From our point of view, despite the growing interest in alternative forms of tourism, the local communities cannot take advantage of their benefits because of some major barriers, such as lack of good infrastructure for the provision of

these types of tourism and lack of quality information in Bulgaria and abroad.

In conclusion it must be observed that upon the successful implementation of the new operational programme in the part of regional tourism, at the end of the current programming period we can expect to overcome the major barriers, resulting in an increase in the share of sustainable types of tourism, development and promotion of new tourist products such as cultural and historical, spa and wellness, eco and rural tourism, religious, congress, adventure, etc.

The investment in regional tourism will also support the development of accompanying economic sectors, including the light and food industries, and transport services in the regions. Thus, the development of sustainable types of tourism will contribute to the full implementation of the local economic potential and will lead to sustainable growth and generation of employment.

The experience of Burgas Municipality

Burgas Municipality is one of the largest Bulgarian municipalities which actively takes profit of the European funds for the implementation of policies and the development of the local potential. This is determined by the fact that the municipality possesses very well constructed administrative, financial and technical capacity of identification, grant awarding and implementation of the funded projects.

Burgas municipality is a beneficiary of 37 projects funded by operational programmes at the

total amount of 424,7 million BGN (see table 2) within the programming period 2007-2013.

Almost half of the projects of Burgas municipality are co-funded by the European fund for regional development. All of them represent investment projects and their total amount comes up to 224 million BGN. The revised projects which are co-funded by the European fund for regional development, can be divided into 4 groups depending on the object of intervention:

- projects with social character (improvement of the conditions in the social houses, schools, kinder gardens, healthcare infrastructure);
- projects for the rehabilitation and reconstruction of transport and engineering-technical infrastructure;
- projects for the wellbeing construction and renovation of green zones, places for recreation and sport;
- projects for the reconstruction and modernization of cultural infrastructure and objects of the cultural-historical heritage.

All projects have direct or indirect attitude to the development of the local touristic potential. Through the improvement of the social, physical environment and the belonging infrastructure, optimization of the transport system and ensurement of accessible public transport there is an impact on some of the main local resources (human, natural, infrastructure) which are a precondition to the sustainable development of the municipality and increase of its attractiveness and competitiveness.

Fund/ Operational Programme	Number of contracts	Total amount of the contracts (BGN)	Grant (BGN)	Co-funding by Burgas municipality (BGN)
<i>Projects co-funded by the Cohesion fund through:</i>				
Operational programme Environment	9	197 316 733,82	191 798 767,28	6 429 990,87
<i>Projects co-funded by the European fund for regional development through:</i>				
Operational programme Regional Development	14	182 135 038,26	143 521 062,37	24 544 384,91
Operational programme Environment	1	41 408 214,36	38 723 561,74	2 684 652,62
Operational programme Technical Support	1	669 619,25	669 619,25	0,00
<i>Projects co-funded by the European social fund through:</i>				
Operational programme Human Resources Development	6	2 080 824,40	2 080 824,40	0,00
Operational programme Administrative Capacity	6	1 119 838,49	1 119 838,49	0,00
Total	37 projects	424 730 268,58	377 913 673,53	33 659 028,40

Table 2.: *Projects under the operational programmes for the programming period 2007-2013 of Burgas Municipality, Source: <http://umispublic.government.bg/>*

The projects co-funded by the ERDF directly connected with the development of the local touristic potential are three, as one of them, distinguished, is about the restoration and adaptation of the cultural-historical heritage of the island St. Anastasia. The total amount of the grant agreement is a little over 5 million BGN as the intensity of grant is 95%. The island is a final point of the touristic itinerary which starts from the St. St. Cyril and Methodius Square, passing alongside some museums, the sea garden and the sea bridge from where the sea attraction starts. Only within 3 months after the inauguration, the touristic attractions hosted over then 25 000 visitors. As an effect of the implementation of the project is reported the recognition of St. Anastasia as a touristic destination at regional and national scale as the achievement of diversification of the offered products and services in Burgas.

As it is evident from the strategic documents for development of Burgas municipality during the programming period 2014-2020, in the direction of tourism it is planned to develop alternative forms such as cultural, eco and spa tourism. [6,7] This is possible thanks to the availability of rich cultural lifestyle with long-lasting traditions and rich cultural-historical heritage, a wide range of archaeological monuments from the Antiquity, Medieval and the Renaissance. The Geographical situation, the natural dispositions and rich biological diversity is an important factor for the development of the eco tourism in Burgas municipality. Over 43% of the territory of the Municipality is included in the ecological network Natura 2000. Besides, in the territory of the municipality there are three fields of mineral water, as from the Atanasovsko lake it is extracted mud and lye.

During the programming period 2014-2020, Burgas municipality elaborates its strategic tourism potential through the development of different type touristic attractions, as a priority the focus will be deployed in the following directions:

- On the basis of the natural dispositions and resources, development of spa resort "Burgas mineral baths" and creation of a new spa destination at Atanasovska kosa;
- Building the touristic attraction "Aqua Kalide-Thermopolis" - archaeological estate cultural monument with surface of 36 decares where it is located an ancient city with famous thermes visited by the emperors Yustinian the Great, Knstantin Pogonat, Sultan Suleiman the Great;
- Building touristic infrastructure of the natural sights - protected natural reserves, lakes, flora, fauna;
- Restoration and rebuilding of objects of the cultural infrastructure (Planetarium, Oceanarium, Underground touristic attraction, Museum of modern art), enlargement of the exposition surfaces and carrying out events and initiatives in the frame of the cultural calendar of the municipality, as well as encouragement of new initiatives beyond the active summer season;
- Creation of an integrated touristic product on the basis of the traditional local occupations, related to fishery and fishery crafts. In addition to this, there will be put an accent on building accessible and harmonious physical environment; it is planned to carry out interventions for wellbeing construction of green surfaces, squares, pedestrian zones (spaces), wellbeing construction of zones for the large public use, playgrounds and others.

The financially planned projects by Burgas municipality for the programming period 2014-2020 will be carried out through different sources -

European structuring and investment funds, other European and national programmes, own sources at disposal of the municipality, financial instruments, public - private partnership. The larger part of the projects related to the development of the local touristic potential will be carried out in the frame of the OPRG 2014-2020, i.e. they will be co-funded by the European Regional Development Fund.

Conclusion

Undoubtedly, diversification of the tourism product through the development of alternative forms of tourism leads to the minimization of the seasonal pressure of the mass tourism (sea and winter tourism) and to an adequate exploitation of the unused opportunities for the development of the eco, spa, cultural tourism and so forth. In this way, at a max. degree the local touristic potential is implemented.

Besides, the projects which have direct attitude to the development of new touristic attractions of different type should be carried out isolated, but obligatory in parallel with the projects for the improvement of the physical environment. This is necessary on the one hand, in order to increase the attractiveness of the territory, and on the other hand, these projects contribute to the development of alternative forms of tourism.

The ensuring funding of these projects is a key question for their implementation. In addition to the opportunities, which provides the European Regional Development Fund through the Operational programme Regions in growth 2014-2020 it is necessary to look actively and use other sources of funding, as grants as well as existing financial instruments for low interest crediting.

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INTEGRATED APPLICATION OF THE TARGET COSTING AND LIFE CYCLE COSTING IN CONTEMPORARY BUSINESS ENVIRONMENT

Abstract:

Contemporary business environment is characterized by frequent changes in business conditions. Technological innovations and changes in customers' perception affect on the continuous improvement in quality, availability and functionality of the product. According to this, product life cycle is significantly reduced over time, so business entities are trying to deal with these changes. Due to this, business entities have to produce new products in very short time, but at the acceptable level of quality with minimum costs in order to maintain the required level of the product profitability. In order to achieve these objectives, business entities

implement target costing and life cycle costing as management accounting methods. The main goal of this study is to present the potential model of integrated application of the target costing and life cycle costing. In this model target costing is focused on the products' design phase in which all costs during the whole life cycle of a product are estimated. Using this model, business entities are able to maintain more quality cost management in order to achieve required profitability. This model enables the dynamic evaluation of the products' profitability due to the fact it refers to the whole life cycle of the product.

Keywords:

target costing, life cycle costing, product profitability

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Introduction

Companies are faced with a competitive business environment characterized by frequently and rapidly changes that are the result of internationalization, concentration, restructuring, technological innovation processes and global financial market crisis. In those circumstances, on the one hand market expansion caused increasing the number of customers and products, while on the other hand technological innovation has reduced product life cycle. Furthermore, technological innovation leads to changes in customers' perception of different products regarding to quality, availability and functionality of the product. So, the product innovation is one of the keys to a company's survival, competitiveness and success.

Severe competition forces companies to become more responsible and adjustable in order to satisfy customers' needs, and in doing so to retain or increase its effectiveness, efficiency and profitability on the required level. Changes in business environment have forced companies to manage their costs according to business competition and customer needs, while in such a rigorous business conditions it is difficult for companies to maintain satisfactory return on profits.

In order to adapt to these circumstances, companies should adjust their management models on the way they achieve customer satisfaction and respecting cost constraints. That means the switch from the logic of cost measurement to the cost management, by integrated application the target costing and life cycle costing. The objective of this paper is to give an integrated model of the application of the advanced, relevant cost management concepts concerning to modern business conditions. So, the main goal of this study is to present the potential model of integrated application of the target

costing and life cycle costing as strategic management accounting methods.

The research goal is investigated through the review of comprehensive secondary literature sources. Applied methodology is focused on fundamental scientific research methods which include the induction and deduction methods, and the compilation and comparison methods. Whereas the research is only theoretical, the statistic methods are not used in order to achieve the research goal.

The paper is organised as follows. Firstly is presented a review of the literature on target costing which include the review of the fundamental features of target costing and the review of the research results about the reasons and scope of its application. The next section includes literature review on life cycle costing. Subsequent section presents the potential model of integrated application of the target costing and life cycle costing, followed by a conclusion of the study.

Target costing

Fundamental characteristics of target costing and its application

The aim of target costing is to examine all possible ideas and solutions for cost reduction when designing new product. Target costing is a cost management technique that is used during the development of the new product while in this phase target costing has the greatest potential for managing a product's cost. Furthermore, target costing is a key cost management concept since the costs are calculated before they occur and it is allowed the occurrence of only those costs that the customers are ready to pay and which are competitive on the market [1].

Target costing is a cost management tool for reducing the cost of the product with the help of

cross-functional teams (management, design, research and development, marketing and accounting) [1; 2]. This professionals included in cross-functional team (target costing project team) are engaged in the process of planning, designing, manufacturing and commercialization of a specific product. The aim is to produce a product with an adequate quality and value for customers, to satisfy the customers' demand in a short period; production costs should be at the level of allowable costs and to achieve required level of product profitability. In accordance with this, target costing is based on the idea that a product's quality, functionality and costs are mainly determined during the design stage of the product life cycle, and that little can be done in order to improve these elements once product design has been set.

Cost management in conditions of target costing application begins with sales price and required profit that market and customers can accept, and after to define the allowable costs of product. First of all, target costing include marketing research to identify customer expectations of a products' functionality, quality and sales price.

Identification of the target sales price is the starting point in the target costing process. The target sales price is set realistically in companies that are using target costing and the process of setting the target sales price is conducted very thoroughly [3]. Initial starting point for establishing the target sales price represents the price level of existing products or the price level of competitors' offerings [4]. Besides the perceived value to customers and the price level of competitor products, Kato [4] points out additional few key factors that have to be considered when setting the target sales price: the product concept, the characteristics of the anticipated consumers, the product life cycle, the

expected sales quantity and competitors' strategies.

Once the sales price is set, the manufacturer must deduct their profit margins and determine the products' costs. Usual measure of the profitability is based on return on sales or profit margin [3]. In defining the required product profitability, the products' profit margin should be set large enough to ensure that company earns required profit. Finally, the difference between a products' market sales price and desired profitability represents the products' target cost.

After a products' target cost is defined, a cross-functional team is commissioned to design and to develop the product to meet all customers' expectations within the constraints of the products' allowable cost. Target costing focuses primarily on direct costs, but it also can be used to reduce indirect costs [3].

Target costing uses a variety of techniques and methodologies to manage product design and cost: Kaizen Costing, Time Based Management, Just in Time, Total Quality Management and Value Engineering concepts [1]. One of the primary techniques, Value Engineering, is utilized to identify the primary and secondary functions of a product [5]. In next step, the cross-functional team uses this information for the purpose of identification innovative means of maintaining and providing a function at reduced costs. In doing so, the analysis include comparative analyses of competitors products functionality, quality, costs, design and product innovations. Cost analysis of each function is used to take the value customers assign to each function and to allocate a products target cost to each function and component. Those functions that do not affect on the customers value are significant area for decreasing the products' costs. For example, the costs of a function may be reduced by finding alternative means for its implementation, while the cost of a

component may be reduced either by using less expensive material and/or using fewer parts [5]. The cost of each product's function is defined from the estimated cost of the components that provide the function.

The cross-functional team task is to redesign a product until either its estimated costs is less than or equal to its target cost. Target cost is set for a new product which is in the phase of development, so the team for product development is motivated to attain the target cost before product is launched on the market. Target cost is based on the product's functionality, not on the proposed designed solution [6]. The cost of the product is considered to be an important strategic factor that should be decided by management, not the designers [7]. In circumstances where products' estimated costs exceed its target cost, the product is not developed further. Cooper and Slagmulder [3] indicate the cardinal rule of target costing which requires that only those products whose estimated costs is less than or equal to their target cost should be produced. Once a product enters production, a program of continuous improvement is used to reduce costs further and improve product quality [3].

Finally, target costing can best be described as a systematic process of cost management and profit planning, and the six key principles of target costing are [8]:

- 1) Price-led costing;
- 2) Focus on customers;
- 3) Focus on design;
- 4) Cross-functional involvement;
- 5) Value-chain involvement;
- 6) A life-cycle orientation.

On the basis of the above and according to Everaert [9], eight characteristics of target costing are as follows:

- 1) The target sales price is set during product planning, in a market-oriented way;

- 2) The target profit margin is determined during product planning, based on the strategic profit plan;

- 3) The target cost is set before new product development really starts based on either the subtraction or the addition method;

- 4) The target cost is subdivided into target costs for functions, subassemblies, cost items, designers or suppliers;

- 5) Target costing requires cross-functional co-operation;

- 6) Detailed cost information is provided to support cost reduction;

- 7) The cost level of the future product (drifting cost) is compared with its target cost at different points during new product development;

- 8) Establishing the general rule that "the target cost can never be exceeded".

Those characteristics of target costing indicated that target costing is a management tool for cost management and profit planning that is focused on customers and design of product according to customers' needs, price led and cross-functional.

Literature review on the use of target costing

Target costing has been widely adopted in Japan since it was first introduced at Toyota in the middle of the 1960s [10]. In the US and in Europe the target costing occurs at the beginning of the 1980s [1]. However, a literature review on the target costing reveals that target costing is very often associated with Japanese firms and most of the empirical research has mainly been performed by Japanese researches for the Japanese firms and context [4]. A number of case studies have been undertaken in leading Japanese manufacturers, such as Toyota, Nissan, Daihatsu, Sony, Olympus and other.

The most significant reasons cited for using target costing include cost reduction, improving product quality, achieving timely introduction of

new products and improving communication [11; 12; 13].

Firms with the shared characteristics of intensive competition, extensive supply chains and long product development cycles best benefit from the target costing [8]. Dekker and Smidt [11] found that assembly firms in a competitive, unpredictable environment are more likely to use target costing. Hibbets et al. [14] found that firms with a strategy of product differentiation and strong competition were more likely to use target costing.

Research show that target costing is being used worldwide. Tani et al. [13] find 60,6% of Japanese manufacturing firms listed on the Tokyo Stock Exchange have adopted the target costing. Rattray et al. [15] investigated the application in the New Zealand' manufacturing firms and the results showed moderate use target costing (38,71%). A comparative study of the adoption and implementation of target costing in the UK, Australia and New Zealand indicates that the extent of adoption of target costing in all three countries is relatively low; 17,7% on average in the three countries [16]. Dekker and Smidt [11] conducted a detailed study of target costing in Dutch firms and revealed an adoption rate of 59,4% for listed manufacturing companies. Ansari et al. [17] point out that target costing is being increasingly adopted by a number of leading firms worldwide, in particular in East Asia (India and Malaysia).

Finally, target costing is mainly used in manufacturing companies and it becomes more appropriate when products are differentiated, characterized by high quality and with short life cycle.

Life cycle costing

Characteristics of life cycle costing

There are plenty definitions of life cycle costing but the basis is the same, life cycle of a product refers to the time from the initial idea for a product to the period in which service and support to customers is ended and during that whole period all the costs must be included.

Life cycle cost includes all dollars paid for a product during its useful life which means that it includes all dollar costs associated with the acquisition, use, maintenance, and disposal of a product. There are two basic components of life cycle cost: product life and product cost, and cost is divided into initial costs which includes all costs associated with the purchase of the product and operating costs such as energy, maintenance and service [18].

Life cycle model assumes that the life of a product starts when the idea for a product is born. After that, product is created and launched on the market and it experiences an upward path, reaches maturity and after a while it begins to show signs of exhaustion and age. Since the calculation of life cycle costs applies to a whole life cycle of a product it ensures a long term perspective, in such a way allowing a more comprehensive overview of product cost and profitability. In order to receive a comprehensive analysis of production costs and profitability, managers now look at costs both at the beginning of the process (before production) and at the end of the process (after production), they are not just focused on production costs [19].

Product life cycle costing is a methodology which is used for determining costs of product during its life cycle and its main purpose is to determine, analyze, forecast and manage all costs which occurs in that period [20].

Life cycle of a product is a period in which the product is developing, producing, designing, distributing, selling, consuming and exits from the market. During that period, costs which are committed are representing the life cycle costs,

and in order for a product to be profitable, the total costs during its life cycle must be covered. Therefore, information about all the revenues and costs during the life cycle of a product in every phase must be known. All the costs are significant to assess profitability of a product, no matter if they were committed before producing the product, during the production or after producing the product [1].

Life cycle costing estimates and accumulates all the costs during the product life cycle in order to determine if the profits earned during the manufacturing phase will cover all the costs incurred, no matter if they are incurred before or after the manufacturing stage [21].

This method has been used first time in 1960 by the Department of Defence of the United States [20; 1]. After that, it starts to apply in other industries [1]. In that same year there is another concept, the LCCA (Life Cycle Costs Analysis), which is first applied by the government agencies as an instrument for improving the effectiveness of using the equipment. LCCA is mostly applied in early phases of a product life cycle in assessing the costs in the beginning since these costs are basis for assessment of total costs. Since 1980 there is Life Cycle Management which is management tool and helps management in decision making. Since 1990 there is accent on including environmental costs in life cycle concept connected with the sustainable development concept [1]. With life cycle costing, all the costs during the life cycle of a product are identified. It helps management to understand the cost consequences of developing and making a product and to identify in which areas costs could be reduced so that reduction effort is likely to be the most effective [21].

Phases of the product life cycle

According to different authors, phases in a product or service life cycle are divided in different ways, but the most common division is in four phases: introduction, growth, maturity and decline. There are four phases in the product life cycle which are: introduction, growth, maturity and decline [22; 23; 24]. Phases of the product life cycle are: the phase of introducing the product to the market, the growth phase, the phase of product maturity and the phase of product obsolescence [19]. Product life cycle is divided in three periods: the period of product development, the market period and the post-market period [1]. Product life cycle phases are: the planning and design stage, the manufacturing stage and the service and abandonment stage [21].

There are two different views of the product life cycle; one is sales life cycle which includes the time while the product is on the market (from the introducing the product to the market until the product exit from the market) and the other one is cost life cycle which provides information about all cost during the whole product life cycle [25].

The concept of cost life cycle includes all the costs associated with the research and development of a product, costs of designing and manufacturing the product, marketing and distribution costs of a product and customer service costs [25; 26]. When observing product life cycle in this view, life cycle of a product can be divided in three periods: the period of product development, the market period and the post-market period. The period of product development refers to the period from the initial idea for a product until the product is ready for placement to the market. After that period, starts market period which presents the period while the product is on the market (sales life cycle of a product). The post-market period consist of activities in the guarantee periods, return of the product,

possibilities of recycling the product and other customer service activities [1].

When considering sales life cycle, product goes through four phases: introduction, growth, maturity and decline. Below are these phases and characteristics of each of them with accent on costs occurred in each phase:

1) Introduction: in this phase accent is on high costs. There is greater spending of materials, and time to produce the product is longer. Marketing costs are also high since the large investment is needed to promote the product on the market [19]. It has been shown that most of the manufacturing cost of a product is already committed in production design, once a design is complete [27]. Promotion costs are high in order to present the product, encourage testing the product and to distribute it [24].

2) Growth: in this phase production is well established and cost per product is falling [19]. Promotion costs are on the same level or higher in order to maintain the market position and cost per product is falling due to the learning curve of manufacturer [24].

3) Maturity: company seeks the ways how to modify the product by adding new contents in the different areas (placement, promotion, distribution) to preserve the position of a product [19]. Advertising and promotional activities are more intensive and companies are investing in research and development in order to improve performance of a product and develop new product lines [24].

4) Decline: since the sales are falling, companies should try to reduce prices in order to remain profitable with the existing costs [19].

All the costs during the product life cycle must be identified for each phase separately in order to manage them and in that way produce a profitable product and achieve desired objectives.

Model of integrated application of target costing and life cycle costing

The need for integrating target costing and life-cycle costing

Target costing and life-cycle costing are two modern cost management methods designed in order to apply in contemporary business environment. Globalization process, technology development, changes in consumers' preferences, shortening product life cycle, consumers' requests for more quality and more functional products are the most important characteristics of contemporary business environment which have significantly changed the way the companies operate. In order to secure the required level of profitability and rate of return for owners, management need more quality, accurate and timely based information from accounting function for business decision process. The most important information is those referred to costs and product profitability. In modern business environment management have a very little influence on market prices, so, in order to maintain and raise profitability, management is often more oriented on cost reduction rather than on revenue increase. Furthermore, management need information regarding the product profitability in order to make decisions about the development a new product, redesigning the current product or withdrawal a product from market. When evaluating product profitability, all costs associated with the product must be taken into account, not just production (or manufacturing) costs. Therefore, in modern business environment, traditional cost management methods (such as job order costing and process costing) are not appropriate since they evaluate product profitability only on the basis of production costs. Traditional cost

management methods are useful for evaluation of product profitability in certain accounting period (annually), while modern cost management methods (life-cycle costing) evaluate product profitability through its whole life cycle considering all costs associated with a product through his life time from research and development to the withdrawal from market. Modern managerial (management) accounting literature recognizes several costing methods focused on the whole product life cycle. The most important methods are target costing and life-cycle costing [25]. These two methods enable a comprehensive analysis of product costs and profitability through the whole product life cycle [25]. Target costing emphasizes the role of product design in reducing costs in the manufacturing (production) and downstream phases of the product life cycle [25]. Life-cycle costing tracks and accumulates all costs attributable to the each product through its whole life cycle [28] enabling a complete evaluation of product profitability through its life cycle. These two methods should be integrated in order to provide quality and appropriate information base for decisions regarding the development of a new product, redesigning the current product, withdrawal the product from market and also for pricing policy. So in the sequel of this part of the paper, the model of integrated application of target costing and life-cycle costing is presented.

The implementation of model of integrated application of target costing and life-cycle costing

Target costing and life-cycle costing are modern cost management methods which are mutually linked and their integrated application can provide management of a company with quality, accurate and timely information regarding product

profitability. The model of integrated application of target costing and life-cycle costing is based on the analysis of relevant secondary sources and its main purpose is to provide management with information regarding the product costs and product profitability in order to make a decision about the introduction a new product and redesign or withdraw the current product. The decision is based on the relationship between target cost of a product and life cycle cost of a product. The model is general, descriptive, focused on production companies (although it can be applied by service companies), referring to a single product (or type of product) and is suitable for companies which cannot influence on market prices. The main prerequisites of model application are (1) the appliance of activity based costing (ABC) which traces and predicts costs for all activities within the entire company and (2) the appliance of standard costing which is necessary for life cycle costing. ABC is necessary, because this method enables the determination and prediction of product costs according to activities in particular phase of a product's life time. Standard costing is important because it is a tool for cost prediction. In the model, target costing is used in the design phase of a product, due to the fact that approximately 80% of product costs are determined in that phase [25; 29]. Life-cycle costing is used to trace or predict product costs in every phase of its life time. Target costing is used to define the maximum allowable cost for a new product or redesign current product, while life-cycle costing is used to determine or predict the cost of a product taking into account all phases of its life time. If the target cost is above life-cycle cost, the product is worth making or redesigning and if the target cost is below life cycle cost, the product is not worth making or redesigning and should be withdrawn from the market [29]

Relationship between target cost (tc) and life-cycle cost (lcc)	Decision
$tc > lcc$	Product is worth making or redesigning.
$tc < lcc$	Product is not worth making or redesigning. Product should be withdrawn from the market.

Table 1.: Decisions about making, redesigning or withdrawing the product from the market on the basis of target cost and life-cycle cost

Target cost is determining on the basis of market price and required profit or mark-up per product i.e. [30]:

$$\text{Target cost (tc)} = \text{Anticipated market price (mp)} - \text{Desired profit (p)} \quad (1)$$

This target cost include all cost associated with the product (manufacturing or production cost and other costs such as selling, administrative and customer service costs). Therefore, target cost can be divided on its main components:

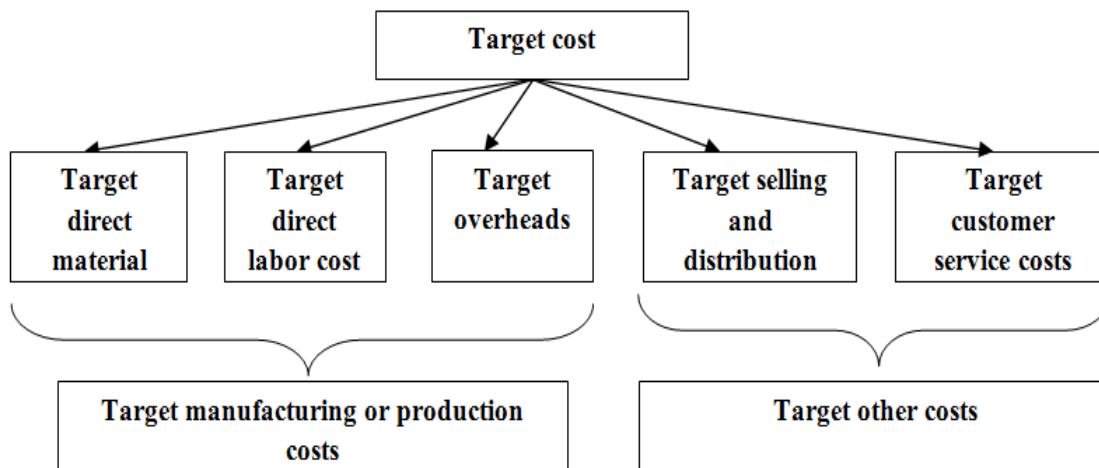


Figure 1.: Components of target cost

With ABC target overheads and target other costs can be divided according to identified activities within the production and nonproduction part of a company. This is especially important when target cost is below life-cycle cost and management of a company has decided to reduce life-cycle cost to the level of target cost.

Life cycle cost is a cumulative actual or standard cost from each phase of a products' life time. The concept of actual cost is used when management makes a decision about redesign or withdrawal of a product and the concept of standard cost is applied when management makes a decision about the introduction a new product to the

market. For the purpose of the determination of life cycle cost, the product life time is divided into five following phases: (1) research and development, (2) design, (3) manufacturing or production, (4) marketing and distribution and (5) customer service [25]. In each case, ABC is needed for the determination of product costs in each phase of its life time. Since target costing is oriented on a design phase and life cycle costing refers to all products' life time phases, the model for integrated application of these two cost management methods can be presented as follows:

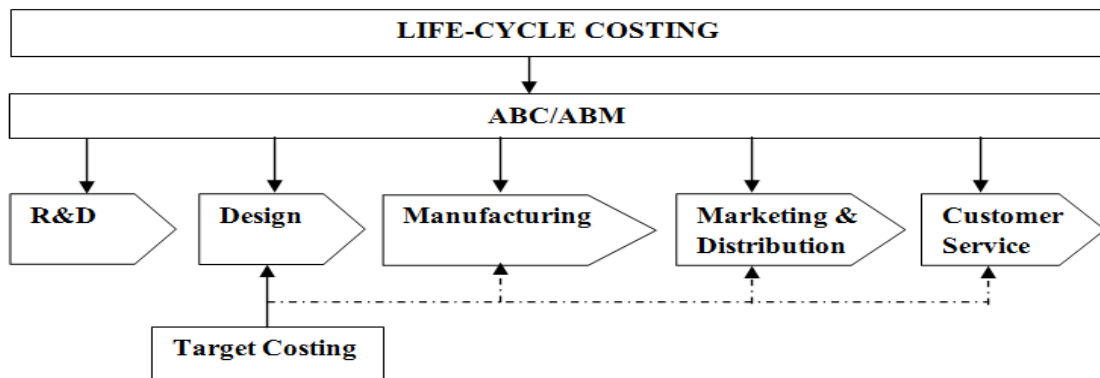


Figure 3.: Model of integrated application of target costing and life cycle costing

Target costing is focused primarily on design and in this activity the majority of other costs are determined and therefore locked in [28]. Once the product is designed, it is hard to change its basic features and reduce costs. Due to that, target costing has the strong influence on all costs in subsequent phases of a product's life time. Life cycle costing combined with ABC is focused on all activities associated with a product during its life. Target costing determines the target cost of a product which includes the target material cost, target labor cost, target indirect manufacturing cost (overheads), target sale and distribution cost. Target indirect manufacturing and nonmanufacturing costs can be determine according to activities and in such determination ABC has the key role. The comparison of actual or standard activity cost (determined by ABC) and target activity cost indicate whether the cost of activity is within the targeted level. ABC can be used in life-cycle costing as well. Since life-cycle costing considers all cost associated with products within the whole product life, this method requires the identification of all activities associated with product through its life and tracing cost according to identified product activities within the product life. ABC is a useful tool for identification of product activities and for tracing costs associated with certain product

activity. Therefore ABC enables the more qualitative implementation of life-cycle costing.

The presented model can be used in order to make a decision about the implementation of a new product into the market and to redesign or withdrawal the current product. As long as the target cost of a product is above its actual or standard life cycle cost, the product is worth making or redesigning. In other case, product is not worth making or redesigning and should be withdrawn from the market.

Conclusion

Target costing and life cycle costing are two modern cost management methods which should be integrated and combined in order to provide management with quality, accurate and timely information regarding the costs and evaluation of product profitability. Target costing determines the target cost of a product based on anticipated market prices. Life cycle costing is focused on all costs associated with a product during the whole product life. The model presented in the paper shows the integrated application of target costing and life cycle costing. Model is suitable for companies which cannot influence on market prices of its products, but must adjust to current market prices and other market conditions. Target costing is method used in the design phase of a product's life time in order to determine the

maximum allowable cost of a product. This phase is especially sensitive, because in this phase the majority of product's cost are determined and locked in. On the other hand, life cycle costing refers to all product's life time phases in order to determine the product's life cycle cost. Life cycle costing efficiently applied together with standard costing and activity based costing. The model of integrated application of target costing and life cycle costing should enable the more quality and accurate evaluation of product profitability and should also help management to make a decision about the implementation of a new product into the market, redesigning or withdrawal the current product from the market.

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Tonkova Evgeniya ¹

MARKETING ACTIVITIES FOR DEVELOPING THE LOCAL POTENTIAL OF MUNICIPALITIES

Abstract:

Competitiveness of municipalities is a significant factor for their future development. Financing projects that concern the development of local potential for improving their competitiveness attract experts' attention to effective use of local resources, involvement of population and business, as well as the innovative approaches in managing the municipalities. Highly technological marketing in the public sphere therefore, needs to be viewed as a tool aimed not only at communication and realization of municipal services for population and business, but also as an opportunity for generating ideas, stating consumer interest in coming projects, registering volunteering and implementing donation.

Local potential is a dynamic multi-dimensional category which presupposes disaggregating and further development in various sections. The priorities of municipalities, their comparative advantages, available resources and the support from citizens and businesses are an important landmark in developing local potential. Municipal projects have to be publicly announced in order to receive the support of the population and business. The comparative advantages on the territory of municipalities have to be used actively and developed with the aim at designing a unique identity for better market positioning. Available resources are subject to registering and respective use for achieving favorable direct and transfer socio-economic effect.

Keywords:

regional marketing, local potential maps, local resources, innovative decisions

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Introduction

The development of territories nowadays is of crucial importance for the market positioning of regions and countries. The competitiveness of settlements based on strategic and comparative advantages is a key factor for the social and economic development of the regions. The economic, technological and political changes in recent years have provoked the interest of municipalities in developing local potential. The efficient use of the resources on the territory of a country, and, the other hand, the aggressive marketing of locally produced products and services, are a prerequisite for the generation and promotion of the strategic advantages of the territories.

For local development, single marketing at company level does not have the potential of the integrated marketing. Therefore, an important task of municipalities is to develop a concept for integrated marketing at local level and to create conditions for its successful implementation. Authors point at four important aspects of territorial marketing strategies - image marketing, locality's attraction marketing, infrastructure marketing and human marketing [1]. A number of authors [2] have focused on the importance of public marketing over the past decade. The focus on public marketing includes, first of all, marketing of administrative products and services, and second, administration of integrated marketing on the territory of a municipality. Both aspects are of utmost importance for the identification of local potential and its determination and development. Research in EU countries shows that new technology-based companies [3] contribute to the growth potential in the region. The experience of high-tech companies, therefore, should be transferred to the municipalities which administer projects of

exceptional importance to the population, the business, tourists and other key audiences.

Local potential attracts research in different disciplines. The study of the interdisciplinary approach to its definition has the following advantages:

- Outlining of specific spheres of development;
- Identification of various metrics of dimensioning;
- Outlining of connections that are essential to its use;
- Possibility of looking for analogies within the local market and the potential to generate regional growth.

The importance of the issue about the role of marketing for developing the potential of municipalities presupposes more research interest on behalf of marketing specialists for creating innovative approaches and directing them to solving current issues of municipalities and increasing their competitiveness.

The aim of this article is to clarify the role of marketing in managing municipalities and presenting an innovative approach in developing local potential with the opportunity for active involvement of the population.

The role of marketing in the governance of municipalities

The implementation of the marketing approach in municipalities is an important step to achieve a successful regional development. The various aspects of using marketing towards the development of the local potential determine its consideration as a set of components, tools and features designed to improve the conventional indicators for municipal development. Despite the connection that authors make between marketing in the public sphere and political marketing [4] the last decade has seen its development into

specific applications, formulated as public marketing, region marketing [5], city marketing, place marketing [6], territory marketing, social marketing and other specific applications, e.g. territory of origin marketing [7], etc.

The analyses that make part of the municipal development plans should be marketing oriented, and should include components of the macro and micro marketing environment and those of the respective municipality's marketing mix. The municipalities' resources cannot be fully utilized without a clear marketing orientation of their management. It is therefore necessary to highlight in the analytical part of the plans strategic resources subject to marketing development, key problems to be solved and future development opportunities.

The marketing approach should be applied also in the goal-setting of the municipal development plans. The targeted positioning of the municipality on a national or international level could result to a great extent from marketing activities. Setting goals on different component indicators is a prerequisite for their change in a more favourable direction. The development of marketing strategies on the municipal level is an important step in the utilization of the possibility to generate additional revenue on and from the territory and to achieve financial independence. The integrated marketing strategies in partnership with other actors are a prerequisite for increasing the effectiveness of their implementation and the dissemination of good practices of marketing interaction. Integrated area marketing can be used in any municipality that has been active in benefiting from new market opportunities. Using a variety of marketing tools for the development of municipalities is a prerequisite for improving the economic and social status. Particular emphasis should be placed on low-cost marketing, whose active application generates a positive effect on

the attractiveness of the municipality among various target audiences. The marketing inclusion of individuals and business entities on the territory of the municipality contributes to increasing activity, creativity and commitment in the development of local potential. The high-tech marketing, as a set of tools and channels allows for the involvement of a wide range of individuals who can contribute with ideas, support, volunteering, sponsorship, etc., towards the successful development of municipalities. Unconventional marketing means are also of interest in terms of their application in municipalities.

Marketing programs developed at the municipality level could be a significant factor for the successful management of municipalities. For example, the overall marketing program for municipal development will enable the integration of the various activities, their scheduling in time, their co-ordination as well as the monitoring of the direct and transfer impact. Integrated marketing programs [8] such as programs to attract investors in the municipality are a prerequisite for the implementation of municipal plans affecting the social and economic development in the short and long term. Organization of marketing activities in the municipalities is expected to be a priority in modifying their organizational structures over the next 10 years. The establishment of separate marketing departments will greatly contribute to carrying out marketing on a high professional level, in coordination with other activities of the municipalities.

Resources and local potential

Every region has its own resources that are directly related to the local potential. The efficient use of local resources depends on the intensity and balance of their use, the resource policies and the adequate management of capacities.

Resources	Specifics	Relation to local potential
Human resources	Population residing in the region. Population originating from the region but currently residing elsewhere. Temporary residents on the territory.	Socio-economic inclusion in various activities and formats.
Natural resources	Topography, climate, soils, minerals, water resources, flora and fauna, forests, places of special natural interest, protected sites, etc.	Precondition for development of specific business activities and activities of social importance.
Financial resources	Financial resources and tools needed to administer the territory and invest in development.	Factor for development of local potential and the outcome of that development.
Material resources	Material resources of the territory subject to registration and efficient use.	Precondition for design and development of local potential.
Cultural and historical resources	Resources subject to registration and marketing and efficient management.	Resourcing, shaping the tourist profile and potential of a region.
Information resources	The provision of information is an important prerequisite for the socio-economic development of a region.	Factor for design and development of local potential.
Infrastructure	Implies balancing with the other resources.	Precondition for development of the region and local potential.

Table 1.: Local resources and relation to local potential

Maps of local potential

Every region needs clarity for the development of local potential. Step-by-step development (figure 1) is an advantage which predetermines the accuracy, interconnectedness and priority of activities. The economic geographic models [9] used in science should be widely applied to the development of territorial potential.

The first map should contain the comparative advantages of the location outlining the major existing fields of activity. These should include local crafts, local production, natural, educational, cultural and historical resources, etc. Different approaches can be applied for the purpose of identifying the key comparative advantages. The registration of the most important fields of activity can be based on both secondary

data available to municipalities and to conduct market research among residents and visitors of the municipality. Expertise can also be used at this stage, but it should be subjected to further analysis to confirm the arguments in favor of developing a particular activity.

The second map presents the local resources generating potential for the future development of a region. In practice, all resources related to the future development of a territory which are currently underused should be pinpointed. They generate the priorities for development. It is appropriate to apply unconventional approaches to gathering information and generating ideas for the development of the second map of municipal resources, which is especially important for the promotion of local potential. The variety of resources is not treated unambiguously by the

administration, businesses, residents, etc. It is necessary to consider the available resources as an integrated system, whose development will contribute to the sustainable development of the municipalities in the interest of all target audiences. The coordination in the development of local resources will overcome the existing problems of the municipalities, including unemployment, migration, depopulation, poverty and others.

The third map presents new or renewable aspects of business and social activity by strategic priorities. The new areas of business and social activity should correspond to the available resources and their readiness and potential for usage. The development of the third map is directly related to investor interest, entrepreneurship and municipal activity to the benefit of businesses on the territory. Highlighting the renewable business directions is based on a study of strong industries that can be originally agricultural, industrial, handicraft, etc., based on the strategic advantages of the location. Their resumption in the new socio-economic conditions can be useful for the establishment of the identity of the municipality and towns.

The fourth map interlinks the information in the first three maps and presents the balance of current and future activities with the resources available on a territory. The fifth map aims to present the specific transfer effects and an assessment of their impact on the development of local potential. The maps may be developed at different levels - town, municipality, district, region, country, etc. The purpose of the balanced map is to achieve coordination and synchronization of the processes related to the development of the territory, to reduce risks and avoid conflicts related to the upcoming activities. Additionally, the contents of the balanced map can be beneficial for the feasibility study and

justification of major municipal projects. The maps for the development of local potential should not be regarded as static. The information contained therein must be periodically updated to reassess priorities and to constantly monitor the activities on the territory and its results. The experimental introduction of an innovative and balanced marketing approach in developing the potential of a municipality encouraging the involvement of residents and businesses in the territory and registration of success means that the model has to be extended to other municipalities.

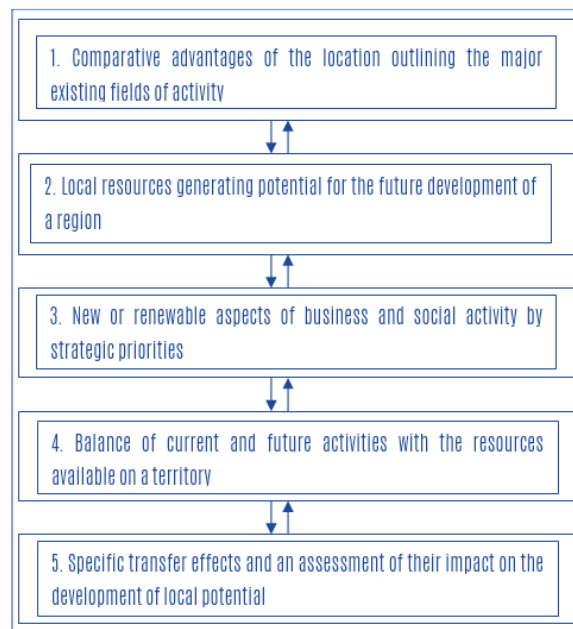


Figure 1. - Five step mapping of local potential

Initiatives for development of local potential

An essential part of the initiatives related to the development of local potential may be suggested by the residents of the territory. Municipalities have experience with participation in different world and European competitions by relying on initiatives suggested by the citizens who follow the competitions' rules (for example the Bloomberg Philanthropies challenge) [10].

The participation of people with initiatives for the development of local potential has the following advantages:

1. The collection of diverse ideas some of which are very original;
2. The low cost of the administration of the process;
3. People pointing at various problems and opportunities;
4. Encouragement of personal commitment and inclusion of residents (contribution by work, finances, etc.);
5. Collection of information which is subject to content analysis and drawing of important conclusions, etc.

To achieve high efficiency, however, one should not rely only on campaigns attracting participation. The municipalities should administer the proactiveness of the citizens by developing special platforms (figure 2) to register the initiatives of the residents on the territory. Thus, a number of the advantages of low cost and self-made marketing in the management of municipalities may be used.

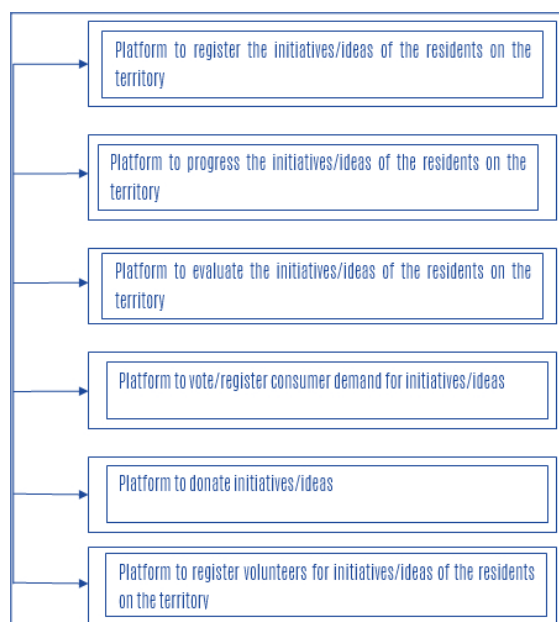


Figure 2.: Six platforms in municipal marketing management

Note: The presented platforms are under author's development within a scientific project. Future tests in focus groups will be provided.

In order to test the readiness to involve citizens of the municipality in developing the local potential, after the project the platforms will be open for discussion in focus groups. The results from these discussions will contribute for improving the platforms and their preparation to be tested in reality.

Innovation in the development of local potential

Giving the population opportunities to participate with ideas and to apply their creativity to the benefit of the EU development [11] is a priority in the sphere of social innovations. The innovation in the attraction of ideas for development of a territory is an essential precondition for the development of local potential. Individual creativity [12] is defined by a number of authors as a factor for regional development. The approaches to the generation of ideas as well as the channels and tools for their encouragement may be diverse. The integrated marketing of territories relies on the active participation of people in the socio-economic life. The platforms for regional development are considered by some authors in conjunction with the innovative regional systems [13].

Putting into practice the innovative approach of communication with the residents requires that a platform is developed within the system of integrated marketing to register, classify and rate the ideas for regional development provided by people who will contribute to the identification of problems and possibilities for future development. The advantages of the introduction of such a platform consist of the following:

- The possibility to demonstrate a proactive civilian opinion;
- Then diversity of ideas which even experts are unable to suggest;
- Some ideas may imply a low cost in terms of implementation;
- Multi aspect view of idea development argumentation;
- The involvement of people with various educational backgrounds;
- Making use of the potential of students and teachers in the region;
- The active involvement of people in the implementation of ideas initiated by themselves;
- Activating snowball communication effect;
- The possibility to archive the information and use it in the management of the region;
- Creating a sphere for discussions between the local authorities and citizens, etc.

Another innovative instrument which can be used for the purposes of design and development of local potential is the platform for expression of consumer interest in forthcoming projects in a specific region. The platform will be used to announce pending projects of municipalities with a detailed description of the activities and the financing while residents in the region will be able to register their consumer interest in projects they have genuine interest in. Some of the advantages of such a platform are:

- The evaluation of the consumer interest in the project;
- The evaluation of the market potential of the project through the registered consumer interest;
- The justification of significant infrastructural projects in the region;
- The precondition for efficient spending of funds on projects financed by local, national or European budgets;

- Registration of future intentions of citizens;
- Balance between interests of target groups;
- Proper planning options.

The experience may be transferred to the communication with companies and potential investors manifesting interest in their own development in the region. Developing such platforms as part of the general platform for integrated marketing is crucial for the balancing of activities in the area, ensuring support from the target audiences and encouraging their creativity in the development of the local potential on the territory. All these advantages contribute to the favourable market positioning of the area and factor into its identity in the search for competitive advantages.

Conclusion

The identification and development of local potential nowadays is of crucial importance for the market positioning of municipalities. The competitiveness of settlements based on strategic and comparative advantages is a key factor for the social and economic development of the regions. The development of local potential is the responsibility of local authorities. The possibilities to apply innovative, flexible and low cost marketing tools have not been sufficiently studied and presented in the sphere of public administration. Applying integrated marketing of the territory in contemporary conditions of competition is an essential prerequisite for the favorable socio-economic development of towns and regions. The marketing and innovation experience of high-tech business companies needs to be transferred to the public sphere in order to provide local activities with resources, ideas and consumer involvement in the interest of the population, the business,

visitors and the other target groups. The possibility to include research laboratories of universities in the region in the identification and development of local potential is also worth considering. Setting up marketing departments in the municipalities is a prerequisite for the elaboration of marketing strategies for the development of regional potential on a professional basis and overcoming the weaknesses of campaign marketing aimed mainly at resolving current issues.

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