

ISSN 2412-5210

International
Journal
VALLIS
AUREA

Volume 4 • Number 1 • June 2018
ISSN 2412-5210



EDITOR'S NOTE

We are delighted to present International Journal Valis Aurea (IJVA) as a result of a successful cooperation between DAAAM International Vienna and Polytechnic in Pozega. Our main objective is to publish fresh, relevant and high-quality research papers. To reach this objective, the journal aims to be accessible, engaging and challenging as well as to involve a worldwide community of scientists, professionals and experts.

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.

The works can be presented as:

- Theoretical, clear and empirical researches on the conception, structure, development and usefulness of interdisciplinary

science being important for the progress of theory and practice.

- Paradigmatic, methodological aspects of design, development and implementation of science and practice.
- Analysis and evolution of science and practice to the social, economic, organizational and management aspects of the environment and organization.

The International Journal Vallis Aurea is a biannual journal, with the pretension to affirm the integral, holistic view of interdisciplinary research. The journal aims to unite the academic methodology and sincerity with professional focus and practices.

We are dedicated to achieve and to maintain this journal's high standards. All articles submitted for publication in this journal are subjected to a double-blind review process performed by at least two academics from the Editor's Board. Reviewers stay anonymous. Authors will receive written notification of acceptance, remarks, comments and evaluation of their articles in a timely manner. Authors are responsible for ensuring that all manuscripts (whether original or revised) are accurately typed

before the final submission. If requested, one set of proof will be sent to authors, before the final publication, which must be returned promptly.

This publication was reproduced by using the papers supplied by their authors. The layout, the figures and tables of some papers did not conform exactly to the standard requirements. In some cases the layout of the papers was rebuilt. The readers are therefore asked to excuse any deficiencies in this publication which may have arisen from the above causes. The editors of Journal are not responsible either for the statements made or for the opinions expressed in this publication.

With all our hearts and sincerity, we wish to express our deepest gratitude to all the authors, reviewers, and editorial board members for their valuable contribution for this journal. We look forward to a successful cooperation.

Editors In Chief

PUBLISHERS:

**DAAAM INTERNATIONAL VIENNA
POLYTECHNIC IN POZEGA**

EDITORS IN CHIEF:

**Professor Dr.sc. Dr.mult.h.c.Prof.h.c.
BRANKO KATALINIC**

DINKO ZIMA, PHD

TECHNICAL EDITOR:

MANUEL DEL VECHIO

PUBLICATION PERIOD:

BIANNUAL

CONTACT:

Polytechnic in Pozega, Vukovarska 17, HR 34000 Pozega, E-mail: vallisaurea@vup.hr,
homepage: <http://www.vallisaurea.org> or DAAAM International Vienna, TU Wien, Karlsplatz
13/311, A-1040 Vienna, Austria, E-mail: president@daaam.com, <http://www.daaam.com>

EDITORIAL BOARD:

ADAMCZAK, STANISLAW (POL)
ANDRLIC, BERISLAV (HRV)
ARIWA, EZENDU (GB)
AZZOUZI, MESSAOUDA (ALG)
BANDOI, ANCA (ROM)
BARTOLUCI, MATO (HRV)
BERCEANU, DOREL (ROM)
BILBERG, ARNE (DK)
BIZEREA, MARIUS (ROM)
BLEICHER, FRIEDRICH (AUT)
BLEY, HELMUT (AUT)
BUCHMEISTER, BORUT
CAPRARU, BOGDAN (ROM)
CELAR, STIPE (HR)
COTET, COSTEL EMIL (ROM)
DE ALWIS, ADAMBARAGE CHAMARU (CL)
DESPA, ELENA GABRIELA (ROM)
GRNJAC MILIC, DOMINIKA (HRV)
DZAFIC, ZIJAD (BH)
EGOROV, SERGEY B. (RUS)
ERDOGAN, EKIZ (TR)
FILARETOV, VLADIMIR, F. (RUS)
FUJII, NORIO (JPN)
GERSAK, JELKA (SLO)
GRABENWEGER, JOHANN (AUT)
GRONALT, MANFRED (AUT)
GRUESCU, RAMONA (ROM)
HAREESH, RAMANATHAN (IND)
HORVAT, ĐURO (HRV)
JAKOBI, AKOS (HUN)
JARVIS, CHRISTINE W. (USA)

KATALINIC, BRANKO (AUT)
KEINER, WOLFGANG (AUT)
KJOSEV, SASHO (MK)
KONELL, SIDNEY (USA)
KOSMOL, JAN (POL)
KURTOVIC, EMIR (BH)
KUSIAK, ANDREW (USA)
KUTNJAK, GORAN (HRV)
LACKOVIC, ZLATKO (HRV)
LYMBERSKY, CHRISTOPH (GER)
MAJSTOROVIC, VLADO (BIH)
MARCOS, MARIANO (ESP)
MOUSAVI, SIAMAK (GER)
MUELLER, ANDREA (GER)
NAGLA, KULDEEP SINGH (IND)
NANASI, JOZEF (SK)
NARDONI, GIUSEPPE (ITA)
NEDANOVSKI, PECE (FYM)
PANCURAK, FRANTISEK (SK)
PARK, HONG- SEOK (KOR)
PJERO, ELENICA (ALB)
POPOV, OLEG (UKR)
PREMAWARDHENA, C. NEELAKSHI (IND)
PROSTREDNIK, DANIEL (CZS)
PRYANICHNIKOV, VALENTIN (RUS)
RAAB- OBERMAYR, STEFAN (AUT)
RAJU, OLEV (EST)
RAMETSTEINER, WERNER (AUT)
SANDU, CRISTINA (ROM)
SANTOS, JOSE ANTONIO CARLOS (POR)
SERZHANOV, VITALIY (UKR)

SHOBEIRI, SAEED (USA)
SIPOS, CIPRIAN (ROM)
STAZHKOV, SERGEY (RUS)
STEFANIC, EDITA (HRV)
STOPPER, MARKUS (AUT)
SUBARIC, DRAGO (HRV)
TAN, KOK KIONG (SGP)
TEICH, TOBIAS (DEN)
TOMASEVIC LISANIN, MARIJA (HR)

TORIMS, TOMS (LET)
VAARIO, JARI (FIN)
VASEK, VLADIMIR (CZS)
VASICEK, VESNA (HRV)
VOLOSHYNA, YULIANNA (UKR)
WEIGL, K. HEINZ (AUT)
WESSELY, EMIL (SK)
YOSHIDA, SUSUMU (JPN)
ZAVRSNIK, BRUNO (SLO)

Dumičić, Ksenija¹

Jošić, Hrvoje²

Žmuk, Berislav³

INVESTIGATING EXPORT MARKET CONCENTRATION FOR DEVELOPED, DEVELOPING AND TRANSITION COUNTRIES

Abstract:

Multilateral liberalisation of international trade started at the second half of the 20th century. Many, especially developing countries, benefited from trade liberalisation increasing their share of trade in global trade. This decrease in inequality of international trade between developed and developing countries can be measured by calculating market concentration indices. The emphasis is given to standardized Herfindahl-Hirschman index as the basic measure of trade concentration. Goal of this paper is to investigate concentration of global merchandise exports for developed, developing and transition countries using various concentration measures in the

period between 1948 and 2016 and testing the validity of Linder hypothesis. Results of the analysis has shown that there has been decrease in market concentration of global merchandise exports in the observed period, the importance of developing and transition countries increased while developed countries preferred mutual trade instead according to the Linder hypothesis.

Keywords:

export market concentration; merchandise exports; concentration indices; Herfindahl-Hirschman index; globalisation; Linder hypothesis

Author's data:

¹ Full Professor Ksenija Dumičić, PhD, Faculty of Economics and Business, University of Zagreb, Trg J. F. Kennedyja 6, HR-10000 Zagreb, Croatia, E-mail: kdumicic@net.efzg.hr

² Assistant Professor Hrvoje Jošić, PhD, Faculty of Economics and Business, University of Zagreb, Trg J. F. Kennedyja 6, HR-10000 Zagreb, Croatia, E-mail: hjosic@efzg.hr

³ Assistant Professor Berislav Žmuk, PhD, Faculty of Economics and Business, University of Zagreb, Trg J. F. Kennedyja 6, HR-10000 Zagreb, Croatia, E-mail: bzmuk@efzg.hr

Introduction

The growth of international trade has been larger than the growth of World gross domestic product after the Second World War. Multilateral liberalisation of international trade started at the second half of 20th century since the GATT creation. Free trade has been seen mutually beneficial for all countries included in the trade, or positive sum game, which is the essence of comparative advantage theory which is contrary to the teaching of mercantilists where only exporter country has gains while importer country has losses. Trade liberalisation led to reduction in trade barriers improving economic growth, development and raising living standards leading to globalisation as the final outcome of the liberalisation process. Many, especially developing countries, benefited from trade liberalisation increasing their share of trade in global trade. Trade among developing countries (often referred to as South-South trade) has more than tripled in the period from to 1980-2011 [18]. In order to measure and understand the structure and inequality of global world trade between developed, developing and transition countries, various measures of trade concentration have been used. Economies can be vulnerable to external economic shocks and it depends on degree of country's export concentration. Export concentration or export partner concentration is a degree to which a country relies on a limited number of partners as markets for its exports. Country that exports only one product to other country has perfect export concentration. On the other hand, country that exports large number of products and trade with many trading partners has more diversified exports and lower export concentration ratios [25]. Export concentration can take several dimensions and can be analysed at different levels [23]. Two well known

forms of export diversification are horizontal and vertical diversification. Although the role and importance of developing and transition countries in global trade has increased, specialization and differentiation in production has led to a regularity in international trade patterns, known as Linder hypothesis according to which countries that have similar demand structures will trade more with each other [14]. According to Linder hypothesis developed economies therefore prefer trade themselves and not with the developing and transition countries. Goal of this paper is to investigate global concentration of merchandise exports for all countries of the World calculated by observing countries as groups of developing, transition and developed countries using various concentration measures in the period from 1948 and 2016. Accordingly the research hypotheses of the paper are the following ones:

H1: Global export market concentration has globally decreased in the period after 1948 due to globalisation and liberalisation of free trade.

H2: Developed countries prefer trade themselves and not with the developing and transition countries according to Linder hypothesis.

In order to measure export market concentration the emphasis will be given to standardized Herfindahl-Hirschman index as the basic measure of trade concentration. In the analysis other concentration measures like concentration ratio, Gini's concentration coefficient, Rosenbluth's concentration index and Hall-Tideman's concentration index will be used also. The importance of the paper is measurement of global export market levels of international trade between developed, developing and transition countries

using concentration indices. In this way the changing structure of global trade is captured which is novelty in regard to the existing literature. Paper is organized in five chapters. After the introduction, the second chapter consists of literature review including theoretical and empirical aspects of global export market concentration in various countries. In the third chapter methodology and data are presented while the fourth chapter displays empirical analysis, results and discussion. Final chapter exhibits concluding remarks.

Literature review

In this chapter theoretical and empirical aspects of global export market concentration in various countries has been presented. [15] stated that globalization is not necessarily biased towards greater concentration in international trade and investment flows and empirical evidence at the world level tends to show the opposite. The term marginalization was often associated to the claim that globalization benefits only a small number of countries and that this leads to greater marginalization of excluded countries. Marginalization is more likely to be explained by domestic policies in relatively closed countries. On the sample of 127 developed and developing countries in the period from 1976 to 1995, results of the analysis has shown that concentration of trade has fallen among open economies, whereas it has increased among closed economies. [6] based on data for 56 countries in the period from 1962-2002 unveil a number of regularities regarding export diversification: export diversification increased for most of the countries, development-export diversification nexus appears to have U-shape pattern, primary products tend to have more focused export structures than exporters of manufactures,

good macroeconomic performance stimulate export concentration, etc.

[12] explored development of export flows from Sweden during the years 1965-2000. The results of the analysis does not support the hypothesis of increasing trade globalisation, exports are becoming more concentrated to specific geographical areas that is becoming more internationally regionalised. [16] measure export concentration for goods, services and destinations through eight different export concentration measures. Export concentration exhibits a negative link with variable country size. Another relevant factor in determining export concentration is stage of economic development. Higher export concentration is measured in smaller and less developed countries. [1] investigate geographic and product diversification patterns across a group of developing nations for the period from 1990 to 2005. Key conclusions of the this paper are that geographic diversification is more important than product diversification, taking part in free trade agreements and trading with countries in the North have positive impacts on export diversification for developing countries. [22] investigate how different market concentration measures explain decisions of Mexican manufacturing firms. They use Dominance Index as a competition measure used by Mexican regulators and Herfindahl-Hirschman index as a traditional measure of market structure concentration suggesting that DI index is a better determinant than the HHI. Developing econometric analysis that uses data from last Mexican census for 182 Mexican manufacturing firms, results suggest that market concentration reduces investment, firm size and investment opportunities have a direct relationship with investment while cash flows have

an inverse one. [2] explored trends in poor-country export partner concentration using IMF's Direction of Trade Statistics database. They computed export, import and total trade concentration levels on a sample of 127 countries that reported trade data continuously for the period from 1980 to 2006. Four measures of export partner concentration were calculated: 1-CON, 3-CON, 5-CON meaning top 1, top 3 and top 5 partner concentration respectively and Herfindahl index. Results of the analysis have shown that average export partner concentration among poor countries has barely changed since 1980, and has actually risen since the mid-1990s. On the contrary, already low levels of export partner concentration in rich countries were declining. The authors see this as evidence of „bifurcation in the effects of globalisation, with rich countries 'globalising' while poor countries are 'globalised' by others“.

[8] explored the evolution of export diversification patterns along the economic development path using database with 156 countries over 19 years. They looked for a new product introduction as an indicator of “export-entrepreneurship founding a hump-shaped pattern of export diversification consistent with the conjecture that countries travel across diversification cones. First observation is that diversification occurs mostly at the extensive margin and the second observation is that middle to high levels diversification of income reflects a slow adjustment process between two equilibria. [3] report seven indices of export, import, and trade partner concentration for 183 countries for which data were available in the period 1980-2008. They also analysed the impact of CUSFTA and NAFTA on Canada, Mexico and United States mutual trade. Canada and Mexico are dependent on United States as a market

for their exports. The implementation of these trade agreements liberalised mutual trade, Canadian and Mexican export partner concentration has rose while US import partner concentration did not change. [24] carried out empirical analysis on export concentration in Bangladesh. Export diversification has a positive effect on export performance and economic growth reducing vulnerability in export performance. [19] examines the determinants of export performance of landlocked developing countries using standard gravity modelling framework. Results indicate that overall export performance of landlocked developing countries is poorer than that of other developing countries due to distance related trade costs. Landlocked developing countries should therefore improve the quality of trade-related infrastructure and logistics creating a more trade-friendly environment. [13] measure export market concentration in the oil and gas sector in Qatar. Using cross-sectional time series data from 2004 to 2013 they develop a measure of export market concentration and estimate the determinants of trade using a gravity model. Results suggest that Qatar should diversify the export market for oil and gas due to moderate concentration in the gas sector and extreme market concentration in the crude sector. [4] explore the impact of natural resources on non-resource export concentration using a variety of non-resource export concentration indices in the period from 1985 to 2010. They found that countries with high share of natural resources in exports tend to have less diversified non-resource export baskets. Another important finding is that capital intensive goods tend to have larger shares on the non-resource export basket when natural resources are high. The higher the technology scale, differentiated goods tend to make for a larger share of the non-resource export basket

while for the homogeneous goods is worth the opposite.

Data and methods

In this paper, global export market concentration is observed on the case of all countries of the World from 1948 to 2016. However, it has to be emphasized that the number of countries was not the same in all observed period. The lowest number of observed countries, 142 of them, was in 1949 whereas since 2011 the highest number of countries, 218 of them, is observed. In 50% observed years the number of observed countries was 184 or less whereas in the other 50% observed years 184 or more countries were observed. In order to calculate global export market concentration, variable export given in US dollars at current prices in millions is used in the analysis. Data for the variable export are collected from the [27]. In the export value are included all goods leaving the economic territory of the observed country [26].

From wide variety of different concentration measures, it has been decided that the focus will be given to Herfindahl-Hirschman index as one of the most used concentration measure in economy [7] Herfindahl-Hirschman index is calculated by taking into account squared proportions of the observed units at chosen variable ([10]; [11]). So, Herfindahl-Hirschman index is calculated as:

$$HHI = \sum_{i=1}^N p_i^2, \quad (1)$$

where is the Herfindahl-Hirschman's concentration index, is proportion or share of the -th unit in the total value of the observed variable. Unfortunately, Herfindahl-Hirschman index is not standardized or given in certain value interval. Therefore sometimes

conclusion about achieved concentration level by observing only unstandardized Herfindahl-Hirschman index could be misleading. If the number of observed units is taken into account, standardized Herfindahl-Hirschman index can be calculated as:

$$HHI^* = (HHI - 1/N)/(1 - 1/N), \quad (2)$$

where is the standardized Herfindahl-Hirschman's concentration index, is the Herfindahl-Hirschman's concentration index, is the total number of observed units. After the standardization is performed, standardized Herfindahl-Hirschman's concentration index is bounded to interval from 0 to 1. The conclusion about achieved concentration level can be made according to standardized Herfindahl-Hirschman's concentration index value as suggested in Table 1.

Herfindahl-Hirschman's concentration index	Concentration level
Lower than 0.01	Perfect equality
0.01 - 0.15	Low
0.15 - 0.25	Moderate
0.25 or higher	High

Table 1. Concentration level according to standardized Herfindahl-Hirschman's concentration index value

Except Herfindahl-Hirschman's concentration index following concentration measures will be calculated also: concentration ratio [5] Gini's concentration coefficient [17]; [20] Rosenbluth's concentration index [21] and Hall-Tideman's concentration index [9]. Those concentration measures will be used to confirm concentration level conclusion brought by

standardized Herfindahl-Hirschman's concentration index. In order to avoid misleading conclusions the standardized versions of the concentration measures will be used. Still, for the sake of comparison the values of unstandardized concentration measures versions will be provided also. The standardized concentration measures are calculated as follows:

i) standardized concentration ratio:

$$CR_r^* = \left[\left(\frac{\sum_{i=1}^r x_i}{\sum_{i=1}^N x_i} \right) - 1/N \right] / (1 - 1/N), \quad r = 1, 2, \dots, N \quad (3)$$

where CR_r^* is standardized concentration ratio for first r units with the highest value of the variable considered, $\sum_{i=1}^r x_i$ is sum of values of the observed variable for first r units, $\sum_{i=1}^N x_i$ is sum of values of the observed variable for all N units, N is the total number of observed units;

ii) standardized Gini's concentration coefficient:

$$G^* = \left[2 \cdot \sum_{i=1}^N i x_i - (N+1) \sum_{i=1}^N x_i \right] / \left(N \cdot \sum_{i=1}^N x_i \right) \cdot N / (N-1) \quad (4)$$

where G^* is standardized Gini's concentration coefficient, N is the total number of observed units, i is rank of an unit, $i = 1, 2, \dots, N$, x_i is the value of the observed variable for unit i ;

iii) standardized Rosenbluth's concentration index:

$$RI^* = \left[1 / \left(2 \cdot \sum_{i=1}^N j p_i - 1 \right) - 1/N \right] / (1 - 1/N) \quad (5)$$

where RI^* is the standardized Rosenbluth's concentration index, j is rank of an unit, $j = N, N-1, N-2, \dots, 2, 1$, p_i is proportion or share of the i -th unit in the total value of the

observed variable, N is the total number of observed units;

iv) standardized Hall-Tideman's concentration index:

$$HTI^* = \left[1 / \left(2 \cdot \sum_{i=1}^N i p_i - 1 \right) - 1/(2N-1) \right] / \left\{ (N-1) / [N \cdot (2N-1)] \right\} \quad (6)$$

where HTI^* is the standardized Hall-Tideman's concentration index, i is rank of an unit, $i = 1, 2, \dots, N-2, N-1, N$, p_i is proportion or share of the i -th unit in the total value of the observed variable, N is the total number of observed units. In order to make conclusion about achieved concentration level, at standardized concentration ratio, standardized Gini's concentration coefficient, standardized Rosenbluth's concentration index and at standardized Hall-Tideman's concentration index different limits will be used as they are used at standardized Herfindahl-Hirschman's concentration index. Here the concentration values lower than 0.25 points out that concentration level is low. If the concentration value is between 0.25 and 0.40, the conclusion about low to moderate concentration level can be brought. The concentration value between 0.40 and 0.60 shows that moderate concentration level is present whereas the concentration value between 0.60 and 0.75 suggests moderate to high concentration level. High concentration level is present if the concentration value is higher than 0.75. Global export market concentration will be first calculated by taking into account all countries of the World. Afterwards, the global export market concentration of the World will be observed by grouping countries according to their economic development level. Here three economic development levels are defined: developing, transition and developed countries.

Furthermore, global export market concentration levels will be estimated for developing, transition and developed countries separately also. Those analyses will be used to inspect the first research hypothesis in which global export market concentration decreasing trend since 1948 is assumed. In order to inspect validity of the Linder hypothesis, in which is stated that developed economies prefer trade themselves and not with the developing and transition countries, the distributions of exports among the groups of countries is observed. The share of export between these different groups of countries is observed in period from 1995 to 2016. However, before performing any concentration level analysis, descriptive statistics analysis will be made. By using descriptive statistics approach countries with the highest and the lowest export value will be emphasized. Furthermore, the discrepancy between these countries will be observed. The differences in export values between developed, transition and developing countries will be observed also.

Analysis and discussion

In section 4.1. export in the countries worldwide is observed by using descriptive statistics methods. Countries are observed according to their geographical position, economic development level and individually. In section 4.2. global export market concentration in period from 1948 to 2016 is inspected. Different concentration measures are used but emphasis was given to Herfindahl-Hirschman's concentration indices. Here countries are observed individually, according to their economic development level and individually in each economic development level country group. In section 4.3. shares of export trade between developing, transitions and developed countries are analysed.

Descriptive statistics of export in the World

In this section, the export of countries is observed from 1948 to 2016. In Figure 1 export of countries grouped according to selected regions is shown.

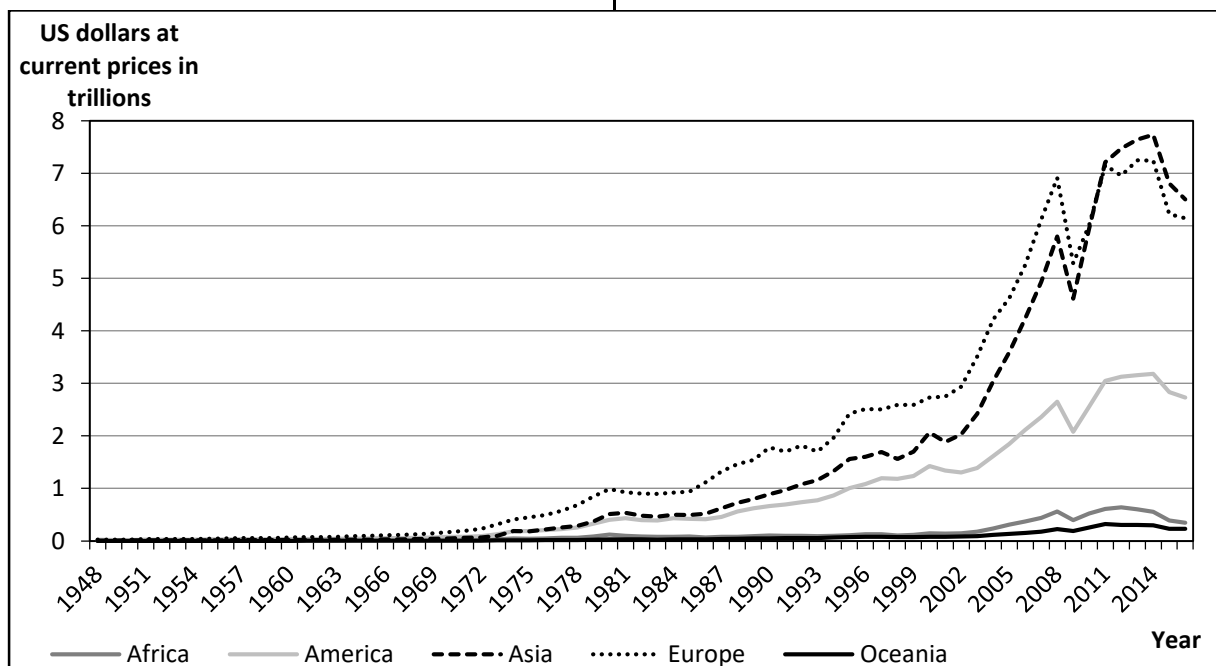


Figure 1. Export of countries, in US dollars at current prices in trillions, countries according to selected geographical regions

According to Figure 1 it can be concluded that the World export levels were relatively low until the beginning of 1970s. In 1970s export started to rise and at the beginning of 2000s the rise became very large. However, that seems to be true only for countries from Europe and Asia. Countries from Africa and Oceania did not show so large increase in export values as countries from Europe and Asia. Consequently, the difference in export values

between those groups of countries is remarkable. In recent period countries from Europe and Asia have about 25 times larger export value than countries from Africa and Oceania. Somewhere in the middle of those two distanced groups of countries are placed countries from America which are mainly lead by the United States of America

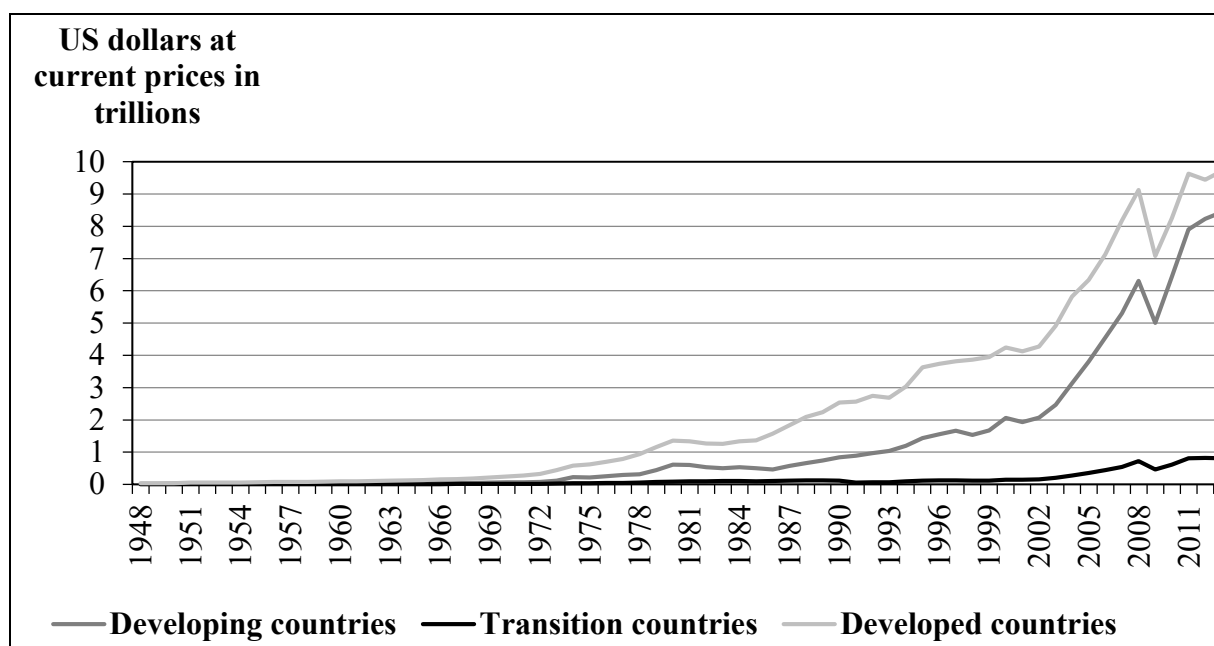


Figure 2. Export of countries, in US dollars at current prices in trillions, countries according to their economic development level

In Figure 2 export of countries grouped according to their economic development level are observed. Again, the rise in export values are present since the beginning of the 1970s. In the whole observed period developed countries tend to have higher export value than developing countries. The difference in export values between the developed and developing countries does not seem to be very large. However, it has to be emphasized that overall there are 169 developing countries whereas only 48

countries are considered to be developed. Similar, only 20 countries can be found in the group of transition countries and that is one of the reasons why transition countries have so small export value in compare to developed and developing countries. In order to get better insight into the difference in export values between countries with different economic development level, in Figure 3 average export value per country in the observed groups of countries are shown.

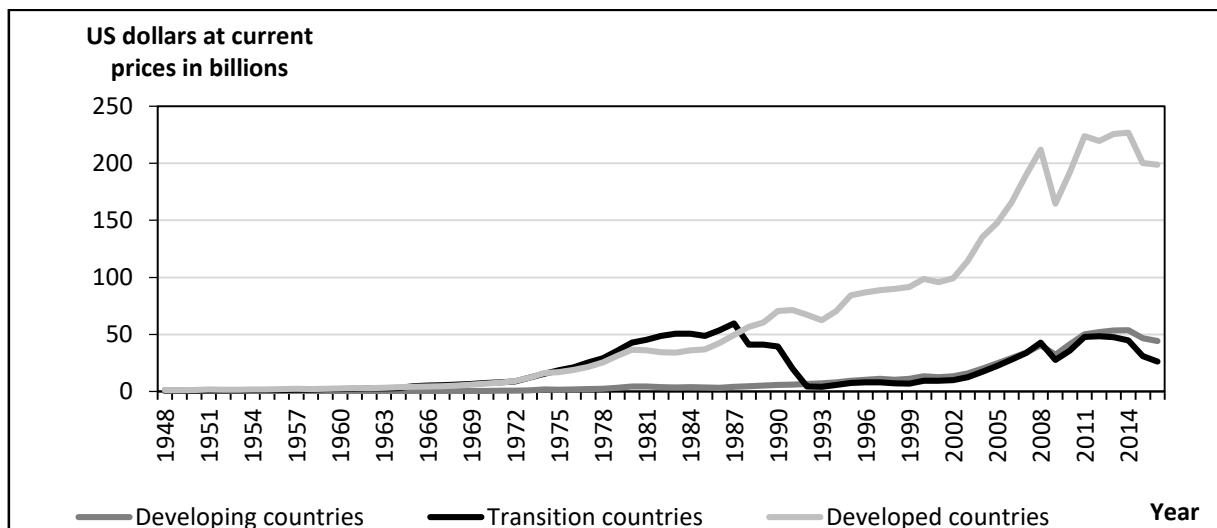


Figure 3. Average export value per included country in the group, in US dollars at current prices in billions, countries according to their economic development level

Figure 3 reveals that transition countries had the highest export value per country included in the group in period from the middle of 1970s to the middle of 1980s. At the beginning of 1990s transition countries had very steep decrease in average export value per country. That can be attributed to the shift from the centrally planned to market system and structural changes in the transition

economies' exports. So, since the beginning of 1990s transition and developing countries seem to have very similar average export values per country included in one of those two groups. On the other hand, developed countries have much larger average export value than both, transition and developing countries.

Statistics	Year								
	1948	1950	1960	1970	1980	1990	2000	2010	2016
N	144	168	170	171	184	186	213	216	218
Mean	406	366	764	1,857	11,142	18,794	30,293	70,843	73,195
Std. Deviation	1,245	1,015	2,139	5,290	29,651	55,472	88,774	193,494	220,368
Coeff. of Var.	306	277	280	285	266	295	293	273	301
1st Quart.	11	6	13	34	117	147	267	431	446
Median	63	54	91	203	930	1,075	1,723	4,858	4,559
3rd Quart.	362	329	587	1,223	8,304	10,079	12,279	49,536	33,062
Range	12,652	9,993	19,626	43,224	225,566	421,100	781,918	1,577,754	2,098,161
Minimum	1.00	0.20	0.47	0.90	0.00	0.05	0.01	0.02	0.10
Maximum	12,653	9,993	19,626	43,225	225,566	421,100	781,918	1,577,754	2,098,161

Table 2. Basic descriptive statistics results, export values in countries of the World, given in US dollars at current prices in millions, in selected years

In Table 2 basic descriptive statistics results in selected nine years are given. Large coefficients of variation in all given years point out that there are large differences between countries regarding their export value. The same conclusion can be brought if the range, defined as difference between the highest and the lowest export value, is observed. Furthermore, if median and mean values are observed it can be concluded that the

distributions of export are positively skewed. In Figure 4 are shown countries which have the largest export values in the observed period in comparison to the other countries. In order to do the comparison, standardized values or z-scores are shown. So, in Figure 4 are shown countries which had export value above three standard deviations from the average of countries' export values in particular years.

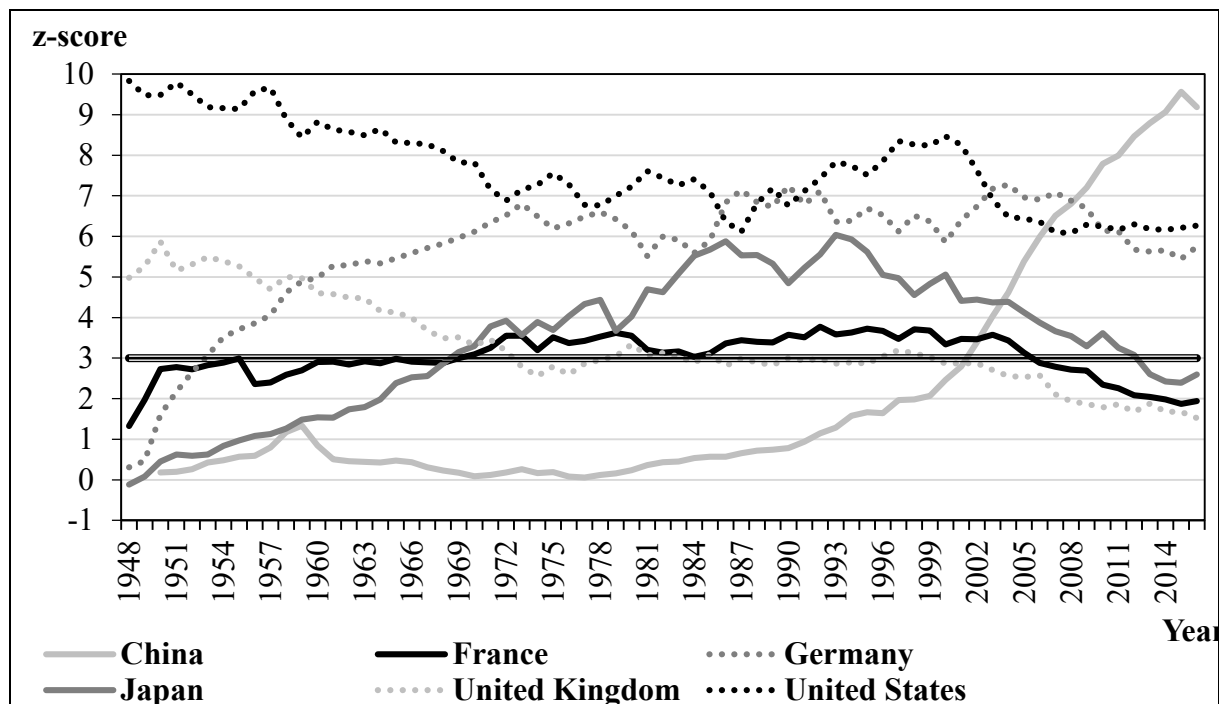


Figure 4. Countries with the highest export values, standardized values (z-scores)

Figure 4 reveals that the United States of America in the whole observed period had export value well above the export averages. Furthermore, in periods from 1948 to 1985, in 1989 and from 1991 to 2002 the United States of America had the highest export value in compare to all other countries of the World. Since the beginning of 1970s Germany had similar export values as the United States of America. In some years Germany had export value higher than the United States of America. Since 2007 China had the highest export value in the World. According to the export value, Japan

managed to be placed on the third position from the beginning of 1970s to the beginning of 2000s. Since then the relative position of Japan, considering the export, is decreasing. On the other hand, the impact of export value of the United Kingdom is slowly decreasing since the beginning of the observed period. As opposite to Japan and the United Kingdom, France managed to have relatively stable export value impact in the whole period. So, in the observed period export value of France was always around three standard deviations above the average export value. The

conducted descriptive analyses have shown that certain inequalities in export values between countries are present. The inequalities are present no matter countries are compared individually or as group of countries. The concentration analyses, which will be shown in the following sections, should measure achieved inequality or concentration levels regards export values precisely and they should show if the concentration level tends to decrease or not.

Analysis of global export market concentration in period from 1948 to 2016

In order to inspect whether global export market concentration has globally decreased or not in the period after 1948, in the first step global export market concentration will be measured by taking into account export value of each country separately. Afterwards, the countries will be placed in groups of developing, transition and developed countries and the global export market concentration structure will be observed by taking

into account those three groups. Finally, global export market concentration will be observed by inspecting achieved export market concentration levels in developing, transition and developed countries separately. In that case, concentration measures will be calculated by taking into account countries from certain group of countries. In Figure 5 both, unstandardized and standardized, Herfindahl-Hirschman's concentration indices are given. The Herfindahl-Hirschman's concentration indices are used to measure global export market concentration in period from 1948 to 2016. It has to be emphasized that the number of countries, which were taken into account when Herfindahl-Hirschman's concentration index was calculated, varied in the observed period ranging from 142 to 218 countries. The number of observed countries can be considered as large. Consequently, there are no great differences in values of unstandardized Herfindahl-Hirschman's concentration index and standardized Herfindahl-Hirschman's concentration index.

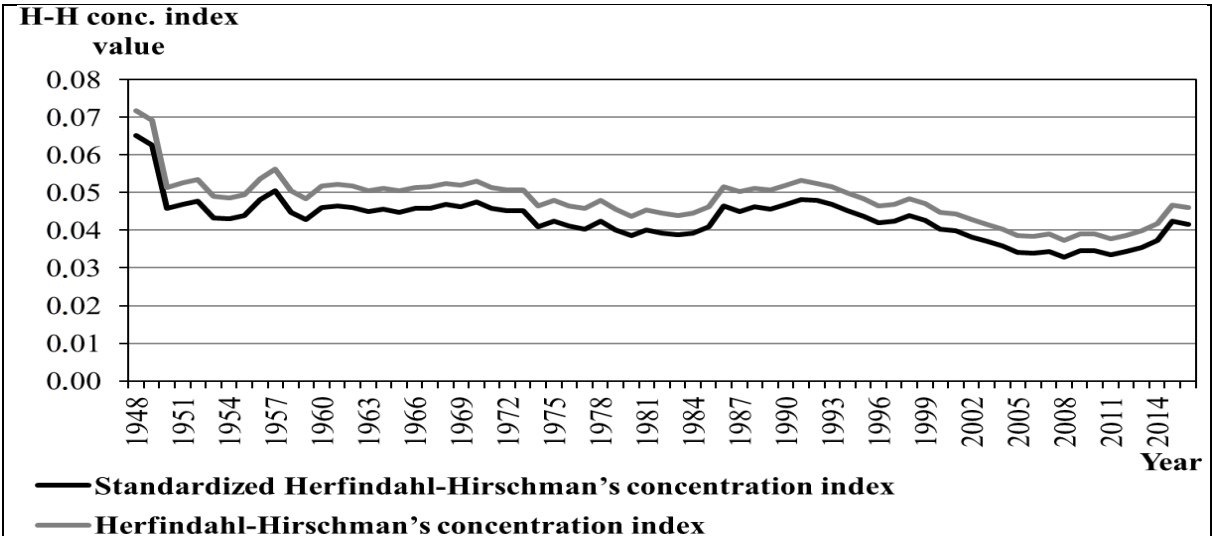


Figure 5. Herfindahl-Hirschman's concentration indices, calculated by observing countries individually

According to Figure 5, lines of unstandardized Herfindahl-Hirschman's concentration index and standardized Herfindahl-Hirschman's concentration index are almost one top of another. Furthermore, both Herfindahl-Hirschman's concentration indices show that there is present low concentration level in the whole observed period. After the drop of 0.02 points in the first observed years, the Herfindahl-Hirschman's concentration indices were almost the same until the beginning of 1990s when global export

concentration levels appear to decrease. Due to the economic crisis global export concentration seems to rise from the beginning of 2010s. However, despite the recent changes in global export concentration levels, it can be concluded that the global export concentration level is lower now than it was at beginning of the observed period. This conclusion is supported by majority of other observed concentration measures, which are given in Table 3, also.

Concentration measures	Years								
	1948	1950	1960	1970	1980	1990	2000	2010	2016
Number of countries	144	168	170	171	184	186	213	216	218
Unstandardized									
Concentration ratio 1	0.216	0.163	0.151	0.136	0.110	0.120	0.121	0.103	0.131
Concentration ratio 2	0.329	0.265	0.239	0.244	0.204	0.233	0.206	0.187	0.223
Concentration ratio 4	0.419	0.365	0.375	0.366	0.325	0.377	0.331	0.319	0.347
Concentration ratio 10	0.568	0.529	0.586	0.637	0.581	0.617	0.562	0.505	0.532
Gini's	0.785	0.798	0.817	0.828	0.828	0.859	0.862	0.842	0.855
Herfindahl-Hirschman's	0.072	0.051	0.052	0.053	0.044	0.052	0.045	0.039	0.046
Rosenbluth's	0.032	0.030	0.032	0.034	0.032	0.038	0.034	0.029	0.032
Hall-Tideman's	0.004	0.003	0.003	0.003	0.003	0.003	0.003	0.003	0.002
Standardized									
Standardized conc. ratio 1	0.211	0.157	0.146	0.131	0.105	0.116	0.117	0.099	0.127
Standardized conc. ratio 2	0.324	0.261	0.235	0.239	0.200	0.229	0.203	0.183	0.219
Standardized conc. ratio 4	0.415	0.362	0.371	0.362	0.321	0.374	0.328	0.316	0.344
Standardized conc. ratio 10	0.565	0.526	0.584	0.634	0.579	0.615	0.560	0.502	0.530
Standardized Gini's	0.791	0.803	0.822	0.833	0.833	0.863	0.866	0.846	0.859
Stan. Herfindahl-Hirschman's	0.065	0.046	0.046	0.047	0.038	0.047	0.040	0.035	0.042
Stan. Rosenbluth's	0.026	0.024	0.026	0.028	0.026	0.033	0.029	0.025	0.027
Stan. Hall-Tideman's	0.117	0.109	0.098	0.091	0.091	0.074	0.072	0.084	0.076

Table 3. Global export concentration, selected unstandardized and standardized concentration measures, calculated by observing countries individually, in selected years

In order to observe global export concentration level from other perspective, in the following analysis countries were not observed separately but they were placed into the three groups of countries. So, the countries were placed in the group of developing, transition or developed countries. Because only three values of export were taken into account in each observed year, larger differences between unstandardized and standardized concentration measures values are expected.

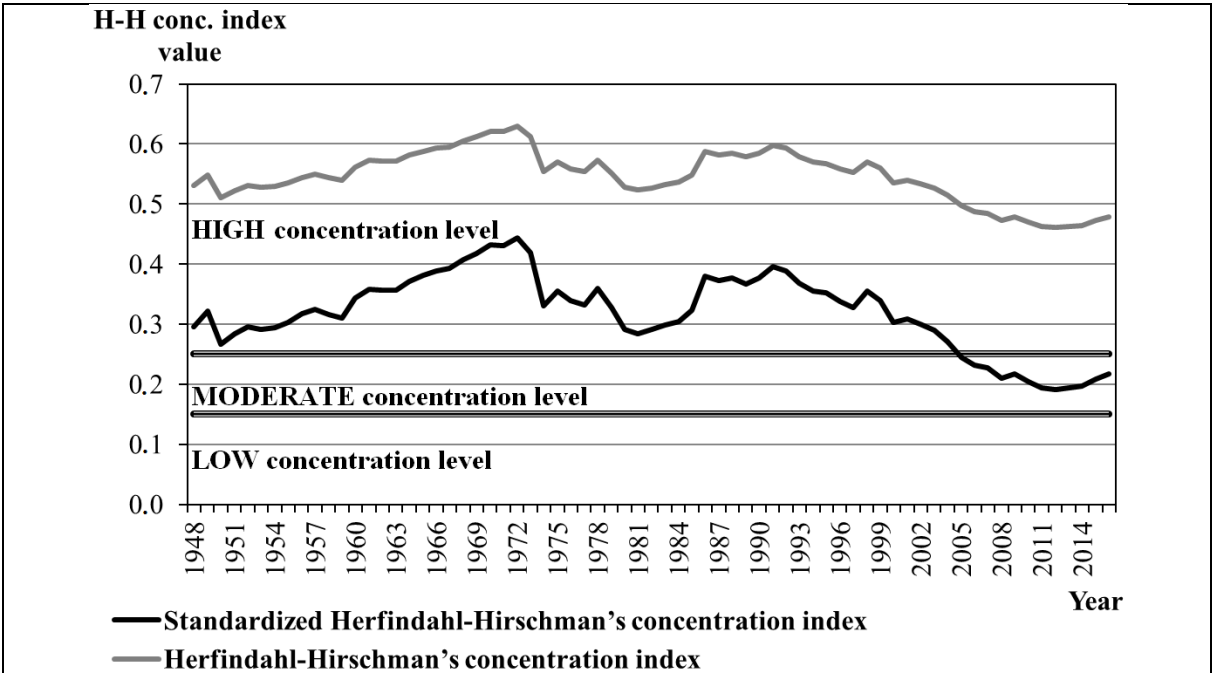


Figure 6. Herfindahl-Hirschman's concentration indices, calculated by observing countries as groups of developing, transition and developed countries

In Figure 6, unstandardized Herfindahl-Hirschman's concentration index and standardized Herfindahl-Hirschman's concentration index lines are shown. Because only three groups of countries are observed the differences between them are significant. According to unstandardized Herfindahl-Hirschman's concentration index it could be concluded that global export concentration level between three groups of countries was high in the whole observed period. However, unstandardized Herfindahl-Hirschman's concentration index does not take into account the number of units. Consequently, the conclusions brought by observing only unstandardized Herfindahl-Hirschman's concentration index could be

misleading. Instead, more appropriate is to bring conclusions about achieved concentration levels by observing standardized Herfindahl-Hirschman's concentration index. According to standardized Herfindahl-Hirschman's concentration index global export concentration level was high until 2004 whereas since 2005 standardized Herfindahl-Hirschman's concentration index was below 0.25, but above 0.15, meaning that global export concentration level is moderate. It seems that global export concentration level was increasing almost perfect linear in period from 1950 to 1972. In the 1972 the highest value of standardized Herfindahl-Hirschman's concentration index (0.4437) was reached. However, the value of standardized Herfindahl-Hirschman's concentration index was

considerably decreased to value of 0.2847 in 1981. After 1991 global export concentration level seems to have negative linear trend. Again, despite the increase of global export concentration level in the recent years, it can be concluded that global export

concentration level decreased in the observed period. Most of other observed concentration, given in Table 4, measured confirmed that global export concentration level decreased in the period from 1948 to 2016.

Concentration measures	Years								
	1948	1950	1960	1970	1980	1990	2000	2010	2016
Number of groups	3	3	3	3	3	3	3	3	3
Unstandardized									
Concentration ratio 1	0.655	0.628	0.707	0.763	0.662	0.725	0.658	0.539	0.536
Concentration ratio 2	0.973	0.968	0.953	0.954	0.958	0.966	0.977	0.960	0.972
Gini's	0.418	0.398	0.440	0.479	0.413	0.461	0.423	0.333	0.338
Herfindahl-Hirschman's	0.531	0.511	0.562	0.621	0.527	0.585	0.535	0.470	0.478
Rosenbluth's	0.573	0.553	0.595	0.639	0.568	0.618	0.578	0.500	0.504
Hall-Tideman's	0.235	0.238	0.232	0.225	0.236	0.228	0.234	0.250	0.249
Standardized									
Standardized conc. ratio 1	0.482	0.442	0.560	0.645	0.492	0.587	0.486	0.309	0.303
Standardized conc. ratio 2	0.959	0.953	0.929	0.932	0.937	0.949	0.965	0.940	0.958
Standardized Gini's	0.628	0.597	0.659	0.718	0.620	0.691	0.634	0.500	0.508
Stan. Herfindahl-Hirschman's	0.296	0.267	0.343	0.432	0.291	0.377	0.302	0.204	0.217
Stan. Rosenbluth's	0.360	0.330	0.392	0.459	0.352	0.427	0.366	0.250	0.256
Stan. Hall-Tideman's	0.262	0.289	0.237	0.191	0.269	0.211	0.257	0.375	0.368

Table 4. Global export concentration, selected unstandardized and standardized concentration measures, calculated by observing countries as groups of developing, transition and developed countries, in selected years

In the following analysis export concentration level will be inspecting by observing countries in each group separately. Therefore in Figure 7 development of standardized Herfindahl-Hirschman's concentration index for developed, transition and developing countries in period from 1948 to 2016 is shown. The values of selected concentration measures are provided in Table 5 for developing countries, in Table 6 for transition countries and in Table 7 for developed countries.

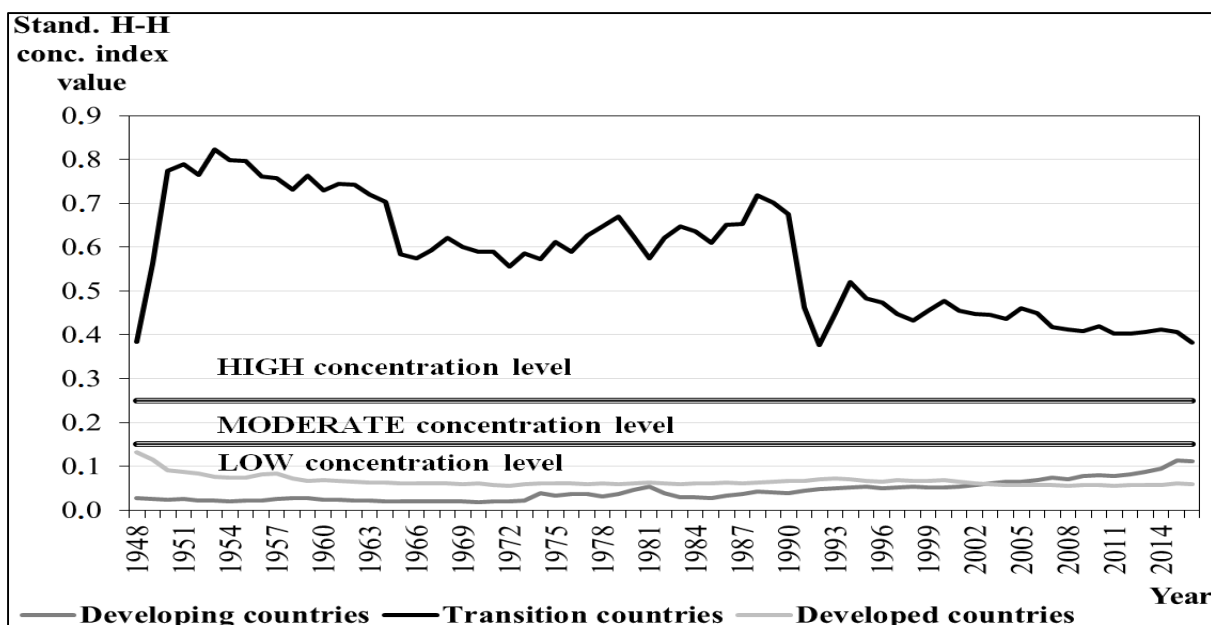


Figure 7. Standardized Herfindahl-Hirschman's concentration index, calculated by observing countries as groups of developing, transition and developed countries individually

If standardized Herfindahl-Hirschman's concentration index values for developing countries are observed, it can be concluded that all values are lower than 0.15 which suggest that export concentration level among developing countries is low. However, Figure 7 reveals that standardized Herfindahl-Hirschman's concentration index for developing countries

exhibits positive trend. In other words, it seems that export concentration level among developing countries is increasing. All observed standardized measures, except Hall-Tideman's concentration index, which are given in Table 5, confirmed that export concentration level at developing countries is becoming higher.

Concentration measures	Years								
	1948	1950	1960	1970	1980	1990	2000	2010	2016
Number of countries	108	132	132	133	145	147	154	156	158
Unstandardized									
Concentration ratio 1	0.088	0.066	0.081	0.055	0.179	0.098	0.121	0.245	0.301
Concentration ratio 2	0.158	0.122	0.154	0.108	0.223	0.177	0.219	0.317	0.375
Concentration ratio 4	0.285	0.233	0.259	0.195	0.307	0.328	0.384	0.434	0.500
Concentration ratio 10	0.504	0.480	0.466	0.415	0.515	0.594	0.675	0.662	0.722
Gini's	0.714	0.744	0.730	0.699	0.800	0.823	0.859	0.868	0.889
Herfindahl-Hirschman's	0.036	0.032	0.032	0.026	0.053	0.046	0.057	0.086	0.116
Rosenbluth's	0.032	0.030	0.028	0.025	0.034	0.038	0.046	0.048	0.057
Hall-Tideman's	0.005	0.004	0.004	0.004	0.004	0.004	0.003	0.003	0.003

Concentration measures	Years								
	1948	1950	1960	1970	1980	1990	2000	2010	2016
Number of countries	108	132	132	133	145	147	154	156	158
Standardized									
Standardized conc. ratio 1	0.079	0.058	0.074	0.048	0.174	0.092	0.115	0.240	0.297
Standardized conc. ratio 2	0.150	0.116	0.148	0.101	0.217	0.172	0.214	0.313	0.371
Standardized conc. ratio 4	0.278	0.227	0.254	0.189	0.302	0.324	0.380	0.431	0.497
Standardized conc. ratio 10	0.499	0.476	0.462	0.410	0.511	0.592	0.673	0.660	0.720
Standardized Gini's	0.721	0.750	0.736	0.705	0.805	0.829	0.865	0.873	0.895
Stan. Herfindahl-Hirschman's	0.027	0.024	0.025	0.019	0.047	0.039	0.051	0.080	0.111
Stan. Rosenbluth's	0.023	0.022	0.021	0.018	0.028	0.032	0.040	0.042	0.051
Stan. Hall-Tideman's	0.163	0.143	0.153	0.174	0.108	0.094	0.073	0.068	0.056

Table 5. Global export concentration, selected unstandardized and standardized concentration measures, calculated by observing countries in groups of developing countries, in selected years

In compare to developing and developed countries, transition countries seem to have convincingly the highest export concentration level. One reason for this situation can be found in the fact that in the group of transition countries relatively small number of countries can be found. That is especially expressed between 1950 and 1990. Consequently, only the concentration measure values for period after 1990 should be observed. According to Figure7, after 1990 standardized Herfindahl-Hirschman's concentration index can be found between 0.3764 (in 1992) and 0.5194 (in 1994). Furthermore, it seems that the standardized

Herfindahl-Hirschman's concentration index shows negative trend since 1994. In the most recent year, in 2016 standardized Herfindahl-Hirschman's concentration index had value of 0.3826 what is very close to the minimum value achieved in 1992. The detected negative trend of standardized Herfindahl-Hirschman's concentration index and results from Table 6 lead to the conclusions that export concentration level among transition is being decreased. However, it has to be kept on mind that in all observed period export concentration level among transition countries is considered to be high.

Concentration measures	Years								
	1948	1950	1960	1970	1980	1990	2000	2010	2016
Number of countries	2	3	3	2	2	3	16	17	17
Unstandardized									
Concentration ratio 1	0.810	0.918	0.900	0.884	0.895	0.877	0.702	0.658	0.632
Concentration ratio 2	1.000	0.997	0.992	1.000	1.000	0.998	0.800	0.756	0.715
Concentration ratio 4	-	-	-	-	-	-	0.908	0.884	0.848
Concentration ratio 10	-	-	-	-	-	-	0.982	0.985	0.976
Gini's	0.310	0.610	0.595	0.384	0.395	0.583	0.810	0.808	0.771
Herfindahl-Hirschman's	0.692	0.849	0.819	0.795	0.812	0.784	0.510	0.454	0.419
Rosenbluth's	0.725	0.855	0.823	0.812	0.826	0.800	0.330	0.307	0.256
Hall-Tideman's	0.382	0.207	0.209	0.361	0.358	0.211	0.035	0.033	0.033
Standardized									
Standardized conc. ratio 1	0.620	0.877	0.851	0.768	0.790	0.816	0.682	0.636	0.609
Standardized conc. ratio 2	1.000	0.995	0.988	1.000	1.000	0.997	0.786	0.741	0.697
Standardized conc. ratio 4	-	-	-	-	-	-	0.901	0.877	0.839
Standardized conc. ratio 10	-	-	-	-	-	-	0.981	0.984	0.974
Standardized Gini's	0.620	0.915	0.893	0.768	0.790	0.875	0.864	0.859	0.819
Stan. Herfindahl-Hirschman's	0.384	0.774	0.729	0.590	0.624	0.676	0.477	0.420	0.383
Stan. Rosenbluth's	0.449	0.782	0.735	0.623	0.653	0.700	0.285	0.263	0.210
Stan. Hall-Tideman's	0.290	0.053	0.067	0.168	0.151	0.079	0.075	0.078	0.102

Table 6. Global export concentration, selected unstandardized and standardized concentration measures, calculated by observing countries in groups of transition countries, in selected years

According to Figure 7 standardized Herfindahl-Hirschman's concentration index is below 0.15 in the observed period meaning that export concentration level among developed countries is low. As opposite to the detected positive trend at developing countries, Figure 7 shows that values of

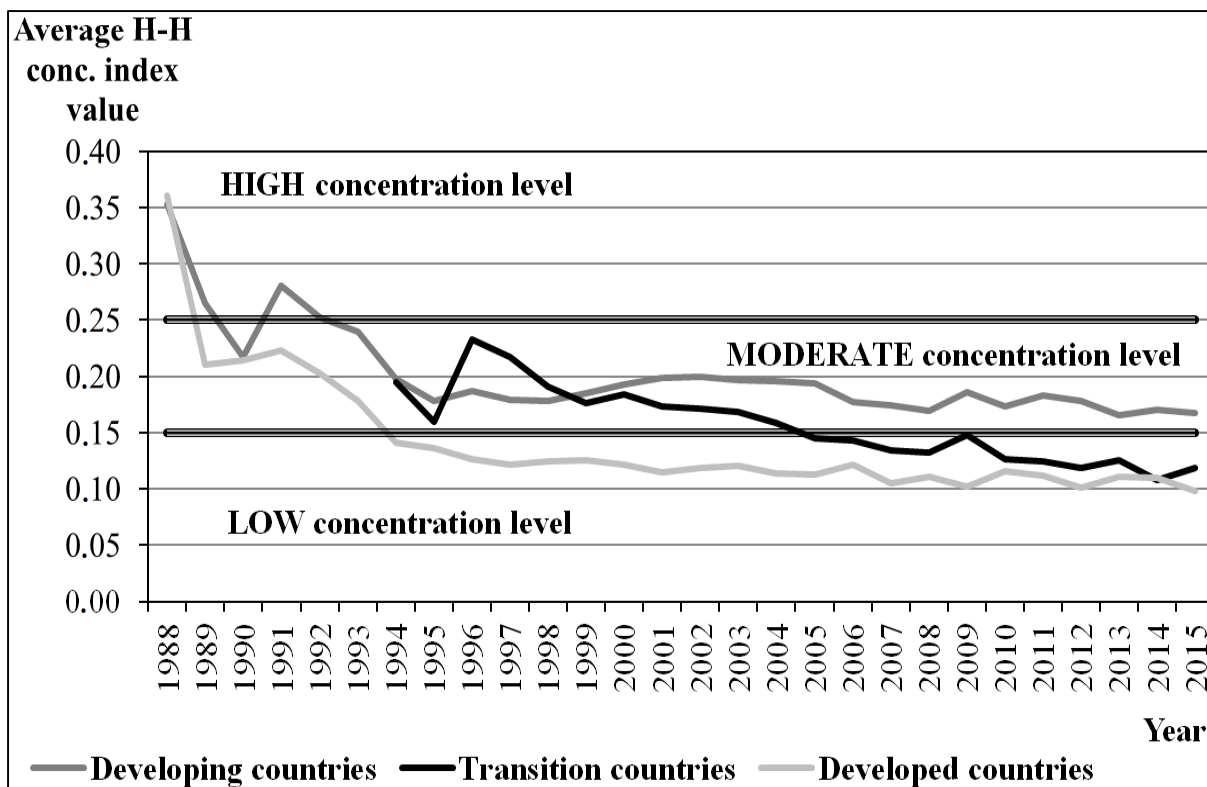
standardized Herfindahl-Hirschman's concentration index are slowly decreasing in the observed period. It can be concluded that export concentration level among developed countries is falling. Standardized measures from Table 7 confirmed this conclusion.

Concentration measures	Years								
	1948	1950	1960	1970	1980	1990	2000	2010	2016
Number of countries	34	33	35	36	37	36	43	43	43
Unstandardized									
Concentration ratio 1	0.330	0.257	0.213	0.178	0.166	0.166	0.184	0.155	0.170
Concentration ratio 2	0.502	0.420	0.337	0.319	0.308	0.321	0.314	0.307	0.327
Concentration ratio 4	0.639	0.579	0.528	0.478	0.491	0.521	0.504	0.470	0.469
Concentration ratio 10	0.834	0.816	0.794	0.808	0.812	0.835	0.819	0.765	0.757
Gini's	0.720	0.679	0.662	0.660	0.672	0.693	0.726	0.687	0.685
Herfindahl-Hirschman's	0.157	0.118	0.095	0.086	0.086	0.092	0.089	0.079	0.082
Rosenbluth's	0.105	0.094	0.085	0.082	0.082	0.091	0.085	0.074	0.074
Hall-Tideman's	0.017	0.018	0.017	0.017	0.016	0.016	0.013	0.014	0.014
Standardized									
Standardized conc. ratio 1	0.309	0.234	0.190	0.155	0.143	0.142	0.165	0.135	0.150
Standardized conc. ratio 2	0.487	0.402	0.318	0.299	0.289	0.302	0.298	0.291	0.311
Standardized conc. ratio 4	0.628	0.566	0.514	0.464	0.476	0.507	0.492	0.458	0.456
Standardized conc. ratio 10	0.829	0.811	0.788	0.802	0.807	0.830	0.815	0.760	0.751
Standardized Gini's	0.742	0.700	0.681	0.679	0.690	0.713	0.743	0.703	0.702
Stan. Herfindahl-Hirschman's	0.131	0.090	0.069	0.060	0.061	0.066	0.068	0.058	0.060
Stan. Rosenbluth's	0.078	0.066	0.058	0.055	0.057	0.065	0.063	0.052	0.052
Stan. Hall-Tideman's	0.150	0.178	0.192	0.194	0.185	0.169	0.149	0.176	0.177

Table 7. Global export concentration, selected unstandardized and standardized concentration measures, calculated by observing countries in groups of developed countries, in selected years

In Figure 8 average values of Herfindahl-Hirschman's concentration index for each of three observed groups of countries in period from 1988 (for transition countries from 1994) to 2015 is shown. The values of Herfindahl-Hirschman's concentration index have been calculated by taking into account export products values of each country individually (World Bank, 2017). In the next step, all Herfindahl-Hirschman's concentration index values of countries from the same group have

summed up and divided by the number of countries in that group. Figure 8 shows that developed countries reached low concentration level in 1994 and transition countries in 2005. On the other side, developing countries seems to have moderate concentration level. However, it can be concluded that in all three groups of countries export concentration level is lower than at the beginning of the observed period.



Source: World Bank (2017).

Figure 8. Average Herfindahl-Hirschman's concentration index, calculated by observing countries as groups of developing, transition and developed countries individually

Results of the analysis indicate that the first hypothesis of the paper can be accepted. There is present low global export concentration level in the whole observed period when looking countries individually. Also, it can be concluded that the global export concentration level is lower now than it was at beginning of the observed period. When looking countries as groups, transition countries experience higher concentration levels or inequality while developing and developed countries have similar lower levels of concentration index. Furthermore, concentration index for developing countries exhibits positive trend.

Analysis of shares of export trade between developing, transitions and developed countries

In order to inspect whether developed countries prefer to trade among them and not with the developing and transition countries and to test the second hypothesis of the paper, countries will be observed as groups of developing, transitions and developed countries. Focus is given to analysis of export trade shares. Namely, each group of countries has achieved certain total export value which has been calculated as sum of export values of all countries in the observed group. However, that export value is a result of trading with countries from other two groups but with countries in the same group also. In Figure 9 share of export trade between countries in the same group in period from 1995 to 2016 is given.

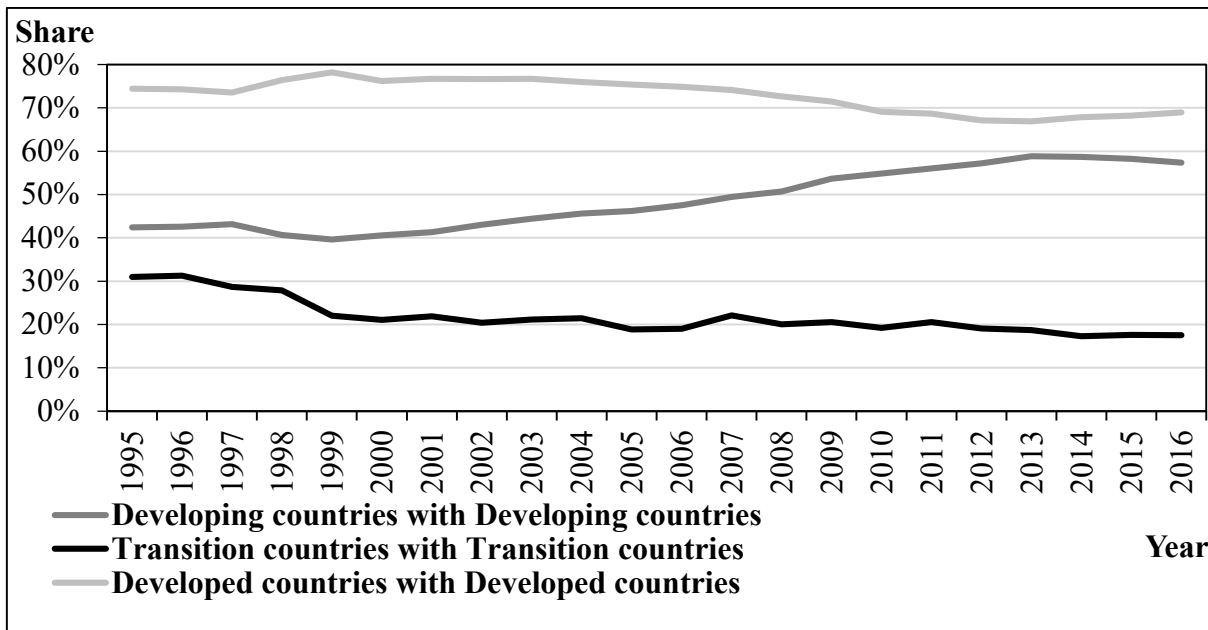


Figure 9. Share of export trade between countries in the same group, in percentages, in period from 1995 to 2016

According to Figure 9 developed countries had the highest share of export which is a result of trading between countries in the same group. So, it can be concluded that about 70% of export value of developed countries is achieved between countries which belong in that group. On the other side, transition countries have the lowest share of export value which is a result of trading between

countries in the same group. At the beginning of the observed period, the share of export trade between transition countries was about 30% whereas since 1999 it is about 20%. Developing countries have increased share of export trade achieved between them from 42% in 1995 to 57% in 2016.

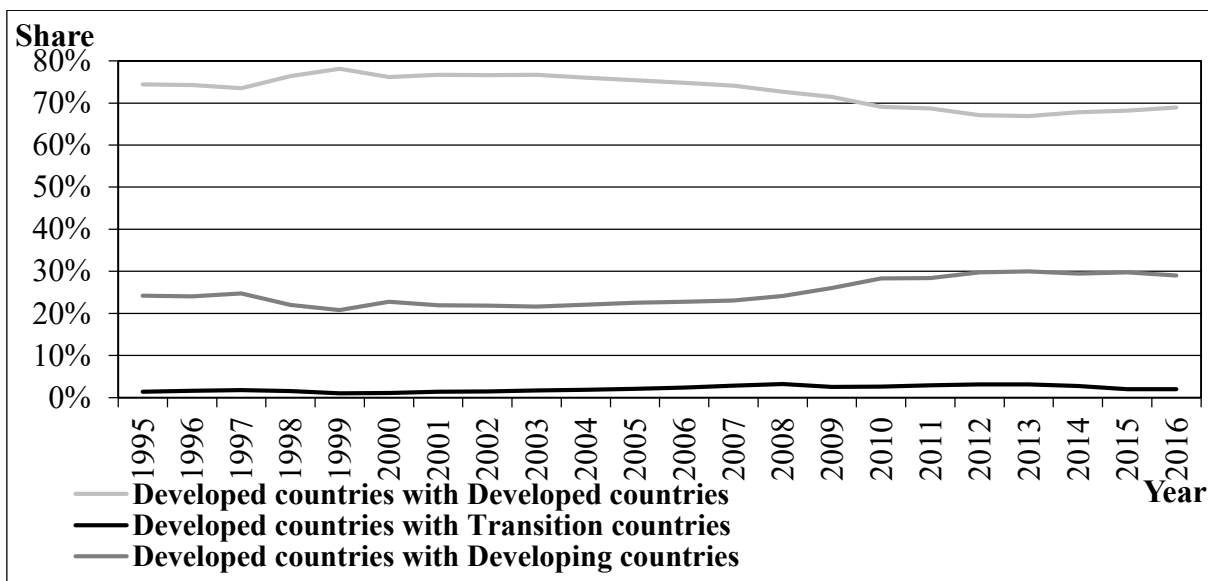


Figure 10. Share of export trade between developed countries and other group of countries, in percentages, in period from 1995 to 2016

In Figure 10 share of export trade between developed countries and other groups of countries is observed. It can be seen that developed countries trade relatively more with developed countries in regard to developing and transition countries. The result is expected because developed countries have the highest share of export trade so it is assumed that they will trade

relatively more with countries of the same group. In order to test the second hypothesis of the paper, that developed countries prefer to trade themselves, the difference between relative shares of export trade for developed countries in total trade and shares of mutual trade between developed countries will be calculated and explained presented in Figure 11.

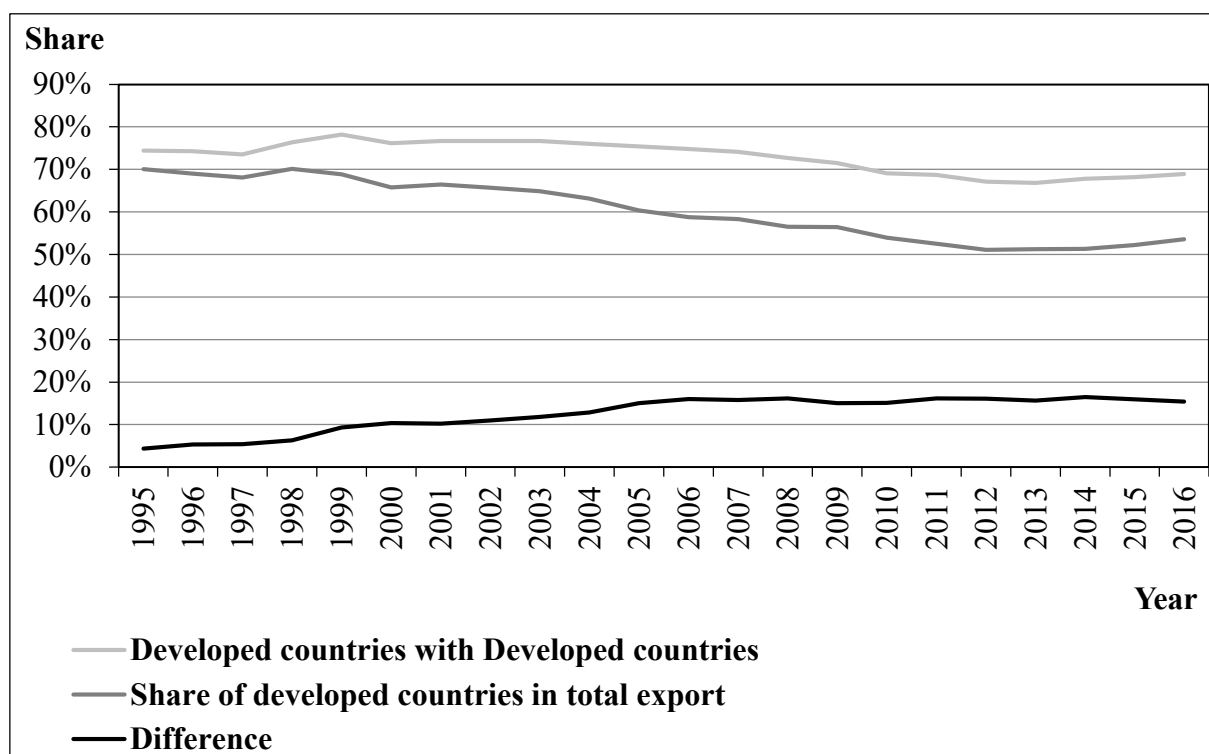


Figure 11. Share of export trade between developed countries and share of developed countries in total export value, in percentages, in period from 1995 to 2016

From Figure 11 it can be seen that mutual trade between developed countries exceeds share of trade of developed countries in total export trade for all years in the observed period. That difference is actually widening from the first year 1995. So, second hypothesis of the paper that developed countries prefer trade themselves and not with the developing and transition countries can be accepted.

Conclusion

The aim of the paper was to investigate and calculate global concentration level of merchandise exports for all countries of the World classified in three groups according to their level of economic development using various concentration measures in the period from 1948 to 2016. The emphasis was given to standardized Herfindahl-Hirschman index as the basic measure

of trade concentration but other concentration measures were also used in the analysis like concentration ratio, Gini concentration coefficient, Rosenbluth's concentration index and Hall-Tideman's concentration index. This is significant because global trade structure has changed significantly since the trade liberalisation started after the Second World War. The importance of paper is analysis of global trade structure using various concentration measures, which is concept that has not used much in the previous researches in this field. Main strength of the methodology used is an explanation of inequality and changes in global trade structure. After descriptive statistics, countries were observed individually and according to their geographical position and economic development level. Two research hypotheses were tested. The results of the analysis indicate that first hypothesis of the paper that global export market concentration has globally decreased in the period after 1948 can be accepted. Global export concentration level is now lower than it was at the beginning of the observed period. Transition countries experience higher concentration levels in regard to developing and developed countries which have similar lower levels of concentration indexes. Second hypothesis of the paper which states that developed economies prefer to trade themselves can also be confirmed. In order to test second hypothesis of the paper difference between relative shares of export trade for developed countries in total trade and shares of mutual trade between developed countries was calculated and observed. The results show that this difference is actually widening pointing out to the conclusion that developed economies prefer mutual trade with

countries of the similar economic development level. Limitations of research are related to low number of countries in some samples, especially for transition countries, and therefore uneven pattern of countries. Also, data for mutual trade between groups of countries were available only for period after year 1994. Recommendations for future research can go in the way of analysing merchandise imports and total trade and not only merchandise exports. Furthermore, it would be interesting to investigate and measure market concentration levels for various regional economic integrations intended to promote intra-regional and global trade.

References

- [1] Amurgo-Pacheco, A. & Pierola, M. D. (2008). *Patterns of Export Diversification in Developing Countries: Intensive and Extensive Margins*, Policy Research Working Paper 4473, The World Bank International Trade Department January 2008.
- [2] Babones, S. & Farabee-Siers, R. M. (2010). *Global Export Partner Concentration since 1980: Trends in Dependency and Globalisation*, TASA 2010 Conference Proceedings: Social Causes, Private Lives, edited by S. Velayutham, N. Ebert, and S. Watkins. Hawthorn: The Australian Sociological Association.
- [3] Babones, S. & Farabee-Siers, R. M. (2012). Indices of Trade Partner Concentration for 183 Countries, 1980-2008, *Journal of World-Systems Research*, Vol. 18, No. 2, pp. 266-277.
- [4] Bahar, D. & Santos, M. A. (2016). *Natural resources and export concentration: on the most likely casualties of Dutch disease*, Working Papers

Center for International Development at Harvard University.

[5] Barbezat, D. (2003). *Concentration and entry*, In Mokyr, J. (Ed.), *The Oxford Encyclopedia of Economic History*, Vol. 2, Oxford, Oxford University press, pp. 344-347.

[6] Bebczuk, R. N. & Berrettoni, N. D. (2006). '*Explaining Export Diversification: An Empirical Analysis*', CAF Research Program on Development Issues.

[7] Bikker, J. A. & Haaf, K. (2002). *Measures of Competition and Concentration in the Banking Industry: a Review of the Literature*, Netherland: Central Bank of the Netherlands.

[8] Carrere, C.; Cadot, O. & Strauss-Kahn, V. (2011). *Export diversification: What's behind the Hump?*, *Review of Economics and Statistics*, 2011, Vol. 93, No. 2, pp. 590-605.

[9] Hall, M. & Tideman, N. (1967). *Measures of Concentration*, *Journal of the American Statistical Association*, Vol. 62, No. 317, pp. 162-168.

[10] Herfindahl, O. C. (1950). *Concentration in the steel industry*, Doctoral dissertation. Columbia University.

[11] Hirschman, A. O. (1980). *National Power and the Structure of Foreign Trade*, Berkeley, University of California Press.

[12] Johansson, B. & Nilsson, D. (2007). *Globalization and distribution of exports*, CESIS Electronic Paper Working Series, Paper No. 93.

[13] Kaitibie, S.; Al Jaidah, M. I. & Masudul HAQ, M. (2016). *Export Market Concentration And The Potential For Export Market Diversification In The Oil And Gas Sector In A Small Open Economy*, *International Journal of Economic Perspectives*, 2016, Volume 10, Issue 1, 71-85.

[14] Linder, S. (1961). *An essay on Trade and Transformation*, Wiley, New York.

[15] Low, P.; Olarreaga, M. & Suarez, J. (1998). *Does globalization cause a higher concentration of international trade and investment flows?*, Economic Research and Analysis Division. Staff Working Paper ERAD-98-08, World Trade Organisation.

[16] Meilak, C. (2008). *Measuring export concentration: The implications for small states*, Bank of Valletta Review, No. 37, Spring 2008.

[17] Needleman, L. (1978). *On the approximation of the Gini coefficient of concentration*, The Manchester School, Vol. 46, No. 2, pp. 105-122.

[18] Ortiz-Ospina, E. & Roser, M. (2017). *International trade*, Our World in Data.

[19] Paudel, R. G. (2014). *Export Performance in Developing Countries: A Comparative Perspective*, Working Paper No. 2014/26, Working Papers in Trade and Development.

[20] Podder, N. (1995). *On the relationship between the Gini coefficient and income elasticity*, *The Indian Journal of Statistics*, Vol. 57, pp. 428-432.

[21] Rosenbluth, G. (1955). *Measures of Concentration*, In Stigler, G. J. (Ed.), *Business Concentration and Price Policy*, Princeton, Princeton University Press, pp. 57-99.

[22] Ruiz-Porrás, A. & López-Mateo, C. (2010). *Market concentration measures and investment decisions in Mexican manufacturing firms*, *Accounting & Taxation*, Volume 2, Number 1, 2010.

[23] Salomon, S. (2010). *A primer on export diversification: key concepts, theoretical underpinnings and empirical evidence*, Growth and Crisis Unit World Bank Institute May 2010.

[24] Sattar, Z. & Sadiq A. (2012). '*Reducing Vulnerability in Export Performance: The Export*

Diversification Challenge in Bangladesh, Working Paper March 2012. IGC International Growth Centre.

[25] United Nations (2011). *Export dependence and export concentration*, United Nations Development Programme, Chapter 1, Towards human resilience: Sustaining MDG progress in an age of economic uncertainty.

[26] United Nations Conference on Trade and Development. (2017a). *Summary - Merchandise: Total trade and share, annual, 1948-2016*.

[27] United Nations Conference on Trade and Development. (2017b). *UNCTAD Stat Database*. World Bank (2017) *HH Market Concentration Index*.

Pandas, Anastasiia¹

STRATEGY OF SOCIO-ECONOMIC DEVELOPMENT OF AGGLOMERATION

Abstract:

This work reveals the essence of urban agglomeration as one of the forms of territorial organization of settlements. Urban agglomerations are characterized by such properties as the integrity of markets (labor, real estate, land). Creation of agglomeration should meet the conditions of optimal resource supply of life of the population. This requires the establishment of a clear regulatory system based on the program-target approach and the socio-economic concept of agglomeration development.

Such a tool is a strategy for socio-economic development. The article also analyzes the prospects of the Odessa agglomeration (Ukraine) in the context of strategic guidelines.

Keywords:

urban agglomeration, municipal formation, strategy of socio-economic development of regions, management of agglomerations

Author's data:

¹ Anastasiia, Pandas, Ph.D., Ass. Professor, Odessa State Academy of Civil Engineering and Architecture, Faculty of Economics and Management in Construction, Department of Economics and Entrepreneurship, 24 Geroev Stalingrada street, ap.87, 65069, Odessa, Ukraine, anastasypandas@gmail.com

Introduction

Common global trends in the development of spatial systems, such as globalization and urbanization, radically change the previously formed nature of urban development. The city loses leading positions and becomes only an element in the system of a higher rank. More complex resettlement systems are made available by the consolidation of cities at the expense of suburban areas. In place of cities there are other forms of resettlement - urban agglomerations.

Agglomeration is an area that includes the core city (or several such cities) and a set of centers of the urban environment, united by the common economic, social and infrastructural ties [3].

The term "agglomeration" in relation to resettlement was introduced by the French geographer M. Ruže. Agglomeration, by Rouget, occurs when the concentration of urban activities goes beyond the boundaries of the administrative boundaries and extends to neighboring settlements [5].

Famous geographer G.M. Lappo determined the following signs of agglomeration [4]:

- Territorial approximation of territorial settlements (they must be not less than 5, with the total number of inhabitants of the satellite zone - not less than 50 thousand people);
- compactness of the group (in the zone of two-hour availability) around the main core;
- division of labor between settlements;
- development of industrial, labor and cultural-household ties.

The term "urban agglomeration" refers to the compact territorial grouping of urban and rural settlements, united in a dynamic system with a variety of economic and social ties [1].

According to Olena Yarotskaya: "the urban agglomeration is a cluster of populated areas that are most rapidly developing and consist of dozens or even hundreds of settlements that are closely interconnected. The emergence of agglomerations is a qualitatively new stage in the evolution of the city, when settlements turn into a system with "blurred" borders" [7].

Economic incentives for growth of agglomerations are a cumulative effect, which gives concentration of production capacities, skilled labor resources, the co-operative use of infrastructure [2].

Understanding transition

Establishment of agglomerations should be in line with the conditions for optimal resource provision of the population's life and sustainable development of the territories and be based on a set of factors and criteria, which include the following:

1. Spatial Determine the optimal size requirements based on the availability of agglomeration center residents of other settlements.
2. Demographic. Establish population criteria, the compliance of which allows to allocate the territory in a separate settlement.
3. Social factors are the need for the presence of objects of social, cultural and household infrastructure on the territory of settlements (preschool educational institutions, schools, health care facilities, trade, recreation, etc.).

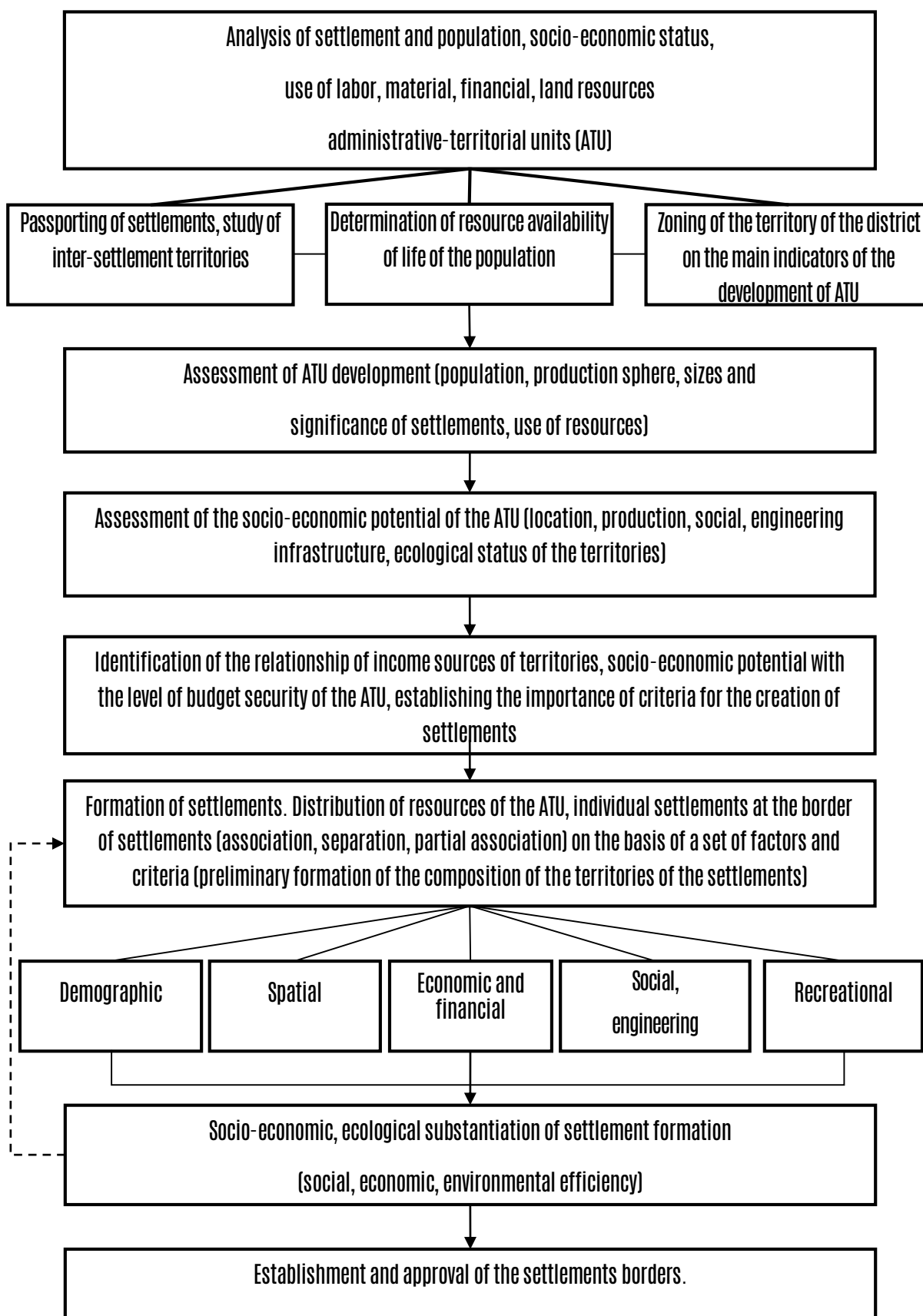


Figure 1. Methodological sequence of formation of agglomerations

4. Economic factors. The main sources of income of municipal entities are taxes on the use of municipal property, local natural resources, corporate income tax, property taxes and personal income. Land payments represent a significant part of the revenues of budgets of suburban settlements.

5. Engineering infrastructure. The engineering facilities of the territory, its condition, the level of improvement create the material conditions of people's living, which determine the availability of infrastructure.

6. Industrial infrastructure. The activity of enterprises ensures receipt of payments to the local

budget. Employment of population is formed, the attractiveness of the territory for living is increased.

7. Recreational criteria should ensure the permissible human, man-made load on the territory of the settlement, create conditions for the fulfillment of environmental requirements.

According to the results of the assessment of the socio-economic potential of the settlements of the Odessa region in the context of the designated groups of factors and criteria, there is a change in the significance of individual factors depending on the area of influence of the city (Figure 2).

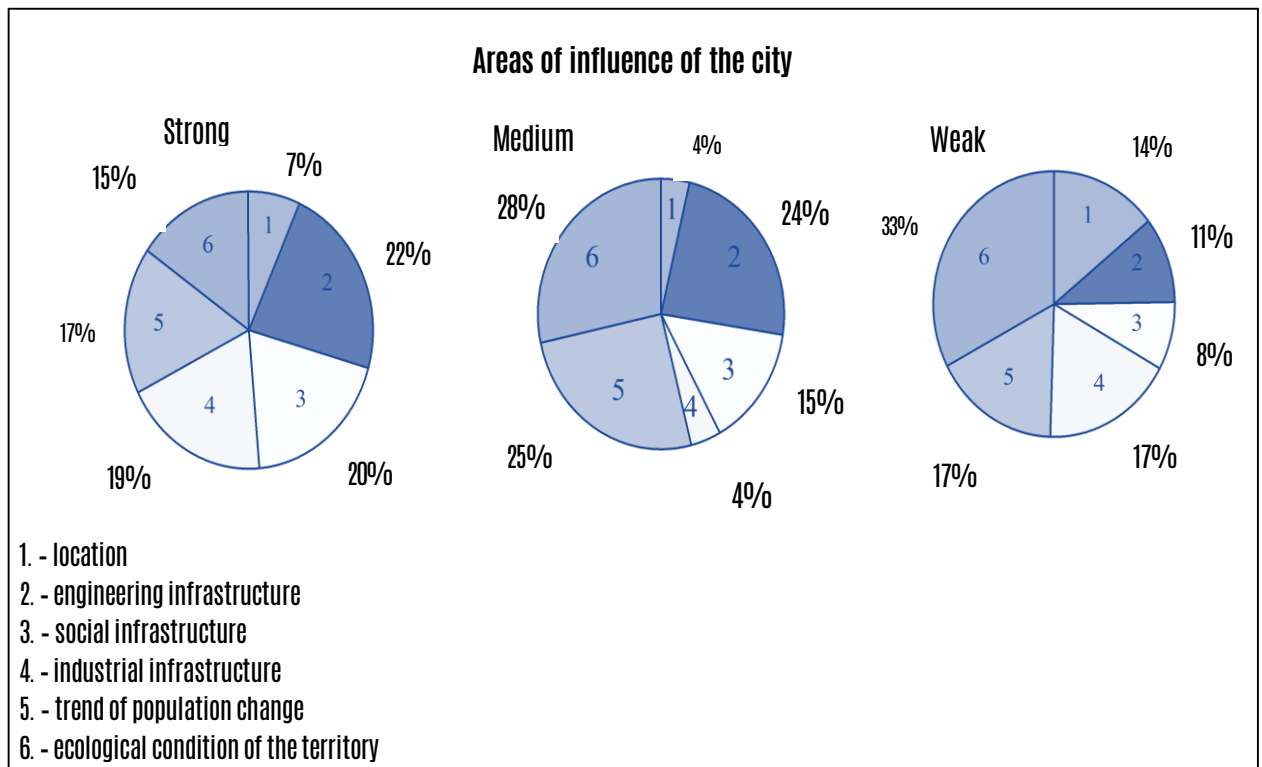


Figure 2. The structure of the potential of socio-economic development settlements in the zones of influence of Odessa

For settlements located in the zone of strong influence of the city, the share of indicators of infrastructure (engineering, social, industrial) is 61% in total, while for the second and third zones 43 and 36% respectively. The significance of the contribution of factors reflecting the engineering,

social infrastructure, weakens to the third zone. There is also a decrease in the impact of changes in the demographic situation of the territories. Among the factors-arguments grows the importance of the location to the periphery, production area and ecological state of the territory.

Establishment of the structure of indicators characterizing the level of socio-economic development of territories, allows us to identify priority directions in improving the factors of socio-economic development of territories and individual settlements, to improve the resource and property potential of municipal entities.

With the help of a score system assessment of the socio-economic potential of the territories, it can be determined how the improvement of a certain indicator of development will affect the relative value of the territory or the value of the land.

The area of strong influence of the city is focused on servicing the everyday needs of the city. It is recommended to develop integrated housing development, creating "sleeping" neighborhoods. Criteria for the formation of settlements should be addressed, mainly, to ensure the vital activity of the population in conditions of increased pendulum migration, sharply increasing load on the territory, infrastructure of settlements. Use of the territories of settlements should be oriented on the rational and effective attraction of land-resource potential, increase of significance of land payments in the structure of own budget revenues.

The medium-impact zone is represented mainly by recreation areas and country villages. Formation of settlements territories should be oriented on the organization of recreation of urban population. It is advisable to create united massive villages, accommodation and development of health-improving complexes. In the medium-impact zone it is necessary to develop enterprises that have agricultural specialization, which carry out a deep processing of agricultural products.

Formation of settlements in the area of weak influence of the city is based on the need for rational organization of suburban agricultural production,

optimal placement of economic centers of agricultural enterprises. The main criteria for the creation of territories of municipal entities of the peripheral zone are increasing the level and accessibility of social services to the population, ensuring conditions for more full employment of the able-bodied population, development of non-agricultural activities.

Social efficiency increases the level of provision of the population of services by the social services sector, to comply with the relevant norms of the state standard, to increase the accessibility and quality of educational services, health care, and increase the level of employment of the population and other living conditions.

The economic efficiency of the agglomeration is expressed by increasing the level of budget security of settlements, optimizing the revenues from using municipal property, leasing it, reducing expenditures on the functioning of local authorities, and saving budget funds. The economic efficiency of creating the agglomeration is based on the calculation of budget efficiency indicators. The main indicator of budget efficiency is the budget effect (B_{ef}), which is determined by the difference in revenues (R) and expenditures (E) of the budget:

$$B_{ef} = R - E \quad (1)$$

When preparing the economic rationale, expected changes in income and budget expenditures are introduced, the values of which are brought to current values by discounting.

The size of the total budget revenue is calculated by the formula:

$$D = D_{ex} + \sum_{n=1}^n \frac{D_f}{(1+i)^n} \quad (2)$$

where	D_{ex}	-	budget revenues existing;
	D_f	-	budget revenues based on future growth;
	i	-	discount rate;
	n	-	period of receipt of future income.

Table 1. Conditional values

Similarly, the current amount of budget expenditures is determined.

The strategy of socio-economic development of the agglomeration should include an assessment of the socio-economic potential of agglomeration actors, options for attracting labor and financial resources to their territory, justification of spatial and urban development and infrastructure solutions, defining the agglomeration mission in the region and Ukraine as a whole.

The program of socio-economic development in the conditions of the Odessa agglomeration and the actualization of the city's strategic development are due to the following reasons:

- implementation of structural and institutional reforms in the territorial union of the region and the real sector of the economy of the city and region;
- the existence the institutes of civil society in Odessa: various associations, unions, CCI, business groups that defend the interests of citizens, industry and entrepreneurs and require new approaches in relations with municipal authorities;
- the development of new requirements for the industrial, transport, engineering, socio-cultural complex of the city, proposed by the future agglomeration, globalization and integration in the system of interstate and interregional relations;
- the need to increase the role of investment influence of corporate structures on the leading

sectors of the city's economy in order to accelerate the transition to the release of new models and types of products, new models of high-tech and high-tech products;

- the need to form a long-term perspective of a new kind of city based on the system of investment, economic, social and civil policies in ensuring the high quality of life of the population and the economic security of the city and region that meet the requirements of the post-industrial economy.

To implement the Program, appropriate mechanisms, monitoring systems for achieving interim results, adjusting goals and strategic plans, as well as implementing the Program, taking into account the trends of socio-economic development at the macro and micro levels, should be developed.

Future prospects of social and economic development of the city Odessa as the core of agglomeration and adjacent territories will depend on the general directions of social and economic development of the city and the difficult situation on the territories occupied by them, and to achieve these prospects, the following directions of regulation of social and economic development are defined:

1. Development of the social potential (social infrastructure).

It includes improvement of the demographic situation on the basis of an increase in fertility and reduction of mortality of the population, providing reproduction of the population; attraction and consolidation on the territory of the city and agglomeration of economically active population, high qualification on the basis of streamlining of the migration tide, promotion of social and cultural adaptation of migrants; improvement of the health of the city population; improvement of the quality of life of socially unprotected categories of the city's

population; creation of an effective system of protection of the population and territories of the city from emergency situations of natural and man-made nature, etc..

2. Modernization of the city economy.

Contains the formation of a city budget system that meets the needs of sustainable economic and social growth; development of integrated management system, which ensures efficient use of municipal property; modernization of the economy and the transition from the industry structure of the industry to the formation of a combination of infrastructure and technologically interconnected high-tech, high-tech industries, focused on increasing the production of products with high added value, etc.

3. Development of the urban environment.

It is based on ensuring sustainable urban development of the territory; development of transport infrastructure, improvement of quality and safety of transportation by public transport; on the complex solution of the housing problem, reconstruction and development of residential areas, etc.

4. Development of civil society, improvement of internal organization of local self-government activities.

Contains the formation of a system of local self-government, oriented on the result and quality of municipal services; perfection of organizational-functional structure of executive bodies of municipal authority in application of process-functional model of management; the formation of an effective system of personnel management aimed at improving the quality of municipal services and ensuring the proper level of professionalism of municipal officials, etc.

5. Development of the inter-municipal cooperation within agglomeration.

It includes development in the field of budget investment, housing construction, consumer market, small business, in the field of transport services for the population, in the social sphere, in the sphere of environmental protection, use and protection of water objects, waste utilization, etc. Thus, the implementation of measures should ensure the output of Odessa to a qualitatively new level of development, characterized by a steadily growing economy, effective management, an increase in the number of secured residents, stable social and political relations.

However, agglomeration also has a negative impact:

1. The development of agglomerations is largely due to the migration of population from small towns, rural settlements. As a result, there are depressive, stagnating territory [2];

2. in assessing the economic effect does not take into account the adverse effects of excessive concentration of population and production in a limited area, a sharp deterioration of the ecological situation, the increase in morbidity and mortality of the population, the destruction of the natural complex, the loss of valuable natural landscapes.

Referring

Data were processed by means of standard statistical procedures: monovariance (analysis of frequencies, rankings, arithmetical averages, one-way analysis of variance) and multivariate methods [6].

Conclusion

The development of urban agglomerations is one of the rational forms of organization of territories, consisting in the socio-economic association of territory and the distribution of different functions that ensure their development. The developed agglomeration strategy should allow cities, along with the surrounding territories, to compete adequately for investment and highly skilled labor and become a more attractive place to live and do business, will allow for the dynamic development of both separate territories and agglomerations as a whole.

References

- [1] Bogdanova, N. (2017) Peculiarities of strategic planning and development of competitive advantages of urban agglomerations. *Управленческое консультирование*, No2, 121-127, ISSN 1726-1139
- [2] Herzberg, L. (2015) Agglomeration as an object of economic policy, state regulation and territorial planning. *Градостроительство*, No4, 98-106, ISSN 2218-8762
- [3] Khachenko, K. (2009) Problems of managing the development of urban agglomerations: a view from Belgorod. *Муниципальный мир*, No1, 49-57
- [4] Lappo, G. (1997) *География городов: учеб. Пособие для геогр. фак. вузов.* Humanite. ed. center of VLADOS, ISBN 5-691-00047-0, Moscow
- [5] Lappo, G.; Polyan, P.; Selivanova, T. (2010). *Agglomeration in Russia in the XXI century.* Полит.ру., Available from: <http://www.polit.ru/article/2010/02/16/demoscope> 407 Accessed: 2012-10-17

[6] The Main Department of Statistics in Odessa Oblast, Available from:

<http://www.od.ukrstat.gov.ua/>

[7] Yarotskaya, E. (2012) On the issue of criteria for the identification of urban agglomeration in conditions of innovative development of regions.

Вестник науки Сибири, No5(6), ISSN 2226-0064

Radman-Funarić, Mirjana¹

THE TRUST IN INSTITUTIONS AND MANAGER ASSOCIATION

Abstract:

Recent research suggests that greater business co-operation between enterprises is associated with a higher level of social capital of an individual. Since managers are basically people who base their activity on co-operation, the goal of this paper is to establish a link between the level of social capital of managers in cluster-based companies with their assessment of the activity and results of those activities in clusters. The analysis includes all dimensions and elements of social capital and the perception of managers on the business results of mutual cooperation. For this purpose, the Canonical correlation analysis (CCA) and the nonparametric statistical method (Kendall Tau-b correlation; τ_b) were used to avoid the conclusion using only one of the methods. The results have shown that there is a statistically significant, but weak, correlation between trust in institutions and active membership in associations with managers' assessment of joint activities within the cluster.

This research has shown that there is a statistically significant association between multiple memberships of managers in associations with their higher grade of activity within the cluster. The results have shown that general trust and perception of compliance with the norms of citizens is negatively associated with a higher grade of cluster activity, but these results are not statistically significant.

Keywords:

social capital, trust, network, business results

Author's data:

¹ Mirjana Radman-Funarić, PhD, Collegiate Professor, Research Scientist, Polytechnic in Požega, 34000 Požega, Croatia.
E-mail: radmanfunaric@vup.hr

Introduction

Arrow [1: 357] further analysed the causes of lagging of certain regions in relation to others and stressed that "virtually every commercial transaction has an element of trust [...]. It can be said that much of the economic downturn in the world can be explained by the lack of mutual trust." (according to [20: 1252]). Explaining the sociological phenomenon with which the term social capital is related to is of the earlier date [12], [16], [20], but the dissolution of the concept of social capital belongs to the recent literature [7], [8]. The development of the concept of social capital is described by the words: "The concept of social capital was originally shaped in sociology, its full application experienced in political research, from which it expanded to other social sciences, especially economics." [34: 134]. Precisely because of its widespread use and different measurements, the concept of social capital was also subjected to criticism [15], [26]. Talking about the firmness of social capital, Fidford [10] says that much of today's social capital has emerged in the recent past and cannot be attributed to the long-term historical legacy.

The study of the relation between the dimensions and the elements of social capital and the distribution of social capital by the counties of the Republic of Croatia on the sample of citizens [6] showed a strong and significant link between social trust, active participation in associations and perception of non-violation of the norms of citizens, with total social capital. The same has been established for elements of social trust; general trust and trust in institutions, which is not the case with the personal attitude on the importance of respecting norms. Analysis of the elements of social trust has shown that institutional trust plays a key role in the formation of social capital, and within it,

trust in parliament, the government, the legal system and local self-government.

According to many authors, social capital indicators positively mutually correlate with indicators of economic activity [3], [4], [9], [13], [14], [19], [27], [28], [29] and [36], although the results of their research point to different conclusions. Beugelsdijk and Van Schaik [4] using EVS data for 54 European regions when examining the relationship between social capital and economic growth assumed a positive relationship. On the social capital side, trust and active and passive membership in the associations were examined. On the side of economic growth indicators, the variables of investments in the physical and human capital were used, measured by the rate of enrolment in schools and the relative indicator of GDP per capita. Using four different statistical models for correlating variables, authors found that trust and active membership are significantly and positively related to economic growth.

Unlike previous surveys conducted on a sample of citizens, this research is examining the relationship of social capital of enterprise managers who are members of the cluster and their perception of activities within the cluster. Respectively, this research should identify which element of social capital is most closely related to the perception of accomplished shared activities and results in the area of information exchange among members, employee education, joint investment in research and development and market research, cooperation with universities, faculties and research centres, promotion, performances towards partners and firms and financial support achieved by the Government, local government and support institutions. The conducted research presented in this paper is based on the definition of the World

Bank's social capital [38: 1], whereby social capital refers to institutions, relationships and norms, and it consists of three dimensions: social trust, association (active and passive), and respect for norms as presented by Štulhofer [37]. The perception of the importance of observance of the norms (which can be observed within the concept of opportunism) was explored within the framework of first dimension of social capital, called social trust, together with general trust in other people and trust in institutions, while the rating of respecting the norms of fellow citizens was examined as a third dimension of social capital while representing the perception of the level of corruption in the living environment. The importance of the level of association, the other dimension of social capital, can be linked to the statement [41: 225] "It's not what you know, it's who you know."

Measuring the contribution of social capital to the development of clusters

The idea of clusters is broad enough to be applied to service and manufacturing industries, high technology agglomerations, and to the concentration of the industry with lower technology, [21]. Clusters can lead to the great development of regions by boosting productivity by enabling access to specialized inputs and employees, increasing access to information, institutions, and public goods, increasing the capacity of the enterprise to innovate through faster expansion of technological knowledge and innovation. Clusters show higher rates of technological innovation and organizations and greater adaptability to unexpected exogenous changes [22] and [2] and enable easier entry into entrepreneurship as barriers are less accessible than elsewhere [17].

In the literature, they present a rare study of social capital in clusters. Sirak and Rehak [32] investigated the levels of social capital of the Slovak cluster on issues of attitude towards cooperation and trust among companies in the same region. The survey included 177 companies. Respondents rated co-operation among clusters somewhat better than the average (on a scale of 1 to 7) and showed a moderate level of confidence among cluster members. Social capital according to Sölvell [33] has been proven to be the most difficult area to define and measure, and again probably the most important area for determining cluster growth. Social network analysis was a method used in the research of this area, but it showed its limits. An attempt to research social capital was also carried out by mapping methodology on the map of interconnectedness and cooperation that grows as the cluster matures. But the result was just a cluster image without explaining how the cluster works. Research results [35] on a sample of 111 micro-entrepreneurs in Croatia have shown that managers find clustering and other forms of association unrelated to the business results of their companies. On a scale from 1 to 5, the importance of mergers for business success averaged 1.9 (70.3% of respondents rated the mergers of 1 and 2). The results showed that there was a statistically significant negative correlation between the assessment of the importance of linking clusters and other forms of association (-0.17) to the company's performance. In other words, people who believe in the importance of association come from micro-enterprises that are less successful. According to the information obtained through interviews, interviewed micro-entrepreneurs are not ready to join clusters and other forms of association, and one of the main reasons is legal

and market uncertainty and distrust of members of such associations.

Data and methods

Data for empirical research on the level of social capital of cluster members and cluster business performance under the title 'Research on the influence of social capital on cluster development' was collected by an indirect access through the Lime Survey tool by submitting questionnaires to the electronic addresses of cluster member representatives in 2012. The questionnaire was forwarded directly to the 312 electronic addresses of the managers of companies who were cluster members at the time they were investigating Clusters in the Republic of Croatia 2011 [5:10]. Out of 114 completed questionnaires received, 104 are fully filled (76 small business managers, 24 medium-sized enterprises and 4 large enterprises). Since the questionnaire is passed on to all members of the population, the sample is represented by participants who have responded to the questionnaire by self-selection.

The questionnaire is made up of samples of the World Values Survey (WVS) [42] which is used to assess the level of social capital, whereby respondents are asked to indicate the degree of agreement with a specific statement on the five-degree scale of the Likert format. General trust includes claims: Most people can be trusted, Most people will cheat you if they are forced, Most people will cheat you if they can, You should be very careful about people and Most people will return the favour you do to them. Within the trust in institutions, confidence in the government, local government, parliament, the police, the legal system and trade unions was examined. Within the framework of

respecting the norms of the respondents themselves, their views on their personal (non-)based social welfare benefits (e.g. unjustified search for social benefits, fictitious employment for maternity leave etc.), tax evasion, receiving and giving of bribes were examined. Results of the research gave an overview of the first dimension of the social capital of the respondents. Within the second dimension of social capital, association is measured by membership in eight different associations: professional, political, ecological, charitable associations, trade unions, sports and recreational clubs, church and religious organizations, artistic and cultural societies, on the ordinal scale of "I am not member" (value 0), through "yes, but not active member" (1) to "active member" (2). In this way, it is possible to distinguish active from passive membership and its measurement. Since the confirmation of membership in one association does not exclude the certificate in the second one, the survey enables the measurement of multiple memberships of the respondent. The third dimension of social capital was examined by respondents' viewpoints on compliance with norms, but rather of fellow citizens and not personal.

The survey on the level of social capital and business performance of the cluster also contains an assessment of the examinees about the cluster activity (Table 1, column 8), who are its members, by expressing the level of agreement with a specific statement on the Likert scale. In order to ascertain whether individual groups of managers' claims regarding dimensions and elements of social capital are a one-dimensional scale or can the factor score [18] be taken as a common measure of individual elements of social trust (Table 1, mark M1, M2 and M3), particles were subjected to analysis of major

components. For this purpose, the Principal component analysis was used, a method that reduces dimensionality by constructing latent variables that are not correlated with each other, and only those that are "sufficiently informative" are retained. After the resulting main components, the multivariate variable was transformed with varimax rotation to obtain more manageable solutions. In the repeat process, according to the Kaiser-Guttman criterion [23], extracted factors were made of one-factor solution (with the sufficient share of the interpreted variance). These factor results were used as a measure of confidence in other people. Component analysis gave a one-factor solution to other groups of claims: the trust of managers in institutions, the importance of respecting norms in the form of justification of certain forms of behaviour or opportunism as the third element of social trust and the perception of the frequency of behavioural forms among fellow citizens (Table 1, marks from M6 to M9), which were used as a perception of corruption level among fellow citizens as the third dimension of social capital.

The association, the second dimension of social capital (Table 1, marks M4 and M5), was measured by the membership of cluster members in eight different associations on the ordinal scale of "I am not a member" (value 0) over "yes, but not an active member" (value 1) to "active member" (value 2). Because of the ordinariness of the variables, the factor structure is not counted, and the index of the association is obtained by adding values to the individual variables or variables that signify membership in individual associations. The cluster-related activity assessment claims were subjected to a component analysis with varimax rotation to determine their dimensionality. The one-factor

solution with sufficient share of the interpreted variance, justifying the use of factor results as a measure of activity perception within the cluster.

In the analysis of the results of the research, two methods were used in the analysis, i.e. the analysis was performed in two steps. The reason for this is Peiró-Palomino and Forte Deltell [25: 1], according to which a third of the European budget is devoted to regional policies, and nevertheless: 1) the results of social capital research on regional development in European countries contradict the predictions presented in the theory of social capital at national and at the regional level; 2) the current research with the use of standard parametric analysis has shown exceptional limitations. The first step was to determine the maximum possible correlation between the variables that make up the individual dimensions and elements of social capital and the variables of activity estimation within the cluster. The analysis was carried out by Canonical correlation analysis [11]. In this context, the dimensions and associated elements of social capital are manifold variables on the one hand and some common activities and satisfaction with the results achieved within the cluster of manifest variables on the other. By examining the correlation between the manifold variables, latent variables are obtained resulting from the maximum possible correlation between the two sets of manifest variables. The relationship between manifest and latent variables is shown in a scheme, Table 1.

	<i>Manifest variables</i>	Mark	<i>Latent variables</i>	Mark	<i>Latent variables</i>	Mark	<i>Manifest variables</i>
1	2	3	4	5	6	7	8
M1	General trust	L1	Social trust	L4	Assessment of cluster activity	M1	Exchange of information among members
M2	Trust in institutions					M2	Joint employee education
M3	The importance of respecting norms					M3	Joint investment in research and development
M4	Number of memberships in associations	L2	Association			M4	Joint market research
M5	Membership activity in associations					M5	Collaboration with universities, colleges and research centres
M6	Unfounded search for social benefits	L3	Respect for citizens' norms			M6	The joint approach towards partners and at trade fairs
M7	Tax fraud					M7	Joint advertising
M8	Bribe receiving					M8	Financial support from the government, local self-government and support institutions
M9	Bribe giving						

Table 1. The dimension of managers' social capital and their assessment of cluster activity - the relationship between the manifest and the latent variables

In addition to the fact that the canonical correlation technique maximizes the correlation between two sets of variables, its application also results in the relative proportions of variables on a particular

canonical variant. The analysis of canonical correlations is relatively robust and well 'tolerates' small samples and deviations from a normal distribution [11]. The analysis of the canonical

correlations of a set of variables that make general trust, trust in institutions, variables related to opportunism, variables of perception of compliance with the norms of fellow citizens and a set of variables that make the assessment of activities within the cluster did not yield significant results at the significance level of 0.05. As expected, due to the absence of statistically significant bivariate correlation, neither the analysis of the canonical correlations of the variables of the social capital dimension and the variables of activity estimation within the cluster did not yield significant results. Therefore, in the second step, the correlation of individual dimensions and elements of managers' social capital and their assessment of activity within the cluster was investigated by computing nonparametric Kendall's Tau-b correlation between these variables [31]. The non-parametric correlation is chosen because of the non-Gaussian distribution of independent variables (the dimension of social capital), as well as the fact that the dependent

variable (perception of activity within clusters) is by its nature ordinal.

Results and discussion

The results showed that at the level of significance $\alpha = 0.01$, there is a statistically significant correlation between the estimation of managers on cluster achievements and trust in institutions and active membership of associations, although these correlations are weak (0.220 and 0.134 respectively). In other words, individuals who have less trust in institutions and who are less active in associations are less likely to accurately evaluate the results of activities within the cluster. When examining the multiple memberships of managers in associations with their assessment of cluster activity, it was found that there was a statistically significant but weak correlation of 0.144. (significance level $\alpha = 0.01$).

Dimensions and elements of social capital		Correlation coefficient	Statistical significance
1.a.	General trust	-0,050	0,488
1.b.	Trust in institutions	0,220	0,001
1.c.	The importance of respecting norms	0,098	0,164
2.a.	Passive membership	-0,025	0,749
2.b.	Active membership	0,134	0,070
2.c.	Multiple membership	0,144	0,001
3.	Respecting the norms of fellow citizens	-0,013	0,850

Table 2. Correlation of individual dimensions and elements of managers' social capital with activity cluster assessment

The results of the analysis are fully consistent with the results of the research conducted by Raiser et al.

[29] using WVS data, carried out in 1995. The results of their work have shown that there is no correlation

between general trust and economic performance in transition countries to the extent that it is expressed in the mature market economies. The authors argue that networking and trust in public institutions are in a positive correlation with economic growth and confidence in institutions that are of particular importance in the transition process, the legal system and the police, while the results for political institutions are ambiguous.

These results may be related to the results of the Bauernschuster et al. [3] who found that there is a link between active membership in associations and the preference of an individual to entrepreneurship and is in line with expectations, as the respondents are people whose activities are based on co-operation.

The results of the research, which show that there is confidence in the institutions of managers while the absence of a link between general trust with their positive assessment of cluster activity, are contrary to the expectations and results of some recent social capital research, Warren [40], Rothstein and Stolle [30], Šalaj [34], while according to Uslaner [39], the relationship between institutional and social, in this work called general trust, applies only to established, economically developed, democracies, while this cannot be said for economically less developed countries, especially for post-communist ones [39]. Since clusters in Croatia have in most cases been created in cooperation with state-level institutions and partly in co-operation with local authorities, there are no unexpected results that have a statistically significant positive link between the trust of managers in institutions with an assessment of cluster activity and are in line with the views of Hardin [13] and Knack and Keefer [19], who are suggesting that where general trust is low and there is no indication of improvement,

institutional reforms that provide better formal mechanisms for reliable implementation of contracts and access to credit are more important than greater confidence.

The results of the analysis according to which there is a positive correlation between active and multiple memberships of management in associations and economic development, match with the results of the research that Putnam et al. [27] and are in contrast with the results [35] which have shown that more successful micro-enterprises do not consider clustering as an important factor in business success. The results in this paper, in terms of association, are in line with the analyzes performed by Beugelsdijk and Van Schaik [4].

The results obtained do not match with the results [25] of Peiró-Palomino and Forte Deltell which suggest that a higher level of trust and the importance of respecting social norms can lead to more intensive economic growth and are in contrast with the results [4]. The obtained results are not in line with the assumed positive relationship between the overall trust of the managers and the results of the joint business co-operation and are not in line with the expectations of Paldam [24] that the introduction of more variables describing the trust (as introduced in this paper) would lead to fact that the general trust is significantly positively related to economic performance.

Although the results of the research by Knack and Keefer [19] that the trust and the importance of respecting norms (civil co-operation norms) are associated with greater economic impacts, contrasting to the results in this paper, in support to the results obtained (for Croatia) their words can be cited that the influence of confidence in economic growth is greater in the poorer countries, which is according to them also justified because confidence

is more important in those systems where contracts are not implemented and where access to formal sources of credit is more limited due to the underdeveloped financial market.

Conclusion

Previous research on social capital suggests that the way and the conditions of connecting with others have implications for better economic performance. It also stems from the fact that the community which abounds with social capital is characterized by the desire to achieve common rather than individual goals within the framework of postmaterialist value orientation. Because a manager's job is marked by the very close cooperation with others, it is to assume that it results in better business outcomes. Starting from this, the results of examining the level of managers' social capital and establishing a correlation with their perception of the level of joint activities within the cluster should be positive and significant. The results have shown that there is a statistically significant correlation between trust in institutions and active membership in associations with a better estimate of cluster activity managers, although the magnitude of these correlations is very low. Passive membership is negatively related to cluster activities, which is not surprising given the alerts of previous researchers on the necessity of researching the level of active and multiple memberships and the lack of examining the relationship between passive membership and economic performance. This research has shown that there is a statistically significant association between the multiple memberships of managers in associations with their higher grade of activity within the cluster, even though it is weak. The results

have shown that general trust and perception of compliance with the norms of fellow citizens is negatively related to a higher grade of cluster activity, although results are not statistically significant.

References

- [1] Arrow, K. J. (1972). Gifts and Exchanges, *Philosophy and Public Affairs*, (1)4, pp. 343-362. Online ISSN: 1088-4963
- [2] Asheim, B. (1997). Learning regions' in a globalised world economy: Towards a new competitive advantage of industrial districts? In: Taylor, M. & Conti, S. (Eds.), pp. 143-176, *Interdependent and Uneven Development*. Ashgate Publishing, ISBN 1-85972-445-0, Aldershot
- [3] Bauernschuster, S.; Falck, O. & Heblich, S. (2010). Social Capital Access and Entrepreneurship, *Journal of Economic Behavior & Organization*, 76(3), pp. 821-833, ISSN: 0167-2681
- [4] Beugelsdijk S. & Van Schaik, T. (2005). Social Capital and Growth in European Regions: an Empirical Test, *European Journal of Political Economy*, (21)2, pp. 301-324, ISSN: 0176-2680
- [5] BIOS Poduzetnički inkubator Osijek, (2012). *Klasteri u Republici Hrvatskoj 2011.*, Osijek, Available from: inkubator.hr/hr_HR/projekti/bios-istrazivanja/istrazivanja-2011 Accessed: 2017-12-07
- [6] Borozan, Đ. & Radman-Funarić, M. (2016). Social capital in Croatia: Measurement and regional distribution, *Innovation: The European Journal of Social Science Research*, (29), 4, pp. 479-503, Print ISSN 1351-1610, Online ISSN 1469-8412.
- [7] Bourdieu, P. (1986). The Forms of Capital, In: *Handbook of Theory and Research for the Sociology of Education*, Richardson, J.G. (Ed.), pp. 241-258, Greenwood Press, ISBN: 0-313-23529-5 New York

- [8] Coleman, J. S. (1988). Social Capital in the Creation of Human Capital, *The American Journal of Sociology*, 94 (Supplement), pp. 95-120, ISSN: 0002-9602
- [9] Fukuyama, F. (1995). *Trust: The Social Virtues and The Creation of Prosperity*, The Free Press, ISBN 0-02-910976-0, New York
- [10] Fidrumc, J. (2012). How Persistent is Social Capital?, Working Paper No. 12-04, Centre for Economic Development & Institutions Brunel University (CEDI), London, Available from: http://www.brunel.ac.uk/_data/assets/pdf_file/0007/342772/CEDI_12-04.pdf Accessed: 2017-11-22
- [11] Hair, J. F.; Anderson, R. E.; Tatham, R. L. & Black, W. C. (1998). *Multivariate Data Analysis*, Fifth Edition, Prentice Hall International, Inc. ISBN 13: 9780138948580, New Jersey
- [12] Hanifan, L. J. (1916). The Rural School Community Center, *Annals of the American Academy of Political and Social Science*, 67, September 1916, pp. 130-138, Available from: <https://www.jstor.org/stable/pdf/1013498.pdf?refreqid=excelsior%0A3A86a7edc3be4e7961ff0922e27fc33e> Accessed: 2017-12-07
- [13] Hardin, R. (1982). *Collective Action*, Johns Hopkins University Press, ISBN 080182818X, ISBN 0801828198, Baltimore
- [14] Helliwell, J. F. (1996). *Economic Growth and Social Capital in Asia*, NBER, National Bureau of Economic Research, Inc. Working Papers 5470, Available from: <http://www.nber.org/papers/w5470.pdf> Accessed: 2017-12-22
- [15] Ionescu, D. (2005). *Social Capital: A Key Ingredient for Clusters in Post-Communist Societies, Cluster country case study Slovenia, Business Clusters, Promoting Enterprise in Central and Eastern Europe*, OECD, ISBN- 92-64-00710-5, Paris
- [16] Jacobs, J. (1961). *The Life and Death of Great American Cities*, Random House, New York Available from: https://www.buurtwijs.nl/sites/default/files/buurtwijs/bestanden/jane_jacobs_the_death_and_life_of_great_american.pdf Accessed: 2017-11-30
- [17] Keeble, D. & Wilkinson, F. (2000). (Eds:) *High-Technology Clusters, Networking and Collective Learning in Europe*, Ashgate, ISBN-13: 978-0754611486, Aldershot
- [18] Kim, J-O. & Mueller, C. W. (1978). *Introduction to Factor Analysis: What It Is and How To Do It*, Sage Publication Inc. ISBN 978-0803911659, Newbury Park, London, New Delhi
- [19] Knack, S. & Keefer P. (1997). Does Social Capital Have an Economic Payoff? A Cross-Country Investigation, *Quarterly Journal of Economics*, 112(4), pp. 1251-1288, ISSN 0033-5533, Available from: https://hec.unil.ch/docs/files/21/280/knack_keefer_1997.pdf Accessed: 2017-12-07
- [20] Loury, G.C. (2003). *The Ethics of Racial Egalitarianism in the United States*, Lecture, University Center for Human Values, Princeton University, November 7, 2003., Available from: https://www.brown.edu/Departments/Economics/Faculty/Glenn_Loury/louryhomepage/papers/princetonlecture2.pdf Accessed: 2017-11-30
- [21] Maskell, P.; Eskelinen, H.; Hannibalson, I.; Malmberg, A. & Vatne, E. (1998). *Competitiveness, Localised Learning and Regional Development*, Routledge, ISBN 0-415-15428-6, London
- [22] Morgan, K. (1997). *The Learning Region: Institutions, Innovation and Regional Renewal*, *Regional Studies*, (31)5, pp. 491-503, ISSN 0034-3404
- [23] Netemeyer, R. G.; Bearden, W. O. & Sharma, S. (2003). *Scaling Procedures: Issues and Applications*, Sage Publication Inc. ISBN 978-0761920274, Thousand Oaks, London, New Delhi

- [24] Paldam, M. (2007). The Macro Perspective on Generalized Trust. In: Handbook of Public Choice, Svendsen, G.T. & Svendsen, G.L.H. (Eds.), Available from:
<http://www.martin.paldam.dk/Papers/Social-capital/GT-short.pdf> Accessed: 2017-12-07
- [25] Peiró-Palomino, J. & Forte Deltell, A. (2013). Does Social Capital Matter for European Regional Growth?. Economics Department, Universitat Jaume I., Working Paper 2, Available from:
http://www.doctreballeco.uji.es/wpficheros/Peiro&Forte_02_2013.pdf Accessed: 2017-11-015
- [26] Portes, A. & Landolt, P. (1996). Downside of Social Capital, *The American Prospect*, 26, May-June, pp. 18-21, ISSN 104-7285
- [27] Putnam, R.; Leonardi, R. & Nanetti, R.Y. (1993). *Making Democracy Work, Civic Traditions in Modern Italy*, Princeton University Press, ISBN 9781400820740, Princeton, New Jersey
- [28] Radman-Funarić, M. (2016). Uloga socijalnog kapitala menadžera u postizanju poslovnih rezultata, *The Proceedings of the 5th International Conference "Vallis Aurea" Focus on: Research & Innovation*, Katalinic, B. (Ed.), pp. 429-437, ISBN 978-3-902734-10-5, Pozega, Croatia, 22-24 September 2016, ISBN Polytechnic of Pozega, DAAAM International Vienna, Austria.
- [29] Raiser, M.; Haerpfer C.; Nowotny T. & Wallace C. (2001). *Social Capital in Transition: A first look at evidence*, EBRD Working Paper 61, London, Available from:
<http://www.ebrd.com/downloads/research/economics/workingpapers/wp0061.pdf> Accessed: 2017-12-12
- [30] Rothstein, B. & Stolle, D. (2003). Social Capital, Impartiality and the Welfare State: An Institutional Approach, In: *Generating Social Capital: Civil Society and Institutions in Comparative Perspective*, Hooghe, M. & Stolle, D. (Eds.), pp. 191-210, Palgrave, ISBN 978-1-4039-6219-5, New York
- [31] R Tutorial, Significance Test for Kendall's Tau-b. Available from: <http://www.r-tutor.com/gpu-computing/correlation/kendall-tau-b> Accessed: 2017-12-22
- [32] Sirak, M. & Rehak S. (2005). Cluster country case study Slovakia, *Business Clusters, Promoting Enterprise in Central and Eastern Europe*, OECD LEED Programme, ISBN 92-64-00710-5, Paris, Available from:
http://www.oecd.org/document/4/0,3746,en_2649_201185_40128772_1_1_1_1,00.html Accessed: 2017-11-30
- [33] Sölvell, Ö. (2009). *Clusters Balancing Evolutionary and Constructive Forces*, Red book, Available from: <http://www.cluster-research.org/dldocs/ClustersJan09.pdf> Accessed: 2017-11-30
- [34] Šalaj, B. (2007). *Socijalni kapital, Fakultet političkih znanosti Sveučilišta u Zagrebu*, 953-6457-43-4, Zagreb
- [35] Štavić, K. (2016). *Success factors of micro-enterprises in the Republic Croatia. Doctoral thesis. University Josipa Jurja Strossmayera. Faculty of Economics in Osijek.*
- [36] Štulhofer, A. (1995). *O racionalnosti, normama i institucijama: evolucija sociokulturnog kapitala kao model institucionalne promjene*, *Društvena istraživanja* 4(6), pp. 953-981, ISSN 1330-0288, e-ISSN 1848-6096
- [37] Štulhofer, A. (2003). *Društveni kapital i njegova važnost*, In: *Socijalna rekonstrukcija zajednice*, Ajduković, D. (Ed.), Društvo za psihološku pomoć, Zagreb, Available from:
http://www.ffzg.unizg.hr/socio/astulhof/tekstovi/astulhof_drustvkap.pdf Accessed: 2017-12-07
- [38] The World Bank (1998). *The Initiative on Defining, Monitoring and Measuring Social Capital*, Working

Paper No. 1. Available from:
<http://siteresources.worldbank.org/INTSOCIALCAPITAL/Resources/Social-Capital-Initiative-Working-Paper-Series/SCI-WPS-01.pdf> Accessed: 2017-12-22

[39] Uslaner, E. (2002). *The Moral Foundations of Trust*, Cambridge University Press, ISBN 0-521-81213-5, Cambridge

[40] Warren, M. (2001). *Democracy an Association*, Princeton University Press, ISBN 9780691050775

[41] Woolcock, M. & Narayan, D. (2000). *Social Capital: Implications for Development Theory, Research and Policy*. The World Bank research observer, 15(2), 225-249. Available from:
<http://documents.worldbank.org/curated/en/961231468336675195/pdf/766490JRNOWBR000Box374385B00PUBLIC0.pdf> Accessed: 2017-11-09

[42] World Values Surveys 1981-2008 Official Aggregate v.20090901, 2009. World Values Survey Association (www.worldvaluessurvey.org).
Aggregate File Producer: ASEP/JDS, Madrid

Gutić Martinčić, Sanja ¹

IDENTIFICATION OF THE ELEMENTS FOR THE CREATION OF CORPORATE VISION

Abstract:

By content and contribution, this paper focuses on trying to find out what elements are needed and how to engage in defining and creating a corporate vision. For operationalization, five groups of elements have been selected: basic corporate values, corporate identity and its recognition in the environment, competitive ability and acquired competitive advantage, great and exciting corporate goals, corporate values for all stakeholders. It has operated with 25 variables. The research sought to achieve two goals: to identify which elements are key to creating a corporate vision and whether they point to the creation of corporate values for all stakeholders? Evaluation and valorisation of these variables was done using a five-stage Likert scale. The claims were evaluated on a quota, representative sample of 100 managers in hotel systems in Dalmatia in 2016. A model of exploratory factor analysis was applied.

Factor rotation was orthogonal with qurtimax. The factoring results showed that with 14 extracted factors approaching up to 92% of the common variance of all 25 included variables. With only six extracted factors, 63% of common variance is explained, with eight included extracted factors of 76% of common variance. Their visions of the investigated corporation are mostly based on experiential and "hard" variables. It was also found that the elements that point to the creation of corporate values for all corporate stakeholders were not primarily relevant to the creation of visions in relation to other elements.

Keywords:

corporate vision, exploratory factor analysis

Author's data:

¹ Sanja, Gutić Martinčić, mag., Assistant, Effectus, high school for finance and law, J.F. Kennedy square 2, 10 000 Zagreb, gutic.sanja@gmail.com

Introduction

There has to be four decades back, as scientists and practitioners in the management firmly claim that corporate vision is an inescapable strategic link in human resource management, strategy implementation, human motivation, change management, etc. What is evident is that the corporate vision is not yet sufficiently scientifically researched [15]. Although it is argued that the very concept of a corporate vision is clear, there is little agreement among scientists and practitioners about what they think exactly under the vision, and even less agreeing how to define it in the best way. The corporate vision is closely related and should always be viewed together with its mission [5]. The vision is somewhat complementary to the mission of the corporation. Unlike a mission that speaks of what a corporation is, its role and how its stakeholders are experiencing, the vision points to the place and role that a corporation needs and can have in the future. There is even less consensus and trust in what elements are needed and how to get involved in defining and creating a vision and vision statement [16]. At least 30 of the well-known scientists and managers gathered to point out the need for a systematic approach to exploring the corporate vision. Only through a systematic approach and empirical research will it be possible to offer a satisfactory response. In this direction, the content and contribution of this paper is conceived.

Former scientific results

Until today and there are no more extensive and systematic, scientific, and even less empirical findings on the research of a corporate vision. But those published are still the basis for further

reflection. Thus, Kantabura and Avery argue that the definition of a corporate vision should take into account seven of its characteristics: reality, clarity, corporate orientation towards the future, stability, challenge, abstraction and ability of inspiration [15]. Similar thinking is also found in other researchers. In a way, they indirectly point and point to the possible direction and content of the research elements of vision creation. Kotter, in turn, warns the public that there is a misunderstanding that corporate vision should always be brilliantly innovative [17]. Leading on this, many visions remain and show themselves to be bad and fail. Innovation is the strategic commitment of the corporation, but it is not enough to just create a corporate vision through it. Instead, Kotter claims that successful visions should be based on the core ideas of the corporation and the interests of all its stakeholders.

Draft, unlike Kotter, claims the opposite. To create a corporate vision does not always have to attract a wide range of stakeholders [6]. A vision that improves and benefits all stakeholders and is not a vision rather than a compromise between the interests of stakeholders. He argues that what is more specific, more interesting, innovative is less likely to be to attract all those stakeholders. The vision should cause creative discomfort among the stakeholders rather than lull them into their trance illusion. This is also confirmed by Johnson, Scholes and Whittington, pointing to a lot of mistakes in creating a vision where efforts are directed to incorporate the many corporate values and especially the expectations of its stakeholders [12]. Instead, they are much more important, they argue that vision points to how the corporation will create value for its stakeholders in the future. Sufi and Lyons [23] point to the overriding purpose of the corporation as a starting point for creating visions.

Contrary to the views expressed, Lynch argues that it is necessary and sufficient to include only three elements for a successful vision: the identity of the corporation, its recognizability in the environment and its competitive advantage [18]. Collins and Porras think similarly, and suggest that three elements should be included in the corporate vision: basic corporate values, core goals, and great (exciting, challenging) goals [24]. There have been little research results that more closely and systematically determine the contents of these elements, their rank and significance in creating a corporate vision. This scarcity in scientific knowledge certainly influences the numerous wandering, disenchantment and mistakes that make up the creation of this remarkably important link in corporate strategic management.

Task research

Among the many elements that are mentioned in the research results of other authors so far, this research seeks to identify key elements that create a corporate vision. For this purpose, five groups of elements have been selected for operationalization: the basic corporate values (1), the identity of the corporation and its recognizability in the environment that can be identified with the corporate mission (2), competitive ability and acquired competitive advantage (3), great and exciting corporate goals (4), corporate values for all stakeholders (5). It is evident that these groups of elements are defined by earlier findings of several researchers mentioned above.

Research goals

The research aims to achieve the following two goals:

1. Determine which elements within the five observed groups are key to creating a corporate vision?
2. Determining whether the elements that point to the creation of corporate values for all the corporation's shareholders are of primary importance in creating visions in relation to all other elements?

It is expected that these goals can be successfully achieved.

Hypotheses

Based on the set research goals, two hypotheses are defined.

1. Only some of the elements from all the observed groups are key to creating a corporate vision.
2. Elements that represent corporate values for all corporate stakeholders do not play a primary role in creating a corporate vision.

Methodology

Within the selected groups of elements participating in the creation of a corporate vision is defined by five elements (variables) in each group. So, a total of 25 variables.

The first five variables contain basic corporate values such as: continuous improvement of corporate customer satisfaction (1), concern for continuous growth of employee satisfaction (2), innovative corporate culture (3), corporation as an intelligent organization where all employees are constantly learning (4) team and transformational leadership in the corporation (5). In the construction of these variables, there are implications for the study of the corporate values that Urde came into building the interior [27]. Then, Tjoswald, whose

corporate values were based on human and intellectual capital, he was watching it through groups and group interactions at work [25]. Wenstop has, however, made a significant contribution to structuring corporate value variables [28].

The second group of corporate visions variables is based on the identity of the corporation and recognizability of the same in its environment. The five variables are: the success of previous development (6), transparency, homogeneity and compliance of owner's interests (7), systemic approach to using the opportunity from the environment (8), the cultural value of the community incorporated in corporate culture (9), youth employment talents (10). In the construction of these variables, Abatta and Kleyna's findings were used in the research of corporate identity and reputation [1], followed by Melewar and Jenkins who contributed to the design of corporate identity [19]. Competitive ability and acquired competitive advantage of the corporation is also one of the foundations for the design of its vision. Here are the variables included: the competitive position of the corporation (11), the growth rate of the corporation (12), the market share (13), the barriers to entry of marketers in the corporations (14), human capital (15). In designing these variables, theories are well-known from Ranjith's published research, which presents the basic model for determining the competitive ability of the corporation [21], followed by Tsaila, Song and Wong, who have determined the parameters of competitive ability of tourism and hotel organizations [26]. The results of the research have also been valuable in defining the variables presented by Gierczak for hotel companies [8].

The fourth group is the variable of great and exciting corporate goals. The goals included are: long-term sustainability, partnerships with corporate

customers (16), strength and structure of corporate change (17), implementation of emotional and spiritual intelligence into corporate culture (18), employees as corporations (19), proactive role of corporation environmental protection (20). There are implications of the results of Ionite research in small businesses [11], and Jones, Hillier and Comfort in the study of major goals in tourism and hotel organizations by focusing them through sustainable development [13].

In the fifth group are the variables that contain five corporate values of the stakeholders. These are: Corporate Responsibility for Human and Intellectual Capital (21), Corporate Social Responsibility (22), Corporate Responsibility for the Environment (23), Corporate Responsibility for Business Success (24), Corporate Responsibility for Ethics in Business (25). And here are the results of the research that came to Grapi, Romani and Bagozzi with the knowledge of customers as corporate values. Moon and colleagues have come up with valuable insight into the meaning of the family of employees in building corporate goals [20]. Smith and Singer have pointed out the need for the implementation of spirituality as a great corporate goal in achieving their sustainability and growth in the future [22]. Similar great corporate challenges are proposed by Doostar, Mehrdad and Sita who, like Moon and Singer, suggest turning the corporation into spiritual capital and spiritual intelligence as the dominant corporate culture in the future [7].

Evaluation and valorisation of these variables was done using a five-stage Likert scale. The claims were evaluated on a sample of managers in hotel systems in Dalmatia. Stages of agreement with the allegations were: I disagree (1), mostly disagree (2), neither agree nor disagree (3), I agree (4), I completely agree (5). The Likert scale has so far been

successfully applied in the research of corporate vision. Thus, for example, Anal and Karam implied the same Liker's five-step scale in investigating the factors of mission and vision of corporations [2]. Bart, Bontis, and Tagger also contributed to the study of the relationship between the different constructions of mission and vision in the Likert ranking [3].

The examination of the elements of the corporate vision was carried out during the period from May to September 2016 on a quotient, representative sample of 100 respondents of managers in the hotel systems of the four Dalmatian counties. The survey was conducted through direct surveys. When selecting units in the sample, the aim was to maximally include homogeneous units (hotel size, seasonal character, guest structure, volume of business etc.). For the realization of the set objectives and the hypothesis of the research, the factor-like

multivariate statistical analysis was used, in which 20 variables were factors. This analysis is a realistic quantitative method, where through the intercorrelation of the observed variables, they sought to achieve their reduction (Hair et al.). So, with fewer variables, trying to point to the key elements involved in identifying a corporate vision in hotel systems. A model of exploratory factor analysis was applied. Factor rotation was orthogonal with qurtimax. The choice of the factor analysis method is based on the confirmed results of the research of a significant number of authors so far as they are in Bratian and Balanescu [4].

Research results

Main research results are presented in the following two tables.

Variables number	Extraction factors			Rotated factors		
	V	Vp	Vk	V	Vp	Vk
1.	5,031	8,027	8,027	3,724	6,143	6,143
2.	2,402	3,004	11,031	1,156	3,506	9,649
3.	0,215	0,751	11,782	0,074	0,361	10,010
4.	0,037	0,046	11,828	0,022	0,072	10,082
5.	3,110	7,082	18,910	1,528	5,074	15,156
6.	6,826	11,734	30,644	4,046	14,144	29,300
7.	7,012	15,143	45,787	4,603	14,953	44,253
8.	0,738	0,822	46,409	0,329	2,165	46,418
9.	0,529	0,571	47,180	0,210	0,743	47,161
10.	1,601	2,014	49,194	0,853	1,871	49,032
11.	5,662	9,083	58,277	3,928	10,068	59,100
12.	4,011	6,554	64,831	2,571	4,462	63,562
13.	0,024	0,057	64,888	0,016	0,176	63,738
14.	0,276	1,140	66,028	0,068	1,680	65,418
15.	2,525	2,411	68,439	1,107	3,511	68,929
16.	6,014	9,074	77,513	3,744	8,064	76,993

Variables number	Extraction factors			Rotated factors		
	V	Vp		V	Vp	
17.	2,770	2,872	80,385	1,558	3,015	80,008
18.	0,048	0,113	80,498	0,045	0,247	80,255
19.	0,103	0,962	81,460	0,073	0,503	80,758
20.	1,227	1,850	83,310	0,059	0,514	81,272
21.	0,055	0,078	83,388	0,014	0,899	82,171
22.	0,402	1,245	84,633	0,228	3,140	85,311
23.	3,016	3,538	88,391	1,422	2,751	88,062
24.	6,883	10,030	98,263	3,891	9,922	97,984
25.	0,601	1,337	100,000	0,107	2,016	100,000
Total	-	100,000	-		100,000	-

V - variance; Vp - variance share expressed in percentage; Vk - cumulated variance share

Table 1. Factorization result of variables

In accordance with the factor analysis, compression of the displayed 25 variables was performed to reduce their number to those latent variables that would be able to significantly explain their interrelationship. This procedure established that this interconnection is rather small.

Summarized in Table 2 are only those variables whose variables (variance values) are greater than 1. Such variables were 14.

Variables number	Extraction factors			Rotated factors		
	V	Vp	Vk	V	Vp	Vk
7.	7,012	15,143	45,787	4,603	14,953	44,253
24.	6,883	10,030	98,263	3,891	9,922	97,984
6.	6,826	11,734	30,644	4,046	14,144	29,300
16.	6,014	9,074	77,513	3,744	8,064	76,993
11.	5,662	9,083	58,277	3,928	10,068	59,100
1.	5,031	8,027	8,027	3,724	6,143	6,143
I		63,091				
12.	4,011	6,554	64,831	2,571	4,462	63,562
5.	3,110	7,082	18,910	1,528	5,074	15,156
II		76,727				
23.	3,016	3,538	88,391	1,422	2,751	88,062
17.	2,770	2,872	80,385	1,558	3,015	80,008
15.	2,525	2,411	68,439	1,107	3,511	68,929
2.	2,402	3,004	11,031	1,156	3,506	9,649
10.	1,601	2,014	49,194	0,853	1,871	49,032
20.	1,227	1,850	83,310	0,059	0,514	81,272
III	-	92,435	-	-	-	-

Table 2. Compression Result Variable

The factoring results have shown that with 14 extracted factors approaching up to 92% of the common variance of all 25 included variables in identifying elements in creating a corporate vision. Such a procedure and scale of factor compression may be interesting, but it must also have proper caution. With only six extracted factors, it is explained as much as 63% of common variance, with eight included extracted factors (ie 1/3 of total) more than 76% of common variance. For a more detailed analysis of the identification of elements that create a corporate vision, however, the structure and significance of extracted factors, and those factors not involved (non-extracted factors), should be considered. The extruded variables (three) are concentrated in the first group of corporate visions, that is, corporate values. These are: continuous improvement of customer satisfaction, increased employee satisfaction and team management and transformation management.

In the second group that included corporate identification factors, three factors have also been identified: the success of the current development, transparency, homogeneity and compliance of owners' interests, and employment of young talents. And in the third group that contained competing capabilities factors, the same three factors were included: the competitive position of the corporation, the growth rate and the strength of human capital.

The fourth group of factors (big, exciting and challenging corporate goals) has highlighted three factors: long-term, partnerships with customers, strength and structure of corporate change, and

proactive role of the corporation in environmental protection. Two factors contributing to the creation of a corporate vision are identified from the corporate values of the stakeholders (the fifth group): corporate responsibility for environmental protection and corporate responsibility for business success.

A significant number of non-factor variables included in the corporate vision identification. These 11 variables are: innovative corporate culture, corporation as an intelligent organization, a systematic approach to using the opportunity from the environment, the cultural value of the community in corporate culture, barriers to entering others in the corporation, the market share, the implementation of emotional and spiritual intelligence in the corporation; corporate responsibility for human and intellectual capital, corporate responsibility for the community, corporate responsibility for ethics in business.

Discussion

The structure of extracted factors on one and the excluded factors in the process of identifying them for the purpose of creating a corporate vision points to a couple of characteristic features. Their visions of the investigated corporation are mostly based on experiential and "hard" variables. This is quite clearly visible and confirmed by the structure of extracted factors.

The research results also point to the insufficient openness of these corporations to their environment through the exclusion of variables 8 and 9. This can really affect their non-recognition or lack of

recognizability in the environment or on the world tourism market, as Lynch pointed out. A corporate vision without the involvement of environmental factors, as well as the cultural values of the community, points to the accentuated introverted orientation of the corporation and certainly as such is not reliable, safe and promising.

Corporate visions are formed and applied almost entirely through physical and financial capital, while human and intellectual capital has not apparently acquired the "status of capital". They were not identified as the strategic backbones of the future development of research corporations.

Corporations are not even identified as intelligent organizations. Thus, as organizations in which all employees should play the role of learning constantly and acquiring new knowledge, skills and abilities. It is a purely classic, overdue and outdated concept that has been rejected in the modern business and orientation of corporations that today participate more significantly in the world tourism market. Scholes and Whittington, as well as Kotter's findings in his paper, clearly show that corporate visions should be based on the interests of all stakeholders, not just the interests of corporate owners and their anticipated expectations.

Successful corporate visions point to creating value for all stakeholders. Namely, employees in the surveyed tourist systems are not understood by corporations. Possible reason is the insufficiently developed management concept, and the lack of a built human resource management system in these corporations. Emotional and spiritual intelligence, too, has not been identified as part of the required qualitative corporate change. Corporate responsibility for human and intellectual capital is also not included in the extracted factors that create a corporate vision.

What is also not good is that in the extracted factors in corporate culture are not included the cultural values of the community in which the corporation operates. Nor does it include corporate responsibility for the community, nor corporate responsibility for ethics in business. The exclusion of these factors from the process of creating a corporate vision points to the possible conclusion that the surveyed hotel systems are over-optimized, and thus short-sighted to the narrow profit interests and goals of their owners, which is certainly not good from the aspect of their long-term development

Conclusion

There are two goals and accordingly two hypotheses set out in this research. Both goals and both hypotheses are fulfilled. Namely, according to the presented methodology of research, identified and quantified elements within four observed groups are key to the creation of a corporate vision. By the process of exploratory factor analysis through orthogonal quartimax projection factorization, 14 factors were extracted that explain 92% of common variables of all 25 involved variables in identifying elements in the creation of a corporate vision. Only 11 of the included variables are not included in the factorization. It was also found that the elements that point to the creation of corporate values for all corporate stakeholders were not primarily relevant to the creation of visions in relation to other elements. Despite some limitations, it is believed that the results of this research are presented to the attention of the scientific and professional public and will contribute to a more realistic and systematic understanding of the corporate vision and to its creation.

References

- [1] Abratt, R. & Kleyn, N. (2013). Corporate identity, corporate branding and corporate reputations: reconciliation and integration. *European Journal of Marketing*, Vol. 46, No 7/8 (September, 2013), pp. 1048-1063, ISSN 0309-0566
- [2] Analui, F. & Karami, A. (2002). CEOs and the development of the meaningful mission statement, *Corporate Governance*, Vol. 2, No 3, (October, 2002), pp. 13-20, ISSN 1472-0701
- [3] Bart, C.K., Bontis, N. & Tagger, S. (2001). A model off he impact of mission statements on firm performance, *Management Decision*, Vol. 39, No1, (March, 2001), pp. 9-18, ISSN 0025-1747
- [4] Bratianu, C. & Balanescu, G.V. (2008). Vision, mission and corporate values: a comparative analysis of the top 50 U.S. companies, *Management & Marketing*, Vol. 3, No 3, (August, 2008), pp. 19-38, ISSN 1842-0206
- [5] Cummings, S. & Davies, J. (1994). Mission, Vision, fusion, *Long Range Planning*, Vol. 27, No 6, (November, 2005), pp. 149-164, ISSN 0024-6301
- [6] Daft, R.L. (2005). *The leadership experience*, Thomson South-Western, ISBN 10-1435462858, Mason, OH
- [7] Doostar, M., Mehrdad, C.G. & Sita, P. (2012). Survey of relationship between spiritual intelligence and organizational citizen behavior, *Interdisciplinary Journal of Contemporary Research in Business*, Vol. 11, No 3. (July, 2012), pp. 54-63, ISSN 2073-7122
- [8] Gierczak, B. (2014). Management methods and concept for building competitive advantage in hospitality companies, *Polish Journal of Sport and Tourism*, Vol. 21, No 3, (October, 2014), pp. 81-103, ISSN 2082-8799
- [9] Grappi, S., Romani, S. & Bagozzi, R.P. (2013). Consumer response to corporate irresponsible behavior: moral emotions and virtues, *Journal of Business Research*, Vol. 66. (May, 2013), pp. 1814-1821, ISSN 01482963
- [10] Hair, J., Black, W., Babin, B., & Anderson, R. (2010). *Multivariate Data Analysis - A Global Perspective*, ISBN 13-978-0138132637, Pearsib, New Jersey
- [11] Ionita, D. (2013). Success and goals: an exploratory research in small enterprises, *Procedia Economics and Finance*, Vol. 6, (April, 2013), pp. 503-512, ISSN 2212-5671
- [12] Johnson, G., Scholes, K. & Whittington, R. (2008). *Exploring corporate strategy: text and cases*, Eighth edition, Prentice-Hall, ISBN 13-978-0273711919, London
- [13] Jones, P., Hillier, D. & Comforti D. (2017). The sustainable development goals and the tourism and hospitality industry, *Athens Journal of Tourism*, Vol. 4, No 1, (June, 2017), pp. 126-144, ISSN 2241-8148
- [14] Kantabura, S. & Avery, G.C. (2005). Essence of shared vision: empirical investigation, *New Zealand Journal of Human Resources Management*, Vol. 5, (March, 2005), pp. 3-28, ISSN 1175-5407
- [15] Kantabura, S. & Avery, G.C. (2007). Vision effects in customer and staff satisfaction: an empirical investigation, *Leadership & Organization Development Journal*, Vol. 28, No 3, (August, 2007), pp. 209-229, ISSN 0143-7739
- [16] Kirkpatrick, S. (2016). *Build a better vision statement: extending research with practical advice*. Rowan & Littlefield, ISBN 13-978-1498539449, London
- [17] Kotter, J.P. (1999). *What do leaders really do?*, Harvard Business School Press, ISBN 13-9780875848976, Boston, MA
- [18] Lynch, R. (2000). *Corporate strategy*, Pearson Education, ISBN 9780273701781, Harlow
- [19] Melewar, T.C. & Jenkins, E. (2002). Defining corporate identity construct, *Corporate Reputation*

Review. Vol.5, No1, (February, 2002), pp.76-92, ISSN 1363-3589

[20] Moon, T.W., Hur, W.M., Ko, S.H., Kim, J.W. & Yoon, S.W. (2013). Bridging corporate social responsibility and compassion at work: realizations to organizational justice and affective organizational commitment, *Career Development International*, Vol. 19, No1. (March, 2013), pp. 49-73, ISSN 1362-0436

[21] Ranjith, V.K. (2016). Business models and competitive advantage, *Procedia Economics and Finance*, Vol.37, (July, 2016), pp. 203-208, ISSN 2212-5671

[22] Smith, R.D. & Singer, D.P. (2012). Spirituality in corporate social responsibility: a proposed solution to the „failed system“ problem, *Interdisciplinary Journal of Contemporary Research in Business*, Vol.4. (October, 2012), pp. 58-69, ISSN 2073-7122

[23] Sufi, T. & Lyons, H. (2003). Mission statement exposed, *International Journal of Contemporary Hospitality Management*, Vol.15, No 5, (May, 2003), pp. 255-262, ISSN 0959-6119

[24] Šehić, Dž. (2002). *Strateški menadžment*, Slovo, ISBN 9958-756-11-0, Mostar

[25] Tjoswold, D. (1998). Employee involvement in support of corporate values in successful organization: groups, cooperative interaction, and influence, *International Journal of Value-Based Management*, Vol.11, No 1. (February, 1998), pp. 35-46, ISSN 1572-8528

[26] Tsai, H., Song, H. & Wong, K.K.F. (2009). Tourism and hotel competitiveness research, *Journal of Travel & Tourism Marketing*, Vol.26, No 5/6, (October, 2009), pp. 522-546, ISSN 10548408

[27] Urde, M. (2003). Core value-based corporate brand building, *European Journal of Marketing*, Vol.37, No7/8. (November, 2003), pp. 1017-1040, ISSN 0309-0566

[28] Wenstop, F. & Myrmei, A. (2006). Structuring organizational value statement. *Management Research News*, Vol.29, No 1. (April, 2006), pp. 673-678, ISSN 0140-9174

Novak, Ivan ¹

Knežević, Blaženka ²

Škrobot, Petra ³

SPORT AS AN ENTREPRENEURIAL ACTIVITY AND POSSIBILITY OF SELF-FINANCING THROUGHOUT CROWDFUNDING PLATFORMS

Abstract:

Sport is recognized as an area of a great importance for society and national economy. It is evolving into a profitable entrepreneurial activity and marketable activity. There are numerous ways of sports financing. In the context of the modern economy, there is a need to develop models of sports self-financing. As an emerging form of financing, crowdfunding changes the way in which entrepreneurs collect money for financing their business projects in various business activities starting from social entrepreneurship and software development towards entertainment industry. Sport is not an exception to this trend. Due to its potential to influence and change traditional financial flows and to change

traditional principles of financial intermediations, crowdfunding has drawn attention of scientists and practitioners who are trying to explain what could be consequences, risks, development phases and future trends in this field. In this paper, firstly, we draw attention to the need and perception of sports self-financing in the sample of future entrepreneurs in Croatia based on conducted primary research. Secondly, we give definition, development and types of crowdfunding activities in the context of entrepreneurial self-financing. Then, based on the case study analysis method, we outline several successful examples of self-financing sports projects in developed markets in order to explain and illustrate potentials of crowdfunding as a financing source in sports.

Keywords:

crowdfunding, e-business, self-financing, entrepreneurship, sport management, sport

Author's data:

¹ Ivan, Novak, Associate Professor, University of Zagreb, Faculty of Textile Technology, Prilaz baruna Filipovića 28a, 10000 Zagreb, Croatia ivan.novak@ttf.hr

² Blaženka, Knežević, Associate Professor, University of Zagreb, Faculty of Economics and Business, Trg J. F. Kennedyja 6, 10000 Zagreb, Croatia, bknezevic@efzg.hr

³ Petra, Škrobot, Assistant, University of Zagreb, Faculty of Economics and Business, Trg J. F. Kennedyja 6, 10000 Zagreb, Croatia, pskrobot1@net.efzg.hr

Introduction

Modern sport is developing not only as a social activity, but also as an entrepreneurial activity. As such, it is explored and researched from managerial, marketing and macroeconomic perspective. However, in the contemporary literature the scarcity of papers regarding sport as an entrepreneurial activity in Southeastern Europe can be observed. In addition, there is a literature gap in the field of sport financing, even though that some authors (see [24], pp. 468-492) did write about that issue. Therefore, in this paper we will try to fill in those gaps. Particularly, we will put our focus to a suitability of crowdfunding for supporting sports as an entrepreneurial activity.

Each business entity of an economy is trying to finance its business activity or business ideas or projects from its own current revenues. In addition to their own financial resources, many business entities for financing development or various business ideas and projects use other financial institutions i.e. external sources of finance.

External funding sources contain more or less complex financial mechanism, commonly referred as financial system (see [27], pp. 5-11). The basic and main purpose of the financial system is to collect and to transfer of all available financial resources from those entities, to which these financial resources are surplus and to transfer them, under certain market conditions, to those to whom such financial resources are needed for investment and / or consumption. The traditional financial system functions through financial markets made up of legal entities and physical persons, financial instruments, flows and techniques, which in special places or in regulated trading markets and/or systems allow the exchange of cash surpluses and

shortfalls (i.e. money, capital or foreign currency) and they determine prices under which exchange is carried out [27]. Of course, the development of the economy, and thus the financial market, depends on the efficiency and functioning of the financial system i.e. the efficient application of the basic tasks of the financial system in practice.

With the development of modern business and financing sources, a new way of financing ideas, projects, products, innovations and so on is emerging. Although some authors [28] identify crowdfunding as markets that „only serve those in need of financing who have been rejected by traditional financial services and desperately seeks a lender of last resort“, quite contrary, the contemporary way of doing business consider crowdfunding as equal source of money as any other traditional one. Of course crowdfunding has many disadvantages and advantages in compare with traditional sources. However, in the last few years, crowdfunding is growing very fast. Actually, it is a phenomenon all over the world, but North America and Europe dominated this industry: they raise 59% and 35% of worldwide capital. In 2012 €1.23 billion of funding raised, came from North America and €727 million was raised in Europe. The share of the European market in terms of volume of money raised is dominated by the United Kingdom (63%), followed by Germany, Poland, France, Italy and Spain.

Actually, there are about 500 crowdfunding platforms with some differences in the services provided. The leader of this sector is Kickstarter. Since April 28, 2009, over \$500 million has been assured by more than 3 million people, funding more than 35.000 creative projects [29].

There are two main research questions to be answered in this paper: (1) Is sport considered as an entrepreneurial activity in Croatia (as an example of Southeastern European post-communist market)? (2) Is crowdfunding a suitable tool to support sport as an entrepreneurial activity?

The first question comes out of some previous research (see [24], pp. 441-445) which shows that sport is an activity that generates business activity and as such is a part of those national economies in which sport activity is semi or fully developed. That means that sport business generates significant micro and macro economic impacts and creates "sport industry". The second question comes out of some contemporary trends of funding different business activities driven by ideas and new solutions, as well in sport economic activities.

So, the paper is structured in two parts and each of them is based on different methodology. Firstly, we are going to discuss sport as a business or entrepreneurial activity in general and then we are going to focus on Croatia. The aim of this part is to fill in the gap in literature on sport management and to draw attention to the fact that sports, as an entrepreneurial activity, has to be self-sustainable. After the theoretical insights, we are going to emphasize situation in Croatia, based on the primary research findings. The primary research was conducted by survey method with the aim to explain attitudes towards sport as an entrepreneurial activity and sport self-funding in a post-communist market. Then, in the following part, we will describe potentials of crowdfunding as a modern type of sports self-financing. In this part of paper, we will use the case study method in order to describe successful crowdfunding campaigns in sport.

Sport as an Entrepreneurial Activity

Theoretical background - The role of sport in modern economy and sport as an entrepreneurial activity

Sport is not only a public good and/or social activity, but has been, in part, evolving into a business (profitable) activity. In some developed economies, a part of the sport has developed to the level of the sports industry and it is logical that it is a predominantly marketable activity. However, there are numerous ways of sport financing, according to Becsky-Nagy [5], there are several finance sources in sports: state, self-government, sponsorship, personal sponsorship and gambling. In many countries sport financing is limited by the state budget and strictly regulated, sport organizations have to improve self-financing activities throughout increasing sponsorships, personal sponsorship and payments by consumers who attend sport events. By analyzing the features of a model of sport financing (including commercial and non-commercial sports) of some European countries, as well as the relative share of individual sources of funding, many EU countries are on the market or predominantly market way of financing of sport [24].

As sport has been identified and characterized as an area of extreme importance for all contemporary societies as a whole, and thus economies, a research study had been conducted Andreff [3] in the countries of the Council of Europe which has identified five (5) possible sources of funding for sport. The following sources have been identified: budget as a fund source through the state and local authorities, entrepreneurship as a source of financing, media as a source of funding (through television rights transfer), and household spending (financing consumption for sport). Andreff [4]

aligns the structure of financings sources in EU as following: government and local authorities, i.e. public finance 36,2%, households and enterprises i.e. private self-financing 63,8%. Mentioned possible sources of funding for sports are not the result of theoretical research alone, but the result of the analysis of business operations in the sport, i.e. the objective reality and the necessity of seeing developmental trends of sport as a business activity and as an integral part of an economy. If this is a fact, sport is certainly (economic) power that can affect development flows. Therefore, the free market system implies enterprise for sport, sports entrepreneurship and an external financing system, i.e. direct and intermediated financing, which are in practice combined.

In the study of the Council of Europe, as opposed to sports funding sources, five (5) possible financing destinations have been identified. The final destinations of financial resources are defined as (see Andreff [4], p. 14): (1) top sports, (2) sports federations, (3) sports clubs and associations, (4) sports facilities and sports events i.e. happenings. In this classification there is the lack of other possible destinations of financial resources in sport, such as school sports, sports science, sport for disability persons, sports recreation, sport for all and other forms, especially those segments and destinations of the economic sector of sports and business activities that affecting an economy (see more details in [24], pp. 119-169).

The influence of sports on the economy of some country was also studied by researchers at Henley Center who identified seven (7) sectors that sport significantly influenced the economy. According Jones [18], these are the central state budget, local

budgets, commercial sports, commercial non-sports, consumer sectors, voluntary clubs (possibly a citizen's association, remark of authors) and government bodies i.e. national sports federation and overseas sector (which is not case in Croatia, see more details in [32]).

Many commercial banks have realized the potential of sport, so they adapted their business to the needs of sport and sports industry. One example can certainly be placing under a mortgage contract with the athletes as a security for loan transaction - collateral [24]. Other example of a loan in the sport industry can be the NFL's secured loan program. Loan is secured with "large long-term television contracts and the expectation that there would continue to be a hard salary cap. The mechanics of the secured loan account allow the lenders to access the television money prior to any distributions to teams or other outflows" [9].

In addition to the influence of sport on national economies as well as the need for external financing of business entities, individual athletes may also have the need for external financing, i.e. individual persons need financial resources to fund membership in the sport or recreational clubs, purchasing or leasing of sports equipment, financing a sport trip, funding for visiting a competition such as OG, EC, WC, Roland Garros, Wimbledon etc. as a passive participant (spectator) or as an active participant, competitor.

Particular care is taken of those needs that affect the health of individuals, and thus the community as a whole. For this purpose in some countries, so-called "sports banks" were founded. „We also know that one of the main barriers to being involved (in

sports activity, remark of authors) is cost. Sports Bank has been established to assist people facing financial barriers to participate in all aspects of community sport and recreation by providing interest free loans to cover upfront sporting costs such as registrations, uniforms, equipment and training. The aim of Sports Bank is to provide an ongoing solution to an ongoing problem, a sustainable resource that supports and encourages lifelong participation in community sport and recreation and a happier and healthier society. For example refer to example of South West Australian sports bank [33].

There are numerous research studies and papers discussing the role of sport as a business activity both on macro and micro aspect. Beech and Chadwick [6] explain development of sport as business and entrepreneurial activity. Zimbalist [39] discusses how owner perceive their function regarding to sports business objectives on team, league and national level. In the Handbook of Research on Sport and Business [30] authors explain framework and method in sport management research and give valuable insights into sport business models. Jones [17] states that sport and business are related when it comes to performance excellence on personal level. Weinberg and McDermott [36] draw attention to business and management issues in sport industry and their results suggest that there are more similarities than differences between business and sport management according to leadership, group cohesion and communication issues. Westerbeek [38] overview a value-chain approach to describe value creation process in sport industry and he claims that sport business can be (a) profit seeking or (b) surplus creating entrepreneurial activity. In

latter case, created surplus is returned or invested in future sport activities. According to Westerbeek (2010), self-sustainability of sports is, actually, based on constant struggle for limited resources. Based on observation given by Andreff (2010) who claims that private self-financing makes more than a half of financing sources in Europe sport, the main challenge for sport manager in future will be ensuring stable money flow. And in following chapters we will draw attention to one of the newest financing models - crowdfunding as the additional sport funding source.

In Southern Eastern Europe, there is scarcity of observations on sports as an entrepreneurial activity. Furthermore, in past decades, sport was observed only as an activity, which has to be financed, by government and local authorities. According to Andreff (2010), the structure of sport financing in post-communist countries significantly changed. But in that study no data is given for Croatia. Therefore, we conducted a primary research in order to assess existing perception on sports as entrepreneurial activity that have to be self-financed.

Perception on sport as an entrepreneurial activity and need of self-financing in sport - the primary research in Croatia

In order to observe attitudes of future and existing sport managers in Croatia regarding sport as an entrepreneurial activity, the research was conducted on the sample of more than 280 respondents.

Methodology and Sample Structure

As mentioned earlier, the research was conducted on the sample of future and existing sports managers

in 6 institutions and organizations, in 4 Croatian cities: Zagreb, Split, Rijeka and Opatija during May and June 2016. The structure of the sample is given in Table 1.

Institution of respondent	Absolute frequency	Relative frequency
Faculty of Economics and Business Zagreb	48	17%
Aspira - university college of sport and design, Split	19	7%
Faculty of textile technology Zagreb	63	22%
Faculty of tourism and hospitality management Rijeka and Opatija	25	9%
Faculty of Engineering Rijeka	60	21%
Sports center Rijeka (sport fans)	67	24%
Total	282	100%

Table 1. Structure of the sample according to institution of respondents (Source: own research)

The research included 5 questions on general attitudes on sport as an entrepreneurial activity and 2 questions on possibility of financing of sport activity.

Research results and discussion

Respondents were asked what the term "sport" includes from their point of view. As it can be observed in Table 2, almost three quarters of respondents (73,8%) consider that sport comprises all activities: competitive sport, sport recreation, sport for disabled persons and kinesiotherapy, education and science and economic aspects of

sports. For 23.4% of respondents sport is merely competitive sport (12,1%) or sport recreation (11,3%).

What is included in term „sport“?	Absolute frequency	Relative frequency (N=282)
all mentioned	208	73,8%
competitive sport	34	12,1%
sport recreation	32	11,3%
none of the mentioned activities	3	1,1%
sport for disabled persons and kinesiotherapy	2	0,7%
education and science in Sport	2	0,7%
economic aspects of sport activity	1	0,4%

Table 2. Constitutive parts of sport (Source: own research)

In the second part of the questionnaire, respondents were asked to express their attitude towards 4 claims on sport as an entrepreneurial activity. In Figure 1 we can observe that majority of respondents thinks that sport, besides its other functions, is an entrepreneurial activity (85,82% of respondents answered "yes" and "partially"). In addition, majority of respondents to some extent agrees that sport have to be evaluated in terms of economic performance and value (78,01%). Moreover, 94,33% of respondents believe that sport can contribute to national economic trends.

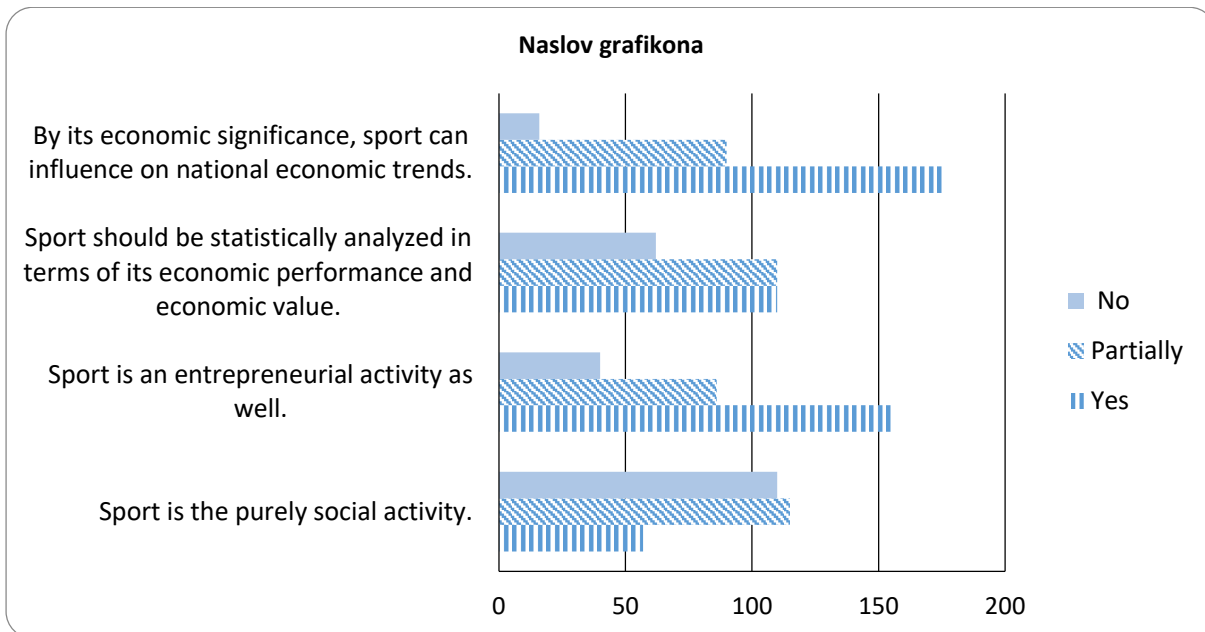


Figure 1. General attitudes on sports as an entrepreneurial activity (Source: Own research)

Figure 2 and 3 show relative frequencies from our survey regarding the questions on sport financing. More than a half of respondents categorically claim that sport should not be exclusively financed from the state budget (53,19%). At the same time, only 29% respondents do not agree with the claim that sport can self-finance its activity. Meaning that majority of respondents believe that sport should to some extent rely more on self-financing than only on support by the state.

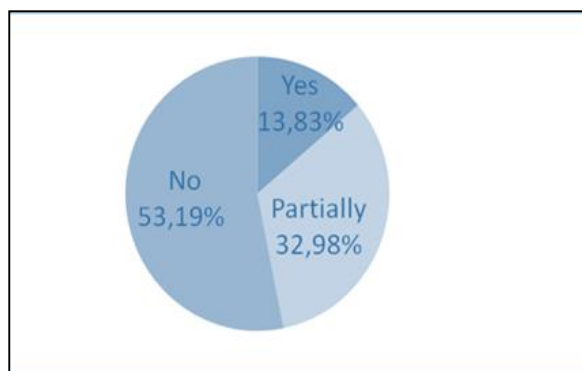


Figure 2. Sport should be financed exclusively from the state budget (N=282), (Source: own research)

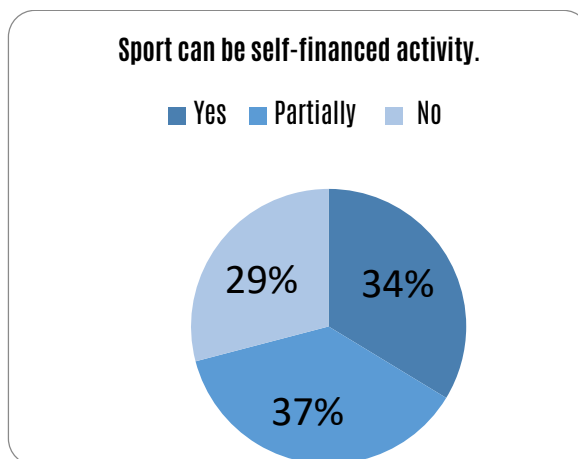


Figure 3. Sport can be self-financed activity (N=282), (Source: own research)

As mentioned before, one of the newest and emerging financial sources that can significantly contribute to self-financing of sports is crowdfunding. In the next chapters' crowdfunding development, types, platforms used, but also processes included together with benefits and risks to be taken into account when planning a crowdfunding campaigns in sports, will be scrutinized and described.

Revealing Crowdfunding Potential in Sports

Theoretical background of Crowdfunding-Definitions, types and platforms

Crowdfunding is the system to finance a project or a firm by a wide group of people instead of professional parties like banks or venture capitalists Rossi [29]. In contrast to traditional financing, crowdfunding don't require financial intermediary, but it relies on intensive use of Internet tools and services starting from a specialized crowdfunding platform towards social networks and social media. Being a new business and financial phenomenon, crowdfunding and its consequences for company and customers are not yet completely understood [25].

Schwiebacher and Larralde [31] define crowdfunding as "an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes."

Crowdfunding can be defined as a collective effort of many individuals who network and pool their resources online to support efforts initiated by other people or organizations [12]. Individual projects and businesses are financed with small contributions from a large number of individuals, allowing innovators, entrepreneurs and business owners to utilise their social networks to raise capital.

Crowdfunding typically involves three participating stakeholders [8]: (1) the project initiators who seek funding for their projects, (2) the backers who are willing to back a specific project, and (3) the matchmaking crowdfunding platforms acting as intermediaries.

There are various types of crowdfunding, based on different classification criteria such as: rewards offered by crowdfunding campaign initiator, donors' motivation and project development phases. In Table 3 there is a summary of crowdfunding types according to various authors.

Criteria classification	for	Rewards offered	Donors' motivation	Project development phase
Types		<ul style="list-style-type: none"> • Reward-based or pre-payment • Lending-based • Simple donations • Equity-based or Investment-based 	<ul style="list-style-type: none"> • Hedonism • Altruism • For Profit 	<ul style="list-style-type: none"> • Classic crowdfunding • Partial crowdfunding • Presale crowdfunding • Distribution crowdfunding
Authors		De Buysere et al. [12]; Crowdsourcing organisation [11]; Wardrop and Ziegler [35]	Haas et al. [14]	Rossi [29]

Table 3. Types of Crowdfunding according to different authors (Source: Own compilation according to the literature review)

In a reward-based crowdfunding funders receive a certain reward for backing an entrepreneurial project. For instance, reward can include being credited in a movie or book, having creative input into a product under development, or being given an opportunity to meet the creators of a project [11], [35], [12].

The lending model of crowdfunding, is one in which funds are offered as a loan, with the expectation of some rate of return on capital invested. In the case of micro financed loans, the lender may be more interested in the social good promoted by the venture than any return generated by the loan [12], [35].

The donations model of crowdfunding is based on philanthropic values. Funders support project without any expectations for direct return for their donations [35], [11]. Actually, they voluntarily support projects that serve to a common good or projects with high correlation with their set of moral values. Humanitarian projects and charity activities usually follow this model of crowdfunding. There are a bunch of artistic and sport activities which apply this model as well. This kind of Crowdfunding is driven by altruistic values, so many sports clubs, athletes and sport associations take advantage of this fact. Seeking for money through “donations model of crowdfunding” for them is maybe the easiest way to collect necessary funds.

As it already mentioned in this paper, Crowdfunding can be seen as an open call made through the Internet to provide financial resources to support the ventures [7]. Whatever its form, crowdfunding mostly takes place on crowdfunding platforms (CFPs).

Crowdfunding platforms are seen as „two-sided platforms“ because they enable the interaction between two „sides“ (fundraisers and funders) whose demands need to be coordinated [7]. The platform creates value by facilitating interactions between the different groups [26]. These interactions exhaustively exploit the advantage of network effects because projects are promoted via extensive use of social media and social networks.

Crowdfunding platforms are distinctly structured to minimize the three „distance-related frictions“, namely: (1) they provide a predefined proforma call for initiators to present their proposals for public viewing, especially for those who have access to Internet; (2) they allow ventures transactions that enable wider engagement with minimal risks; and (3) they provide exhaustive information about investment in a lucid manner. They also provide investor information like amount raised till date and the online identity of current investors [1].

Musicians, artists, entrepreneurs and athletes have a great need for financial resources if they would like to participate in some events or if they would like to set up some business. Very often there is a lack of resources and that is situation where crowdfunding comes in.

The statistics show the development in the worldwide crowdfunding volume of crowdfunding platforms from 2009 to 2012. In 2012, the global funding volume of crowdfunding platforms is expected to amount to just over 2,8 billion U.S. dollars, a massive increase from the 2009 figure which amounted to 530 million U.S. dollars. Total crowdfunding volume worldwide is rapidly growing from 2012 to 2015. For example, In

2014, 16,2 billion U.S. dollars was raised through crowdfunding [34].

Regarding their impact in sports, crowdfunding platforms can be divided into two categories: (1) general platforms which allow sport project to be initiated and promoted as each other entrepreneurial activity, (2) specialized sport crowd funding platforms which are devoted only to sport activities and sport entrepreneurship.

The most popular general crowdfunding platforms, according to Investopedia (2017) are: (1) Kickstarter, (2) Indiegogo and (3) CircleUp

Kickstarter is the well-known name in crowdfunding and arguably the most active platform, raising over \$2 billion since its launch in 2009. On a typical day, the Kickstarter community pledges over \$1,5 million. Kickstarter backs creative projects only (film, games, music and technology, for example) - the platform does not accept charity or humanitarian projects or other personal use projects that other platforms allow. It's also an all-or-nothing deal - if a project doesn't reach its goal, no money will be collected, so there's a bit of a risk involved. Kickstarter also keeps 5% of every successful project [16], [19].

Indiegogo was the firstly founded major crowdfunding platform, and it has raised over \$1 billion since its inception in 2007. In 2015, the last year for which comprehensive statistics are available, the platform funded over 175.000 campaigns with contributions from 2.5 million people across 226 countries. Indiegogo has no prohibitions against cause-related and humanitarian projects, and it also offers a "flexible

funding" option that allows campaign initiators to collect all donations even if they do not reach the given goal. However, it keeps 9% for this option, compared with 4% for successful, fully-funded campaigns. There's also an equity based investment option offered in partnership with the company MicroVentures [15], [16].

CircleUp is an equity-based crowdfunding platform designed to help emerging brands to raise capital and to grow their business. Since its launch in 2011, CircleUp has helped 211 entrepreneurs raise \$305 million. The average raise is less than \$1 million, and the average investment is \$100.000. Most campaigns take between two and three months to close

CircleUp has a good reputation for elaborate due diligence on the companies it accepts, and most of the investors have deep experience in retail and consumer brands and are willing provide strategic guidance and support during the process. In order to apply, most companies must show revenue of at least \$1 million, although CircleUp has made exceptions for promising companies with revenue in the \$500.000 range. The company offers no-cost escrow services, and it takes a percentage of the raise in commission [10], [16].

Discussion on sport self-financing on crowdfunding platforms based on successful case studies

In this part of paper we summarize several successful crowdfunding campaigns worldwide in order to make some conclusions on suitability of this type of sports' self-financing.

Individual athletes or even entire teams are turning to crowdfunding to raise the necessary funds for covering expenses of trainings, traveling, and

competing on a global and local stage. Financing sport activities through crowdfunding become famous especially during the Sochi 2014 Olympics. „The Sochi 2014 Olympics put sports crowdfunding on the map. It was the first time in history that a significant number of athletes and even entire teams turned to crowdfunding to help fund their dreams. In return for backing sports endeavors, backers have the potential to receive a variety of rewards and the feeling that they've helped athletes along the path to success.“... „In return for a donation to an individual athlete or team, boosters (donors) typically receive some type of reward: from a mention on Twitter to a full-fledged sponsorship.“ [22]. Campaigns for Sochi Olympic game was carried through Crowdfunder platform [16].

Another successful crowdfunding campaign which brought attention of the wide public to crowdfunding as a source of sports financing was the project “Kit it Out” which is in literature widely used to illustrate what donations crowdfunding is. The project was aimed at collecting financial resources for building a necessary sports and social infrastructure, to provide community social activities not only for FC United fans but for the whole community. New facility and function room at FC United of Manchester's new football ground becomes not just a place where FC United play games but also a place where, on open ground, wider community can seek to increase participation in sports, for education courses, for meetings or to organize volunteering and other activities. The project was overfunded - on May 2014 project was successfully raised £51.320 of £26.000 target with 679 supporters in 56 days. [20].

On Kickstarter there is an ongoing sport campaign “Popperball - Portable Paddle Sport Kit” which seeks

for funds to commercialize new and original paddle sport kit designed to be an affordable and convenient way to have fun and exercise. Goal of the campaign is to reach \$20.000. This is a combination of donation-based crowdfunding and reward-based crowdfunding. Backers who will pledge from \$1 to \$50 will be mentioned in webpage of a project as one of the sport's founders. Backers who will pledge more than \$50 can pre-order a product and they will get discounts on their own Popperball and also will be mentioned at the webpage of a project. Discount that backers will get depends on amount of money they will pledge, it starts with 50% of discount of retail price [19].

Another example is CUBI campaign aimed to collect funds for new product launch. The product was a cycling equipment which can be placed under working desk allowing people to train while working. The goal of campaign was to reach \$80.000. The campaign was very successful and they pledged \$293.712. This campaign was a combination of donation-based crowdfunding and reward-based crowdfunding. For example, the promised rewards were as follows: (1) backers who pledge from \$0 to \$29 will be mentioned in webpage of a project as one of the sport's founders, (2) backers who will pledge \$29 or more will get a T-shirt. And (3) backers who will pledge \$279 or more will get their own CUBI and a mobile application to track their exercise [19].

On Indiegogo there are a numerous successful sports campaigns. Mostly those campaigns refer to supporting a production of new sports equipment, developing some applications connected with sport, building some sport or recreational centers etc. One of the successful sport campaign on Indiegogo is “Antelope Sportswear: Muscle Activating

Smartsuit” which pledged for funds to startup a project of developing new, innovative type of athlete sportswear which helps to reach fitness goals faster making each workout more effective by using electro stimulators that are directly built-in the sport suit. Total funds raised were \$1.515.864. [15]. The particular project was extensively described in all business relevant details and all project initiators are also mentioned with their brief curriculum vitae. Additionally, a project workflow was displayed and exactly every phase of the project from product development to product delivery to customers in case of a successful campaign was outlined. Also, a detailed product description and benefits for each product user were given. This campaign identified what backers get in return if they pledge this project. In this campaign, backers can pre-order a product and also they can get a discount which depends on amount of money a certain backer will pledge. This is common for many campaigns on this Indiegogo platform. In addition, a link to the project webpage is given, so bakers and other interested parties can follow this project after campaign is finished [15].

In addition, good example of crowdfunding campaign via Indiegogo is “ASIYA: Sports Hijabs to Enable Muslim Athletes”. This campaign was aimed to raise funds to for creating culturally-appropriate active sportswear to enable physical activity for Muslim girls and women by developing sports hijabs as a part of a sportswear. Through this campaign supporters can either pre-order a sports hijab or contribute to sponsoring an athlete. Total funds raised were \$39.105 [15].

On CircleUp there are also some successful sport campaigns. For instance, “APEX SKI BOOTS SYSTEM” independently-owned company is dedicated to

providing premium quality and innovative products to skiers everywhere. They have initiated an equity offering through the crowdfunding site CircleUp to raise funds for global expansion into the international markets, with a particular focus on the European ski market. One month before campaign closing they collected more than \$200.000 [13]; [37].

It is important to point out that some crowdfunding platforms are geared to athletes and teams with an existing fan base and strong support. Others are intended to help individual athletes to train and travel [23]. The most popular and most successful crowdfunding sites specialized for supporting athletes are:

1. Rallyme
2. DreamFuel
3. Pursuit
4. SportFunder
5. MakeaChamp
6. Athlete.com

An successful example of funding through specialized crowdfunding platform is “Lacrosse Team USA” who sought funds through Rallyme crowdfunding platform to support training, travel and team responsibilities to compete in the Federation of International Lacrosse Women's World Cup and the International Olympic Committee regulated 2017 World Games, where lacrosse will be represented for the first time. Collected funds were collected for 'US Lacrosse', a U.S. nonprofit foundation. The goal of campaign was to raise \$90.000. At the end they have raised \$70.012 and it can be considered as successful campaign because expenses that Lacrosse Team USA have are mainly covered [21].

Based on given cases of successful sport crowdfunding campaigns we can conclude that donation and reward based are dominant form of financing individual sportsmen, teams or sport projects and products. There other types of crowdfunding campaigns. As level of funds collected throughout crowdfunding campaigns in Europe and US is significantly rising, there is necessity to include this type of financing into reports in global, regional and national statistics, but also in business reports generated by sports managers. Moreover, as there is observed scarcity of lending and equity crowdfunding financing, there is huge potential for sport managers to broaden their self-financing by using those more complex forms of crowdfunding. Another thing to be emphasized, is that crowdfunding is not recognized enough as a model of self-financing in Southern Eastern Europe. Therefore, presented successful cases are source of valuable information for sport managers in Croatia and other countries in the region to whom we recommend to take this means of finance into consideration when plan future development of their entrepreneurial sport projects.

Conclusion

According to the presented primary research results we can conclude that in Croatia sport is recognized as an entrepreneurial activity and that there is a developed awareness of the need for sports self-financing.

Crowdfunding as a newer form of entrepreneurial financing is developing rapidly in last ten years. It changes the way of communication and interaction with wide public and can be used to finance sport projects as well. On the basis of described examples

of successful crowdfunding campaigns from US and European developed markets, we can conclude that crowdfunding has a great potential to become the significant source of sports self-financing.

Regarding sports projects, upon given examples, we can conclude that all three models of crowdfunding are present: (1) reward based, (2) donation based and (3) lending or equity based crowdfunding. Moreover, both general and specialized crowdfunding platforms are successfully used to seek for funds for sport projects. However, reward and donation based are more represented in sport financing than lending or equity based crowdfunding.

Based on analyzed and presented cases, crowdfunding can be considered as an important financing source in developed countries. Individual athletes can use it as a self-financing source and teams can use it when searching for support for their operation, but also it can be used by sport organizations and sport entrepreneurs when they are starting some sport project, develop a new product or introducing some innovative sport concept. As it can bring significant funding amounts, crowdfunding already deserves to be incorporated into business reports and statements. Moreover, in developed economies is necessary to include it in sport financing statistical reports on national, regional and global bases.

Contribution of this paper is twofold. Firstly, it fills the gap of understanding sport as an entrepreneurial activity in Southeastern Europe by outlining the results of the primary research in Croatia as an example from this region. However, further research should be done in other countries of the region. This would enable scientifically based

comparison between several countries according to the attitudes toward sport as an entrepreneurial activity. Furthermore, comparison of findings should be done between countries within this region and more developed economies.

Secondly, the paper can be used by sport managers when considering sustainable finance sources because it outlines successful cases in global crowdfunding. However, in future, similar research by analyzing crowdfunding campaigns on Croatian and other Southeastern European markets should be done to observe ongoing practice in this part of the world.

In addition, research should be broadened by conducting interviews and in-field research because it is necessary to examine what are benefits, obstacle and risks of this particular type of sports self-financing. Those interviews should be carried within a sample of entrepreneurs who initiated crowdfunding campaigns, but also, with wider number of crowdfunding campaign backers (project supporters).

References

- [1] Agrawal, A.K., Catalini, C. & Goldfarb, A. (2013). Some Simple Economics of Crowdfunding (NBER Working Paper No. 19133), National Bureau of Economic Research, Cambridge MA. Available from: <http://www.nber.org/papers/w19133.pdf> Accessed: 2017-10-12
- [2] Alois, J.D. (2015). Sport Club in Need of Funding? Crowdfund It, Crowdfund Insider, Beachwood Ohio, Available from: <https://www.crowdfundinsider.com/2015/05/68289-sport-club-in-need-of-funding-crowdfund-it/> Accessed: 2017-05-03
- [3] Andreff, W. (1994). The economic importance of sport in Europe : financing and economic impact, 14th Informal Meeting of European Sports Ministers p. 13-14, Strasbourg, 28-29 April 1994, Council of Europe, Strasbourg, Available from: <http://www.worldcat.org/title/economic-importance-of-sport-in-europe-financing-and-economic-impact-14th-informal-meeting-of-european-sports-ministers-strasbourg-28-29-april-1994-background-document-presented-by-france/oclc/717682448> Accessed: 2017-10-12
- [4] Andreff, W. (2010). Public And Private Sport Financing in Europe: The Impact of Financial Crisis, the keynote speech at 18th European Association of Sport Management Conference, Prague, 15-18 September 2010, Available from: https://www.researchgate.net/profile/Wladimir_Andreff/publication/289126994_PUBLIC_AND_PRIVATE_SPORT_FINANCING_IN_EUROPE_THE_IMPACT_OF_FINANCIAL_CRISIS/links/56cf1a2908ae4d8d649f986c/PUBLIC-AND-PRIVATE-SPORT-FINANCING-IN-EUROPE-THE-IMPACT-OF-FINANCIAL-CRISIS, Accessed: 2017-10-11
- [5] Becsky-Nagy, P., Dékán, T., Szóke, R. & Bács, Z. (2015). The relevance of sports financing. Applied Studies in Agribusiness and Commerce - APSTRACT, 9, 1-2, pp. 19-22, ISSN 1789-221X
- [6] Beech, J. & Chadwick, S. (2004). The Business of Sport Management, Prentice Hall, Financial Times, ISBN 978-0273682684, Essex
- [7] Belleflame, P., Omrani, N. & Peitz, M. (2016). Understanding the strategies of crowdfunding platforms. GESinfo DICE REPORT. Journal for Institutional Comparisons, 14, 2, pp. 6-10, ISSN 2511-7815
- [8] Belleflamme, P., Lambert, T., & Schweinbacher, A. (2014). Crowdfunding: Tapping the

right crowd. *Journal of Business Venturing*, 29, 5, pp. 585-609, ISSN 0883-9026

[9] Brown, T. M., Rascher, D., Nagel, M.S. & Mcevoy, C. (2010). *Financial Management in the Sport Industry*, Taylor & Francis, ISBN 978-1934432044, Boca Raton

[10] Circleup (2017), Available from: <https://circleup.com/> Accessed 2017-10-15

[11] Crowdsourcing org. (2013). *Crowdfunding Market Analysis Report*, Available from: <http://reports.crowdsourcing.org/index.php?route=product/category&path=0> Accessed: 2017-10-10

[12] De Buysere, K., Gajda, O., Kleverlaan, R. & Marom, D. (2012). *A Framework For European Crowdfunding*, Available from: www.crowdfundingframework.eu Accessed: 2017-10-12

[13] Gaeirnov, K. (2014). *Apex Ski Boots Launches Equity Offering on CircleUp*, Available from: <https://www.snewsnet.com/press-release/apex-ski-boots-launches-equity-offering-on-circleup> Accessed: 2017-10-11

[14] Haas, P., Blohm, I. & Leimeister, J.M. (2014). *An empirical taxonomy of crowdfunding intermediaries*. The 35th International Conference on Information Systems (ICIS), Auckland, New Zealand, Available from: <https://www.alexandria.unisg.ch/234893/1/Haas%20et%20al%20-%20An%20Empirical%20Taxonomy%20of%20Crowdfunding%20Intermediaries.pdf> Accessed: 2017-10-21

[15] Indiegogo (2017). Available from: <https://www.indiegogo.com/en> Accessed: 2017-10-17

[16] Investopedia (2017). Available from: <http://www.investopedia.com/small->

[business/top-crowdfunding-platforms/](http://www.investopedia.com/small-business/top-crowdfunding-platforms/) Accessed: 2017-10-15

[17] Jones, G. (2002). *Performance Excellence: A Personal Perspective on the Link Between Sport and Business*, *Journal of Applied Sport Psychology*, 14, 4, pp. 268-281, ISSN 1041-3200

[18] Jones, H.G., (1989). *The Economic impact and importance of sport: a European study*, Committee for the Development of Sport, Strasbourg

[19] Kickstarter (2017). Available from: <https://www.kickstarter.com/> Accessed: 2017-10-20

[20] Kit-it-out (2017). Available from: <http://www.crowdfunder.co.uk/kit-it-out/> Accessed: 2017-10-15

[21] Lacrosse team case (2017). Available from: <https://uslacrosse.rallyme.com/rallies/6013> Accessed: 2017-10-16

[22] Miller, Z. (2017a) *What Is Rewards-Based Crowdfunding?*, *Business Finance*, Available from: <https://www.thebalance.com/what-is-rewards-based-crowdfunding-985103> Accessed: 2017-05-03

[23] Miller, Z. (2017b). *The Top Crowdfunding Sites for Athletes and Sports Teams*, *The balance*, Available from: <https://www.thebalance.com/top-crowdfunding-sites-for-athletes-and-sports-teams-985233> Accessed: 2017-10-12

[24] Novak, I. (2006). *Sports marketing and industry of sport*, Maling., ISBN 953-955930-8, Zagreb.

[25] Ordanini, A., Miceli, L., Pizzetti, M. & Parasuraman, A. (2009). *Crowdfunding: transforming customers into investors through innovative service platforms*, *Journal of Service Management*, 22, 4, pp. 443-470, ISSN 1757-5818

[26] Osterwalder, A. & Pigneur, Y. (2010). *Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers*, Wiley, ISBN 978-0-470-87641-1, Hoboken, New Jersey

- [27] Pilbeam, K. (2010). *Finance and Financial Markets*, Palgrave - MacMillan, ISBN: 978-0230233218, London & New York
- [28] Rocholl, J. (2016). An Introduction to Crowdfunding, CESinfo DICE REPORT. *Journal for Institutional Comparisons*, 14, 2, pp. 3-5, ISSN 2511-7815
- [29] Rossi, M. (2014). The New Ways to Raise Capital: An Exploratory Study of Crowdfunding, *International Journal of Financial Research*, 5, 2, pp. 8.-18, ISSN 1923-4023
- [30] Schoderman, S. & Dolles, H. (2013). *Handbook of Research on Sport and Business*, Edward Elgar Publishing, ISBN 978-1-78100-586-6, Northampton
- [31] Schwienbacher A & Larralde B (2012). Crowdfunding of small entrepreneurial ventures, In: *The Oxford Handbook of Entrepreneurial Finance*, Cumming D (Ed.), pp. 369-392, Oxford University Press, ISBN 978-0195391244, Oxford
- [32] Škorić, Š. & Hodak, Z. (2011). The system of sports financing and The system of sports financing and management in the Republic of Croatia, *Zbornik radova Ekonomskog fakulteta u Rijeci*, 29, 2, pp. 443-464, ISSN 1331-8004
- [33] Southwestsport (2017). Available from: <https://southwestsport.com.au/clubfunding/sport-sbank/> Accessed: 2017-12-05
- [34] Statista (2017), Available from: <https://www.statista.com> Accessed: 2017-10-12
- [35] Wardrop, R. & Ziegler, T. (2016). A case of regulatory evolution-a review of UK financial conduct authority's approach to crowdfunding, CESinfo DICE REPORT. *Journal for Institutional Comparisons*, 14, 2, pp. 23-32, ISSN 2511-7815
- [36] Weinberg, R. & McDermott, M. (2002). A Comparative Analysis of Sport and Business Organizations: Factors Perceived Critical for Organizational Success, *Journal of Applied Sport Psychology*, 14, 4, pp. 282-298, ISSN 1041-3200
- [37] Weinstein, J. (2015). Start-up hopes to take its ski boot to the Apex, Available from: <https://www.cnn.com/2015/02/04/start-up-hopes-to-take-its-ski-boot-to-the-apex.html> Accessed: 2017-10-14
- [38] Westerbeek, H. (2010). Sport management and sport business: two sides of the same coin?, *Sport in Society*, 13, 9, pp. 1293-1299, ISSN 1743-0437
- [39] Zimbalist, A. (2003). *Sport as Business*, *Oxford Review of Economic Policy*, 19, 4, pp. 503-511, ISSN 1460-2121

Stipanović, Christian¹

DEVELOPING EVENTS TO REPOSITION TOURIST DESTINATIONS

Abstract:

In a globalised setting, the only way to differentiate Croatian destinations from others is by asserting the destinations' traditions, history, indigenous elements and cultural heritage. This paper synthesizes and builds upon the theoretical determinants of event tourism in developing and branding destinations, with practical implementation in the example of the Krk Fair "Lovrečeva". Based on the current-state analysis of the competitiveness of the Krk Fair and tourism in the Town of Krk, the paper defines development objectives and strategies to enable the event to evolve into the brand, symbol, synonym and identity of the destination based on a culture of learning and integration (synergy of local government and self-government, Tourist Boards, all stakeholders, and residents as drivers of entrepreneurship, together with the active involvement of tourists).

The study highlights opportunities and concrete activities in valorising and asserting historical and cultural heritage to bring together the destination's past and its tourism-related present and future to build a distinctive identity for the Town of Krk. The originality of the paper is the result of theoretical determinants, the opinions of the authors, and the results of surveying managers; as such it presents a starting point for future studies. The limitations of the study relate to the small sample of surveyed managers and to the fact that residents and tourists were not surveyed

Keywords:

event, innovation, repositioning, collaboration, Krk Fair "Lovrečeva"

Author's data:

¹ Christian, Stipanović, Ph.D., Full Professor, University of Rijeka, Faculty of Tourism and Hospitality Management, Primorska 42, 51410 Opatija, Croatia. christis@fthm.hr

International Journal - VALLIS AUREA • Volume 4 • Number 1 • Croatia, June 2018

UDK 338.48(210.7Krk); DOI 10.2507/1JVA.4.1.6.48

Introduction

Tourism of the twenty-first century is evolving into an industry of entertainment, events, experiences and activity holidays. Parallel with that, indigenous services/facilities, culture and tradition are making differentiation possible with regard to the global, uniform tourism offering. Indeed, events based on traditional values are becoming key motivations for tourist arrivals. They also help to improve the quality of life of local residents. It is crucial that event development is strategically managed based on proactively creating the future and synergistically involving all stakeholders and residents in order to enrich the offering and ensure sustainable development focused on nature, culture and the population.

The Krk Fair “Lovrečeva” in the Town of Krk is the destination’s most competitive event, capable of becoming the town’s identity and brand (situation and scenario analysis of the event), based on a culture that would foster the innovation and development of the offering and promotional activities to address the challenges of the dynamic tourism market.

Key issues of the research focus on how to valorise history and tradition in designing a competitive event geared to the preferences of modern tourists and based on indigenous elements to differentiate it from a globalised offering, how to enrich and improve the event offering on an annual basis to multiply attractions (and avoid the risk of repetitive events) and create new emotional value for tourists and residents alike, and how to transform an event into a trademark to help reposition a tourist destination.

Theoretical determinants of event tourism (Literature Review)

Events are growing into a key pull factor of a destination [1], [4]. Cultural events (event typology) provide the opportunity to present the local culture, tradition, indigenous values and value systems for the purpose of diversification in the market. In developing a tourist destination, cultural resources can be transformed into the leading product of the destination. A destination’s cultural heritage is what makes it different from other destinations [28]. Increasingly, modern tourists want to learn more about the tradition, value system and culture of local residents who increasingly identify with their tradition (a sense of belonging, local pride). In destinations, events represent a means for reinforcing the cohesion of a community and the communication among residents and are also seen as promoters of a destination in the tourism market [9], [21]. Events should not try to change or negate history and traditions in an effort to enhance market appeal. Although it is essential to make annual improvements and innovations to the offerings of repeat events, a line must be drawn to protect authenticity, indigenousness and local culture (sustainable development of tourism events). The sustainable use of culture and all its forms, as a resource in a local community, prohibits its over-commercialisation; in turn, this implies the need of providing systematic education to the local community and raising awareness of the value of the tangible and intangible aspects of local culture [18]. Event tourism must be market-focused, its key economic goal should be to multiply profits (multiplier effect on the destination and stakeholders) and it cannot be based solely on financing through local government and self-

government. Cultural events can improve the quality of life in a city, provide more creative activities, increase the number of visitors, prolong the length of tourists' stays, create new partnerships and educational opportunities, lead to economic and social benefits, improve the image of the city as a tourist destination and help to achieve civic objectives [15], [16].

Urban tourism is becoming more and more based on the event offering. Cities have followed suit in recent years, using events for self-promotion, and as a result, events and festivals are increasingly recognized as valid tools for city branding and marketing [21]. Cities need to evolve into eventful cities and take a strategic, holistic view of their event portfolio in order to move from being cities full of events to developing eventfulness [21], [24]. Event portfolio is the strategic patterning of disparate but interrelated events taking place during the course of a year in a host community that as a whole is intended to achieve multiple outcomes through the implementation of joint event strategies [29]. Events should be developed based on strategic thinking using the portfolio, situation analysis (quantitative and qualitative analysis of the current state), scenario analysis (proposal of objectives and ways to innovate operational strategies), monitoring and control. Events that are planned to deliver specific outcomes and achieve clear goals set by a host city require a strategic managerial approach, where all the interested stakeholders align their goals and behaviour to a common strategy [7]. Market competition, a dynamic environment, the growth of competitors, and tourist requirements are putting in place a new paradigm of event competitiveness that has to be grounded in market research-based creativity and innovativeness, and stakeholder synergy (collaboration policy) to ensure

proactive and predictive action in generating new services/facilities. The offering has to be enriched, diversified, and developed; it needs to incorporate a package of events that reflects the primary theme, vision and content of events based on a culture of learning and knowledge, a culture focused on employees and volunteers as well as on visitors. Parallel to this, promotional activities should be undertaken to brand the event (the event's brand as the destination's brand) to attract tourists and create tourist loyalty and to ensure the self-actualisation of residents in ever-growing competition. The challenges of rethinking event development to reposition a destination are explored on the example of the Krk Fair "Lovrečeva" in the Town of Krk.

Methodology

With a view to innovating the development concept of the Krk Fair "Lovrečeva" and its influence on repositioning and branding the Town of Krk, in the applied part of this paper tourist destination managers and stakeholders in the Krk Fair (20 leading managers and small entrepreneurs in tourism, Krk Fair stakeholders, and representatives of local government and self-government and the Town of Krk Tourist Board) were interviewed in-depth and surveyed in February 2018. The questionnaire consisted of 16 questions (seven open-ended and nine closed). The latter served for rating elements of the offering and for ranking attributes, and the former, for the situation and scenario analyses of the Krk Fair. The aim of the survey and interviews was to analyse the tourism competitiveness of the Town of Krk and the Krk Fair "Lovrečeva", define objectives, and identify ways to innovate operational strategies to improve events and rejuvenate and

reposition the Town of Krk. The results of the survey and interviews were compared with the results of a study conducted in 2017 (analysis of the tourism competitiveness of the Town of Krk, development concept of cultural and creative tourism in the Town of Krk, the development of audio management and its role in repositioning tourism in the Town of Krk). The attitudes of managers and stakeholders are starting points in analysing the current situation and presenting proposals for concrete activities and ways of managing development and bringing together stakeholders to facilitate the creation of emotional values and ensure the excellence of events and tourism of the Town of Krk.

Situation analysis of tourism of the Town of Krk

The situation analysis of tourism of the Town of Krk is based on quantitative and qualitative indicators of the current state of the town's tourism industry. Quantitative indicators point to growth in supply (in 2017, the town had 13,250 beds in its accommodation facilities) as well as growth in demand (number of tourists and overnights).

	2013	2014	2015	2016	2017
Number of overnights	811,576	956,818	1,055,540	1,406,426	1,622,802
Number of arrivals	138,207	162,507	180,203	206,878	227,499

Table 1: Trends in tourist arrivals and overnights in the Town of Krk

78

Qualitative analysis includes descriptions and rating of elements of the offering, SWOT analysis, benchmarking and the Qualitest. The following elements are characteristic of Krk:

- Natural preconditions - beaches (12 beaches with amenities/facilities and 32, without), the seabed, Košljun Islet, century-old olive groves
- Cultural resources - town walls, old town core, sacred monuments (the Cathedral of Krk, Franciscan monastery), archaeological findings (Roman mosaics and inscriptions, Roman baths, the Temple of Venus), the Frankopan Castle, the Museum of St. Quirinus, the "Leut" Archaeological Collection
- Sports facilities - 300 km of sign-posted and well-maintained hiking and biking trails, three themed walkways, six tennis courts, a football field and stadium, sports hall, beach volleyball, water skiing and wakeboarding, diving

- Entertainment - cocktail bars, cafés
- Events - the Krk Fair "Lovrečeva", Krk's Sails, the Krk Bike Story, the Krk Food Festival, Greetings to Summer, Story of the Galley, First of May Incubator Festival, Fig Festival, Drobznica Festival, folk festivities, A Gift for St. Quirinus, performances by harmony-singing groups, folklore groups, and cultural and performing societies.

The Town of Krk has been improving its offering across all levels (accommodation, catering, special-interest tourism, events). Although the quality of the town's offering sets it apart from competitor destinations, efforts in developing the offering have not succeeded in prolonging the season to any significant extent, which is seen as a primary disadvantage. The results of development up-to-date can be illustrated by comparing the findings of two surveys that explored how managers perceive

the competitiveness of tourism of the Town of Krk. According to the study conducted in February 2017 (in which 46 tourism managers and providers of the creative offering were surveyed), the average score of the overall tourism offering of Krk Island was 3.875 (on a scale of 1 to 5). The main motivation for travelling to the destination was sun-and-sea, that is, summer leisure tourism. New forms of the offering - outdoors offering, cultural offering, creative offering and event offering - are becoming increasingly important [25].

Results of the February 2018 survey (on a sample of 20 managers) show that the average score of the tourism offering of the Town of Krk is 4.125 (on a scale of 1 to 5), while the average score of tourist events is considerably lower, 3.20. The most competitive forms of the offering are: cultural tourism (heritage tourism), tourism based on summer vacations (sea, sun, sand), event tourism, sport tourism, creative tourism and eco-tourism.

Development problems include the lack of a comprehensive vision of development and the inefficiency of the institutional framework which is incapable of instigating collaboration between stakeholders in the Town of Krk and Krk Island (the two destinations compete with each other instead of seeking to create an integrated product at the island level through cooperation). Some stakeholders are large, financially or otherwise, powerful enterprises (for example, Valamar) that tend to follow their own vision of development and whose interests cannot be easily aligned with those of the local community or other stakeholders (small stakeholders, in particular).

Notwithstanding the identified problems, the Town of Krk Tourist Board won the 2016 Tourism Prism Award for achieving new quality in tourism, for its innovative and original way of presenting heritage

and for designing creative tourism products by combining tradition and modernity (for example, the Krk Fair “Lovrečeva” and The Whisper of Seashells). A precondition to development is the definition of a target segment in which a distinctive product should be developed to rejuvenate the destination and reposition it on the tourism market.

Competitiveness analysis of the Krk Fair “Lovrečeva”

The Krk Fair “Lovrečeva” is the most competitive and best recognised event in the Town of Krk and on Krk Island. The 494th fair of tradition, culture, gastronomy, entertainment and Frankopan heritage will be held on 8-10 August 2018. The event is named after St. Lawrence (Sv. Lovro), one of the island’s two patron saints. The event valorises the traditions of merchants of Antiquity, the Middle-ages and the Renaissance as well as the traditions of the Frankopans, and it delves into history to create a unique experience for present and future tourists (performances by Krk knights, archers, merchants, minstrels and jesters). It presents cultural heritage (the castle - kaštel, cathedral) and gives locations such as Kramplin Square, the main square Vela Placa, the water front (Gradska Riva) and jetty (Veli Mul) new meaning and new appearances. The event promotes the identity of Krk as a competitive cultural destination and demonstrates all of the island’s special features (one example is its folklore culture, fostered by 22 amateur folklore societies that are active in preserving traditional two-part singing and instrument playing, known as “na tanko i debelo”, which is on the UNESCO list of protected intangible world heritage) . Workshops (wool felting, for example) are organised as well as a medieval parade, a medieval costumed musical programme, a dried-

ham hand-slicing contest, and concerts (for example, concerts during the 2017 Krk Fair included performances by Damir Kedžo, Cubismo and Parni Valjak). There are more than a hundred participants in the event, with products being sold at some 50 stands. Lasting three days, the Krk Fair attracts about 10,000 visitors per day (Town of Krk Tourist Board).

The managers surveyed gave the Krk Fair offering a score of 3.89 (higher than the score of the overall event offering). The importance of the fair in enhancing the distinctiveness and branding of the Town of Krk received an average score of 4.56 (considerably higher than the score of the Krk Fair offering). The elements of the Krk Fair offering were ranked by attractiveness (1 - most attractive element, 8 - least attractive element) as follows: heritage fair, concerts, medieval-themed events, dried-ham hand-slicing contest, folklore, workshops, tournaments and fencing. The identified problems in developing the Krk Fair were ranked as follows: poor involvement and interest on the part of stakeholders, conflicts of interest between

stakeholders and communication issues, low level of stakeholder creativity and innovativeness, limited financial resources, failure to recognise new trends in event tourism, a lack of systematic support to development, and inefficient management and leadership. The quality of managing the fair was given a score of 4. The average scores for the involvement and efficiency of the destination's stakeholders in developing the Krk Fair offering are as follows: Town of Krk Tourist Board, 4.4; supply providers, 3.6; local government and self-government, 3.5; small entrepreneurs in hospitality and tourism, 3.2; associations, 3.2; residents, 2.7; and the Krk Island Tourist Board, 2.1. The Town of Krk Tourist Board scored considerably higher than any other stakeholder. The largest problem identified is the insufficient involvement of residents who should act as promoters of local culture and tradition and evolve into drivers of small entrepreneurship in tourism. The total score for cooperation among Krk Fair stakeholders was 3.3.

SWOT analysis can be used to present the current state.

Strengths	Weaknesses
Cultural, monumental and historical heritage	Poor cooperation and lack of interest among stakeholders
Medieval traditions	Poor focus on target segment
Well-developed and differentiated offering	Lack of an integrated product
Brand	Failure to connect with other elements of the offering
Location	Insufficient financial resources
Intangible musical heritage under UNESCO protection	Inadequate involvement on part of residents
Gastronomy	Focus on seasonal tourism
Long tradition in tourism	Poor connections with other micro destinations on Krk Island
Employees	Poor strategic event management
Volunteers and enthusiasts	Overcrowding
The bond between heritage, tradition and tourism	
Indigenous services/facilities	
Natural preconditions	

Opportunities	Threats
Growing awareness of historical heritage and traditions	Activities of competitors
Desire of tourists to learn about cultural and historical heritage	Failure to recognise new tourist preferences
Diversification of motivations for tourist arrivals	Adverse macroeconomic effects
Recognition of cultural, creative and event tourism	Dependence on weather conditions
Entry of groups (Valamar)	Institutional and administrative conditions
Connecting with other events	Legislative regulations that fail to foster small and mid-size entrepreneurship

Table 2. SWOT analysis of the Krk Fair “Lovrečeva”

To marshal strengths and overcome weaknesses, changes will need to be recognised as opportunities, in future development. Preconditions to this are strategic event management and the integration of all stakeholders.

Scenario of development of the Krk Fair “Lovrečeva”

The scenario of development is based on setting objectives and devising operational strategies, and it establishes the importance of strategic change management in creating competitive advantage through innovation. The development of the event and offering must follow the vision of tourism development of the Town of Krk that sees the town as a tranquil and laid-back destination of family activity holidays in the Kvarner region. The town proudly presents its natural and historical heritage to tourists as a unique blend of natural beauty and century-long tradition in sustainable development, enabling the guests to identify with the local environment and absorb its harmony [26]. The quantitative objective of the supply-side of the Krk Fair is to increase the number of stakeholders, supply providers and facilities/services. The quantitative objective of demand is to improve

financial performance (revenue and profit) through increased visitor spending (the emphasis is on attracting more-affluent visitors rather than on increasing the number of visitors). The qualitative objectives are to gain the leading position as the most attractive event in the Kvarner region, based on tradition and entertainment opportunities, and to effectively brand the event and destination. To accomplish these objectives it is essential to synergistically innovate operational strategies:

- Research and Development - The task is to identify problems, the level of visitor expectations and satisfaction and the level of competitor activities (by introducing CRM and Business Intelligence). All elements must be constantly assessed to ensure the continuous improvement of the event [27]. Visitors should be given an opportunity to co-create the event and innovate the programme. Proactive marketing should be used to attract visitors and stay ahead of the competition.

- Marketing strategy - Innovations to the marketing strategy - segmentation, positioning and the marketing mix - should be made based on marketing research. The target segments of the future are cultural tourists, creative tourists, families with children and young tourists (with the Krk Fair being the primary travel motivation or a secondary full factor) as well as residents. The Krk

Fair needs to be repositioned as a highly competitive event, geared to the tourists of the present and future. Innovations should be made to all elements of the marketing mix but especially to the product and promotion. Financial resources need to be invested in improving the promotional mix (advertisements, publicity, sales promotion, public relations) and promotional messages to ensure the best performance (greater revenue than costs). Specialised channels should be employed to focus promotion on the target segment (side-by-side promotion of the Town of Krk and the Krk Fair, with the Frankopan knights of Krk as the brand). It is recommended to ensure the greater involvement of the media (by organising a contest between media teams in slicing dried-ham). Use should be made of bloggers, incentive visits by journalists and travel agencies, and promotional films. The key to modern promotion is the Internet, and the active management of social networks and platforms and the active integration of online and offline channels to differentiate the event from events of competitors [22]. The best promoters are satisfied visitors, participants and residents (who post positive reviews). Events can become key promotional and communication tools of towns and cities [9]. An example of successful promotion is the soundtrack of the film “Lovrečeva u Krku” (“The Krk Fair”), which is being used in many marketing presentations (radio jingles, television appearances, presentations, announcements, etc.) and serves as an audio signature of the Tourist Boards of the Town of Krk and Krk Island. The Krk Fair must evolve into the synonym and brand of the Town of Krk and Krk Island [12]. Effective repositioning means that the target tourists have developed positive and favourable perceptions of the altered

product offerings and are satisfied with service delivery [30].

- Offering strategy - Key issues are how to be innovative and improve the offering relative to previous years and similar events, how to enhance the attractiveness of the event, how to design auxiliary events (events package) and how to tie the event offering with the other elements of the destination offering. To improve the event offering and adjust it to the target segment, it is necessary to promote a specific food and wine offering; organise a variety of different events (medieval music, literary evenings, art workshops, educational workshops); make innovations to the offering focused on families with children; introduce animation; foster creative tourism; organise a variety of workshops about old crafts, customs and local culture; develop the souvenir offering; ensure the involvement of craftsmen, small entrepreneurs, and family-run farms; and improve the presentation of native culture and traditions. The events offering could be supplemented with creative contents, such as enabling the participation of tourists in local events; introducing tourists to local customs; designing computer games based on the island’s heritage; and organising Glagolitic alphabet classes, folk dance classes, palm braiding workshops, clay souvenir workshops, fencing workshops for children, magician workshops, sash weaving workshops, local dialect workshops, Glagolitic workshops and local gastronomy workshops. The events offering should provide more entertainment and concerts for residents and should be adjusted to financial resources and target segments. It is also important to include the audio offering (presentation of local music, preventing audio pollution and noise) in developing the events offering. The Krk Fair needs to be synergistically linked with the other tourism

offerings of Krk Island to form an integrated destination product.

- Human resource strategy - People and the knowledge they possess are a key resource in innovating the event. Hence, managers must become knowledge-based visionaries and leaders and effectively manage events, employees and volunteers. It is crucial to ensure permanent training and improvement for employees and motivate them to achieve self-actualisation through the success of the event. Key to developing event excellence is the attitude of employees and volunteers towards visitors (how they respond to complaints; their full dedication to visitors, etc.)

- Financial strategy - In achieving visitor satisfaction and repositioning the destination, major issues involve how to obtain new sources of capital, how to attract entrepreneurs and sponsors, and how to achieve a positive multiplier effect on tourism and the economy.

In event innovation, it is essential to ensure strategic management and leadership based on synergy and the active participation of all stakeholders as well as tourists to achieve excellence [17], [20]. There should be consensus on the kind of tourism to be developed in the community, and the responsibility for actions should be equally distributed [19]. To develop the Krk Fair it is vital to implement the entrepreneurial initiatives of residents with creative elements of the offering [5]. It is also important to generate creative ideas by confronting the attitudes and opinions of all stakeholders to gain competitive advantages. Creativity and collaboration are considered essential sources of innovation in tourism [28]. New value should result from internal marketing and stakeholder motivation in event development [3]. The key to collaboration is awareness that the

achievement of common goals will guarantee the accomplishment of individual ones. A culture of integration based on the transfer and exchange of knowledge, a new business culture focused on employees and visitors, and a culture of innovativeness should drive the growth and development of the Krk Fair and help in repositioning and branding the tourism industry of the Town of Krk. The Krk Fair should become a symbol of the competitiveness of the Town of Krk as a destination of events and experiences. To this end, it is necessary to continuously make innovations to the concept-of-development model based on a critical analysis of the current situation and the identification of objectives and concrete ways of innovating operational strategies to address the challenges in the dynamic tourism market.

Conclusion

Events are becoming more and more important in generating competitive advantages for a destination. While the offerings of repeat events need to be enriched every year, no attempts should be made to change or falsify the destination's culture and traditions. The offering should seek to reconcile the differing interests of tourists (culture and tradition) and residents (entertainment and concerts).

The Krk Fair "Lovrečeva" is the most attractive event in the Town of Krk as well as on Krk Island. The event does not try to re-create history but rather it emphasises the combination of tradition and modernity as the backbone of the Town of Krk's tourism brand. The results of the research pertaining to the survey of managers indicate that the score given to the offering of the Krk Fair "Lovrečeva" is lower than the overall score of the

destination and that the event fails to fully valorise the opportunities provided by local tradition. The key is to design a new offering (a culture-based and creative offering anchored in indigenous services, facilities, entertainment and animation) that is based on market research, current state analysis and active creation of the future and is adjusted to the target segment and encourages the development of promotional activities (innovation of the promotional mix, offline and online presentations, the involvement of bloggers, and the organisation of incentive visits), proportional to the efficient valorisation of human and financial resources, to ensure the rejuvenation of the destination and enhance its distinctiveness in the market. To create new value for visitors and gain a leading position in the tradition-based offering of the Kvarner region, a well thought-out response based on innovative solutions will need to be formulated. Efforts must be made to actively involve not only residents as promoters of local culture and drivers of small entrepreneurship, who should identify with the Krk Fair “Lovrečeva”, but also tourists as co-creators of the offering. Priority is given to strategic development management, based on the synergy of all stakeholders, local government and self-government, tourist boards, associations and residents, in creating and transferring new knowledge and ideas and generating excellence and experiences for visitors. The Krk Fair should evolve into a must-see event (and the primary travel motivation of increasingly discerning tourists) and become the brand, identity and symbol of the Town of Krk (and vice versa) because it unveils the town’s cultural identity as well as its past, present and future and embraces modern tourism of the twenty-first century. The Town of Krk should be repositioned as a town of cultural events (the importance of the

Krk Fair “Lovrečeva” in the perception of Krk in the minds of potential tourists) and unique experiences, with a rich cultural and tradition-based offering.

The limitations of the study relate to the small sample of surveyed managers and to the fact that residents and tourists were not surveyed. The study represents a starting point for future research of the role indigenous events, based on local culture and tradition, in repositioning Croatian tourist destinations.

Acknowledgements

This paper has been written within the project “Cultural and Creative Industries in Value Chains Innovation of Tourism Destination”. This research has been financially supported by the University of Rijeka, for the project ZP UNIRI 1/17.

References

- [1] Bladen, C.; Kennel, J.; Abson, E. and Wilde, N. (2012), *Event Management: an Introduction*. Routledge, ISBN 978-0-415-57742-7, London
- [2] Connell, J., Page, S. and Meyer, D. (2015), Visitor Attractions and Event: Responding to Seasonality, *Tourism Management*, Vol. 46, pp. 283-298, ISSN 0261-5177
- [3] Ferreira, M. and Sarmiento, J (2015), Internal Stakeholders Perspectives in a Cultural Event, *Ekonomski vjesnik*, Vol. 28, No. 1, pp. 95-107, ISSN 0353-359X
- [4] Foley, M; McGillivray, D, and McPherson, G. (2012), *Event Policy from Theory to Strategy*. Routledge, ISBN 978-0-415-54833-5, London
- [5] Garrod, B.; Fyall, A.; Leask, A. and Reid, A. (2012), *Engaging Residents as Stakeholders of the Visitor*

Attractions, *Tourism Management*, Vol 33., No. 5, pp. 1159-1173, ISSN 0261-5177

[6] Getz, D. (2013) *Event tourism: Concepts, international case studies and research*. Cognizant Communication Corporation, ISBN 978-1-882345-60-1, New York

[7] Getz, D (2017), *Developing a Framework for Sustainable Event Cities*, *Event Management*, Vol. 21, pp. 573-593, ISSN 1525-9951

[8] Jurina, N. (2017), *Audio menadžment u razvoju i brendiranju turizma otoka Krka*, poslijediplomski specijalistički rad, Fakultet za menadžment u turizmu i ugostiteljstvu, Opatija

[9] Karamag, S. F.; Yavuz, M., C. and Berggren, C. (2011), *Utjecaj festivala na promociju grada: komparativna studija turskih i švedskih festivala*, *Turizam*, Vol. 50, No. 4, p. 471-490, ISSN 1332-7461

[10] Kralova, A. and Malachovsky, A. (2016), *Innovating the Czech and Slovak tourism through creative tourism*, *Skyline business journal*, Vol. 11, No. 1, pp. 103-104, ISSN 1998-3425

[11] Kolb, B. M. (2006), *Tourism marketing for cities and towns: using branding and events to attract tourists*, Butterworth-Heinemann, ISBN 075067945X, Oxford

[12] Lai, F. (2010), *Exploring consumer schemata of destination and sports event brands: the case of Kaohsiung City and the 2009 World Games*, *International Journal of Sport Management and Marketing*, Vol. 7, No. 3/4, pp 267-281, ISSN 1475-8962

[13] Leask, A (2016) *Visitor attraction management: A critical review of research 2009-2014*, *Tourism Management*, Vol. 57, pp. 334-361, ISSN 0261-5177

[14] Liu, D. (2014), *The impact of cultural event on city image: an evaluation of the 2008 European capital of culture*, Liverpool, *International Journal of Leisure and Tourism Marketing*, Vol. 4, No. 1, pp 19-30, ISSN 1757-5567

[15] Light, D. (1996), *Characteristics of the audience for 'events' at a heritage site*, *Tourism Management*, Vol. 17, No. 3, pp. 183-190, ISSN 0261-5177

[16] Marques, L. M. (2011), *Cidades de eventos: o caso de Lisboa*, *Proceedings of Congresso do Centenário do Turismo em Portugal*, Barrs, L. M. (Ed.), May 2011, Lisboa

[17] Ozdemir, G and Kozak, M. (2009), *Event and network management: application of EFQM for tourist destinations*, *International Journal of Tourism Policy*, Vol. 2, No. 4, pp. 262-274, ISSN 1750-4090

[18] Petrić, L., Ljubica, J. (2012), *Potencijal turističke valorizacije nematerijalne kulturne baštine ruralnih područja Dalmacije*, u zborniku *Identitet jadranskog prostora Hrvatske: retrospekt i prospekt*, Crnjak-Karanović, B., Derado, D., Fredotović, M., Petrić, L. (Ed.), ISBN 978-953-281-046-2, pp. 211-212, *Ekonomski fakultet Split*

[19] Rangus, M., Brumen, B., and Potočnik Topčer, J. (2017), *Sustainable Tourism Development in Rural Areas: The Role of Stakeholders*, *Academica Turistica*, Vol. 10, No. 2, pp. 167-173, ISSN 1855-3303

[20] Richards, G. and Van Der Ark, L. (2013), *Dimensions of cultural consumption among tourists: Multiple correspondence analysis*, *Tourism Management*, Vol. 37, pp. 71-76, ISSN 0261-5177

[21] Richards, G. (2017), *Emerging Models of the Eventful City*, *Event Management*, Vol. 21, pp. 533-543, ISSN 1525-995

[22] Robins, P. and Dewitt, W. (2017), *Collaboration, creativity and entrepreneurship in tourism: a case study of how design thinking created a cultural cluster in Dublin*, *International Journal of Entrepreneurship and Innovation Management*, Vol. 21, No. 3, pp. 185-211, ISSN 1368-275X

[23] Roche, M. (2000), *Mega-Events and Modernity: Olympics and Expos in the Growth of Global Culture*, Routledge Pub, ISBN 0415157129, London

[24] Smith, A. (2015), *Events in the city: using public spaces as event venues*, Routledge, ISBN 1138788856, London

[25] Stipanović, C.; Rudan, E. and Zadel, Z. (2017), *The Challenges of Small Enterprises in Generating Destination's Creative Offer*, Proceedings of 4th International Scientific Conference ToSEE - Tourism in South East Europe 2017, Tourism and Creative Industries: Trends and Challenges, Smolčić-Jurdana, D. (Ed.), pp. 579-590, ISSN 1848-4050, Opatija, May 2017, Faculty of Tourism and Hospitality Management, Opatija

[26] *Strateški plan razvoja turizma Grada Krka za razdoblje 2016.-2020.*, Ekonomski fakultet Rijeka, 2016.

[27] Van Der Wagen, L. and Carlos, B. R. (2008), *Event management upravljanje događajima*, Mate, ISBN 978-953-246-045-2, Zagreb

[28] Vrtiprah, V. (2006), *Kulturni resursi kao činitelji turističke ponude u 21. stoljeću*, *Ekonomska praksa i misao*, Vol. 15, No. 2, pp. 279-296, ISSN 1330-1039

[29] Ziakas, V (2013), *Event Portfoglio planning and management: A holistic approach*, Routledge, ISBN 9780415526715, London

[30] Zhang, C; Lin, Y. H. and Newman, D (2016), *Investigating the Effectiveness of Repricing Strategies: the Customers Perspective*, *Journal of Travel&Tourism Marketing*, Vol. 33, No. 9, pp. 1235-1250, ISSN 1054-8408

Karić, Darko¹

Horvat, Đuro²

CROSS-SECTIONAL ANALYSIS OF EXCHANGE RATE AND INTERNAL DEPRECIATION ELASTICITY ON EXTERNAL TRADE BALANCE AND FOREIGN DIRECT INVESTMENT INFLOW IN CROATIA AND HUNGARY FROM 2010 TO 2017

Abstract:

In recent years, external trade figures between Croatian and Hungarian have marked significant changes. Although, both of them have been passed strong process of transformation in the earlier nineties of the last century. In the observed period, Hungarian export marked significant result in terms of external coverage ratio and it is continuously in the surplus side. Comparing with Croatia, the results are totally different; low external trade coverage ratio (in average below 60%) and continuously in the deficit side. Therefore, the main goal of this article is to point

out how depreciation of exchange rate in correlation with internal depreciation influence on the net foreign direct investment inflow (hereinafter FDI) and external trade balance. Thus, in the observed period Hungary had significant high level of capital accumulation in terms of FDI, followed with high level of internal depreciation and depreciation of exchange rate, while Croatian economy, had considerably lower level of capital accumulation measured in terms per capita FDI followed with internal appreciation and stable exchange rate. Additionally, in the observed period, Croatia had passed through the recession which lasted six years, while in Hungary that was not the case.

Keywords:

exchange rate, external trade balance, net salary, foreign net investment inflow (FDI inflow), macroeconomic indicators

Author's data:

¹ Darko Karić, univ.spec.oec, PhD student, darko.karic55@gmail.com, Rudeška cesta 83, 10 000 Zagreb, Croatia

² Đuro Horvat, PhD, Professor, dhorvat@vsfp.hr, EFFECTUS University College for Law and Finance, Trg J.F.Kennedy 2, Croatia

Introduction

After global economic crisis from 2008 which first occurred in the USA and transmitted on European market in 2009, caused significant imbalances in certain markets. Some countries suffered higher rate of decrease in GDP, while other countries experienced a lower fall in GDP in 2009. In mentioned circumstances the economic crisis in Croatia lasted for six years (2009 - 2014), while in the same time in some countries lasted notably shorter (e.g. Poland economy without recession). On the other hand, Hungary had a negative rate of GDP only in year 2009. In year 2010, Hungary has recorded a positive gross domestic growth for +0.7%. In the period from 2009 to 2014, Croatian GDP decreased for -12.6%, while Hungarian market in the same time achieved growth for +0.05%.

The main reason of such fast rate of recovery is a stable macroeconomic situation followed by high level of internal depreciation and continuous exchange rate depreciation/devaluation which was the backbone of FDI inflow [1]. In the same period, Croatia recorded slightly exchange rate depreciation in 2017 comparing with 2010, although in some years Croatia was faced with appreciation pressures on exchange rate and followed by slightly increase in average net salaries. All mentioned did not have any influence on FDI inflow. Accordingly, the paper will show, how the exchange rate policy has played significant role in the net export growth and on the other hand, how the low level of net salaries/internal depreciation had led to a strong FDI inflow.

In the following of the paper, it will be analyzed how the policy of relative low level of net salaries and gradually exchange rate depreciation led to Hungarian economy on the level of external trade surplus and high level of FDI inflows. The Croatian economy continuously maintained a stable

exchange rate policy and policy of high level of internal appreciation. Because of that, the exchange rate in Croatia was not presenting as an instrument for exchanging commodities among the countries and did not play a significant role for improving the coverage ratio in external trade balance. Nevertheless, Hungarian convergence effect to developed countries has become more and more stronger in the recent years. The average net salary in year 2017 increased by 13.8% (Hungarian statistics office, hereinafter KHS) comparing with 2016, while in Croatia increased by 5.3% in the same observed period. This gap between average net salary among the countries has declining due to the high level of openness of the economy and the high level of mobility of labor force among EU member states. Comparing the GDP per capita between Croatia and Hungary in 2017, there are the significant differences between the countries. The Hungarian average GDP per capita is around EUR 20.700 measured by purchasing power parity (PPP), while in Croatia is EUR 18.100. At the same time, the average gross salary in Hungary is EUR 961 in 2017, while in Croatia is EUR 1.079. Accordingly, all mentioned indicators led to the fact that Hungarian average citizen with 11% lower salary, earns 14.4% higher GDP per capita. Depreciation of Hungarian HUF against EUR in 2017 compared with 2010 was 12.3%, while Croatia HRK depreciated only 2.38% in the same observed period.

Methodology of Research and Overview of Previous Research

In this paper the impact of important macroeconomic variables will be analyzed, likewise, the correlation between the movements of internal depreciation and the exchange rate depreciation on

the movement of FDI will be examined. The impact of mentioned variables on the external trade balance will be also explored. It will be explained whether the variables: net salary the depreciation of the exchange rate influenced on the FDI inflow, and whether they had positive impact on the external trade balance.

The main focus will be on Hungary and Croatia. The test on the existence of correlation between variables in the economic model will be performed by a simple and multiple linear regression method in which the dependent variables will be the export and the FDI.

Based on the determination coefficient and coefficient of correlation, the existence of the strength of the relation between the variables will be determined [2]. In the first part of empirical research, the correlation between the observed variables will be shown, in the separate table. Afterwards, the E-views program will be used to test the determination coefficient of single and multiple linear regression and to prove its reliability. Other econometric indicators will not be used, as they are showing similar results.

Hypothesis 1: Depreciation of exchange rate has an impact on export growth.

Explanation: If the correlation coefficient is higher than 0.8, and the coefficient of determination is higher than 0.7 in the econometric model, the model is reliable.

Hypothesis 2: FDI depends on the movement of internal depreciation and exchange rate movement.

Explanation: If the correlation coefficient is higher than 0.8, and the coefficient of determination is higher than 0.7 in the econometric model, the model is reliable. The econometric model, a multiple linear regression model will be also used.

So far, no research has been conducted on this subject.

Macroeconomic Movements

Negative macroeconomic trends from 2009, which had affected Europe, where almost all EU members had negative GDP growth rates (apart from Poland). The Croatian and Hungarian economies had different levels of economic recovery in the observed period. Croatia had a negative growth rate of GDP from 2009 to 2014 (six years in a row), while Hungary has marked the positive growth rate of GDP already in 2010. Croatia's GDP has dropped for 12.6% in observed six years and has not yet reached pre-recession level. At the same time, Hungary recorded significant level of growth rate of GDP and has performed better than Croatia in a very short period. Convergence effect in Hungary is much more emphasized in the last years than in Croatia, although the starting position was in favor of Croatia, which enjoyed a significantly higher level of economic development, if looking at GDP per capita and a net salary which represent a measure of wealth of population.

In 2017, a big part of macroeconomic indicators changed significantly in favor of Hungary. Hungary has recorded a significant growth rates for the most important macroeconomic indicators, while in Croatia that is not a case. Low net salary and fluctuating exchange rate represented one of the most important indicators for attracting foreign capital in the form of FDI inflow.

Table 1. Selected macroeconomic indicators from 2010 to 2017 for Hungary and Croatia

Hungary	2010	2011	2012	2013	2014	2015	2016	2017
GDP, growth rate n/(n-1), %	0,7	1,7	-1,6	2,1	4,2	3,4	2,2	4,0
GDP per capita, EUR	9.871	10.152	10.013	10.281	10.690	11.238	11.568	12.604
Unemployment rate, ILO in %	11,2	11,0	11,0	10,2	7,7	6,8	5,1	4,2

Croatia	2010	2011	2012	2013	2014	2015	2016	2017
GDP, growth rate n/(n-1) %	-1,4	-0,3	-2,2	-0,6	-0,1	2,3	3,2	2,8
GDP per capita, EUR	10.219	10.474	10.315	10.281	10.244	10.597	11.117	11.804
Unemployment rate, ILO in %	17,2	17,4	18,6	19,8	19,3	17,1	15,0	13,9

Source: Croatian Bureau of Statistics (CBS), Hungarian Bureau of Statistics (KSH), Croatian National Bank (NCB), Hungary National Bank (NBH), International Monetary Fund (IMF)

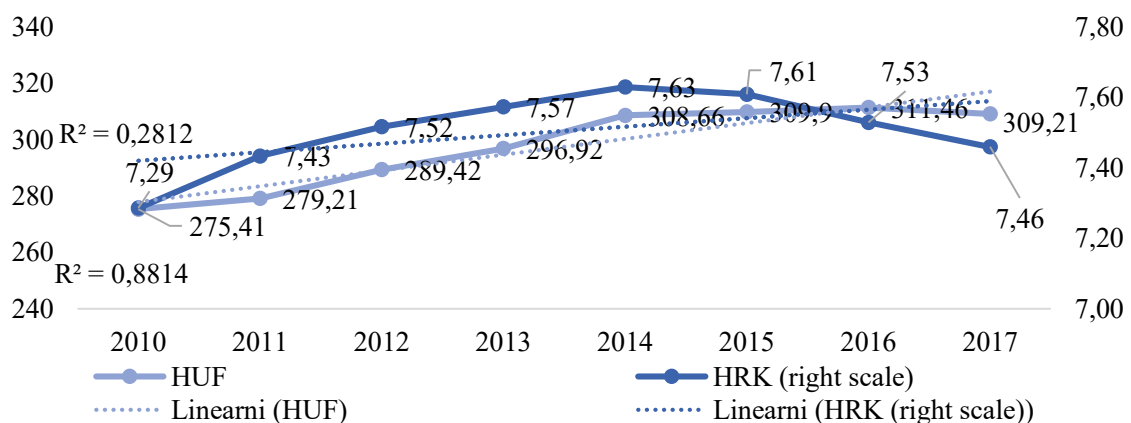
Within Table 1, the selected macroeconomic indicators are showing the trend for the last eight years. From 2010 to 2014 Croatia has passed through the recession period, while Hungary has achieved average growth of 2% of GDP. Both countries are enclosed by depopulation process, whereby in Croatia the trend is more accelerated.

Slightly slowdown of the Hungarian economy was registered in 2012, with GDP falling by -1.6% compared with 2011. However, the policy of low salaries and depreciation of HUF has brought Hungary to stable GDP growth rates in 2013. In 2010, the nominal GDP per capita was higher in Croatia by almost 350 EUR, than in Hungary. However, the trend changed in the upcoming years, especially in 2013, in favor of Hungary.

EXCHANGE RATE POLICY

One of the key determinants of the economic movements in observed countries is certainly an exchange rate policy. Hungary and Croatia have led different exchange rate policies. Hungary conducts a fluctuating exchange rate policy, while Croatia conducts a stable exchange rate policy. Such different exchange rate policies supported by other policies (Salary policy, Social policy, etc.) have led Hungary into the area of external trade surplus during observed period (2012 - 2017), while Croatia achieved deficit in the external trade balance, for the same period.

Chart 1. Movements of the HUF and the HRK against the EUR from 2010 to 2017



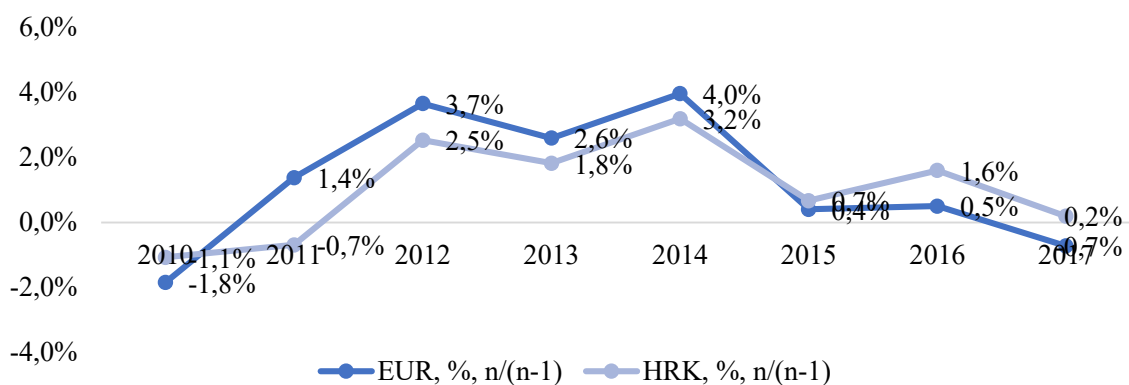
Source: NCB, KSH

Chart 1 shows the area of apro-depreciation movements for observed currencies. Hungary's HUF depreciated more than 12.2% in 2017, compared with 2010, while Croatian HRK depreciated 2.4% in the same period. The linear trend points out significantly higher incidence of the Hungarian currency comparing with the Croatian HRK.

THE HUF AGAINST THE EUR AND THE HRK IN THE PERIOD FROM 2010 TO 2017

HUF depreciation against EUR and HRK has been constant from 2010 until today. HUF depreciated against EUR by 12.2% in 2017 compared to 2010. At the same period, HUF depreciated against HRK by 9.6%.

Chart 2. Movement of the exchange rate, growth / fall of HUF in relation to the EUR and the HRK from 2010 to 2017, $n/(n-1)$



Source: KSH, author calculation

The coefficient of correlation of the depreciation and appreciation of HUF against EUR and HRK amounts 0.84, which points out a very high correlation between the variables, but not the perfect correlation. Chart 2 shows that, in 2017, even the HUF had an appreciation against the EUR, while at the same time HUF depreciated against HRK.

macroeconomic equilibrium is the average net salary. Taking into account the observed countries, the differences are huge, like in the exchange rate policy. These two countries have a completely different salary policy. E.g. Hungary maintains a low net salary policy, i.e. it has a strong internal depreciation in comparison to Croatia, which has on average higher net salary and a high internal appreciation policy compared with the GDP per capita.

SALARY POLICIES

The second, important variable in the movement of

Table 2. Average monthly net salaries from 2010 to 2017 and gap between countries (Hungary and Croatia)

	2010	2011	2012	2013	2014	2015	2016	2017	2017/2010
Hungary, net salary in EUR	481	506	498	509	504	524	562	639	32,7%
Croatia, net salary in EUR	733	732	729	728	725	750	755	802	9,4%
GAP, absolute (CRO-HU)	252	226	231	219	221	226	193	163	-35,1%
GAP, relative (CRO-HU)	34,3%	30,9%	31,7%	30,1%	30,4%	30,2%	25,6%	20,4%	

Source: CBS, KSH, author calculation

Table 2 clearly shows the trend of convergence of average net salaries in Hungary and Croatia. In 2010, the difference between net salaries between Hungary and Croatia amounted 252 EUR in favor of Croatia. Croatian net salary was higher by 34.3% than the average net salary in Hungary. In 2017, this gap between net salaries has decreased considerably and was 163 EUR in favor of Croatia. The average net salary in Hungary denominated in EUR in 2017 was higher by almost 33% compared to 2010, while in Croatia the net salary increased by 9.4% in the same period. The gap in net salaries decreased by over 35%. All the above-mentioned points indicate differences in economic policies which influence on various macroeconomic trends between countries. The exchange rate policy and salary policy are one of the main segments in attracting foreign capital.

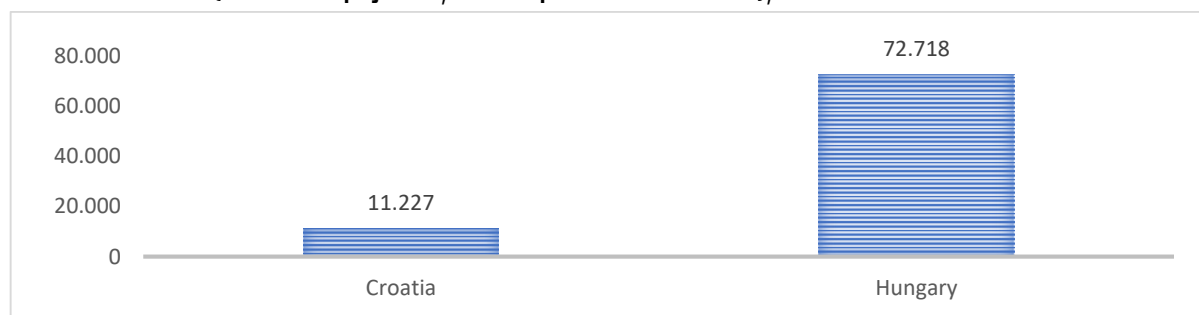
Relatively cheap labor force and high level of depreciation of the exchange rate led the Hungarian economy to an external trade surplus, followed by significantly high level of GDP per capita. Thus, on the one hand, we have strong pressure of labor force, (Table 2), where the convergence effect is present,

and on the other hand, we have an accelerated growth in net salary. If analyzing the year 2017, one can see that the average net salary denominated in EUR has risen to almost 14% in Hungary compared to 2016, while in Croatia increased around 6%. The low salary policy had significant implications, also on unemployment. Therefore, in 2017, Hungary was almost at natural unemployment level of 4.0%, while in Croatia, the unemployment was 13.9%, and the average net salary was higher for 20.4%.

Foreign Direct Investment Inflow (FDI Inflow)

Analyzing the FDI inflow, it is noticeable that it is in strong correlation with internal depreciation / devaluation and depreciation of the exchange rate. Thus, Hungary with less than ten million inhabitants from 2010 to 2016, had FDI inflow of 72.7bn USD while Croatia had only 11.2bn USD. In 2017, the trend is even more significant in favor of Hungary. Such a strong investment inflow in Hungary results in significantly more stable macroeconomic indicators than in Croatia.

Chart 3. FDI inflow (Balance of payment, current prices in billion USD), from 2010 to 2016 - cumulative



Source: World Bank, accessed 5th of April 2018

Hungarian economy with more than double number of inhabitants had six times higher FDI inflow from 2010 to 2016 (there is no data for 2017). A favorable macroeconomic environment with lower level of net salaries created a favorable area for FDI inflow. Therefore, the significantly higher capital accumulation is achieved in Hungary then in Croatia, with a significantly lower level of average net salary.

External Trade Balance

If analyzing external trade, in the observed period from 2010 to 2017, Hungary recorded a surplus in external trade, while in the same observed period Croatia was constantly in deficit.

Table 3. Movements in import and export in Hungary and Croatia from 2010 to 2017

Hungary	2010	2011	2012	2013	2014	2015	2016	2017	Cumulative
Export in mn EUR	71.494	80.020	79.964	81.227	84.443	90.395	92.983	100.589	681.114
Import in mn EUR	65.990	72.934	73.323	74.642	78.165	81.796	83.257	92.499	622.607
<i>Coverage ratio</i>	<i>108%</i>	<i>110%</i>	<i>109%</i>	<i>109%</i>	<i>108%</i>	<i>111%</i>	<i>112%</i>	<i>109%</i>	<i>109%</i>
Croatia	2010	2011	2012	2013	2014	2015	2016	2017	Cumulative
Export in mn EUR	8.906	9.582	9.629	9.585	10.367	11.534	12.320	13.987	85.911
Import in mn EUR	15.138	16.281	16.216	16.512	17.126	18.496	19.719	21.807	141.295
<i>Coverage ratio</i>	<i>59%</i>	<i>59%</i>	<i>59%</i>	<i>58%</i>	<i>61%</i>	<i>62%</i>	<i>62%</i>	<i>64%</i>	<i>61%</i>

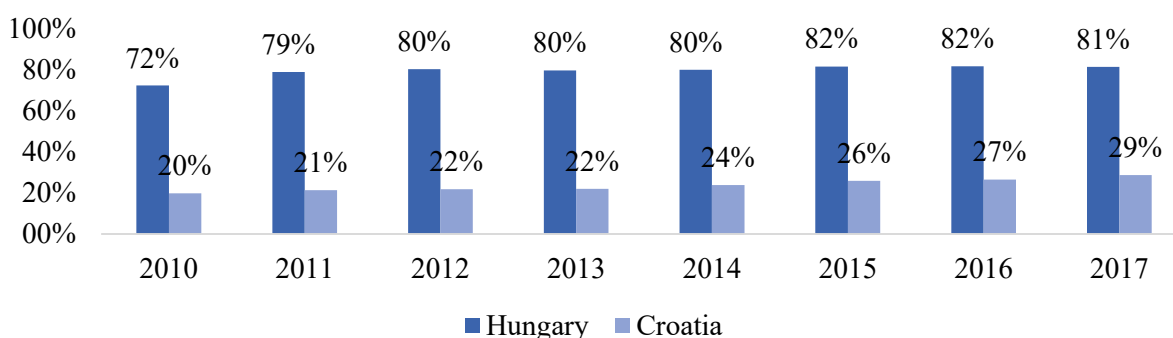
Source: NCB, NBH, author calculation

Table 3 shows that Hungary has an average import coverage at index 109, while Croatia is at the same period at index 61. The deficit in external trade denominated in EURs is 39% in Croatia, while the surplus is present in Hungary of 9%. Despite the strong depreciation pressures against the EUR,

Hungary has a significant surplus in external trade, while the Croatian export being denominated in EURs with a mild appreciation is in deficit. The share of exports in the total GDP in Hungary is about 81% in 2017 year, while the Croatian does not exceed 30%. Therefore, the Hungarian share of exports in GDP is one of the largest in Europe.

93

Chart 4. Movement of export share in GDP from 2010 to 2017



Source: CBS, KHU, author calculation

Empirical Research and Analysis

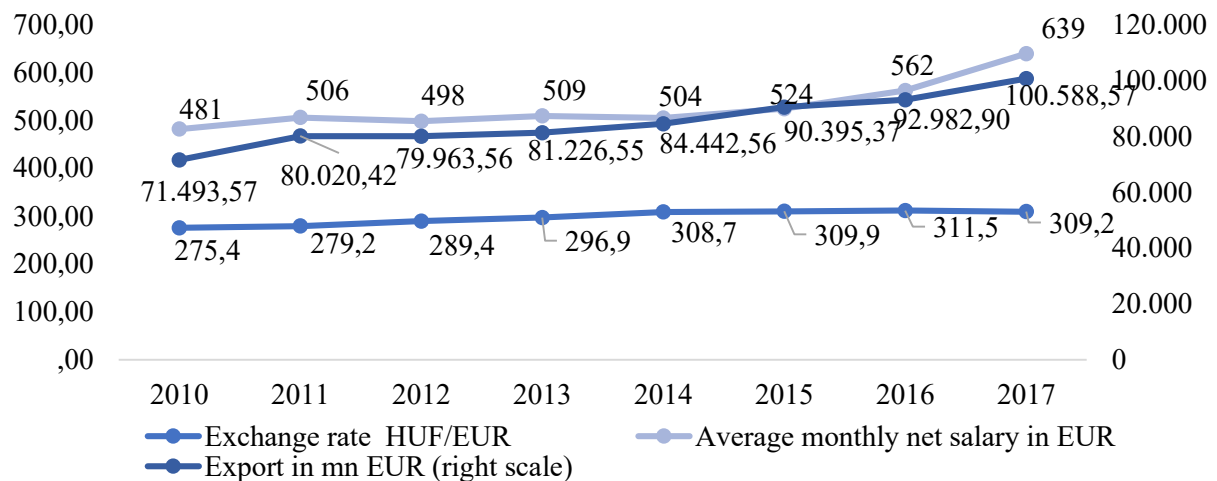
Based on the conducted analyses in the previous chapters, the exchange rate and level of net average salary was a key factor for withdrawing FDI in both countries. The high volatility in exchange rate of

Hungarian HUF, followed by a relatively low level of average net salaries were significant influenced on the FDI inflows. All mentioned indicators led Hungarian economy to a high share of exports in the GDP and had a significant impact on the surplus in external balance. Consequently, conclusion is that

Hungary is one of the very few countries in general which have a continuously external trade surplus. In Croatia, the situation is significantly different. The policy of strong internal appreciation (relatively high base of net salary) followed by stable exchange rate, was influenced on lower FDI inflows and significantly worse position in external trade balance. Accordingly, Croatian economy in the last eight years has been continuously on the deficit side, while the share of exports in GDP did not exceed 30% in the observed period. The Hungarian starting position and a more favorable macroeconomic circumstances comparing with Croatian have led to a strong absorption of capital accumulation. The Croatian position at the very beginning of the observed period was more unfavorable for FDI inflows, because of relatively high starting base of net salary. The average net salary was 52% higher in 2010 comparing with Hungarian denominated in EURs.

This situation allowed to Hungarian economy a huge inflow of FDI, especially in the labor intensive sector, who is in average significantly cheaper than the Croatian. However, due to the strong pressure on labor force, especially in the last few years, and particularly in 2017, Hungary has a significant convergence effect to developed countries, primarily in the average net salary and then in other macroeconomic indicators. According to the latest indicator (KHS), the average net salary in 2017 is almost 14% higher comparing with 2016, while in Croatia it was 6.2%. The growing trend in salaries will continue in the next periods in both countries, because they are significant affected with the process of depopulation. In the next several years both countries are faced with outflow of workforce into developed economies in Europe. Both economies have challenges with losing a population.

Chart 5. Movements in export, exchange rate and net salary from 2010 to 2017, Hungary



Export vs Exchange rate

r=0,84

Net salary vs FDI inflow

r=0,85

Source: KSH, author calculation

Chart 5 shows the strong correlation between the HUF depreciation and export growth. The coefficient of correlation is 0.84 (r = 0.84) what indicates a very strong correlation between observed variables. If we take into

account the same observed period, the correlation between the net salary and the FDI inflow have also very strong correlation coefficient 0.85 ($r = 0.85$).

Table 4. Movement of export growth, exchange rate and in net salaries from 2010 to 2017, Hungary

	2010	2011	2012	2013	2014	2015	2016	2017
Export, mn EUR	71.494	80.020	79.964	81.227	84.443	90.395	92.983	100.589
<i>Growth rate, %, $n/(n-1)$</i>		12%	0%	2%	4%	7%	3%	8%
Exchange rate HUF/EUR	275,4	279,2	289,4	296,9	308,7	309,9	311,5	309,2
<i>Growth rate, %, $n/(n-1)$</i>		1%	4%	3%	4%	0%	1%	-1%
Net salary in EUR	481,5	505,5	497,8	509,0	504,4	524,0	561,9	638,8
<i>Growth rate, %, $n/(n-1)$</i>		5%	-2%	2%	-1%	4%	7%	14%

Source: KSH, author calculation

According to above mentioned Table 4, there is a strong correlation between observed variables, especially in correlation between FDI inflow and average net salary. Table 4 clearly shows the strong export growth. In 2017 the export increased for more than 40% (absolute amount EUR 29bn) comparing with 2010 while in the same period the exchange rate has depreciated around 12,4%

Following is an econometric analysis.

Table 5. Econometric analysis through program E-Views, exchange rate influence on export, Hungary

Dependent variable: HE - Export Hungary

Method: Least Squares

Date: 04/12/18 Time: 17:09

Sample: 2010 2017

Included observations: 8

Variable	Coefficient	Std. Error
HUF	5.251.892	1.373.149
C	-71117.08	40897.66
R-squared	0.709138	
Adjusted R-squared	0.660662	

Source: E-views, author calculation

Explanation of variables: HE (Hungarian export), HUF (Hungarian national currency), C (independent parameter)

By econometric research, the same conclusions about the existence of correlation between variables has been proved. In simple linear regression, export represents the dependent variable, which is the

function of the exchange rate trend. Over the coefficient of determination R^2 , it can be concluded with a confidence level of 70.9%, that the export represents a function of exchange rate policy. A more representative result was achieved with 17 observations, with a coefficient of determination over 0.8.

Table 6. Econometric analysis through program E-Views, influence of exchange rate and net salaries on FDI inflow in Hungary

Dependent variable: HFDI - FDI Hungary

Method: Least Squares

Date: 04/12/18 Time: 17:23

Sample (adjusted): 2010 2016

Included observations: 7 after adjustments

Variable	Coefficient	Std. Error
HUF	-4.009.025	6.958.370
HS	1.127.103	4.095.505
C	-448099.9	152288.7
R-squared	0.750508	
Adjusted R-squared	0.625762	

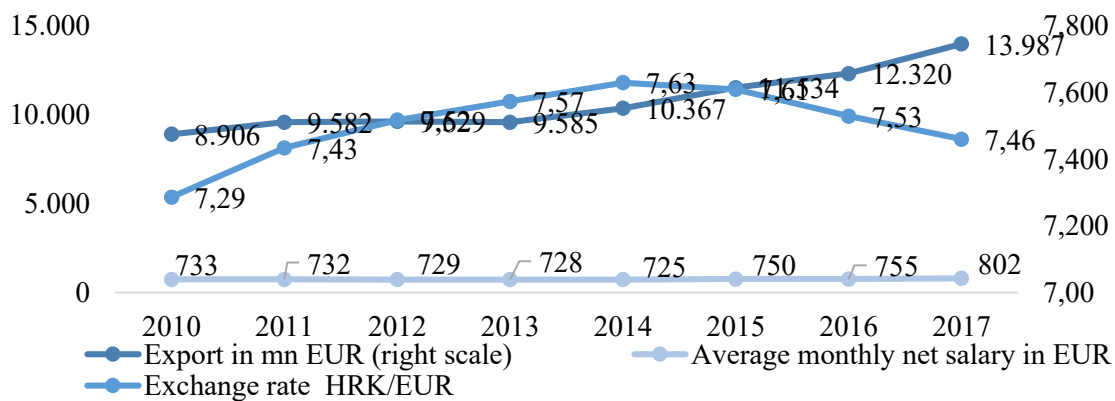
Source: E-views, author calculation

Explanation of variables: HS (Hungarian net salary), HUF (Hungarian national currency), C (independent parameter)

Econometric analysis showed that with a confidence level of 75%, the parameters; exchange rate and net salary have a direct effect on FDI inflow. With simple

linear regression model, where two variables were tested, the influence of FDI inflow on the level of net salary resulted with the coefficient of determination of 0.73. Stable exchange rate and relatively high level of net salary in Croatia have as a consequence lower FDI inflow, comparing with Hungary.

Chart 6. Movement of export, exchange rate and net salary from 2010 to 2017, Croatia



Export vs Exchange rate $r = 0,24$

Net salary vs FDI inflow $r = -0,41$

Source: CBS, author calculation

In some years the appreciation of the exchange rate and the growth of net exports occurred, which shows

that the exchange rate as an instrument in Croatia had no significant effect on the export trends.

Compared to Hungary which has both coefficients of correlation at strong level, in Croatia the situation is very different. The level of correlation between export and exchange rate is very low, as well as the correlation between net salaries and FDI inflow. The stable exchange rate policy did not have significant

implications on trends in exports. In some years there was an appreciation of exchange rate and at the same time a growth of net export occurred. A mentioned situation shows that the exchange rate, as an instrument, does not have a significant effect on export trends in Croatia.

Table 7. Movement in export rate, exchange rate and net salaries from 2010 to 2017, Croatia

	2010	2011	2012	2013	2014	2015	2016	2017
Export, mn EUR	8.906	9.582	9.629	9.585	10.367	11.534	12.320	13.987
<i>Growth rate, %, n/(n-1)</i>		8%	0%	0%	8%	11%	7%	14%
Exchange rate HRK/EUR	7,3	7,4	7,5	7,6	7,6	7,6	7,5	7,5
<i>Growth rate, %, n/(n-1)</i>		2%	1%	1%	1%	0%	-1%	-1%
Net salary in EUR	733,3	731,9	728,7	728,2	725,2	750,5	755,0	802,3
<i>Growth rate, %, n/(n-1)</i>		0%	0%	0%	0%	3%	1%	6%

Source: CBS, NCB, author calculation

Even though, there is no correlation between the exchange rate and the external trade balance in Croatia, export increased by 56% (almost 5 billion EUR) in 2017 compared with 2010, which is almost six times less than in Hungary, while in absolute terms the exchange rate depreciated for around 2.3%.

Table 8. Econometric analysis through program E-Views, exchange rate influence on export, Croatia

Dependent variable: CE - Export Croatia

Method: Least Squares

Date: 04/12/18 Time: 17:26

Sample: 2010 2017

Included observations: 8

Variable	Coefficient	Std. Error
HRK	3.676.294	6.179.591
C	-16851.93	46382.63
R-squared	0.055701	
Adjusted R-squared	-0.101683	

Source: E-views, author calculation

Explanation of variables: CE (Croatian export), HRK (Croatian national currency), C (independent parameter) The obvious fact is that there is no correlation between exchange rate movements and net exports. Coefficient of determination is very low

and not significant. Method of ordinary least squares [3] showed that the exchange rate in Croatia had no impact on the export growth. The identical result was recorded on 17 observations, so it was not necessary to take a longer data series.

Table 9. Econometric analysis through program E-Views, influence of exchange rate and level of net salaries on FDI inflow in Croatia

Dependent variable: CFDI - FDI Croatia

Method: Least Squares

Date: 04/12/18 Time: 17:30

Sample (adjusted): 2010 2016

Included observations: 7 after adjustments

Variable	Coefficient	Std. Error
CS	-4.352.859	4.419.464
HRK	2.282.021	4.373.421
C	16504.57	43746.11
R-squared	0.222882	
Adjusted R-squared	-0.165677	

Source: E-views, author calculation

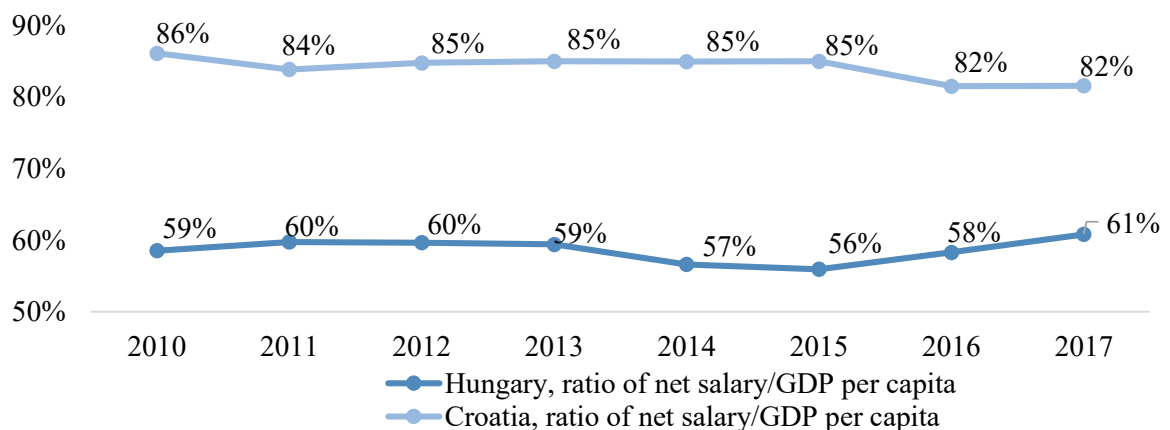
Explanation of variables: CS (Croatian net salary), HRK (Croatian national currency), C (independent parameter)

It is also showed that FDI inflow has no reaction on the exchange rate and the level of net salary. As noted above, the high level of internal appreciation and appreciation of the exchange rate did not have a positive impact on FDI inflow.

According to all mentioned facts, the conclusion is that the initial position of the Hungarian economy has led to a stronger accumulation of capital in the

form of FDI, caused by a low level of exchange rate against the EUR and mild depreciation, and followed with high level of initial internal depreciation in the form of net salaries. Lower net salaries were one of the important elements in attracting a high level of FDI inflow and moreover they influenced on significant growth in exports. If we observe the share of annual net salaries in GDP per capita, it is obvious that the gap between the curve of ratio of salary in GDP per capita is considerably lower in Hungary.

Chart 7. Share/ratio of yearly average net salary in GDP per capita from 2010 to 2017



Source: KHS, CBS, author calculation

Chart 7 explains a relative indicator of the share of yearly average net salary in the GDP per capita. The gap between the observed countries is very significant, which confirms the previously proven fact about low net salaries and FDI inflows. In average, Croatia has 25 percentage points higher share of net salaries in the GDP per capita comparing with Hungary, which means that the average worker in Croatia has a significantly lower level of efficiency and productivity than in Hungarian case.

Conclusion

This paper presents the cross sectional analysis between Croatia and Hungary. Based on analyzes and researches, conclusion is very clear. These two countries have completely different macroeconomic policies and different impact on main macroeconomic indicators. Countries were at different stages of economic development at the very beginning, and during the years they passed through significant changes, mostly in favor of Hungary. The policy of slightly internal devaluation and depreciation and policy of fluctuating exchange rate resulted with a strong inflow of FDI and trade balance surplus in Hungary. In the same period Croatia was executing the policy of internal appreciation with relative high base of net salary in terms of ratio in GDP per capita. Also, Croatia in the same observed period had stable exchange rate policy. The result of such macroeconomic policy in Croatia is very low level of FDI inflow and exports non-elasticity on exchange rate fluctuations. Because of that, Croatia is continuously in the area of external trade deficit with very high ratio of average annual net salary in GDP per capita. All mentioned facts mean very low level of productivity in Croatia comparing with Hungary. The external trade between Croatia and Hungary is on the very low level, where

Croatia suffers a significant deficit. The coverage ratio of import with export in Croatia with Hungary is around 27.90%. Therefore, the strong correlation between the FDI inflow and the very low relative level of net salary, and the strong correlation between exchange rate and export growth, led the Hungarian economy to the very stable macroeconomic circumstances. On the other hand, Croatia led different macroeconomic policy which resulted with unstable macroeconomic circumstances. The high level of external trade deficit, six-years of recession and the high level of unemployment rate, are one of the main indicators of macroeconomic (non) stability in Croatia. Taking into account FDI inflow in the observed period, the average FDI inflow per capita in Hungary was almost three times higher than in Croatia. However, the strong pressures on the labor force market in Hungary become more and more significant. The convergence effect of Hungarian average net salary to average net salary of developed EU countries become very important indicator in upcoming period. Accordingly, the expectations for the future is a higher growth rate of average net salary, due to the very strong pressure on the labor force market and due to strong labor force mobility between EU countries. Both countries are affected with significant migration trend. Additionally, the strong depopulation effect which hit both countries will have tremendous consequences on macroeconomic equilibrium. Because of all mentioned facts, the demographic policy will have very important role in creating economic policy in the future.

References

[1] Blanchard, O., Macroeconomics, Fourth edition, Pearson, Prentice Hall, 2006.

[2] Jeffrey M. Wooldridge, Econometric Analysis of Cross Section and Panel Data, 2014

[3] William H. Greene, Econometric Analysis, 2015.

Web pages as Source:

www.dzs.hr,

www.hnb.hr,

www.ksh.hu/?lang=en,

www.mnb.hu/en,

www.imf.org,

www.oecd.org,

www.worldbank.org

Econometric program: E-views 8.0

Serzhanov, Vitaliy¹

Molnar, Oleksandr²

Golubka, Alexandra³

THE SALE SYSTEM AND ITS USE IN UKRAINE

Abstract:

One of the important tools for selling products is holding shares that stimulate the sales of certain groups of goods. Conducting promotional actions during the crisis period has acquired special significance for both producers and retailers. In the conditions of reduction of real incomes the population searches for ways of economy and more often tries to purchase items with discounts or on special offers. For the consumer, promo becomes a way to reduce the costs of everyday goods, and for suppliers - to increase sales. The article presents the results of research in the field of developing and implementing a policy of discounts.

Discount is a key tool to stimulate sales, allowing you to take into account not only the interests of those to whom it is directly provided but also the impact of this step on the entire structure of the relationship in marketing.

Keywords:

sales, discount, product, price

Author's data:

¹ Vitaliy Serzhanov Ph.D. in Economics, Associate Professor, Dean of the Faculty of Economics, Uzhhorod National University, vitaliy.serzhanov@uzhnu.edu.ua

² Oleksandr Molnar, Ph.D. in Economics, Associate Professor, Head of Department of economic theory, Uzhhorod National University, kaf-et@uzhnu.edu.ua

³ Alexandra, Golubka, Ph.D. in Economics, Associate Professor, Uzhhorod National University, olexandra.golubka@uzhnu.edu.ua

Introduction

In the face of increasing market competition in Ukraine, it is very important for the company to ensure the stability of revenue receipt, which is possible provided there is a constant demand for manufactured and sold products.

Consequently, the most important task of the company is to retain and expand the range of consumers of manufactured products, which is largely determined by the practice of pricing that the organization conducts in order to consolidate the old and attract new customers. In this regard, the relevance of the research topic is determined by the need to master such tools of effective pricing policy, as price discounts.

The purpose of the article is to research the improvement of the pricing mechanism through the application of price discounts, the study of their types, the identification of positive and negative aspects of discounting, the analysis of the effect of discounts on consumer psychology.

According to analytical reports from Nielsen Promo Pressure the share of sales of all product categories through promotions in Ukrainian retail chains has reached 27%, and 8 out of 10 promo actions that take place in Ukrainian retail chains are discounts. For product categories, the average discount is 20%, in non-food categories the average discount remains 23%. But, as noted in the study, Ukraine has not yet reached the level of saturation, which is observed in Eastern Europe, where through promo-shares from 50 to 60% of sales are passed, with the average discount close to 30% [1].

Therefore, the study of the issue of discounts, their types, and applications in marketing is relevant today

The sale system

The prices published in the price lists are of a reference nature and quite often significantly differ from the prices actually paid by the buyer due to the wide application of the discount system.

A component of the selling price of products is the price discount. Discount is a condition of the contract, determining the amount of reduction in the base price of the product specified in the contract.

Price discounts are voluntary and not mandatory, they can be provided not only by the manufacturer but also by the trade organization in a particular case.

The amount of discounts depends on the nature of the transaction, the terms of delivery and payment, the relationship with buyers and the market at the time of the transaction. Currently, about 20 different types of discounts are used in international trade practice.

By its commercial nature, the discount can be one of two types:

1) Planned discount, which is formed due to the total amount of overheads.

This kind of discounts can be attributed to the organization by the manufacturer of advertising of their products with a list of trading firms that sell this product. Thus, the manufacturer effectively saves the means of dealers to advertise their trade names, which in economic nature is equivalent to providing them with an additional discount;

2) Tactical discount, the economical source of which is profit, and the common task is to create additional incentives for the buyer to make a purchase.

In marketing practice, various types of tactical discounts are used.

Quantitative discounts, including non-cumulative discounts (for each separate trade transaction with the buyer) and cumulative discounts (for all purchases made within a certain time). An example of a typical condition: 1000 UAH for 1 pc. when buying a unit of goods, 900 UAH for 1 pc. when buying more than 10 pcs. Discounts should not exceed the amount of cost savings of the enterprise in connection with the sale of large quantities of goods. Similar discounts are formed at the expense of expenses for sales, the maintenance of stocks and transportation of the goods. Also, these discounts are an incentive to make purchases from one seller, not several. Often, these discounts are used in case of underloading of the company's production capacities, that is, it needs to increase its turnover, and this cannot be achieved by intensifying trade efforts, improving the product, or other activities.

Progressive discount is a quantity discount or a series discount given to the buyer on condition of purchasing previously allocated and increased in quantity product. Manufacturers are interested in serial orders since the production of the same type of product reduces production costs.

Cash discount - a discount for paying bills in cash or for a specific period. A typical condition looks like this: 2/10 net 30. This means that payment must be made within 30 days. If the buyer pays over the period of 10 days, the price can be reduced by 2%.

Discount for an order, the cost of which exceeds a certain amount.

Export discount, which may be provided by the seller to foreign buyers in excess of those discounts that are valid for buyers of the domestic market. Their goal is to increase the competitiveness of a particular product on the foreign market.

Negative discount - a surcharge to the cost of a small order.

Functional discount - discount on novelty products for the intermediary's performance of certain functions, for example, mediation of promotional activities.

The discount for increasing sales - a measure of lowering standard sales prices, which is guaranteed to resellers if they take new products for sale, the promotion of which on the market requires higher advertising costs.

Trade discount - payment to intermediaries for the realization of trading operations. The more obligations the intermediary takes on the sale, the higher the discount.

Seasonal discount - discounts for seasonal goods, which are purchased not in season. Such discounts help maintain a more or less stable level of production throughout the year.

Final discount - discount for the last batch (unit) of the product. Companies temporarily assign prices to their products below the price-list, and sometimes below the cost of production in order to reduce inventories and attract customers, while they can also purchase goods at a normal price.

Discount on demand of an important customer - a discount for consumers who play an important role in the company's activities.

Segment discount - its essence boils down to the fact that a discount is levied on a certain circle of persons or a social group. It can be students, pensioners, representatives of some organizations and institutions. Thus, the division here is based on status and social role.

Temporary discount - provided at a certain time interval. This can be the time of day, the time of year, holidays, etc. For example, some supermarket chain provides a 10% discount to pensioners on weekdays from 9 to 14 hours.

Credit discount - discount on the new product in case of returning the old (used) product of the same type. Discount for the return of the previously purchased product from this company (discount "trade-in") in the amount of 25-30% of the list price is given to the buyer when returning the product (of this company) purchased earlier. Such discounts are applied when selling cars, electrical equipment, rolling stock and other goods. The most well-known practice of the trade-in is the program of exchanging the old car for a new one with surcharge.

Club discounts. In the world, there are many national and international discount clubs that provide their members with "club price discounts" for services and goods. The members of such clubs can be individuals and legal entities, as well as associate members.

National and international clubs issue and sell the license to manufacturers and stores, which undertake to provide price discounts to members of the club. Especially common are discounts for transportation, car rental, hotel and restaurant services, insurance. For members of the club, there are entire chains of shops selling with discounts of industrial and other products. Presenting a member's card when buying, the customer receives a discount on the price from 10 to 50% or more.

Discounts subjected to intercultural communications. In the Arab countries of some Balkan countries and individual Transcaucasian republics in the course of trade negotiations, it is considered a matter of honor to achieve a greater discount on the offer price. And although this circumstance is associated with a complex of oriental mentality, many importers do not sign a contract that does not contain a position about discounts exceeding in general 20-30% of the proposed price. Since this fact is known in the

trading environment, some companies consider it necessary to artificially raise the prices for the expected interest in advance, and in the future to submit it to a discount specified in the contract.

The discount system proceeds from the principle that discounts are usually not summed. That is, the buyer cannot simultaneously use two discounts. In conditions when the buyer has the right to two or more discounts, he uses the one of the greatest value. The exception is, as noted above, export discounts.

Hidden discount - a ridiculous kind of discounts. For example, a person goes to buy a washing machine and, having already chosen her model and going to pay for it, finds out that a discount on it, say, 5%. And besides, the person who bought a washing machine gets a heater as a present, which smells awfully like an engine oil when turned on. To understand the nature of such discounts, as well as the motives of marketers is extremely difficult.

Inconsistent discounts. This discount is primarily unreasoned. By providing them, merchants, usually, do not have any concept or plan, and consumers do not know exactly whether they will receive a discount or not.

It is quite natural that each of the above types of discounts can be supplemented or overlapped by another type of discounts. So, segment discounts can be temporary and hidden discounts may be inconsistent.

Addition to the price - the price that is set depending on the special requirements of the buyer when performing a special, individual order, for the increased quality of the product, the provision of additional services, payment by installments, and so on.

The method of surcharges is a common method of pricing, according to which a surcharge is added to

the price of a certain product, which corresponds to additional costs and the prestige of the unique product (product) received. The increase in prices must necessarily be accompanied by explanatory work among potential consumers through means of marketing communication, primarily through advertising. Otherwise, the company risks losing part of its market.

The use of discounts

What is the reason for the popularity of discounts? The reason for the popularity of discounts in Ukraine lies in the psychology of consumer behavior of Ukrainians and their mentality. Buying any goods at a discount, the buyer very often understands that 5-15% discount is already included in the cost of the purchased, but he still chooses to purchase an item in that particular store where he is promised a discount. All this leads to a large-scale psychological degradation of consumers when the thirst for cheapness makes people buy something not because it is needed, but because the buyer is offered a discount or a gift.

From the point of view of marketing, it is important to understand that a discount is something secondary, it is not a primary goal. The discount is only intended to supplement, rather than replace, the integrated concept of marketing tools, stimulating sales. Meanwhile, there is a reverse process - discounts and discount games tend to replace all other options for promotion.

What is sold at a discount? Obsolete collections of clothes and shoes, which should be replaced by the new model range, perhaps some second-rate products (as an option: beaten apples and pears, half-rotten apricots). But if we look at advertising,

we will see that 80% of the advertised is based on the offer of discounts.

The theory of the USP "unique sales proposition" was developed by the American Rosser Reeves more than half a century ago [2].

According to this theory, advertising must necessarily contain a proposal addressed to the consumer. Moreover, the proposal should be not only interesting for a potential buyer, but also unique, that is, such as does not exist in the advertising of competitors. And most importantly, it should carry a sufficiently strong charge of commercial and emotional reasoning, so that the consumer is inspired by the idea of acquiring the advertised product as a profitable transaction for himself.

Discounts like UTS are not always a good idea, because almost everyone uses this form of uniqueness. Discounts are the most primitive form of personified commodity positioning in the market. It comes to the fact that the category of discounts is placed in the name of trademark, for example, the chain of stores "Копійочка" (Penny), "Територія мінімальних цін" (Minimal prices territory), "Аптека низьких цін" (Low Price Pharmacy), etc.

Contrary to the law of supply and demand, predicting that a decline in the market price of a commodity leads to an increase in demand for it, in practice, price reduction is extremely rare, even if it is economically justified. First, the fall in prices casts doubt on the fairness of market exchange. If today everything has become cheaper, then were we deceived yesterday? Secondly, price movement down inevitably requires guarantees of product quality stability, which is not easy to provide. Thirdly, the price reduction can change the consumers' views about the average level of reference prices, and it will be impossible to return to higher rates. As a

consequence, in many markets, the principle of price reduction is revealed

But you cannot refuse discounts. They should most definitely be used. Where is it possible to be mistaken?

It often happens that the seller reduces his profit by offering discounts without first calculating their economic efficiency. And it is sometimes easier and more cost-effectively to resort to other methods.

The most effective in practice is not one or two discounts for a particular product, but a whole system of discounts, simple and understandable to both company employees and customers. Discounts, burdened by additional conditions, should not lead employees and buyers into the jungle of these conditions. The application of the discount system stipulates a bright, accessible and understandable advertising campaign from bright stands at the entrance and inside the store to ads and commercials in the media.

If you provide them too often (or make discounts too large), buyers will become more price sensitive. They will wait for the next discount. The buyer's sensitivity to the price level acquires a special form in the conditions of the developed market when many different brands of goods are offered to meet the same demand (this situation can be observed in the Ukrainian markets of alcoholic products and toothpaste). None of the buyers, even the most meticulous, in these conditions usually do not create their own database of all analog products and their prices. Instead, they create some general idea of the acceptable level of prices for the product of certain kind, that is, a kind of average market price of indifference. Frequent discounts can reduce this approximate (referential) price of the buyer, forcing him to make fewer purchases (since your price will seem too high). In such a situation, a reduction in

the frequency and magnitude of the discount may work.

Any change in the market price requires justification; otherwise, the meaning of what happened cannot be interpreted in favor of the seller. Price control is a very precise process, the success of which depends on how social communication between the seller and the buyer will be built. Pointing out the reason for introducing a discount, it is necessary to emphasize the features of the new price and its temporary nature. And if the price is not standard, buyers, certainly, will not take it into account when formulating its estimated price (average price of indifference).

Discounts are a lure for consumers. And the reason for this is not only the prospect of saving money. Obtaining discounts improves the overall satisfaction of the buyer with the purchase and himself. Someone ascribes a discount to their communicative abilities and someone - as a confirmation of their own luck [3]. The discount from the initial price positively influences the buyer's intentions, even if in absolute terms the saved amount is small. Thus, during the experiment, the subjects spent more effort in order to get a discount of 33%, than 40%, although in both cases it was a question of winning five dollars [4].

Willingness to pursue special promotions is not universal. It depends on how the price signals are interpreted, for example, buyers for whom a high price labels products of better quality or buyers prone to a demonstrative prestigious consumption [3]. For them, the usefulness of the product is determined not only by its characteristics but also by the level of the price that is paid for it. Price remains an indicator of prestige, but the request for this function varies depending on how socially visible is the purchase. H. Leibenstein, introducing

into his models the "Veblen effect" (abnormal market behavior where consumers purchase the higher-priced goods whereas similar low-priced (but not identical) substitutes are available. It is caused either by the belief that higher price means higher quality, or by the desire for conspicuous consumption (to be seen as buying an expensive, prestige item [5]), suggests distinguishing two types of price: the real price, expressed in money, and the demonstrative price, that is the one that, as it seems to others, is paid by this buyer (conspicuous price) [6].

The system of discounting allows taking into account two opposite needs, providing the opportunity to buy very expensive things cheaper. The establishment of large discounts can lead to the formation of a distorted view of the original price, which appears unfairly inflated. Thus, the use of large discounts threatens the price reputation of the goods, carries the risk of eroding the social meanings assigned to it. A company offering discounts wants to maximize their estimated size so that the buyer reacts to the offer. Researchers propose to follow the "Rule 100": show a discount in percentage, when the price is less than \$ 100 and in absolute values, when the price is more than \$ 100. For example, if the price of the goods is \$ 50, which discount seems more profitable: 20% or 10 dollars? Both discounts have the same monetary value, however, the discount in percentage terms has an advantage and it seems more attractive [7; 8].

Since buyers perceive the exact numbers as clearly calculated and associate them with a smaller value, it is recommended that high prices be expressed with an exact value. And since the company is interested in maximizing the discount amount, it is recommended to use a rounded value. The buyer should be able to easily estimate this value. The

researchers came to this conclusion, citing the fact that people believe that the difference between 5.57 and 3.56 is less than the difference between 5.00 and 3.00, although, in fact, it is practically the same (2.01 and 2.00, respectively) [7; 8].

The time of the sales is also of great importance. Discounts are best provided at the end of the month when the target consumers have not yet received a salary and the opportunity to save is more attractive. And after paying wages, when it's not so painful to part with money, it is advisable to apply other sales promotion tools, for example, free samples, gifts, lotteries, etc.

A very interesting method is used by many supermarkets to attract new customers and retain permanent ones. Indicator products are selected - milk, bread, cereals, which are most often purchased by each person, and the price is reduced noticeably for these products. At the same time for other goods of the same category, having a more visually appealing packaging or a long shelf life, as well as for goods purchased for gifts or pleasure, prices may be overstated. Goods with reduced prices should be popular, few (no more than three to five of each category), and highly-demanded.

It is necessary to emphasize the difference between the approximate and actual prices. The aim is to maximize the apparent difference between the new price and the higher indicative price, thus visually denote the difference between them (for example, using a different font color). Buyers will perceive such a visual difference as a more significant numerical difference. Small print is even more effective in comparison with an approximate price written in a larger font [7;9].

This effect can be created not only by changing the color and size of the font but also by increasing the distance between the prices. At the same time, the

numerical difference will seem even more significant [7;10].

When deciding what discounts to apply, it is good to remember the principle of subtraction, according to which it is easier for the buyer to determine the amount and depth of the discount when the old (large) price is to the left and the new one is to the right.

When the selling price is on the right of the initial price, according to the principle of subtraction, consumers more easily calculate the depth of the discount. If the depth of the discount is relatively high (30%), consumers determine the depth of the discount close to the actual value and positively evaluate it. When the selling price is to the left of the initial price, it is more difficult for consumers to make calculations, which prevents them from appreciating the discount positively. As a result, many of them focus only on the promotional price of the sale; estimate the depth of the discount in the range of 10-12%. When the discount depth is low (10%) and the selling price is reflected to the right of the initial price, more consumers will calculate the depth of the discount, find that the discount depth is small (10%), which will not prompt the customer to buy the product. When sale price appears to the left of the initial price, a smaller number of consumers will calculate the depth of the discount and most likely will focus only on the selling price and will assume that the discount is approximately 10-12%. Thus, regardless of whether the selling prices are located on the right or on the left, the estimate of the discount depth will be approximately 10-12% (that is, low), and this is likely not to interest the buyer. The psychology of people is devised in such a way that the first significant sum for them is 15%. Most people will pay attention to the sale only if the amount of the change exceeds

15%, be it salary raise, a discount in the store or a gasoline price rise. Therefore, discounts of 5% and even 10% will not draw noticeable attention to the product. Conversely, if the product is liked, the buyer will buy it without a discount [11].

As a result, if the company offers a discount that is considered to be too low (which may cause buyer's displeasure) or too high (which can cause suspicion of low quality of the goods), it is recommended to complicate the possibility of calculating the discount and place the sale price on the left of the old price. If the company offers profitable discounts, you should simplify the calculation option and place the selling price on the right.

Conclusion

As a result of the research, we draw the following conclusions:

1. The main motive for making purchases on promo-shares is the desire to save money. The interest of Ukrainians in special offers and discounts began to grow actively during the crisis period. Against the background of a decline in real incomes, the population is looking for ways to save, and promo becomes one of the ways to reduce the cost of buying goods. Discounts, appointed under certain circumstances and on special terms, have established themselves as a legitimate way to reduce market prices.
2. Temporary reduction of the price of the goods has both advantages and disadvantages. The main disadvantages of this type of incentive are:
 - the impossibility of the formation of adherence of buyers, as they pay more attention to price cuts (special offers) than to the products themselves;
 - the decrease in profitability and additional expenses for the advertising campaign;

- possible creation of product "deficit" (shortage);
- deterioration of the product's and the manufacturer's image.

The main advantages may be:

- rapid growth in sales and an increase in the average check;
- the attraction of the new audience and increase of the loyalty of old customers;
- activation of turnover and release of warehouse space;
- time limitation in accordance with the tasks assigned.

3. All things considered, the discounting tool should be handled with caution. Studies show that, for example, discounts to regular customers raise doubts about the fairness of what is happening to those who are not [3; 4]. Decrease in the price for a certain group of consumers for not entirely understandable reasons has a negative impact on the perception of the product average level market value and on judgments about the fairness of discounts as such. Despite all the calculations of economic efficiency, it is possible to get in the end not what is expected, if the nuances of human psychology are not taken into account.

References

[1] Nielsen. Частка промо-продажів зростає, Available from:

<http://www.nielsen.com/ua/uk/insights/news/2016/promo-sales-for-web.html>

Accessed: 2018-04-20

[2] Принципи рекламної кампанії за Россером Рівзом, Available from:

<http://perfekt-pr.com/pryntsy-py-reklamnoji-kampaniji-za-rosserom-rivzom/> Accessed: 2018-04-

17

[3] Бердышева, Е. (2014). Что мы знаем о восприятии цены потребителями? Исследования в социологии и маркетинге. Журнал «Экономическая социология», 15 (3), 119-149.

[4] Peter R. Darke & Darren W. Dahl (2003). Fairness and Discounts: The Subjective Value of a Bargain. *Journal of Consumer Psychology*, 13(3), 328-338.

[5] Veblen Effect. Marketing dictionary, Available from:

<https://www.monash.edu/business/marketing/marketing-dictionary/v/veblen-effect>

Accessed: 2018-04-10

[6] Leibenstein, H. (1950). Bandwagon, Snob, and Veblen Effects in the Theory of Consumers' Demand. *The Quarterly Journal of Economics*. 64 (2), 183-207.

[7] Nick Kolenda .The psychology of pricing. Grab free marketing articles Available from: www.nickkolenda.com Accessed: 2018-04-10

[8] Berger, J. (2013). *Contagious: Why Things Catch On*. Simon & Schuster, ISBN 978-1-4516-8657-9; ISBN 978-1-4516-8659-3 (ebook), New York, NY 10020

[9] Biswas, A.; Bhowmick, S.; Guha, A. & Grewal, D. (2013). Consumer Evaluations of Sale Prices: Role of the Subtraction Principle. *Journal of Marketing*, Vol. 77 (July 2013), 49 -66.

[10] Keith S. Coulter & Robin A. Coulter (2005). Size Does Matter: The Effects of Magnitude Representation Congruency on Price Perceptions and Purchase Likelihood *Journal of Consumer Psychology*, 15(1), 64-76.

[11] Keith S. Coultera & Patricia A. Norberg. (2009). The effects of physical distance between regular and sale prices on numerical difference perceptions *Journal of Consumer Psychology*. 19(2), 144-157.

CONTENTS

- 5 Dumičić, Ksenija; Jošić, Hrvoja & Zmuk, Berislav:
INVESTIGATING EXPORT MARKET CONCENTRATION FOR DEVELOPED, DEVELOPING AND TRANSITION COUNTRIES
- 29 Paolacci, Anastasija:
STRATEGY OF SOCIO-ECONOMIC DEVELOPMENT OF AGGLOMERATION
- 37 Ređman-Furarić, Mirjana:
THE TRUST IN INSTITUTIONS AND MANAGER ASSOCIATION
- 49 Butić-Martinčić, Sanja:
IDENTIFICATION OF THE ELEMENTS FOR THE CREATION OF CORPORATE VISION
- 59 Novak, Ivona; Knežević, Blaženka & Skrobot, Petra:
SPORT AS AN ENTREPRENEURIAL ACTIVITY AND POSSIBILITY OF SELF-FINANCING THROUGHOUT CROWDFUNDING PLATFORMS
- 75 Stipanović, Christian:
DEVELOPING EVENTS TO REPOSITION TOURIST DESTINATIONS
- 87 Karić, Darko & Horvat, Buro:
ROSS-SECTIONAL ANALYSIS OF EXCHANGE RATE AND INTERNAL DEPRECIATION ELASTICITY ON EXTERNAL TRADE BALANCE AND FOREIGN DIRECT INVESTMENT INFLOW IN CROATIA AND HUNGARY FROM 2010 TO 2017
- 101 Seizhanov, Vitaliy; Molnar, Dieksandr & Boludka, Alexandra:
THE SALE SYSTEM AND ITS USE IN UKRAINE

Polytechnic in Požega
STUDIA SUPERIORA POSEĀANA
Vukovarska 17 - 34000 Požega - Croatia

DAAAM International Vienna
Danube Adria Association for Automation & Manufacturing
Karlplatz 13/311 - A-1040 Wien - Austria

vallisaurea@vup.hr • vallisaurea.org

Copyright © 2018. Veleučilište u Požegi All Rights Reserved

ISSN 2412-5210



9 792412 521008

04118