

1st Dubrovnik International Economic Meeting

DIEM 2013

„Scientific Conference on
Innovative Approaches to the
Contemporary Economic Problems“

University of Dubrovnik
Department of Economics and Business Economics
Dubrovnik, Croatia, September 27-29, 2013



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Abstracts of the Proceedings

Edited by:

Ivona Vrdoljak Raguž, Ph. D.

Iris Lončar, Ph. D.



University of Dubrovnik
Department of Economics and Business Economics
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KEY NOTE SPEAKERS:



Frederic Dimanche, Ph.D. Professor of Marketing, SKEMA Business School, France

Title of the keynote: **Managing Destinations - From Branding to Competitiveness Management**

Frederic Dimanche is professor of marketing at SKEMA Business School. He obtained his Ph.D. from the University of Oregon in 1990. After spending over 15 years in the USA, where he worked as Professor in the College of Business Administration of the University of New Orleans and as Research Director of The Olinger Group, a full service marketing research firm, he joined SKEMA Business School (formerly CERAM Sophia Antipolis) in 2001 to develop the Center for Tourism Management and Master programs in tourism and event management. Frederic has published numerous research articles and has been an active marketing consultant, working for private companies and national or regional tourism organizations in France, the USA, and other countries in Europe and Asia. Frederic is a chairman of the Board, Travel and Tourism Research Association Europe.



Peter Keller, Ph.D. Business and Economic Faculty, University of Lausanne (Switzerland), President of the International Association of Tourism Experts (AIEST)

Title of the keynote: **Competitive strategies for developed tourism countries: Why is productivity-led growth important?**

Prof. Dr. Peter F. Keller is honorary professor of the University of Lausanne (Switzerland) where he was Director of the Tourism Institute at the Business and Economic Faculty. He is teaching actually at the Universities of Lugano, St. Gallen and Bergamo. He is President of the International Association of Scientific Experts in Tourism (Aiest). He is member of the Board of Directors of Switzerland's National Tourism Organisation. He was also Director for Tourism of the Swiss Federal Administration. In this function, he was from 1991 to 2005 President of the European Commission of UNWTO and from 1982-88 and 1999-2007 President of the Tourism Committee of the OECD.



John Pisapia, Ph.D. Professor of Leadership Studies, Florida Atlantic University, USA

Title of the keynote: **Why companies Miss or Find the Future: Minds, Mindsets, and Thinking Differently!**

John Pisapia is a Professor of Leadership Studies at Florida Atlantic University (USA), a Fulbright Scholar at the Chinese University of Hong Kong; Scholar in Residence at the Chinese-American Center, Hong Kong; The Adam Smith Research Professor at the University of Glasgow; and founder of the Strategic Leader Network (SLN) a global learning community focused on the principles of strategic leadership. His work in strategic thinking and execution has received national and international attention. John holds memberships in the Strategic Management Society, the Academy of Management, and the International Leadership Association. He received a distinguished service award for profound leadership in international education by the International Schools Association. He also has been recognized as the first cooperative professor of the year by the American Association of School Superintendents (AASA), and John has been called the global professor, teaching and consulting with leaders in education and business in Mainland China, Hong Kong, Macau, Malaysia, India, New Zealand, Indonesia, France, Turkey, Croatia, Saudi Arabia, England, Scotland and across North and South America.

INVITED LECTURE:



Mirjana Pejić Bach, Ph.D., Department of Informatics, Faculty of Economics & Business, University of Zagreb, Croatia

Title of the Invited Lecture: **Obstacles to publication in ISI journal for the scientists from transition countries: How to overcome them?**

Mirjana Pejić Bach is a professor of Data Mining, System Dynamics, Management Simulation Games and Business Computing at the Faculty of Economics and Business, University of Zagreb. Her current research interests are in data mining and electronic business. She participates actively in research within the framework of the Ministry of Science and Technology's scientific projects, and is a leader of the project "Intelligent systems for controllership, finance and accounting" funded from the Croatian Ministry of Science, Education and Sports" (2007-). Mirjana Pejić-Bach was also educated in system dynamics at programmes delivered by Sloan School of Management, MIT.

FROM THE EDITORS

In 2013 the University of Dubrovnik will celebrate its 10th anniversary. On that occasion, the Department of Economics and Business Economics is organising a series of scientific events during September 2013 and this international conference is the central part of these events. We are all facing new challenges in all aspects of the business in the modern era of rapid changes and globalisation, especially now when global economy is troubled and in recession.

The 1st Dubrovnik International Economic Meeting - DIEM 2013 focuses on innovative approaches to contemporary economic problems. The overall objective was to attract and invite professionals and researchers from the field of economics and other relevant fields, who are aware of practical and theoretical problems of modern economy, to participate and give their contribution in solving these problems with active participation in presentations, working papers and panels and to provide maximum opportunity for presentation by young researchers.

Contributions of the 1st Dubrovnik International Economic Meeting - DIEM 2013 lays in participation of 100 scientists from 22 different countries. We believe that the actual response of participants to our first conference proves our expectations that DIEM will represent an essential link from the scientific and educational point of view.

The different views of the authors and conference participants as well as their suggestions of solutions to the same, will hopefully be interesting and useful not only to the academics, but also to all the participants in the world of economy.

We believe that DIEM will be recognised as an excellent platform to present new, contemporary issues and an active promoter of economic profession in the future.

Assistant professor Ivona Vrdoljak Raguž, Ph. D.
Assistant professor Iris Lončar, Ph. D.

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ACCOUNTING

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ACCOUNTING POLICY OF INTERNALLY GENERATED INTANGIBLE ASSETS: CURRENT CASE AND FUTURE DIRECTIONS

JEL classification: M41

Abstract

In modern business particular attention is paid to the use of intangible assets; the companies purchase them from other persons and also generate themselves: they launch and subsequently produce new or improved products and services (research and development) and ensure the protection of intellectually intensive products (patents, trademarks, computer software etc.). The aim of the research is to perform the comparative analysis of accounting policy adopted internationally and in Latvia regarding the internally generated intangible assets and to develop suggestions for its improvement. Having studied the documents regulating the accounting and specialized literature, the authors draw a conclusion that the most significant differences could be observed in the USA practice. At the end of research, the authors have developed suggestions for the improvement of internally generated intangible assets accounting policy.

Keywords: *intangible assets, internally generated intangible assets, accounting policy*

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**STRATEGIC ACCOUNTING AS AN IMPERATIVE AID
IN THE SUCCESSFUL INFORCEMENT OF
STRATEGIC MANAGEMENT**

JEL classification: M41

Abstract

The modern concept of strategic management is increasingly moving away from the experiential, practical activities, which result in intuitive strategies. Moreover, it becomes more and more established on scientifically based knowledge and methods of resource management. The application of mentioned concept provides the survival and ensures business success. It becomes obviously that the information requirements of managers vary according to the level of particular manager within hierarchical management structure of the company. Subsequently, managers at lower hierarchical levels use standard statements, particularly financial accounting reports. At the same time, higher level of governance implies requirements for more comprehensive and prognostic information. The literature and existing research studies indicate the relevance of interconnection between the accounting system and strategic management processes. Findings indicate that the reports are still generally based on the financial data, and that accounting information are not sufficient to meet specific needs of strategic management.

The purpose of this study is to point out the gap that exists between the information requirements of managers in strategic management processes and abilities of existing accounting function to meet these requirements. Empirical research was conducted in 2011 and the sample covered the entire basic set of 185 highly categorized hotels in Croatia. Results of the analysis indicate the perceived importance of strategic accounting by both: hotel managers and accountant managers. The outcomes of the research confirmed the hypothesis that strategic accounting is not adequately included in the strategic management processes. Based on the

recognitions, the author derives the original contribution in identifying barriers and constraints arising from development and implementation of strategic accounting in practice.

Keywords: strategic accounting, information needs, obstacles

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ACCOUNTING STANDARDS AS A SUPPORT FOR QUALITY DECISION MAKING

JEL classification: M19, M49

Abstract

Decision making should be based on high quality information relevant for guiding companies towards achieving sustainable goals and objectives. Accounting and sustainability standards as well as chosen accounting instruments have significant impact on quality of information and possibilities of their comparison (benchmarking). This paper will present the research results of achieved level of sustainability accounting reporting system in Croatian hotel industry, especially in the field in which internal results can be used for external purposes. Outcomes of this research have great implications on the improvement of sustainability reporting system in Croatian hotel industry that is based on successful implementation of USALI and IFRS 8 standards and best EU practice. The research results indicate that Croatia has tradition of more than 20 years of segment reporting implementation, according to USALI standards, compatible with IFRS 8 (adopted from 1st January, 2009). Highest number of Croatian hotel companies report information only on two segments (room, food & beverage) significantly lower than 10th edition framework of USALI standards offer. Sustainable development information is presented only in few companies in Croatia, in order to satisfy formality, other than present useful information, made in

accordance with Global Reporting Initiative (GRI). The improvement in sustainability reporting system will enhance information transparency between companies and external users, and contribute to raising awareness of sustainability issues crucial for the development of the hotel itself and entire destination. For the purpose of enhancing quality sustainable reporting system for managers and external users (especially for nonfinancial information of sustainability), criteria of financial information presented according to standards USALI & IFRS 8 were applied. Contribution of this paper is in assessing the model of internal sustainability reporting, based on the hotel management information requirements and at the same time harmonized with the legal requirements and internationally accepted standards, with the possibility of international comparison.

Keywords: *decision making, IFRS 8, USALI, segments reporting, responsible reporting*

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THE ANALYSIS OF THEORETICAL APPROACHES FOR CALCULATING TURNOVER RATIOS

JEL classification: M41, M49

Abstract

The methods of financial analysis are widely used to estimate a company's financial position and results of business activities. Studying scientific literature of the theoretical guidelines for the financial statement analysis we can find different approaches. The aim of the research is to study methods of turnover financial ratios calculations and basing on the empirical research findings to develop the recommendations for improvement the methods for it. The authors of this paper are studying theoretically different scientist's findings for using book value or average value of balance sheet analysing such important ratios as turnover of companies. For the empirical research the data from annual statements of Latvian companies of manufacturing and trade branches are used. In the research the authors have applied quantitative and qualitative methods of economics such as the mathematical and the statistical methods, the ratio analysis, the graphical method, the logically – constructive methods. At the end of the research the authors give the summary of general conclusions and findings.

Keywords: *accounting, analysis, methods, turnover*

ECONOMICS

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DEMAND DRIVEN GROWTH IN SMALL OPEN, IMPORT DEPENDABLE ECONOMY

JEL classification: E2

Abstract

Demand driven growth is rather common approach in many countries in short run. Growth in aggregate demand pushes production to higher level, increasing employment and income. But what is the case in small open economies which are highly import dependable, service oriented and have to import most consumers' goods? We will analyse this issue in case of Montenegro.

Economy of Montenegro is small, open and services oriented. National savings is moderate, while import dependency is very high. Agriculture and manufacturing make less than 20% of GDP, which influence high import of both nondurable and durable goods. Financial markets are open and significantly rely on imported capital.

Since independence (2006), Montenegro attracted significant amount of foreign investments and financial inflows, transferred through commercial banks into household consumption. Great increase in loans influences high aggregate demand, which contributed significantly to import growth, but compensated with higher financial surplus. GDP growth was achieved through growth in construction, trade and tourism sector. Since global financial crisis, financial inflows dropped, leaving Montenegrin economy to struggle with increased debt (both public and private), unfinished investment project to provide value added and low level of domestic production leading to high trade deficit.

Investments failed to increase domestic manufacturing production and at least partially substitute increased import or reduce trade deficit with increased export. Now, Montenegrin economy needs new investments to

increase production, but due to low national savings, capital has to be provided from international market, where interest rates are rather high.

Future growth can be achieved only if it is driven by investments, as growth in aggregate demand will more likely lead to higher trade deficit than production growth.

Keywords: demand driven growth, investments driven growth, import dependency

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ECONOMETRIC ESTIMATION OF THE DETERMINANTS AND IMPACT OF REMITTANCES ON THE MACEDONIAN ECONOMY

JEL classification: C22, F29, J61, O11, O24

Abstract

Although Macedonia is among the top emigration countries in the world, and in spite of the fact that private transfers from abroad have covered more than 50% of the trade deficit in the last ten years, relatively little is known about the determinants of the remittances and their impact on the macroeconomic stability of the Macedonian economy. The purpose of our paper is to offer an econometric estimation of the determinants of remittances to Macedonia and to investigate whether remittances sent to Macedonia have a stabilizing or destabilizing effect on the Macedonian economy, especially in time of financial shocks. To achieve this objective, we estimate a vector autoregressive (VAR) model using the available monthly data on migrant workers' remittances as a dependent variable and industrial output, gross wages, unemployment rate, consumer price indices, trade deficit, total imports and loans to private sector as independent variables in a long period (January 2005 - December 2012). We find evidence that remittances sent to Macedonia have a procyclical character meaning that they act as a boost to economic activity in times of economic upturns, and as a destabilizing factor to the Macedonian economy in times of economic downturns.

Keywords: remittances, migration, vector autoregressive model

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EMPRICAL EVIDENCE ON FOREIGN DIRECT INVESTMENT IMPACT UPON THE ECONOMIC GROWTH OF THE REPUBLIC OF MACEDONIA

JEL classification: F21

Abstract

In regard of indicators on positive business climate and hospitability for foreign investors, last year the World Bank ranked Macedonia on the 23rd place out of 183 countries in the world (World Bank, 2013). Other reports of eminent world organizations and institutions ranked the country on fairly good position in the world economy as one of the fastest reforming countries able to control the level of foreign debt. Nevertheless, during the last two decades the economy has never experienced real economic growth. Hence, with GDP of less than 10 billion USD, Macedonia happens to be one of the poorest countries in Europe. Despite all of the efforts of the Government to attract foreign investment, the economy recorded only 4.382 billion American dollars of FDI stocks at the end of 2012 (www.nbrm.mk). Due to the very limited domestic market, poor infrastructure and low consumption potential, foreign investors were attracted only to those industries which were in a position of a natural monopoly on the market. Trying to maximize their profits, they were not interested in investing in new technologies or in creation of export platforms for placing the realized output to the Western markets.

Through analysis of all available and official statistical data in the Republic of Macedonia, this article will try to analyse the structure of the attracted FDI in the country their effects upon the total industrial output, the restructuring of the economy, the creation of new jobs and decrement of the unemployment rate, as well as upon the competitiveness and the export potential of the country. Finally, it would try to identify the major causes for the up-to date recorded poor results.

Keywords: Republic of Macedonia, foreign direct investment, economic restructuring

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INTELLECTUAL CAPITAL AS A MOTIVATIONAL FACTOR FOR FDI

JEL classification: F21, D24

Abstract

The hypothesis of this paper is that the intellectual capital is one of key motivational factors for attracting FDI in Croatia. The confirmation of the hypothesis is based on sectoral and specific firm analysis. The analysis of intellectual capital is based on VAIC method and other methodologies for measuring intellectual capital are also mentioned as a reference. It is also suggested that those sectors that have more intellectual capital are usually more than average users of ICTs, and that investments into ICTs (information and communication technologies) can further increase FDI, which can be seen in developed countries, although not in transition countries.

Keywords: FDI, ICT, intellectual capital

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PLATO VERSUS PLUTOCRACY

JEL classification: B19

Abstract

In “The Republic” Plato primarily discussed the idea of justice, by exposing correlations between human soul and political order. He relates the realm of private property, market relationships, and profit-oriented mind with the lowest social class, which corresponds to the domain of lust and pleasure in human soul. Higher rated social classes or abilities of soul are only responsible for the well-being of society and for the establishment of harmony in human soul. In “Laws” he developed an idea of a permanent training against the domination of excessive pleasure, as the basic condition for setting up a society in accordance with human nature.

The neoliberal concept of economic order not only questions, but silently denies such or similar perceptions of humanity. Emphasizing market as a regulator of all social relationships and human values, it presumes the highest value of greedy accumulation of money, power, or material possessions. Simultaneously, it implies plutocracy as an ideal of social order.

In this paper we intend to discuss that contrast, including the opposition of Keynesianism and Friedmanism in modern economics.

Keywords: human nature, social order, neoliberalism

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GERMANY'S U-TURN IN ENERGY POLICY: HOW WILL IT AFFECT THE MARKET?

JEL classification: L13

Abstract

In Germany the performance of opening the electricity markets proves to be poor. While the sector's productivity nearly doubled, the customers were left out in the cold. In actuality, the generated redistribution mass remained in the firms. There, the management used the threat of competition as an instrument for rationalisation and for the moderation of wage growth, while it simultaneously and successfully made an effort to circumvent the market competition. In the end, due to the established oligopolistic structures profits approximately quadrupled.

However, at present there are indicators for a change in the market structures, brought about by a new political framework and the U-turn in Germany's Energy Policies in the aftermath of Fukushima.

This paper will analyse the market's development based on the most recent data from Germany's industry statistics. It also aims at explaining these findings and discussing the structural effects of the new environment.

Keywords: energy policies, imperfect markets

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HOUSING SUBSIDIES IN SLOVENIA IN THE LIGHT OF AUSTERITY MEASURES

JEL classification: R29

Abstract

Housing subsidies in Slovenia have been introduced in 2000 with the amendments of the 1992 Housing Act. However, these were reserved exclusively for tenants in the non-profit sector. Due to their positive results, the Government also introduced the subsidies for tenants in market rentals. Apart from the subsidies for rentals, there were several other subsidies offered, especially for purchases of dwellings by young families resolving their housing issues for the first time and for other categories of citizens. However, the present economic crisis has put a major pressure onto the budgetary means of the Government. Therefore, some austerity measures were introduced in the last few years, which took its toll on the subsidies as well. The purpose of the paper is to present the positive effects of subsidizing households' housing expenses, especially those renting under the market conditions. The number of applications by young families for both purchases and rentals (over 26,000 in six years) indicates that the need for this type of assistance is huge. At the same time, the paper will strive to indicate the possible side effects of the austerity measures in the resent housing situation in Slovenia. According to the analysis of the National Housing Fund, this step tends to deprive over 10,000 young households in the years to come.

***Keywords:* subsidies, non-profit, housing**

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**MONETARY POLICY REGIMES, DISINFLATION
AND GROWTH IN CENTRAL EUROPE**

JEL classification: E42

Abstract

At the end of the 80's Central European Countries started to abandon their administratively fixed exchange rates and gradually adopted new monetary regimes with more or less emphasis on the exchange rate, inflation and growth targets. This study analyses the economic background of the choice of monetary regime in these countries and their success in curbing inflation. The main question the paper addresses is whether any of these monetary strategies can be regarded as more beatific in the pursuit for achieving a close to Eurozone level inflation. The paper also points out that the antiinflationary policy can only be efficient in the long run if it does not endanger the keeping up of the Eurozone average growth rate in these converging economies. A panel examination delivered by the study of 15 Central and Southern European Countries – similarly to De Grauwe and Schnabl, 2008 – provides evidence of inflation targeting as being an effective policy to reduce inflation, however, reveals biased results concerning economic performance.

Keywords: monetary policy, economic convergence, inflation

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MAIN ECONOMIC, POLITICAL AND SOCIAL CONSEQUENCES OF THE EUROPEAN CRISIS IN PERIPHERAL COUNTRIES

JEL classification: H69

Abstract

The European crisis has triggered a series of economic and political consequences in the European Union, particularly for the euro zone member states and this has generated a public discussion about the pertinence of a single currency. This paper presents some of the social, political and economic consequences. One of the main consequences of the crisis in peripheral countries is higher unemployment. The political reconfiguration at the national-level in some European countries is presented. The pressures on labour markets are high and there is a reconfiguration in the immigration and emigration in Europe.

Keywords: *crisis, European Union, migration*

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GERMANY'S SUSTAINABILITY STRATEGY IN THE CONTEXT OF THE UN GREEN ECONOMY APPROACH

JEL classification: Q01, O13

Abstract

The United Nations declared at the Rio+20 Conference in 2012 that a “green economy in the context of sustainable development” is a chance for poverty eradication and economic development in the institutional framework of sustainable development (United Nations, 2012).

The German Government supports the UN approach for a green economy (BMBF and BMU, 2012) and declared that on the basis of a comprehensive understanding of the connection between the economy, finance and politics, and recognizing ecological boundaries and limits, environment-friendly qualitative and therefore sustainable growth should be achieved (BMBF and BMU, 2012). A green economy is now regarded as a solution for present and future social problems, and alluding to Dennis Meadows (Meadows, 2008), we can define it accordingly: A green economy is not the place you are going to. It is how you make the journey to sustainable development.

We are now looking for a measuring framework for this journey. The question of the measurability of sustainability is the key to the

implementation of sustainable development because as Hamilton and Atkinson clearly put it: “If current systems of economic indicators do not clearly signal that the economy is on an unsustainable path, the policy errors will be made and perpetuated (Hamilton and Atkinson, 2006).”

The Sustainability Gap Index (SGI), developed by the authors, calculates the degree to which sustainability is achieved in Germany. The index shows whether Germany is on a sustainable path according to the goals set by the German Government in its sustainability strategy (German Federal Government, 2012a, German Federal Government, 2012b). The index enables us to compare the normatively (politically) defined sustainability order of the German Government (goals) with the actual “behaviour” of German society and with the interpretation of science and policy.

The index enables us to answer the question of whether Germany is “better off” in sustainable categories of the green economy. The calculations of the sustainable indicators help us to understand where political action is needed in the transition process of the green economy towards sustainable development of German society

Keywords: green economy, sustainable development, sustainability gap index

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FDI AND ECONOMIC GROWTH IN CROATIA ACCORDING TO ECONOMIC THEORY

JEL classification: F21, F43

Abstract

The aim of this paper is to analyse influence of foreign direct investments (FDI) on economic growth of Croatia in period between 1995. and 2011. According to economic theory FDI have positive influence on economic growth of the country receiver of investments. The question that this paper is trying to answer is: Is economic theory in case of Croatia confirmed or are the circulations of chosen macroeconomic indicators of economic growth contrary to the expectations. In the paper is analysed the influence of the FDI on employment, GDP, export and investments.

The first part of paper describes economic theory and expected consequences of the FDI; the second part of the paper describes movement of the FDI in Croatia, with overview on the structure and short comparison with the transition countries. The third part of the paper is the analysis of FDI relating to each of above mentioned economic indicators of economic growth.

The analysis shows that foreign direct investments do not influence on chosen indicators or that FDI do not influence significantly. Based on the given results that are opposite to economic theory the conclusion is that

problem is mainly in the structure of FDI with special emphasis on small part of greenfield investments.

Keywords: FDI, economic growth

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DYNAMICS OF EUROPEAN TAX STRUCTURES

JEL classification: H11, H2, H24, H25

Abstract

The paper is focusing on the European Union countries tax structure changes during the last decade.

Deep economic recession in the 2009-2010 and critical sovereign debt levels have forced the European Union countries rethink their tax systems effectiveness to restore growth. One of the aspects of taxation system improvements is related with modifications in of tax structure. There is argued, that the tax structure has an important impact on growth. Taxes supposed not only to facilitate smooth cross border trade activities, but also should generate proper public revenue and not to harm economic growth. Therefore, the Commission invites to increase quality of taxation through more growth-friendly tax structure. The main purpose is to shifting tax burden from “labour to consumption”.

The paper maps structural changes in taxation across the EU countries groups. Actually the most of structural changes takes place in the New Member States; at the same time the old EU countries tax structure has remained mostly unchanged. The new EU member states have decreased income taxation burden and increased taxes on consumption.

Keywords: *taxation, tax structure, European Union*

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BANKING CRISIS: CAUSES, CHARACTERISTICS AND SOLUTIONS

JEL classification: G01

Abstract

The banking crisis revealed severe shortcomings in the area of monetary policy, deregulation, financial innovation, and government policies. Given the negative impact it has had on the global economy, it requires an analysis of the factors that contributed to its onset, its particularities and the solutions implemented. The aim of the paper is to draw a clear picture of the phenomenon and to identify possible solutions. By analyzing the causes and evolution of the recent banking crisis, the authors suggest strategies aimed at avoiding similar future banking crises.

Keywords: moral hazard, deregulation, financial innovation

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PUBLIC DEBT CRISIS: ROOTS, EVOLUTION & CONSEQUENCES

JEL classification: G01

Abstract

Public debt was considered a reason of concern for many states. The problem became acute in the early '80s, when external debts ceased to be paid. Between 2001 and 2011, several developed countries were directly involved in external loans, because these investments could cover the bill for oil imports. The sovereign debt crisis is present not only in the European States, but in most countries experiencing high levels of indebtedness. Based on statistical data, the present paper highlights the roots, evolution and consequences of the public debt crisis in the EU, USA and Japan.

Keywords: public debt, GDP, budget deficit

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THE EUROPEAN DEBT CRISIS: CAUSES AND CONSEQUENCES

JEL classification: E6, F3, G01

Abstract

A common explanation for the European debt crisis has been that the introduction of the euro in 2001 caused interest rates to fall in those countries where expectations of high inflation previously kept interest rates high.

Bond buyers assumed that a bond issued by any government in the European Monetary Union was equally safe. As a result, the interest rates on Greek, Italian, etc. government bonds were not significantly different from the interest rate on the German government bonds. Governments responded to the low interest rates by increasing their borrowing.

However, data do not endorse this explanation, as is shown in the paper.

An alternative explanation has been that the European debt crisis was just a consequence of the American subprime one.

Again, data do not entirely support this hypothesis although the connection between both crises is explored in the paper.

A third argument states that the introduction of the euro, and its effects on external competitiveness, triggered mounting disequilibria and debt accumulation in the noncore countries or periphery. This argument seems to be valid to a certain extent just in the cases of Greece and Portugal, but not for the rest of the countries involved in the crisis where other factors seem to have played a major role.

A distinction is made between a first group of countries whose debt problems have roots before 2007 but did not worsen significantly after that year and a second one of "new" highly indebted countries. Finally, Spain appears as a special case.

The development of the indebtedness process in these three different types of countries allows isolating the factors which were determinant in each case.

The conclusion is that the European indebtedness process does not accept a unique explanation and its solution will necessarily require resource transfers from the richer to the poorer countries of the euro-zone.

Keywords: sovereign-debt crisis, euro-zone, budget deficit

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IMPACT OF INSTITUTIONAL INVESTORS ON FINANCIAL MARKET STABILITY: LESSONS FROM FINANCIAL CRISIS

JEL classification: G12, G22, G23, G24, G28

Abstract

Institutional investors are seen as key investors on the financial market, crucial market makers, supporting market liquidity and activity, as well as important pillars of pension systems and for maintaining financial stability. Institutional investors, mostly pension funds and insurance companies, were considered to have a positive effect on financial stability because of their long-term investment strategy and funding. The recent financial crisis and its impact on financial market stability revealed serious systemic risk and interconnections between movements on financial markets and institutional investors' investment behavior. Their investment policy, outflows and fire sales on the financial market had a great impact on market stability and deepening of the financial crisis. The purpose of this paper is to analyse the impact of institutional investors on financial market stability in the aftermath of financial crisis. The research will point out lessons learned from the financial crisis and point at key

initiatives and necessary improvements in the field of institutional investors.

Keywords: *institutional investors, financial market stability, financial crisis*

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FINANCIAL MARKET AND THE POSSIBILITY OF ENTERPRISE FINANCING IN AN UNDERDEVELOPED MARKET AN EXAMPLE FROM ECONOMIC PRACTICE

JEL classification: M19

Abstract

For a company's success in doing business (success in the market), the management capability is the most important factor, as well as other internal values and a series of environmental conditions, whether domestic (national) or foreign (international). Enterprises from developed countries with established social and economic systems, have surpassing advantages compared to the enterprises from underdeveloped countries where there is no modern system of market economy. In comparison to the situation in developed countries. Bosnia and Herzegovina is one of the countries at a very low stage of development, where there are only few or no laws, or if there are, they are not well implemented (they are not valid or functioning). It is the same with other rules and norms as well as with the state (and situation) of financial market functioning. However, apart from these and a number of other limitations, there is a chance for success, for financing and development, for ensuring business funds and investing in progress, which has been shown and proved by a specific practical example, by investing in enterprises SM and PE.

Keywords: *financial market, long-term sources of finance, equity and debt securities*

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IMPACT OF BAD LOANS ON THE CAPITAL ADEQUACY OF BANKS IN CROATIA

JEL classification: G01, G21

Abstract

Despite of the economic and financial crisis, which was caused by the banking crisis, the condition of banks in Croatia is very good. According to the indicators, the banking system in Croatia is among the most stable in Europe. If the indicators of stability and liquidity of the Croatian banks are very good, the question is why there are economic problems of the real sector in such system. Analysis of bank balance sheet, the quality of their assets and claims, leads to other findings that speak of the apparent stability of the financial system. The problem is that the part of the assets of Croatian banks is contaminated and refers to the bad loans. Bank stability that results from the capital adequacy ratio is statistically very good, but high capital adequacy ratio of Croatian banks actually has no real cover. The research results confirm that high capital adequacy ratio is unrealistic and that refers to inadequate valorization of assets of the commercial banks.

Keywords: capital adequacy, bank loans, financial stability

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**MONETARY POLICY EFFECTIVENESS IN THE
PERIOD OF ECONOMIC CRISIS**

JEL classification: E52, E58

Abstract

Since 2007, many monetary authorities have drastically changed its monetary policy. They began an aggressive struggle with the biggest economic crisis since the Great Depression. Despite the substantial decline in Central banks interest rates in US and EMU and despite the sharp easing of monetary policy in many other countries, the cost of credit to both households and businesses has generally risen in almost every country. All this leads to the question of whether monetary policy becomes less effective in periods of recession or not. The goal of this paper is to empirically examine the hypothesis of reduced effectiveness of monetary policy in period of economic crisis. The paper starts with assertions: (i) the money supply, in the narrow sense (M_1) is determined by the monetary base (M_0) and money multiplier (m), and (ii) monetary authority have full control on monetary base, while the money multiplier are only partially determined by monetary authority. It is also determined by the actions of non-banking public and the banks, and because of that monetary policy effectiveness could decrease in the period of economic crisis. Based on a sample of six countries this paper examines the strength of the relationship between monetary aggregates during recessions and in period out of recessions, and according the obtained results appropriate conclusions and explanations are offered.

Keywords: *economic crisis, monetary policy effectiveness, monetary aggregates*

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INVESTMENT PLANNING AS A CONTRIBUTOR TO RISK MANAGEMENT

JEL classification: E22, E27, F37, G32

Abstract

In order for Risk Management to meet the requirements it has been given, it is joined by Controlling that has become its fundamental service tool. Controlling has developed numerous tools that are being updated and improved on an everyday basis, together with the education of controllers.

Development is inevitable and it is the only response to the crisis of our global environment. Development requires investments, and not the „stranded“ ones, but the ones generating new jobs and added value, thus increasing wealth. Investments should be planned, and planning is a particular problem that transition economies face. Should one be investing in the times of crisis and how should one decide on whether to make an investment or not? If this is so, then how should he protect his investment from negative impacts? How should one make plans and carry out the planned investments? Those are the questions that require answers and this paper is an attempt in providing appropriate answers to those questions by explaining the connection between investment planning and risk management.

The condition of crisis has become a regular occurrence, where businessmen are forced to make do and to work in order to survive, and some of them are impelled to make the most of it and utilize it as a development opportunity. Being fast not only in making decisions, but in making successful decisions, is based on future projections and utilization of the said ability in achieving competitive advantage on the market. Risk

Management has become a necessity, and is legally regulated in developed countries.

Keywords: *investment decision-making, investment planning, development, risk management, controlling*

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EXCHANGE RATE AND PUBLIC DEBT IN CENTRAL EUROPE

JEL classification: F31

Abstract

In the present paper – following a preceding investigation in 2012 – I investigate the way the most important macroeconomic and economic policy factors have influenced the equilibrium exchange rate of the Central and South Eastern European currencies in the last decade. I am endeavouring to compare the price fluctuations of foreign exchange markets in the Eurozone and 15 emerging economies. I take advantage of the concept and methodology of fundamental and behavioural exchange rates theory. I examine in a panel regression framework how productivity, interest rate differentials and monetary variables affect nominal and real exchange rates and then compare the result with individual countries' analysis based on the methodological guidance offered by ECB (2004). Empirical tests suggest that higher than average public debt largely influences the market value judgement of currencies and explain long run tendencies. I also point out that emerging markets' data raise a lot of methodological problems.

Keywords: nominal and real exchange rates, public debt

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MIGHT FINANCIAL SOURCES BE A PROBLEM IN THE FINANCING OF PUBLIC INVESTMENT? THE THEORETICAL AND EMPIRICAL STUDY¹

JEL classification: G19

Abstract

Municipal investments and related expenditures are an important field of activity at the subnational government tier. There are many ways of financing public investment tasks using different financial structures. However, the key role involves financial risk and other factors which determine access to financial sources (inter alia types of investment, debt limit, purpose of financing, collateral, risk, efficiency). The purpose of this article is to point out the main obstacles and challenges in the financing of municipal investment. In the research process revenues, transfers, and debt instruments have been considered. The author has also paid attention to a hybrid form of financing which integrates different kinds of instruments. As a result, the paper presents the crucial problems in investment financing which influence the investment dynamic and financial decisions made by self-government entities. The general findings are regarding: debt limits and debt policy, a revenue system which is not sound, poor experience in using structural and hybrid financing, problems with cash flow and the maturity of financial instruments, financial standing and public procurement law.

Keywords: *self-government, investment, financing*

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INNOVATION

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THE EVOLUTION OF OWNERSHIP, INNOVATION AND FIRM PERFORMANCE: EMPIRICAL EVIDENCE FROM MACEDONIA

JEL classification: G32, O31, J24

Abstract

The aim of this paper is to investigate the relationship between ownership evolution, innovation activities and firm's performance using firm-level data on 60 privatized enterprises in Macedonia for the period 2001-2010. To examine the nature of this relationship we will develop a model relating the determinants of ownership and performance and apply it to the original dataset collected by the author. Specifically, the investigation will respond to several questions such as the impact of ownership structure and innovation activities undertaken by firms, competition from other firms, sector, location, age, size and other firm characteristics on the firm performance. The main contribution of this empirical work is reflected in the application of new and advanced econometric techniques such as two-step GMM kernel and enhanced CUE (GMM) estimations to the analysis of changes in performance resulting from the change in ownership in Macedonia. By investigating this relationship we provide sufficient evidence to support the view of significant ownership-performance relationship of privatized firms in Macedonia.

Keywords: *ownership evolution, innovation activities, productivity*

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INTERACTIVE IMPACT OF INNOVATION AND EDUCATION ON BUSINESS PERFORMANCE DURING THE ECONOMIC DOWNTURN

JEL classification: O310, I250

Abstract

In times of quick changes and great business and economic uncertainty, innovativeness becomes a strategic priority of any business organization. The same opinion applies to the improvement of employees' knowledge and skills through regular education activities. Such a strategic orientation is especially hailed during and after recession by both managers and academia. The purpose of this research is to investigate whether the companies from the F B&H that had pursued such a strategy have achieved a better business performance. For that purpose, beside the archival data from the Federal financial office, data were also collected from a questionnaire which was sent to 270 companies in the F B&H, yielding 120 valid responses. For the purpose of data analysis, a multivariate analysis of variance (MANOVA) was employed. The research results show that only simultaneous investment in innovation and education has a significant effect on business performance, which is the most important research finding.

Keywords: innovation, education, business performance

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FOSTERING INNOVATION THROUGH CREATIVITY STIMULATION METHODS IN CROATIA

JEL classification: O31

Abstract

The essential prerequisite for an innovation to occur is creativity. Novel ideas, novel solutions of problems are the initial stage of innovation process, but they are also indispensable throughout the innovation process. Innovating firms thus must strive to foster creativity. Literature provides evidence that, apart from personal characteristic of individuals, other factors play important role in unleashing creativity inside firms. Those include, among others, creativity trainings and reward systems designed to encourage creativity of employees. The key question addressed in the paper is whether creativity fostering methods increase innovation output in Croatian firms. By utilizing the Community Innovation Survey 2010 data and propensity score matching methods, we estimate the average treatment effect of the treated (i.e. firms that employ creativity stimulation methods). Within this framework, our measured outcome is the innovation activity of the firm and the treatment is the creativity stimulation method used by the firm.

Keywords: *innovation, creativity, Croatia*

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INNOVATION AND ESTONIAN TAXATION SYSTEM

JEL classification: E62, H20

Abstract

The economic crisis of 2008-2010, which has hit the world, especially the Baltic States with their ultraliberal economy, has forced Estonia to look for solutions to overcome the depression. A low level of taxation, the policy of “thin state policy” and small public sector have influenced the macroeconomics of Estonia since its re-independence. The indirect taxes, especially consumption taxes, are dominating in Estonian taxation system.

The increase in the tax burden of a little more than 2% in 2009, through the increase VAT and excises, and through the pruning of income taxation benefits, did not enlarge the state budget in the same amount. The pruning of the budget not only rapidly decreased the internal market of the state, but also decreased incomes in future periods due to the dominance of consumption taxes. The economic depression, which began in 2008 has demonstrated a weak orientation of Estonian economy, threaten its taxation system on innovation. The author considers the reason of it to be in a big percentage of consumption taxes in Estonian state budget. The amount of investments has essentially decreased than the decrease of GDP and state budget.

Keywords: *taxation, tax burden, economic crisis, innovation*

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TOWARDS A MANAGERIAL ATTITUDE CHANGE IN FOREST MANAGEMENT COMPANIES: INNOVATIVE AND TECHNOLOGICAL APPROACH

JEL classification: O31, O32

Abstract

The purpose of this paper is to present and analyze current level of management, innovation and technological practices of FBiH's forest management companies (FMC) and suggest new innovative technologies and management concepts. Qualitative methods are used to present and analyze data. Research was performed in two stages: first step was literature, government reports and FMCs sustainability reports review. The second step was an analysis of data from reviewing surveys, reports and data driven from direct communication with the company's management. Five leading FMCs in wood industry of BiH are selected. The paper is the first attempt to examine the development of management, innovation and technological practices in order to fully develop their potential in the future.

Keywords: forest management companies, management design attitude, resource tracking system

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THE IMPACT OF SOCIAL RESPONSIBILITY ON COMPANY PERFORMANCE IN THE HOSPITALITY INDUSTRY

JEL classification: M14, L83

Abstract

The hotel management affects the general standard of employees, the level of utility load, the system of ecological burden and businesses in their environment (suppliers, guests, unions, banks, sports and cultural institutions). As hotel companies are capital and labor intensive, the traditional management approach to reducing operating costs is mainly realized through the reduction of salaries. Such an approach of maximizing the financial effects of stockholders provokes discontent of workers (unions), local government and business partners, and consequently reduces the overall quality of hotel services. However, when as a result of such business endeavors occur management decisions that are in the "gray" zone of ethical and moral responsibility, the measures often taken by workers, trade unions and / or related institutions are aimed at promoting and improving the ethical climate and the social responsibility of the hotel companies. The paper follows the idea that competitive advantages on the market result from the positive differentiation from the competition, and that one of the ways involves a socially responsible approach to business. The authors of the paper

believe that these immoral actions can be solved through supportive measures and models of "whistle-blowers" that expose the illegal and / or unethical business actions and decisions. In this sense, the paper intends to explore and demonstrate the mentioned measures as a possible solution for reducing adverse effects and thus improving company performance in the hospitality industry. The research model will be based on hotel companies operating in tourist destinations across the Mediterranean, using benchmarking approach to hotel companies in other and comparable tourist destinations. Research results will be transparent and applicable in practice. In order to reach the goal of the paper, quantitative and qualitative methods will be used in primary and secondary data processing.

Keywords: *social responsibility, company performance, whistle-blowing*

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MOTIVATION AND MANAGEMENT'S EFFECTIVENESS – HOW TO INCREASE EFFECTIVENESS THROUGH DEVELOPING MANAGERS' AND EMPLOYEES' MOTIVATION IN BOSNIA AND HERZEGOVINA

JEL classification: M10, M54

Abstract

Today's turbulent environment demands from the companies to constantly seek for possibilities how to improve their position and competitiveness. Organizational effectiveness is under influence of many different factors and one of them is management. In this research motivation is treated as a process that pervades and directs activities toward satisfying individual and corporate goals. The inevitable question that emerges is: Is there a correlation between motivation and management's effectiveness?

This research tried to isolate different material and non-material forms of motivation that can influence and increase management's effectiveness. In this paper management's effectiveness is measured through stakeholder approach and this is a big difference from all other researches that measured it based on company's financial results only.

The research is conducted on 72 companies from Bosnia and Herzegovina. Questionnaire is created with the purpose of determining the association, direction and intensity of the correlation between motivation and management's effectiveness. Data processing includes descriptive analysis for determining basic indicators and methods of multivariate statistics for determining the degree and the intensity of correlation between employees' and managers' motivation and management's effectiveness.

Keywords: motivation, effectiveness, management

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IMPLEMENTATION OF PROPERTY MANAGEMENT SYSTEM IN HOTEL INDUSTRY

JEL classification: L83

Abstract

Information and Communication Technologies (ICT) influences the development tourism on globally, and its development has changed the practice of business. Any reference ICT in the hotel industry necessarily begins the concept of Property Management System (PMS). PMS as an essential component for hotel management provides tools as are necessary hotel staffs in performing daily operations of the reservation, the accommodation capacities management, accounting, etc. This software supports all basic activities involved with process operation accommodation facilities and interconnects systems within it. Hospitality enterprises that are constantly working on innovations in the implementation of hardware, software, and networks can be competitive in the market, which maintain the long term prosperity of the business. This paper is conceptually defined PMS and its application in the context of the impact on the hotel management. The methodology is based on secondary research examining the key dimensions of the PMS systems and their functionality. The aim of this paper is to explore the intensity of the impact on the prosperity implementation of PMS hotel management. The findings show that, despite the availability of a range of PMS software and functionalities, the European touristic market continues to be led by a handful of providers. The unique contribution of this paper is in secondary research, the issues associated with the critical, core technology for the hotel industry, i.e. PMS.

Keywords: *ICT, property management system, hotel industry*

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THE IMPLEMENTATION OF MARKETING STRATEGIES IN TRAVEL AGENCIES' BUSINESS IN THE REPUBLIC OF CROATIA

JEL classification: M19, L83

Abstract

The purpose of this paper refers to research the level of implementation of strategies in the Croatian travel agencies, which also represents a new direction for their development. The possibility to implement strategies referring to intermediaries depends on their area of application, the intensification of certain functions and fields of business and/or transformation of existing ones. Using the methods of explanation and description, based on the analysis of key assumptions so as to select specific strategy, resulting from the elaboration of scientific viewpoints of theoreticians engaged in this field, the first part of the paper defines strategies and related terms. In the second part of the paper the primary research was carried out with the survey method on a sample of travel agencies in the Republic of Croatia, to test the level of strategies implementation. The results of empirical research point to the greater or lesser presence of specific strategies in travel agencies' business whose implementation must comply with business terms according to the policy, i.e. unit's organizational culture, structure – scope, functions, and resource's specific features. The findings point to the dominance of the

implementation of marketing strategies in segment that defines the strategy of quality improvements and innovations of tourist products.

Keywords: travel agency, strategy of improving quality, the strategy of the „mass“marketing, strategy of innovation, innovative tools

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RECOMMENDED CONTENTS OF BUSINESS PLANS AND FEASIBILITY STUDIES AT HOME AND ABROAD

JEL classification: O22, E27

Abstract

The aim of this paper is to analyze the recommended content of business plans and feasibility studies at home and abroad, to describe the differences and provide guidance and recommendations on how to improve the recommended contents. According to the recommended content (CBRD), there haven't been introduced analyses such as SWOT analysis, PEST analysis and VMOST analysis in Croatia. All major banking institutions that operate in the Croatian financial market accept CBRD's model. Whether the recommended content is good, what are the differences in terms of countries of the world, and how to make a good and quality business plan or feasibility study are the questions that this paper will try to answer.

The first part describes various recommended contents of business plans and feasibility studies at home and abroad and the second part describes the thanklessness of financial indicators projections nowadays. The third part of the paper analyzes why it is necessary to make analyses like SWOT, PESTLE and VMOST, along financial analysis, what they consist of, and how to do them well and efficiently. Also, the paper examines how they complement the financial tables and provide a better and wider picture of the entrepreneur, company or project.

In conclusion, the paper will show that the recommended content has to be modified and supplement these earlier analyses, and thus try to restore the confidence of potential investors.

Keywords: business plans, feasibility studies, analysis

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ORGANIZATIONAL ASSUMPTIONS FOR DEVELOPMENT OF INTRAPRENEURSHIP IN COMPANIES ACROSS BOSNIA AND HERZEGOVINA

JEL classification: L26, M19

Abstract

Intrapreneurship holders are entrepreneurial employees who develop entrepreneurial activities within the existing enterprises, which in turn produce improved business performances. However, in order for entrepreneurial employees to act and release their creative energy, it is necessary to provide the specific organizational requirements. Specifically, the rigid traditional organizational structures and bureaucratic approach to job design, which is often inherent in large enterprises, are not suitable infrastructures for developing entrepreneurial climate in the organization. Consequently, the identification and analysis of the dominant type of organizational structure as well as the degree of centralization and formalization and the degree of specialization and application of teamwork in Bosnian companies, in light of ensuring organizational assumptions for the development of intrapreneurship in these companies, are only some of the goals of this paper. This analysis will be based on the results of the empirical research conducted back in 2011, which covered a hundred of Bosnian companies, and also on the results of the GEM research back in 2011. This paper will include both the presentation and debate on the basic obstacles to the development of stronger Bosnian intrapreneurship in companies, but also recommendations regarding the content of the organizational changes that should be undertaken for this purpose.

Keywords: *intrapreneurship, organizational structure, job design, organizational change*

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THE SIGNIFICANCE OF ORGANIZATIONAL CULTURE AND LEADERSHIP IDENTITY IN MATRIX ORGANIZATIONAL: A CASE STUDY

JEL classification: M19

Abstract

This study explored the connection of organizational culture and leadership identity to the functionality of the matrix organization at the shift from divisional structure to matrix structure and later to its dismantling. This is a case study of an enterprise operating in numerous fields during the period 1988-2010 and it adopts a longitudinal approach. Key individuals' experiences of the matrix organization were elicited using both quantitative and qualitative methods, including theme interviews, standardized questionnaires, semantic differentials and illustrative presentations. The study therefore represents the so-called mixed methods approach. The theoretical framework of the study was structural contingency theory, according to which the operating environment of the organization imposes on the organizational structures both external and internal compatibility demands. In the study at hand contingency theory was extended in the direction of internal compatibility factors by analysing the conceptions of leadership, in other words, leadership identity internalized by representatives of the target organization. The study moreover ascertained how factors pertaining to organizational structure and organizational culture should correspond to each other. The structural changes implemented at the time of the research afforded an opportunity to empirically study the relationship pertaining between these factors. It emerged from the findings of the study that a hierarchical divisional structure suits better than a matrix organization for geographically decentralized activity in numerous fields in a stable environment. This corresponds to the claims regarding structural contingency theory. Culturally the so-called role-power culture prevailing in the target organization would appear to fit badly with the

matrix organization, but better with the divisional organization. It was furthermore established that the role-power culture gives rise to a rigid leadership identity requiring unity of executive power, which is not supportive of the activities of a matrix organization. In the matrix power is shared in a novel way, and adapting to this is challenging and difficult for leaders socialized to the role-power culture, and especially for older leaders. According to the work at hand, the shift from a divisional organization to a matrix organization entails that a new kind of leadership identity be evolved. In enterprises operating in numerous fields, the matrix organization would appear to easily give rise to us-them interfaces which exacerbate the experiences of injustice of business units possibly differing widely from each other when the units are compelled to more or less acquiesce to the matrix functions in keeping with the main business mode of operation dominating in the matrix. In other words; it may be difficult for matrix functions to satisfy the various needs and demands of very different business activities in an enterprise operating in numerous fields. The contributions of the study are presented in the form of a series of propositions (statements) and models which can be utilized in the planning of organizational changes. These can also be used to enhance the chances of success in necessary organizational changes by assessing in advance the demands imposed by internal and external compatibility factors. When the operating environment of the organization calls for structural change the personnel should also possess the capability for change. If such is not the case, these capabilities must be cultivated or the key personnel must be replaced. If there is no genuine need for organizational change it would be as well to abandon the notion of organizational change and its implementation.

Keywords: *operating environment of the organization, structure and structural change, matrix, organization, organizational culture, leadership identity, identity work and compatibility*

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STRATEGIC MANAGEMENT AND ITS IMPLEMENTATION IN THE PRACTICE OF ENTERPRISES IN BOSNIA AND HERZEGOVINA

JEL classification: M19

Abstract

Management tasks are focused both on good current business results (operations management task) and good operating results in the future, (strategic management task). Survival, growth and development at the market imply competitiveness. Enterprises can be competitive in designing, adopting and implementing appropriate strategies based on good and a reasonable mission and well-planned strategic vision that will enable the achievement of planned and desirable business objectives, financial (for liquid – operations management) and strategic, for successful business in the future. Economy in Bosnia and Herzegovina is relatively undeveloped, economic system is not equal to the economies of developed countries because private enterprises and entrepreneurship do not have a dominant role. The aim of this paper is to describe strategic management theories and their implementation in the practice of enterprises in Bosnia and Herzegovina. According to the results of empirical research, top management is focused exclusively to the achievement of good results, current operations, and almost do not think about the future (they are focused on the strategy of survival). Top and middle level managers have a low level of education; they cannot understand the meaning of strategic intention: vision, mission, goals, strategies and strategic planning. Management in non-privatized enterprises take formal rather than real responsibility for the overall

business success, and the authorities do almost nothing to continue the privatization process.

Keywords: strategic management, strategic intention, enterprises in Bosnia and Herzegovina

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COMMUNICATING TOURISM EVENTS

JEL classification: L830

Abstract

Preferences of contemporary tourists are oriented towards an integrated tourist product which will not only meet, but also exceed their expectations. The tourist offer anticipated these demands by offering tourism events whose basic purpose is to create a unique experience. The basic problem in the realization of an event is communication of the event to targeted demand. The objective of the paper is finding a potential model of successful communication of tourism events in tourist destinations. The subject of analysis in the paper are the most important elements which are framework of strategic decision-making in the forming of tourist offer, as well as benchmarking analysis of tourist destinations of Opatija and Tarragona. Proposal of optimal and effective communication channels on the tourism market is based on the conducted analyses. Scientific methods of analysis and synthesis, historical, statistical methods, methods of comparison and methods of induction and deduction are used in the paper.

Keywords: *tourism of events, communication, destination product*

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IMPROVING CONSUMER PROTECTION ON BANK MARKET

JEL classification: G21, G28

Abstract

Consumer protection within a broader area of social responsibility and ethics in banking has recently been attracting increased interest of researchers and professionals. The global financial crisis, which started in 2007, has put consumer protection under great scrutiny by initiating changes in behavioural patterns both of banks and consumers. Besides being an ethical question, consumer protection is also an important social and political question, usually appearing together with excessive problems, significant for financial stability as well.

The aim of this paper is to investigate problems in bank consumer protection in Croatia both from regulatory and from practical aspect, and planned solutions for detected problems, as well as to analyse examples found in developed countries. Qualitative methodology is applied in the research, based on in-depth interviews with subject matter experts. By studying practical solutions for consumer protection on a global level, particularly focusing on the USA and Western European countries, the paper proposes the best practice of consumer protection applicable in Croatia.

Keywords: *consumer protection, financial services, social responsibility*

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THE APPLICATION OF ONLINE FOCUS GROUPS IN MARKET RESEARCH

JEL classification: M39

Abstract

Focus groups, as important exploratory and qualitative methods of research, have become ever more present in theory and practice. The object of this research is to explore the applicability of online focus groups and to find out whether the traditional approach could possibly be exchanged with the new one. Also, the object is to summarize new reachable surveys and to compare theory with practice. The data was collected from in-depth interviews and secondary sources. The main questions are: Is the online focus group an effective method of collecting qualitative data, and is it always the best solution? Moreover, will it replace the traditional focus group? The new approach, however, can be cheaper and easily combined with other methods. For example, interviewees can be reached more easily. Both the traditional and the new approach have, of course, advantages and disadvantages. A researcher has to be well informed about them, so he could decide which approach is appropriate for which survey. Finally, one of the objectives of the research is to check whether the Croatian market is developed enough for a concrete implementation of online focus groups.

Keywords: *focus group, online focus group, exploratory research*

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CONSUMER PROTECTION IN THE REPUBLIC OF CROATIA AND IN THE EUROPEAN UNION

JEL classification: M39

Abstract

The rise of the movement for the protection of consumers throughout history was led by several principal researchers, who have greatly influenced the development of the consumer protection on the territories of the Republic of Croatia and the European Union. Having signed the Stabilisation and Association Agreement, Croatia has committed to harmonize its consumer protection policies with the ones that are most effective in European Union. This paper presents the legal frame of the consumer protection in Croatia, with special attention given to the obligations of retail entrepreneurs. The awareness of Croatian consumers regarding their rights, but also obligations, towards merchants is described, and special emphasis is given on the state of commerce and consumer protection on the Croatian market. The elaboration of the current condition of trade and consumer protection in Croatia is complemented with the example of bad practice in the field of consumer protection in Croatia.

Keywords: consumer protection law, traders' commitments, consumer protection in croatia and european union

TOURISM

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NETOUR: A EUROPEAN NETWORK FOR EXCELLENCE IN TOURISM THROUGH ORGANIZATIONS AND UNIVERSITIES IN RUSSIA

JEL classification: L83, I2, Q01

Abstract

Russia is one of the fastest growing tourism markets (+8% growth in 2011) with many resources that are yet untapped. This paper presents NETOUR, a project of European and Russian universities that aims at boosting Russia's competitiveness as a tourism destination. The purpose of this project, funded by the European Commission through a TEMPUS grant, is to propose a model for cooperation between universities and the main stakeholders in the tourism sector, in order to favour its sustainable development. Following a situation analysis of tourism in Russia, both from a supply and demand side, the researchers conduct an analysis of the gaps that exist between what Russian universities propose in tourism management education and what tourism professionals expect from higher education training and the competences they need to succeed. The results lead to university curriculum revisions on the one hand, and continuing education proposals on the other hand. The pillars that support NETOUR are: (1) Knowledge transference between Universities and society: facilitating the adoption of innovations by tourism firms, as well as reinforcing students' employability; (2) Lifelong learning: identifying tourism professionals' knowledge, updating needs, and proposing specialized training according to their requests; (3) Open dialogue between the various stakeholders in the sector (i.e., policy

makers, entrepreneurs, local population, alumni, students, professors, professional associations, etc.); (4) Design of new tourism management curricula according to the real educational needs of the sector. This ambitious three-year project should yield benefits for all tourism sector stakeholders and lead to improving the competitiveness of Russia as a tourism destination.

Keywords: tourism, competitiveness, network, higher education

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TOURISM STATISTICS AND UNOBSERVED TOURISM: EMPIRICAL EVIDENCES IN SICILY

JEL classification: L83, C83

Abstract

Despite its strategic importance, accurately measuring visitor attendance has been a challenging and problematic exercise for tourism managers for decades. Consequently, the primary aim of tourism statistics of accurately quantify tourism flows has been only partially achieved; indeed at a lower territorial scale tourism statistics appear less precise and accurate. The aim of this paper is: to introduce the concept of unobserved tourism, by highlighting the main limits of official statistical systems (with a special focus on the European statistical system on tourism statistics; to formalize a theoretical model in which tourism nights and trips in a given destination are decomposed into observed and unobserved components, according to the current systems of tourism statistics. We define unobserved tourism, in terms of overnight stays, the sum of two components: the set of all the nights spent by tourists in unofficial establishments (unmeasured tourism), and the set of nights spent by tourists in official establishments, but deliberately concealed from public authorities, mainly for fiscal reasons (underground tourism). Some empirical evidences derived from surveys aimed at quantifying the magnitude of unobserved tourism in Sicily are described in order to illustrate the different approaches which can be adopted to explore the issue of unobserved tourism.

Keywords: *accommodation statistics, sampling tourists, tourism indicators*

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ANALYSING TOURIST MOBILITY: CURRENT ISSUES AND FUTURE CHALLENGES

JEL classification: L83, R12

Abstract

Tourism statistics are generally based on data collected only at one point of the travel, which, depending on the perspective of interest, can be the originating region or the destination one. Indeed, many tourism trips imply the visit to more than a single destination, since tourists move to visit several attractions to several destinations or within the same destination. The analysis of tourist mobility presents several issues which are related both to the collection of information on multidestination trip behavior and to the analysis of complex information such as the ones related with tourist itineraries. The present work aims at reviewing the main issues related with the analysis of tourist mobility among several destinations and within the same destination to several attractions. The problems related with the collection of information and with their synthesis are explored by reviewing the main works in academic literature which face with these issues. Moreover, the potential given by the use of tracking technologies to collect information on tourist mobility are described and the main methodological approaches for the analysis of such complex data are introduced. More in particular, some analytical tools for the analysis of multidestination trips and of travel itineraries are critically analyzed by providing examples of empirical applications on

these topics. The final aim is to provide a set of problems related with the analysis of tourist mobility and of the practical solutions in relation to several specific research aims are provided by highlighting merits and pitfalls of each approach.

Keywords: tourist mobility, tracking tourists, tourism statistics

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CULTURAL HERITAGE AND IDENTITY IN THE CONTEMPORARY TOURISM DEVELOPMENT

JEL classification: Z10

Abstract

Culture and heritage have been increasingly recognised as means of sustainable social and economic development and an important element of tourist motivation. However, the recent development of cultural tourism indicates the problem of massification, offering conventional products based on serial reproductions of culture. Due to factors such as globalisation and the importance of cultural diversity and identity creation in postmodern society, it is essential to place the recognizable and unique cultural heritage and identity of destination in the centre of contemporary touristic strategies. This article investigates creative tourism as a new strategy for cultural destinations. The theoretical part of the article explores multiple links between cultural heritage, identity and tourism and the emergence of creative tourism based on uniqueness, authenticity and sense of place. The analytical basis for the evaluation is a content analysis of cultural tourism projects listed on the Croatian Tourist Board website in order to select representative examples for further case study. The article concludes by proposing indicative guidelines for further development in this sector.

Keywords: *creative tourism, heritage, identity*

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THE ROLE OF TOUR OPERATORS IN THE SUSTAINABLE TOURISM DEVELOPMENT - THE CASE OF THE TOURIST DESTINATION KOTOR

JEL classification: L83

Abstract

Responsibility for ensuring sustainable tourism is largely in the hands of all stakeholders in tourist destination of which extremely important are Tour Operators. Cooperation between companies that provide services to the tourists and Tour Operators is significant, considering that Tour Operators are the central link in the distribution chain. Tour Operators as business partners, demand from hotel and other companies responsible environmental policy and creation of development plans, regardless of regulations, which oblige them to it. It improves the quality of products and leads to long-term conservation of natural resources and environmental protection. Tourism product that is not dangerous for the environment becomes a means of a differentiation in the touristic market and is expected from eco-conscious travel consumers. The aim of the paper is to show the role of Tour Operators as a one of most important destination stakeholders in the tourists destination sustainable supply chain. For the purpose of this paper we have used secondary data and primary research carried out by method of interview with managers in tourist destination Kotor. According to the results of primary and secondary research we have confirmed that Tour Operators Generalist as

well as Tour Operator Specialist play important role in the tourist destination sustainable development and that they have to implement new strategies in their business practice.

Keywords: sustainable development, tour operators, touristic destination

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CONSUMPTION OF CRUISE SHIP PASSENGERS IN TOURIST DESTINATIONS

JEL classification: L83

Abstract

A general opinion is that a highly valuable destination implies a higher degree of consumption of cruise ship passengers. Elite destinations are key places, according to which, lots of shipping cruise companies offer and plan their cruises. The elite destination means a city or a region that stands out from the rest, thanks to the unique natural or cultural values and it is the target of numerous travels and also a magnet attracting crowds of tourists from all over the world.

The purpose of the research is to demystify and explore a phenomenon of consumption of cruise ship tourists at the elite destinations in order to point out the necessary activities of entities that are responsible for management of cruise companies and tourist destination areas. The goal of the research is to determine the amount of tourists' spending in the cruise destinations, as well as, to define the factors influencing upon consumption. It was also set up the basic hypothesis that "An elite destination also means high amount of spending of cruise ship tourists." This basic hypothesis will be examined by using the methods of analysis and synthesis of the results and verification of the results of studies published previously. But first of all, there will be applied the methods of comparative analysis of two famous port cities, it means the City of Gdansk in Poland, and the City of Dubrovnik in Croatia.

Keywords: *cruising, tourist consumption*

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THE IMPORTANCE OF COGNITIVE DETERMINANTS IN TOURISM DESTINATION IMAGE FORMATION

JEL classification: L83

Abstract

The increasingly pronounced global ties, which affect social, economic, political, technological and cultural fields, have left a large imprint on the tourist market. There is growing competitiveness between tourist destinations, which try to find the best development strategy under the newly-arisen conditions. Under contemporary tourism development conditions, a destination must be observed as a basic functional unit that can respond to the demands of the modern tourism market by using its uniqueness and individuality for the creation of new, diversified products based on specific features of certain tourist destinations. The paper analyzes and researches the elements that have an influence on the formation of a destination's positive image, using the case of the Dubrovnik tourism destination. The objective and the purpose of the research is to determine the importance of forming a positive tourist destination image, which is a deciding factor in the creation of tourism policies. Empirical research was employed using a questionnaire survey on a sampling of 355 randomly-chosen tourists visiting the Dubrovnik tourism destination. The results obtained by this research indicate a lack of importance of cognitive determinants for an image destination formation.

Keywords: image, tourism destination, cognitive determinants

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THE IMPACTS OF PRIVATE ACCOMMODATION ATTRIBUTES ON TOURISM DEMAND

JEL classification: L83

Abstract

The private tourism accommodation concept has not been largely represented in the scientific research. It started appearing on the margins of the actual research in the past ten years, namely with a hotel as the most analyzed form of tourism accommodation.

In the structure of tourism accommodation in Croatia in 2011 private accommodation participated with 465 000 beds which represents 49, 8 percent of the total capacity and therefore demands more attention.

Using the main marketing postulate where the consumer is the key of each business success, the main goal of this paper is to determinate the attributes of private tourism accommodation which have the main role in selection of accommodation facilities in Dubrovnik as one of the leading tourism destination in Croatia. The main goal will be carried out through the primary research of tourism demand by using modified hedonic model which will represent accommodation capacity utilization rate in relation to selected private accommodation attributes. Ordinary Least Squares (OLS) regression or the related log-linear form have in prior hospitality or tourism applications mostly been used to estimate this type of model. In this paper log-linear specification for the capacity utilization rate function was used instead of the linear one.

This paper differs from other papers which used hedonic pricing model as it examines the impact of attributes of the actual accommodation units not on price but on capacity occupancy rate.

The explanatory variables of the private accommodation capacity utilization rate, among others, include location, characteristics such as

availability of free parking place, distance to the Old Town, sea view, terrace/garden.

The results of this research will provide instructions and directions to the management of private accommodation in tourism destination in order to increase private accommodation capacity utilization whereby private accommodation season will be extended. The positive effects of season extension will be two-sided: for destination management the number of arrivals will be increased as well as overnights and receipts and for the accommodation owners increasing of rental receipts will result in their higher satisfaction.

The main finding of the paper is that the prices in the private tourist accommodation are formed solely by owners' intuition whereas accommodation capacity utilization rate is the real reflection of the tourist demand preferences.

Keywords: private accommodation attributes, tourism demand

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PRICING POLICY AS AN INSTRUMENT OF CRUISE DESTINATION MANAGEMENT

JEL classification: L11, L83

Abstract

Destination management includes determination of development goals that are compatible with existing strategic planning documents, rules and limitations of sustainable development, defining mechanisms of action and management in accordance with the objectives and continuous adjusting of operational objectives to development strategy.

The assessment of competitive position and analysis of competitive advantages are important for understanding the current situation as well as possibilities of adjusting the individual factors of competitiveness to market demands. When defining and designing different mechanisms of demand management it is necessary to first identify the factors of competitiveness, as well as the legality and cause - effect relationship between these phenomena. Handling of the ship, passenger and crew members is an important part of port supply. In order to perform such complex and highly demanding work at the user's satisfaction, it is necessary to appropriately organize that process and clear normative regulation of responsibilities, relationships, standards and costs, in order to know at all times the tasks and activities of individual holders, which is the scope of their work, which standards / criteria need to be fulfilled and what is the cost of services.

Active participation of the organization / destination in relation to the market situation should be based on scientific - research activities as the basis in conducting business policy and development policy. Marketing is the business function that is future-oriented, using the results of research of all states and conditions at the market.

Pricing policy is an essential part of the integrated destination management, but is also directly conditioned by its existence and functioning.

Keywords: cruise destination management, port authority, pricing policy, management performance

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**EFFECTS OF CROATIAN TOURISM DURING
THE YEAR 2012**

JEL classification: L83

Abstract

While the world still operates in a large-scale economic crisis, people on the other hand operate in a somehow stable yet small economic rise. The main hypothesis: Economic rise is not only based on tourism achievements, but rather on dynamic production activity by application of new technologies and diligence. All of this is strongly reflected on tourism development and travel trends in the world. PH1: A simple economic analysis can prove that tourism in Croatia should be closely linked to other economic sectors. One must sadly admit the bitter truth as most tourist facilities in Croatia are owned by foreign capital, as well as all other activities related to tourism. Supply of tourist facilities and other activities is also owned and under the supervision of foreign capital. PH2: Tourism in Croatia, especially along the Adriatic coastline, should last at least for seven months a year. At the same time, tourism revenues for 2012 would be at least EUR fifteen billion. The current economic crisis severely struck Europe, and by this also European as well as tourist development trends in general. PH3: The fact that a great number of potential tourists chose staying in their own country during their vacation is hard to cope with for renowned tourism destinations, especially in the Mediterranean.

Keywords: tourism, development, performance, achievements

TRADE

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MANAGEMENT OF CAUSE-AND-EFFECT RELATIONSHIPS OF INVESTMENT EFFICIENCY IN THE TRADING BUSINESS OF UKRAINE

JEL classification: C15

Abstract

At the operating stage of the investment cycle problems of evaluation of capital investments efficiency do not rise. At the same time, the development of the concepts of corporate management provides the ability to apply them in the performance management by approach of companies-objects of capital investments.

During the research were used the methods: Statistical Simulation Methods, correlation-regression analysis, the system of lump-sum equations, direct functional relationships.

The attempt to justify the management of efficiency system of capital investments from the position of the object of capital investments for the operational phase of the investment cycle was made. The technique of constructing a model of cause-and-effect relationship of efficiency system of capital investments was proposed, its strengths and weaknesses was identified. The number of indicators of capital investments and exogenous factors can be greatly expanded.

Keywords: *efficiency, investments of capital, cause-and-effect relationships*

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STATIONARY TRAFFIC – THE CONTEMPORARY PHENOMENON IN THE LOGISTICS SYSTEM OF A TOURIST DESTINATION

JEL classification: N70

Abstract

For tourism as one of the most propellant and yet at the same time one of the most sensitive and most flexible industries, slowly but surely, the time of counting tourist arrivals and their overnight stays is coming to an end. Tourist experiences are becoming a part of the economic offer, together with the goods and services, i.e. they are the response of the service provider to the demand of the contemporary user (tourist) who wants to be treated in a personalized and memorable manner. In this way the need for a balanced coordination is created, i.e. preparation, implementation, monitoring and correction in management of life and of activities in every single tourist destination – from the urban planning, the utility infrastructure, the offer of original tourist products all the way to ensuring sufficient parking lots. Location of the parking capacities, their arrangement in space, the number of parking lots and the distance from tourist attractions are the fundamental determinants in providing the quality stationary service for tourists' cars which, integrated with the remaining tourist services, represents also the determinant of the destination's quality tourist product.

***Keywords:* stationary traffic, logistics system, tourist destination**

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